



# Q3 results 2021

Investor presentation

27 October 2021

# Key takeaways in Q3 2021

Another robust quarter and key milestones achieved for further strategic progression of the group

Strategic focus and diversification in business profile again supports robust Q3 results

- Robust quarter with ROE of 17.0%, and all KFI's trending positively
- Strong growth in core income of 7.5% from Q3 2020
- ISK 3.8 billion in fee income is the highest in one quarter in recent years following consistent increase over past quarters. Varied sources of fee income again demonstrate the value of the diverse businesses within the group
- Steady recovery of the economy supports healthy 6.3% loan growth in the quarter and improved risk assessment of the loan portfolio



Inaugural EUR covered bond issue a key milestone in diversifying funding profile

- The first international covered bond from an Icelandic bank
- The best funding spread that any Icelandic entity, including the Treasury of Iceland, has achieved since the Bank was established 13 years ago
- Diversifies funding options and broadens investor base. Has the potential to become a core funding market for the Bank



Customer focused organizational structure and progress in bancassurance integration

- New Customer Experience business unit introduced in the quarter with the mandate to coordinate holistic sales and service offering across the group with a focus on digital distribution and AI
- Integration of Vörður insurance company progressing well with ca. 100 employees moving into the Arion head office around year-end. Significant bancassurance opportunities identified and form a key part of the strategy for the coming years



Strong balance sheet and dividend capacity

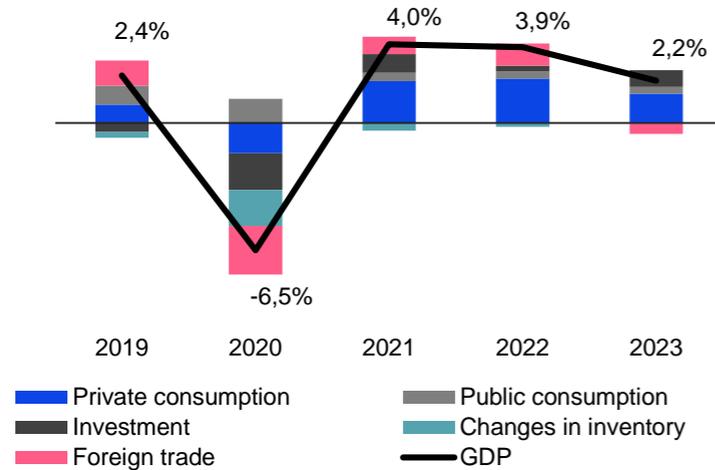
- Capital ratios among highest in Europe and Leverage ratio significantly stronger than European peers
- ISK 25.5 billion in share buy-backs and dividend payments in 9M 2021
- ISK 30 billion of surplus capital in addition to ISK 21 billion in foreseeable dividends and buy-backs
- The Bank is launching ISK 5bn buy-back program today, which is 50% of the recently authorized buy-back amount



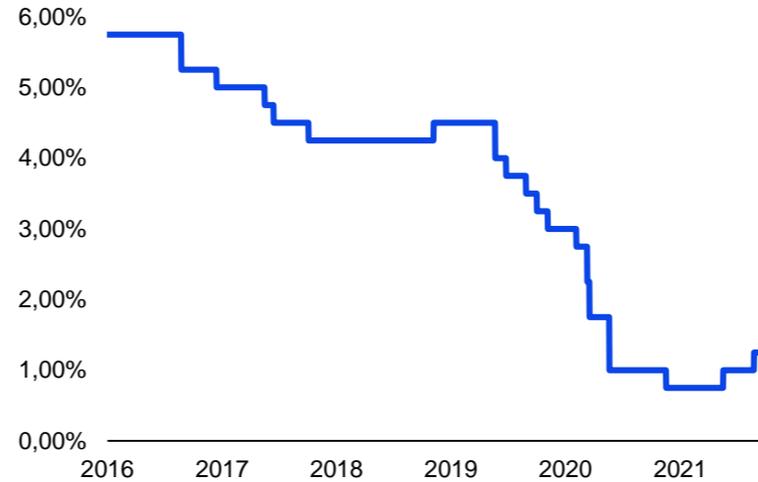
# Sharp reduction in unemployment a testament to the economic recovery

The Central Bank of Iceland hiked interest rates by 75bp since May 2021 to mitigate inflation

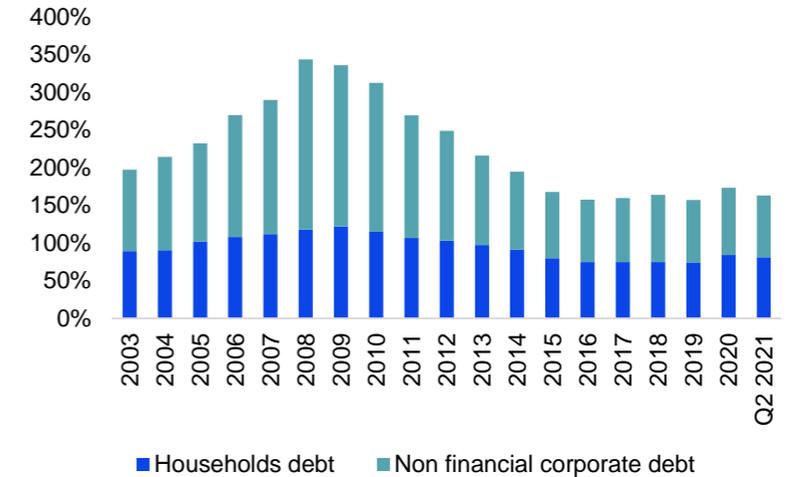
## GDP growth estimates



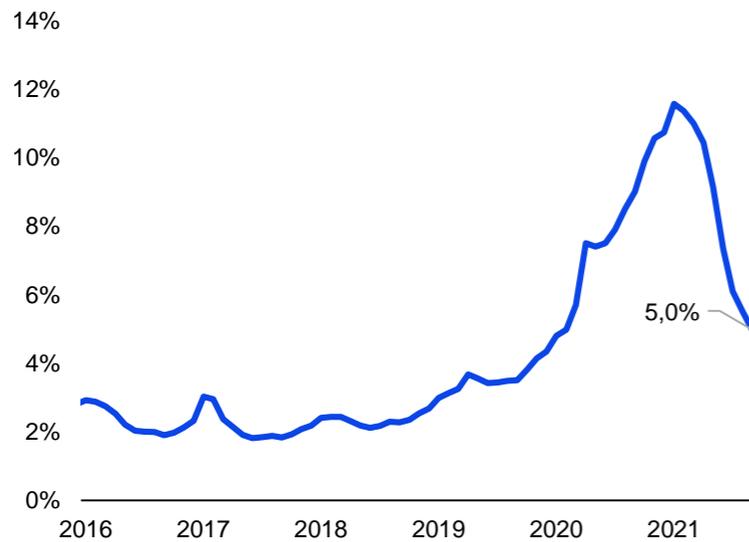
## Key interest rates (seven-day term deposit rate)



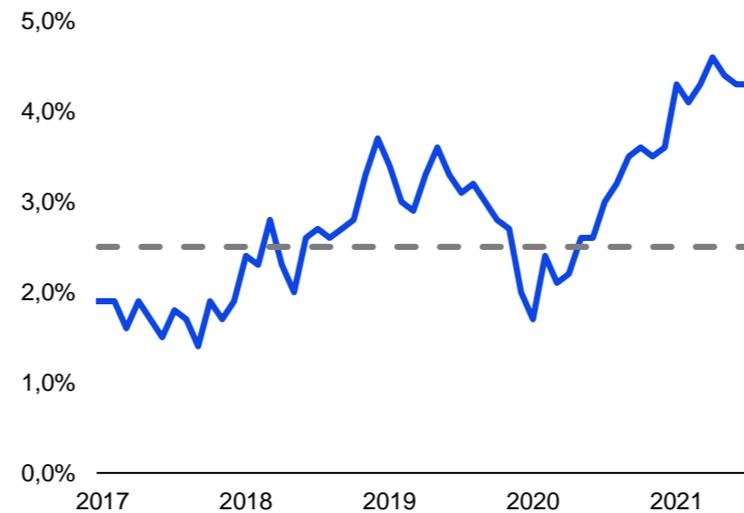
## Non-financial corporate and household debt relative to GDP



