Q1 results 2022

Investor presentation 4 May 2022

Key results Q1 2022

- Solid start to the year and the Bank is on track to meet medium-term targets
  - Operating income increased 11% YoY, mainly due to net interest income
  - Strong insurance premium growth YoY but a difficult quarter in terms of claims
  - Robust loan growth during the quarter, mainly on the corporate side
  - ISK 22.5bn dividend in March in addition to ISK 4.3bn buy-back during the quarter

	Q1 2022	Medium term targets
Return on equity	12.7%	Exceed 13%
Operating income / REA	6.9%	Exceed 7.3%
Insurance premium growth (YoY)	9.8%	Premium growth (net of reinsurance) to exceed the growth of the domestic market by more than 3%[1]
Loan growth (from YE 2021)	4.3%	In line with nominal economic growth[2]
Cost-to-income ratio	42.7%	Below 45%
CET1 ratio	19.1%	~17%
Dividend payout ratio[3]	-	50%

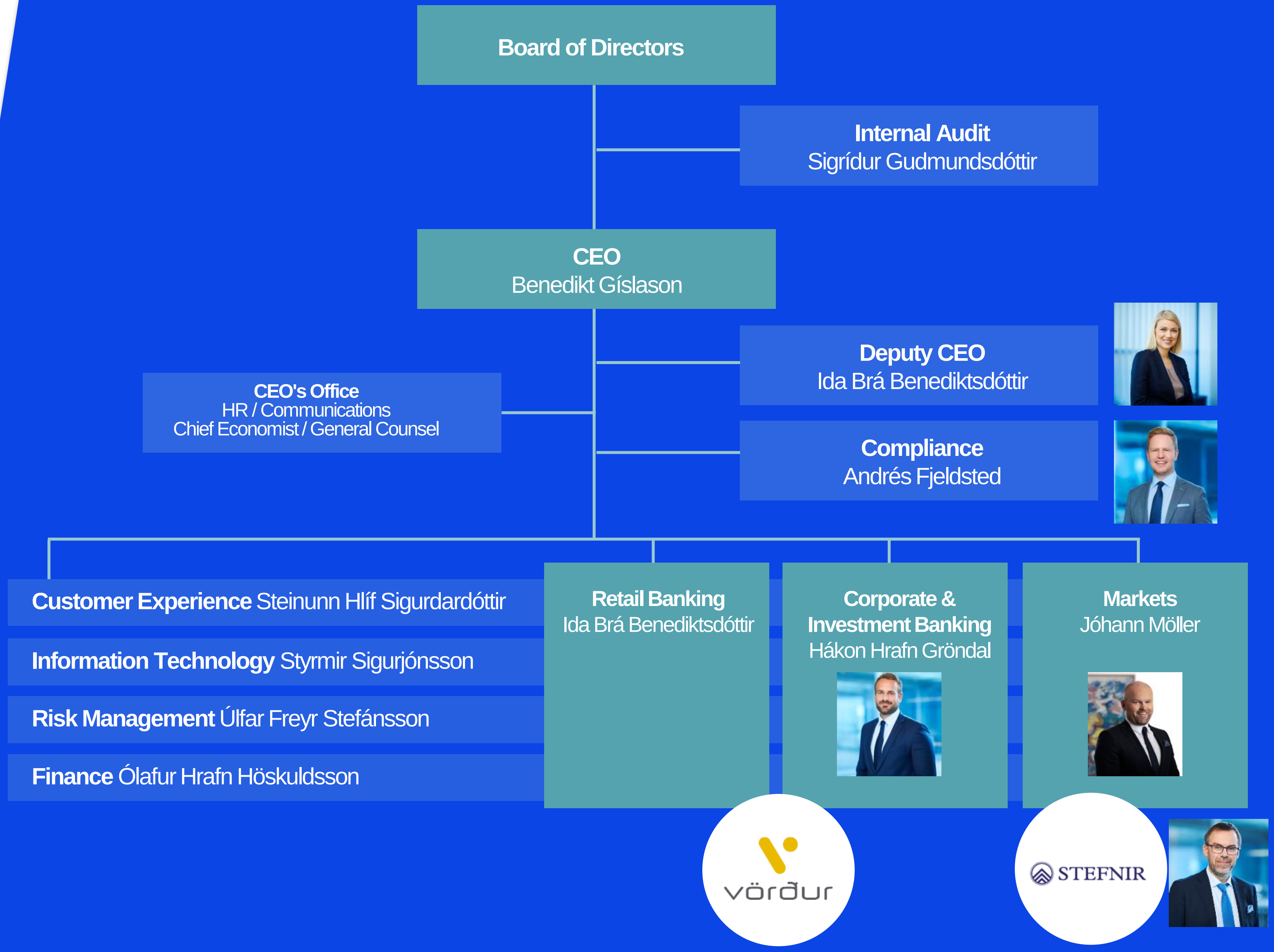
Medium-term targets are reviewed annually, and the underlying horizon is up to 3 years.

[1] Premium growth in the domestic insurance market in 2021 was 7.2%
[2] Arion Bank forecasts economic growth of 12.5% in 2022
[3] Pay-out ratio of approximately 50% of net earnings attributable to shareholders through either dividends or buy-back 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.

Recent management changes

Recent changes leverage in-house talent and cooperation across the organization

- Ida Brá Benediktsdóttir - Deputy CEO
- Hákon Hrafn Gröndal - MD of CIB
- Jóhann Möller - MD of Markets
- Andrés Fjeldsted - Compliance Officer
- Jón Finnbogason - MD of Stefnir

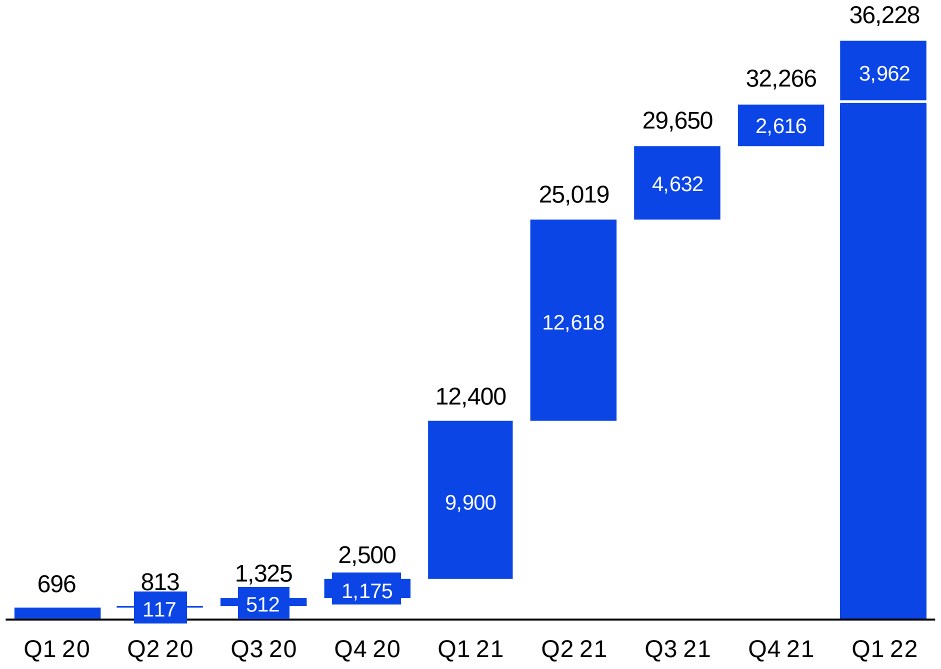


Strong progress with CIB strategy

Over ISK 36bn of corporate loans sold/syndicated in past couple of years and international exposure in the Arctic region has increased by 87% in the same period

Capital velocity

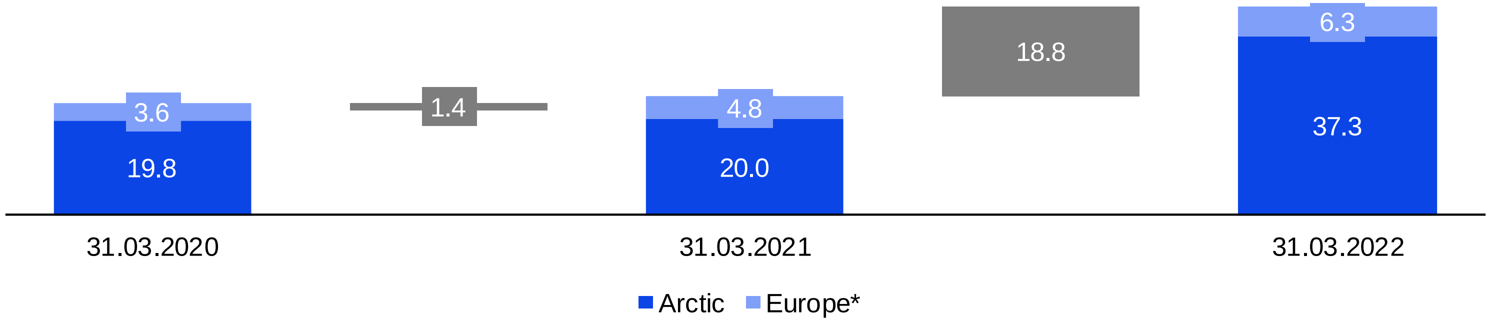
Loans to corporates sold to institutional investors

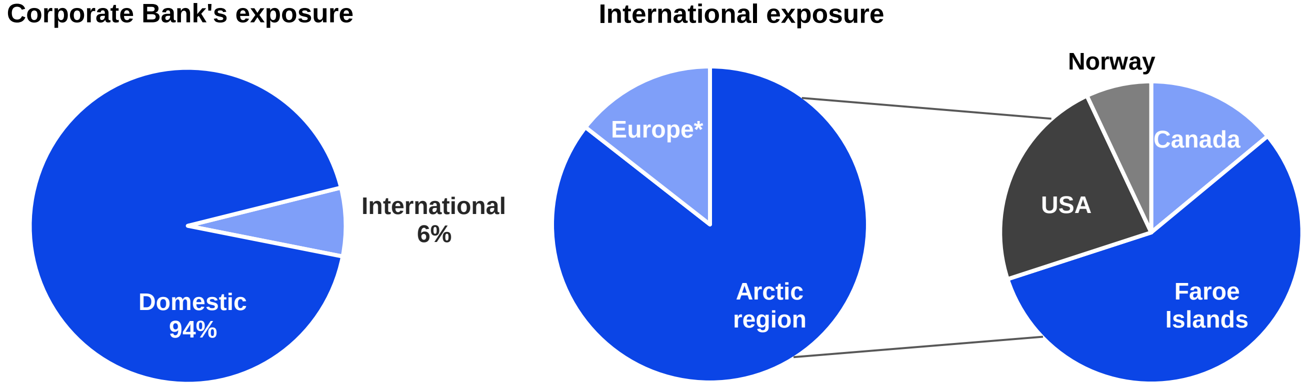


- ISK 36bn. sold in the past two years. At the same time on-balance sheet corporate loan book grew by ISK 37bn
- Syndication pipeline strong with further ISK 5bn. contractual in Q2

Diversification into broader Arctic region

International corporate loan exposure development (ISK bn)





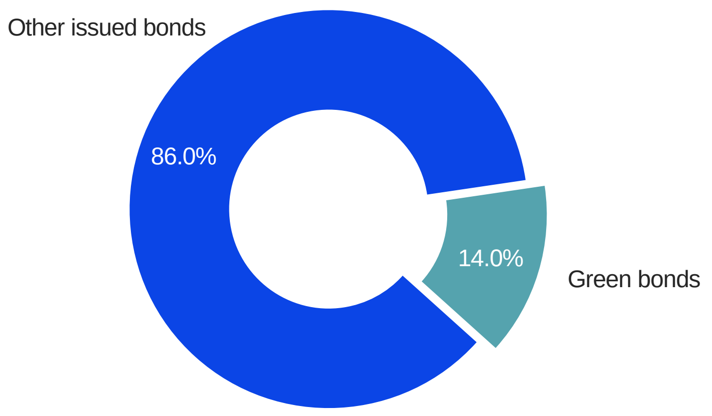
"Our assessment reflects that Arion's portfolio lacks geographic diversification, given its presence in a concentrated market, and it is inherently exposed to the domestic volatile economy."

- Standard & Poors, October 18th

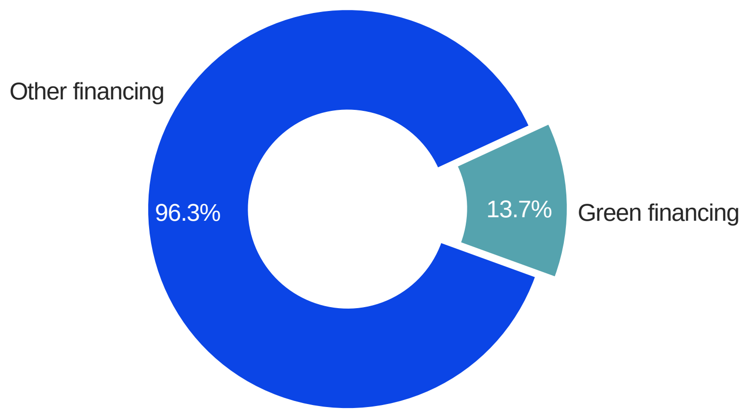
*Excluding European countries within the Arctic Region

Target is for the green loan book to grow at double the growth rate of the total loan book *

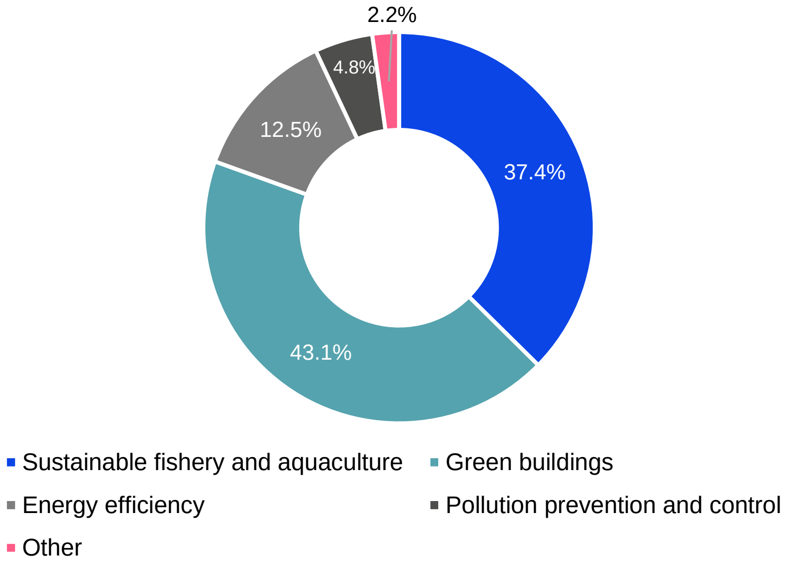
Arion Bank has issued ISK 51.7bn in green bonds, which represents 14.0% of total debt instruments



Arion Bank has committed green projects that represents 13.7% of the Bank's loan book



Green financing is committed to numerous project categories



Arion Bank achieved outstanding score in Reitun's ESG rating 2021

Rating score

90/100 | A3

Poor

Medium

Good

Excellent

*This target on the ratio of green loans will be reviewed annually, taking into consideration the opportunities over the next few years for green financing, and the Bank hopes the growth rate might be even quicker.

