



First quarter results 2021

Investor presentation

5 May 2021

Key takeaways in Q1

The Bank's revised strategic direction is delivering strong results which exceed market expectations

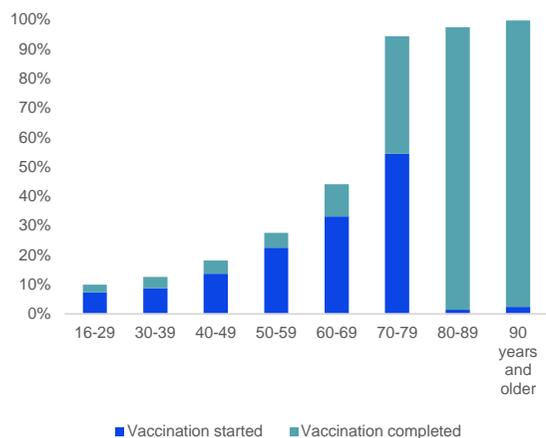
<p>The Bank delivers strong results and demonstrates the ability to successfully navigate through the challenges relating to the global pandemic</p>	<ul style="list-style-type: none">• The best quarter in 4 years despite a challenging environment• Return on equity above the 10% target and 14.9% from optimized equity• Solid core income growth of 4.2% from the same quarter in 2020• Improved operating efficiency as OPEX decreases by 3% from last year
<p>The Bank is reversing a part of its impairments</p>	<ul style="list-style-type: none">• IFRS models remain unchanged, expectation is that the worst is behind the economy• Certain corporates have demonstrated the ability to manage through the pandemic which improves credit ratings and generates a transfer from stage 2 into stage 1 under IFRS 9• Previously impaired loans have been partially recovered, either through payments or due to increase in collateral value
<p>Broad market access provides a unique value proposition and domestic institutional and retail investors have embraced the investment opportunity</p>	<ul style="list-style-type: none">• Very strong share price performance in Q1, outperforming OMX Iceland and large and mid-cap Nordic peers• Price-to-book increased from 0.81 to 1.05 during the quarter• Liquidity in the stock has allowed for significant volume of shares to be traded• Number of shareholders grew from 7,400 to 8,250 during the quarter
<p>Significant balance sheet strength and dividend capacity</p>	<ul style="list-style-type: none">• ISK 2.9 billion dividend and ISK 11.9 billion in share buy-backs finalized in the quarter• CET1 and total capital ratios among highest in Europe• Leverage ratio significantly stronger than European peers• ISK 41 billion of surplus capital



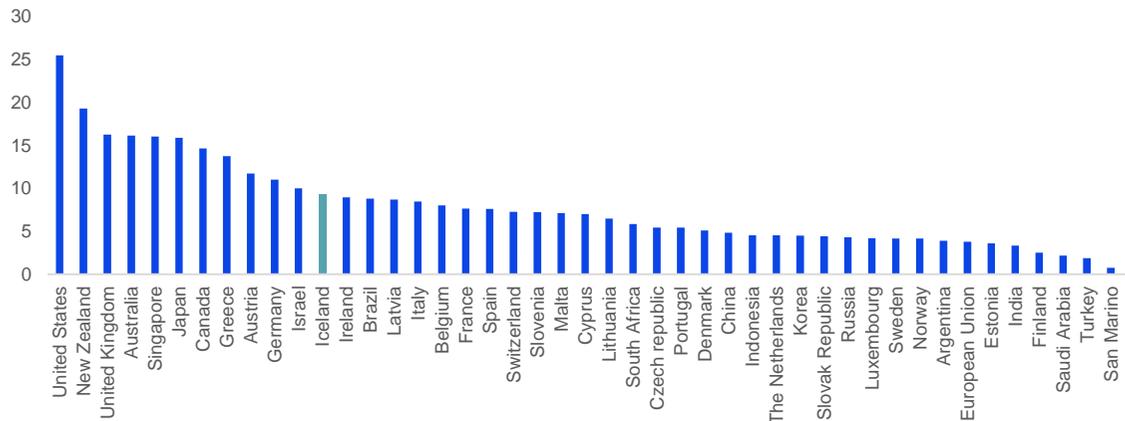
The light at the end of the tunnel is getting brighter

Iceland expects all residents 16 years and older to be vaccinated before 30 June and all domestic Covid restrictions to be lifted

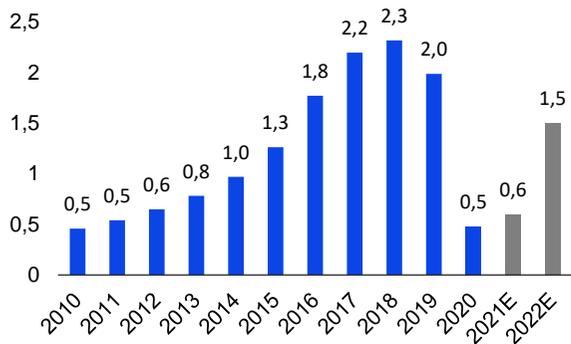
Percentage of vaccinated persons by age



Fiscal Measures in Response to the COVID-19 Pandemic since January 2020 (% of GDP)



Tourist arrivals via KEF airport (millions, Arion Bank's March 2020 estimates)



Scheduled flights to and from Iceland this summer have recently increased quite significantly

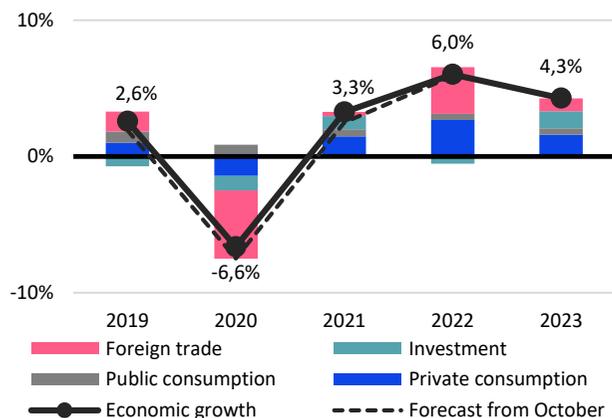


The economy is forecast to rebound in second half of 2021

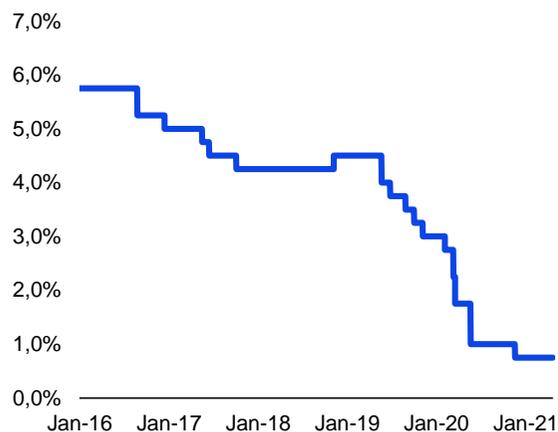
Monetary and fiscal measures have been significant but the low government debt levels show that there is scope for more if required.

Inflation is expected to be short lived and unemployment which is currently around 12% will trend down over time

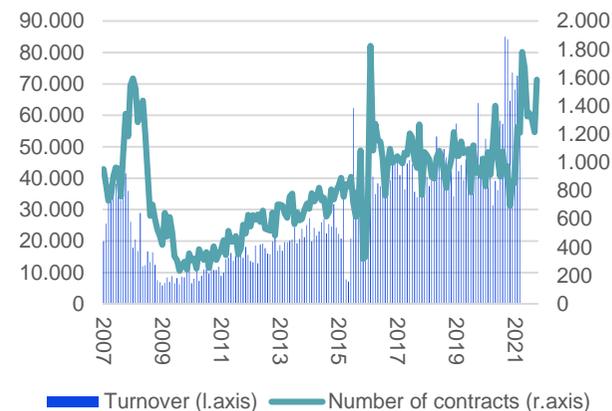
GDP growth



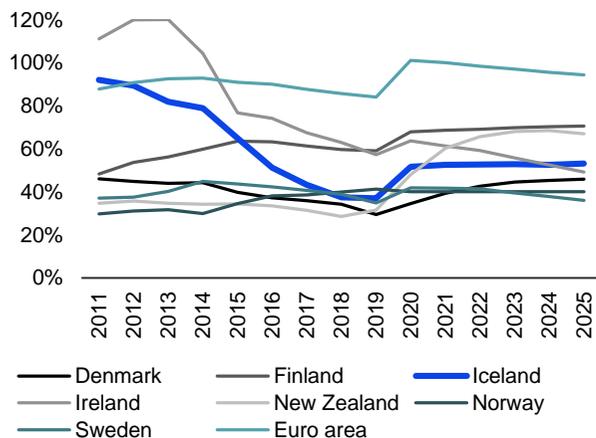
Key interest rates (seven-day term deposit rate)



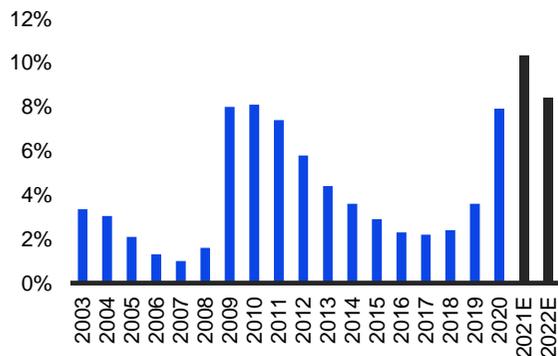
Mortgage market activity – turnover ISK millions and number of new contracts



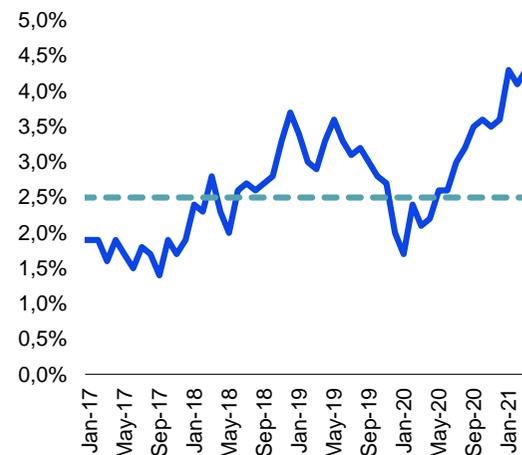
General government gross debt (% of GDP)



Registered unemployment, excluding the reduced employment ratio scheme (Arion Bank's estimates)



Inflation and inflation target



Digital solutions have impacted customer interaction and sales significantly

Online sales

- Approximately 99% of our total interactions are through digital channels
- Digital core sales have increased steadily as a percentage of total sales
- The results show Arion Bank is now among the world leaders in digital sales
- Record volumes in mortgage applications in 2020 and around 62% have been processed seamlessly through digital channels

New solutions implemented

- Arion Bank has continued its focus on App development and recently launched two important products, Pension fund and Premium service
- Pension fund onboarding recently received an award as an outstanding customer solution
- Premium service currently in beta testing. Increased services for high-net worth customers

More than 42 million annual interactions with our clients

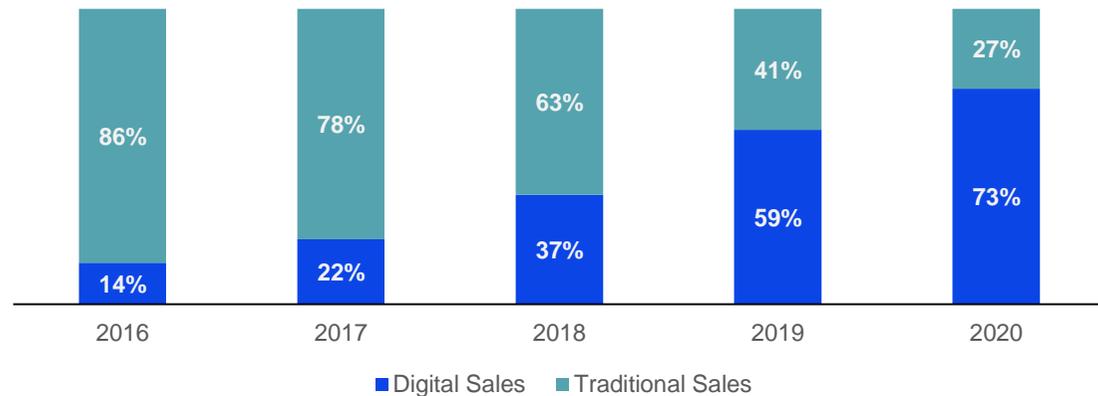
Digital Interactions



Traditional Interactions



Strong growth in Digital Core Product Sales¹ (Finalta 1 Jul 2019 – 30 Jun 2020)

