Arion Bank

Arion RegS $125m PerpNC5.5 AT1

September 2024

Disclaimer (1/2)

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Arion Additional Tier 1 Offering

First opportunity to buy Icelandic core currency capital in ~5-years

Summary Terms	
Transaction	RegS $125m (WNG) PerpNC5.5
Expected Ratings	Ba2 (Moody's)
Loss Absorption	Equity Conversion if the Bank or the Group CET1 ratio falls below 5.125%
Conversion Price[1]	The highest of the Current Market Price of the ordinary shares, the Floor Price ($[●]), and the par value of an Ordinary Share
Governing law	English law, except status and subordination and acknowledgement of statutory loss absorption powers, governed by the laws of Iceland

Investment Thesis & Key Highlights	
Ample distance to Loss Absorption Trigger	• Buffer to trigger of c. 13.4% / ISK 127.8bn / $921m vs. Group Trigger of 5.125% as of H1 2024 • Buffer to trigger of c. 13.6% / ISK 129.6bn / $934m vs. Bank Trigger of 5.125% as of H1 2024
Strong buffer to MDA threshold	• Buffer of 3.3% / ISK 31.8bn / $229m vs. CET1 MDA threshold (assumed fully utilized AT1 & T2 buckets) at Group level • Proposed transaction to fully utilize Arion's AT1 bucket, filling spare capacity • In July, Arion announced a new ISK 2.5bn share buy-back (fully deducted from Q2 results) and ISK 5bn conditional share buy-back, subject to outstanding warrants being exercised (~ISK 6bn in the money). In August, both the warrants and conditional buy-back were executed resulting in an increase to Arion's CET1 ratio by ~10bps[3]
Robust Available Distributable Items (ADI) capacity	• ADIs of ISK 173.1bn[4] / $1.2bn as at H1 2024, equivalent to an estimated ~108x coverage ratio[5] • It is Arion's current intention to respect the hierarchy of capital instruments and preserve the seniority of claims

Transaction Rationale
Increase Arion's financial and regulatory flexibility, whilst maintaining a layer of AT1 within Arion's capital structure
Capital optimisation and fulfilment of Arion's 1.8% AT1 bucket[2] (equivalent to c. $126m) as at H1 2024
Facilitate the refinancing of 6.25% $100m AT1 targeted in the concurrently announced Liability Management Exercise
Further strengthen Arion's robust leverage position (11.9% at H1 2024) and support MREL and credit ratings
Increase diversification of funding sources and investor base

Liability Management Exercise	
Target Bond	$100m 6.250% PerpNC 26-Feb-25 (first call date); reset date 26-Aug-25 (ISIN: XS2125141445)
Purchase Price	100% plus an Accrued Interest Payment
Structure	Any-and-all cash tender offer
Financing Condition	The tender is conditioned upon the successful completion (or waiver) of the issue of the new notes (in the sole determination of Arion)
Priority allocation of the New Notes	Arion intends to give preference in allocation of the new issue to investors who have validly tendered or indicated intention to tender
Expected Timetable of Events	**Commencement of the Offer**: Day 1; new issue marketing announced same day **Expiration Deadline**: 4.00pm London time, Day 7 **Settlement Date**: Expected to be Day 9

Notes: USD/ISK FX rate as of 28.06.2024
1) Subject to adjustments outlined in the IM. 2) Calculated as 1.5% Pillar 1 + 0.3% P2R. 3) The warrants exercised increased Arion's CET1 by approx. ISK 6.0bn (+0.6% RWAs). The incremental ISK 5bn share buy-back is equivalent to 0.5% RWAs. The net impact of the two exercises was ~10bps positive. 4) Retained Earnings as reported in the financial statement. 5) Coupon coverage ratio based on estimated new issue size and coupon

Arion Highlights

Arion occupies a unique position and operates in an attractive market

- Diverse and seasoned businesses supported by conservative and agile balance sheet management empowers the Bank to navigate the current external operating environment
- Strong operational momentum in H1 across core earnings drivers. RoE of 11.5% for Q2 (pro forma settlement expense RoE would be closer to target)
- Interest margin holding strong at 3.2%. Fixed rate mortgage resets support the margin especially in H2 2024 and 2025
- Positive momentum in insurance revenue +15% increase and lower claim rates compared to prior year

Very strong capital, liquidity and funding position

- Capital position very strong with a CET1 ratio of 18.5% or 330bps above regulatory minimum
- Stable deposits continue to grow, whilst the wholesale funding profile remains balanced and further bolstered by improved spread developments
- Strong liquidity position with NSFR of 120% & LCR of 154%. Average duration of liquidity bond portfolio within one year and no HTM accounting

Commitment to capital optimization

- Total of ISK 7.5bn share buy-backs approved and fully deducted from CET1 ratios (ISK 5bn in March & ISK 2.5bn in July)
- Arion obtained approval for a ISK 5bn conditional share buy-back, subject to outstanding warrants being exercised (~ISK 6bn in the money). This was executed in August and the net impact of the two exercises increased Arion's CET1 ratio by ~10bps[1]
- Desire to obtain an optimal capital structure utilizing both AT1 & Tier 2 buckets to free up additional CET1

The Icelandic economy is resilient

- Economic growth is expected to remain positive and is projected to return to stronger levels as early as next year
- However, a slowdown in tourism, coupled with stringent monetary policies, is expected to continue dampening consumer demand, a crucial factor in reducing inflation to the target level

Medium term targets

>13%
ROE medium-term target

<45%
Cost-to-core income ratio

150-250bps
Management buffer

50%
Dividend payout ratio

2.7%
Forecasted economic growth by 2027

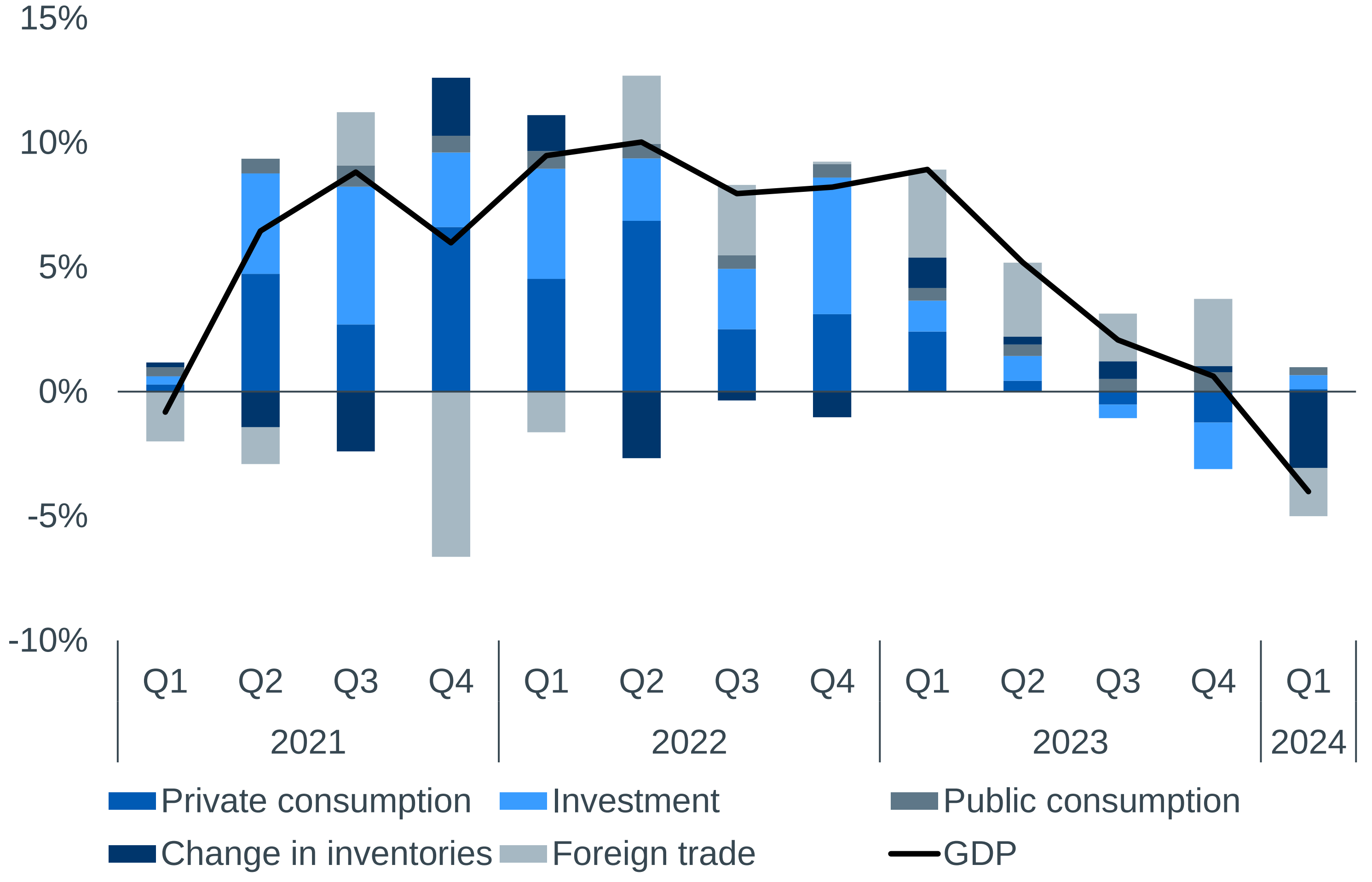
1) The warrants exercised increased Arion's CET1 by approx. ISK 6.0bn (+0.6% RWAs). The incremental ISK 5bn share buy-back is equivalent to 0.5% RWAs. The net impact of the two exercises was ~10bps positive

Resilient Icelandic Economy

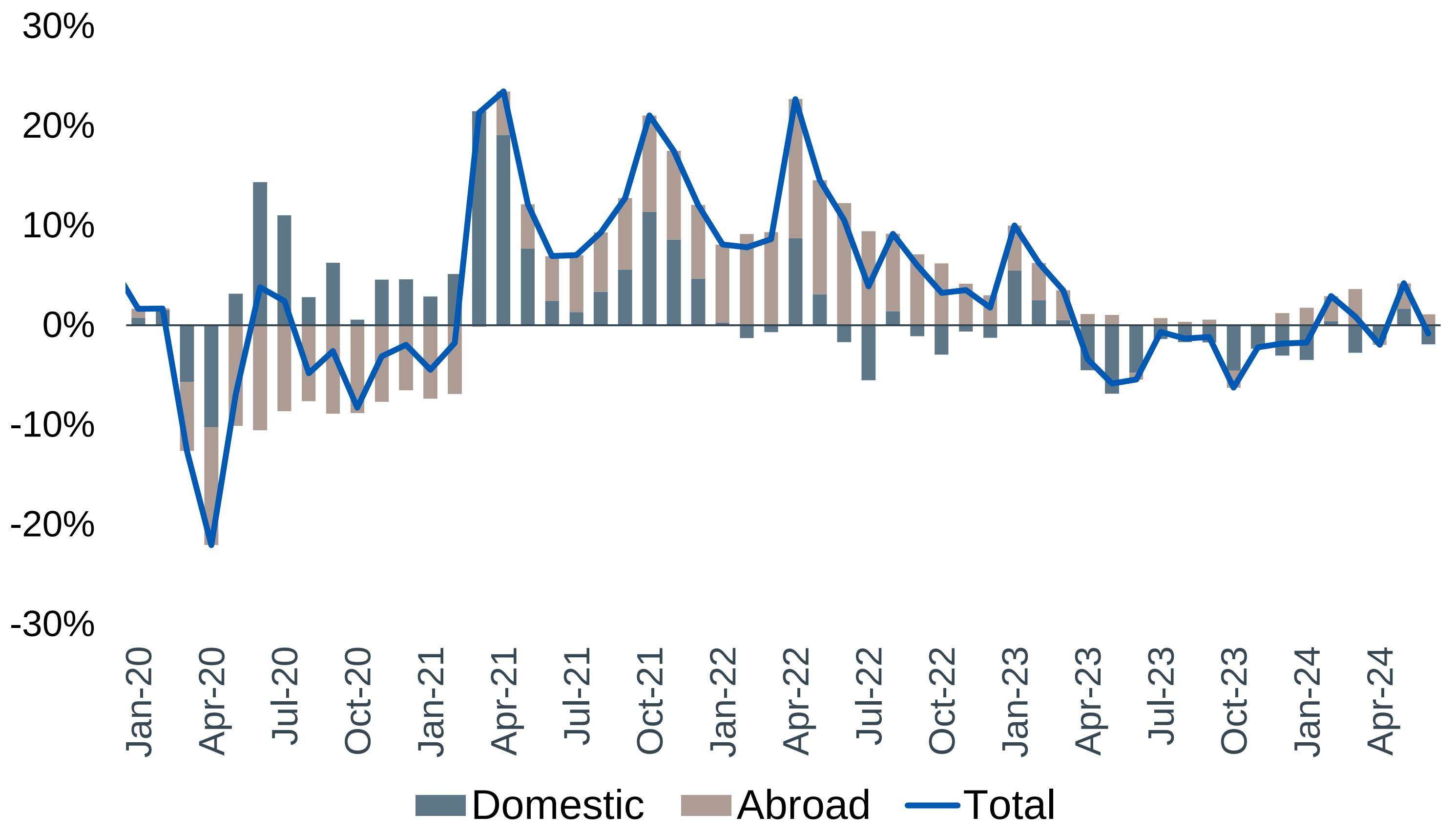
The economy is slowing down

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

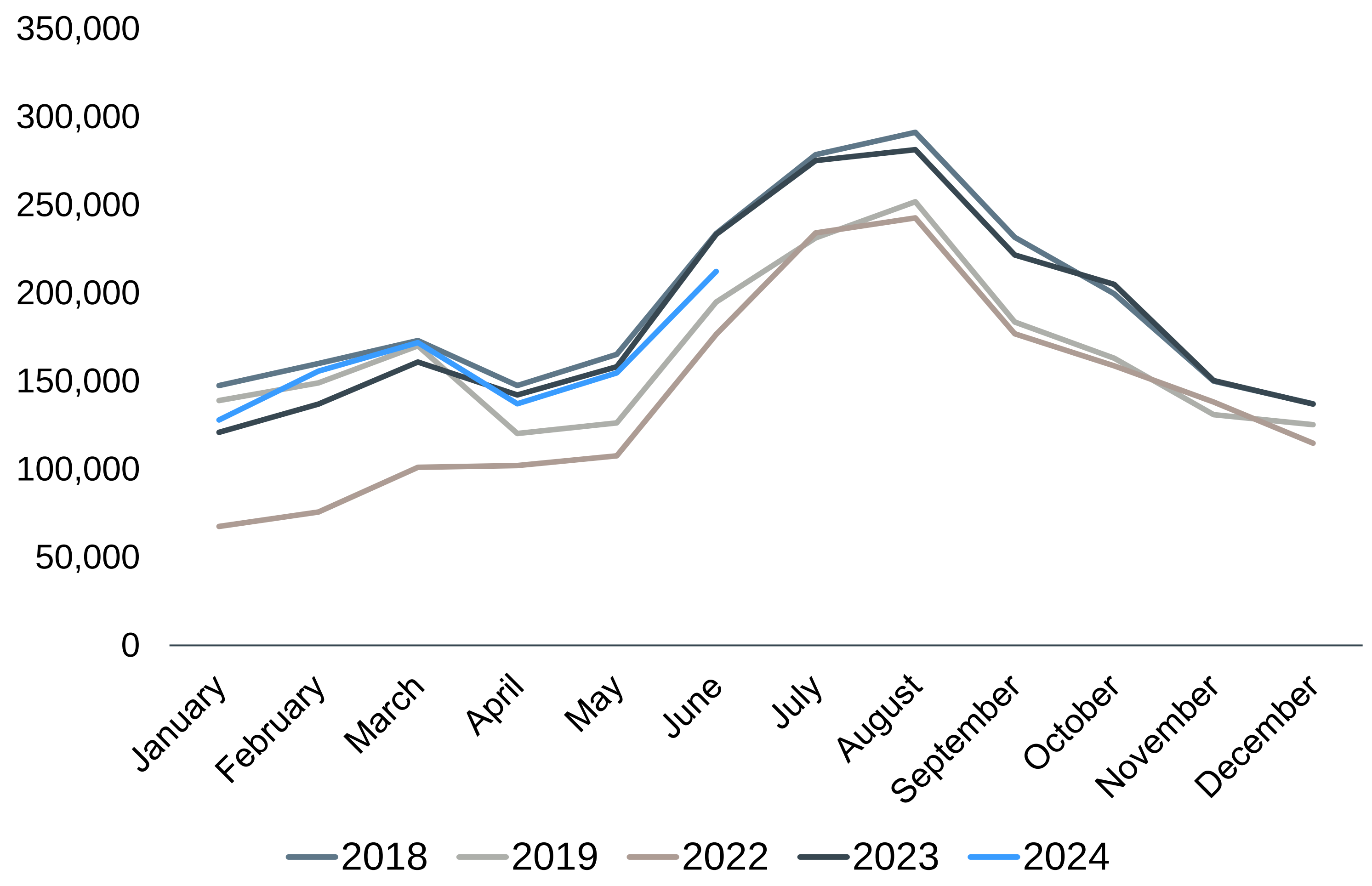
Contributions of GDP components



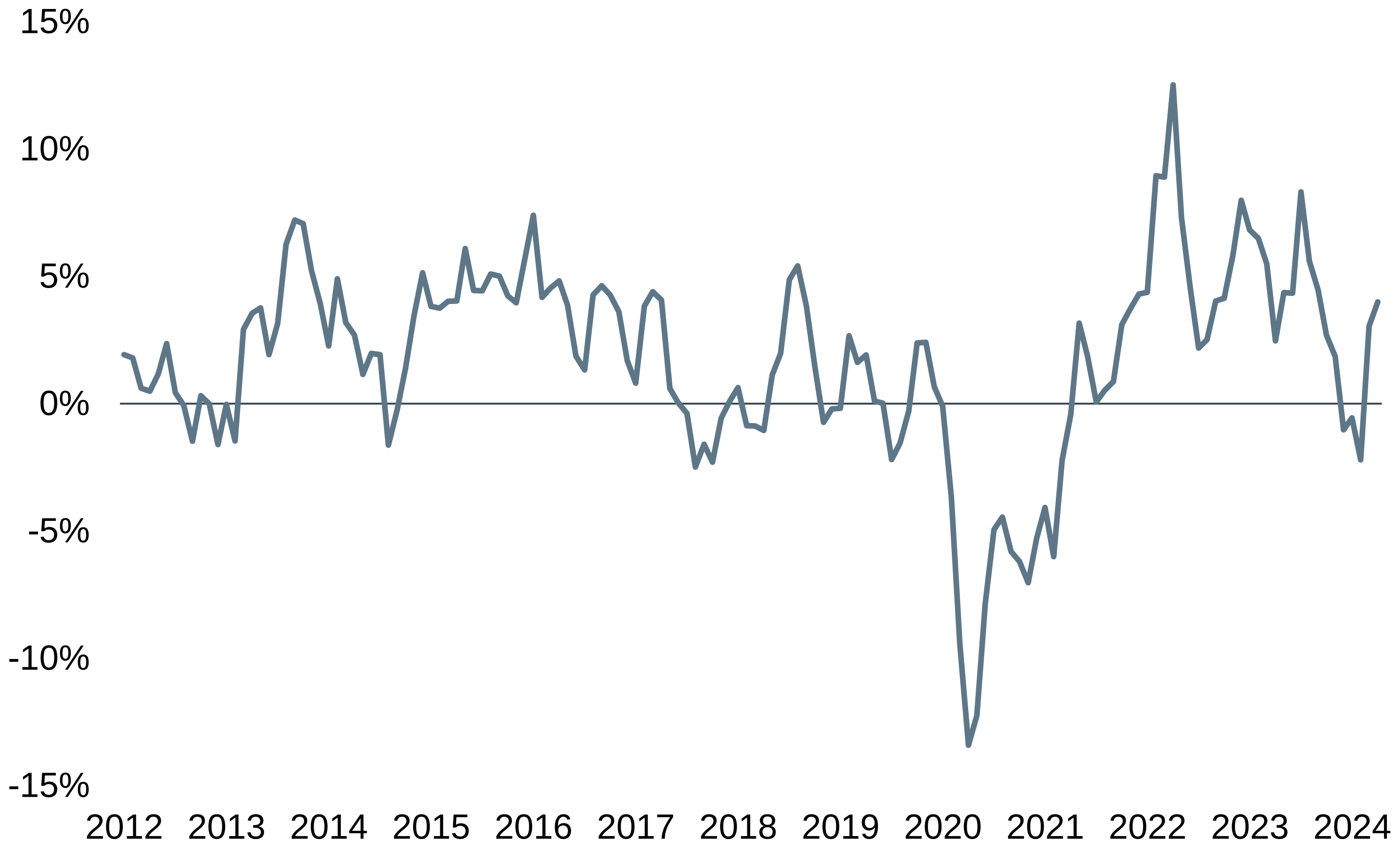
Payment card turnover
- YoY growth, growth contributions of underlying components



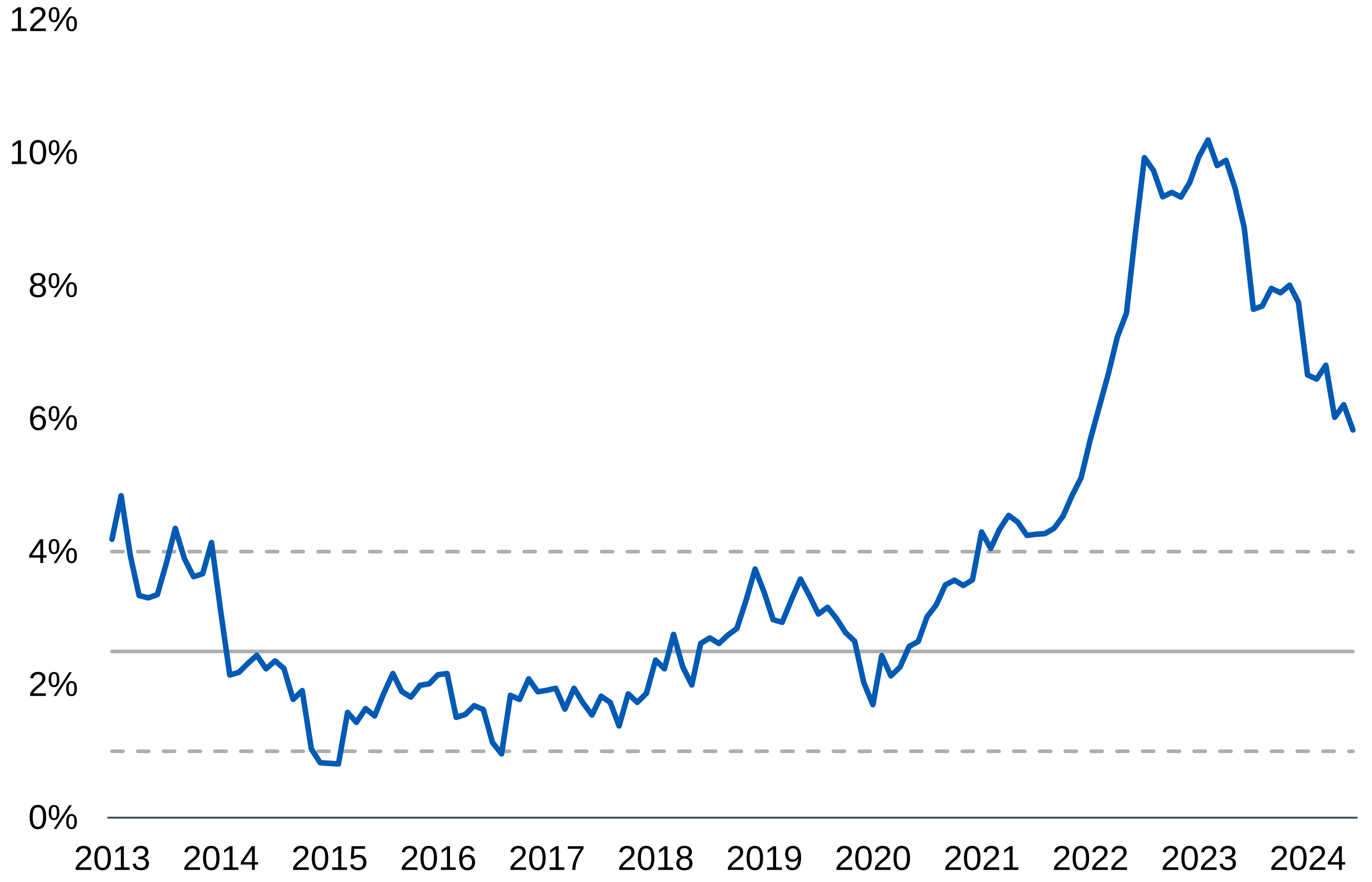
Tourist departures via Keflavík International Airport