Valitor and Solbjarg - progress with assets held for sale

- Rapyd´s agreement with Arion Bank to acquire Valitor extended until 1 June 2022
- According to the original agreement the purchase price paid by Rapyd for Valitor was $100 million.
    - Due to the delays in completing the transaction Rapyd has paid Arion Bank an additional $10 million
    - Additionally, Rapyd will pay Arion Bank 10% annualized interest on the original purchase price from 1 April 2022 and until closing
    - The estimated profit on the sale, minus costs, increases accordingly and is estimated at around ISK 5 billion at the current exchange rate
    - Estimated release of capital following the completion of the sale is ISK 9bn

It was announced on 1 July 2021 that Rapyd had reached an agreement to acquire Valitor. The acquisition was subject to the approval of the Icelandic Competition Authority (ICA). On 31 December 2021 it was further announced that the agreement between the companies concerning the acquisition had been extended to 1 May 2022, since the ICA had not completed its review of the transaction by the end of the year.

- A sales and purchase agreement was signed with Ferdaskrifstofa Íslands ehf. in December 2020 on the sale of all operations, brand, and domain of Heimsferdir ehf. The sale was subject to the approval of the Icelandic Competition Authorities which approved the sale conditionally 26 April 2022.
    - The parties involved will work on concluding the conditions and the process in the second quarter of 2022. Sólbjarg will be a 27,5% shareholder in Ferdaskrifstofa Íslands ehf.

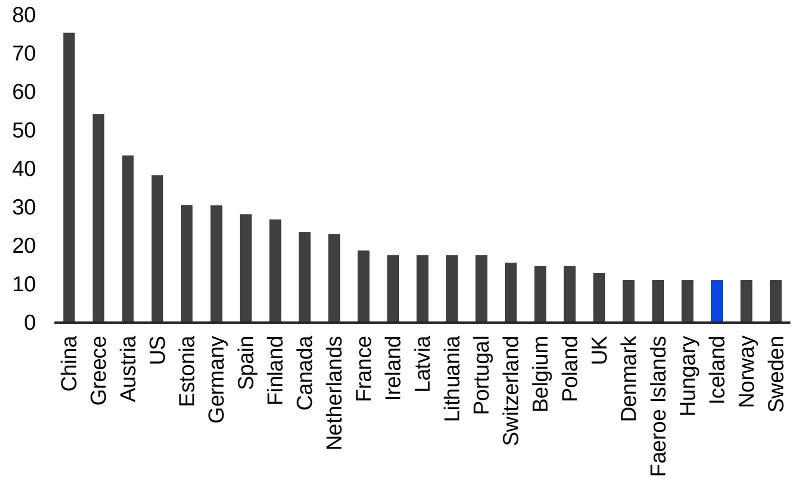
Sólbjarg ehf. is a holding company of the former TravelCo hf. tour operator group which included Terra Nova Sól ehf., Heimsferdir ehf. and TravelCo Nordic/Bravo Tours. In the first quarter of 2020 Sólbjarg completed the sale of Terra Nova Sól ehf. Sólbjarg ehf. completed the sale of its 59.4% share in the Danish operator Bravo Tours 1998 A/S in the fourth quarter of 2021.

Macroeconomic environment

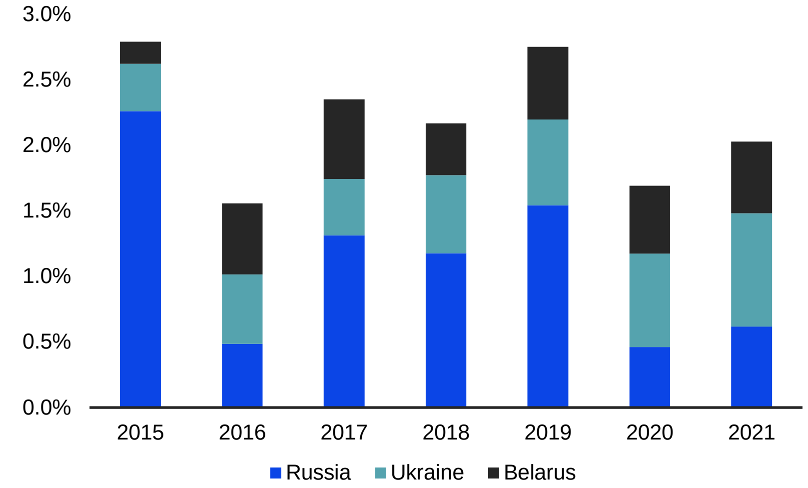
From Omicron to war: Economic growth is still going strong

At the end of February all public restrictions due to the pandemic were lifted in Iceland - and Russia invaded Ukraine. So far, the direct effects of the war on the economy have been limited, mostly confined to the seafood industry, but the indirect effects, whether through inflation or willingness to travel, could have a larger impact on the economy.

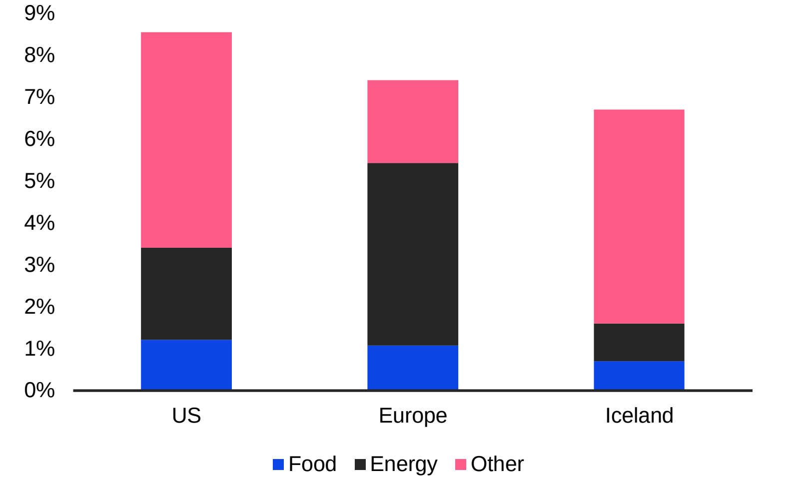
COVID-19 Stringency Index – weighted average of vaccinated and non-vaccinated



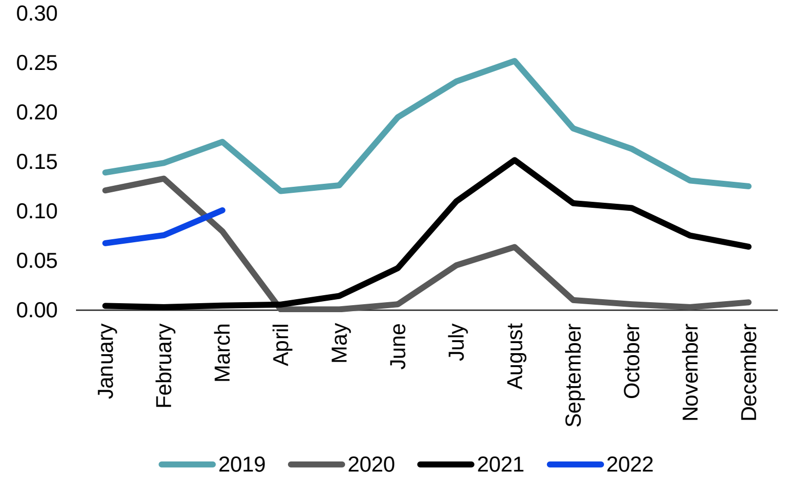
Share in total exports of goods



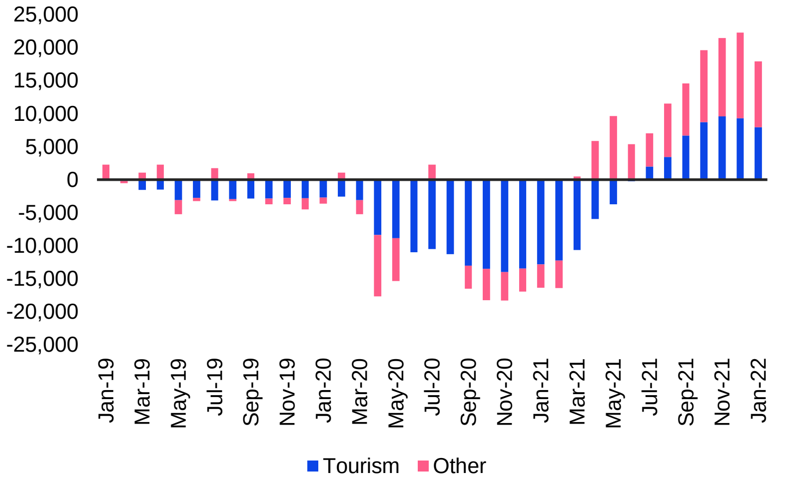
Contribution to annual inflation rate – March 2022



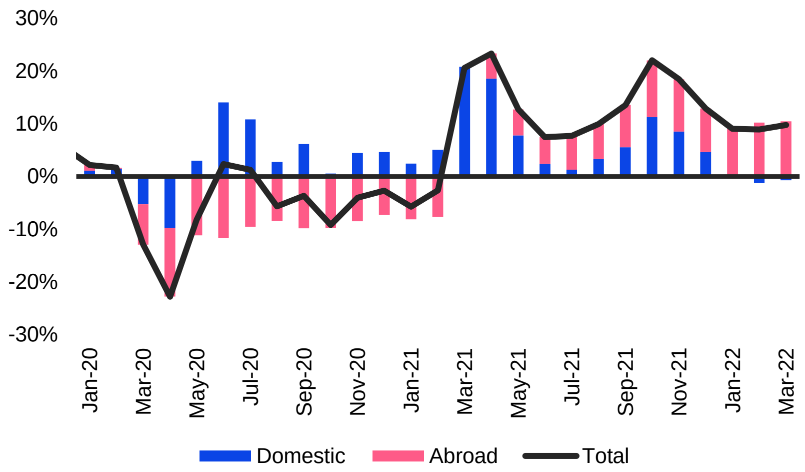
Tourist arrivals via KEF airport - millions



YoY change in number of registered employed persons by economic activity



Payment card turnover – YoY %-change, growth contributions of underlying components



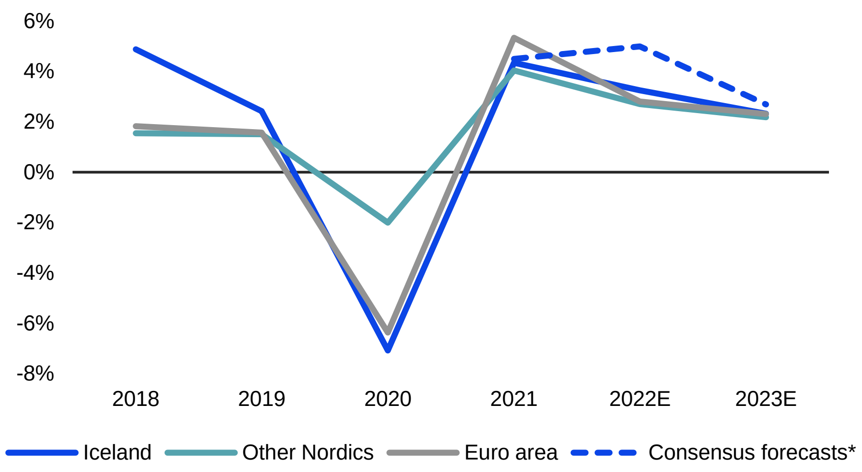
Sources: Statistics Iceland, Central Bank of Iceland, Icelandic Tourist Board, University of Oxford, Arion Bank. *At least one dose.

The economic outlook is still bright

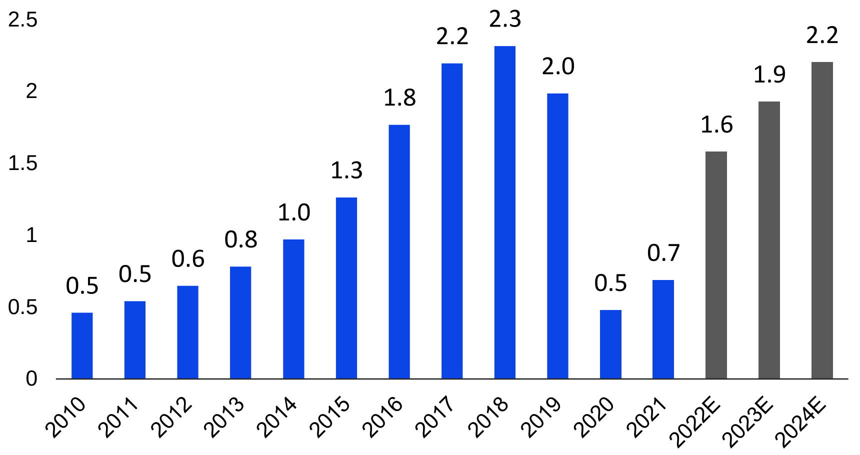
Tourism is on the mend – despite the war in Ukraine -, unemployment has reached pre-pandemic levels and domestic demand is thriving. The economy is set for a strong GDP growth in 2022, driven by private consumption and business investment.

- The Icelandic economy is expected to exceed its pre-COVID level in 2022, with growth driven by tourism, business investment and household consumption
- So far, the direct effects of the war in Ukraine have been limited, mostly concentrated in the seafood industry
- The indirect effects could be more severe. High oil prices have already affected air fares, and rising inflation among Iceland's main trading partners has squeezed tourists' spending power. The effects on tourism in Iceland however remain to be seen
- The labor market is currently tight, and unemployment dipped below 5% in March. The economy has recovered the jobs lost in the pandemic despite tourism still having some way to go
- The IMF expects the Icelandic economy to grow in line with other Nordics. Domestic analysts are more optimistic, with the consensus at 5.0% GDP growth in 2022

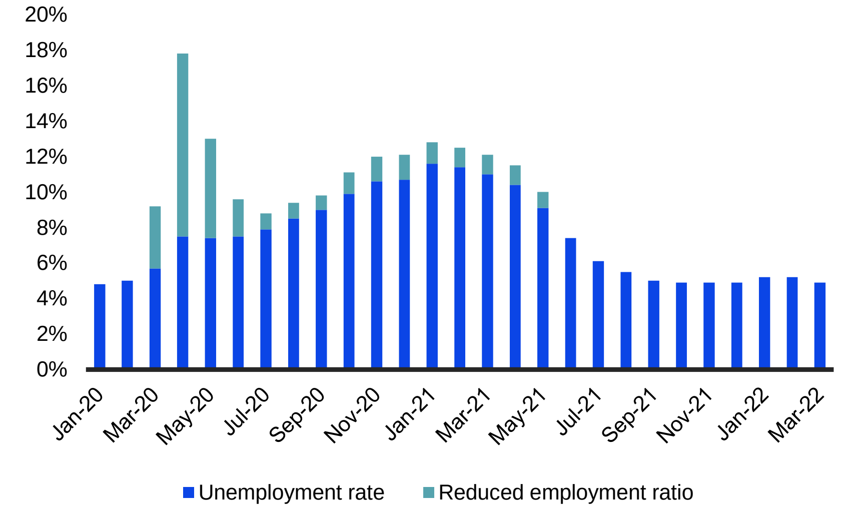
GDP growth – IMF's forecast



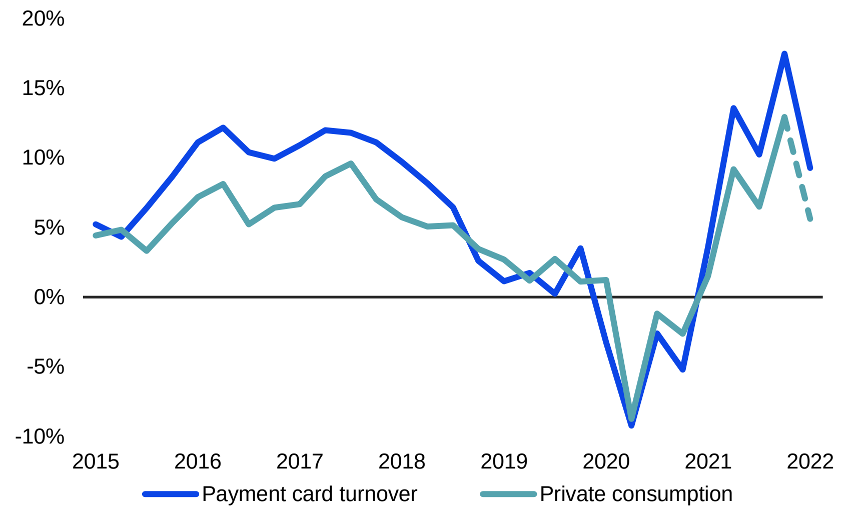
Tourist arrivals via KEF airport - millions, Arion Bank's estimates