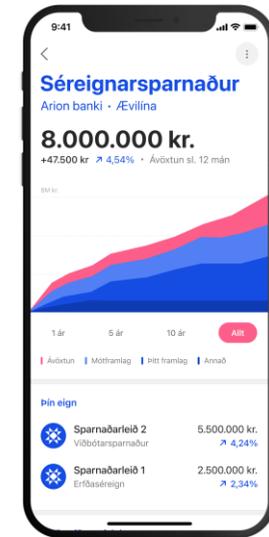


New solutions introduced to optimize the customer journey and service excellence

Online sales

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- The results show Arion Bank is now among the world leaders in digital sales
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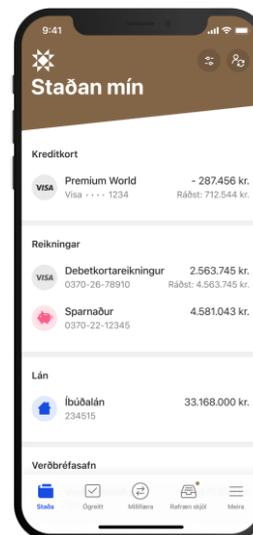
Pension fund solution and onboarding



New solutions implemented

- Arion Bank has continued its focus on App development and recently launched two important products, Pension fund and Premium service
- Pension fund onboarding recently received an award as an outstanding customer solution
- Premium service currently in beta testing. Increased services for high-net worth customers

Premium service

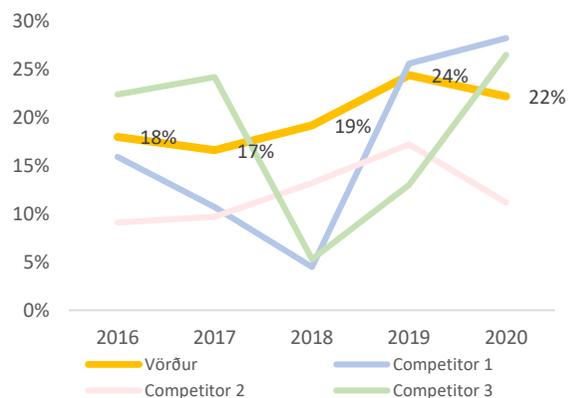


Vörður Insurance - Robust pillar of the Group with further growth potential

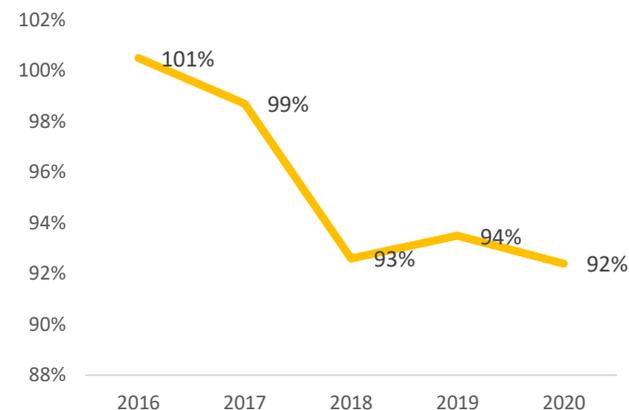
Insurance products integrated into the Bank's customer journey



Consistent profitability through the cycle - ROE



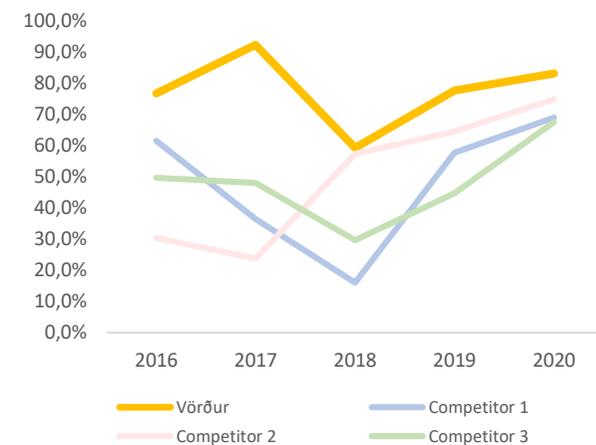
Profitable insurance business – combined ratio*



Strong growth momentum in market share – total premiums*



Conservative investment strategy leads to consistency - investment profits over market risk



Project Sopra: a new core banking system went live in April 2021

A key milestone in supporting open banking journey and reducing IT cost in the long term

Context



- Dated core banking infrastructure
- Two deposits systems: RB and an internal SAP
- Complex and difficult to scale many-to-many IT architecture
- Too many customer products
- Investment of approx. ISK 4 billion, amortized over ten years

Future benefits



- Support Open banking journey
- Support digitization and analytical capabilities
- Shorter development cycles
- Shorter training time for front-end employees

Scope



- Implement new Deposits System
- Connect ca. 80 affected systems to a common interface
- Sunset around 20 systems / modules
- Simplify the product offering by shrinking the catalog by more than 50%
- Simplify the front-end systems for employees

Impact and goals

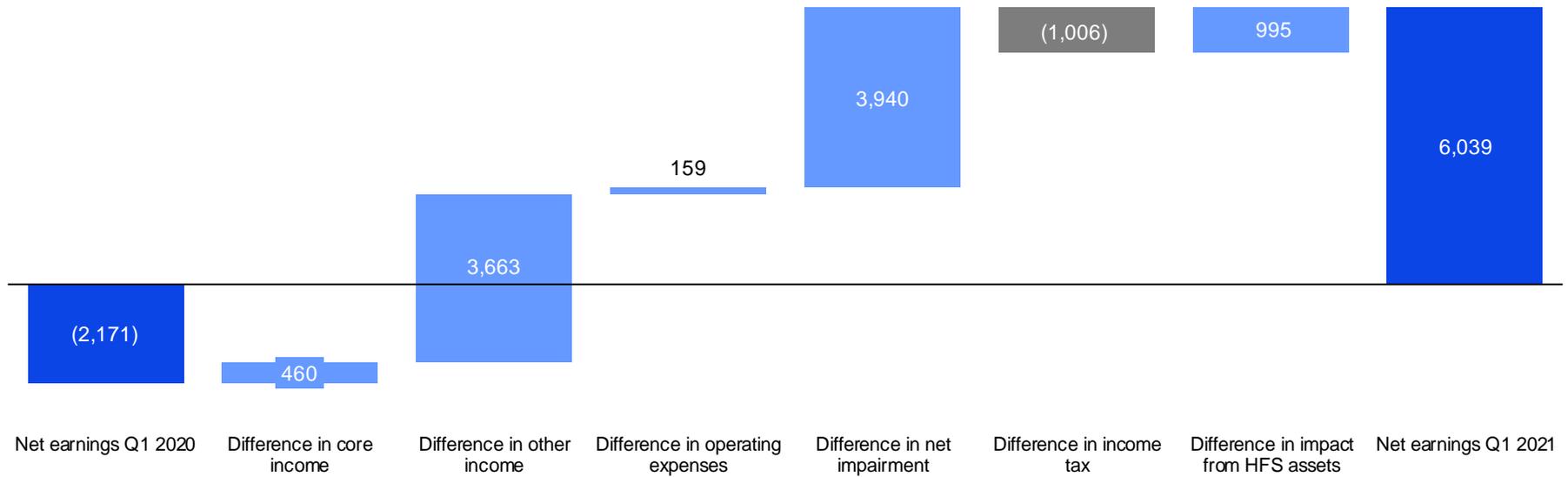


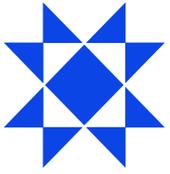
- Reduce operation costs
- Reduce the Bank's operational risk
- Increase stability of transaction processing
- Reduce technical complexity



Net earnings improve significantly YoY

Core income and expenses continue to improve





Financials



Operational highlights of the first quarter 2021

- Arion Bank's strategy results in core operations trending positively
 - Core revenues are up 4.2% YoY
 - NII to credit risk is relatively stable YoY in an extreme low interest rate environment
 - OPEX is down 3% YoY
- Other items are favorable
 - Financial income has transformed from Q1 last year
 - Impairments are positive as are the effects of discontinued operations
- The balance sheet increases by only 0.7% from year end 2020 but mortgage lending is up 3.7%
- Surplus CET1 capital of ISK 41 billion on top of the Bank's 17% CET1 capital target

	Q1 2021	Target
Return on equity	12.5%	Exceed 10%
ROE assuming 17% CET 1	16.0%	Exceed 10%
Operating income / REA	7.0%	Exceed 6.7%
Cost-to-income ratio	46.2%	Below 45%
CET 1	22.4%	17.0%



Income statement Q1 2021

Very strong quarter – Revised strategy results in robust growth in earnings YoY

- Core income; NII, NCI and net insurance income, increases 4.2% YoY
 - Slight increase in net interest income YoY. The loan book increases from Q1 2020, mainly mortgage lending but lower interest rate environment is weighing in on NII
 - Strong net commission income across the Bank except for certain volume related fees in retail banking
- Operating expenses continue to trend down
 - Salaries increase YoY with general wage inflation and different staff composition, offset by reduction in other OPEX
- Impairments are positive during the quarter due to transfers of loans from stage 2 to stage 1 based on improved credit ratings and higher value of collateral held against previously impaired loans
- The impact of HFS assets is minimal during the quarter

	Q1 2021	Q1 2020	Diff%	Q4 2020	Diff%
Net interest income	7,342	7,253	1%	8,059	(9%)
Net commission income	3,277	3,076	7%	3,116	5%
Net insurance income	671	501	34%	766	(12%)
Net financial income	1,500	(2,000)	-	1,362	10%
Share of profit (loss) of associates	1	(24)	-	(22)	-
Other operating income	306	170	80%	1,432	(79%)
Operating income	13,097	8,976	46%	14,713	(11%)
Salaries and related expenses	(3,271)	(3,130)	5%	(3,121)	5%
Other operating expenses	(2,777)	(3,077)	(10%)	(3,486)	(20%)
Operating expenses	(6,048)	(6,207)	(3%)	(6,607)	(8%)
Bank levy	(330)	(331)	(0%)	(263)	25%
Net impairment	1,080	(2,860)	-	74	-
Earnings before income tax	7,799	(422)	-	7,917	(1%)
Income tax expense	(1,866)	(860)	117%	193	-
Net earnings from continuing operations	5,933	(1,282)	-	8,110	(27%)
Discontinued operations, net of tax	106	(889)	-	(2,349)	-
Net earnings (loss)	6,039	(2,171)	-	5,761	5%

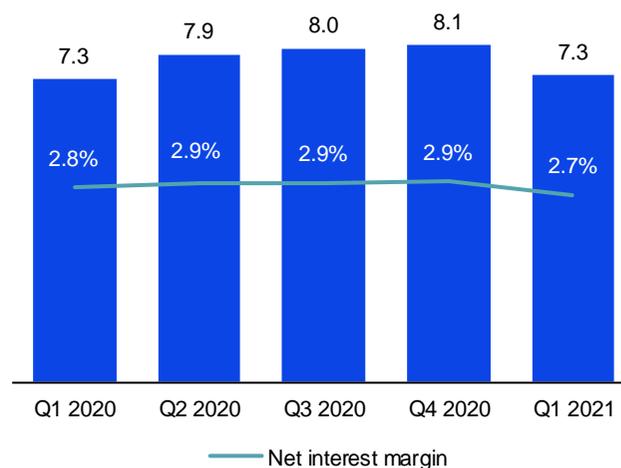


Net interest income

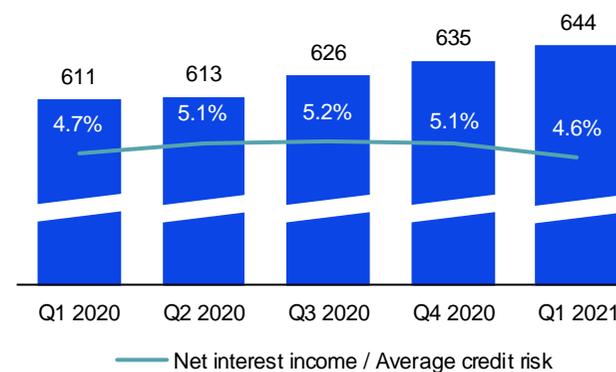
Acceptable NIM in light of increased share of mortgage lending with superb asset quality and the record low interest rate environment