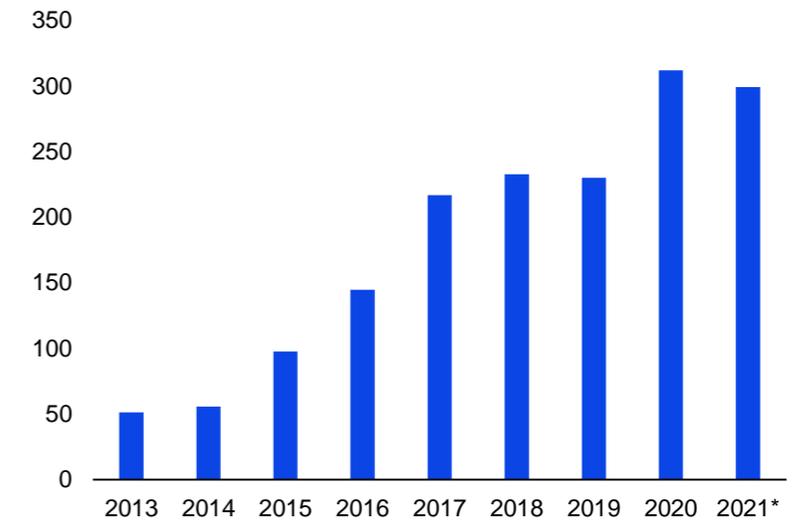
## Unemployment ratio



## Inflation and inflation target

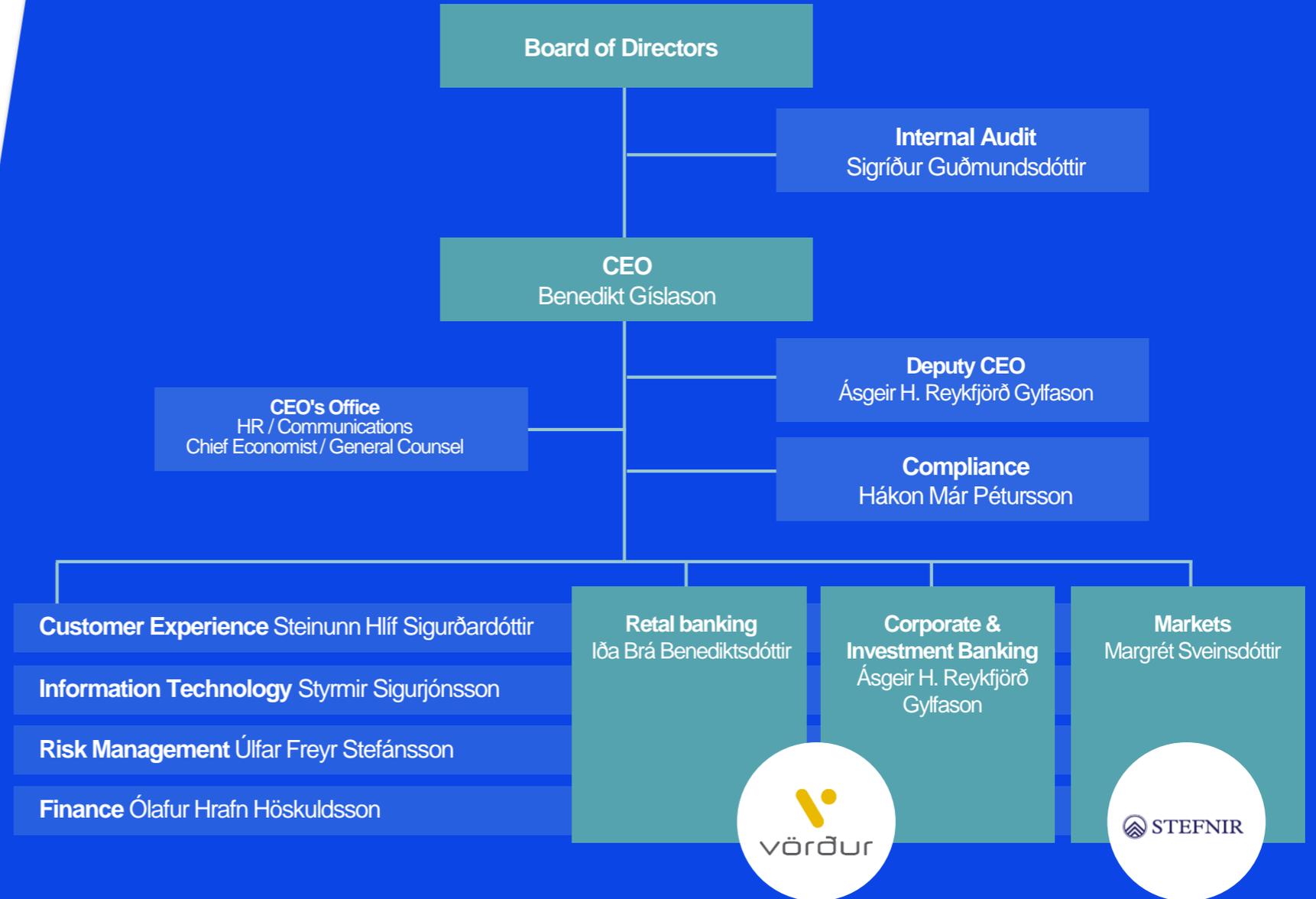


## New mortgages in Iceland – in ISK billion



# A customer centric organization

- Incorporates Vörður into both Retail and CIB
- Emphasizes the customer experience in all areas of the Bank
- Centralizes shared services to increase cost efficiency and effectiveness



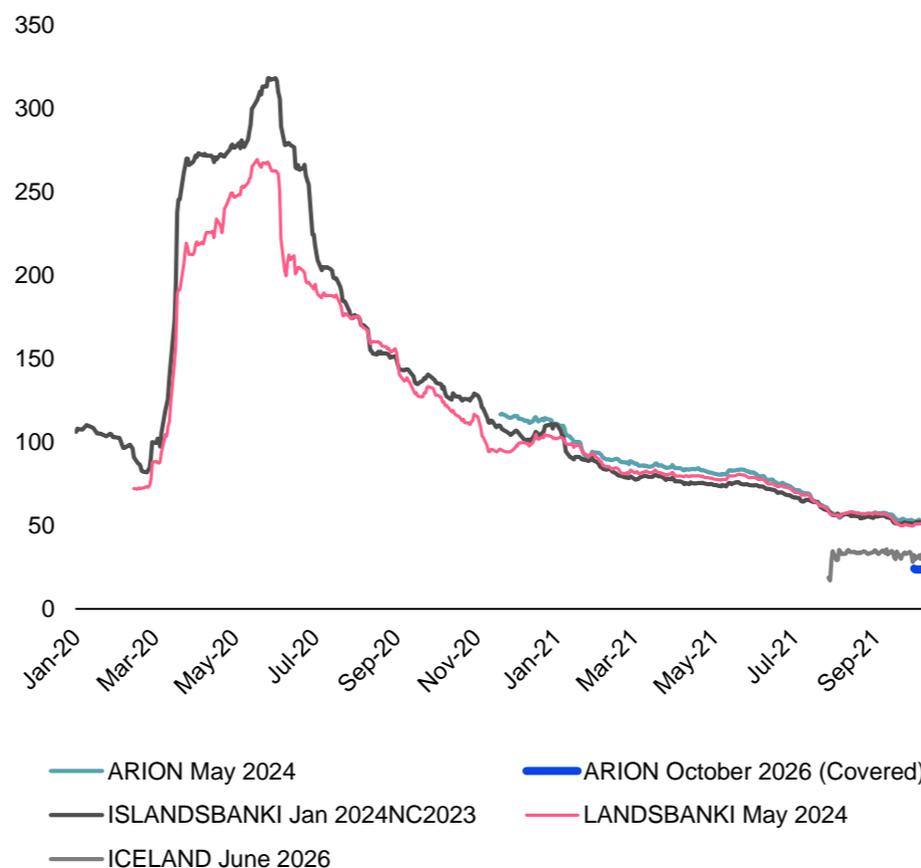
# Successful entry into the Euro Covered Bond market