Registered unemployment



Payment card turnover and private consumption – YoY %-change



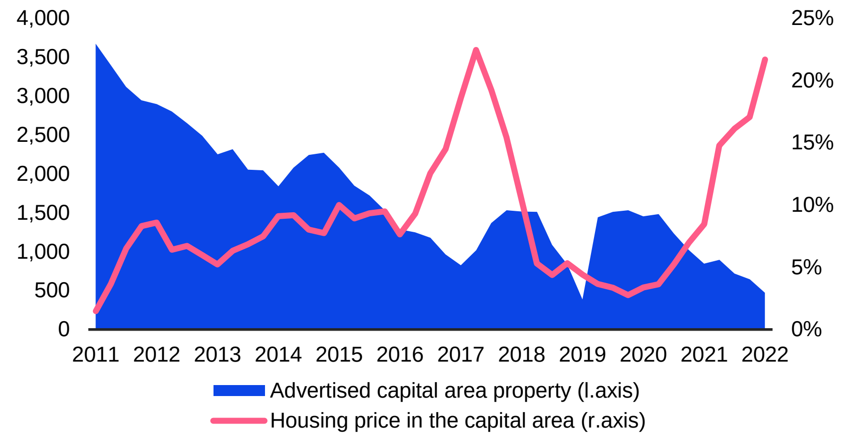
Sources: IMF, Directorate of Labour, Icelandic Tourist Board, Central Bank of Iceland, Arion Bank. * Domestic analysts

Key challenges ahead

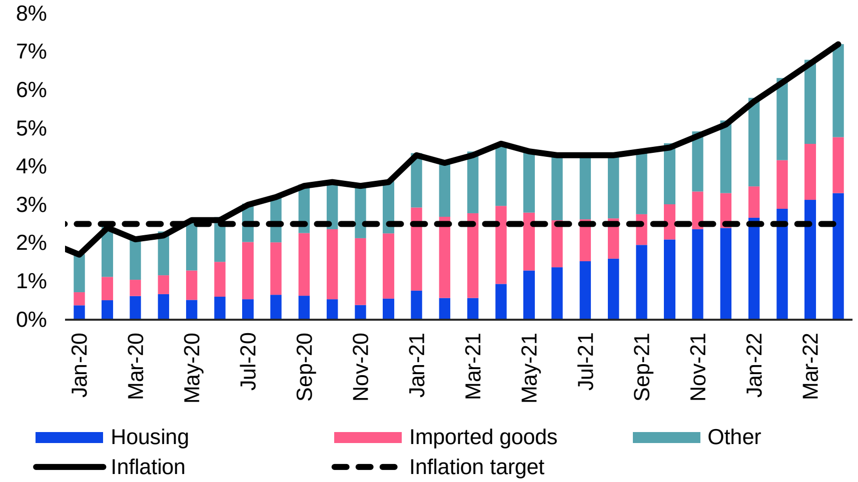
Sharp rises in the housing market and persistent inflation

- House prices rose sharply in Q1, increasing by 22% YoY. At first, the price increases were driven by hefty interest rate cuts, but now a supply shortage plays a more prominent part
- Housing prices have risen at a considerably quicker rate than wages, and especially disposable income, over the past two quarters, leading to growing imbalances
- Climbing housing prices, imported inflation and domestic demand pressures have stoked inflation, which has proven to be much more persistent than previously expected
- Most analysts expect inflation to be between 7%-8% over the next months, before trickling down. The CBI's inflation target will however not be reached in the foreseeable future
- Persistent inflation, rising house prices and fear over de-anchoring of inflation expectations has compelled the CBI to raise interest rates by 300 bps. since May last year

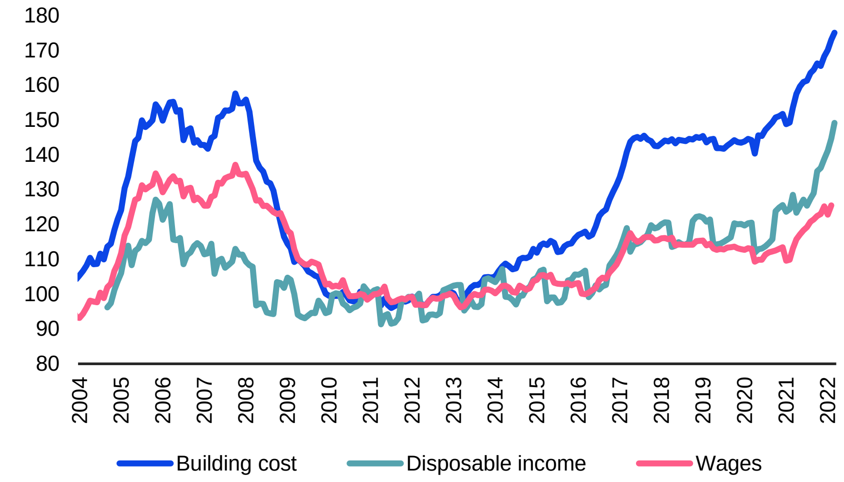
Advertised capital area property and housing prices – no. and YoY %-change



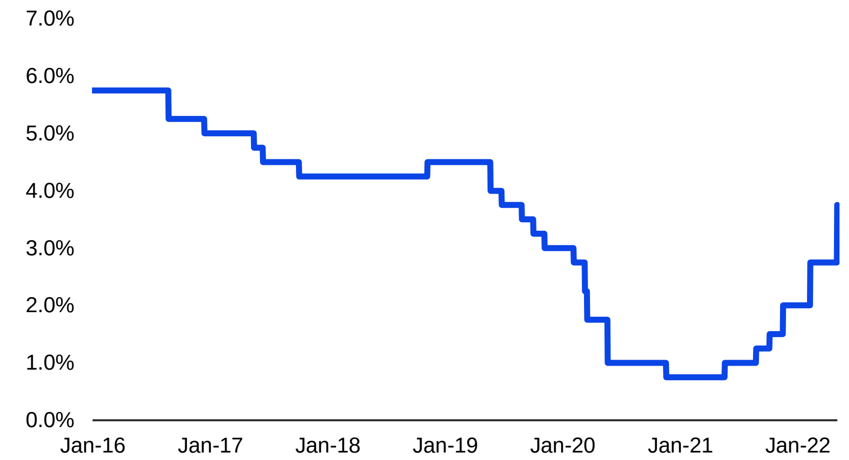
Composition of the Icelandic CPI



House prices relative to fundamentals – indices, January 2011=100



The Central Bank's key interest rates



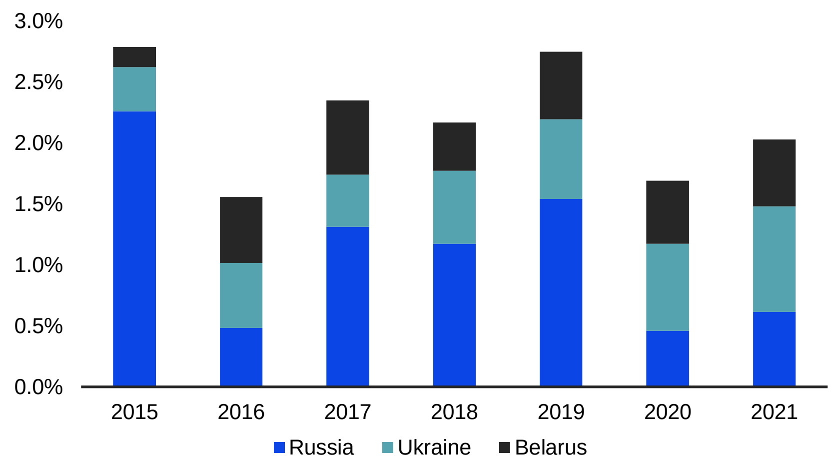
Sources: Registers Iceland, Statistics Iceland, Central Bank of Iceland

The war in Ukraine has had limited effect – so far!

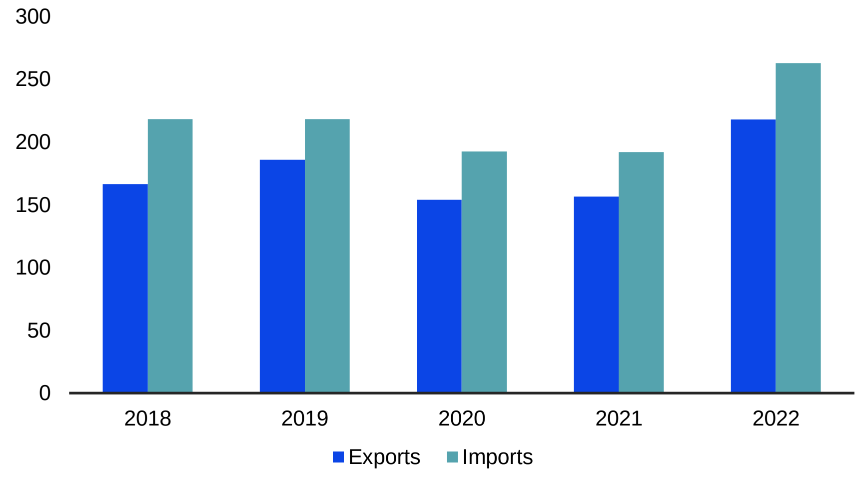
The impact is almost entirely limited to the seafood industry.

- Due to the war in Ukraine certain market areas for pelagic fish and used fishing vessels have been closed off. Exports of goods to the affected market areas amounted to 15bn ISK in 2021, or 2% of total exports of goods. However, record high production prices have softened the blow
- As Iceland is a commodity exporter through seafood and aluminum, higher oil and commodity prices have not negatively affected the country's terms of trade or widened the trade deficit
- Despite income squeeze tourists are still flocking to the country and spending more than pre-COVID
- With the war still raging the risk is certainly concentrated on the downside. Even if the economic outlook deteriorates, households and corporates are relatively well equipped to handle the challenges, with savings having accumulated, equity position improved and low debt levels

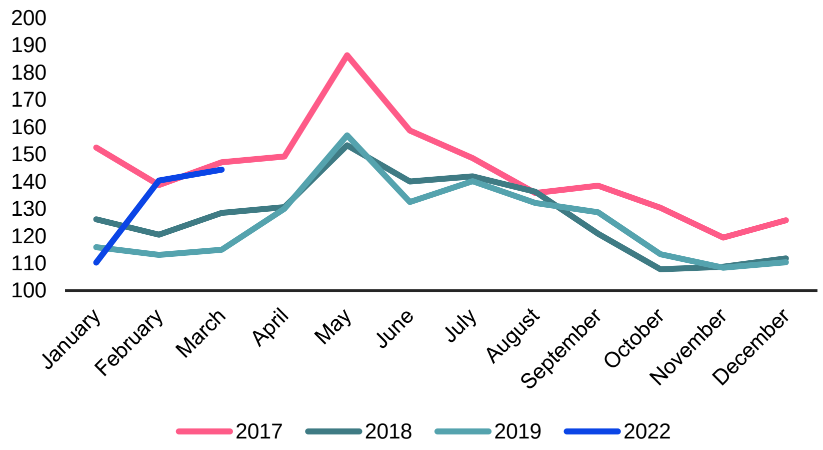
Share in total exports of goods



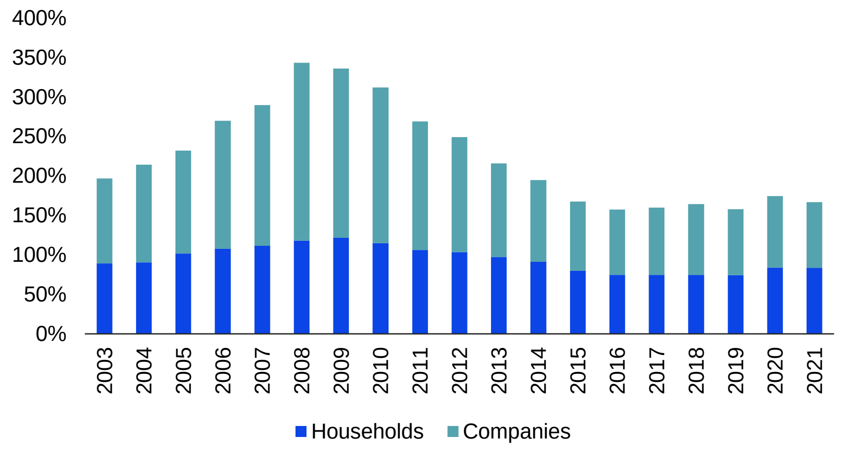
Trade in goods in Q1 – bn. ISK at constant exchange rate



Payment card turnover per tourist – constant exchange rate



Household and non-financial corporate debt - % of GDP



Sources: Central Bank of Iceland, Statistics Iceland,

Financials

Key takeaways in Q1 2022

Solid quarter driven by robust growth and improving net interest margin

Profitability
In line with target

- ROE of 12.7% in the quarter and Core Income[1] increases 15.9% YoY
- Strong pipeline and good outlook across business units

Net interest income
Positive momentum

- Very strong development in NIM, increasing to 3.1%, up from 2.8% in the previous quarter
- Sharp increase in policy rates a key driver which impacts the asset side of the balance sheet quicker than the liability side
- Combined with a strong corporate loan growth and positive development in funding cost

Loan growth
Driven by corporates

- Robust 4.3% loan growth in the quarter, supported by 3.7% growth in Core Deposits[2]
- Driven by very strong activity on the corporate side with 8% growth in the quarter
- Flexibility in managing channels of growth while aim is to retain around 50/50 split in corporates/retail (currently 45/55)

Insurance and fees
High claims in insurance

- Difficult quarter in the insurance business impacted by unusually high claims ratio
- Good progress being made in bancassurance project especially on corporate side. Initiatives ongoing and on track to deliver synergies
- Fee income continues to be robust supported by diversity in income streams

Capital optimization
Ongoing milestones

- Dividend payment of ISK 22.5bn completed in the quarter following dividend and buybacks of ISK 35.7bn over past year
- Continue to manage towards 17% target capital level with CET1 ratio at 19.1%, down from 19.6% at the end of Q4 2021
- Further capital distribution considered in parallel with business growth opportunities and related to completion of sale of Valitor

[1] NII, NCI and net insurance income [2] individuals, SME's and corporates

Income statement Q1 2022

Continuing growth in core income

- Net earnings of ISK 5.8bn and 12.7% ROE compared with 13.4% and 12.5% in Q4 and Q1 2021 respectively
- Core income (NII, NCI and net insurance income) increases 15.9% YoY
  - Very strong increase in net interest income YoY, mainly due to increased base rate, 16.6% growth in the loan book from Q1 2021 and reduced funding cost
  - Continuing strong net commission income growth across the Bank
  - Weak quarter in net insurance income mainly due to very high claim rate as a result of challenging weather conditions during the period
- Operating expense increased by 3% YoY, significantly below inflation during the period
- Impairments in line with through the cycle expectations, calculated 21bps of the loan book on annualized basis
- The impact of HFS assets is positive during the quarter due to positive effect from operation at Valitor