- Net interest income increased by 1.2% from Q1 2020 whilst average interest bearing assets increased by 5.2%, mainly mortgages and liquid assets
- Strong net interest margin in light of:
 - Policy rate, which was at historic low during the period at 0.75%
 - Excessive liquidity
- Net interest income / average credit risk continues at strong levels in the challenging environment
 - Substantial refinancing, especially in the mortgage space with the NIM in the front book slightly lower than in the back book
 - A large portion of the deposit base already at close to zero interest rate
- Positive effect of 3.4% inflation is reducing as the CPI imbalance decreased by ISK 35 billion from Q1 2020 and ISK 10 billion during quarter
- Increase in deposits and a corresponding reduction of wholesale funding, both maturing and buy-backs, have positive effect on NIM
- The Bank aims to maintain NIM in the range of 2.6% - 2.8% whilst the base rate remains at current levels

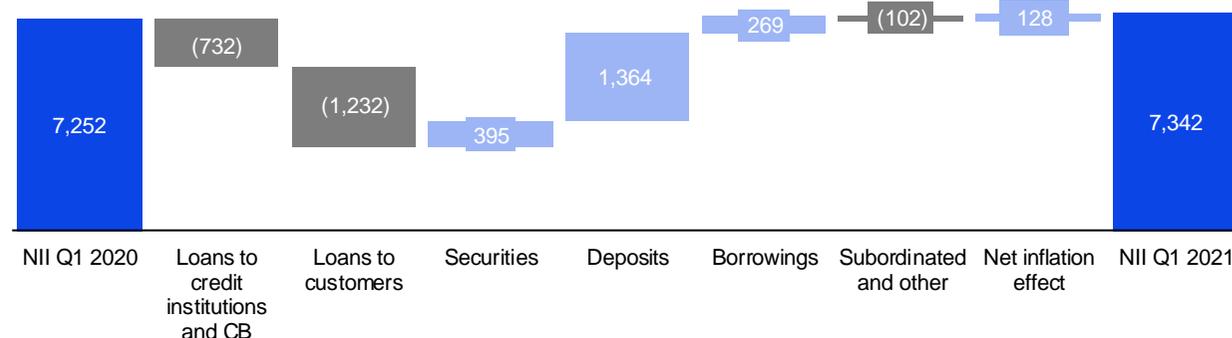
Net interest income



Credit risk



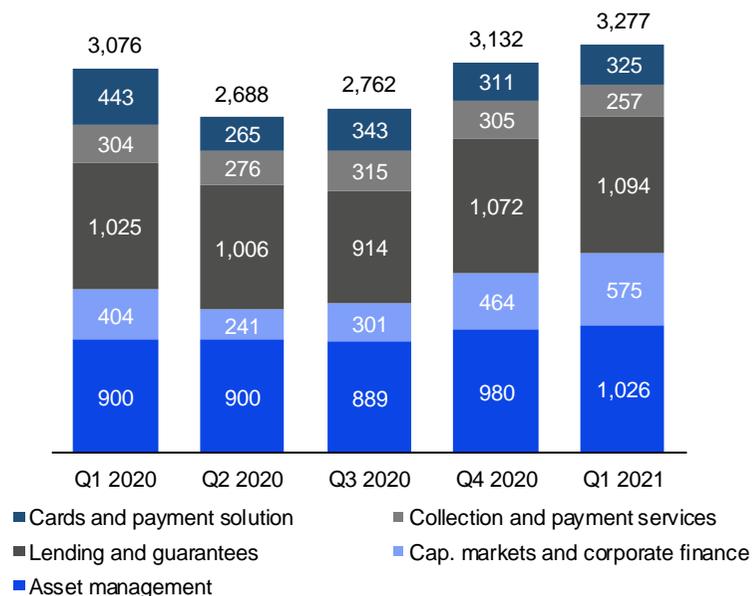
Net interest income Q1 2020 vs Q1 2021 (ISK million)



Net fee and commission income and net insurance income

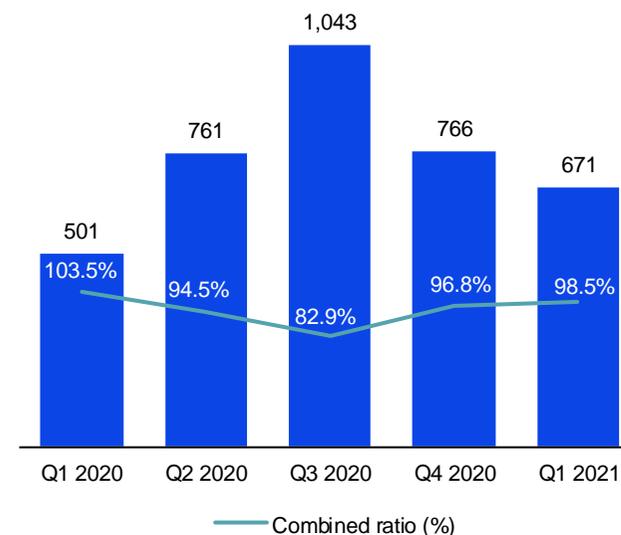
Improvement across the board in line with strategy

Net fee and commission income



- The forming of CIB from the previously separate Corporate Banking and Investment Banking has been successful and is supporting the business on both sides
 - Corporate finance had a very robust quarter as M&A activities have returned
 - Income from lending and guarantees continues to be strong, building on strategy of capital velocity
- Income from asset management increased 14% from Q1 and 5% from Q4 2020
- Cards and payment solutions affected by Covid-19 but will pick up again with increased economic activity

Net insurance income



- Best ever first quarter as conditions in Iceland during the winter months were unusually favorable
 - Income was up 7.2% from Q1 2020
 - Claims were unusually low, increasing by 1.5% from Q1 2020
 - Combined ratio was very strong for Q1
 - Constant premium growth of 6% during the last four years and favorable claim rate over the same period

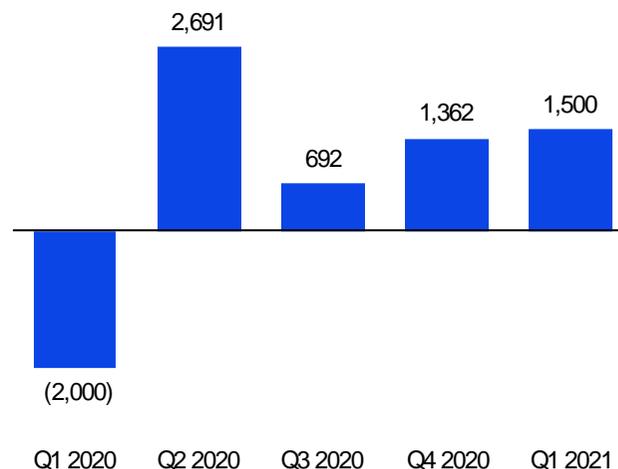


Net financial income

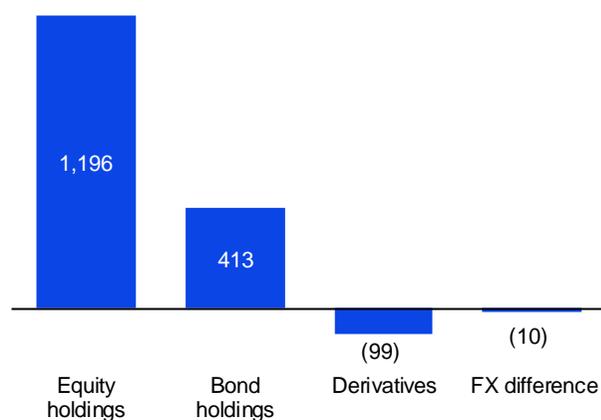
Active management and favorable market conditions result in very strong quarter

- Net financial income in Q1 driven by:
 - Equity holdings measured at fair value
 - Solid performance in equities at market making
 - Performance of fixed income
- Bond holdings which are predominantly used for liquidity management decreased in Q1 partly due to dividend payment and share buy-back of ISK 14.8 billion
- Equity holdings increase slightly in Q1 mainly due to increase in market value
- Total portfolio of Vördur included in the Group figures is ISK 23.5 billion; ISK 16.4 billion of bonds and ISK 7.2 billion in equity instruments, yielding ISK 316 million in the quarter

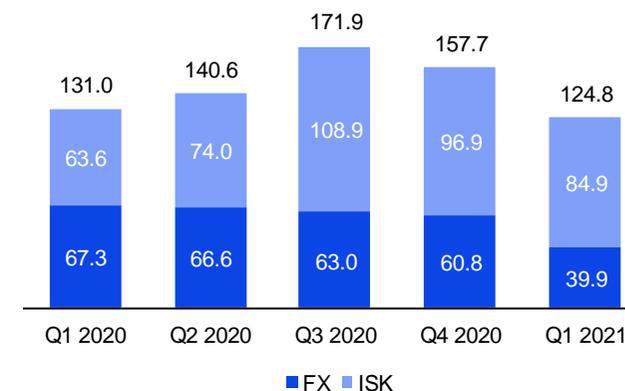
Net financial income (ISK million)



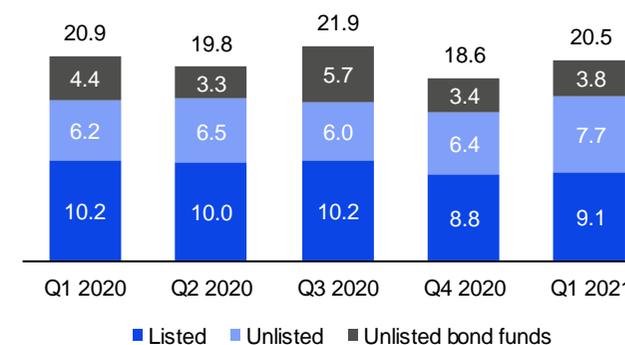
Net financial income by type in Q1 2021 (ISK million)



Bond holdings



Equity holdings

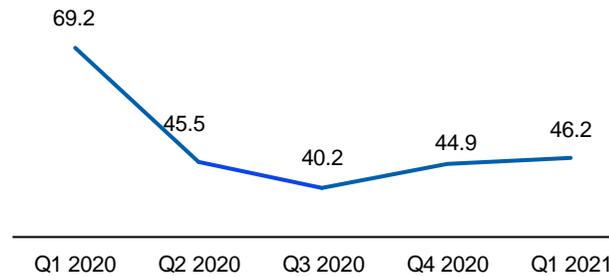


Total operating expenses

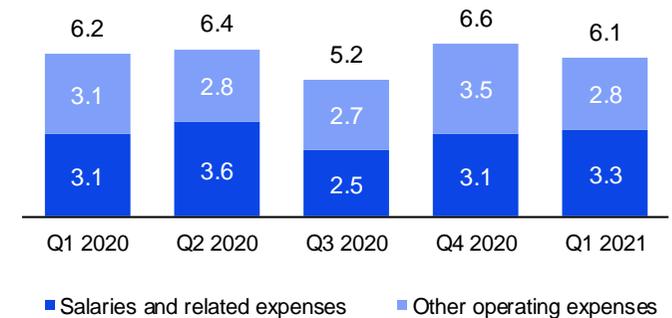
Cost-to-income around 45% during in the last four quarters

- Number of FTEs down 5% YoY (7% at the parent company)
 - Salaries expense increased by 5% through wage inflation, changed staff composition and redundancy expenses
 - Salaries and related expenses were slightly affected by capitalized salaries which amounted to ISK 133 million in Q1 (ISK 151 million in Q1 2020) relating to investment in the Sopra core system
 - Other OPEX is down 10% YoY. The reduction takes place in almost all categories, except for IT, where the Bank has opportunities to rationalize as the Sopra core system is now operational. Some cost items are however unusually low due to the pandemic

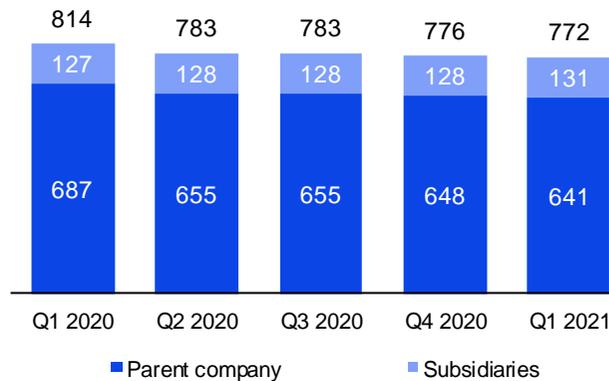
Cost-to-income ratio (%)