Arion achieved the best funding spread that any Icelandic entity including the Treasury of Iceland has achieved since the Bank was established 13 years ago

- Arion successfully finalized a €300 million 5 year covered bond at MS+27 bps at the end of September
- This was the first international covered bond from an Icelandic bank
- The covered bond was sold at a 0.27% spread over interbank rates, which is the best funding spread that any Icelandic entity, including the Treasury of Iceland, has achieved in the international markets since the Bank was established 13 years ago
- The bond issue was well oversubscribed, with orders received from over 30 investors from 12 different countries and total demand of over €700 million
- The orderbook was made up of a high-quality institutional sponsorship from asset managers, official institutions as well as bank treasuries

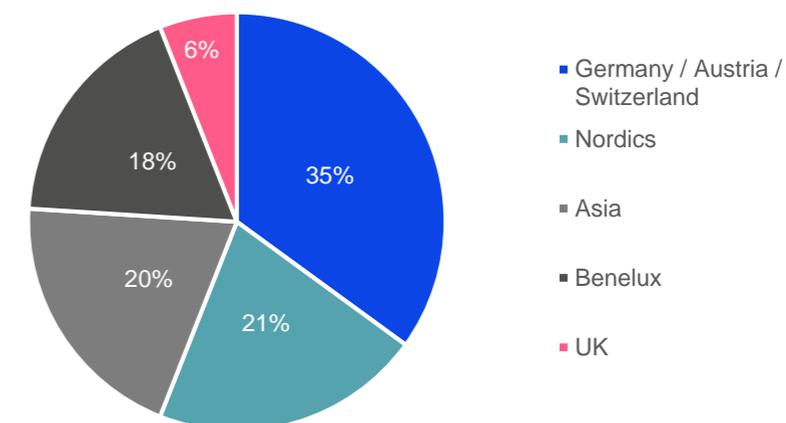
## Funding cost advantage over peers

Credit spreads (bps) over inter bank rates

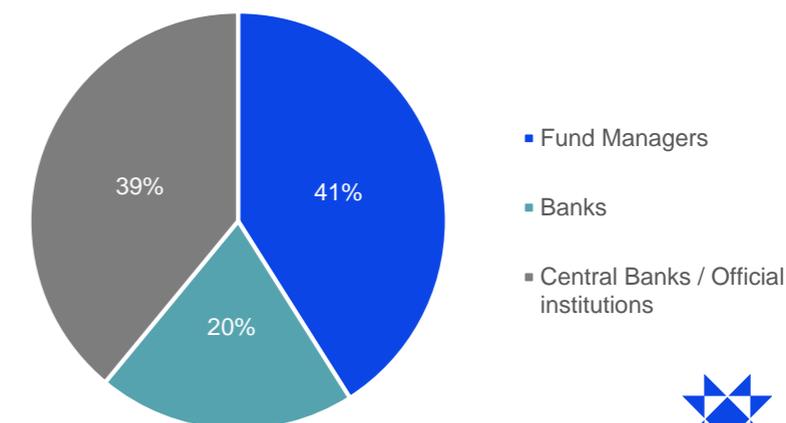


## Allocation statistics

By Geography



By Investor Type



# An updated equality and human rights policy with clear objectives

The Bank strives to create an environment where people of comparable education, work experience and responsibility have equal opportunities and terms, irrespective of gender, gender identity, sexual orientation, origin, nationality, skin colour, age, disability or religion or other factor.

## The Bank has defined and introduced clear actions and benchmarks



### 1. Equal pay

- The goal is to meet the requirements of equal pay standard which is a wage differential standard of less than 1%.
- The latest results of external audits show wage differentials currently being 0.1%



### 2. Vacant positions and education

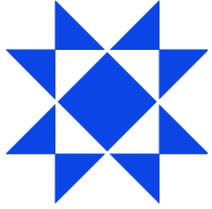
- The goal is to attain equal ratios when it comes to committees, units and job families within three years.
- Vacant positions shall be advertised to allow equal opportunities irrespective of gender, etc. Wording and appearance of job adverts shall support the Bank's focus when it comes to equal opportunities.



### 3. Work life balance

- The goal is that employees shall be able to coordinate job commitments and family commitments. The Bank aims to meet people's demands for flexible working hours where possible.
- The Bank encourages all employees to make use of their parental leave and to take at least three months of uninterrupted leave. The Bank, furthermore, and considering the legal framework applicable, [tops up Parental Leave Fund payments made to employees to ensure them 80% of salary for a duration of six months.](#)





# Arion Bank Capital Markets Day November 17

**Wednesday,  
17 November 2021  
9:00-11:30 a.m.**

**On site and virtual**

Arion Bank  
Borgartún 19  
105 Reykjavík

Arion Bank will hold its Capital Markets Day at the Bank's headquarters at Borgartún 19 on Wednesday 17 November, starting at 9:00 a.m. GMT.

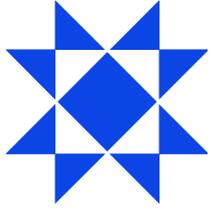
CEO Benedikt Gíslason and the management team will provide participants with an updated perspective of the Bank's strategy and operating environment.

In the afternoon we will also be offering 1-on-1 meetings.

Light refreshments will be provided.

We hope to see as many of you as possible here in Borgartún. The meeting will also be streamed live and a recording will also be available later.

A detailed agenda will be published shortly.



# Financials



## Operational highlights of Q3 2021

- Another robust quarter for Arion Bank where all operational targets have been met
- Arion Bank's strategy results in core operations trending positively
- Other items are favorable with strong financial income and reversal of impairments
- CET1 capital of ISK 30.0 billion in excess of target capital structure, in addition to the foreseeable equity release of ISK 21.3 billion

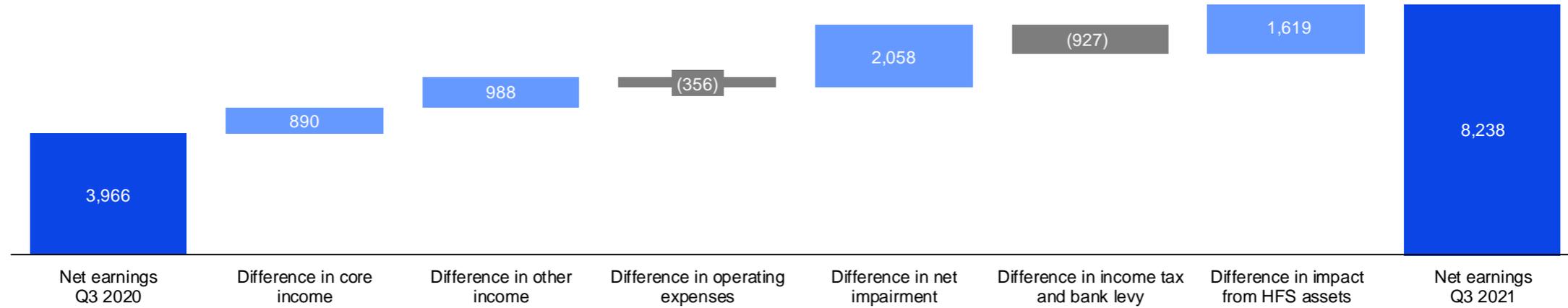
	<b>Q3 2021</b>	<b>9M 2021</b>	<b>Target</b>
<b>Return on equity</b>	17.0%	15.2%	Exceed 10%
<b>ROE assuming 17% CET1</b>	21.8%	19.5%	Exceed 10%
<b>Operating income / REA</b>	7.8%	7.6%	Exceed 6.7%
<b>Cost-to-income ratio</b>	37.5%	41.9%	Below 45%
<b>CET1 ratio</b>	20.4%	20.4%	17.0%