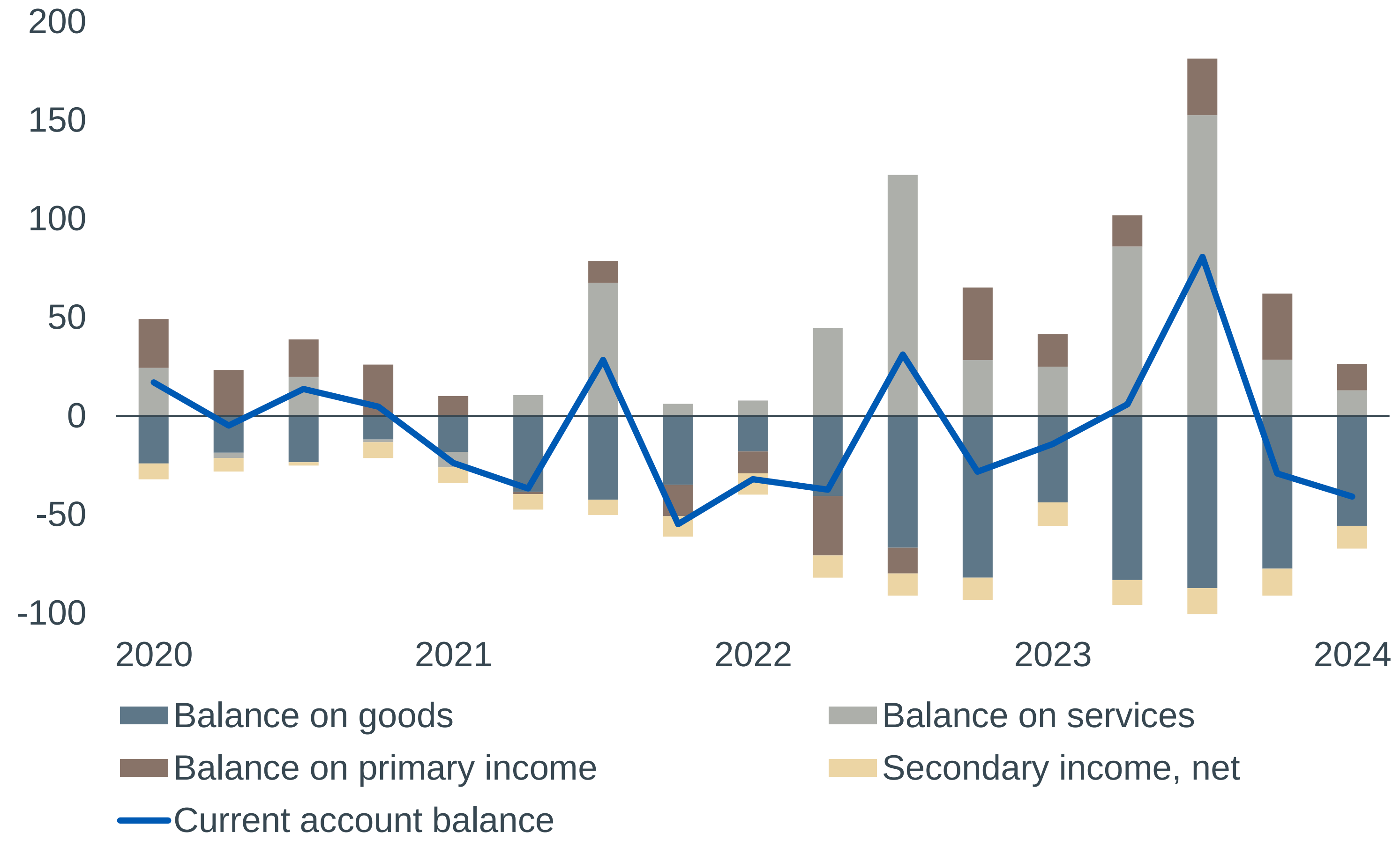
Total hours worked
- 12 month change (of a 3 month average)



Inflation



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

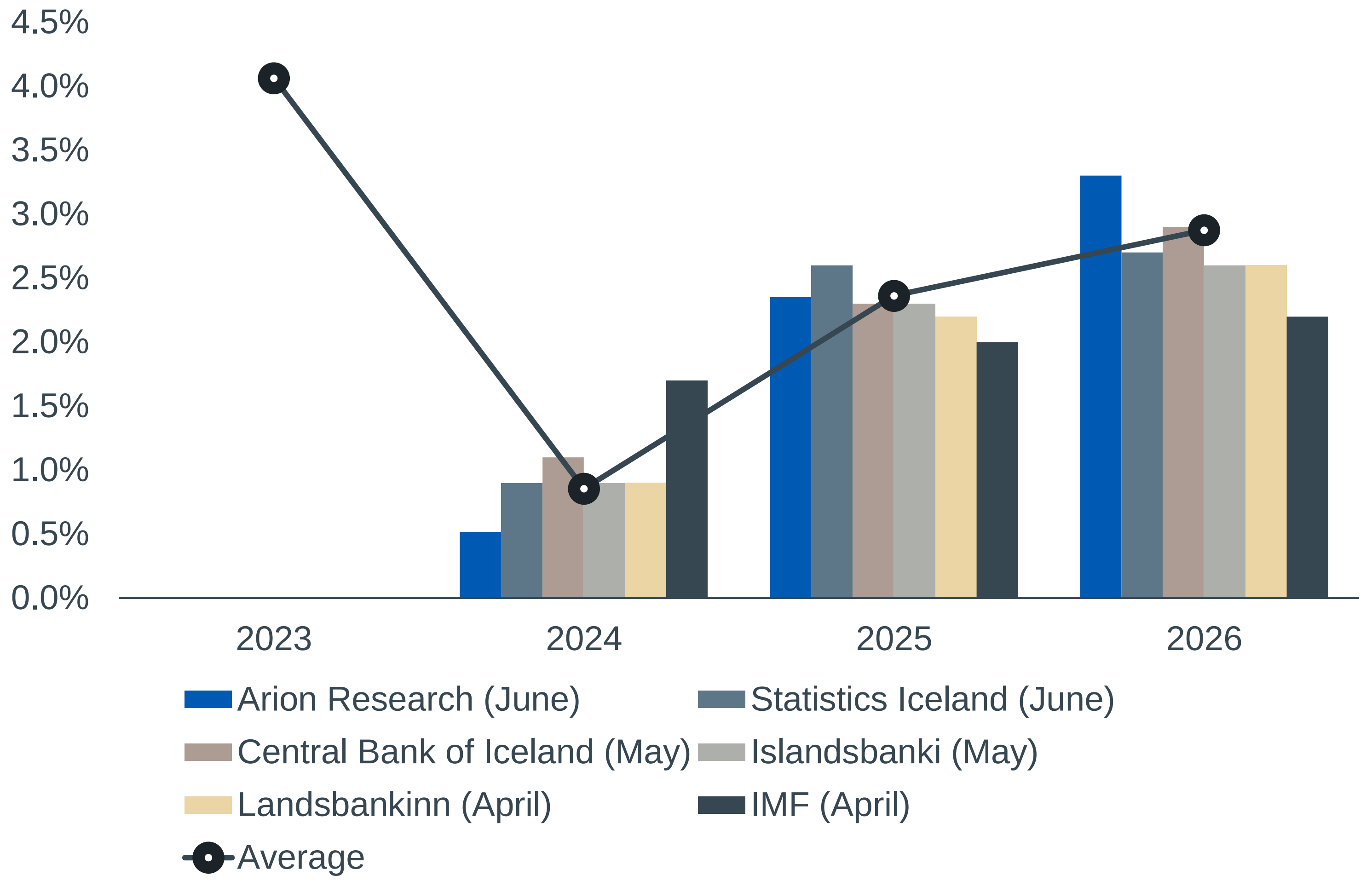


Sources: OECD, Central Bank of Iceland, Statistics Iceland, Icelandic Tourist Board, Arion Research.

Slow growth as the economy grapples with tighter monetary policy

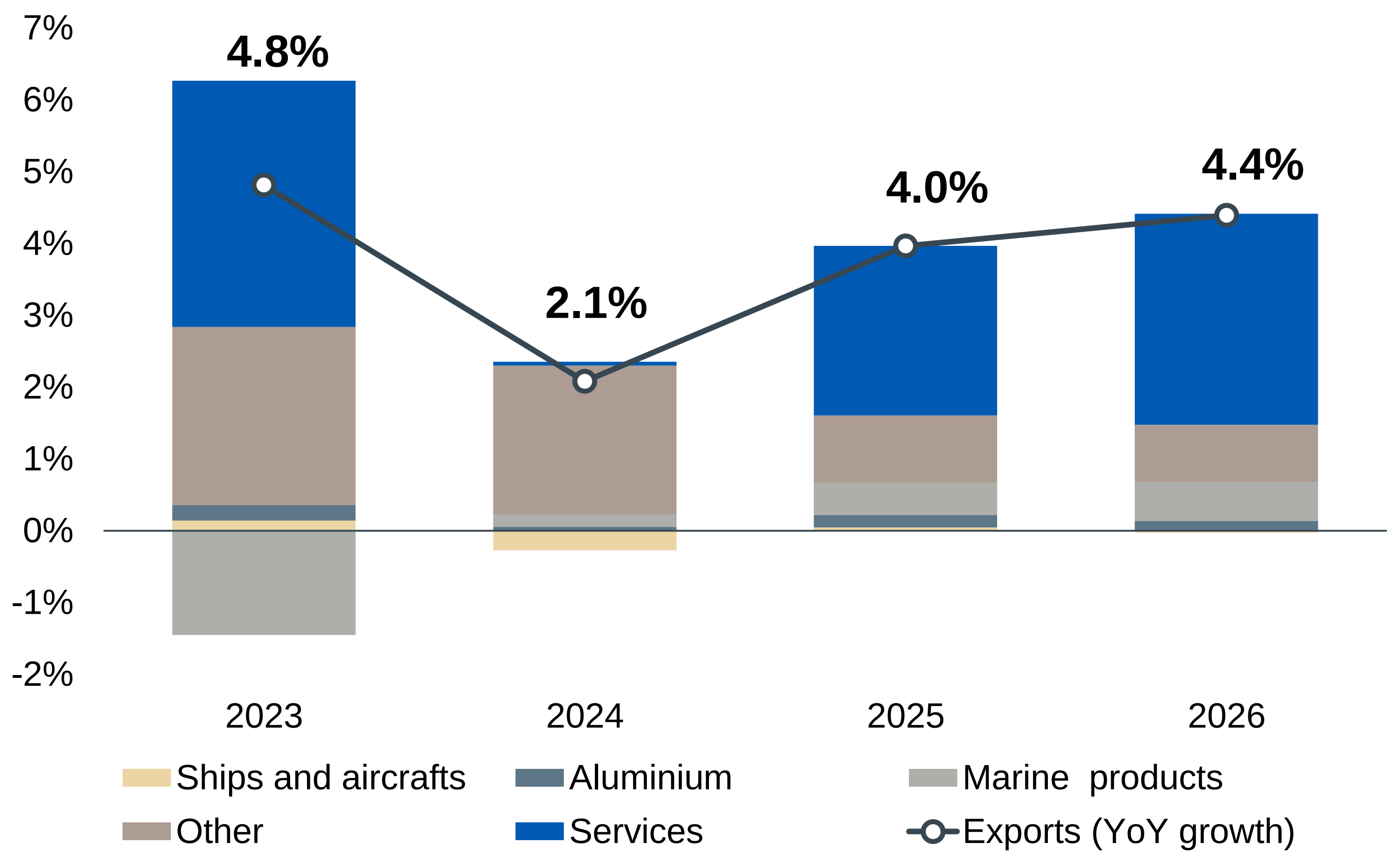
- Most analysts have revised their economic forecasts for this year downwards, with the consensus among domestic analysts at 0.9% growth. This change is primarily due to slower growth in the tourism industry, which offsets stronger domestic demand. Additionally, the 4% contraction in Q1, mainly due to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

Economic growth forecasts for 2023-2026

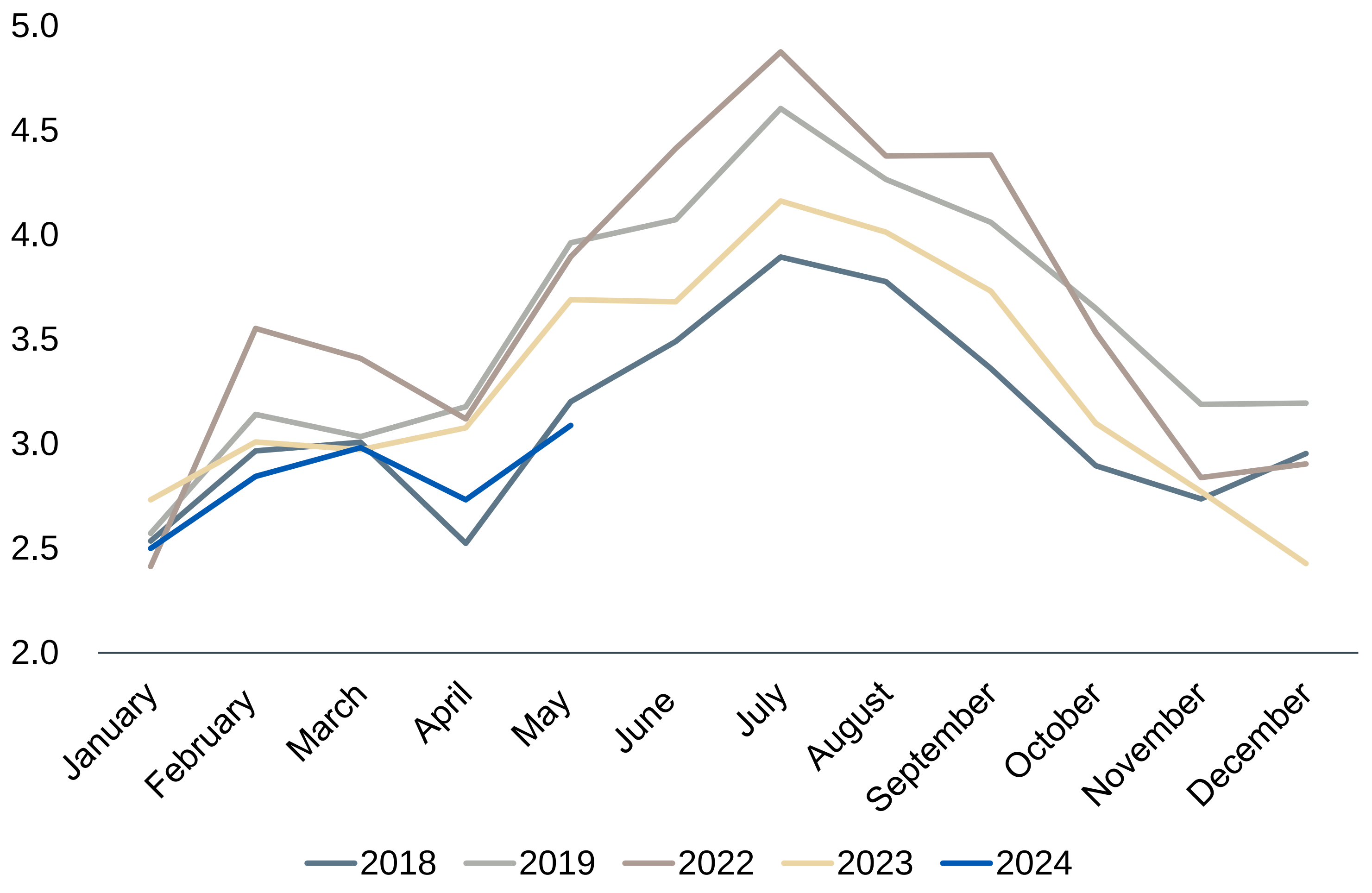


Tourist arrivals via Keflavik International Airport
- millions annually

Exports
- growth contribution of components



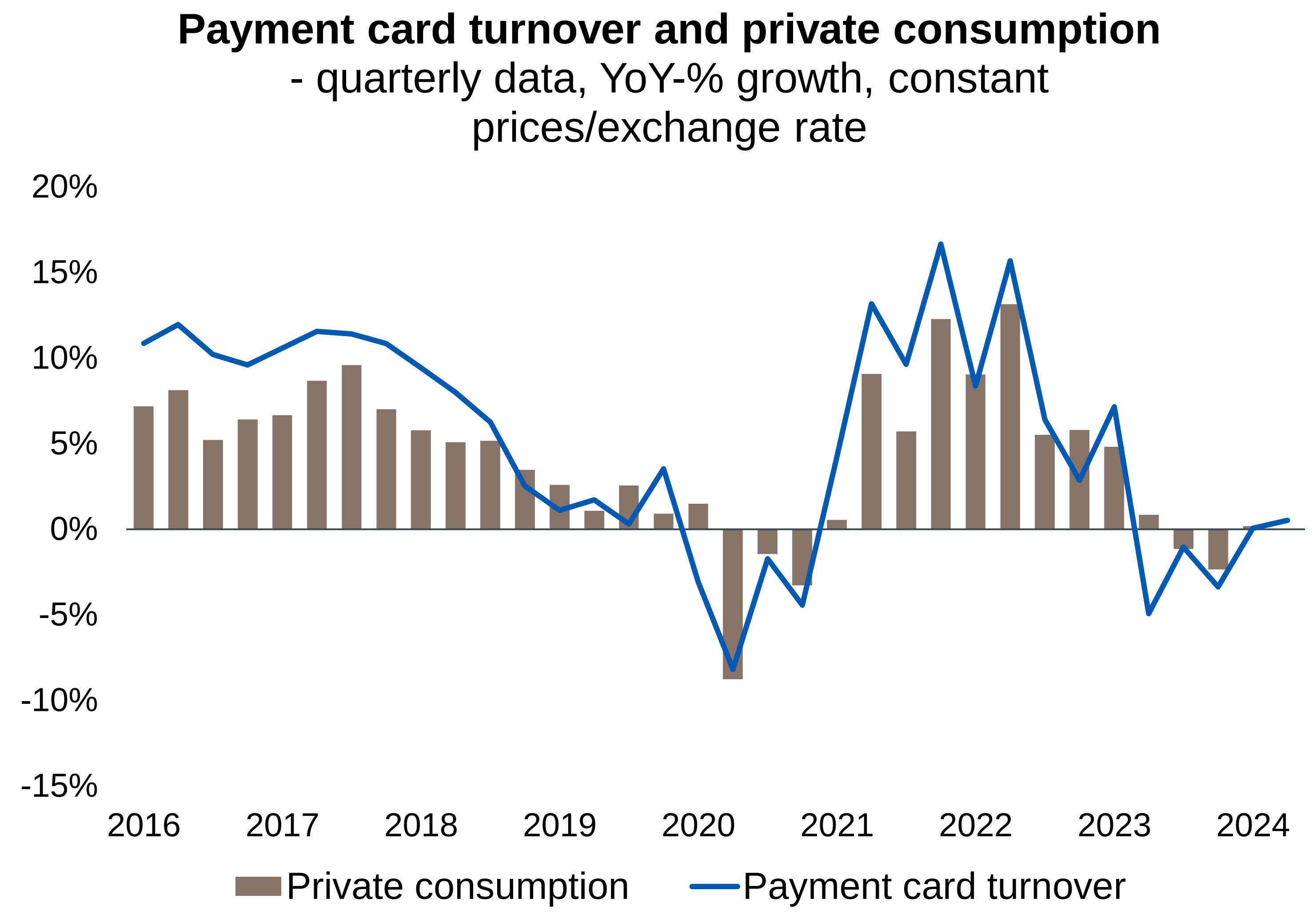
Overnight stays per tourist

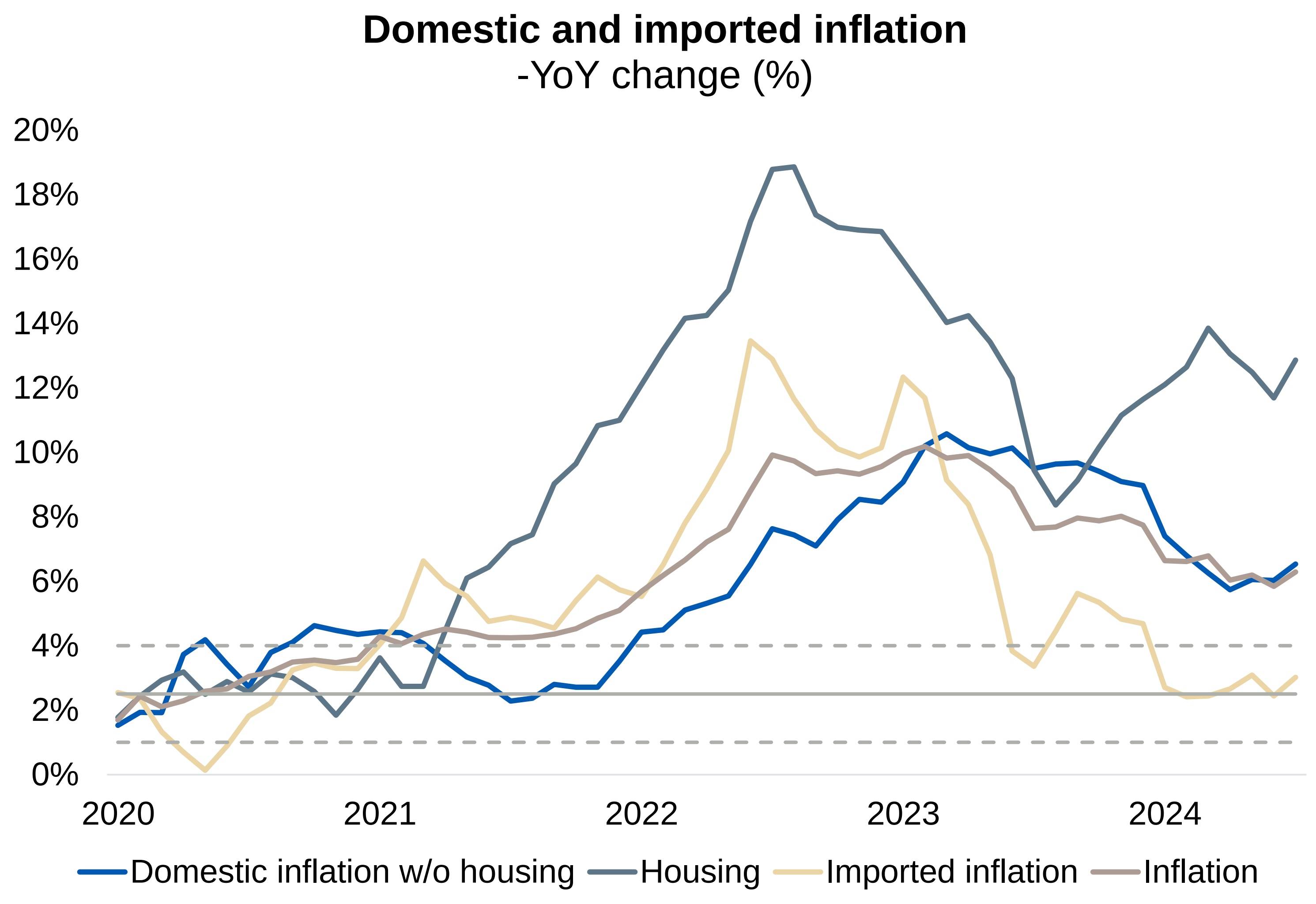


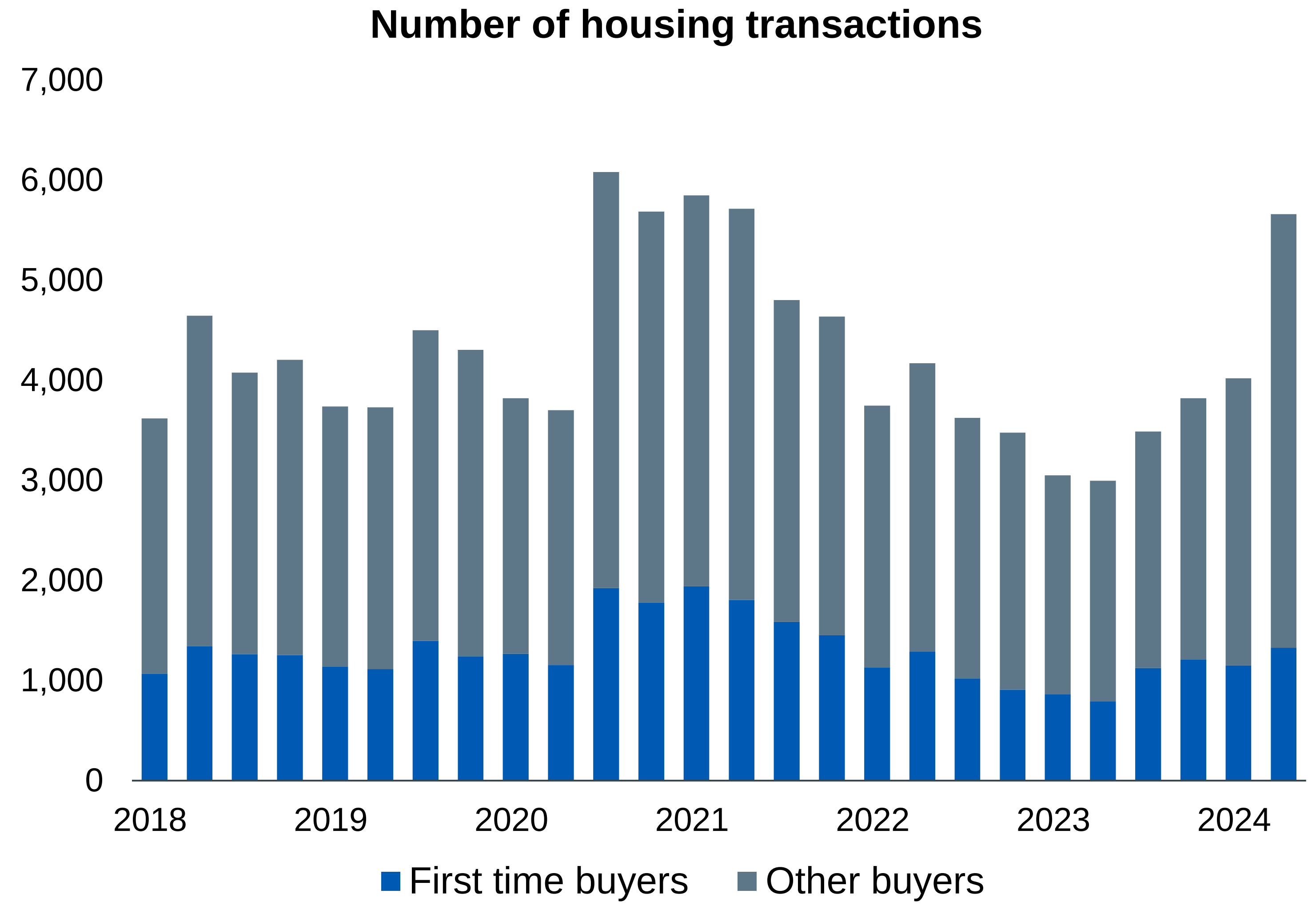
Sources: Central Bank of Iceland, Statistics Iceland, Icelandic Tourist Board, ISAVIA, IMF, Landsbanki, Islandsbanki, Arion Research.