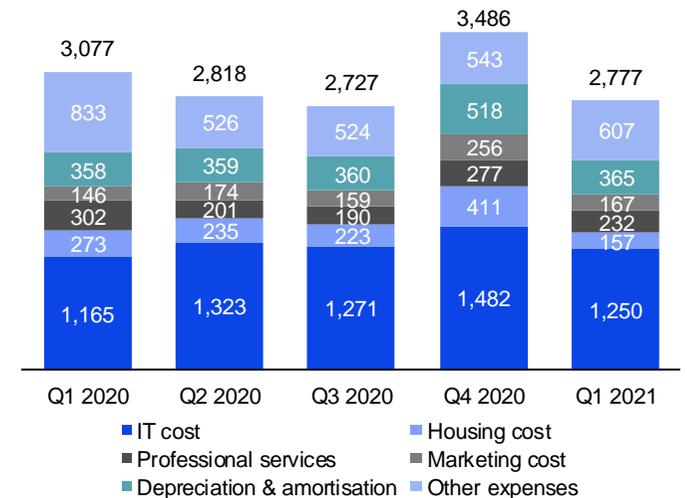
Total operating expenses



Number of employees



Other operating expenses (ISK million)



Balance sheet - assets

Retail mortgages drive loan growth during the quarter

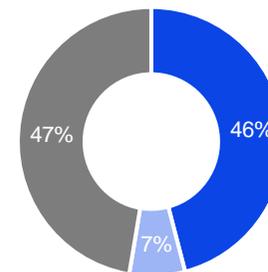
31.03.2021 ISK 1,181 billion 31.12.2020 ISK 1,172 billion 31.03.2020 ISK 1,188 billion

- Loans to customers increased by 1.7% in Q1
 - Mortgage lending was up 3.7%
 - Corporate lending at similar level as YE 2020. A small loan growth is offset by lower ISK value of FX loans due to stronger ISK
- Liquidity position remains very strong despite ISK 14.8 billion capital distribution
 - Total LCR ratio is 192% and ISK LCR ratio is 153%
- The Bank is very well positioned to distribute capital and meet the funding requirements of its customers in both ISK and FX

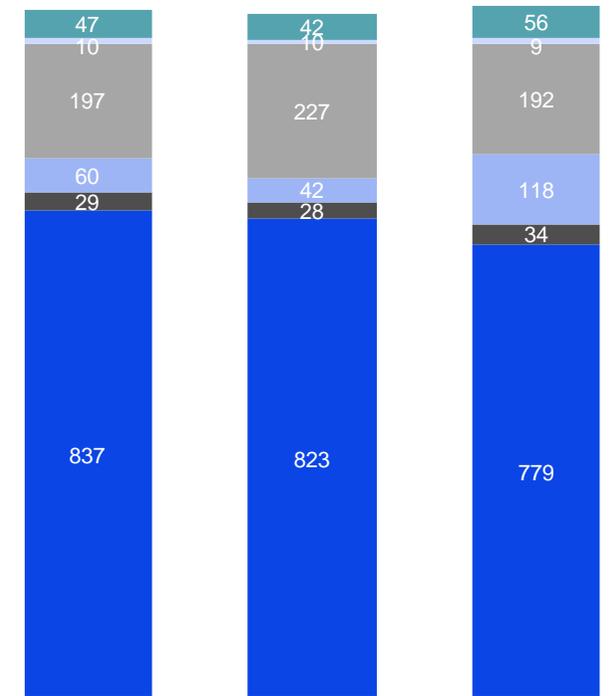
Other and intangibles:
4.8% of total assets

ISK 287 billion, of which **ISK 181 billion liquidity reserve** (31% of customer deposits)

Loans to customers
70.9% of total assets



- Individual, mortgages
- Individual, other
- Corporate and other



■ Other assets ■ Intangible assets ■ Financial instruments ■ Cash and balances with Central Bank ■ Loans to credit institutions ■ Loans to customers

*Other includes investment property, investment in associates, tax assets, assets and disposal groups held for sale and other assets

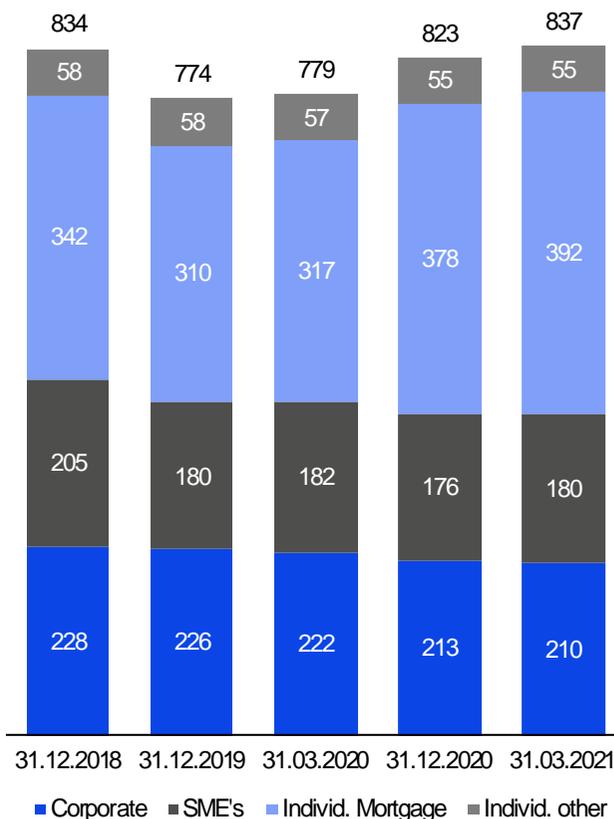


Loans to customers

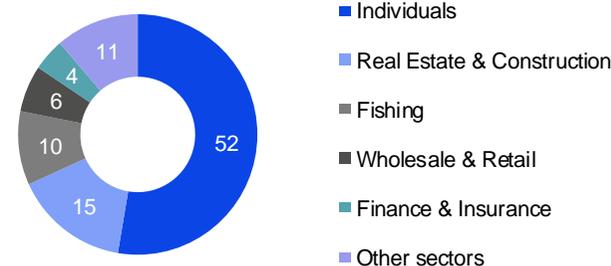
Retail mortgages that are light on capital usage and offer the highest asset quality represent 47% of the loan book

- The loan book increased by a modest 1.7% from YE 2020
- Loans to individuals increased by 3.2% during the quarter due to mortgage lending which increased by 3.7%. Mortgage lending is up 19.2% compared with 31.3.2020
- The corporate loan book grew slightly during the quarter but was offset by stronger ISK
 - Considerable activity on the corporate lending side in origination as well as syndications and sales of loans
- The importance of index linked lending is reduced and the indexation imbalance has shrunk to ISK 38 billion (ISK 55 billion YE 2020)
- The diversification of the corporate loan book is in line with the Bank's credit strategy
- IFRS 9 models do not fully capture Covid-19 impact so management overlay on certain customers is necessary (Covid-19 impacted loans)
- Book value of Covid-19 impacted loans is ISK 94 billion or 11.2% of total loan book (ISK 102 billion / 12% of loan book YE 2020)
 - ISK 81 billion which is secured by real estate (ISK 86 billion YE 2020)
 - Tourism related loans with book value of ISK 73 billion (ISK 73 billion YE 2020)

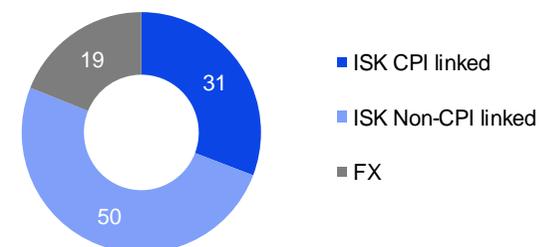
Loans to customers



Loans to customers by sector (%)



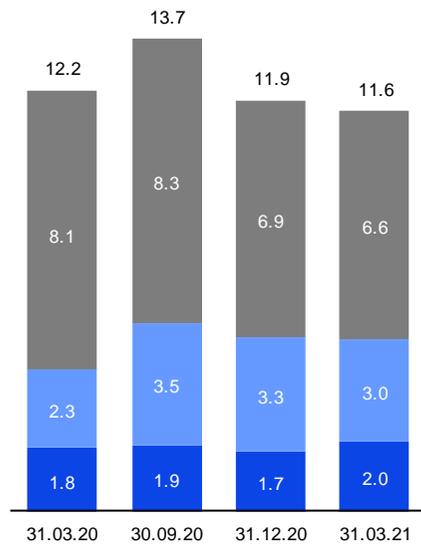
Loans to customers by currency (%)



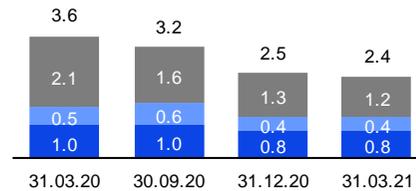
Loss allowance on loans to customers by IFRS 9 stages

Minor changes in loss allowance during the quarter

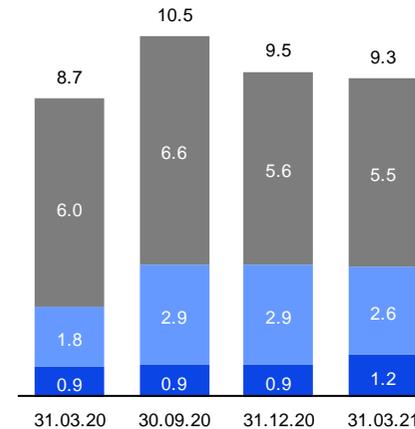
On loans to customers total



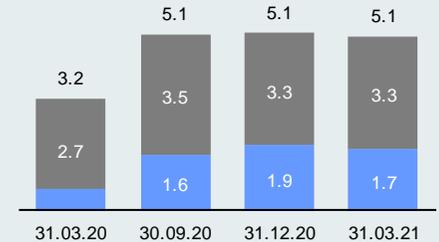
On individuals



On corporates



Thereof on tourism exposure



■ Stage 1 ■ Stage 2 ■ Stage 3

- Reduction in loss allowance during Q4 2020 of ISK 1.8 billion due to final write-off on loans, both to individuals and corporate customers

- Minor changes from year end in tourism exposures but improved outlook for the second half of the year following easing of travelling constraints



Balance sheet – equity and liabilities

Equity decreases with buy-back and dividend in line with strategy

31.03.2021
ISK 1,181 billion

31.12.2020
ISK 1,172 billion

31.03.2020
ISK 1,188 billion

- Strong equity position and a very high leverage ratio
- The Bank is a frequent issuer of covered bonds in the domestic market and a regular issuer of senior unsecured debt in the international market.
- Deposits increased by 9.9% from 31.3.2020
- The funding mix is well balanced between deposits, covered bonds and senior unsecured bonds
- Arion Bank will focus on ESG related funding efforts, both in the deposit and wholesale funding space
- The Bank paid a dividend of ISK 2.9 billion and bought back own shares amounting to ISK 11.9 billion

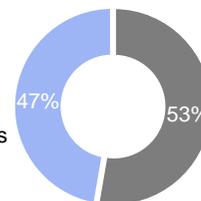
Equity
CET1 ratio 22.4%
CAD ratio 26.9%
Leverage ratio 14.7%

Borrowings (in ISK)
ISK 155 billion
EUR 118 billion
Other currencies 21 billion

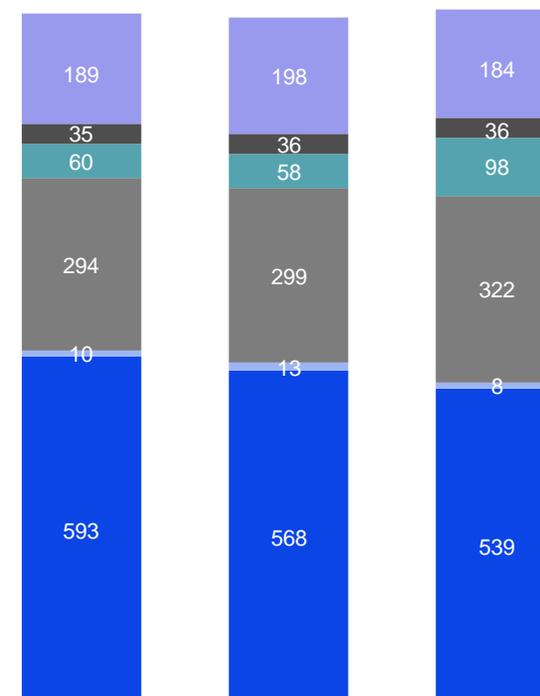
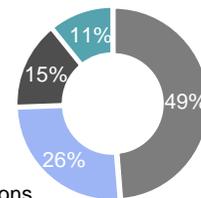
Deposits
On demand 73%
Up to 3M 15%
More than 3M 12%