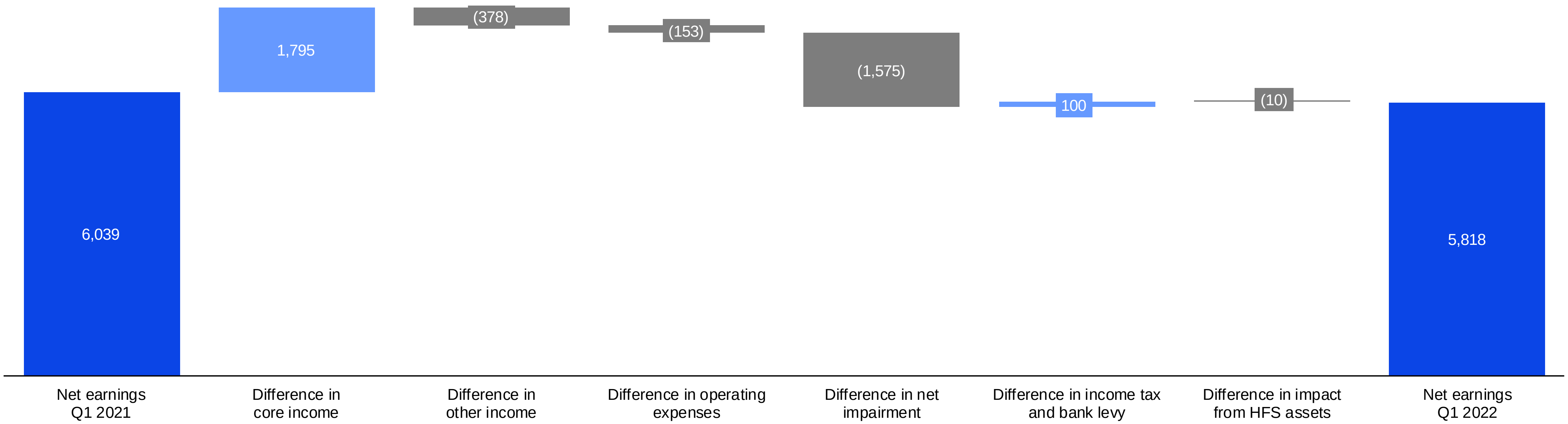
	Q1 2022	Q1 2021	Diff%	Q4 2021	Diff%
Net interest income	9,528	7,342	30%	8,768	9%
Net commission income	3,552	3,277	8%	4,079	(13%)
Net insurance income	5	671	(99%)	865	(99%)
Net financial income	991	1,500	(34%)	1,151	(14%)
Share of profit of associates	203	1	-	(11)	-
Other operating income	235	306	(23%)	382	(38%)
Operating income	**14,514**	**13,097**	**11%**	**15,234**	**(5%)**
Salaries and related expenses	(3,540)	(3,271)	8%	(4,893)	(28%)
Other operating expenses	(2,661)	(2,777)	(4%)	(2,974)	(11%)
Operating expenses	**(6,201)**	**(6,048)**	**3%**	**(7,867)**	**(21%)**
Operating profit	**8,313**	**7,049**	**18%**	**7,367**	**13%**
Bank levy	(393)	(330)	19%	(345)	14%
Net impairment	(495)	1,080	-	559	(189%)
Earnings before income tax	**7,425**	**7,799**	**(5%)**	**7,581**	**(2%)**
Income tax expense	(1,703)	(1,866)	-	(1,588)	7%
Net earnings from continuing operations	**5,722**	**5,933**	**(4%)**	**5,993**	**(5%)**
Discontinued operations, net of tax	96	106	-	529	(82%)
Net earnings	**5,818**	**6,039**	**(4%)**	**6,522**	**(11%)**

All amounts in ISK million

Core income increases significantly YoY

Decrease in net earnings YoY, mostly due to turnaround in net impairments from previous year. Strong momentum in Core Earnings.

Q1 2021 vs Q1 2022



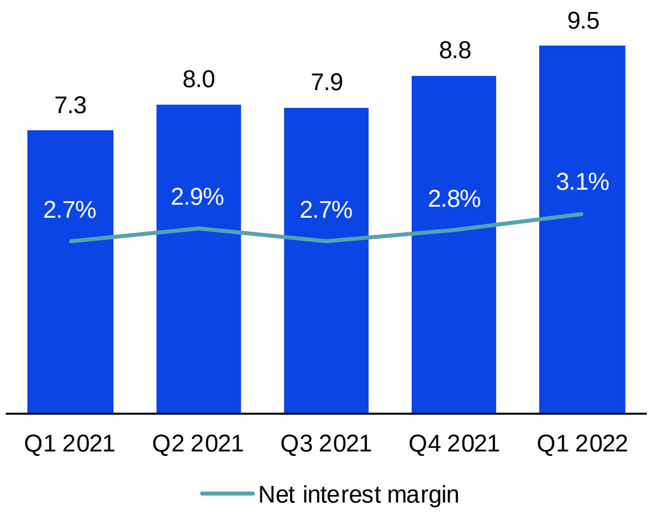
All amounts in ISK million

Net interest income

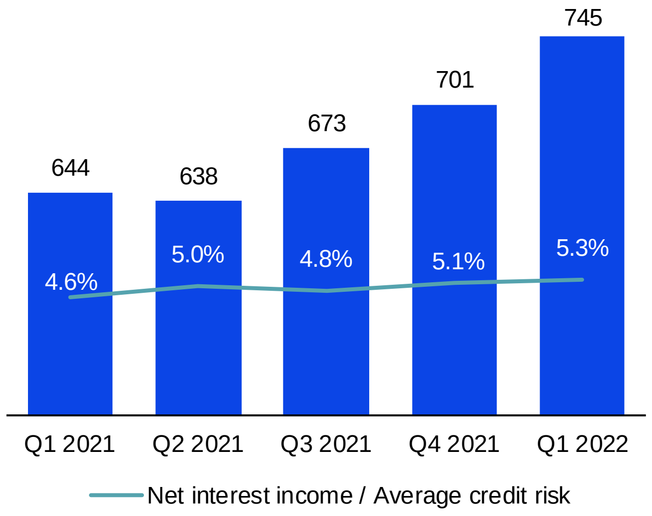
Increased policy rates and growth in corporate lending supports net interest income

- Net interest income increased by 29.8% from Q1 2021 whilst average interest bearing assets increased by 12%, mainly loans to customers but interest bearing liabilities increased by 16% YoY, mainly deposits
- Base rate has increased from 0.75% in Q1 2021 to 2.75% in February 2022
- Net interest income / average credit risk continues at strong levels – stable around 5% and significantly up from previous years
- Evolution of borrowings has had a very positive effect on NII – lower cost on a higher base
  - Similar funding cost on 20% higher borrowings
- The effect from higher inflation is ISK 138 million

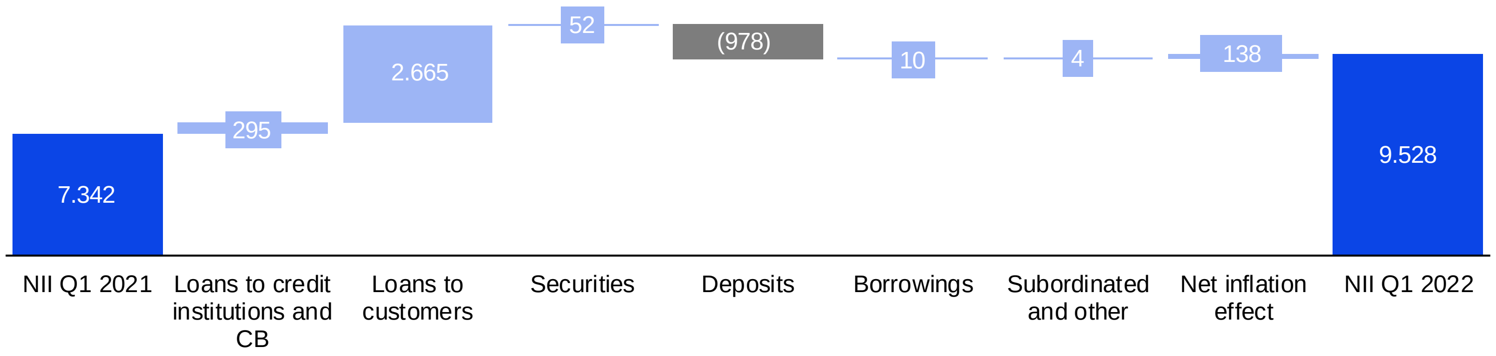
Net interest income



Credit risk



Net interest income Q1 2021 vs Q1 2022 (ISK mn)



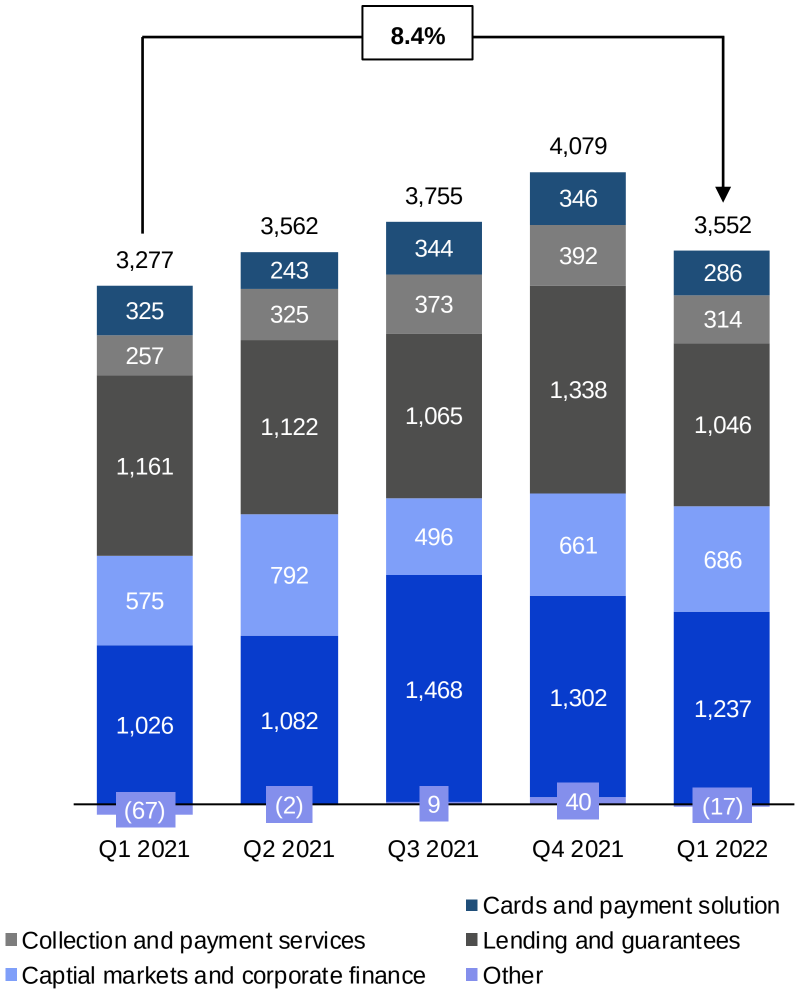
All amounts are in ISK billion

Net fee and commission income

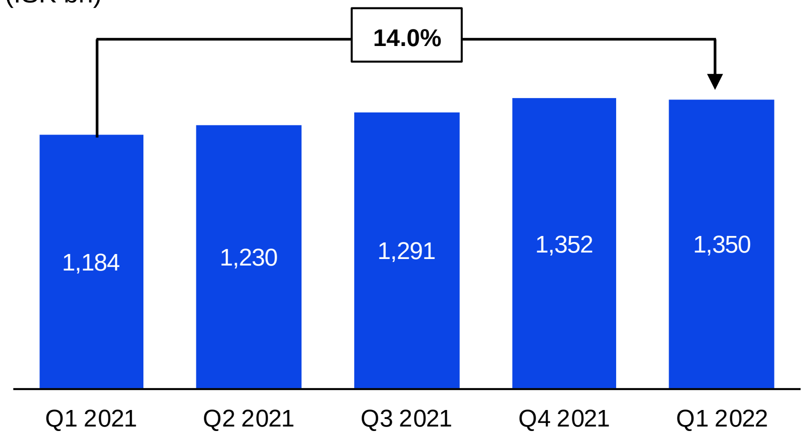
Diversified operation supports the fee business

- Income from asset management increased 21% from Q1 2021 through higher AUM and increasing flows into equity funds
- Strong result from capital markets transactions, with the Bank number one in bond trading and number two in equity trading in the Icelandic market
- CIB continues to deliver strong results, especially in lending activities. Strong pipeline both in lending and advisory.
- Income from collection and payment services is increasing again following Covid 19, with more turnover in FX and cards
- With Valitor out of the Group, estimated increase in commission from cards and payments would be ISK 200-450m pr quarter

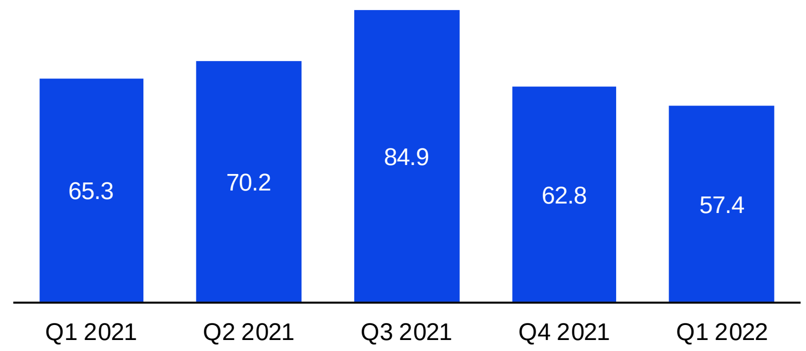
Net fee and commission income



Assets under management
(ISK bn)



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



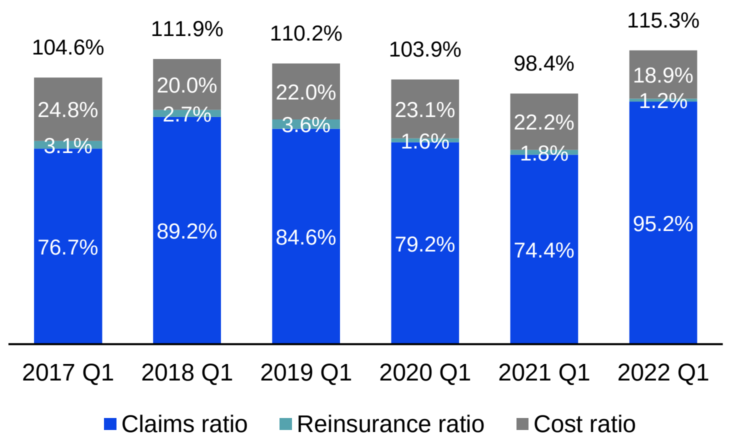
All amounts in ISK million

Net insurance income

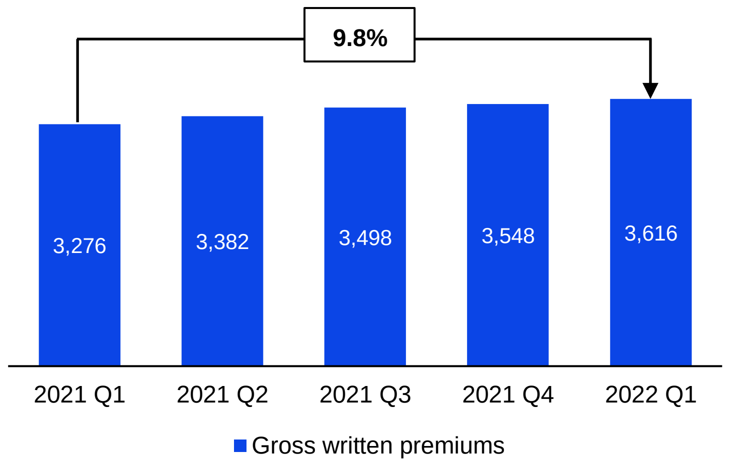
Improving operations but increased claims due to bad weather conditions in the quarter and more traveling due to less COVID restrictions