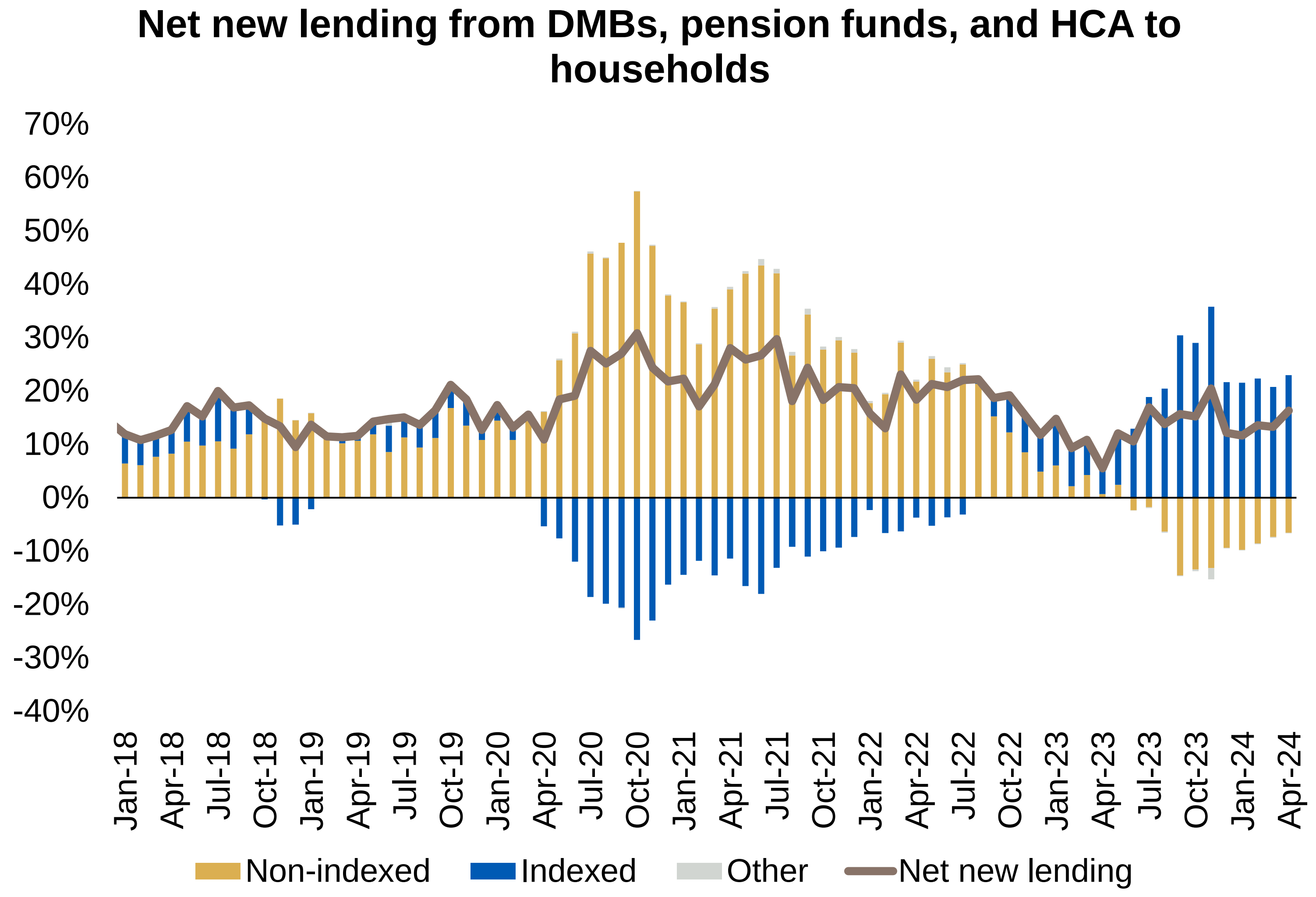
Resilient domestic demand creates headwinds for the CBI

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







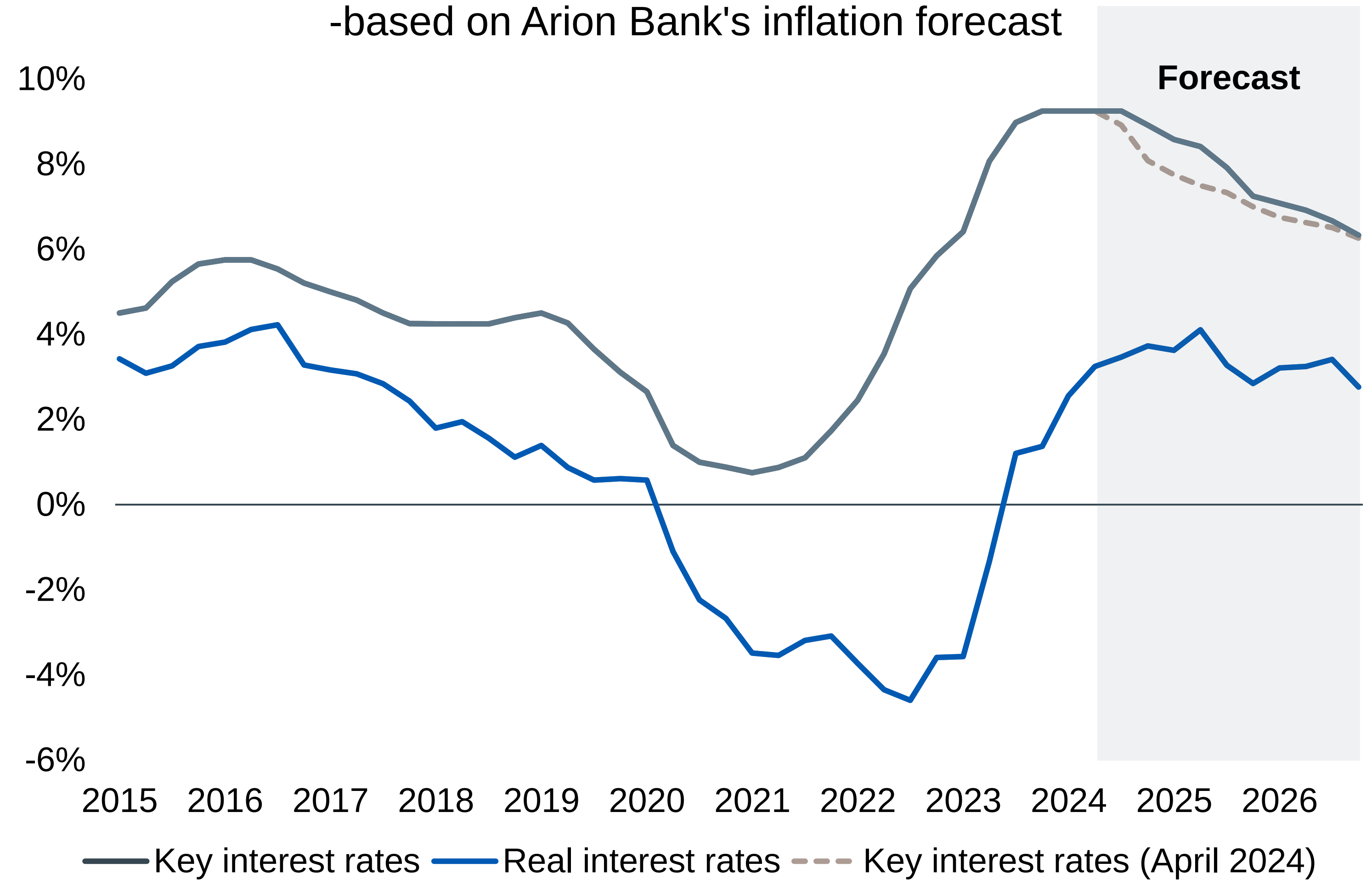


Sources: Central Bank of Iceland, Federal Reserve, ECB, BoE, Statistics Iceland, Arion Research

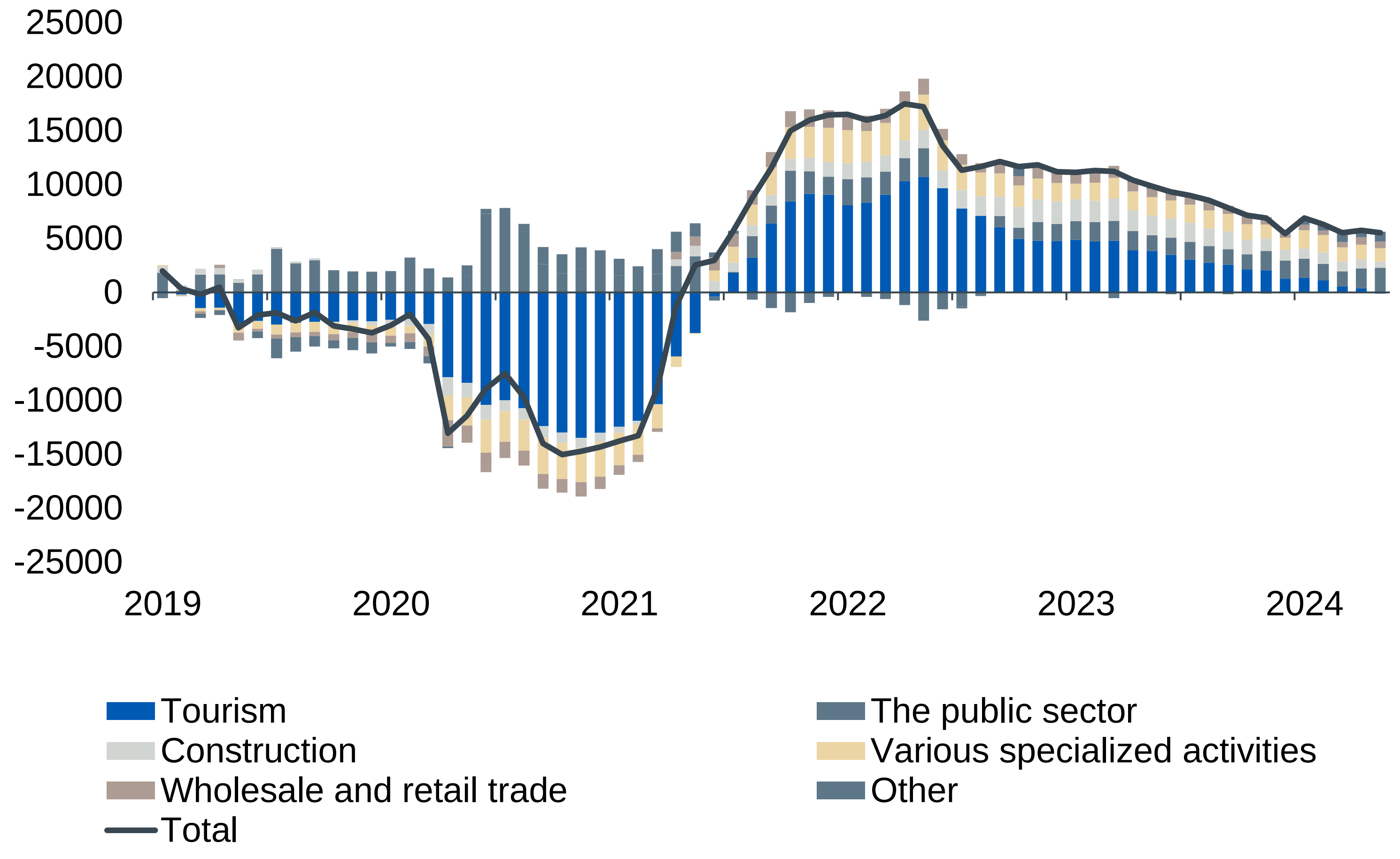
First signs of labor market cooling

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

CBI's key interest rates
-based on Arion Bank's inflation forecast

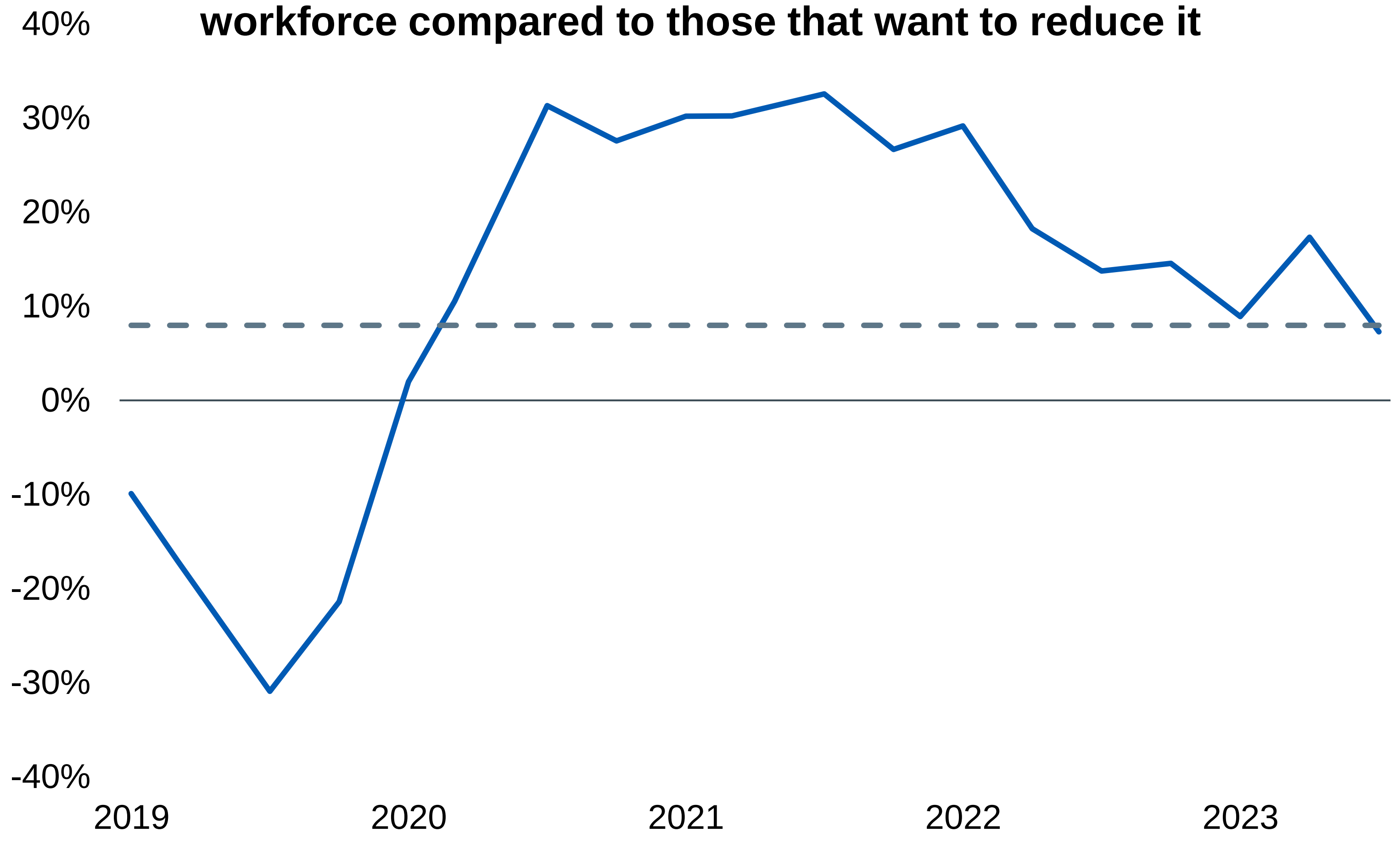


Number of employed by economic activity
- change between years



Breakeven inflation rates on the bond market

The proportion of companies that want to increase their workforce compared to those that want to reduce it



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

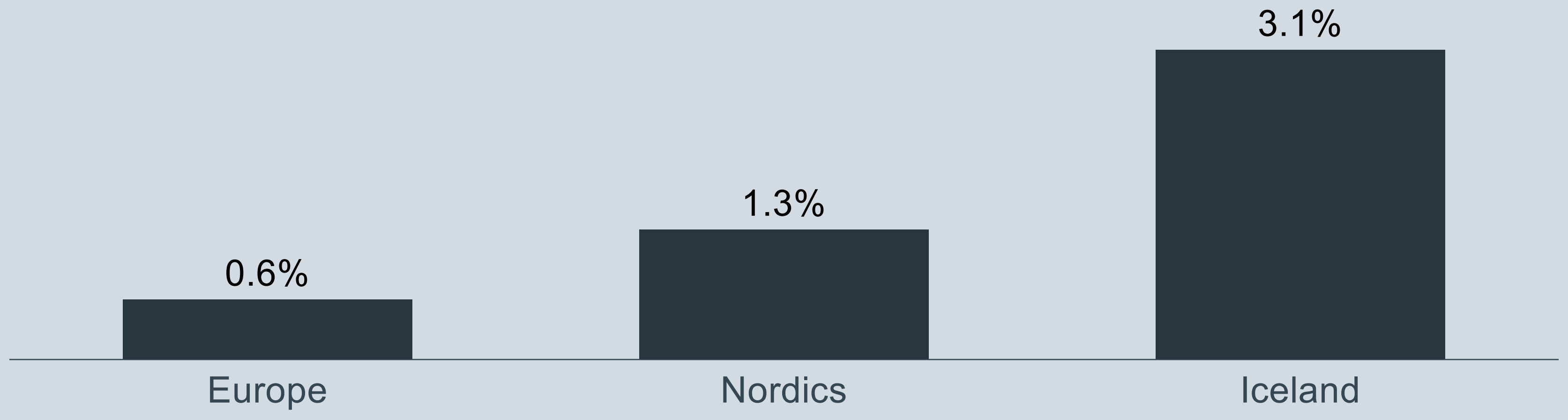
Opportunities for growth in a dynamic business climate

Dynamic business climate

- Iceland is among the top 15 most educated countries in the world
- Strong culture of innovation and economic engagement
- Top 3 on the Human Development Index
- 3rd in digital sales to customers in Europe
- Over 95% of people use digital IDs, among the highest in Europe
- 4th in digital public services and 1st in eDocuments in Europe

Opportunities for growth

Record growth of the Icelandic population in 2022, growing by 3.1%



We are positioning ourselves to capitalize on substantial growth opportunities within our target client segments

Premia client segment		
Revenue 2023	Customers 2023	Bancassurance YE2023
+34%	+11%	40%

Arctic region presents significant long-term opportunities

~40% of farmed salmon and related species

Plenty of sustainable energy resources

Opportunities to develop further as a tourist destination

One third of rare earth metals and materials

~12% of fish caught in the world are in the North Atlantic Ocean

~10% of total aluminum production

Source: Iceland Chamber of Commerce, UNDP, Statistics Iceland, European Commission, Government of Iceland, Eurostat, International-Aluminium, FAO, Financial Times

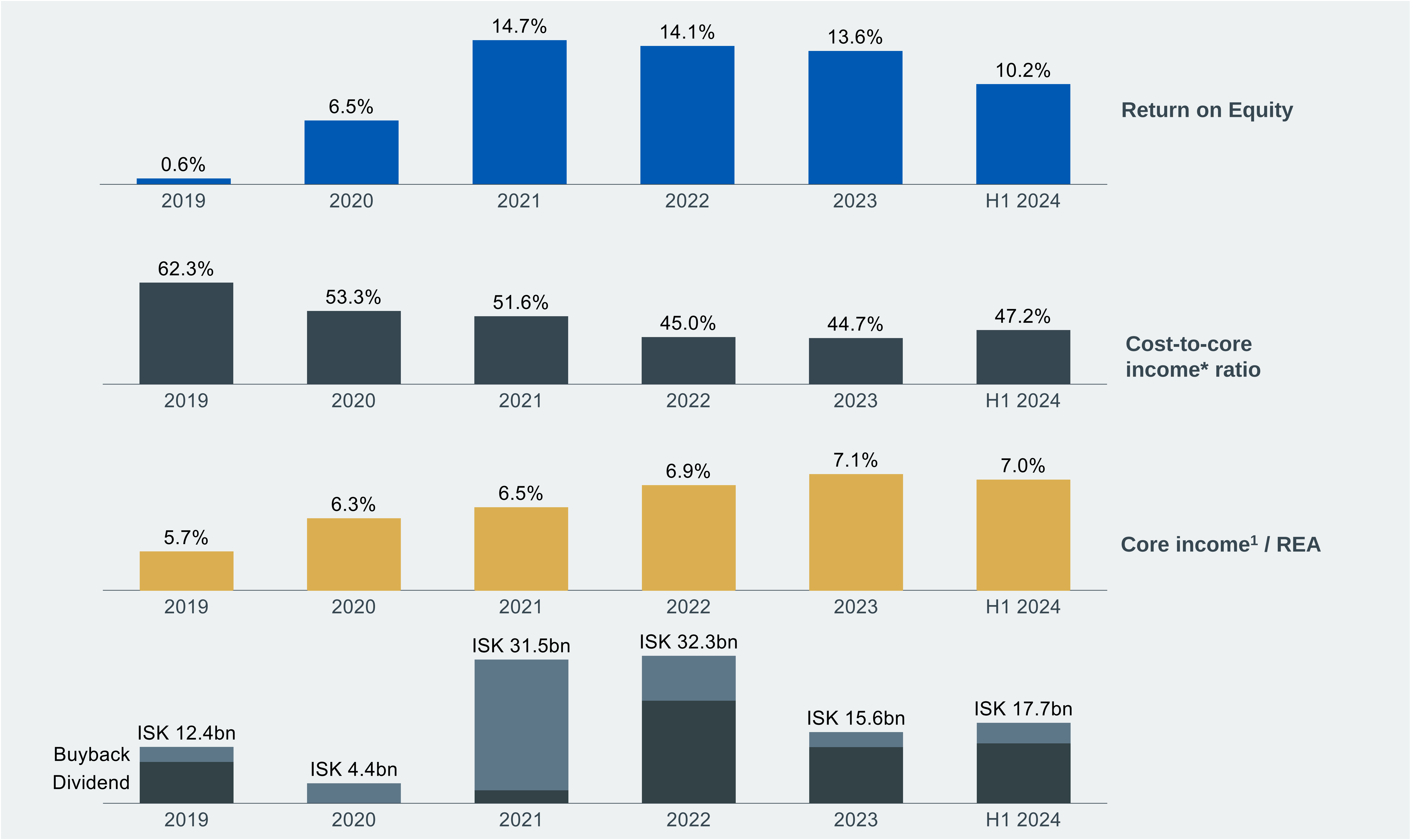
Strong Financial Position

Track record of delivering on financial targets

Deliberate and focused strategic direction has facilitated strong delivery on medium-term targets

	Q2 2024	Medium-term targets
ROE	11.5%	Exceed 13%
Core operating income[1] / REA	7.3%	Exceed 7.2%
Cost-to-core income[1] ratio	46.2%	Below 45%
CET1 ratio above regulatory capital requirements	330 bps[3]	150-250 bps management buffer[4]
Dividend payout ratio[5]	50% of net profit deducted from CET1	50%
Insurance revenue growth (YoY)[2]	12.8%	In excess of market growth

Historical performance



Notes:
1) Core income: Net interest income, net fee and commission income and insurance service results (excluding opex)
2) Insurance revenue growth in the domestic insurance market in 2023 was 11.2%
3) Assumes fully utilized AT1
4) Approx.16.8 - 17.8% based on optimal capital requirements and optimal AT1 and T2 ratios
5) 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's capital levels are above the minimum requirements set by the regulators in addition to the Bank's management buffer

Key takeaways from Q2 2024

Operational performance

- Solid quarter with good momentum in core earnings drivers
- Operating expense and effective tax rate impacted in the quarter by ISK 585m fine following a settlement with the regulator
- ROE of 11.5% in the quarter (pro forma settlement expense RoE would be closer to target)

Net fee and commission income

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

Net interest income

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

Capital, funding and liquidity

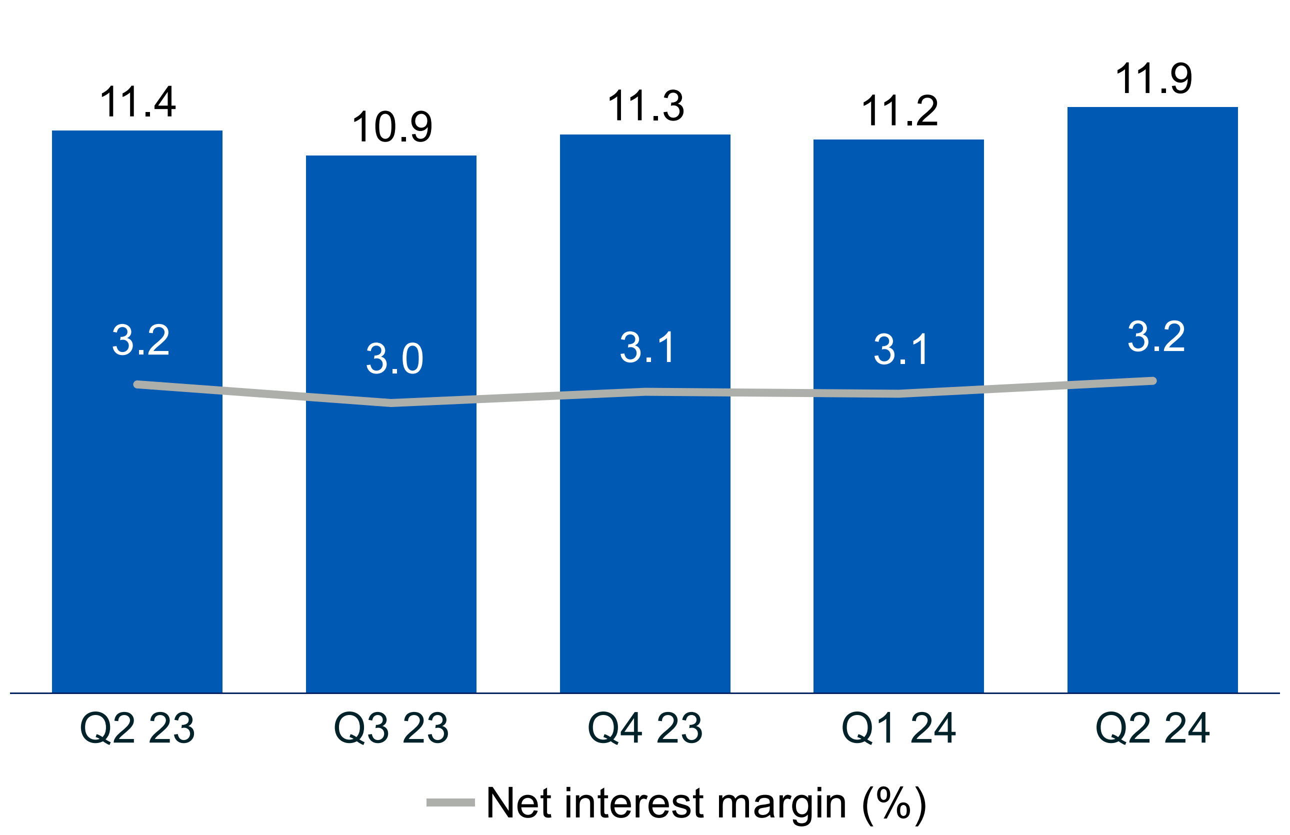
- Capital position very strong with a CET1 ratio of 18.5% or 330bps above regulatory minimum
- Liquidity position strong, stable deposits continue to grow and wholesale funding profile balanced