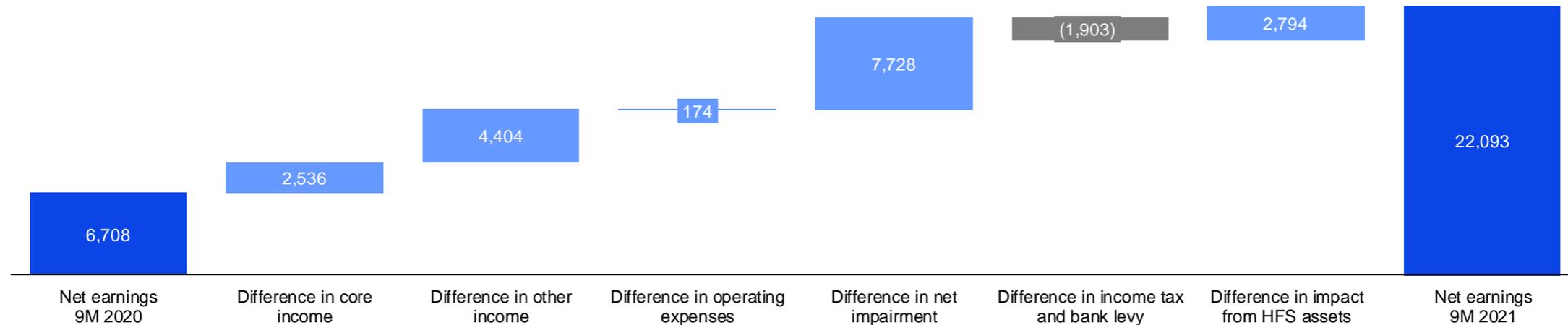
# Net earnings improve significantly YoY

Core operations improve markedly while other segments also make a substantial contribution

## Q3 2020 vs Q3 2021



## 9M 2020 vs 9M 2021



# Income statement Q3 2021

Outstanding quarter with all items trending positively

- Core income (NII, NCI and net insurance income) increases 7.5% YoY
  - Continuing strong net commission income growth across the Bank, especially Asset Management during this quarter
  - Slight decrease in net interest income YoY. The loan book increases by 11.0% from Q3 2020. Low interest rate environment is weighing on NII
  - Insurance premiums increased by 9.4% from Q3 2020 years but claim expenses increased by 17% during the same period
- Operating expense increased YoY partly explained by irregular items
  - Additional salary expense is mainly due less capitalized salaries (ISK 145 million) and increased layoff expense (ISK 172 million). Number of FTE's decreased by 3% from the same period in 2020
  - Other operating expenses decreased slightly from Q3 2020, mainly IT and housing
- Impairments are positive during the quarter, mainly due to more optimistic economic assumptions in the IFRS models
- The impact of HFS assets is partly positive during the quarter partly due to a fair value change of assets at the subsidiary Sólbjarg and a positive effect from operation at Valitor

	Q3 2021	Q3 2020	Diff%	Q2 2021	Diff%
Net interest income	7,937	7,989	(1%)	8,016	(1%)
Net commission income	3,755	2,762	36%	3,562	5%
Net insurance income	992	1,043	(5%)	914	9%
Net financial income	1,366	692	97%	2,203	(38%)
Share of profit of associates	7	51	-	25	-
Other operating income	833	475	-	284	193%
<b>Operating income</b>	<b>14,890</b>	<b>13,012</b>	<b>14%</b>	<b>15,004</b>	<b>(1%)</b>
Salaries and related expenses	(2,899)	(2,504)	16%	(3,575)	(19%)
Other operating expenses	(2,689)	(2,728)	(1%)	(2,797)	(4%)
<b>Operating expenses</b>	<b>(5,588)</b>	<b>(5,232)</b>	<b>7%</b>	<b>(6,372)</b>	<b>(12%)</b>
<b>Operating profit</b>	<b>9,302</b>	<b>7,780</b>	<b>20%</b>	<b>8,632</b>	<b>8%</b>
Bank levy	(486)	(383)	27%	(355)	37%
Net impairment	718	(1,340)	-	812	(12%)
<b>Earnings before income tax</b>	<b>9,534</b>	<b>6,057</b>	<b>57%</b>	<b>9,089</b>	<b>5%</b>
Income tax expense	(1,920)	(1,096)	75%	(1,408)	36%
<b>Net earnings from continuing operations</b>	<b>7,614</b>	<b>4,961</b>	<b>53%</b>	<b>7,681</b>	<b>(1%)</b>
Discontinued operations, net of tax	624	(995)	-	135	362%
<b>Net earnings</b>	<b>8,238</b>	<b>3,966</b>	<b>108%</b>	<b>7,816</b>	<b>5%</b>



# Income statement 9M 2021

Turnaround in net earnings from Covid affected 9M last year

- Core income increases 7.5% from last year
  - Slight increase in net interest income YoY. The loan book increases from the same period in 2020, mainly mortgage lending but lower interest rate environment is weighing in on NII
  - Extremely strong net commission income across the Bank. Strong development in Corporate Lending and Corporate Finance supported by structural changes made in 2019 and Asset Management trending favorably
  - The increase in net insurance income is driven by increased volume and lower damage rate
- Operating expenses stable between years
  - Salaries increase is partially due to increased redundancy payments and lower capitalized development cost
  - Other OPEX decreasing in line with objectives
- A complete shift in net financial income and in particular impairments from 9M last year, but both line items were hit hard by the pandemic
- Substantial improvement at HFS assets YoY and profit from the sale of Valitor will be included subject to ICA approval expected by year-end

	9M 2021	9M 2020	Diff	Diff%
Net interest income	23,295	23,099	196	1%
Net commission income	10,594	8,526	2,068	24%
Net insurance income	2,577	2,305	272	12%
Net financial income	5,069	1,383	3,686	267%
Share of profit of associates	33	22	11	-
Other operating income	1,423	716	707	99%
<b>Operating income</b>	<b>42,991</b>	<b>36,051</b>	<b>6,940</b>	<b>19%</b>
Salaries and related expenses	(9,745)	(9,211)	(534)	6%
Other operating expenses	(8,263)	(8,623)	360	(4%)
<b>Operating expenses</b>	<b>(18,008)</b>	<b>(17,834)</b>	<b>(174)</b>	<b>1%</b>
<b>Operating profit</b>	<b>24,983</b>	<b>18,217</b>	<b>6,766</b>	<b>37%</b>
Bank levy	(1,171)	(1,038)	(133)	13%
Net impairment	2,610	(5,118)	7,728	-
<b>Net earnings before income tax</b>	<b>26,422</b>	<b>12,061</b>	<b>14,361</b>	<b>119%</b>
Income tax expense	(5,194)	(3,424)	(1,770)	52%
<b>Net earnings from continuing operations</b>	<b>21,228</b>	<b>8,637</b>	<b>12,591</b>	<b>146%</b>
Discontinued operations, net of tax	865	(1,929)	2,794	-
<b>Net earnings</b>	<b>22,093</b>	<b>6,708</b>	<b>15,385</b>	<b>229%</b>