4.2% increase from
31.12.2020

- Covered bonds
- Senior unsec. bonds



- Individuals
- Corporates
- Pension funds & domestic fin. institutions
- Other



■ Deposits ■ Due to credit institutions and Central Bank ■ Borrowings ■ Other liabilities ■ Subordinated liabilities ■ Equity

¹ Other includes Financial liabilities at fair value, tax liabilities, Liabilities associated with disposal groups held for sale and Other liabilities

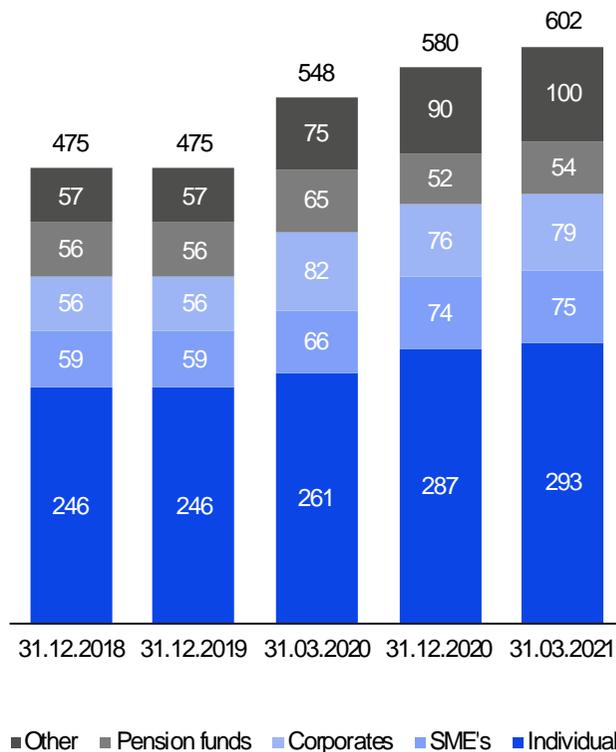


Deposits

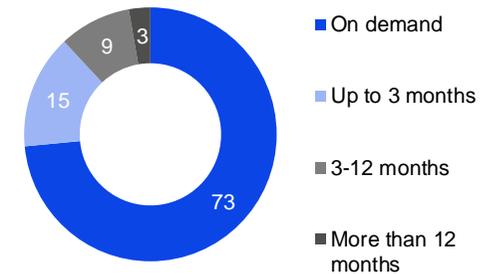
The strategic focus on deposits is showing

- Deposits represent 61% of the Bank's total liabilities
- Strong growth of 9.8% in core deposits from 31.3.2020
 - Core deposits are from individuals, SME's and corporates
- Very strong growth in other deposits that tend to be less sticky
- A new product, green deposits, has been very well received and is up 73% since YE 2020, albeit from a small base
- Special emphasis on corporate deposits which are up 40.9% from 31.3.2020
- The Bank will continue focusing on deposits from individuals and corporates as they provide stable long-term funding

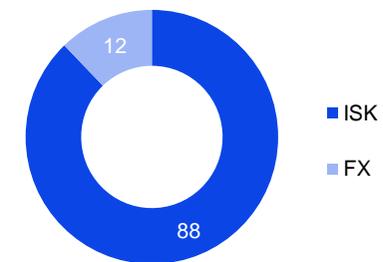
Deposits and due to credit institutions and Central Bank



Maturity of deposits (%)



Deposits by currency (%)

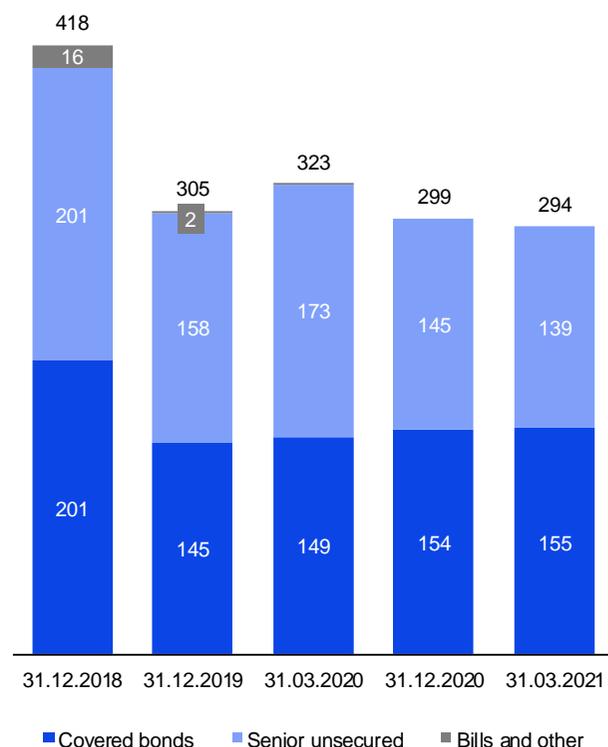


Borrowings

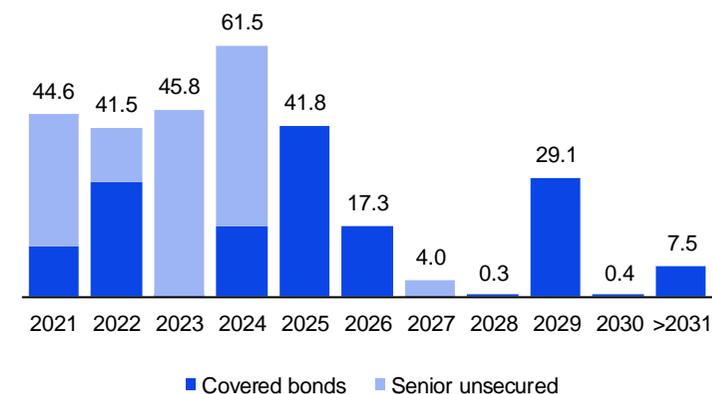
Balanced maturity profile and limited refinancing needs

- Senior unsecured debt maturing in December 2021 mostly refinanced in November 2020
 - Refinancing risk is minimal
- Modest debt repayment in coming years coupled with limited balance sheet growth and strong liquidity provide for an exceptionally strong funding and liquidity profile
- Arion Bank issued ISK covered bonds maturing in 2022 for nominal value of ISK 18 billion in Q1 2021 on top of ISK 20 billion issued in December 2020 maturing in 2024
 - The Bank holds these covered bonds which can be used in financing operations with the Central Bank of Iceland or sold to investors

Borrowings by type



Maturities of borrowings



Ratings - S&P (April 2020)

		
Senior unsecured	BBB	A
Short term debt	A-2	A-1
Outlook	Stable	Stable

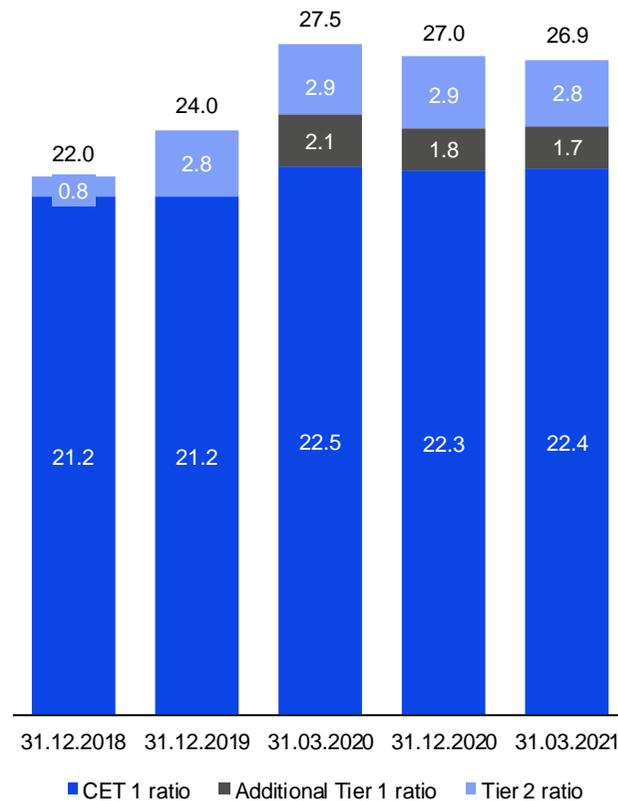


Own funds

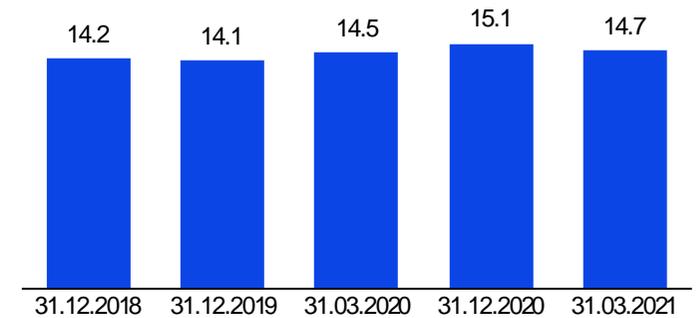
The capital ratios are unrivalled in a European context

- The CET1 increased by 10 bps from YE 2020
 - 50% of net earnings are foreseeable dividend
 - REA's creep up 1.1%
- Arion Bank filled the Tier 2 bucket with issuance in 2018 and 2019
- The AT1 bucket was filled with issuance in February 2020
- Both instruments strengthen the Bank's own funds and are a milestone towards bringing the Bank's CET1 ratio down to the 17% medium-term targets
- Leverage ratio remains very strong in all respects

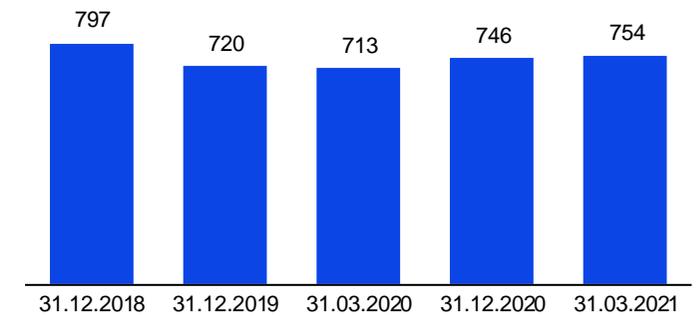
Capital ratio (%)



Leverage ratio (%)



Risk-weighted exposure amount

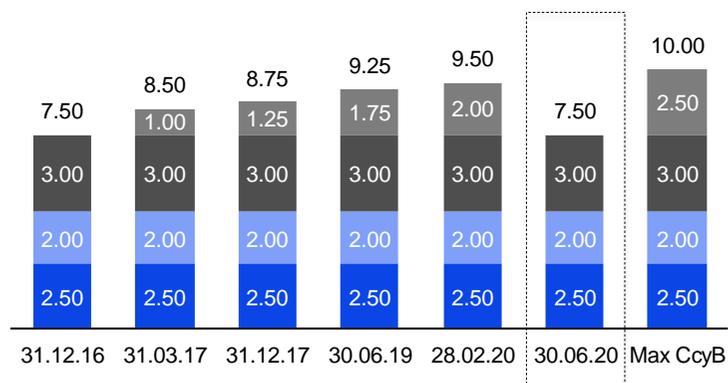


Capital adequacy

Capital ratios remain very strong following significant distributions to shareholders