Net interest income

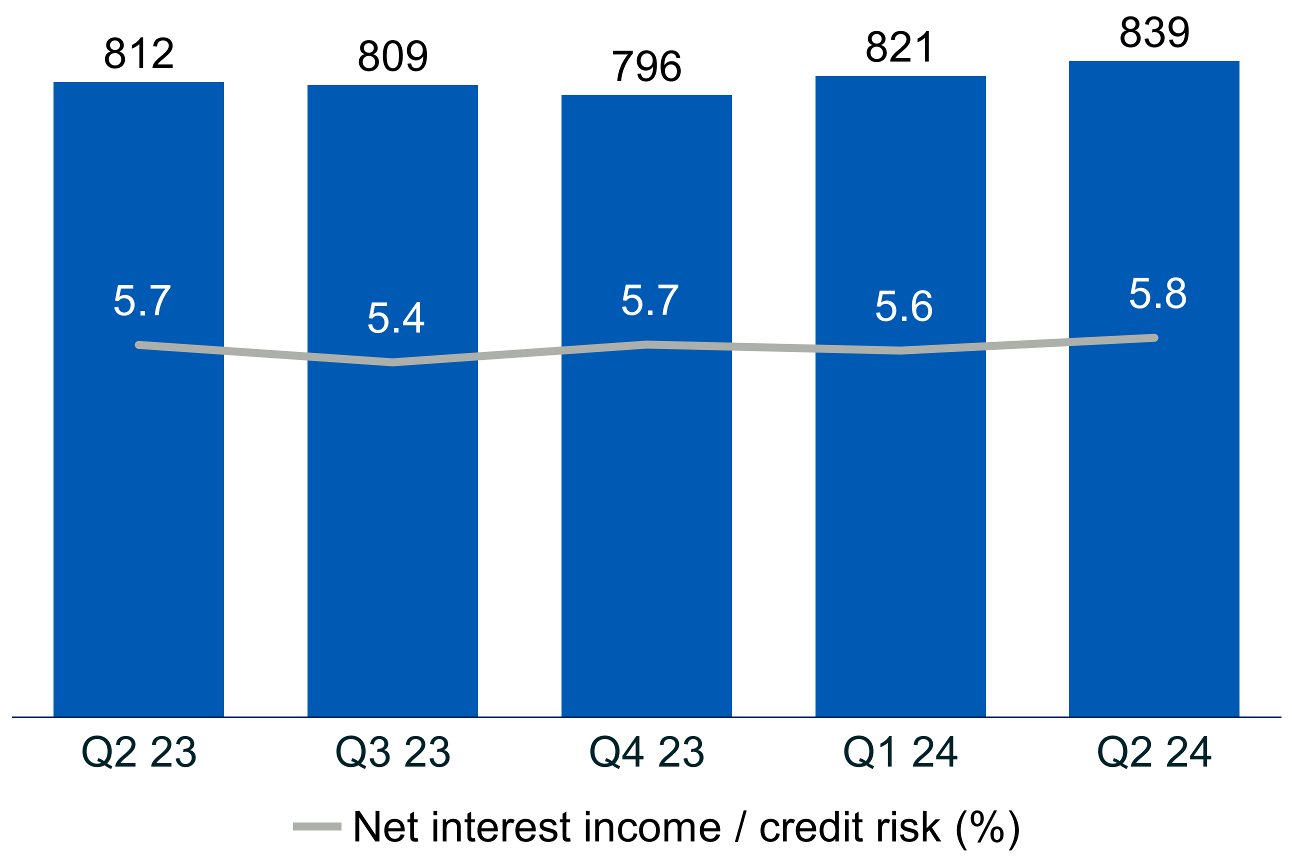
Margin holding at robust level

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

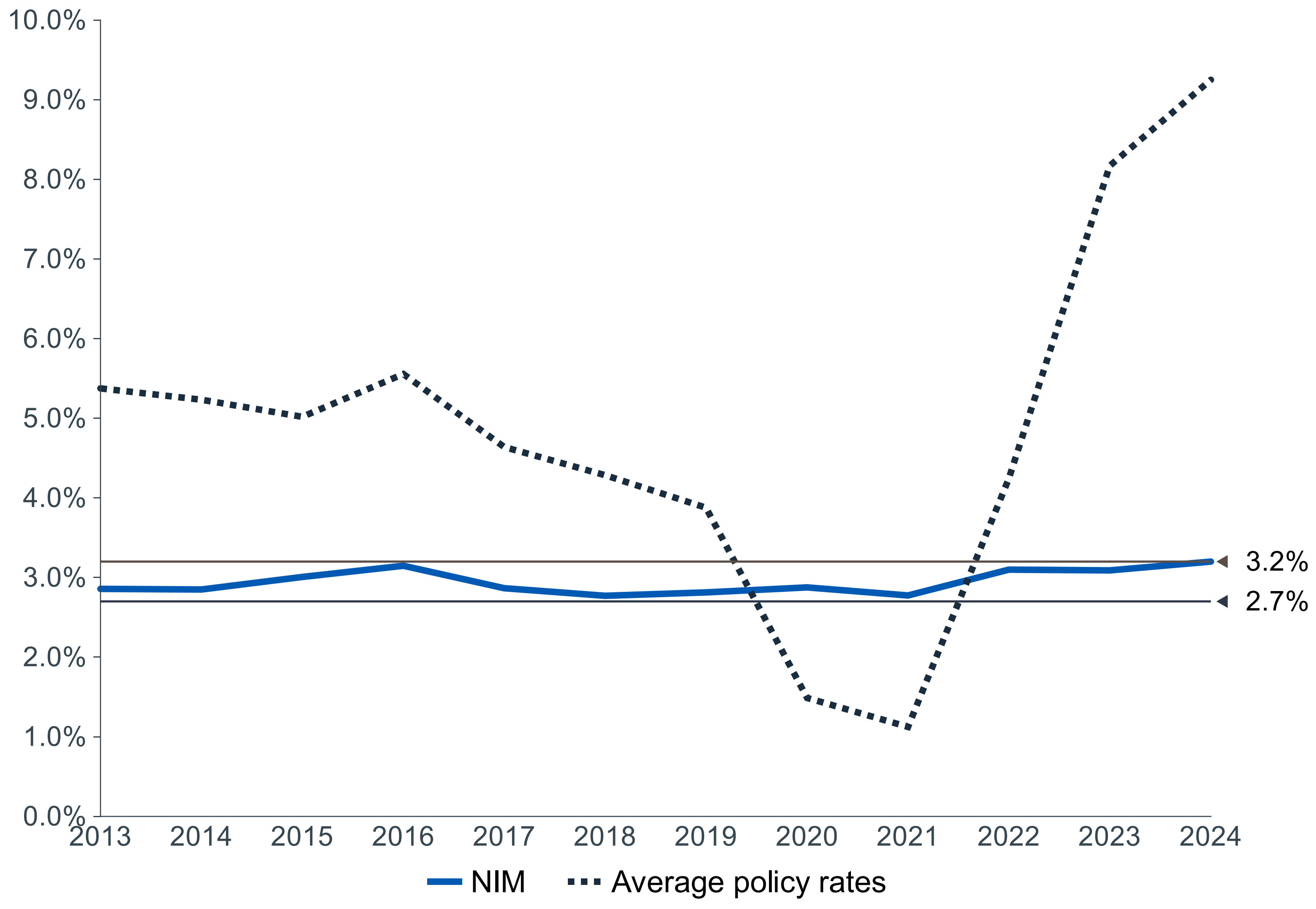
Net interest income (ISK bn)



Credit risk (ISK bn)



Evolution of NIM



Source: Central Bank of Iceland

Near-term NIM levers

- ↑ Repricing of the fixed rate mortgages will be a material tailwind (c. ISK 150bn of loans that currently have a negative NIM)
- ↑ High deposit beta in Iceland has been a headwind during the rate hiking cycle but can support the NIM as rates come down
- ↑ Strategy focused on ROE and not on absolute growth. Net loan book growth in general however expected to broadly follow economic growth
- ↓ In general, expected reduction in policy rates are an initial headwind
- ↓ Capital optimization plans will increase percentage of funding with interest bearing liabilities while enhancing ROE

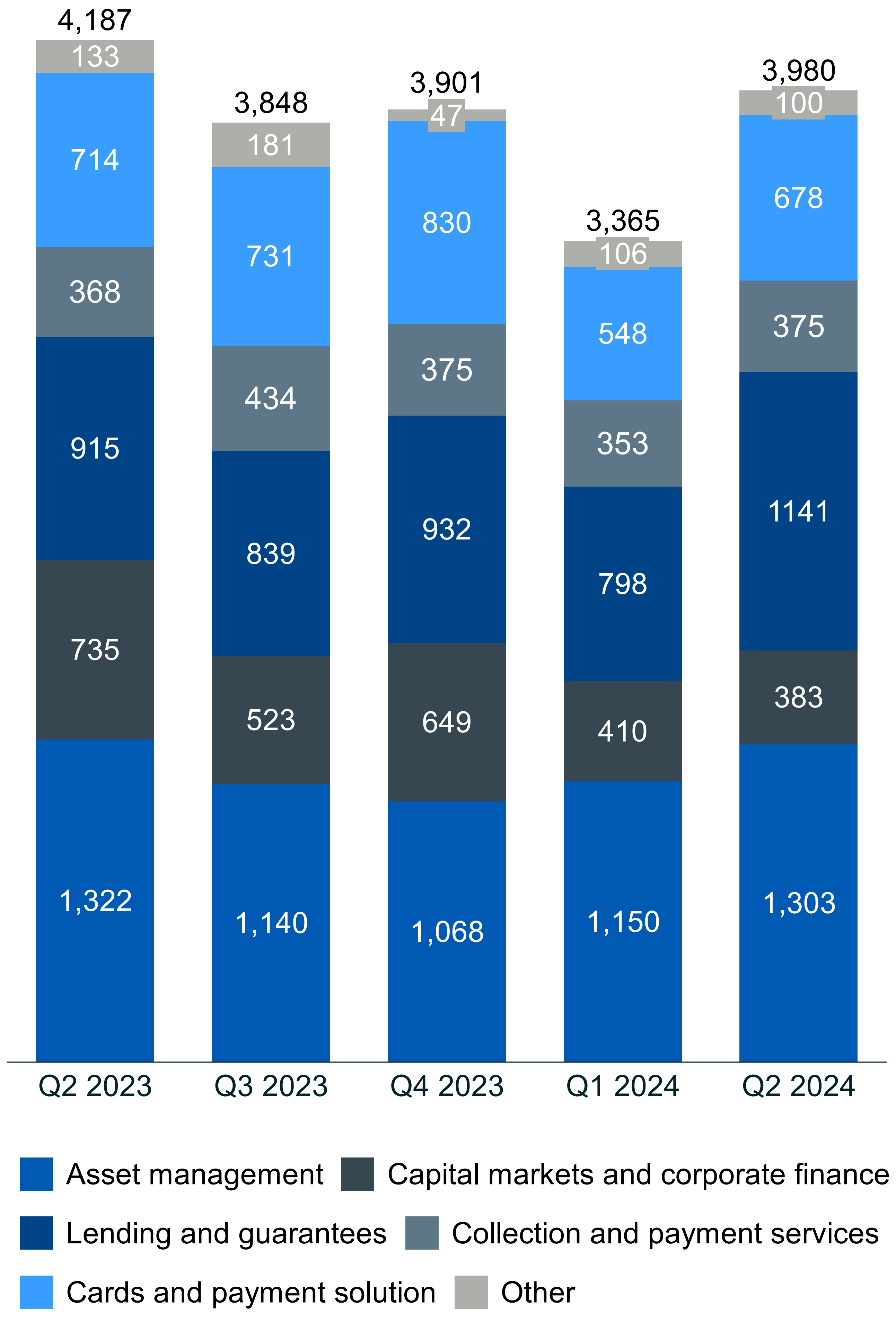
↑ Positive impact ↓ Negative impact

Net fee and commission income

Strong quarter

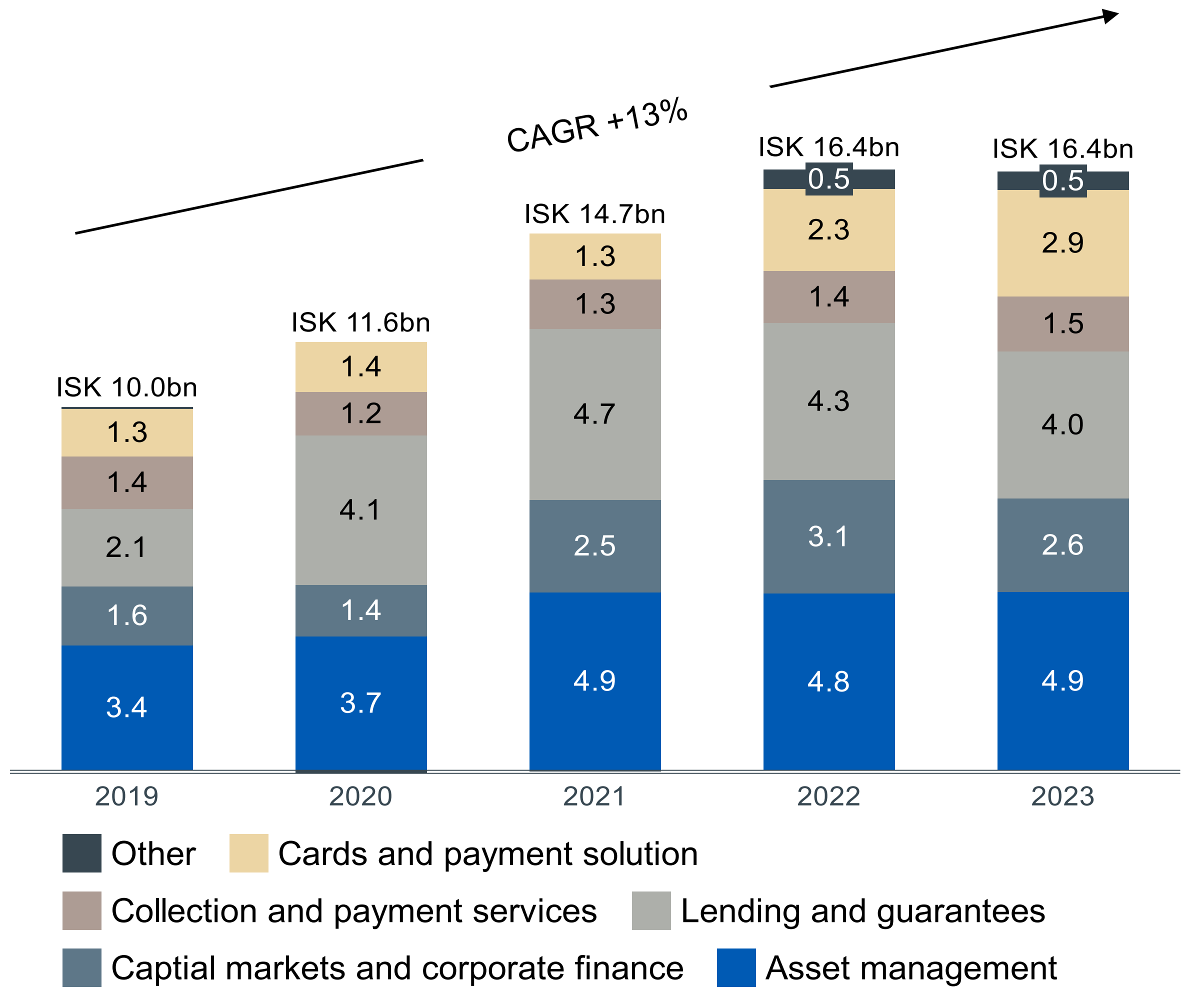
- Strong second quarter following an unusually subdued first quarter
- Increase driven primarily by lending fees, mostly relating to corporates as well as increased income from cards and payments
- Asset management also robust with AuM increasing by more than 10% during the quarter or by ISK 75bn to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

Net fee and commission income (ISK m)



Evolution of fee and commission income

- Robust growth over past five years with increase of 65% from 2019
- Diverse fee generating businesses support resilience through the cycle



Near-term levers

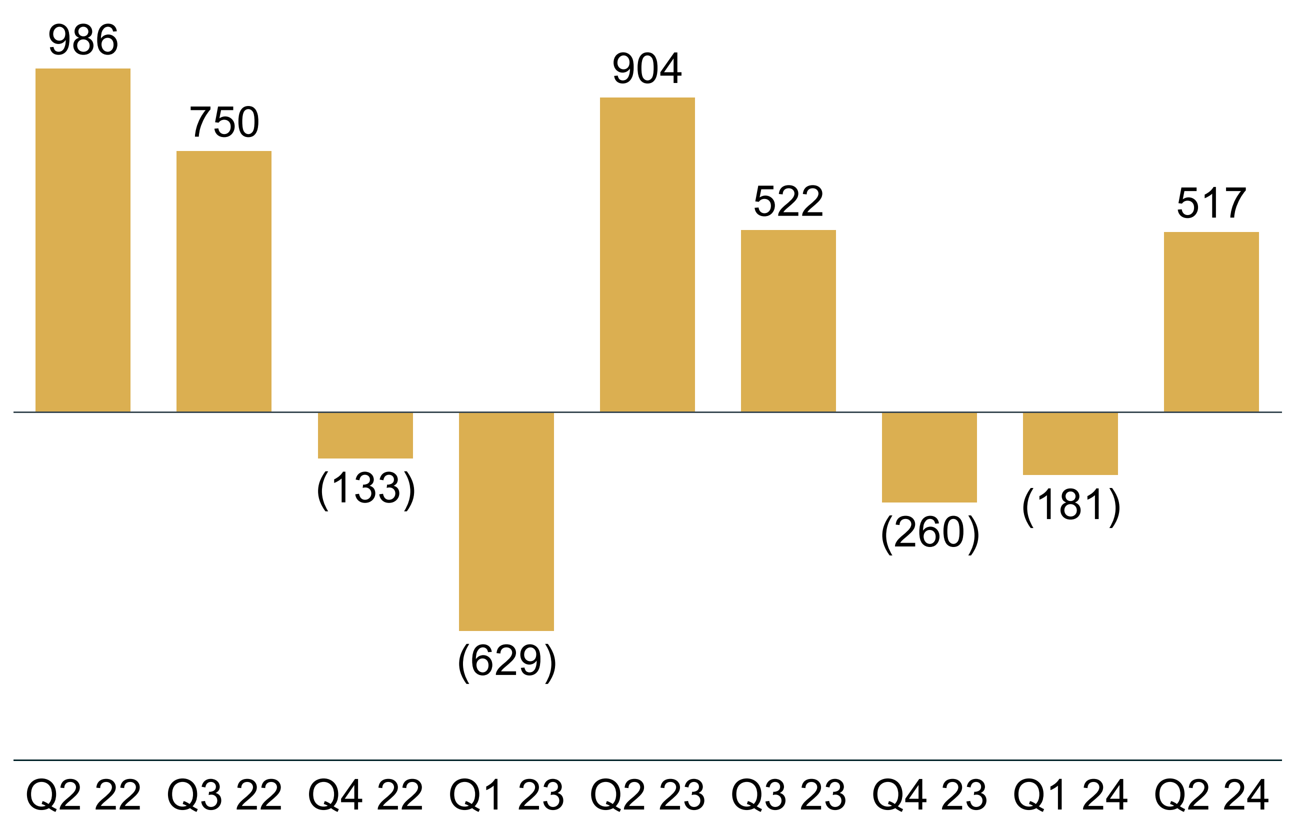
- Slower economic growth outlook is a near term headwind
- Reduced policy rates should however support capital markets, and deal activity in Markets and CIB
- Policy rate reduction is also expected to increase lending fees from refinancing activity

Positive impact   Negative impact

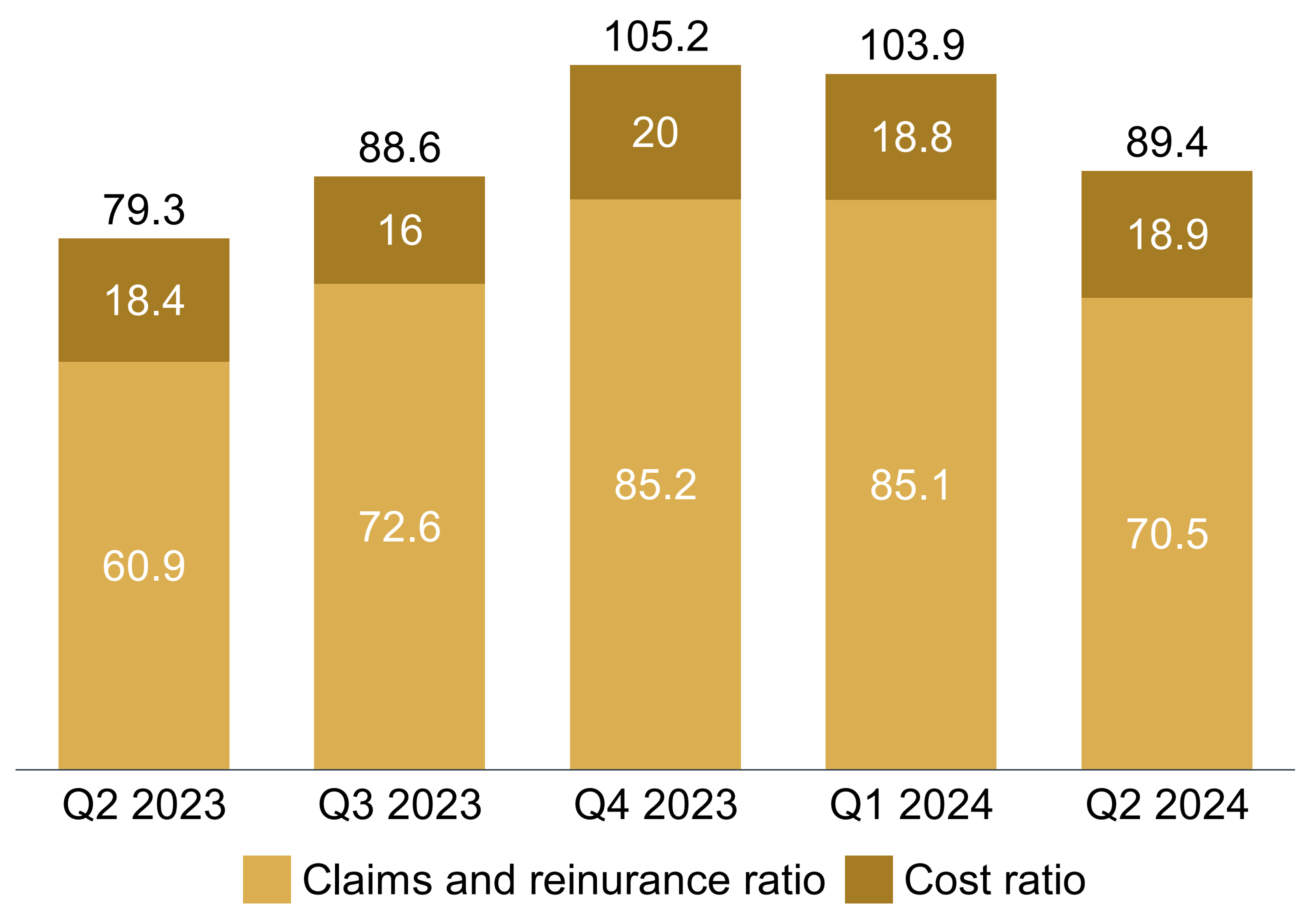
Ongoing solid momentum in insurance

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

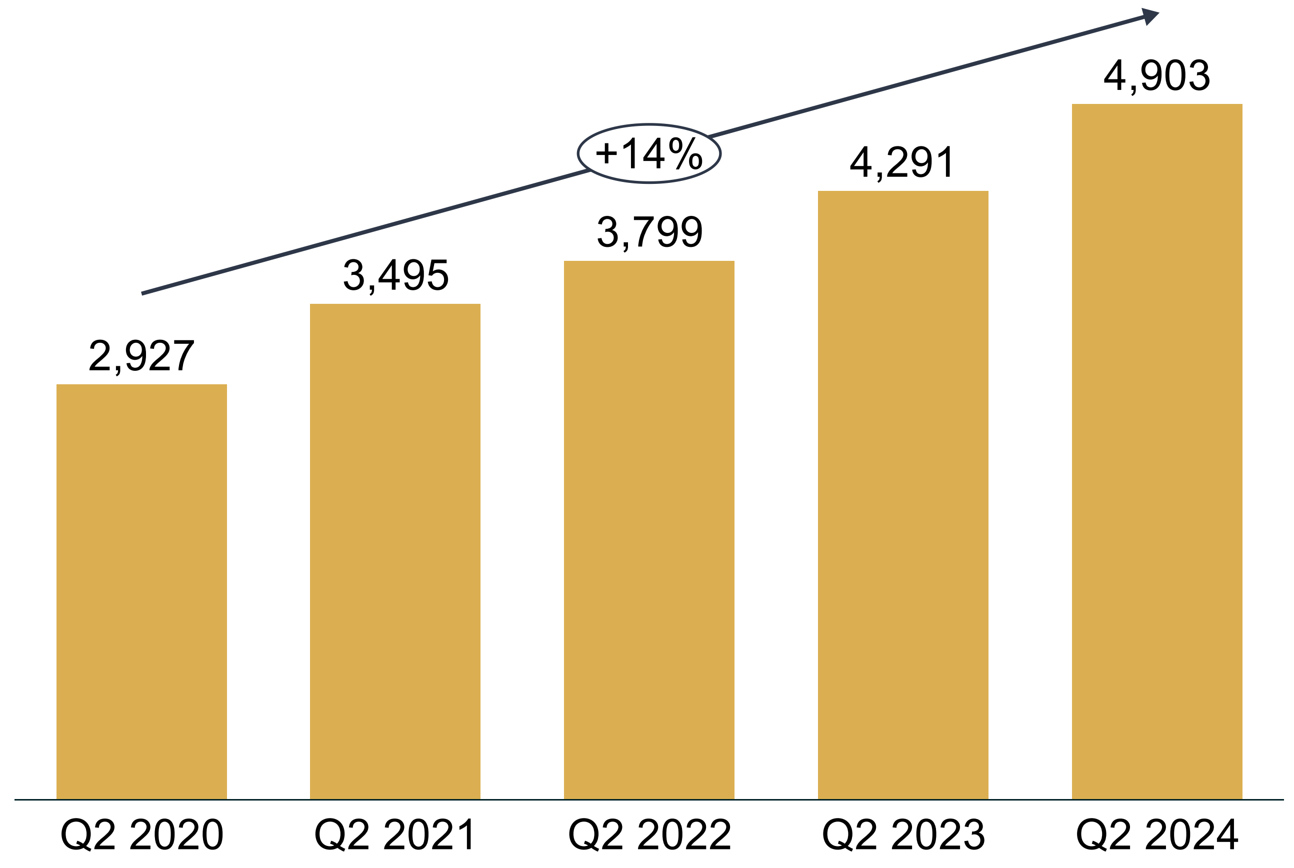
Insurance service result* (ISK m)