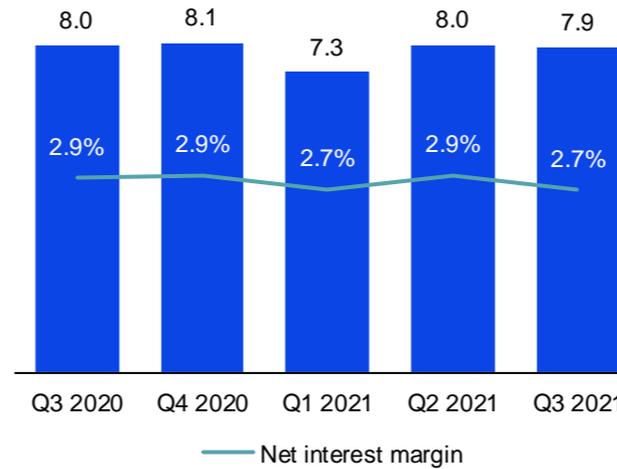


# Net interest income

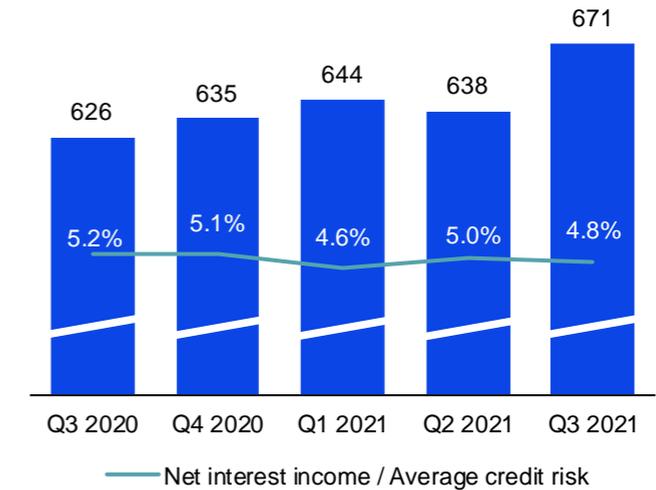
Acceptable NIM in light of the low interest rate environment

- Net interest income decreased by 0.7% from Q3 2020 whilst average interest bearing assets increased by 5.9%, mainly loans and unsettled trading
- Acceptable net interest margin in light of:
  - Policy rate, which has been unusually low during the year but has increased over the last two quarters
  - Surplus liquidity
- Net interest income / average credit risk continues at strong levels – stable around 5% and significantly up from previous years
- Positive effect of 3.5% inflation is limited as the CPI imbalance decreased by ISK 49 billion from Q3 2020, down to ISK 18 billion
- The Bank aims to maintain NIM in the range of 2.6% - 2.9% whilst the base rate remains at current level

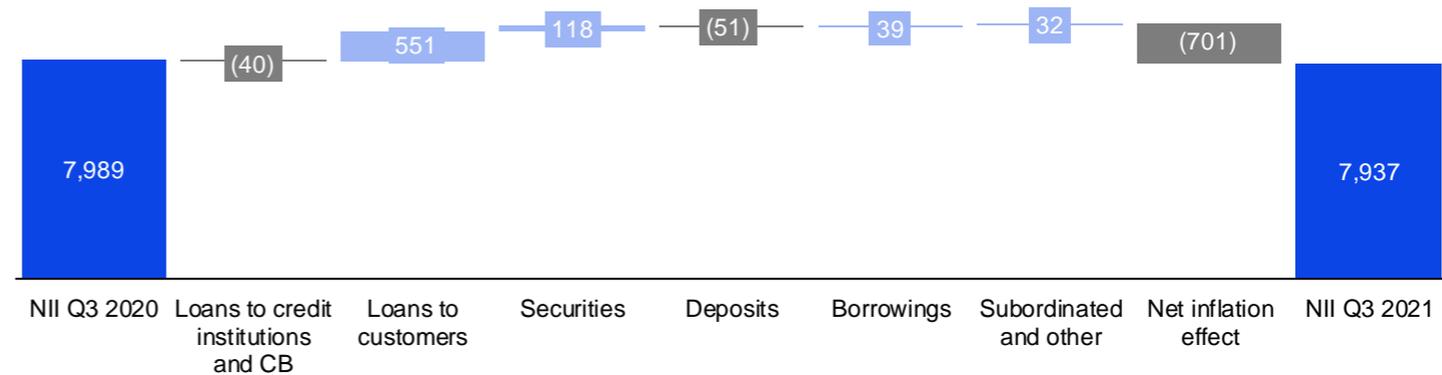
Net interest income



Credit risk

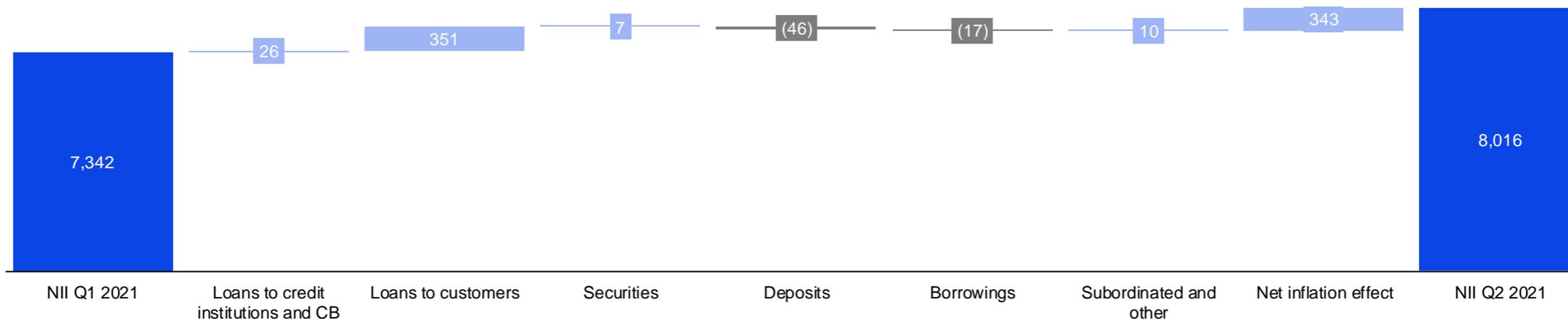


Net interest income Q3 2020 vs Q3 2021 (ISK million)