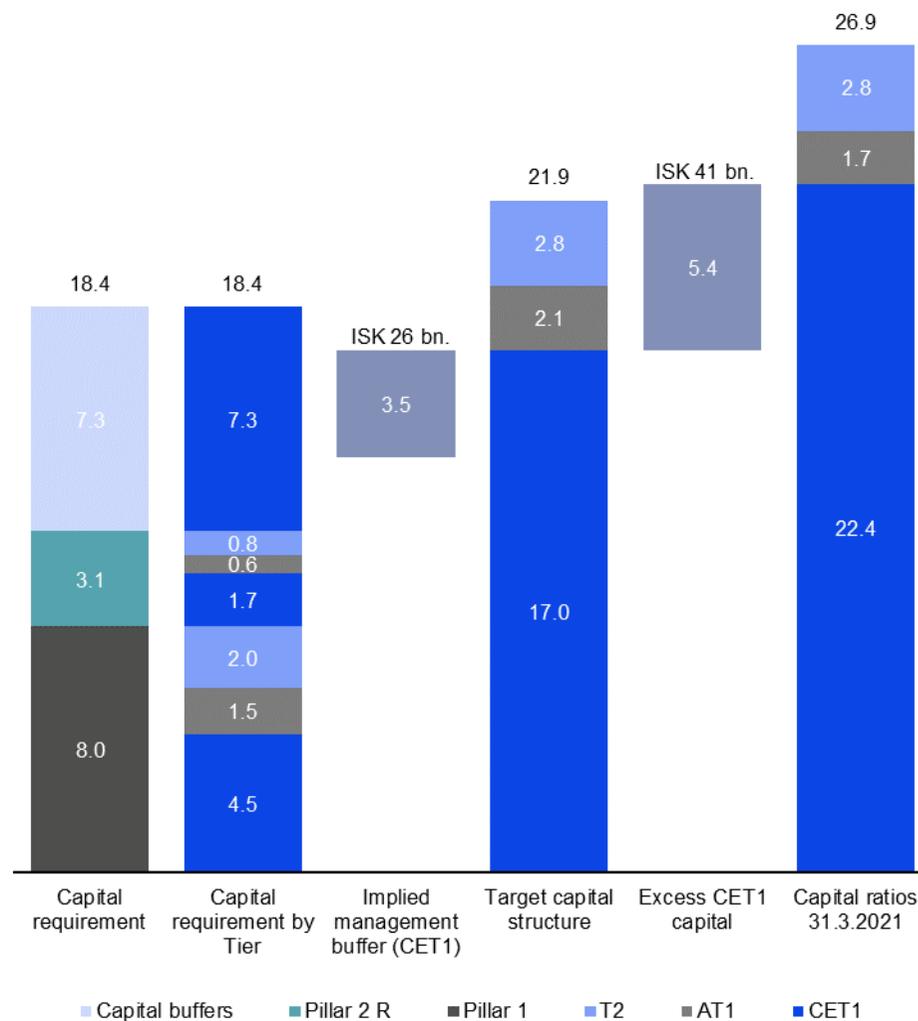
- Purchase of own shares and dividend payment was ISK 14.8 billion
- Total foreseeable dividend and buy-back of own shares of ISK 6.1 billion is included in the capital ratios
- ISK 1.2 billion added back to CET1 capital through IFRS9 transitional arrangements
- Target CET1 ratio remains unchanged at 17%
 - Implied 3.5% CET1 management buffer (ISK 26 billion) which is the difference between the target CET1 ratio and regulatory CET1 requirement
 - CET1 capital of ISK 41 billion in excess of target capital structure, in addition to the foreseeable equity reduction
- The solvency ratio of Vördur insurance was 143% at 31.03.2021

Development of capital buffers (%)



- Capital conservation buffer
- Systemic risk buffer
- Capital buffer for systematically important inst.
- Countercyclical capital buffer

Own funds and capital requirements (%)



Going forward

- Arion Bank, armed with an updated strategic vision, will strive to build on the positive operational progress from the last quarters
- The economy is expected to pick up in Q3 which offers a number of opportunities for the Bank
- Growth of mortgage lending will continue and further steps will be taken in both ESG related lending and funding. The growth of corporate loans will be based on the Bank's focus on return on REA and best execution for corporate clients
- With a reduction in economic uncertainty comes improved visibility on asset quality, however some volatility as regards impairments can not be ruled out over the coming quarters
- The Bank is committed to its capital release strategy. The Bank still has substantial excess capital and has the opportunity to continue share buy-backs subject to approval from the CBI. The BoD reserves the right to call an extraordinary shareholders meeting later in the year to propose additional dividends
- In light of its strong capital position and earnings generation the Bank expects to pay dividend and/or buy-back own shares in excess of ISK 50 billion over the next years





Appendix



Arion Bank's medium term targets



Return on Equity

Exceed **10%**



Revenues / REAs

Exceed **6.7%**



Cost to Income Ratio

Reduce to **45%**



Loan growth

The loan book will **grow in line with economic growth**, with growth in mortgage lending expected to outpace corporate lending



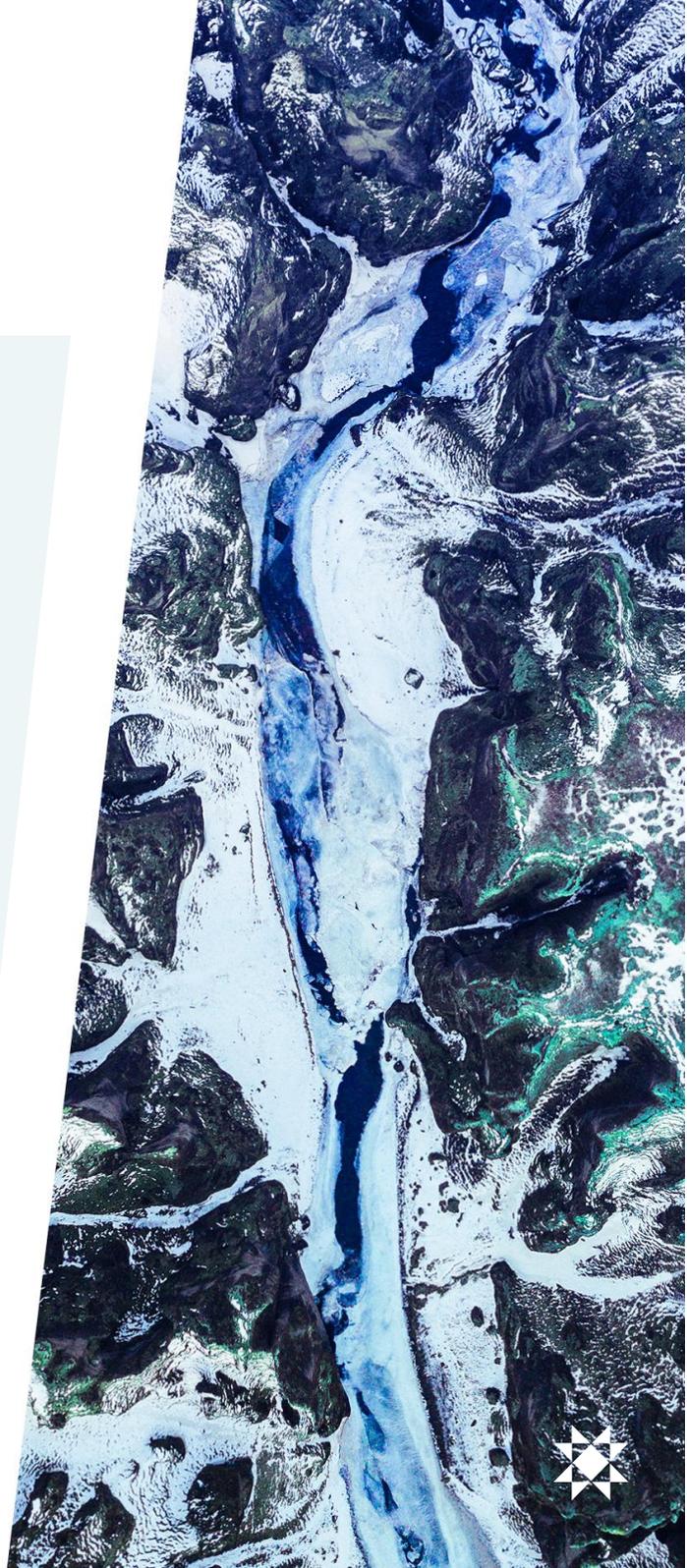
CET 1 Ratio (Subject to regulatory requirements)

Reduce to **17%**



Dividend Policy / Share buy-back

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



Sustainable and responsible banking

Responsible and profitable business practices – taking into account the environment and society

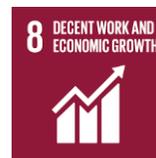


Commitment to sustainability

- Founding signatory to the **Principles for Responsible Banking (PRB)**
- **United Nations Principles for Responsible Investment – UN PRI**
- UN Global Compact
- **Declaration of intent on investment for a sustainable recovery post Covid-19**
- City of Reykjavík and Festa's **Declaration on Climate Change**
- **Declaration of intent on the Equality Balance – FKA Equality Balance**
- UN Women and UN Global Compact **Women's Empowerment Principles**
- IcelandSIF - **Iceland Sustainable Investment Forum**
- **Green by Iceland** - founding members of a joint business and government forum on climate issues and green solutions
- Kolviður – **Iceland Carbon Fund**. Offsetting the carbon emissions produced by the Bank's activities

Reporting and measurements

- Global Reporting Initiative standard. **GRI Core**
- **ESG reporting guide** for the Nasdaq Nordic and Baltic exchanges
- Data on the Bank's environmental impact is prepared in partnership with the Icelandic innovation company Klappir Green Solutions
- First steps taken in 2020 in implementing and reporting according to **TCFD**
- **Report on the progress made** in implementing the **UN Principles for Responsible Banking** in 2020 Annual and Sustainability Report
- UN Global Compact progress report
- Reporting on climate change to **CDP**
- **UN PRI** report
- Arion Bank's focus is on **six sustainable development goals**
- **Deloitte** provided an **opinion with limited assurance on non-financial reporting** in the Bank's 2020 Annual and Sustainability Report

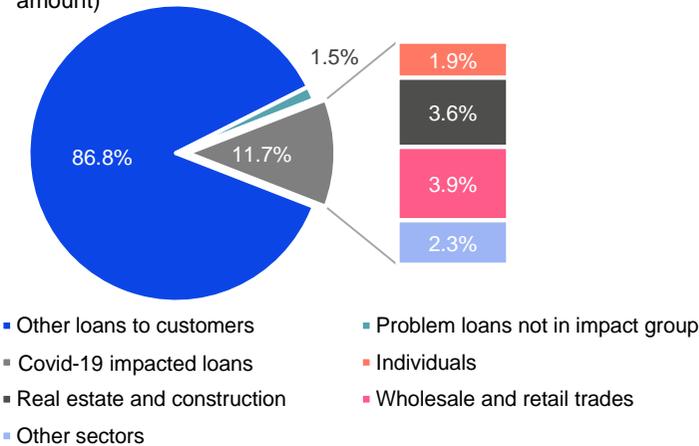


Covid-19 affects ISK 99 billion or 11.7% of the loan book

IFRS 9 impairments are forward looking but management overlay is necessary

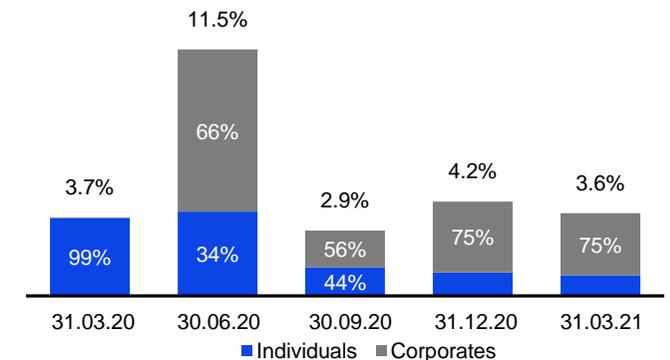
- IFRS 9 models do not fully capture Covid-19 impact so management overlay on certain customers is necessary (Covid-19 impacted loans):
 - Tourism
 - Customers with payment moratoria in Q1 2021
 - Recipients of loans through government sponsored loan schemes
- Book value of Covid-19 impacted loans is ISK 94 billion or 11.2% of total loan book
 - ISK 81 billion which is secured by real estate
 - Tourism related loans with book value of ISK 73 billion
- Problem loans for Q1 2021 represent 2.8% of the loan book, 1.3% are Covid-19 impacted loans
- Payment moratoria are 75% corporates and 68% tourism related

Breakdown of loans to customers (% of gross carrying amount)