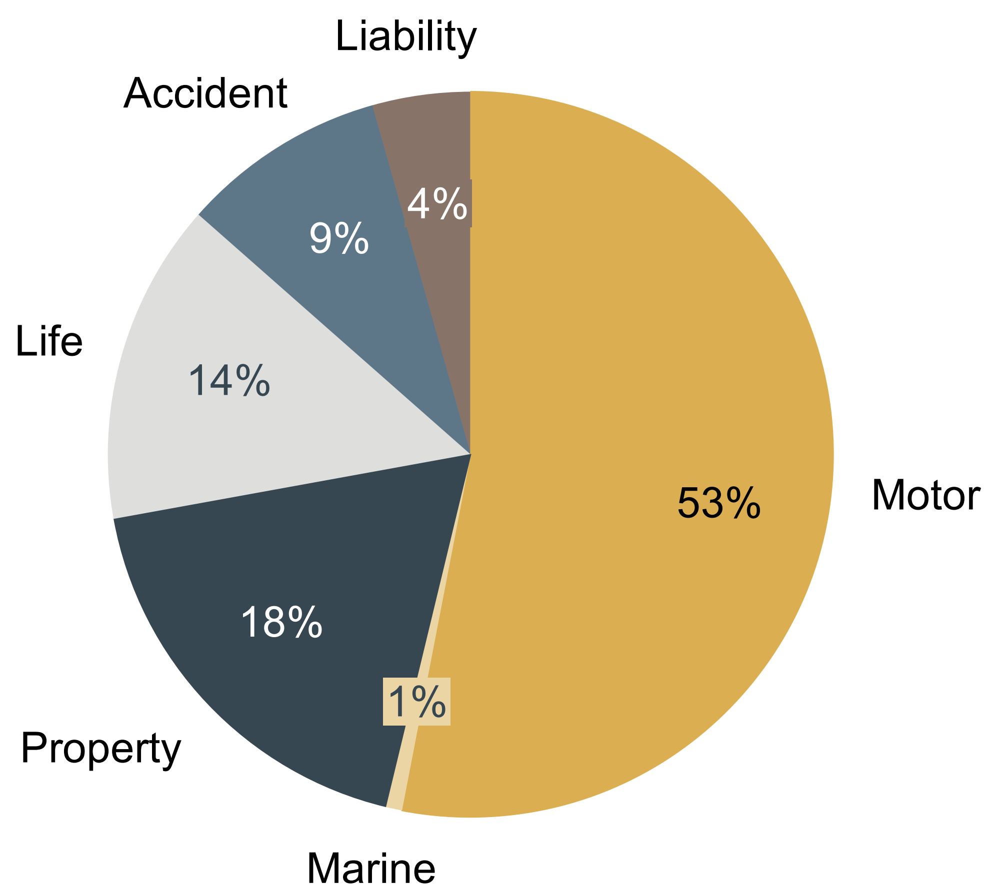
Combined ratio (%)



Insurance revenue** (ISK m)



Insurance revenue by type (%)



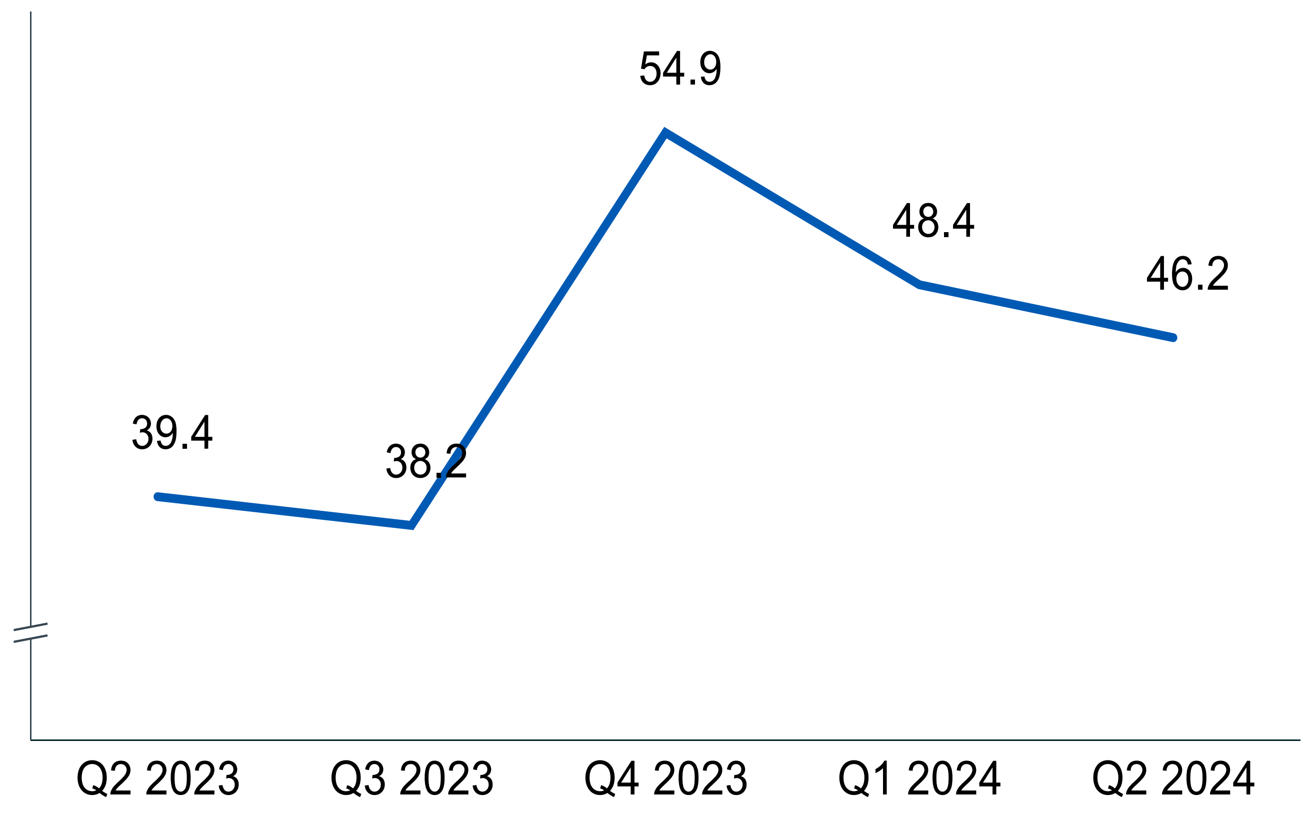
* Figures based on Vördur stand-alone financial results, before elimination within the Group. Figures for 2022 have been restated in accordance with IFRS 17
** Figures for 2020 and 2021 have not been restated according to IFRS 17

Operating expenses*

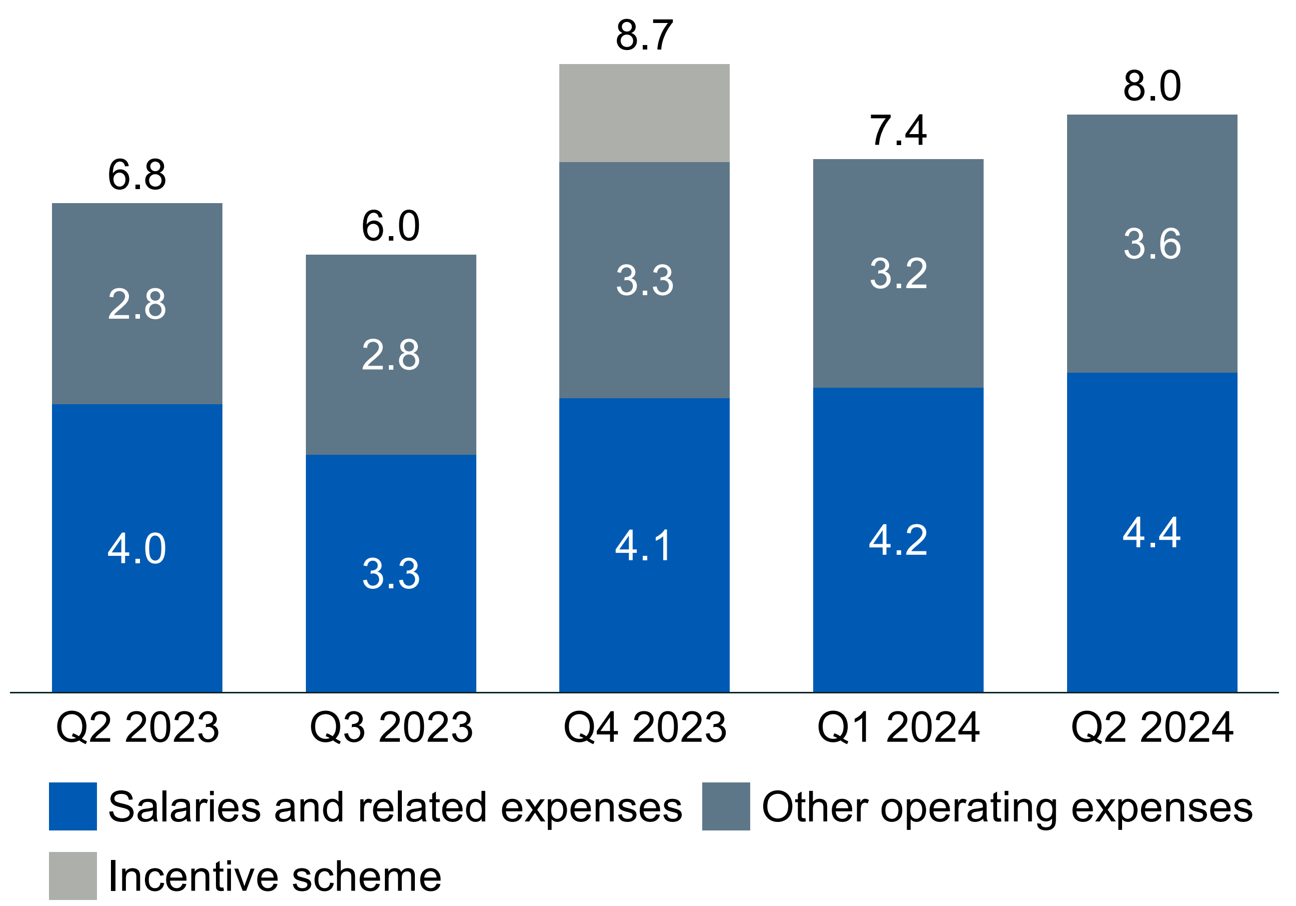
Continued cost discipline while headline figure impacted by settlement fine

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

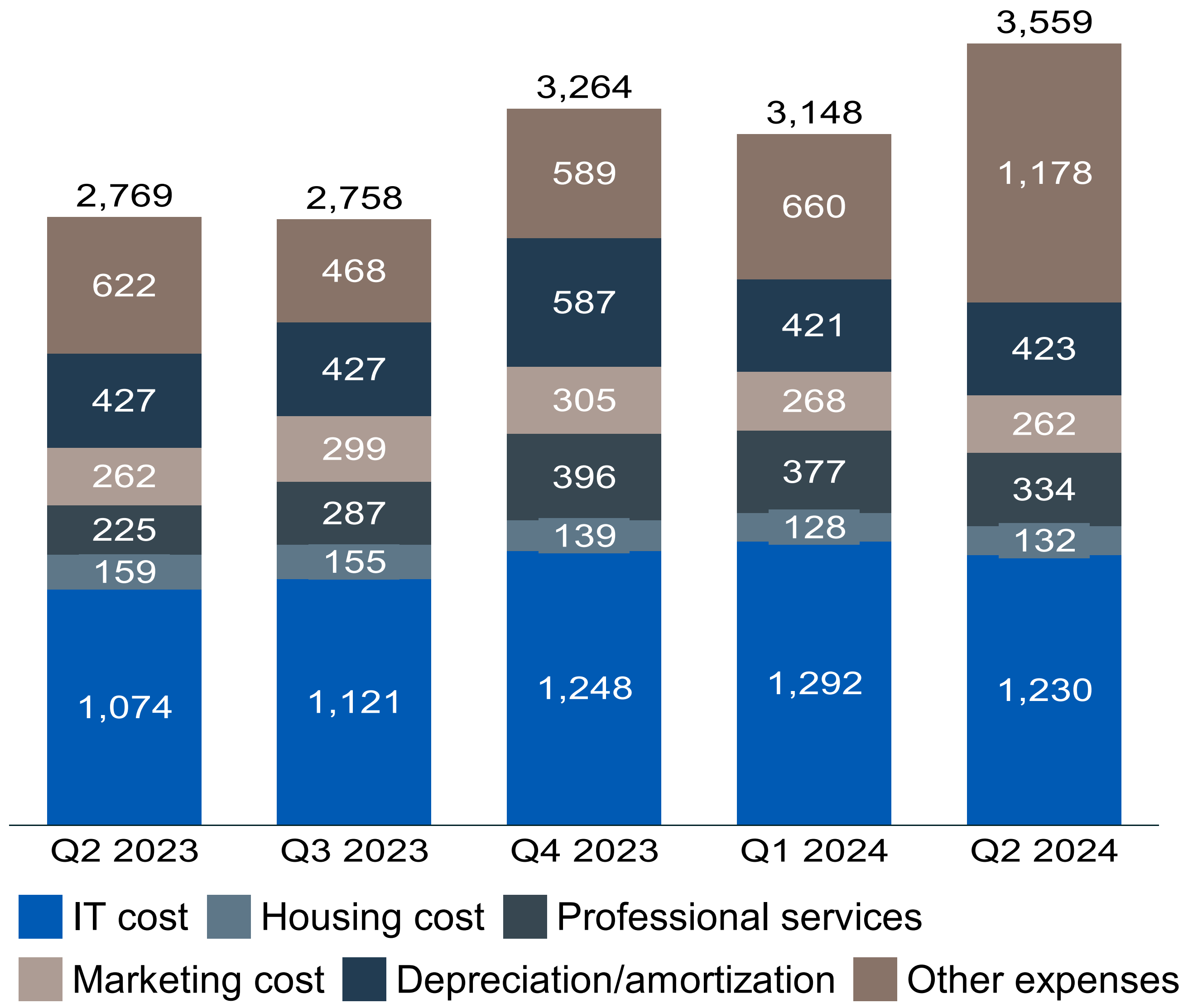
Cost-to-Core income ratio (%)



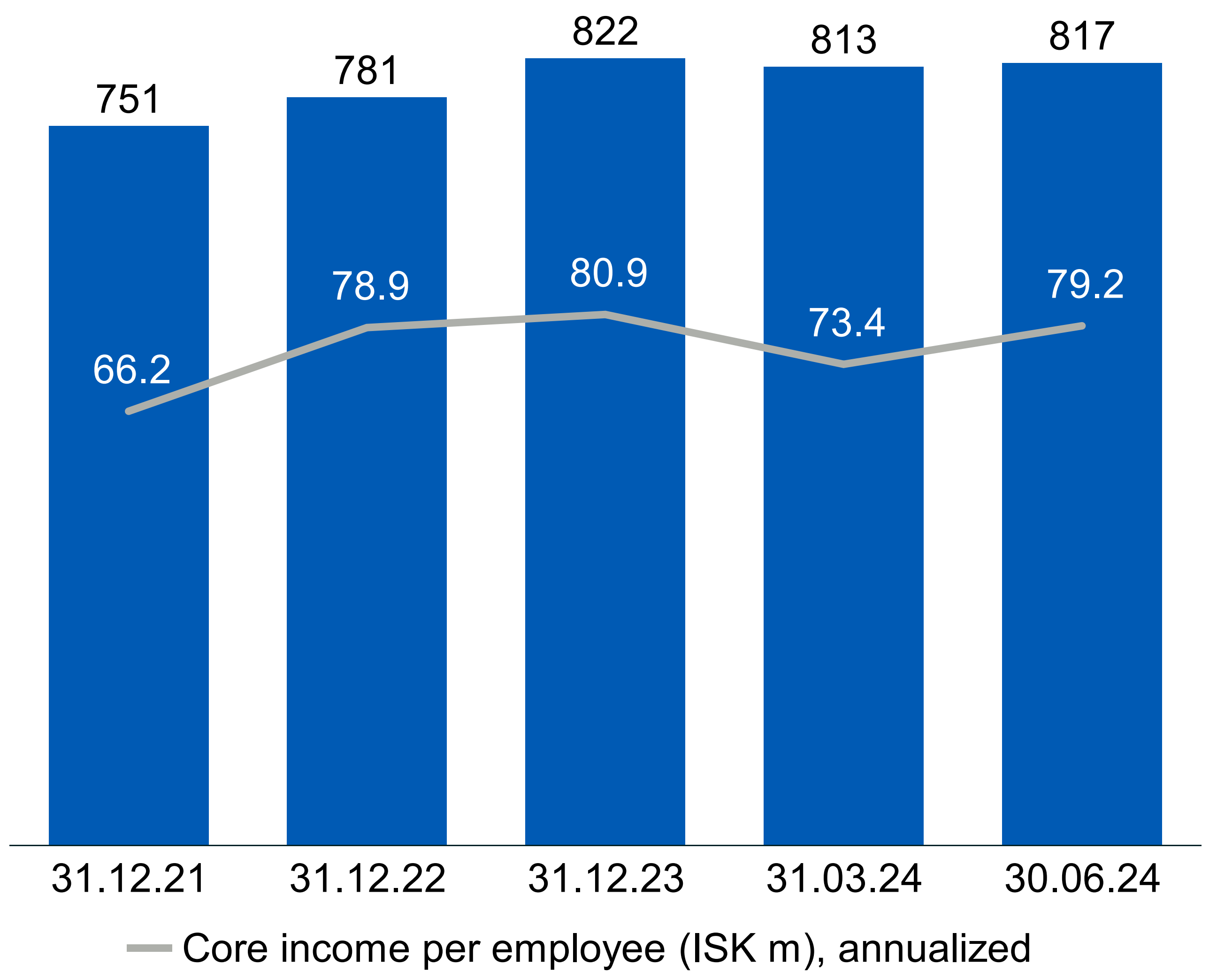
Total operating expenses (ISK bn)



Other operating expenses (ISK m)



Number of FTE's

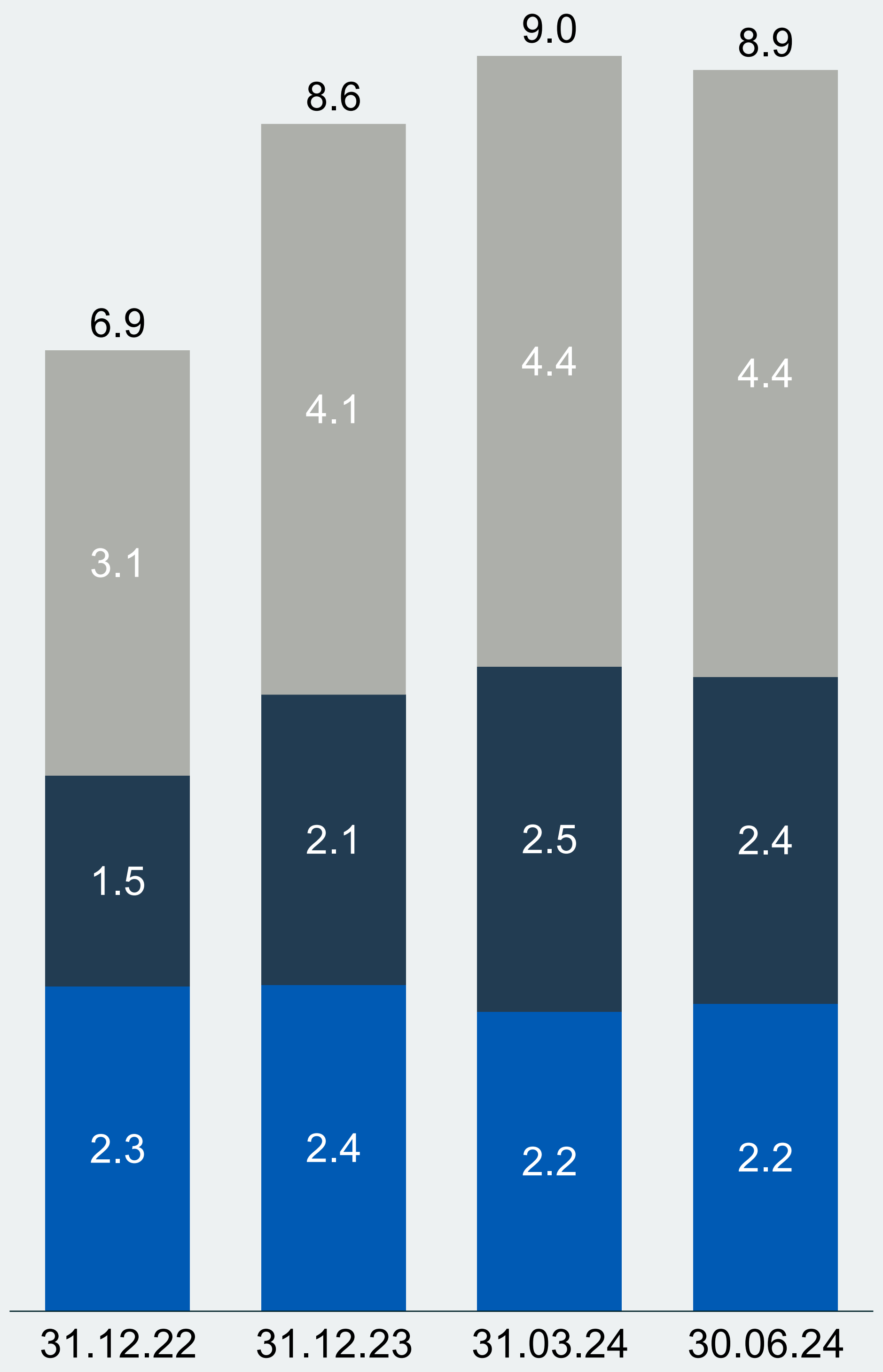


*Operating expenses from insurance operations are included in all figures for comparative purposes

Loss allowance by IFRS 9 stages

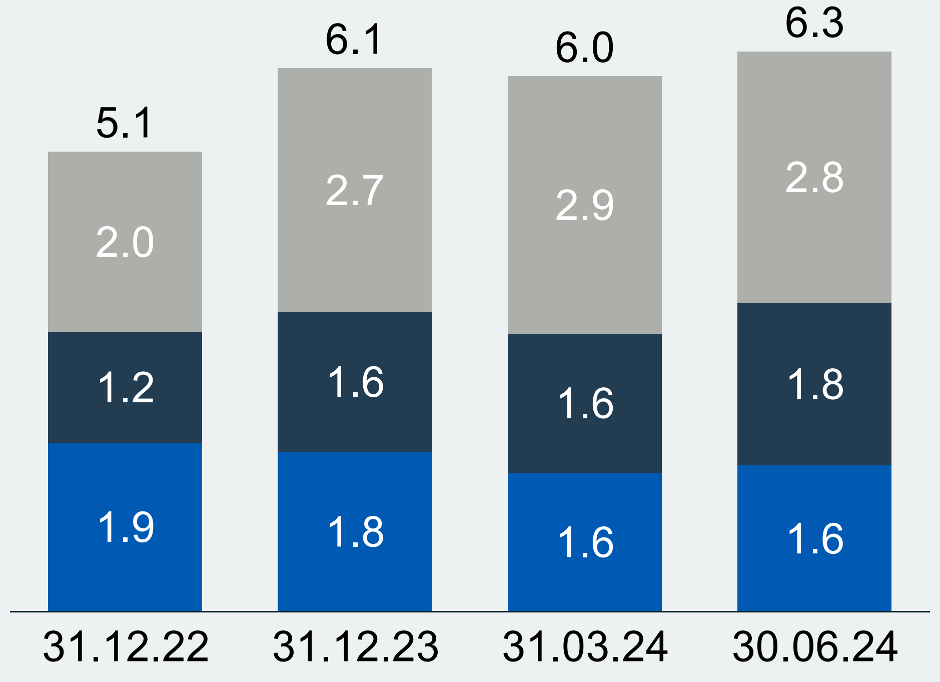
On loans to customers total (ISK bn)

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



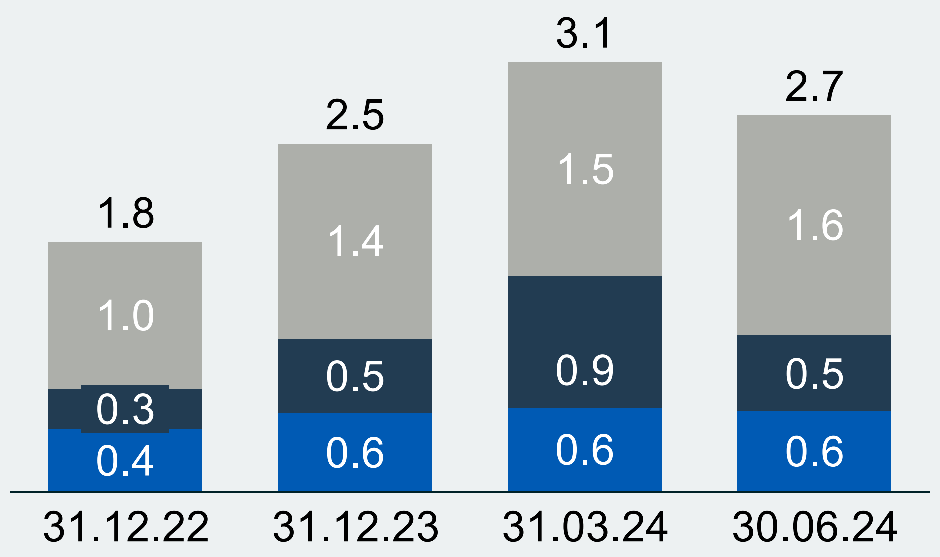
Thereof on loans to corporates (ISK bn)

Loans to corporates are 1.09% provisioned at period end



Thereof on loans to individuals (ISK bn)