- Net earnings for Vördur in the quarter was a loss of ISK 80m compared to a profit of ISK 293m in 2021 Q1
- Premiums for own account increased by 10% YoY and amounted to ISK 3,478.8m
- Claims for own account increased by 40% YoY, mostly due to unusually bad weather and increased travel
- Cost ratio in the quarter is historically low for Q1, partly due to integration of operations with Arion Bank
- Investment income was ISK 465m in the quarter, compared to ISK 351m in 2021 Q1
- Arion Bank continues its integration with Vördur for a combined product and service offering for customer

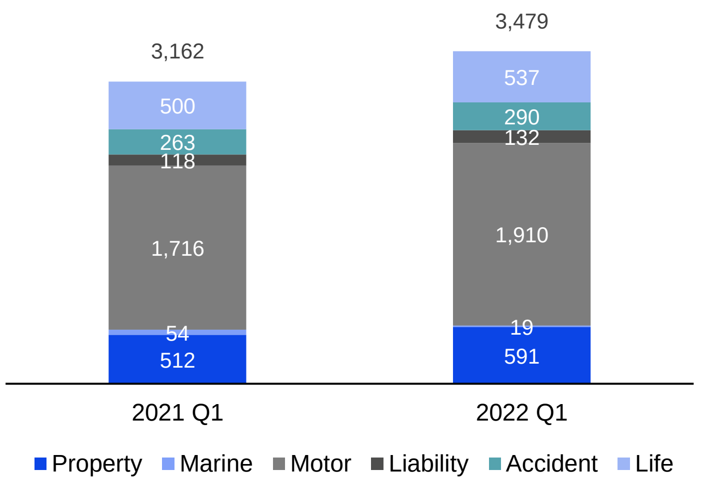
Combined ratio of Q1



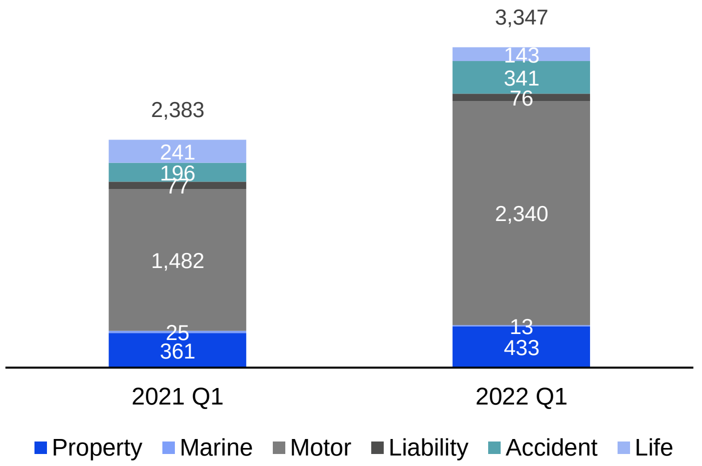
Gross written premiums per quarter



Premiums for own account composition



Claims for own account composition



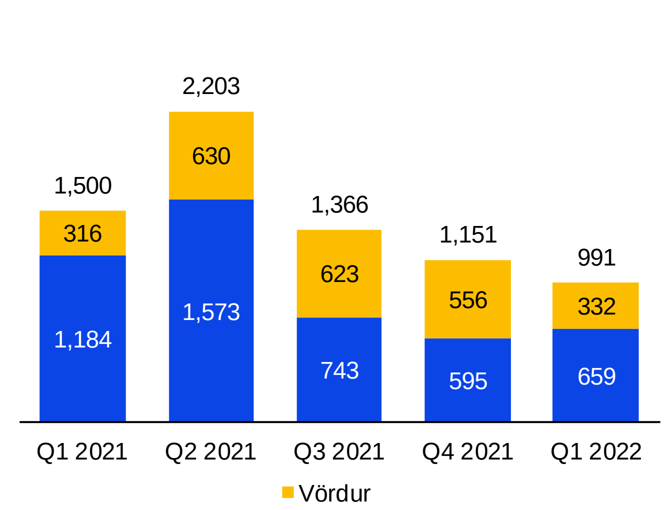
All figures in ISK million

Net financial income

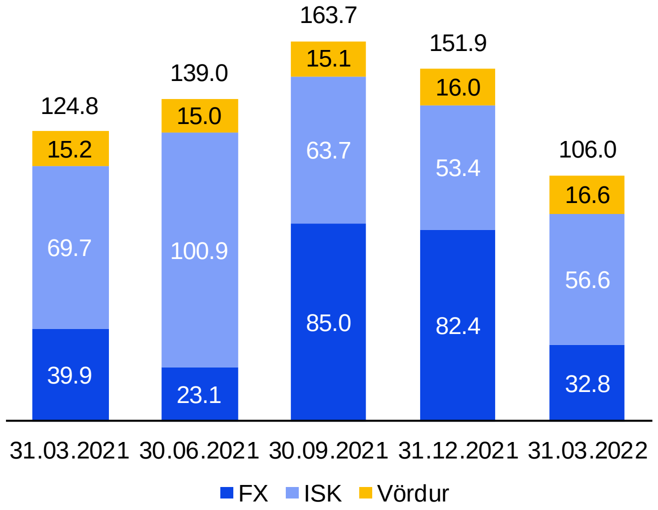
Acceptable outcome in the quarter following difficult beginning of the year

- Bond holdings are predominantly used for liquidity management and fluctuate in line with funding needs and equity distribution. Decrease from year-end 2021 is due to dividend payment of ISK 22.5bn and lending growth
  - At period end new issue of covered bonds of EUR 200mn (ISK 28bn) are unsettled but will increase the bond position in FX by similar amount
- Net financial income in Q1 driven by equity holdings at the Bank and at Vördur
- Increase in listed equity holdings is mainly in market making which fluctuates between quarters
- Total portfolio of Vördur included in the Group figures is ISK 25.4bn; ISK 16.6bn of bonds and ISK 8.8bn in equity instruments, yielding ISK 332m in the quarter

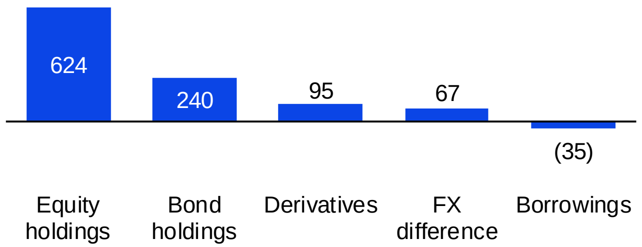
Net financial income (ISK mn)



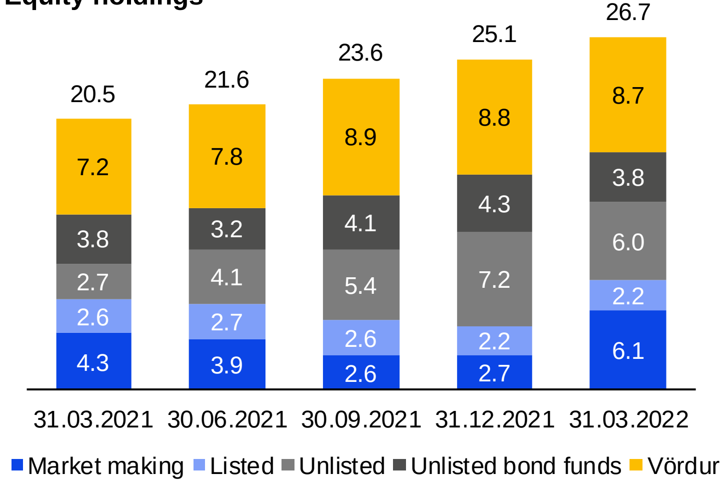
Bond holdings



Net financial income by type in Q1 2022 (ISK mn)



Equity holdings



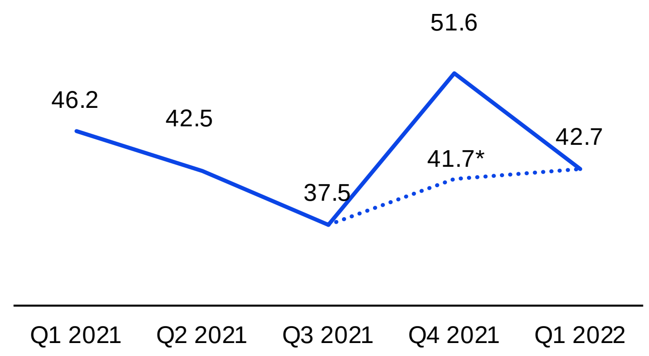
All amounts are in ISK billion

Total operating expenses

Significant efficiency gains over past years results in lower cost-to-income ratio

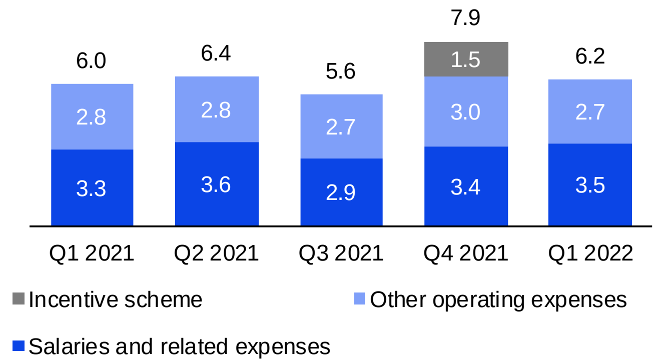
- Ongoing focus on opex and efficiency results in favorable development
- Number of FTEs continues to trend down, 2.5% from Q1 2021
- Salary expense in Q1 2022 increase, partly due to insourcing of IT operation
- Other OPEX decreasing YoY
  - IT expenses decreased partly due to more insourcing reflected in more FTEs and higher salary expenses in IT division
- Building on operating momentum to support future earnings potential with specific strategic investments this year in Customer Experience and IT infrastructure projects
  - Up to ISK 1bn investment was planned in 2022 but could partly be delayed into 2023

Cost-to-income ratio (%)

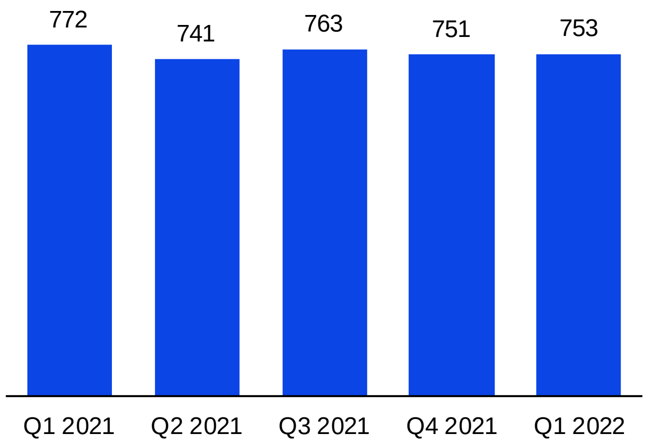


*Adjusted for incentive scheme expenses

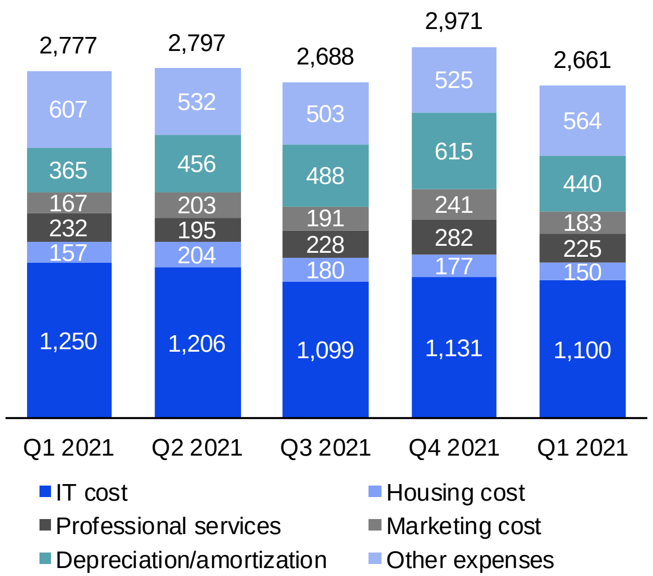
Total operating expenses



Number of employees



Other operating expenses (ISK mn)



All amounts are in ISK billion

Balance sheet

Strong loan growth supported by increase in core deposits

- Loans to customers increased by 4.3% in Q1 and 16.6% from Q1 2021
- Liquidity position remains strong despite ISK 26.7bn capital distribution through dividend and buy-back in Q1
  - Strong liquidity coverage ratio (LCR) of 195% (115% in ISK)
  - Net stable funding ratio (NSFR) of 112%
- The Bank is very well positioned to meet the funding requirements of its customers in both ISK and FX and to distribute surplus capital
- Strong equity position and very high leverage ratio despite significant capital distribution
- The funding mix is well balanced between deposits, covered bonds and senior unsecured bonds
- Deposits increased by 3.7% from YE 2021 and 14.7% from Q1 2021
- Continued EUR covered bond issue in March 2022 of ISK 27bn diversifies funding options and broadens investor base
- Arion Bank will continue its ESG related funding efforts, both in the deposit and wholesale funding space

Assets	**31.03.2021**	**31.12.2021**	**31.03.2022**
Cash & balances with CB	60	69	64
Loans to credit institutions	29	30	36
Loans to customers	837	936	976
Financial assets	197	226	186
Assets and disposal groups held for sale	16	16	15
Other assets	41	37	64
Total Assets	**1,181**	**1,314**	**1,341**

Liabilities and Equity			
Due to credit institutions & CB	10	5	4
Deposits from customers	593	655	680
Liabilities associated with disposal groups held for sale	8	17	15
Other liabilities	53	50	65
Borrowings	294	357	370
Subordinated liabilities	35	35	34
Total Liabilities	**992**	**1,119**	**1,168**
Equity	189	195	173
Total Liabilities and Equity	**1,181**	**1,314**	**1,341**