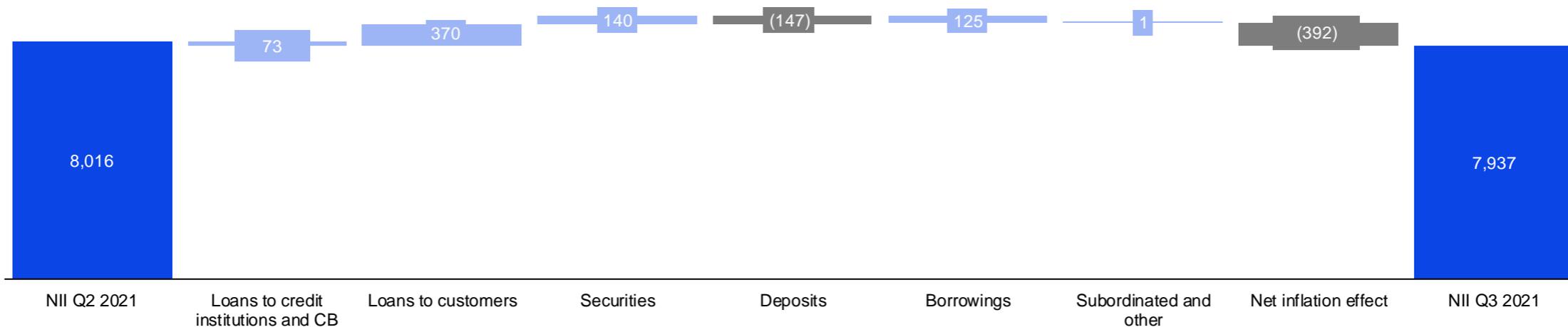


# Net interest income Q1-Q3 2021

## Q1 2021 vs Q2 2021



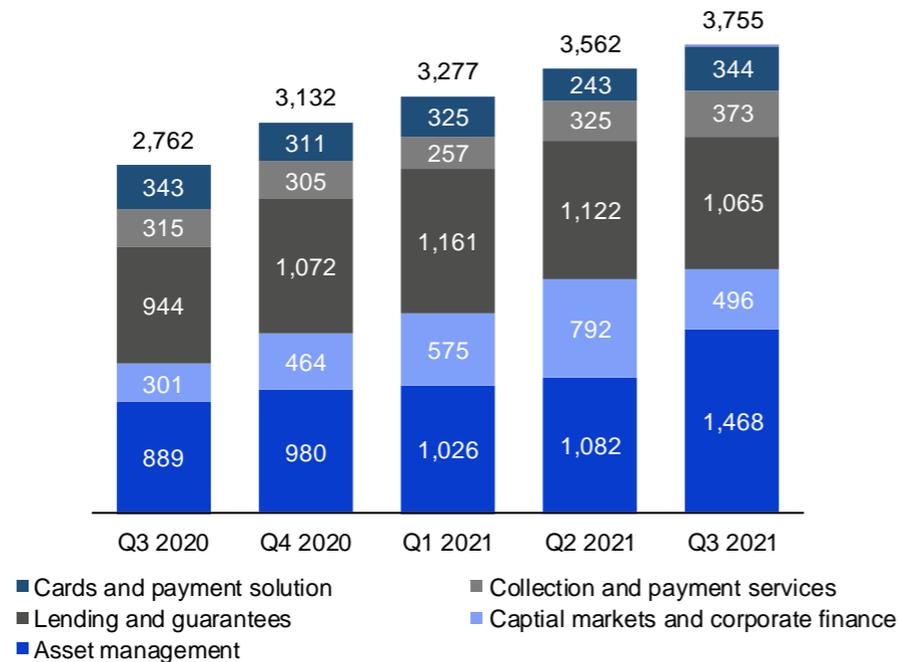
## Q2 2021 vs Q3 2021



# Net fee and commission income and net insurance income

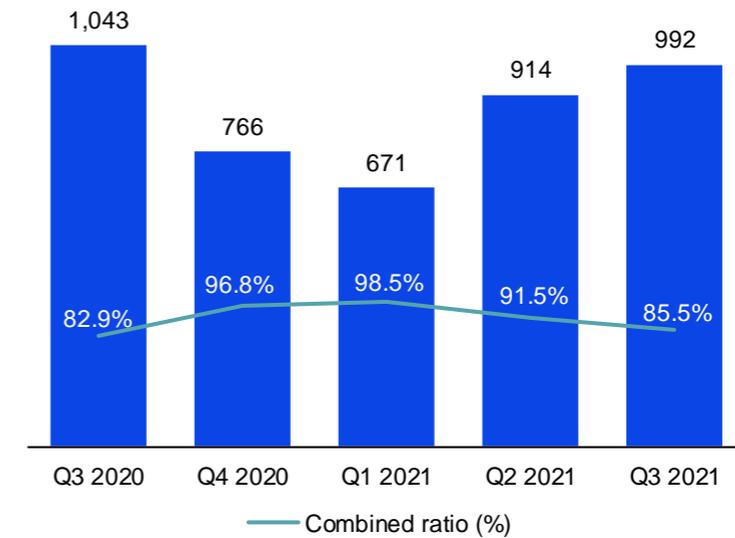
Historically strong quarter in fee income

## Net fee and commission income



- Income from asset management increased 14% from Q2 and 5% from Q4 2020 through higher AUM and increasing flows into equity funds
  - Strong performance based fees in the quarter
- The forming of CIB from the previously separate Corporate Banking and Investment Banking has been successful and is supporting the business on both sides
  - CIB advised on significant transactions
  - Income from lending and guarantees continues to be strong, building on strategy of capital velocity

## Net insurance income



- Strong quarter in net insurance income
  - Premiums were up 9.4% from Q3 2020
  - Claims increased by 16.8% from Q3 2020
  - Combined ratio of 91.7% was strong for 9M compared with 93.5% in 9M 2020
  - Constant premium growth of 7% during the last four years and favorable claim rate over the same period

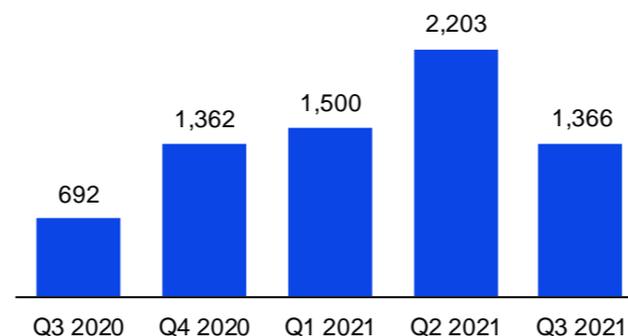


# Net financial income

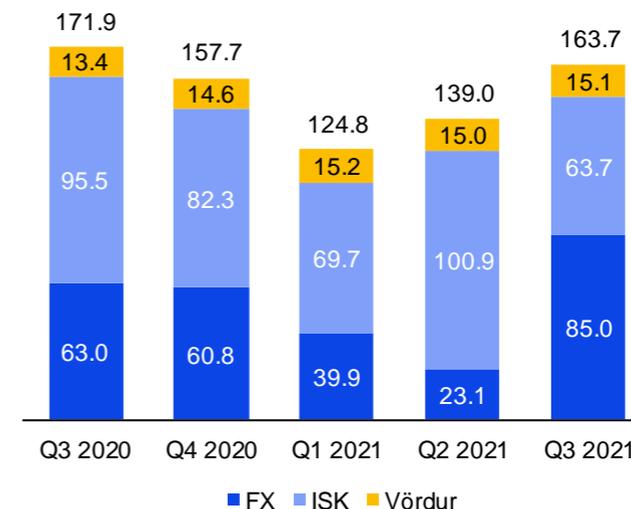
Favorable market conditions and active management deliver strong performance

- Net financial income in Q3 driven by equity holdings in the market making business and at Vördur
- Equity holdings continue to increase mainly due to increase in market value
- Bond holdings which are predominantly used for liquidity management decreased in Q2 but increased again in Q3 following new EUR funding
- Total portfolio of Vördur included in the Group figures is ISK 24.0 billion; ISK 15.1 billion of bonds and ISK 8.9 billion in equity instruments, yielding ISK 623 million in the quarter and ISK 1,569 million during the first nine months

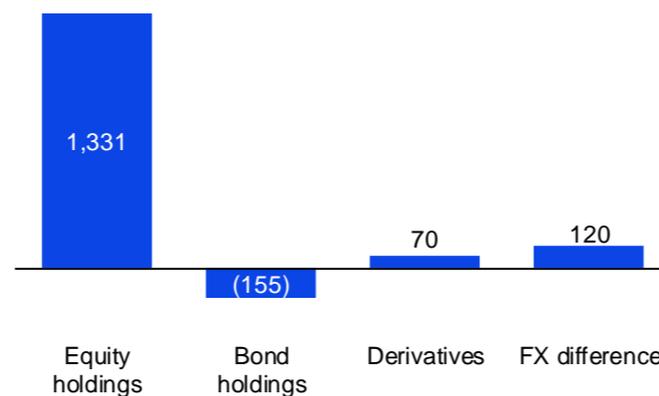
Net financial income (ISK million)