Loans to individuals are 0.42% provisioned at period end*



Stage 1 Stage 2 Stage 3

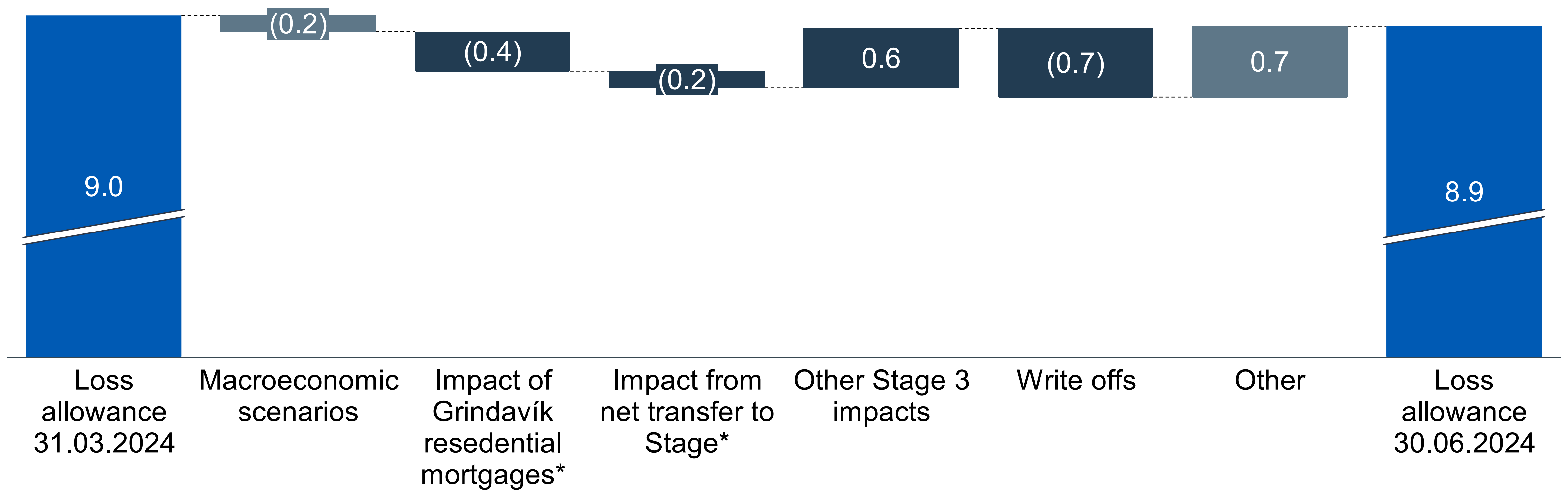
IFRS9 economic scenarios and assumptions

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

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

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

Included are FX changes and calculated interest on Stage 3 provision, which are not reflected in Net impairment line in the Income Statement. Off-balance impairments and effect of payments of loans previously written off are excluded from this analysis

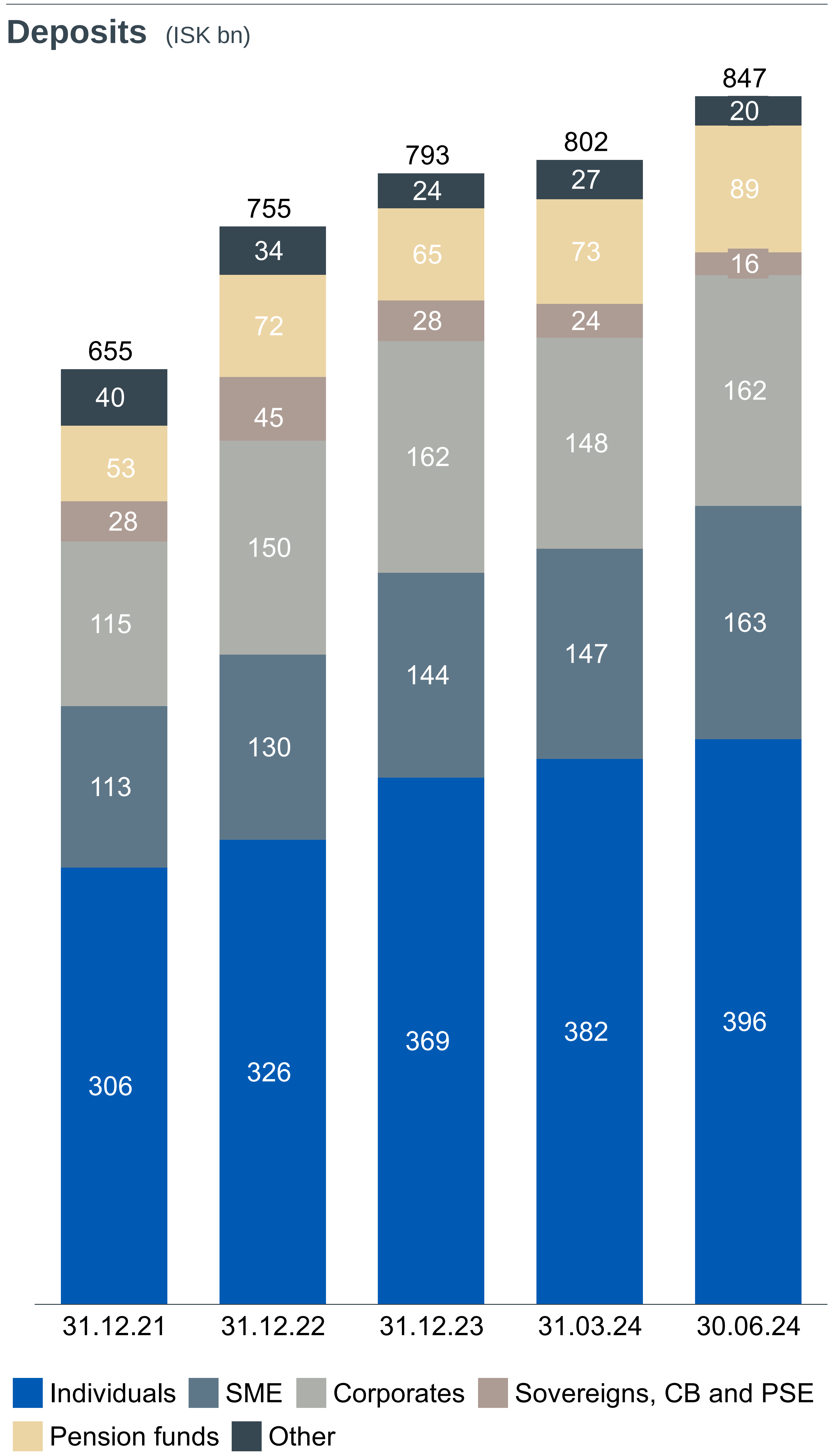


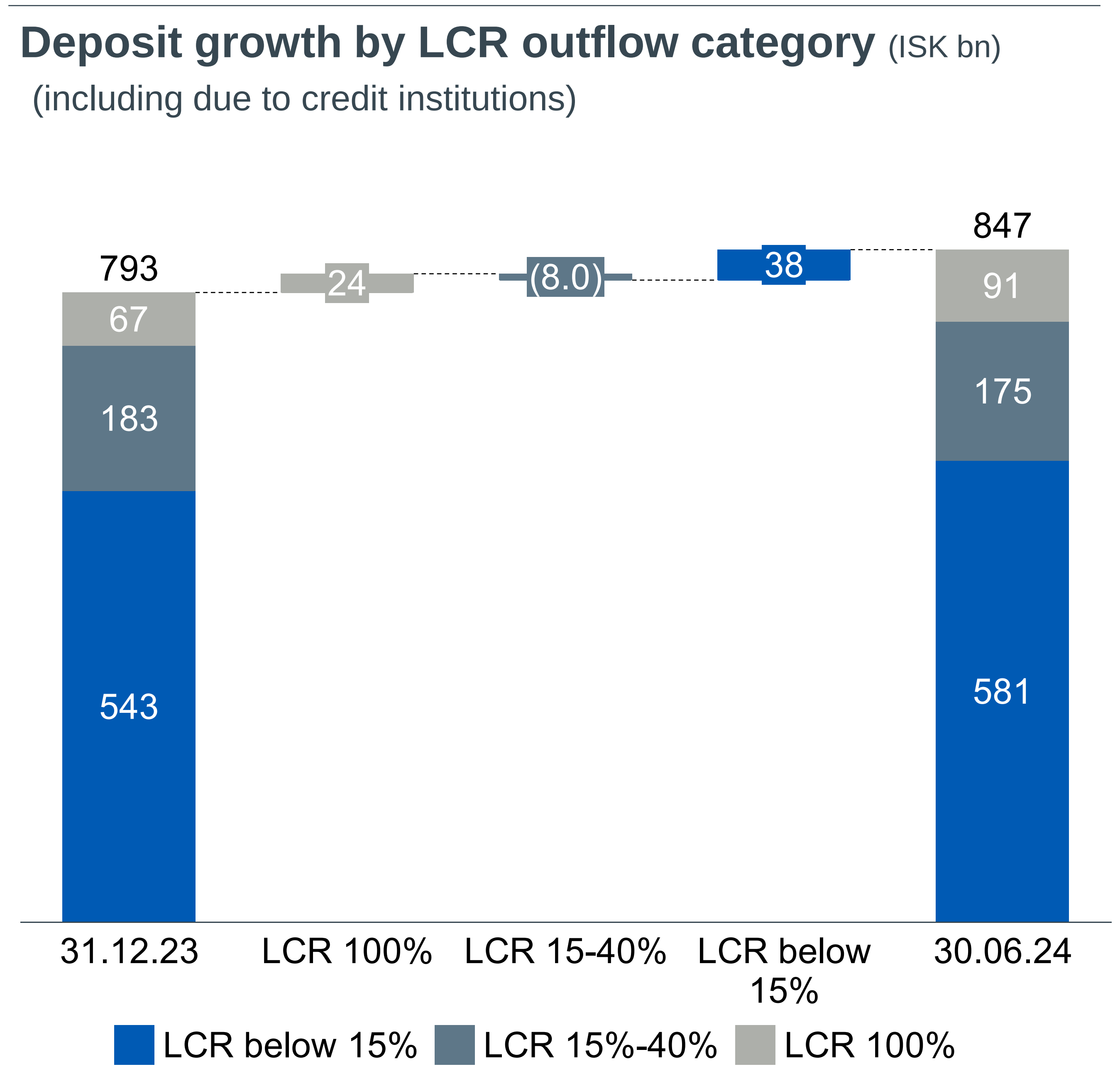
* Decrease in Stage 2 from Q1 is primarily due to transfer of mortgage loans to customers in Grindavik. Those loans have been transferred to a SPV co-owned by the Icelandic state and the Banks and the loan is now classified at fair value. A corresponding fair value loss has been recognized on that exposure

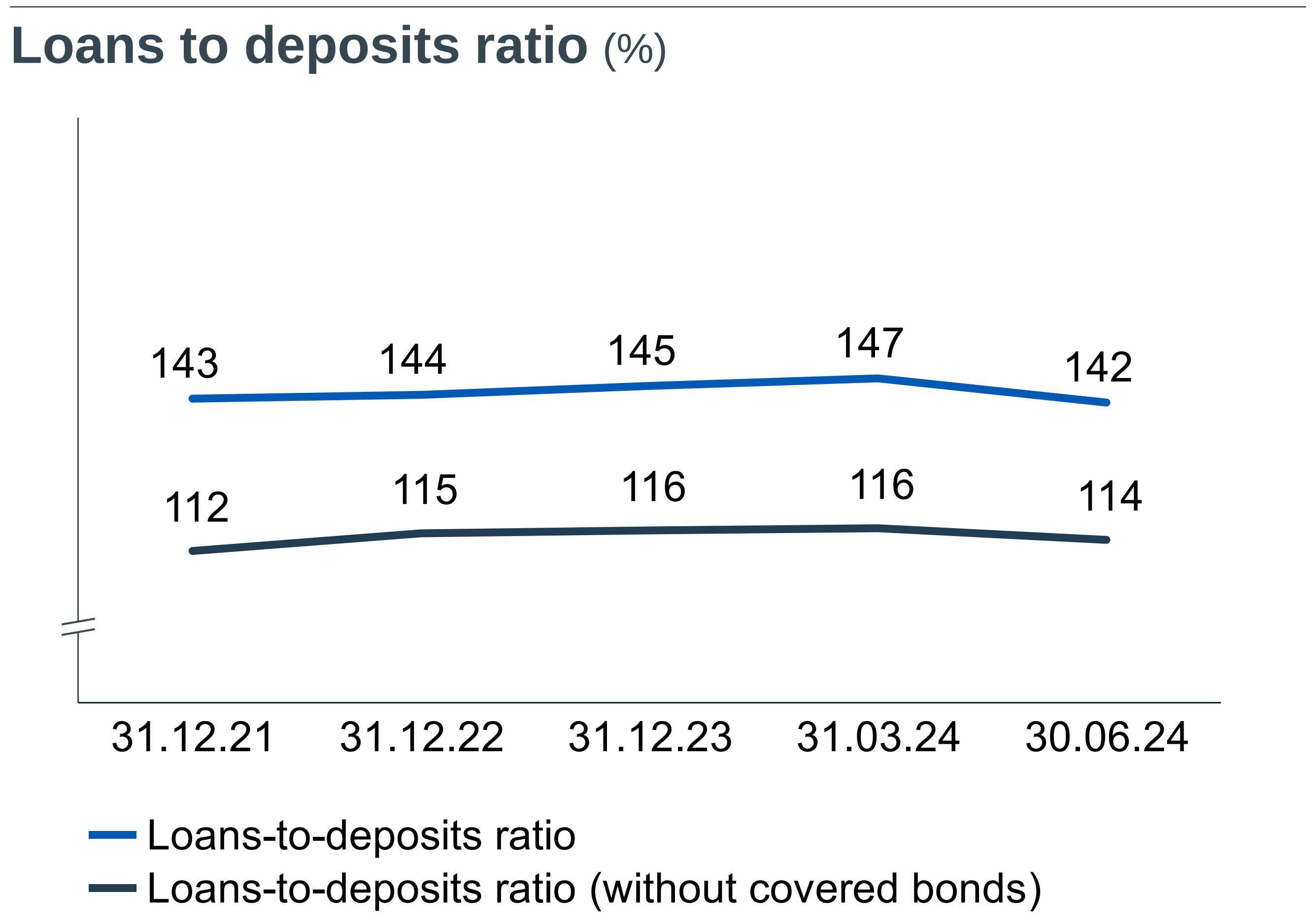
Deposits from customers

Continued momentum in stable deposits

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





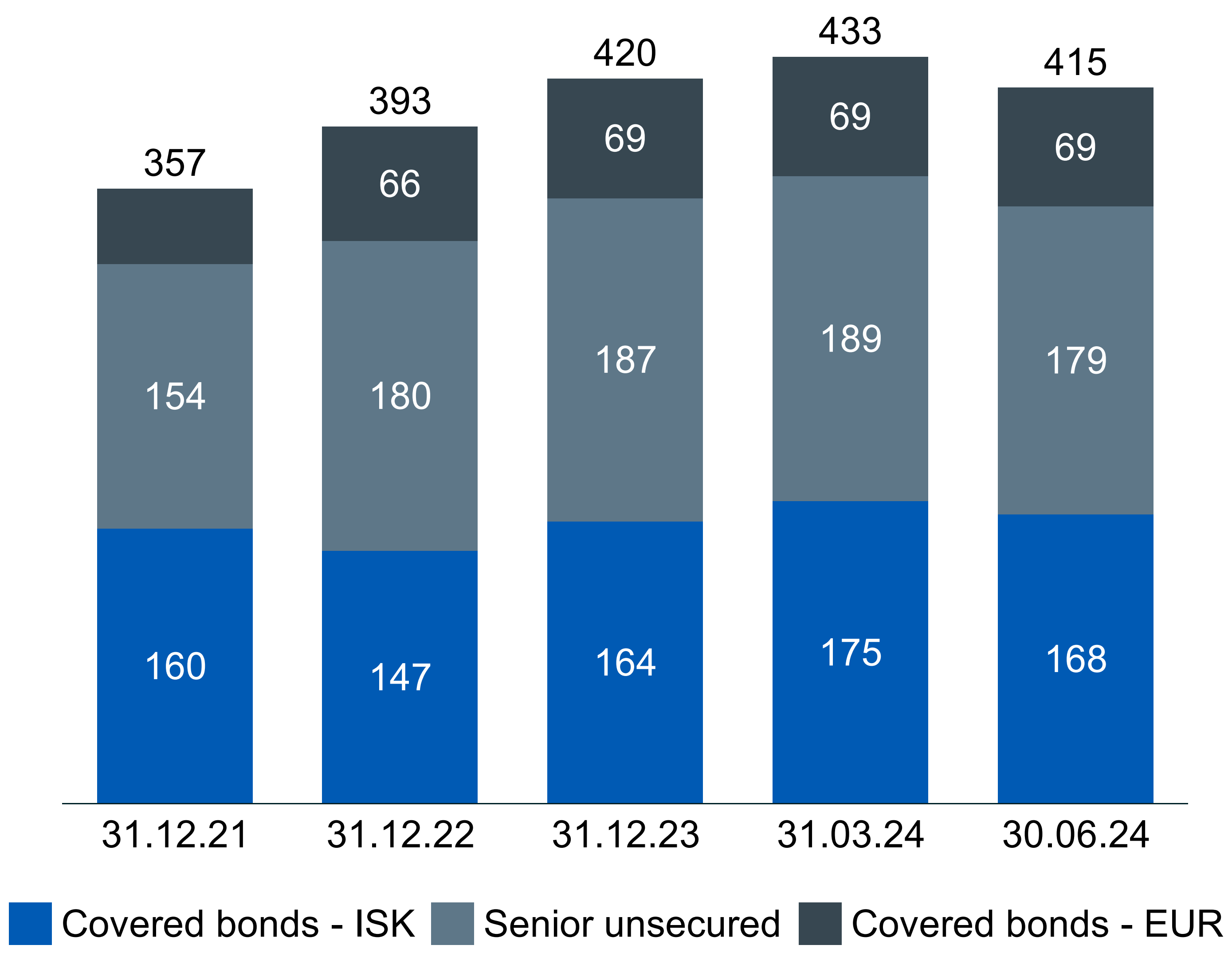


Borrowings

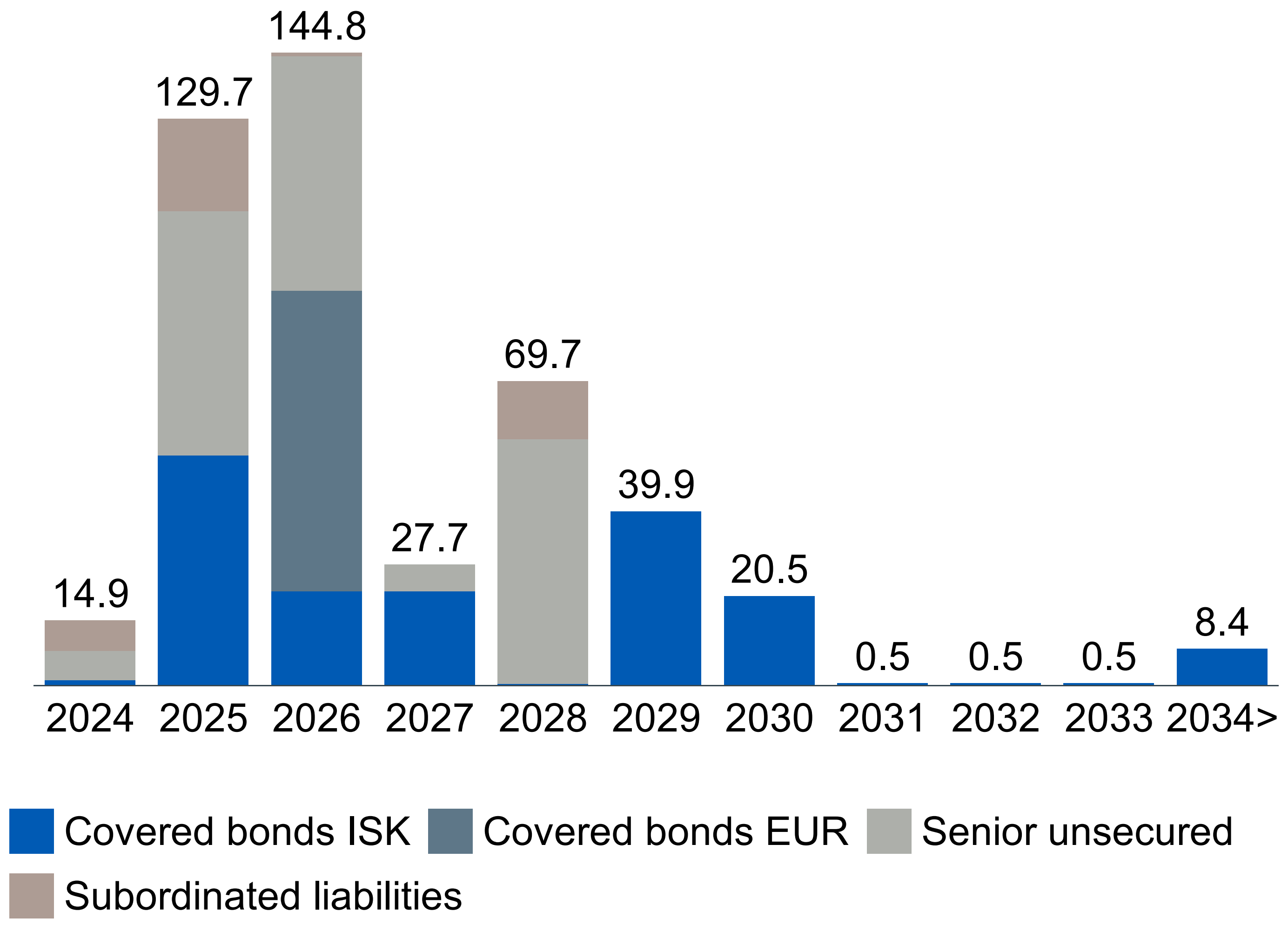
Balanced maturity profile and improved spread development

- Credit spreads have tightened significantly in recent months
- EUR 300 million senior preferred notes issued during the quarter with a maturity of 4.5 years
  - The deal was more than 8.5 times oversubscribed with orders from more than 190 investors spanning over 25 countries
  - Resulted in the tightest Icelandic bank EUR Senior Preferred instrument in over 2-years
- EUR 300m Senior Preferred Green notes due in December 2024 were fully prepaid
- Total issuance of ISK covered bonds was ISK 1.7bn and total issuance of ISK senior bonds was ISK 2.6bn in Q2

Borrowings by type (ISK bn)



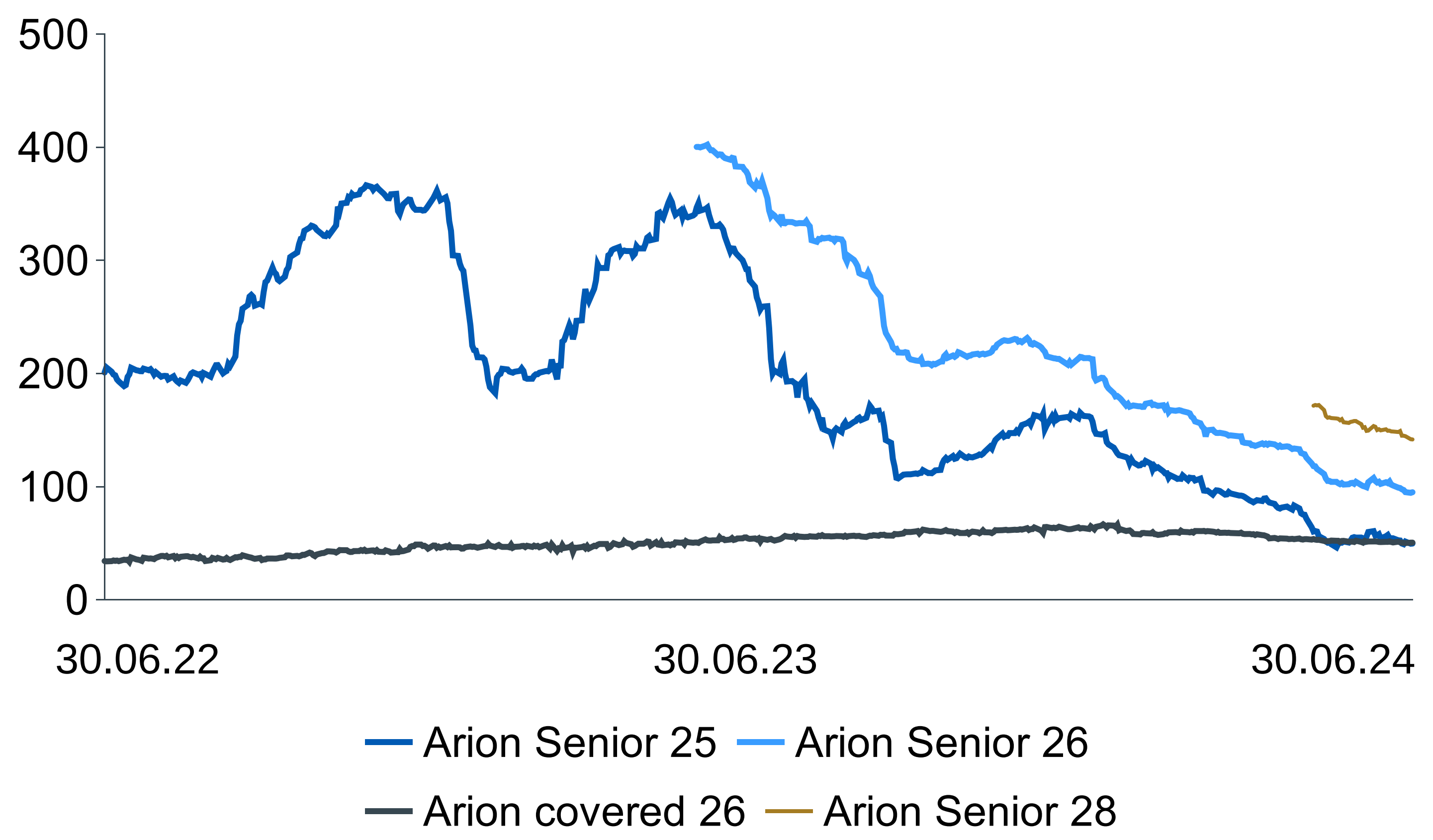
Maturities of borrowings and call dates on subordinated liabilities (ISK bn)



Ratings

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

Development of EUR funding spreads[1] (bps)