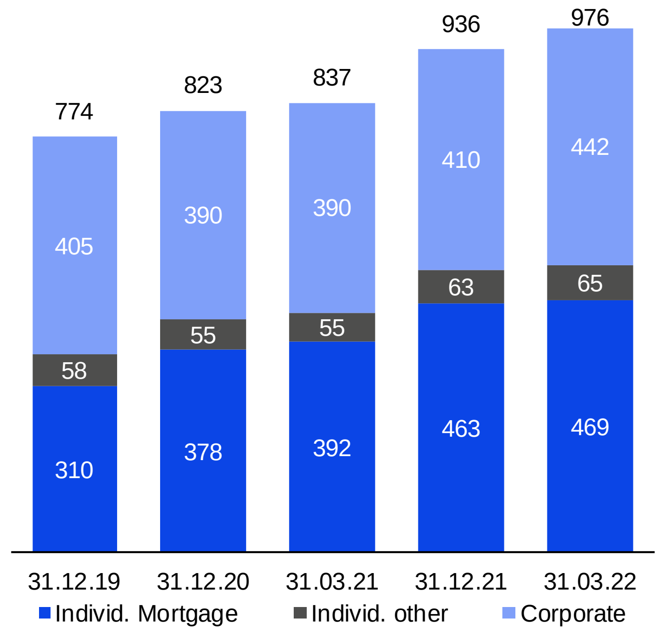
All amounts in ISK billion

Loans to customers

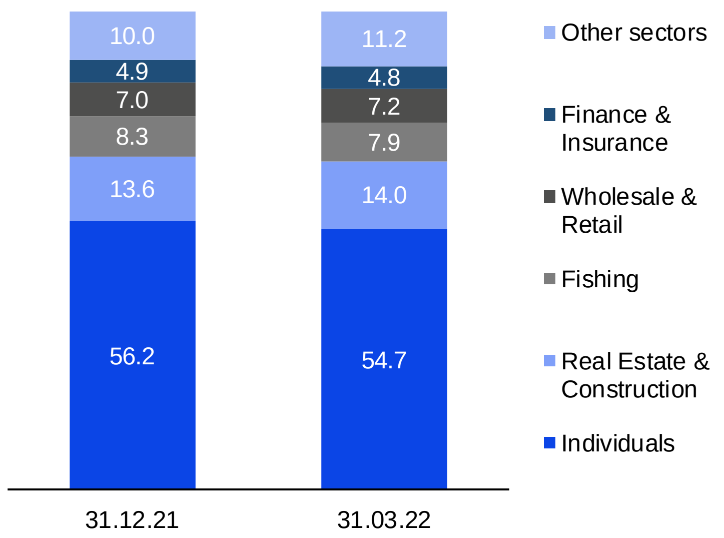
Growth mainly in corporate lending during the first quarter of 2022

- Loans to customers increased by 4.3% during the quarter, largely in loans to corporates or 8% but only 1% in loans to individuals
- Medium term growth outlook going forward expected to be more balanced between corporates and individuals while this will fluctuate between quarters
- Strong pipeline especially on the corporate side in origination as well as syndications and sales of loans as the Bank follows the strategy of increasing capital velocity
  - As a part of this strategy the Bank has sold corporate loans for ISK 36bn to institutional investors since beginning of 2020
- The diversification of the corporate loan book continues to be good and in line with the Bank's credit strategy
- The growth in international loan portfolio has been significant – 25% during the quarter and 76% YoY, total of ISK 43.6bn

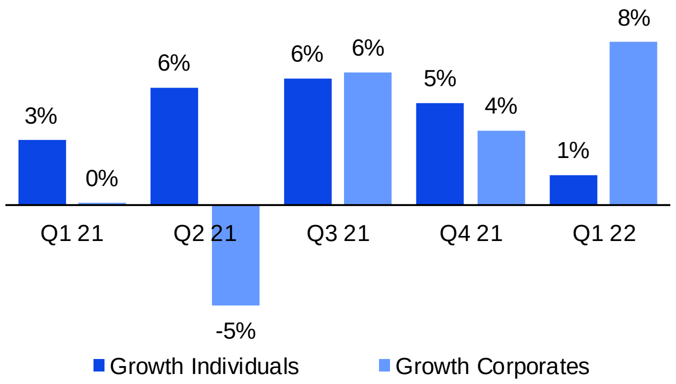
Loans to customers



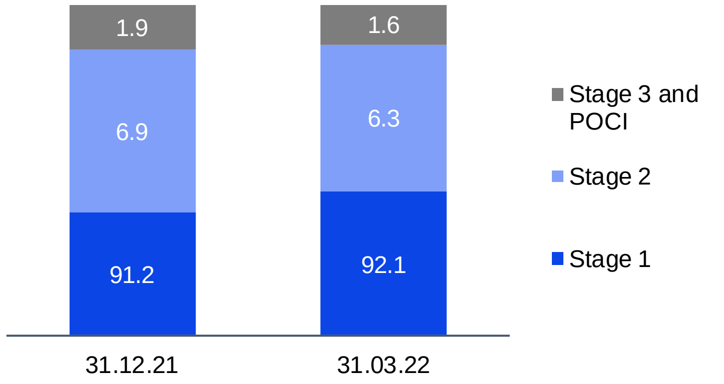
Loans to customers by sector (%)



Growth in loans to customers



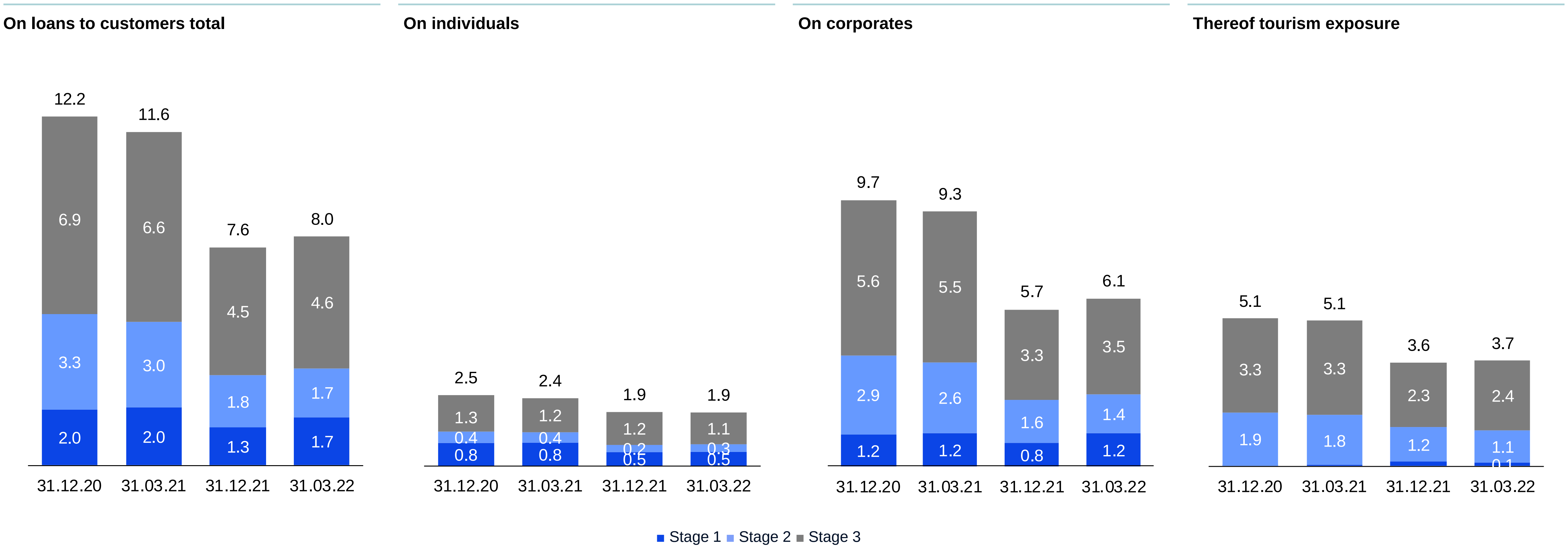
Loans to customers by stages (%)



All amounts in ISK billion

Loss allowance on loans to customers by IFRS 9 stages

Total loss allowance increased in Q1 2022, mainly due to changes in IFRS models and increase in corporate loan book



- The war in Ukraine is not expected to have a significant effect on the Bank's financials. However, it is possible that secondary effects could impact the Icelandic economy and thus the Bank. This is accounted for in the loss allowance under IFRS 9 since that corresponds to a probability weighted average of expected credit losses.

- Total loss allowance as a percentage of face value of loans to customers remained the same, 0.8% at period end as it was at year-end 2021
  - Changes between stages are mainly due to development in the economic environment

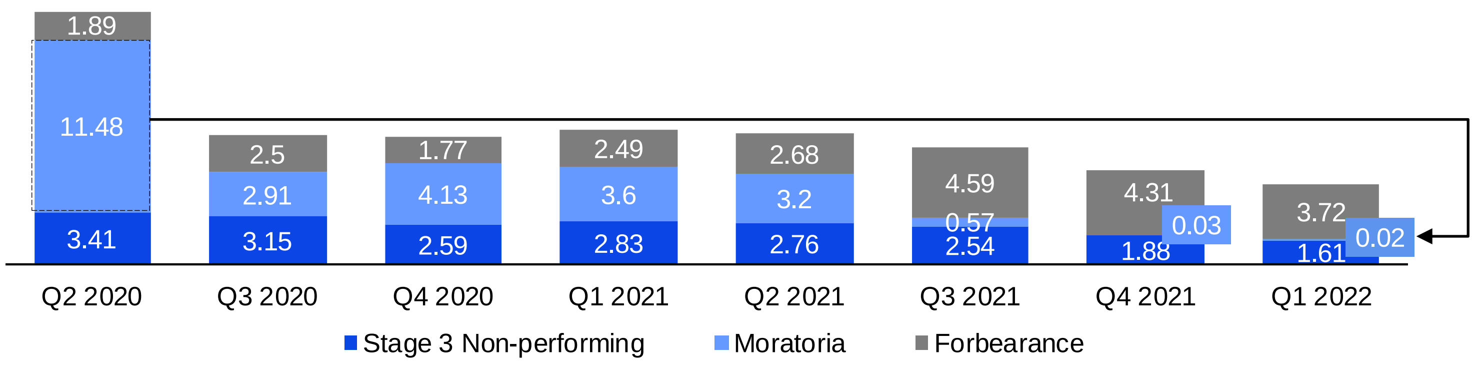
All amounts are in ISK billion

Risk profile of balance sheet improving and economic outlook constructive

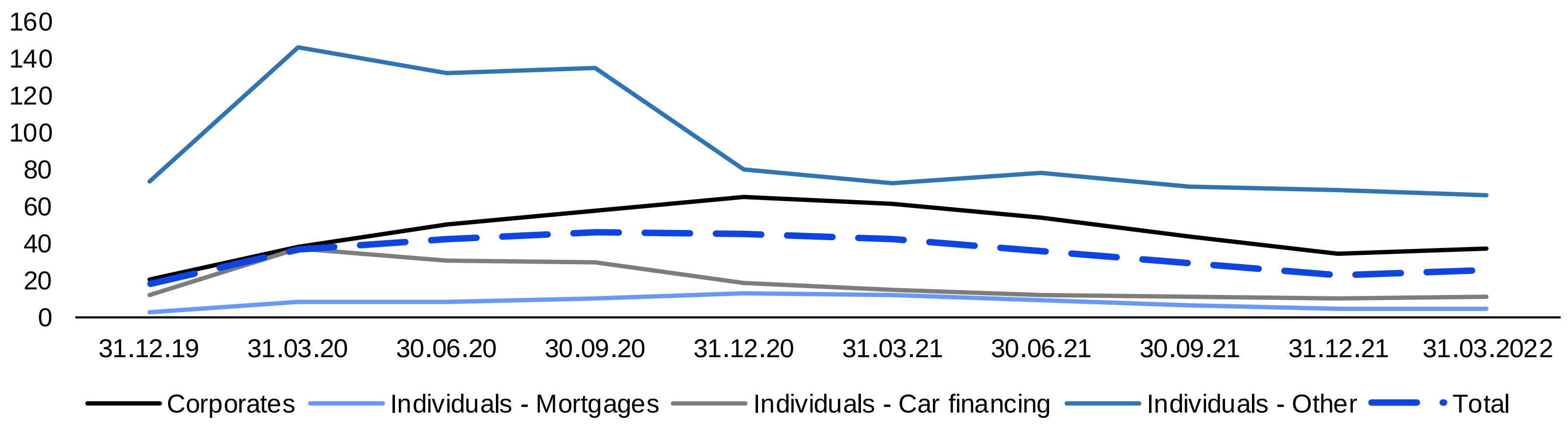
Increased portion of mortgages in total loan book reducing normalized Cost of Risk and moratorium assets now mostly performing

- The change in composition of the loan portfolio, with increased weight in mortgages where the expected loss is smaller contributes to decrease in Cost of Risk through the cycle
- In the medium term the expected credit loss ratios are likely to continue to approach their long-term average, around 4bps for mortgages to individuals and around 35bps for corporates. Total expected credit loss is therefore expected to approach c. 20bps based on current loan book composition. At the end of Q1 the expected total credit loss ratio was 25bps compared to 23bps at YE 2021
- Loans with moratoria and forbearance measures which are not in stage 3 continue to decrease as the economy recovers from the effects of Covid-19. At the end of Q1 2022, they were 3.7% of the total loan book
- At period end about 50% of loans in default or subject to moratoria or forbearance are in the tourism sector

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



12-month expected credit loss for performing exposures (bps)



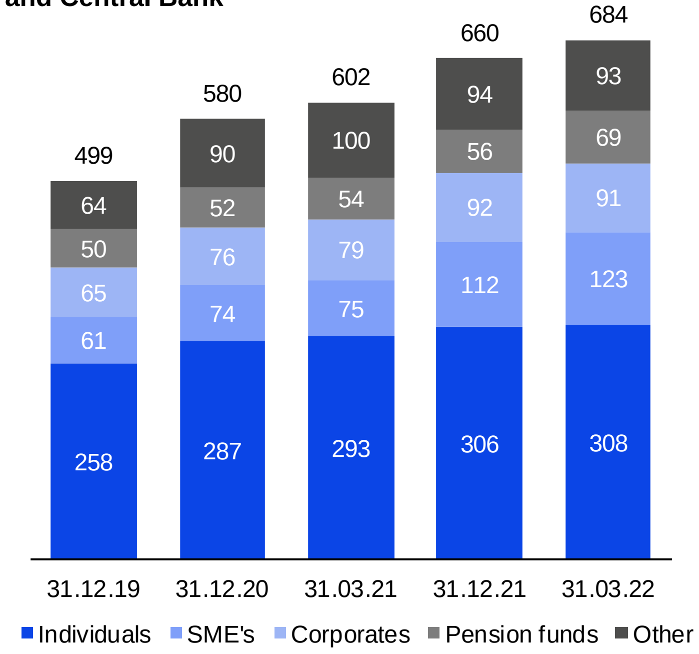
All amounts in ISK billion

Deposits

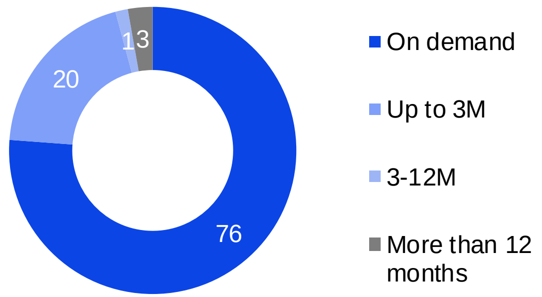
Strong development in core deposits continues

- Deposits represent 59% of the Bank's total liabilities, the same as at year-end 2021
- Growth of 3.7% in core deposits from YE 2021 and 23.3% YoY
  - Core deposits are from individuals, SME's and corporates
- Loans to deposits ratio has decreased significantly over the last few years
- Green deposits continue to grow at a strong pace and are up 67% from YE 2021 (ISK 13.7bn at 31.03.2022)

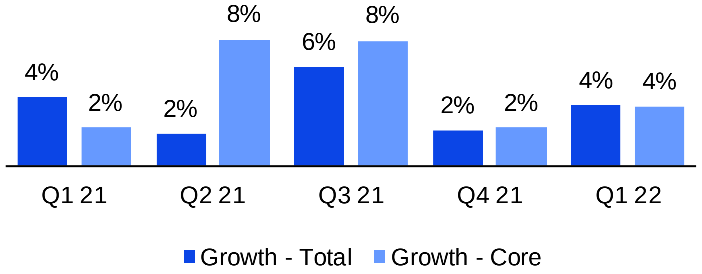
Deposits and due to credit institutions and Central Bank