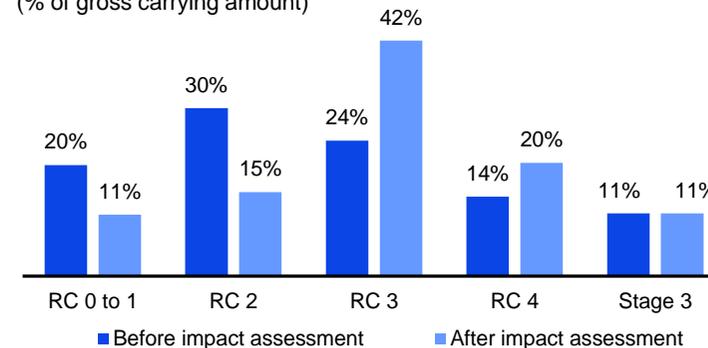


Loans with Covid-19 related payment moratoria (% of gross carrying amount of the loan book)

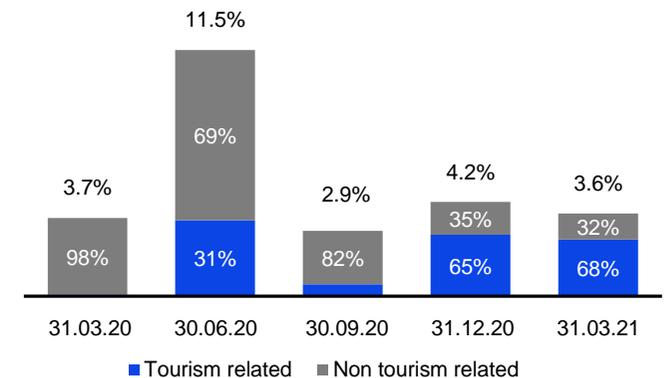
Individuals and corporates:



Risk classes (credit ratings) in Covid-19 impacted loans were downgraded based on impact assessment (% of gross carrying amount)

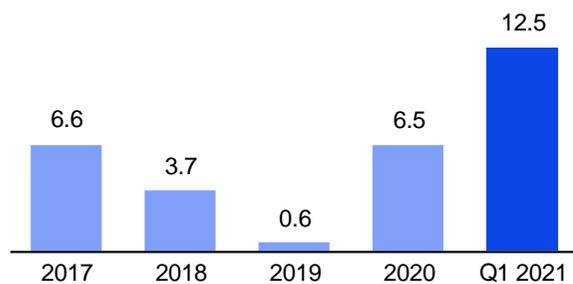


Tourism and non-tourism related:

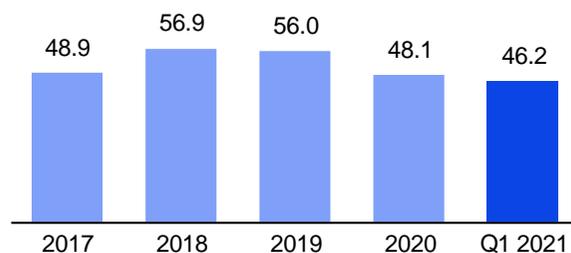


Key financial indicators - annual

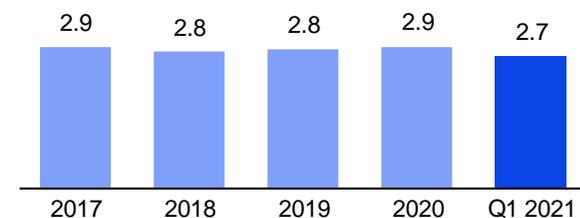
Return on equity (%)



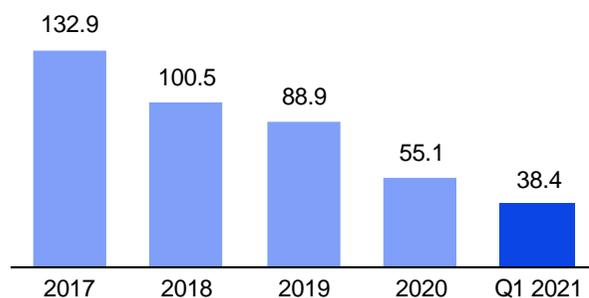
Cost-to-income ratio (%)



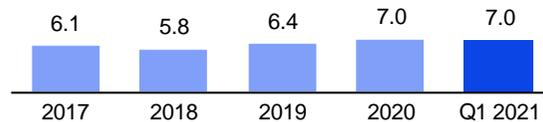
Net interest margin (%)



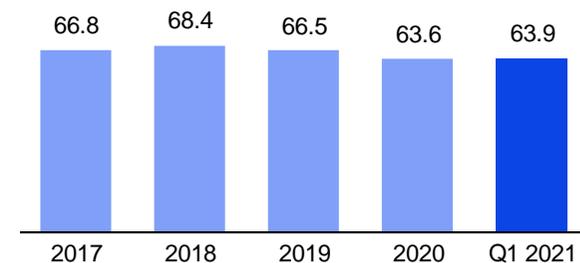
CPI imbalance (ISK billion)



Operating income / REA (%)

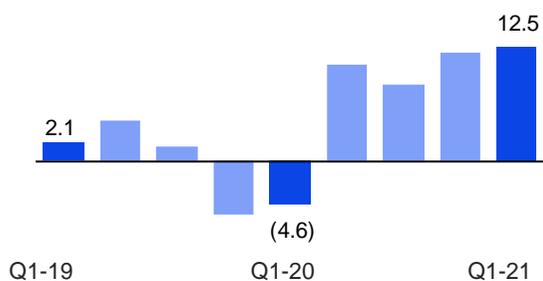


Risk weighted assets / Total assets (%)

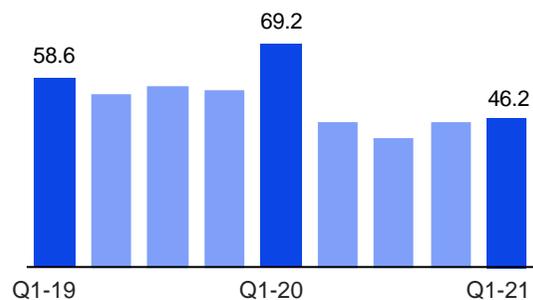


Key financial indicators - quarterly

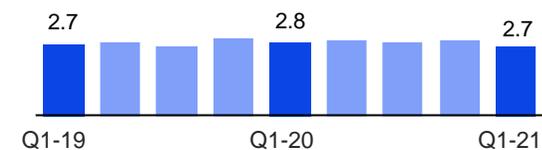
Return on equity (%)



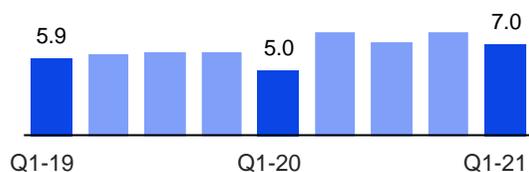
Cost-to-income ratio (%)



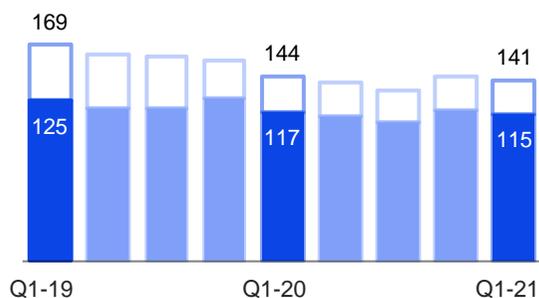
Net interest margin (%)



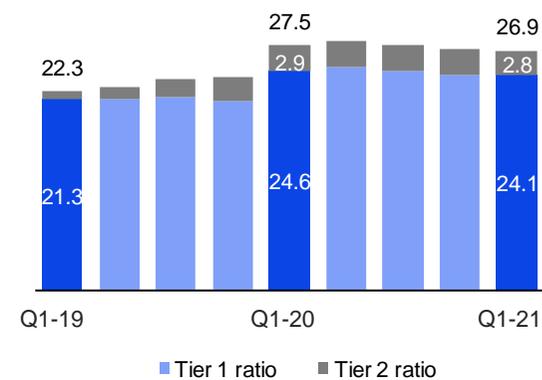
Operating income / REA (%)



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



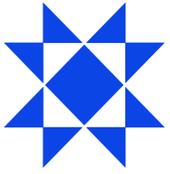
Capital ratio (%)



Key figures

Operations	Q1 2021	Q1 2020	Q1 2019	Q1 2018	Q1 2017	Q1 2021	Q4 2020	Q3 2020	Q2 2020	Q1 2020
Net interest income	7,342	7,253	7,434	6,827	6,904	7,342	8,059	7,989	7,857	7,253
Net commission income	3,277	3,076	2,218	2,205	2,198	3,277	3,116	2,762	2,688	3,076
Operating income	13,097	8,976	11,708	10,810	11,404	13,097	14,713	13,012	14,063	8,976
Operating expenses	6,048	6,207	6,862	6,759	6,478	6,048	6,607	5,232	6,395	6,207
Net earnings (loss)	6,039	(2,171)	1,020	1,948	3,353	6,039	5,761	3,966	4,913	(2,171)
Return on equity	12.5%	(4.6%)	2.1%	3.6%	6.3%	12.5%	11.8%	8.3%	10.5%	(4.6%)
Net interest margin	2.7%	2.8%	2.7%	2.7%	2.8%	2.7%	2.9%	2.9%	2.9%	2.8%
Return on assets	2.1%	(0.8%)	0.3%	0.7%	1.2%	2.1%	1.9%	1.3%	1.7%	(0.8%)
Cost-to-income ratio	46.2%	69.2%	58.6%	62.5%	56.8%	46.2%	44.9%	40.2%	45.5%	69.2%
Cost-to-total assets	2.1%	2.2%	2.3%	2.4%	2.4%	2.1%	2.2%	1.7%	2.2%	2.2%
Balance Sheet										
Total assets	1,181,093	1,187,820	1,222,695	1,131,768	1,119,648	1,181,093	1,172,706	1,236,217	1,182,250	1,187,820
Loans to customers	837,162	778,823	829,246	782,255	720,198	837,162	822,941	807,866	779,902	778,823
Mortgages	423,732	340,235	366,381	340,202	190,008	423,732	409,641	387,271	356,312	340,235
Share of stage 3 loans, gross	2.9%	2.9%	2.5%	-	-	2.9%	2.6%	3.2%	3.4%	2.9%
REA/ Total assets	63.9%	60.0%	64.4%	68.8%	66.4%	63.9%	63.6%	58.9%	60.6%	60.0%
CET 1 ratio	22.4%	22.5%	21.3%	23.6%	27.3%	22.4%	22.3%	22.5%	22.9%	22.5%
Leverage ratio	14.7%	14.5%	13.5%	0.0%	0.0%	14.7%	15.1%	14.3%	14.9%	14.5%
Liquidity coverage ratio	191.6%	224.2%	213.0%	209.9%	163.5%	191.6%	188.5%	212.6%	206.3%	224.2%
Loans to deposits ratio	141.3%	144.4%	169.1%	172.7%	151.4%	141.3%	144.8%	134.0%	140.3%	144.4%





Macroeconomic environment

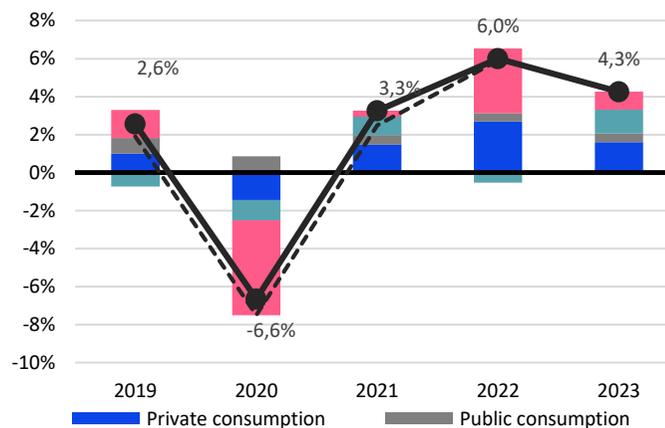


Economic impact 2020 softer than expected

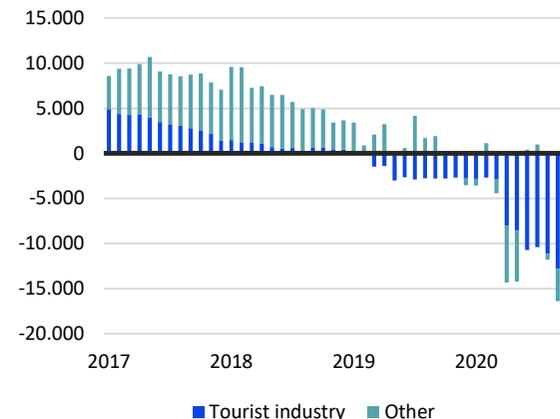
Economic support schemes are paying off as robust demand of households and government investment is starting to take off