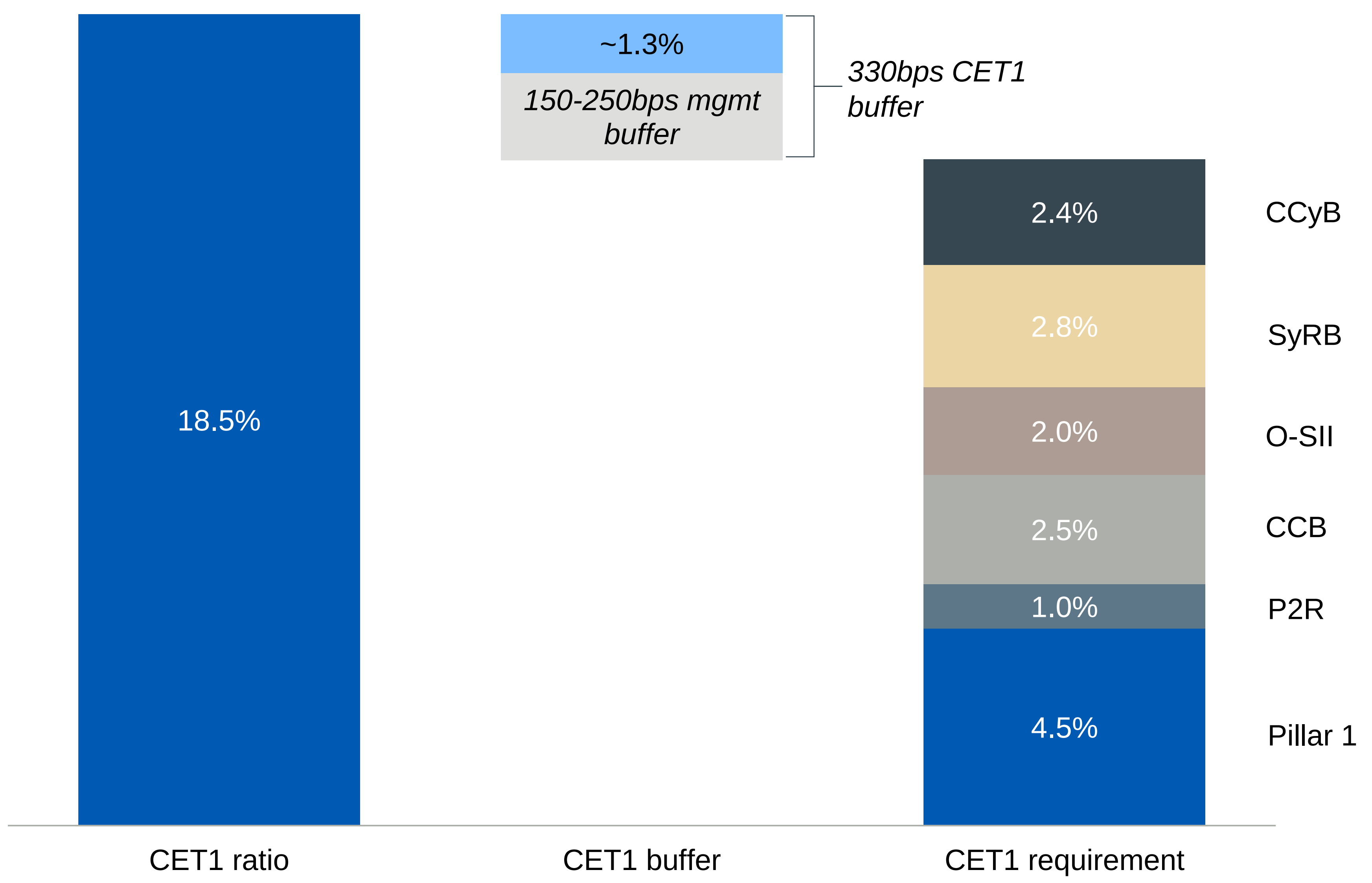
1. Source: Bloomberg

Capital position and proposed transaction

Strong capital position vs. requirements

Solid CET1 buffer above both requirement and target management buffer

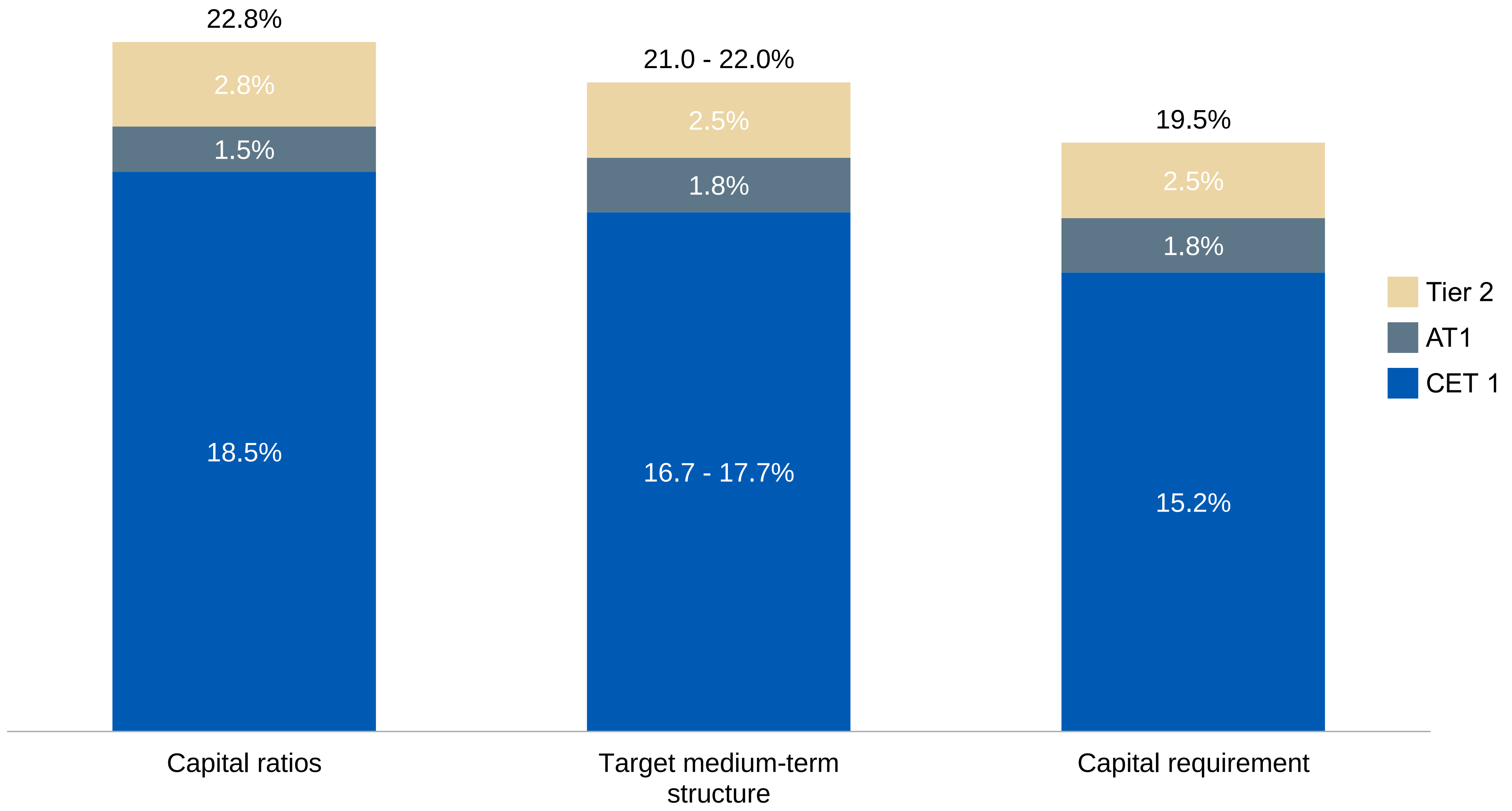
%RWA, as of H1 2024



- Minimum CET1 requirement of 15.2% as at H1 2024
  - In March 2024, the countercyclical buffer (CcyB) in Iceland increased from 2.0% to 2.5%
  - In June 2024, following the annual SREP review process Arion's Pillar 2 requirement was set at 1.8% - down 30bps vs. last year's review
- CET1 buffer of 330bps well above minimum requirements and Arion's medium-term management buffer target of 150-250bps
- Leverage ratio of 11.9% significantly above most international peers and 3% requirement

Total capital position and target capital structure

%RWA, as of H1 2024



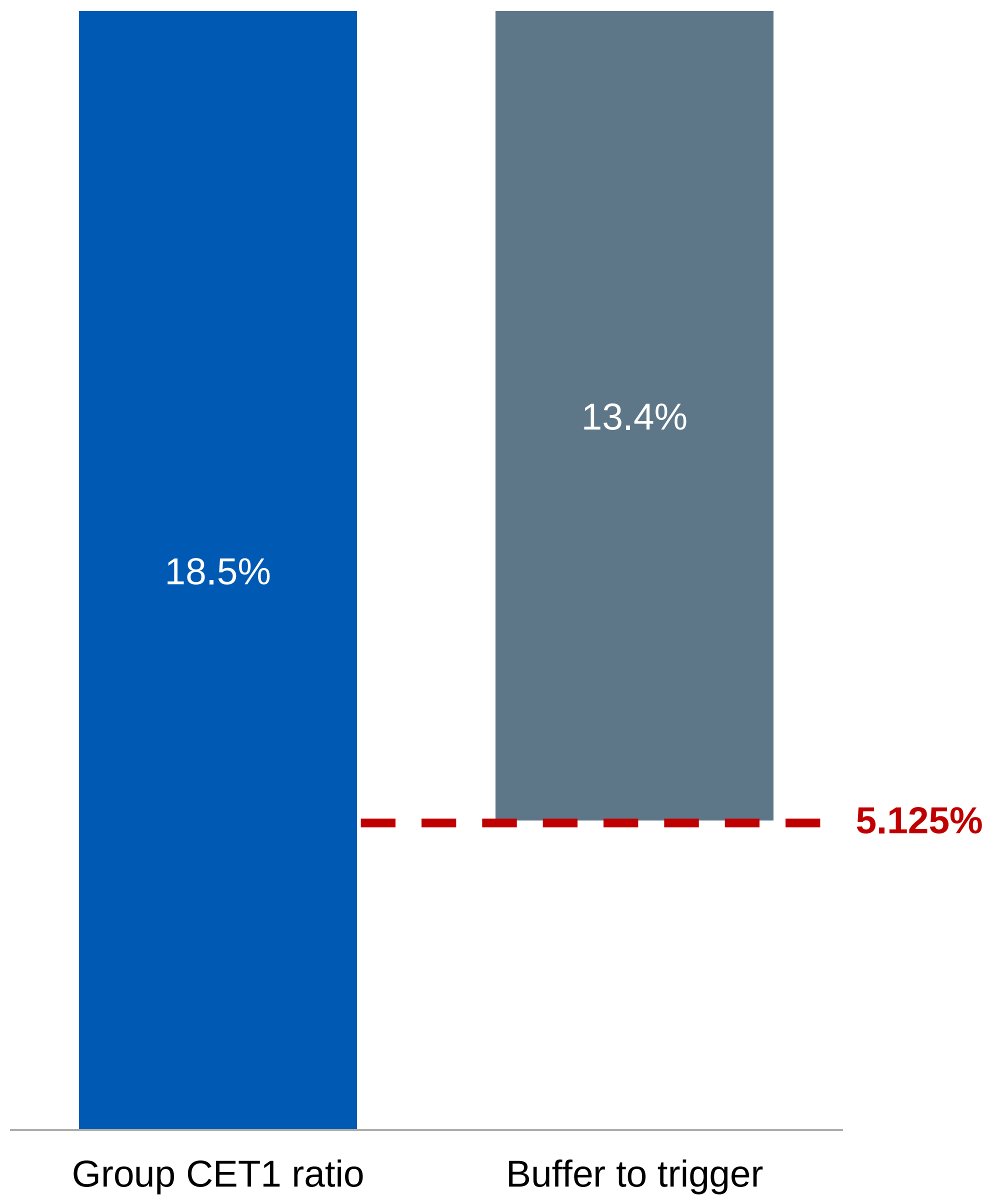
- Arion has a target medium-term CET1 structure of ~16.7 – 17.7%[1]
- As of 30 June 2024, Arion operated at 18.5% CET1 and 22.8% Total Capital
- In July, Arion announced a new ISK 2.5bn share buy-back (fully deducted from Q2 results) and ISK 5bn conditional share buy-back, subject to outstanding warrants being exercised (~ISK 6bn in the money)
  - In August, both the warrants and conditional buy-back were executed resulting in an increase to Arion's CET1 ratio by ~10bps[2]

Notes: USD/ISK FX rate as of 28.06.2024
1) Based on the management target buffer and optimal AT1 and T2 positions 2) The warrants exercised increased Arion's CET1 by approx. ISK 6.0bn (+0.6% RWAs). The incremental ISK 5bn share buy-back is equivalent to 0.5% RWAs. The net impact of the two exercises was ~10bps positive

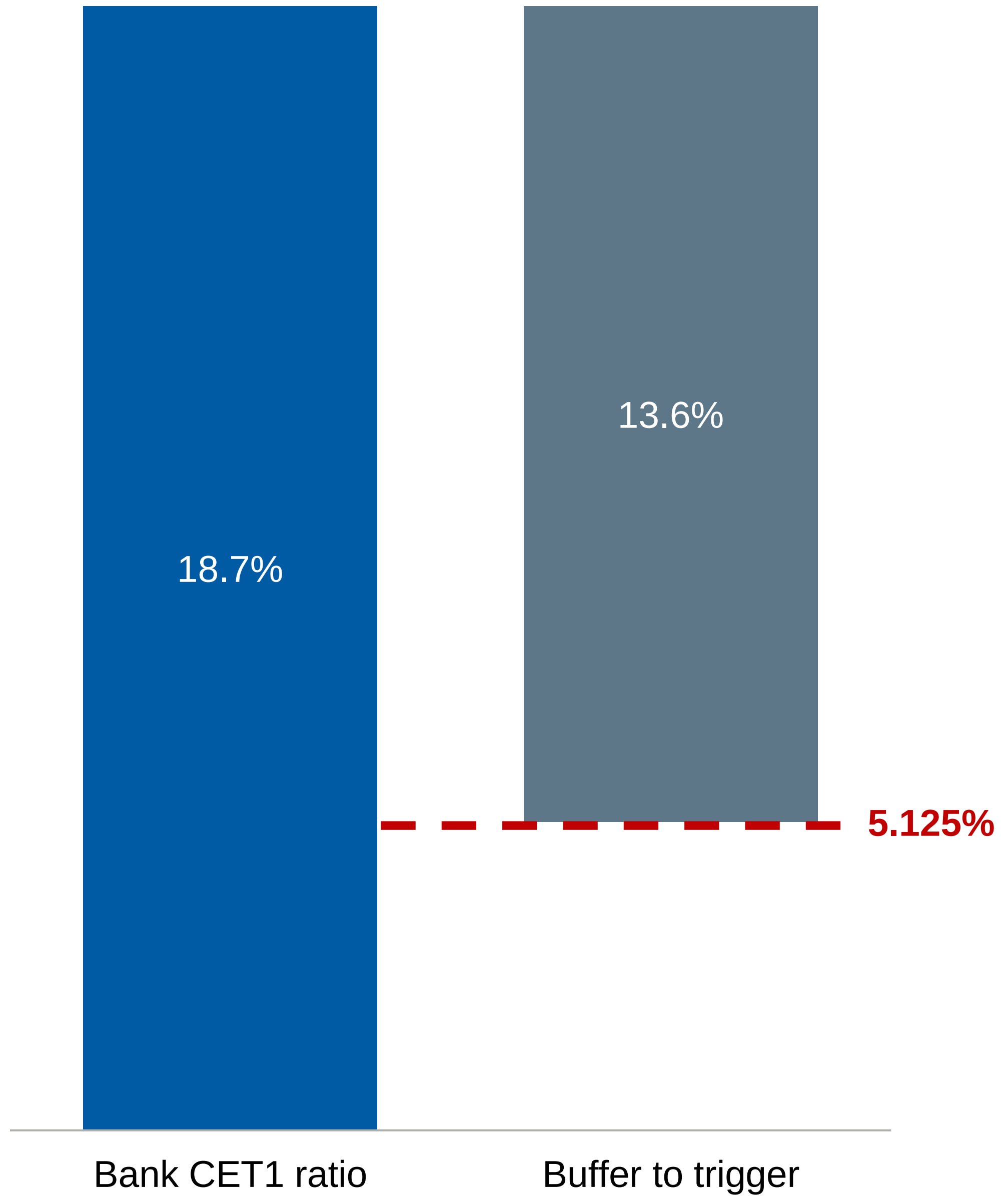
Comfortable buffers to trigger levels and MDA threshold

Significant distance to loss absorption trigger

Group level



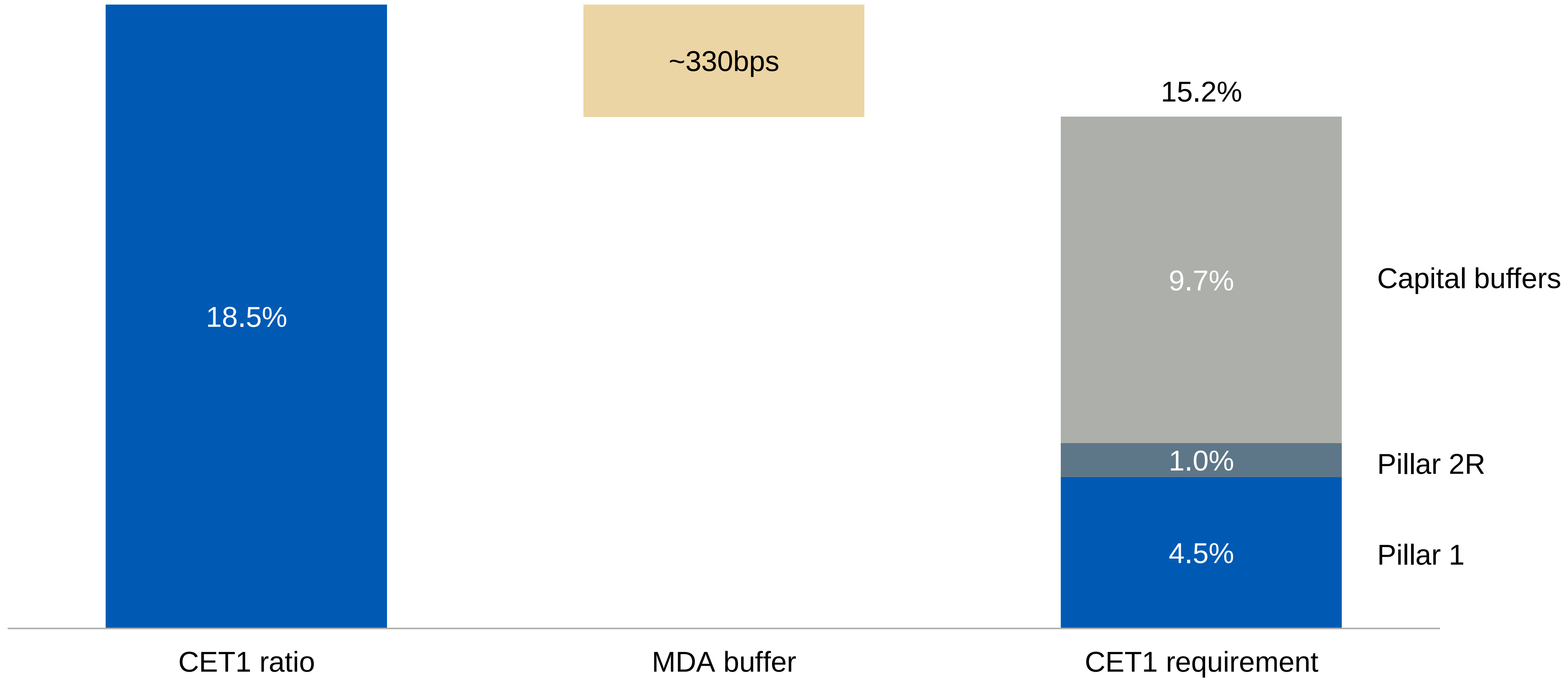
Bank level



- Distance to 5.125% conversion trigger:
  - Group level 13.4% (ISK 127.8bn / $921m)
  - Bank level 13.6% (ISK 129.6bn / $934m)

Robust buffer to MDA and ample ADI capacity

Group level



- As of 30 June 2024, Arion's 18.5% CET1 implied a CET1 MDA buffer of 3.3%
  - On a Total Capital basis, MDA buffer of 2.9%, owing to an AT1 shortfall of c. 0.4% of RWAs, or ISK 3.6bn / $26m filled by CET1 capital
  - Proposed transaction aims to optimally fill Arion's AT1 capacity
- Very comfortable ADI position amounting to ISK 173.1bn[1)] / $1.2bn
  - Equivalent to an estimated ~108x coverage ratio[2)]
- It is Arion's current intention that, whenever exercising discretion to propose any distribution in respect of ordinary shares or AT1 instruments, it will respect the hierarchy of capital instruments and preserve the seniority of claims. However, the Bank's Board of Directors may depart from this policy at any time at its sole discretion

Notes: USD/ISK FX rate as of 28.06.2024
1) Retained Earnings as reported in the financial statement.
2) Coupon coverage ratio based on estimated new issue size and coupon

Proposed AT1 Instrument – Summary Terms and Conditions

Issuer	Arion Bank hf. (the “Bank”)
Notes	RegS USD 125,000,000 Fixed Rate Reset Perpetual Additional Tier 1 Convertible Notes
Issuer Ratings	A3 (Stable) (Moody’s)
Expected Issue Ratings	Ba2 (Moody’s)
Currency & Size	RegS USD 125m (will not grow)
Status	The Notes constitute direct, unsecured, unguaranteed and subordinated obligations of the Bank and rank (i) pari passu without any preference among themselves, (ii) at least pari passu with payments to holders of any other Additional Tier 1 Instruments and claims of any other subordinated creditors the claims of which rank, or are expressed to rank, pari passu with the Notes, (iii) in priority to payments to holders of all classes of share capital of the Bank in their capacity as such holders and claims of any other subordinated creditors the claims of which rank, or are expressed to rank, junior to the notes, and (iv) junior to the claims of Senior Creditors
Tenor	Perpetual Non-Call 5.5
First Reset Date	[●] March 2030
Interest Rate	Fixed rate until the First Reset Date [●] March 2030, thereafter reset every 5 years to the sum of applicable CMT Rate for such Reset Period and the Reset Margin, payable semi-annually in arrear
Mandatory Interest Cancellation	The Bank shall not make an interest payment on the Notes if (i) the amount of Distributable Items is insufficient, (ii) if and to the extent that such payment would cause a breach of any binding regulatory restriction (including in relation to any Maximum Distributable Amount restriction), or (iii) if and to the extent the Relevant Authority requires the Bank to cancel such payment
Discretionary Interest Cancellation	The Bank may elect to cancel any payment of interest in whole or in part at any time and for any reason. All cancelled interest payments are non-cumulative
Optional Redemption	Subject to regulatory approval (if then required by the applicable banking regulations), the Bank may redeem the Notes at par (i) at any time during the 6 months from [●] September 2029 to (and including) the First Reset Date or on any Interest Payment Date thereafter, or (ii) upon a Withholding Tax Event, Tax Deductibility Event or a Capital Disqualification Event
Clean-up Redemption	If 75% or more of the Notes originally issued has been purchased, in each case subject to regulatory approval (if then required by the applicable banking regulations)
Substitution or Variation	Applicable upon a Withholding Tax Event, Tax Deductibility Event or a Capital Disqualification Event; subject to conditions including new terms not being materially less favourable to holders, subject to regulatory approval (if then required by the applicable banking regulations)
Conversion Trigger Event	The Notes will be converted into Conversion Shares at the prevailing Conversion Price if at any time the CET1 ratio of the Bank on a solo basis or of the Group on a consolidated basis is less than 5.125%
Conversion Price	The highest of (i) the Current Market Price of an Ordinary Share, translated into USD, (ii) floor price of USD [●], or (iii) the par value of an Ordinary Share translated into USD, subject to certain adjustments pursuant to Condition 6 of the Information Memorandum.
Settlement Shares Offer	Upon conversion, the Issuer may elect, in its sole and absolute discretion, that a Settlement Shares Offer is made to all or some of the ordinary shareholders of the Issuer, at a cash price being not less than the Conversion Price during the Offer Settlement Period
Governing Law	English law, except with respect to Condition 3 (Status) and Condition 20 (Acknowledgement of Statutory Loss Absorption Powers), which are governed by, and shall be construed in accordance with, the laws of Iceland
Listing	Euro MTF market of the Luxembourg Stock Exchange
Denomination	The Notes will be issued in denominations of USD 200,000 and integral multiples of USD 1,000
Joint Lead Managers	BofA Securities, Morgan Stanley and UBS Investment Bank

Proposed AT1 Instrument – Side-by-side structural comparison

			Icelandic peer	European peers				
Issuer	**Arion**	**Arion**	**Islandsbanki**	**NIBC**	**CCF Holding**	**Van Lanschot**	**Jyske**	**Swedbank**
Issue Date	Sep-2024	Feb-2020	Sep-21	Jun-24	Jun-24	Jan-24	Feb-24	Feb-24
Issue rating (M/S/F)	Ba2[1] / - / -	- / BB[1] / -	- / BB- / -	- / BB- / BB	- / B- / -	- / BB / -	- / BB+ / -	Ba1 / BBB- / BBB+
Currency / Size	$125m	$100m	SEK750m ($86m)[2]	€200m	€225m	€100m	€300m	$650m
Coupon	[•]%	6.25%	3mStibor +475	8.250%	9.250%	8.875%	7.000%	7.750%
Tenor	PerpNC5.5	PerpNC5.5	PerpNC5	PerpNC6	PerpNC5.5	PerpNC5.7	PNC7	PerpNC6.5
Issuer Call Option	6m par call prior to First Call Date and each IPD thereafter	6m par call prior to First Reset Date and each IPD thereafter	First Reset Date and each IPD thereafter	6m par call prior to First Reset Date and each IPD thereafter	6m par call prior to First Reset Date and each IPD thereafter	6m par call prior to First Reset Date and each IPD thereafter	6m par call prior to First Reset Date and each IPD thereafter	6m par call prior to First Reset Date and each IPD thereafter
Subsequent Call Frequency	Every interest payment date	Every interest payment date	Every interest payment date	Every interest payment date	Every interest payment date	Every interest payment date	Every interest payment date	Every interest payment date
Interest	Semi-annual (Must-pay clause)	Semi-annual	Quarterly (Must-pay clause)	Semi-annual	Semi-annual	Semi-annual	Semi-annual	Semi-annual
Loss Absorption Mechanism	Equity Conversion (Variable)	Equity Conversion (Variable)	Temporary Write-Down	Temporary Write-Down	Temporary Write-Down	Temporary Write-Down	Temporary Write-Down	Equity Conversion (Variable)
CET1 Trigger Level	5.125% (Bank & Group level)	5.125% (Bank & Group level)	5.125% (Bank & Group level)	5.125% (Bank & Group level)	5.125% (Bank & Group level)	5.125% (Issuer level)	7.000% (Bank & Group level)	5.125% (Bank) & 8.000% (Group)
PONV	Statutory	Contractual (disapplied upon statutory regime)	Statutory	Statutory	Statutory	Statutory	Statutory	Statutory
Optional Redemption	Capital Event & Tax Event	Capital Event & Tax Event	Capital Event & Tax Event	Capital Event & Tax Event	Capital Event & Tax Event	Capital Event & Tax Event	Capital Event & Tax Event	Capital Event & Tax Event
Clean-Up Call	Yes (75%)	No	No	Yes (75%)	Yes (75%)	Yes (75%)	Yes (75%)	No
Substitution & Variation	Yes	Yes	Yes	Yes	No	Yes	Yes	Yes
Governing Law	English Law[3]	English Law[3]	English Law[3]	Dutch Law	French Law	Dutch Law	Danish Law	English Law[4]
Listing	Luxembourg Euro MTF	Luxembourg Euro MTF	Euronext Dublin	Euronext Amsterdam	Euronext Growth	Euronext Amsterdam	Euronext Dublin	Euronext Dublin