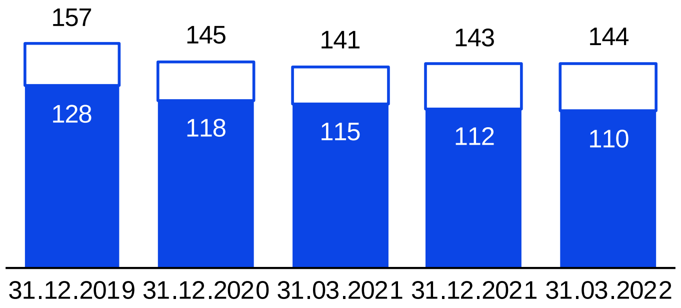
Maturity of deposits (%)



Growth in deposits (%)



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



All amounts are in ISK billion

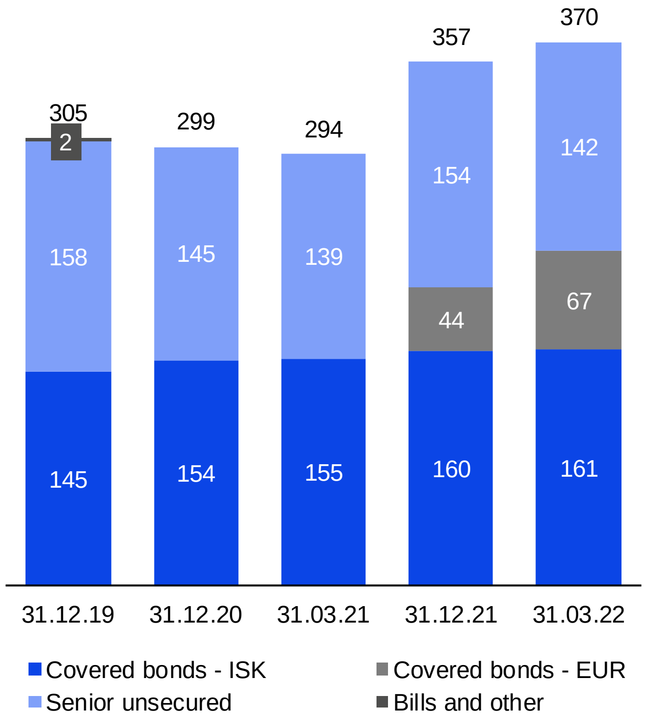
Borrowings

Balanced funding profile with evenly distributed maturities of long term funding

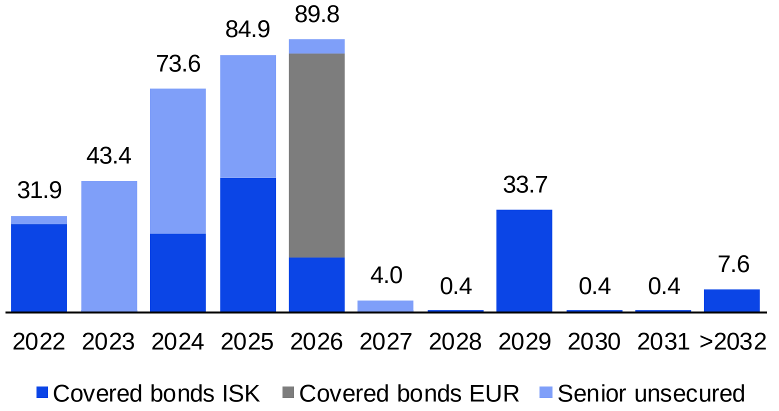
- Successful EUR 200m covered bond tap in March 2022
- Active in the Domestic market with total issuance of ISK 9.2bn
- The Bank will continue to regularly issue in the domestic market and opportunistically access the international markets throughout the year
  - Focus on green senior preferred issuance internationally and covered bonds in the domestic market
- MREL has been implemented into Icelandic law
- In April 2022 the Central Bank resolution authority approved resolution plans for Arion
- MREL requirements for Arion 22.4% of TREA
  - Subordination requirement not expected prior to 1 January 2024 with the expected implementation of BRRD II
  - Issuance of Senior Non Preferred could be considered in the medium term

Rating – S&P (January 2022):		
Senior unsecured	BBB	A
Covered bond	A-	N/A
Short term debt	A-2	A-1
Outlook	Stable	Stable

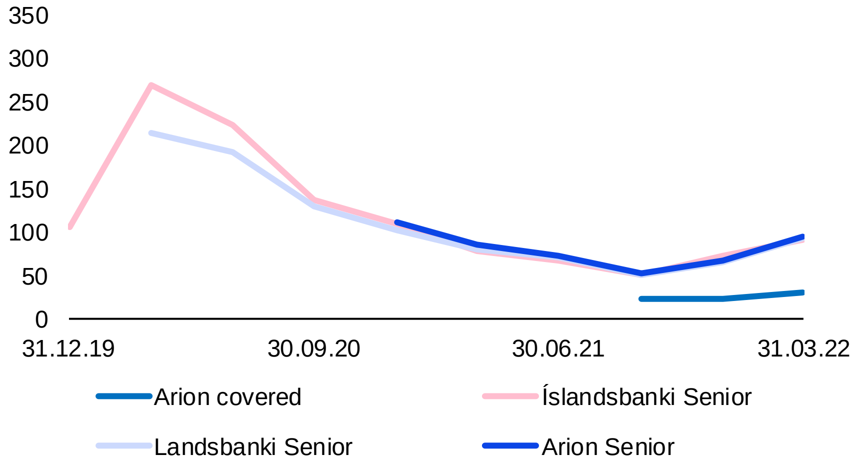
Borrowings by type



Maturities of borrowings



Development of funding spreads (bps)



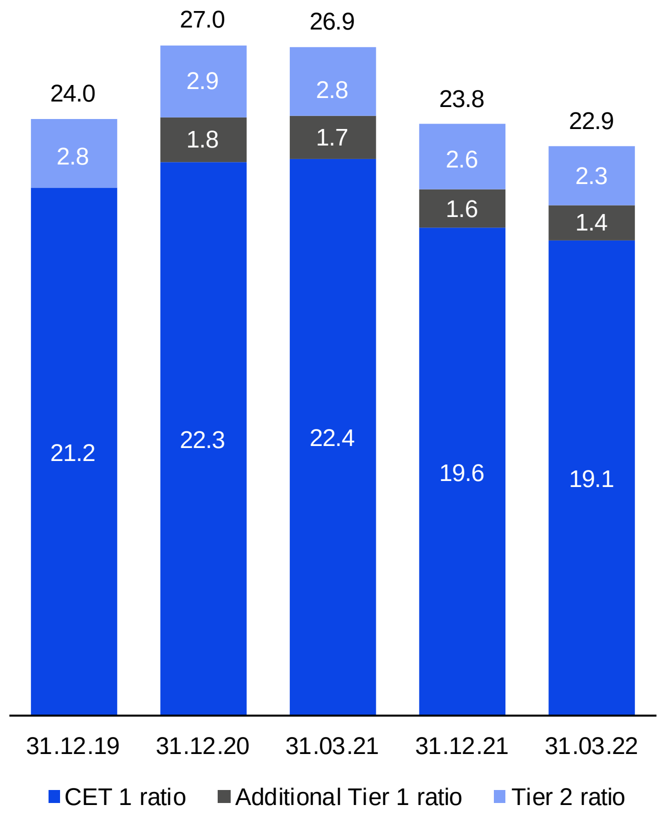
All amounts are in ISK billion

Own funds

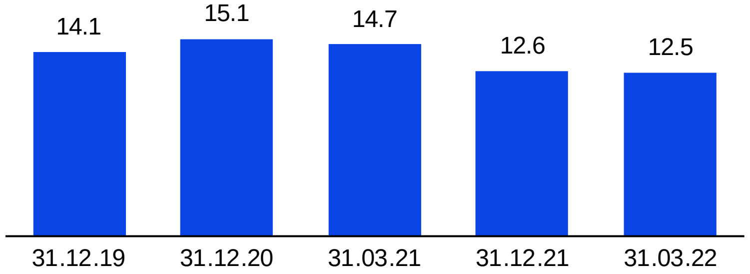
The capital ratios continue to be very strong while capital optimization efforts are ongoing

- The CET1 decreased by 0.5% in Q1, mainly due to increase in credit risk
- REA increased by 7.1% in Q1 with lending growth and increased market risk, both in FX and securities
- Leverage ratio significantly above international competitors despite release of total ISK 58.3bn capital from beginning of 2021

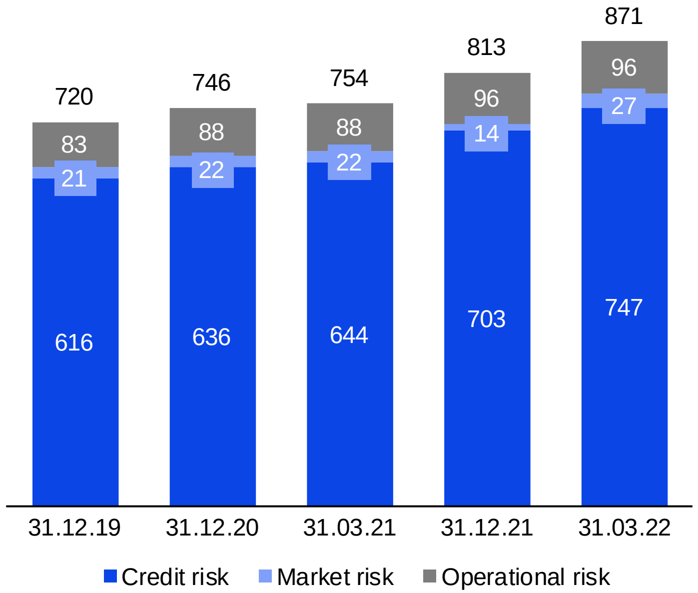
Total capital ratio (%)



Leverage ratio (%)



Risk-weighted exposure amount



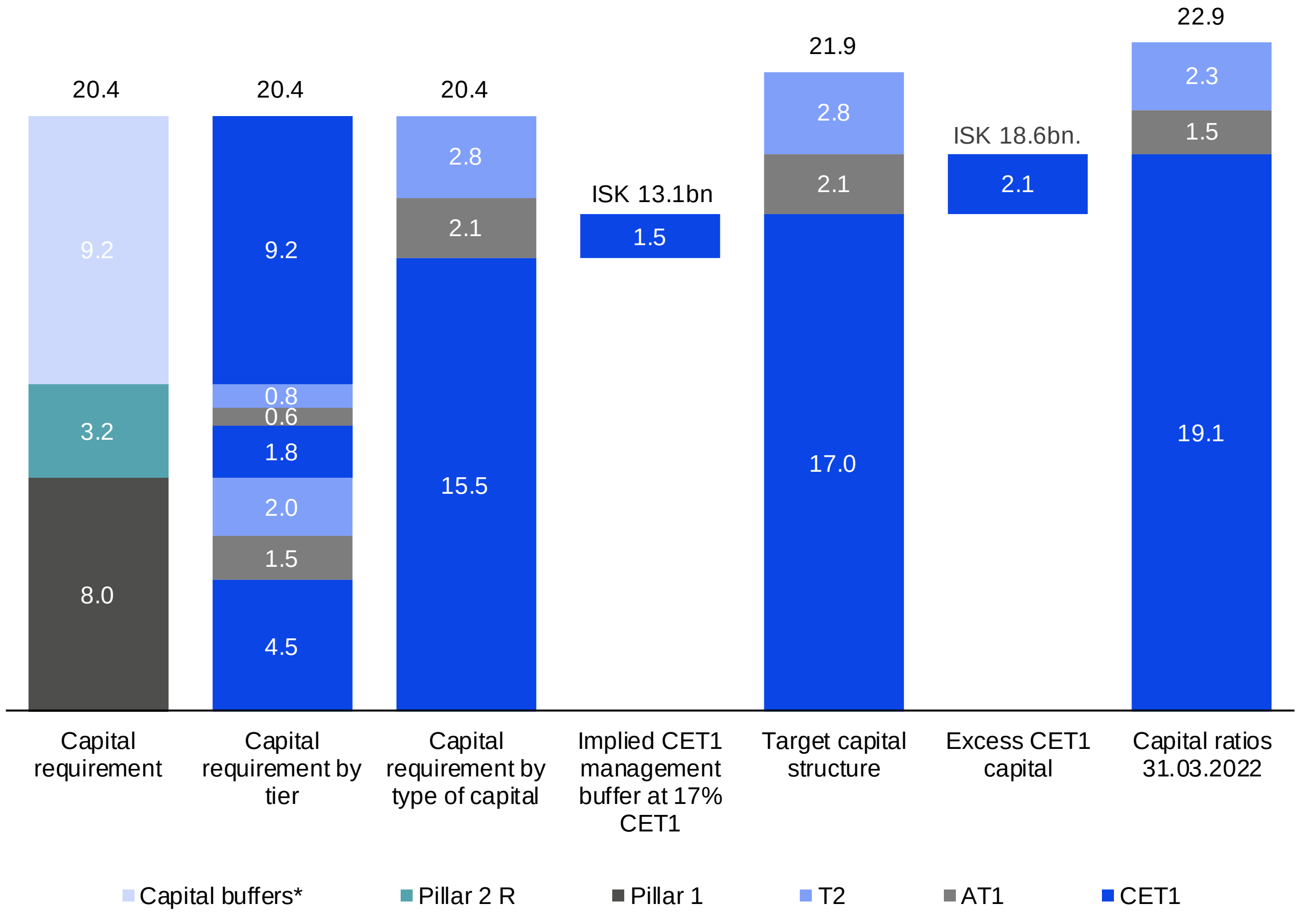
All amounts are in ISK billion

Capital adequacy

Capital ratios remain strong following significant distributions to shareholders

- ISK 22.5 billion of dividends paid out in March 2022
- Interim profits of ISK 5.8bn and corresponding foreseeable dividends of ISK 2.9bn included in the capital ratios
- The Pillar 2 requirement is 3.2% as a result of the SREP process based on year-end 2020 financials
- The Financial Stability Council has announced that the countercyclical buffer will be increased to 2% as of 29 September 2022 from its current level of 0%
- Target CET1 ratio remains unchanged at 17%
  - Implied 3.4% CET1 management buffer (ISK 29.6bn) which is the difference between the target CET1 ratio and regulatory CET1 requirement
  - Thus, the Bank is prepared for the announced increase in the countercyclical capital buffer, when the value of that becomes 2% then the implied management buffer will be 1.5% CET1
  - CET1 capital of ISK 18.6bn in excess of target capital structure
- Impact from the sale of Valitor, subject to the ICA approval, is expected to increase the Bank's capital adequacy by 150 bps
- The solvency ratio of Vördur insurance is 148%

Own funds and capital requirements (%)