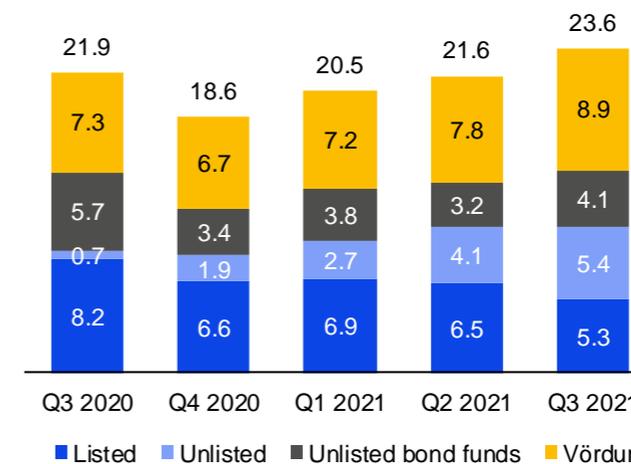
Bond holdings



Net financial income by type in Q3 2021 (ISK million)



Equity holdings

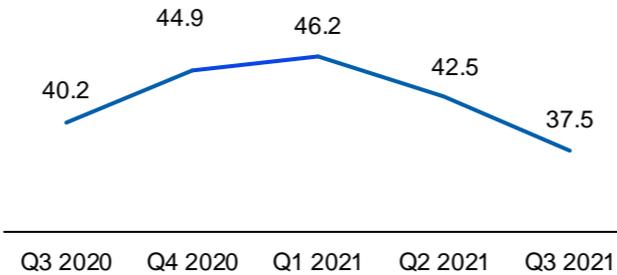


# Total operating expenses

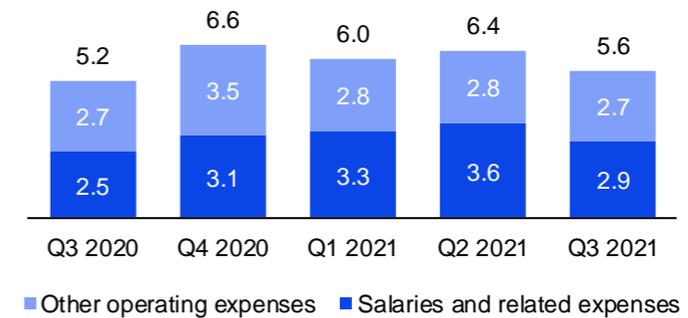
Cost-to-income ratio trending positively

- Number of FTEs continues to trend down YoY
  - 3% YoY (4% at the parent company)
- Salary expense higher than in Q3 2020 affected by capitalized salaries. No capitalized salaries in Q3 2021 compared with ISK 145 million in Q3 2020 relating to investment in the Sopra core system and increased redundancy expenses of ISK 172 million compared to Q3 2020
  - Other OPEX is rather stable YoY
  - IT expenses decrease as planned
  - Amortization of intangible assets increased by approx. ISK 100 million per quarter following the launch of Sopra core system in Q2 2021 which can serve as the basis for rationalizing the Bank's system setup

Cost-to-income ratio (%)



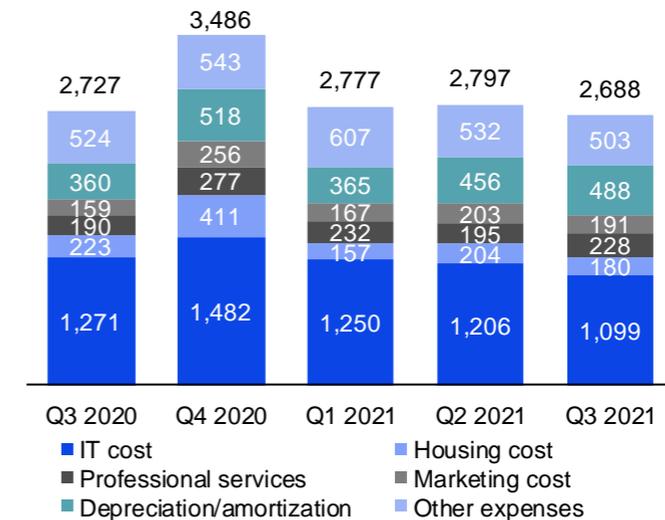
Total operating expenses



Number of employees



Other operating expenses (ISK million)



# Balance sheet – assets

Retail mortgages drive loan growth over the year – strong increase in corporate lending in Q3

30.09.2021  
ISK 1,346 billion

31.12.2020  
ISK 1,173 billion

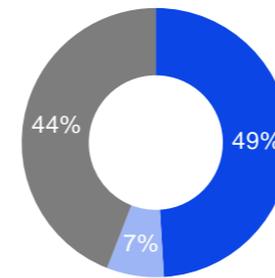
30.09.2020  
ISK 1,236 billion

- Loans to customers increased by 6.3% in Q3 and 9.0% from YE 2020
  - Mortgage lending was up 6.2% in Q3 (up 16.4% from YE 2020)
  - Corporate lending increased by 6.5% in Q3 (1.5% increase from YE 2020)
- Liquidity position remains very strong despite ISK 25.5 billion capital distribution
  - Total LCR ratio is 221% and ISK LCR ratio is 152%
- The Bank is very well positioned to meet the funding requirements of its customers in both ISK and FX and to distribute surplus capital

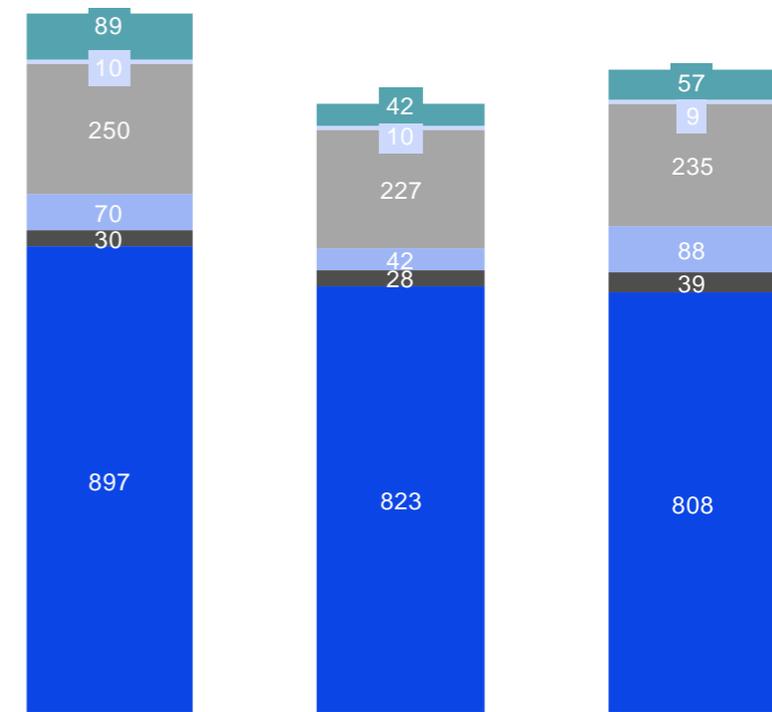
**Other and intangibles:**  
6.1% of total assets

ISK 350 billion, of which  
**ISK 236 billion liquidity reserve** (37% of customer deposits)

**Loans to customers**  
66.6% of total assets



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



- Loans to customers
- Loans to credit institutions
- Cash and balances with Central Bank
- Financial instruments
- Intangible assets
- Other assets<sup>1</sup>

<sup>1</sup>Other includes investment property, investment in associates, tax assets, assets and disposal groups held for sale and other assets