- The Coronavirus Crisis has heavily impacted the Icelandic economy due to its dependency on foreign trade, especially tourism
- According to the vaccination calendar vaccinations of all inhabitants of Iceland older than 16 years will be finished at the end of June.
- Currently most individuals older than 70 years old have had at least one jab and vaccinations continue at an accelerating pace.
- The government has also issued rules for tourists who want to visit Iceland depending on their origin airport. This is positive for the tourism sector which is already feeling increased demand
- Both households and corporates have modest debt levels and are well positioned to participate as the economy recovers
- The forecast is for GDP growth to amount to 3.3% in 2021 and the early signs, both domestically and in many neighboring countries, are promising

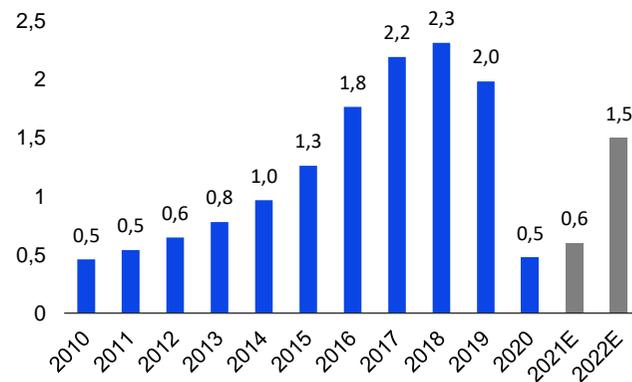
GDP growth



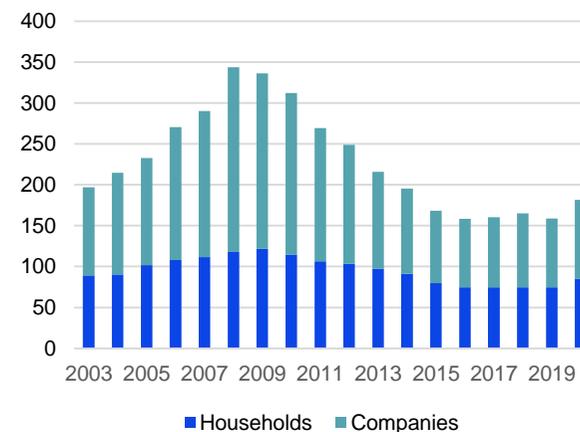
Change in number of people working in each sector according to tax register – YoY change



Tourist arrivals via KEF airport (millions, Arion Bank's March 2020 estimates)



Household and non-financial corporate debt (% of GDP)

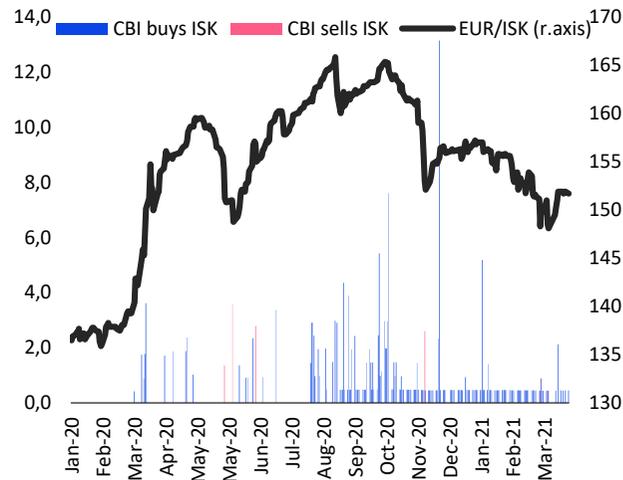


Divided domestic market

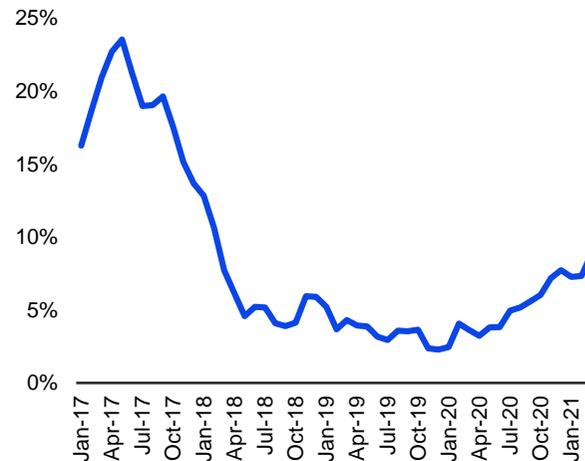
While unemployment continues to climb wages are on the rise

- With the largest export sectors struggling, it's no surprise that the ISK has depreciated. The CBI has intervened in the FX market on the most volatile days, supporting the ISK and keeping the exchange rate relatively stable. In order to deepen the market, the CBI has begun a regular program of foreign currency sales
- This has led to the stabilization of the ISK and at the beginning of April the CBI reduced its support for the ISK.
- Inflation has risen in the past months due to the pass-through from the ISK depreciation and climbing housing prices. Although the rapidness of the rise has come as a surprise, most analysts believe that inflation has peaked
- Rising housing prices have stoked inflationary pressures in the past months following hefty rate cuts. At the same time housing investment is decreasing, causing many to worry that a housing bubble is in the works
- At the same time as unemployment reaches new heights, real wages are increasing, as reflected in stronger than expected private consumption, and housing prices on the rise, creating a divide in the labor market. This is uncharted territory in Iceland

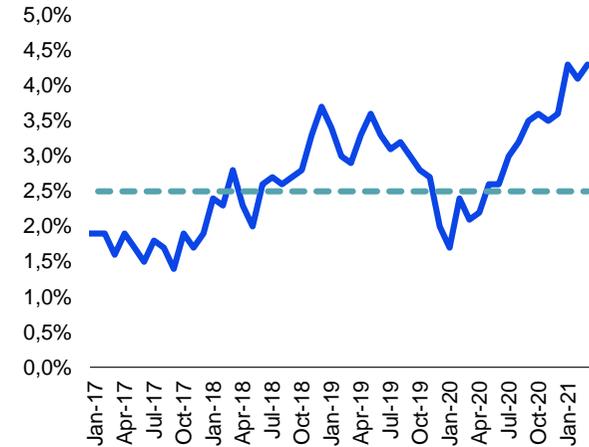
EUR/ISK and CBI's intervention in the FX market (bn. ISK)



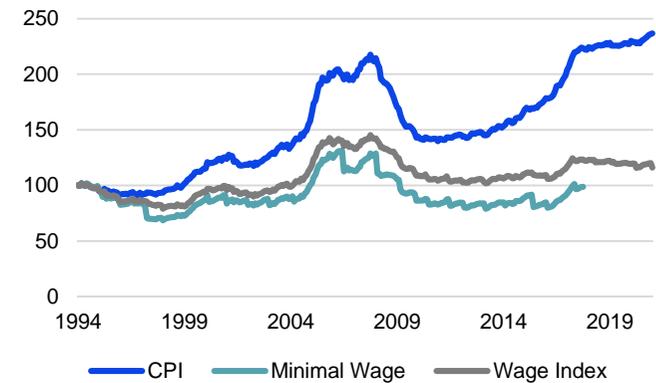
Housing prices in the Capital Area (YoY %-change)



Inflation and inflation target



Housing prices in the Greater Reykjavik area in real terms

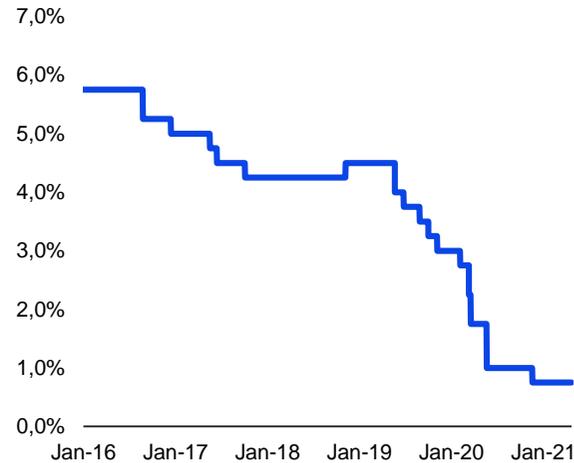


Fiscal and monetary responses soften the economic blow

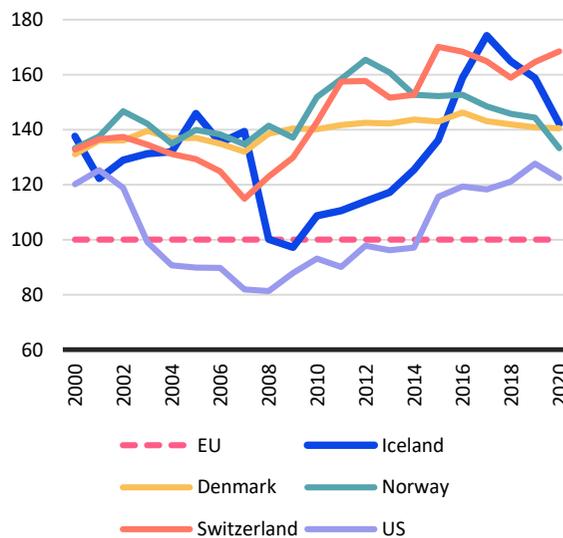
Collective wage agreements indicate substantial real wage increases and competitiveness could come under pressure

- Unlike many neighboring countries the Icelandic authorities had plenty of firepower at their disposal to support the economy. The CBI has cut interest rates by 2.25 percentage points, eased the countercyclical capital buffer and launched a QE program. In addition, the CBI has ample FX reserves at its disposal, undoubtedly boosting investor confidence
- Unemployment is expected to fall in the next years. Based on calculations of collective wage agreements and Arion Research's inflation forecast we foresee substantial real wage increases. A fall in relative price levels recently should ease these strains. But should an increase in turnover of the tourism industry lead to an appreciation of the ISK, it could slow down the recovery of the labor market

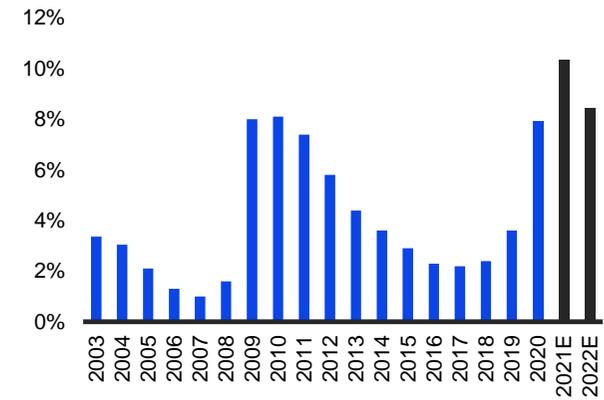
Key interest rates (seven-day term deposit rate)



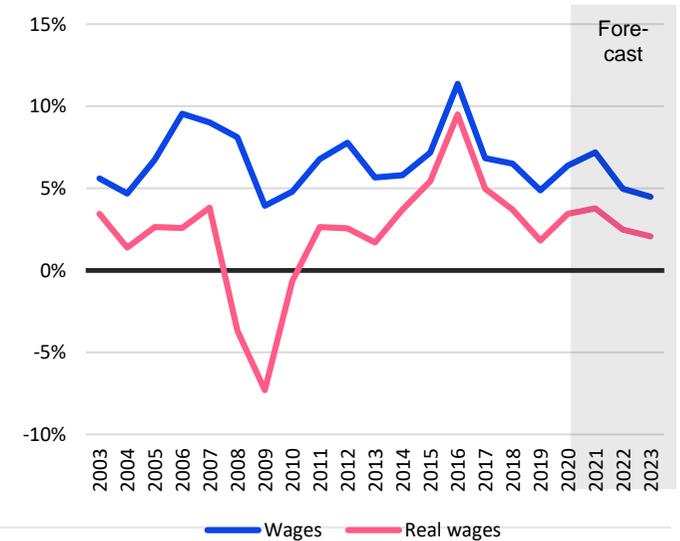
Relative price levels – index, ESB = 100



Registered unemployment, excluding the reduced employment ratio scheme (Arion Bank's estimates)



Wages and real wages – YoY %-change



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