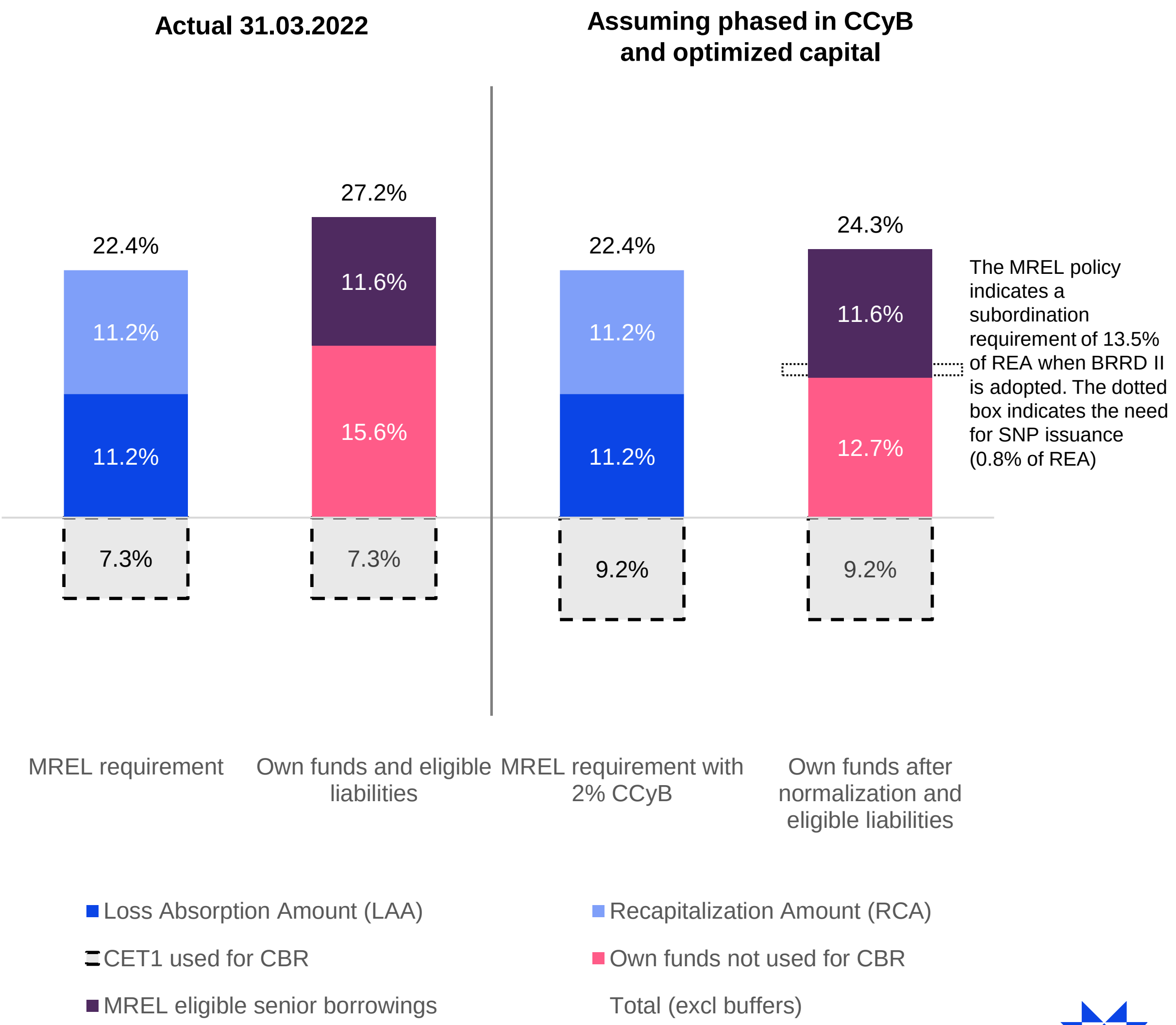
* 2% Countercyclical buffer fully phased in

MREL requirement

The Icelandic Resolution Authority has published its MREL policy

- The BRRD I approach to MREL has been codified in Icelandic law
- Senior unsecured debt is MREL eligible unless it is excluded from the scope of bail-in
- The Icelandic Resolution Authority (IRA) has published its MREL policy
  - Loss Absorption Amount (LAA) equal Pillar 1 plus Pillar 2, currently 11.2% of REA
  - Recapitalization Amount (RCA) equal Pillar 1 plus Pillar 2, currently 11.2% of REA
    - No Market Confidence Charge (MCC) because of the high level of combined buffer requirement (CBR), currently 7.3% of REA and expected to increase to 9.2% of REA on 30 September 2022
  - No subordination requirement
- Iceland is obligated to introduce the BRRD II approach at some point but the timeline is uncertain
- Some steps towards BRRD II have been taken
  - The Senior Non-Preferred (SNP) rank has been introduced into Icelandic law
  - The IRA MREL Policy discusses the key differences in MREL between BRRD I and BRRD II but does not state any firm decisions regarding their approach under the BRRD II regime
- Arion Bank has updated the terms of senior unsecured borrowings so that new issuances will be MREL eligible (senior preferred, SP) according to BRRD II
- The graph shows
  - MREL requirement for Arion Bank 22.4% of REA in addition to the CBR
  - Own funds and MREL eligible senior borrowings (>1yr to maturity)

MREL requirement as % of REA*



*According to BRRD I, MREL requirement should be expressed in terms of total liabilities and own funds (TLOF) but % of REA is more relevant for determining the size of the requirement. Actual requirement is 14.2% TLOF which corresponds to 21.9% REA at 31.03.2022

Going forward

Strong progress in core operations, while external environment continues to produce challenges

Continued strength of core operations, with increasing net interest income building on the foundations of the enhanced non-interest revenue base of fees and net insurance

Normalization of rate environment will continue to support net interest income over the medium term while it is expected that the sensitivity to policy rate hikes will slow as impact on liability side increases

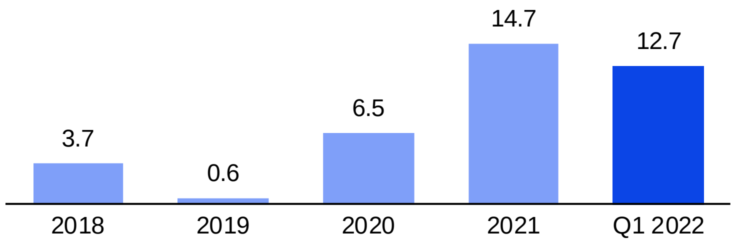
Realignment of CIB strategy has produced a strong growth pipeline in corporate activity, both within lending and advisory. Strategy continues to support increased syndication of originated lending and enhanced portion of lending outside Iceland and into broader Arctic region

The tragic war in Ukraine poses a new risk to the external environment, while the Icelandic economy is relatively isolated from primary impact. In terms of secondary impact, inflation continues to pose a risk to the balance of the economy. It is therefore important that wage negotiations in Iceland, planned for this autumn, produce a sustainable conclusion.

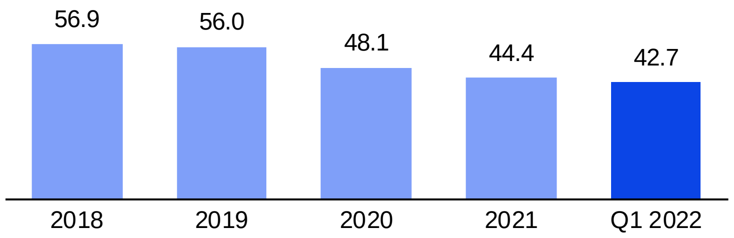
The Goup is in a strong position to navigate the changing operating environment, with a diversified revenue base and a clear strategy. Capital management will continue to focus on optimizing capital level while balancing shareholder distributions with profitable growth opportunities

Key financial indicators – annual

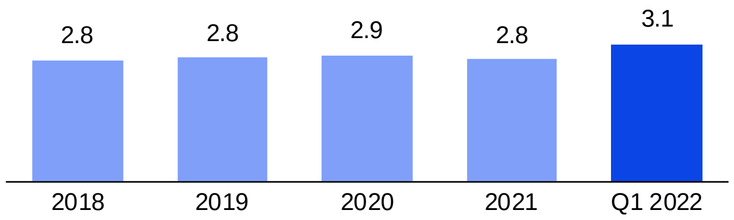
Return on equity (%)



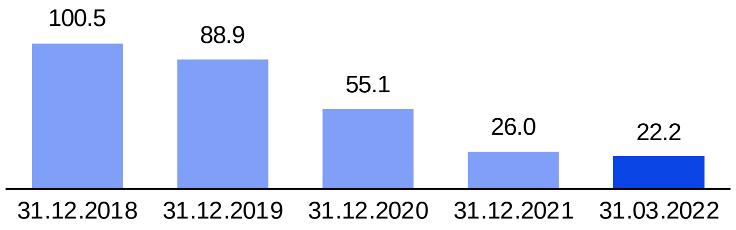
Cost-to-income ratio (%)



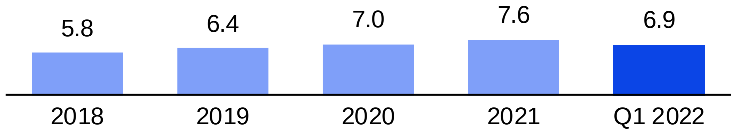
Net interest margin (%)



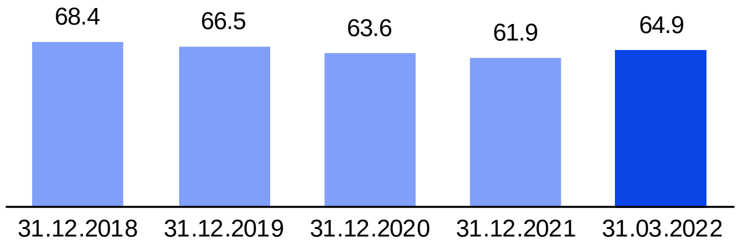
CPI imbalance (ISK bn)



Operating income / REA (%)

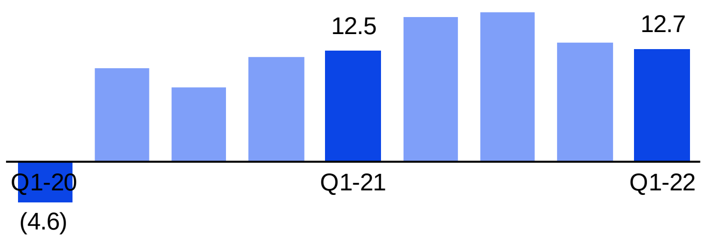


Risk weighted assets / Total assets (%)

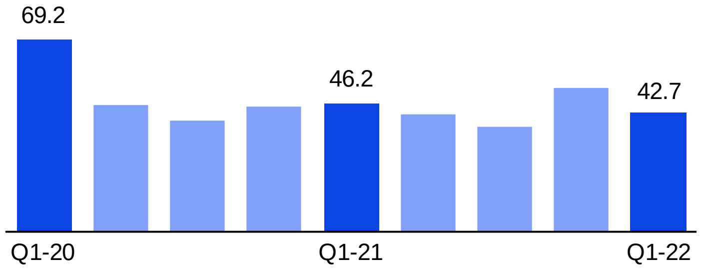


Key financial indicators – quarterly

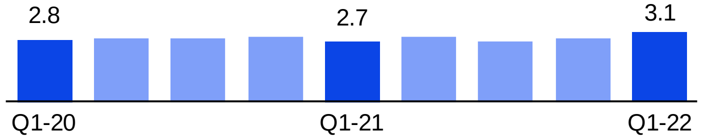
Return on equity (%)



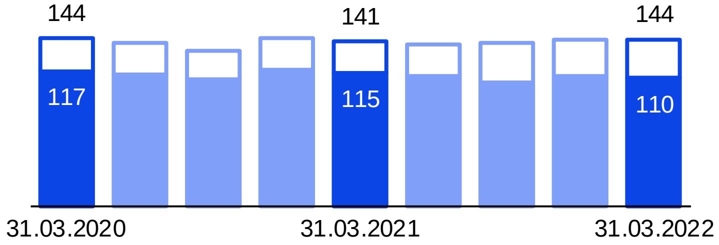
Cost-to-income ratio (%)



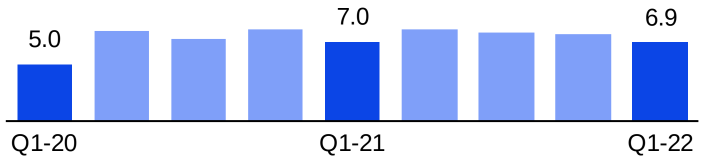
Net interest margin (%)



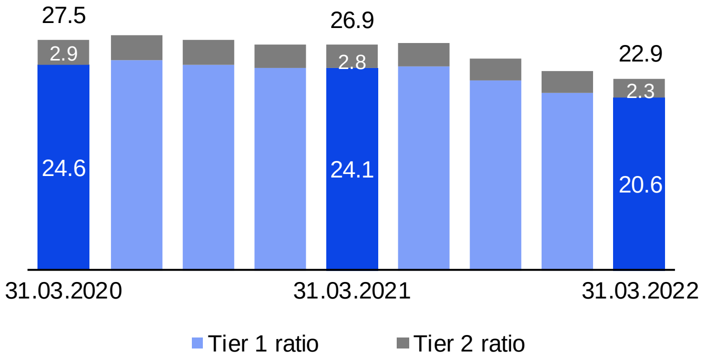
Loans-to-deposits ratio (%)
(without loans financed by covered bonds)



Operating income / REA (%)



Capital ratio (%)



Key figures

Operations	Q1 2022	Q1 2021	Q1 2020	Q1 2019	Q1 2018	Q1 2022	Q4 2021	Q3 2021	Q2 2021	Q1 2021
Net interest income	9,528	7,342	7,253	7,434	6,827	9,528	8,768	7,937	8,016	7,342
Net commission income	3,552	3,277	3,076	2,218	2,205	3,552	4,079	3,755	3,562	3,277
Operating income	14,514	13,097	8,976	11,708	10,810	14,514	15,234	14,890	15,004	13,097
Operating expenses	6,201	6,048	6,207	6,862	6,759	6,201	7,867	5,588	6,372	6,048
Net earnings	5,818	6,039	(2,169)	1,017	1,949	5,818	6,522	8,238	7,816	6,039
Return on equity	12.7%	12.5%	(4.6%)	2.1%	3.6%	12.7%	13.4%	17.0%	16.3%	12.5%
Net interest margin	3.1%	2.7%	2.8%	2.7%	2.7%	3.1%	2.8%	2.7%	2.9%	2.7%
Return on assets	1.8%	2.1%	(0.8%)	0.3%	0.7%	1.8%	2.0%	2.6%	2.6%	2.1%
Cost-to-income ratio	42.7%	46.2%	69.2%	58.6%	62.5%	42.7%	51.6%	37.5%	42.5%	46.2%
Cost-to-total assets	1.9%	2.1%	2.2%	2.3%	2.4%	1.9%	2.4%	1.7%	2.1%	2.1%
Balance Sheet										
Total assets	1,341,013	1,181,093	1,187,820	1,222,695	1,131,768	1,341,014	1,313,864	1,346,092	1,217,921	1,181,093
Loans to customers	976,383	837,162	778,823	829,246	782,255	976,383	936,237	896,940	843,988	837,162
Mortgages	515,760	423,732	340,235	366,381	190,008	515,760	504,877	483,514	452,881	423,732
Share of stage 3 loans, gross	1.6%	2.9%	2.9%	2.5%	-	1.6%	1.9%	2.6%	2.8%	2.9%
REA/ Total assets	64.9%	63.9%	60.0%	64.4%	68.8%	64.9%	61.9%	58.0%	61.3%	63.9%
CET 1 ratio	19.1%	22.4%	22.5%	21.3%	23.6%	19.1%	19.6%	20.9%	22.7%	22.4%
Leverage ratio	12.5%	14.7%	14.5%	0.0%	0.0%	12.5%	12.6%	12.4%	14.6%	14.7%
Liquidity coverage ratio	195.4%	191.6%	224.2%	213.0%	209.9%	195.4%	202.8%	221.0%	215.1%	191.6%
Loans to deposits ratio	143.6%	141.3%	144.4%	169.1%	172.7%	143.6%	142.8%	139.9%	139.6%	141.3%

All amounts are in ISK million

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