Notes:
1) Arion's 2020 AT1 issuance was solely rated BB by S&P. Following an internal ratings assessment, Arion withdrew the Bank level S&P rating in April 2024 and is now solely rated by Moody's. 2) FX rate at pricing date. 3) English law, except with respect to the status and subordination, which are governed by, and shall be construed in accordance with, the laws of Iceland 4) English law, except for status, the conversion of the Notes into Conversion Shares and any Compulsory Acquisition Proceedings which are governed by Swedish law

Summary of the Cash Tender Offer (the “Offer”)

Bank	Arion Bank hf. (the “Bank”)
Target Notes	Description of the Notes: U.S.$100,000,000 Fixed Rate Reset Perpetual Additional Tier 1 Convertible Notes (the “Notes”) ISIN: XS2125141445 First Call Date: 26 February 2025
Amount Subject to the Offer	Any-and-All cash Tender Offer, no pro-ration applies
Purchase Price and Accrued Interest	100% plus an Accrued Interest Payment
Rationale for the Offer	The Offer in conjunction with the proposed issue of New Notes is being made as part of the Bank's active management of its capital base. The Offer also provides liquidity for investors in the Notes concurrently with the opportunity to redeploy funding into the New Notes. The Bank intends to consider future optional redemption rights in respect of the Notes that are not tendered and accepted pursuant to the Offer on an economic basis, considering the current and future regulatory capital treatment and minimum requirements for own funds and eligible liabilities, relative funding cost and rating agency treatment, as well as regulatory developments and having regard to the prevailing circumstances at the relevant time
New Financing Condition	Whether the Bank will accept for purchase Notes validly tendered in the Offer is subject, without limitation, to the successful completion (in the sole determination of the Bank) of the issue of the New Notes or the waiver of the same
Priority allocation of the New Notes	When considering allocations of the New Notes, amongst other factors, the Bank intends to give preference to those Noteholders who, prior to such allocation, have tendered Notes, or indicated their intention to tender Notes to any Dealer Manager
Expected Timetable of Events	**Commencement of the Offer**: Day 1; new issue marketing announced same day **Expiration Deadline**: 4.00pm London time, Day 7 **Expected Settlement Date**: Expected to be Day 9
Dealer Managers	BofA Securities, Morgan Stanley, UBS Investment Bank
Tender Agent	Kroll Issuer Services Limited / / Telephone: +44 20 7704 0880 / Email: arionbank@is.kroll.com / Tender Offer Website: https://deals.is.kroll.com/arionbank

Note: Indicative only, key terms should be read in conjunction with the Tender Offer Memorandum dated 9 September 2024

Appendix

Continued focus on sustainability

The Bank received strong ESG ratings and aims to be net zero by 2040

Sustainalytics places Arion in the top 5% of banks (around 1,000 banks globally) and the top 3% of regional banks (around 400 banks). On a scale of 0-100, Arion received 10.5 points, with fewer points signifying lower risk which places the Bank in the low-risk category

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

Within next two years the Bank will work towards getting SBTi to validate its science-based climate targets

Next steps in our sustainability journey

Aim to reduce financed emissions in the sectors which have the most impact in line with net zero target by 2040

Have targets on financed emissions validated by SBTi within two years

Increase percentage of investment by women

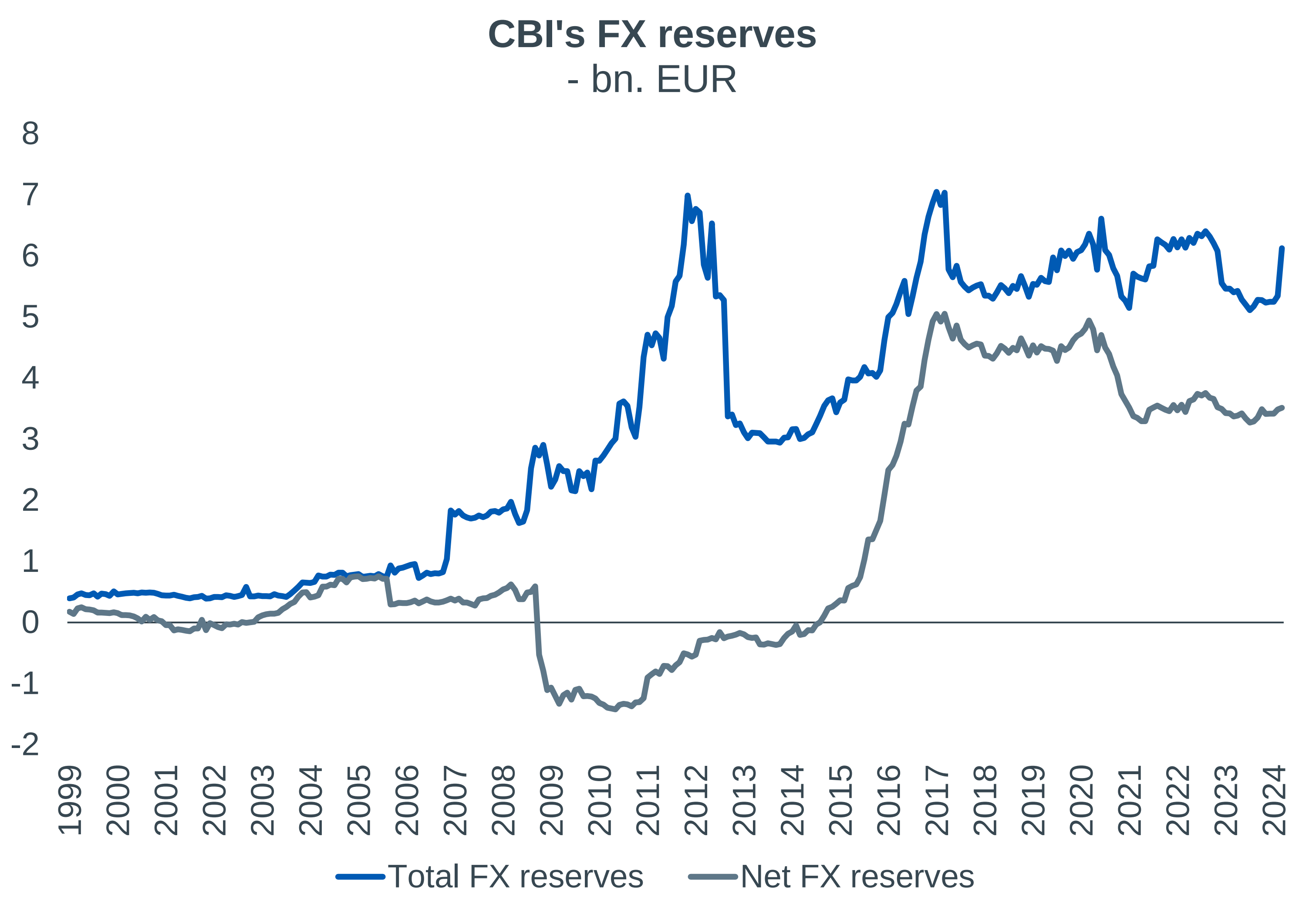
A harmonized risk assessment for different sectors and regions with respect to ESG risk and the financial impact on the Bank

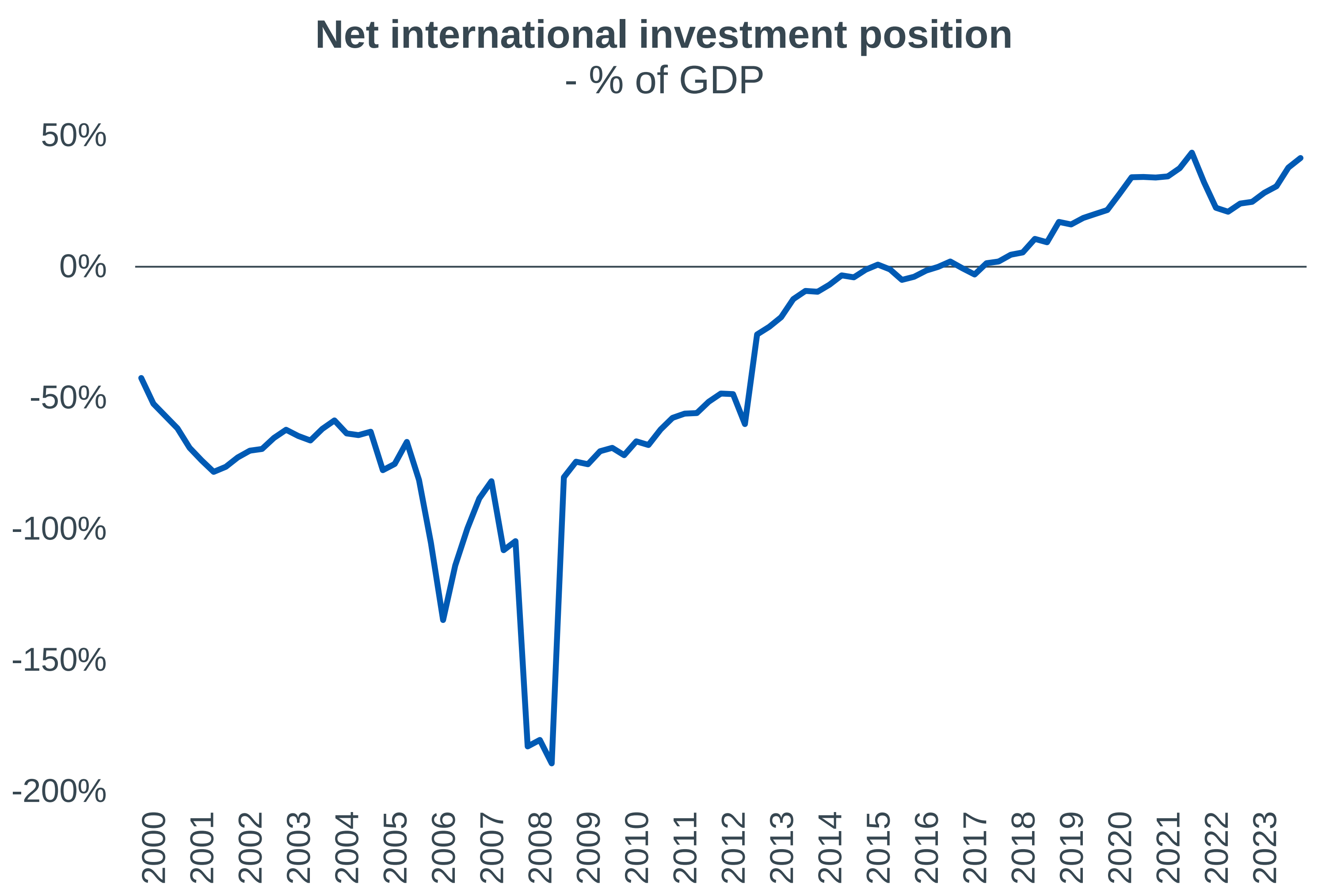
Implementing CSRD legislation and report on sustainability according to ESRS standards

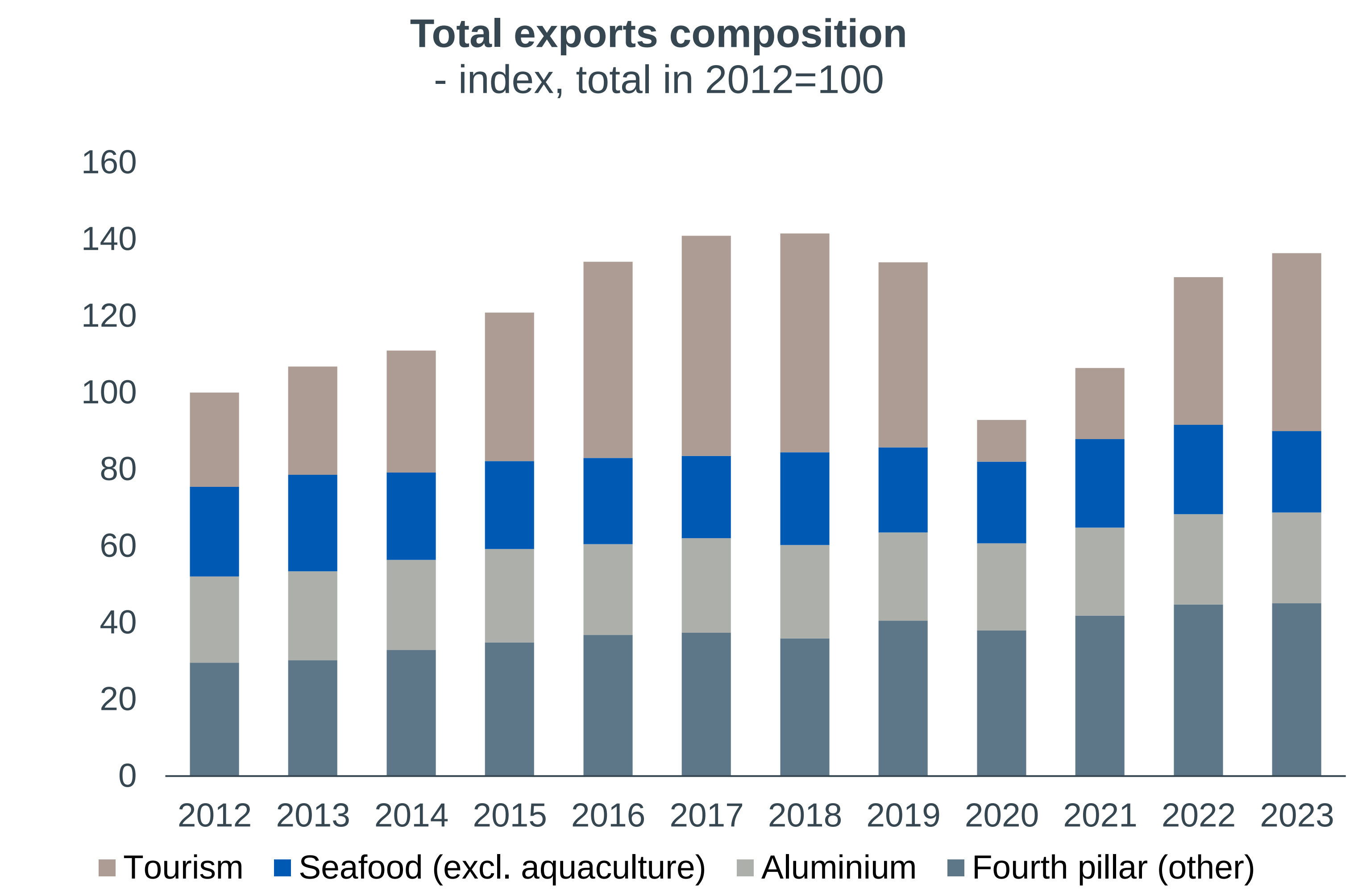
Further engagement with customers regarding sustainability

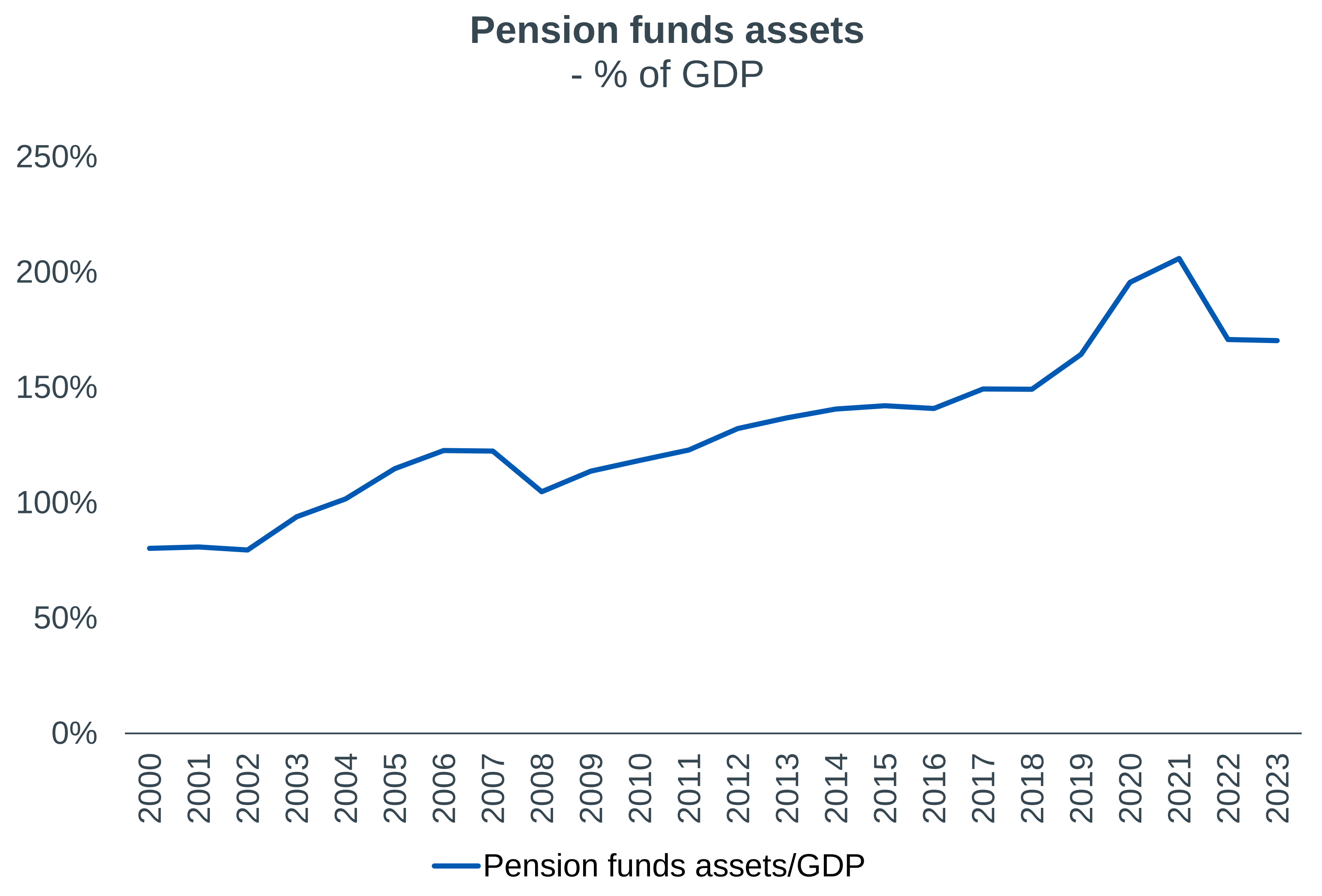
Work according to Arion's Sustainability Policy for the Arctic

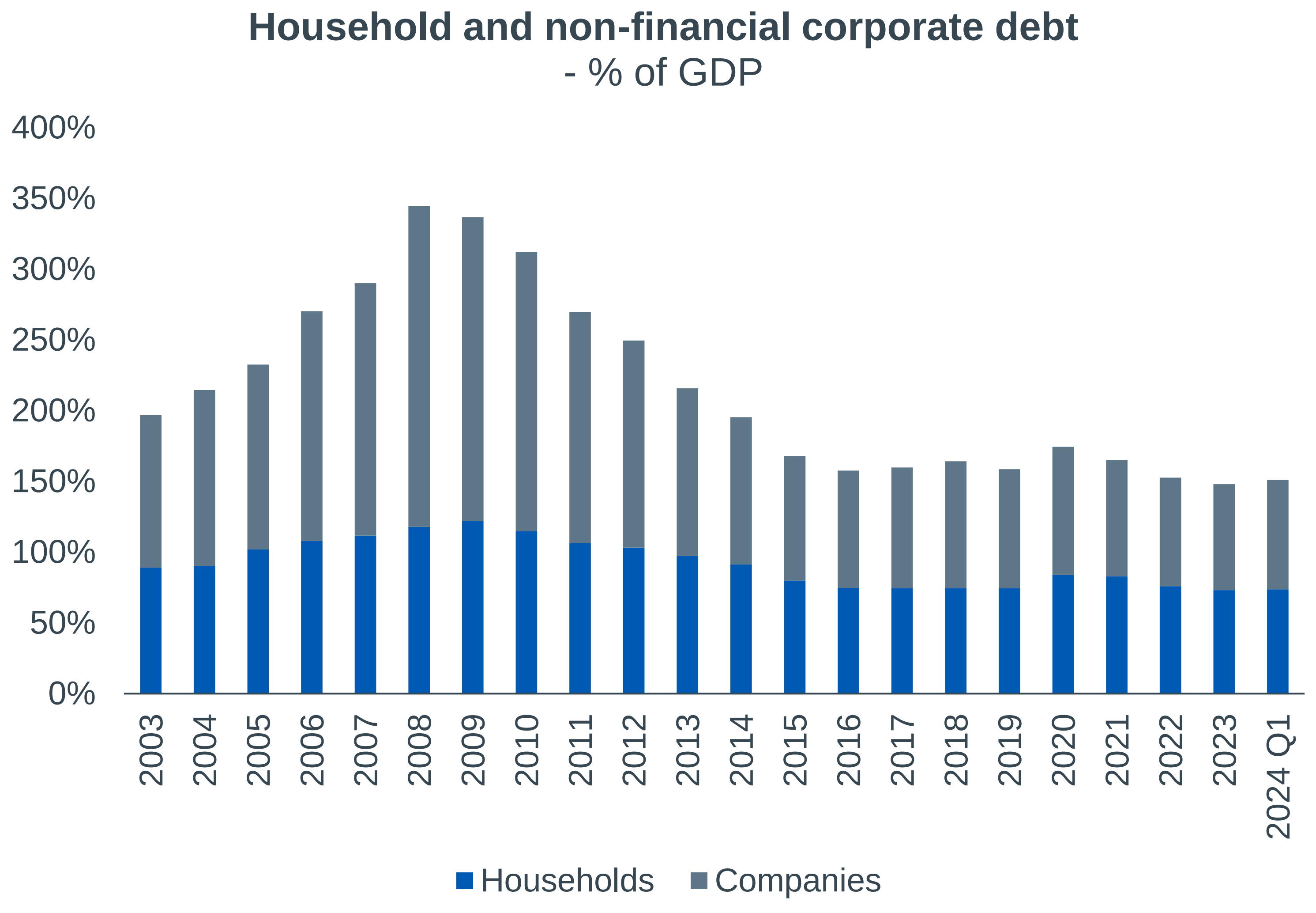
Small economy, strong foundations

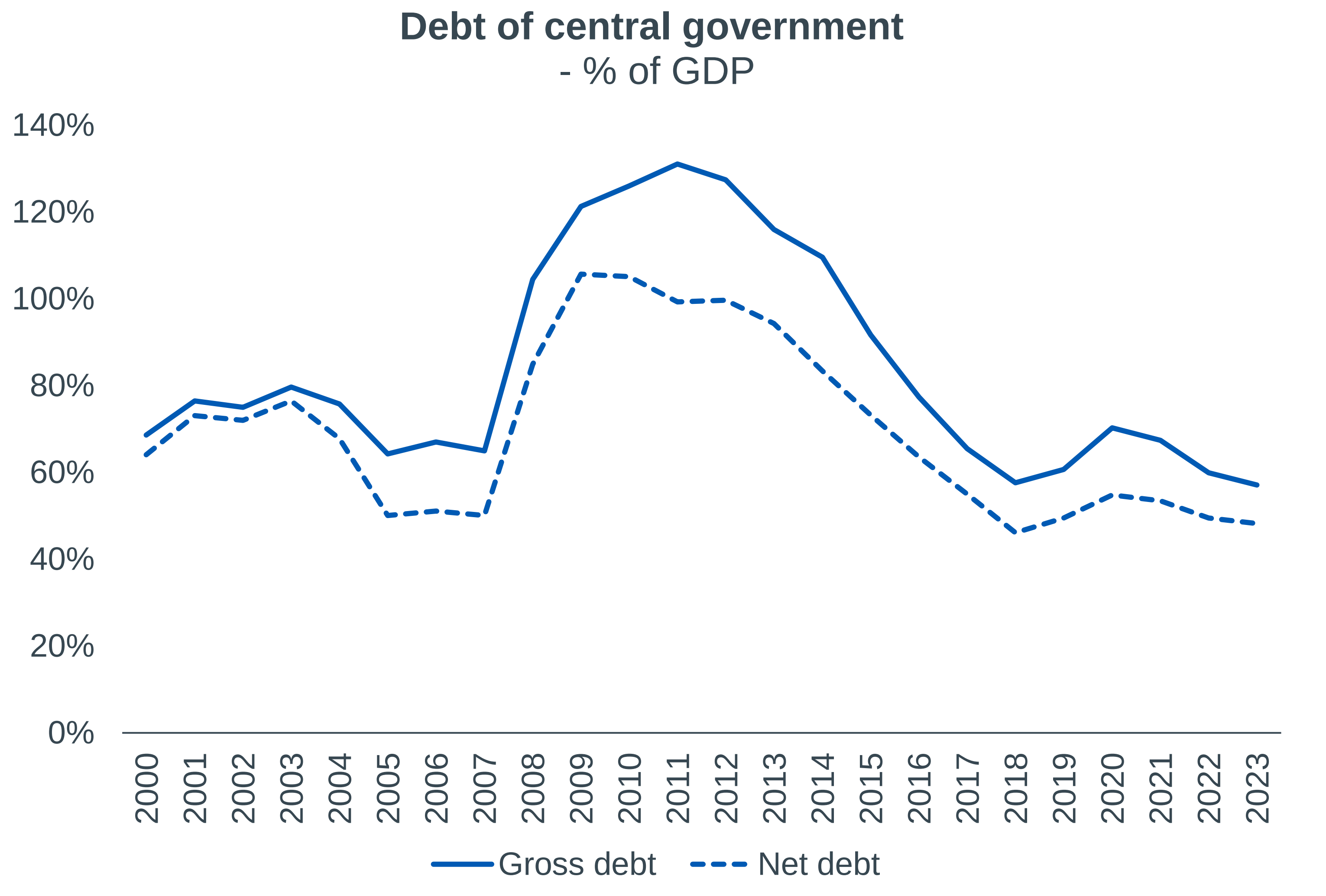












 Sources: Statistics Iceland, Central Bank of Iceland, Arion Research