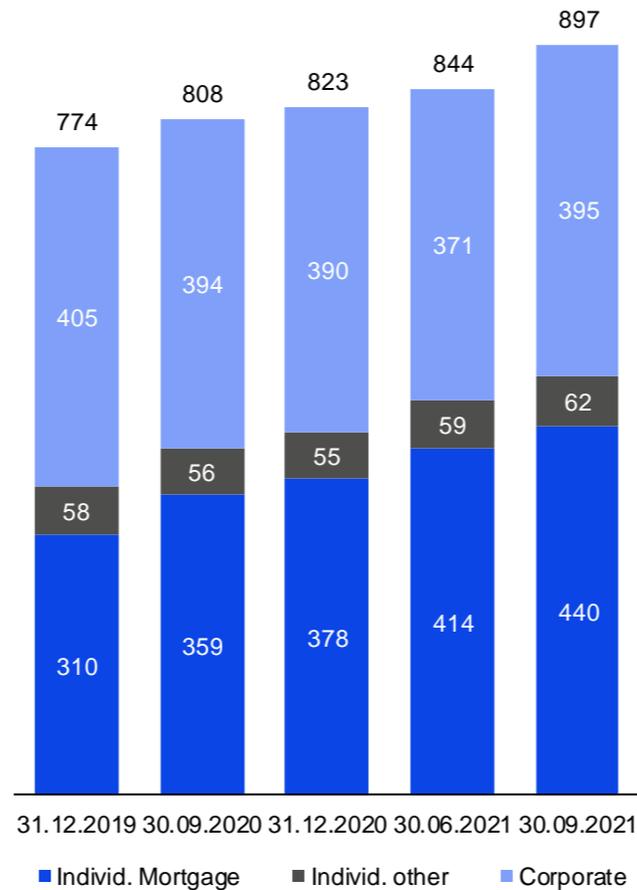


# Loans to customers

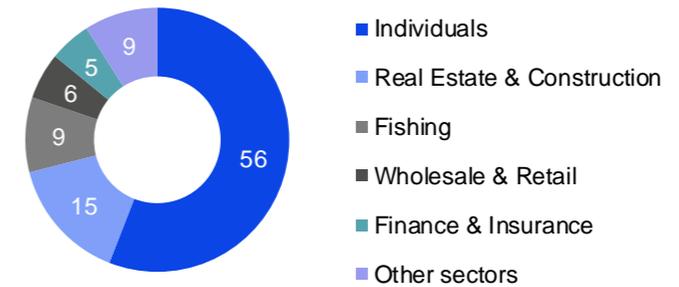
Retail mortgages, which are light on capital usage and offer the highest asset quality, represent 49% of the loan book

- Loans to customers increased by 6.3% during the quarter, both due to mortgage lending to individuals and corporate lending. Mortgage lending is up 22.6% compared with 30.9.2020
- The corporate loan book increased during the quarter
  - Considerable activity on the corporate lending side in origination as well as syndications and sales of loans as the Bank follows the strategy of capital velocity
- The importance of index linked lending have decreased and index linked loans has reduced to ISK 221 billion (ISK 258 billion YE 2020)
- The diversification of the corporate loan book is good and 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 84 billion or 9.3% of total loan book (ISK 102 billion / 12.0% of loan book YE 2020)
  - ISK 69 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)

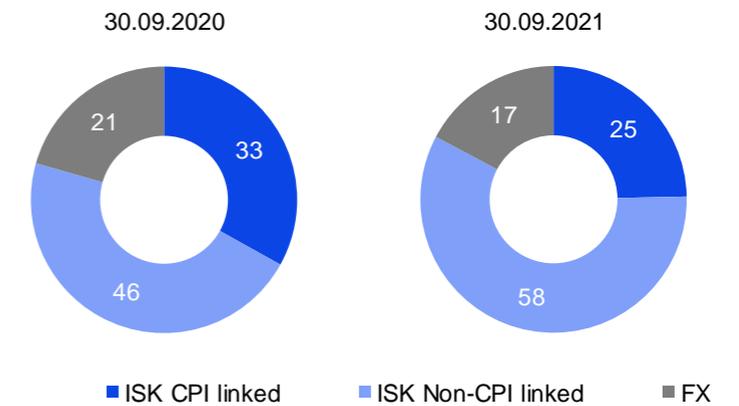
Loans to customers



Loans to customers by sector (%)



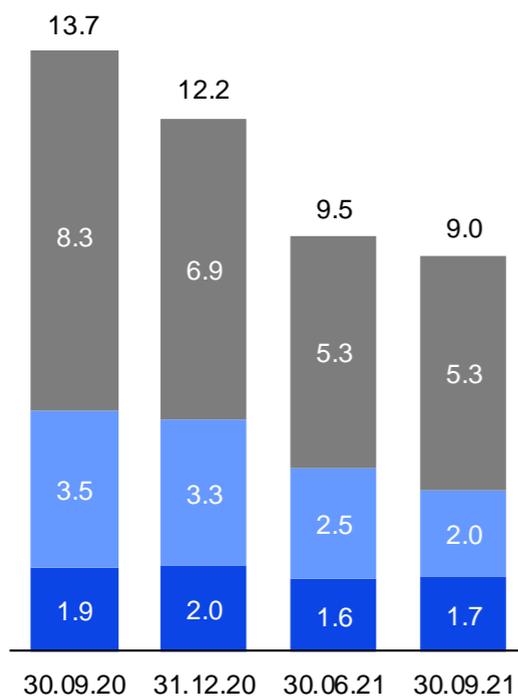
Loans to customers by currency (%)



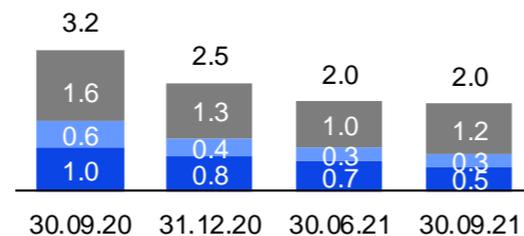
# Loss allowance on loans to customers by IFRS 9 stages

Loss allowance has decreased significantly YoY

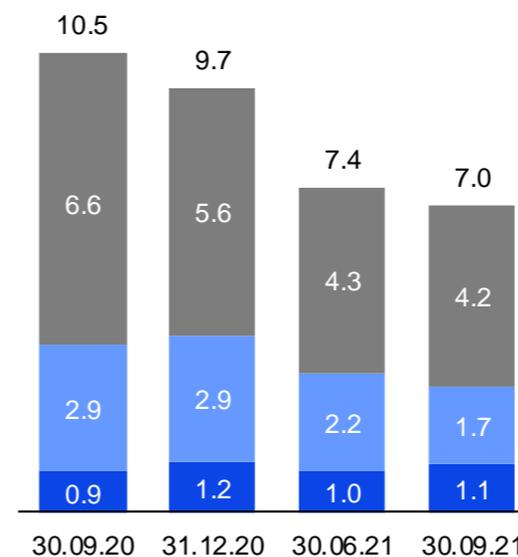
On loans to customers total



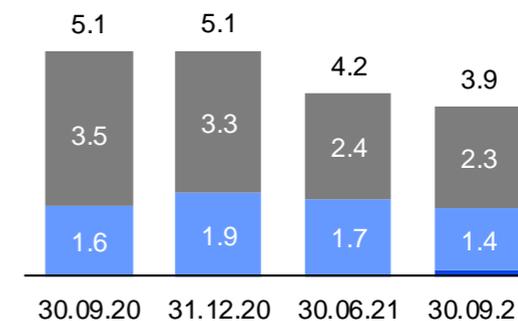
On individuals



On corporates



Thereof tourism exposure



■ Stage 1 ■ Stage 2 ■ Stage 3

- Loss allowance decreased by 34.3% from 30.9.2021
  - Loss allowance on individuals decreased by 38.1%
  - Loss allowance on corporates decreased by 33.1%
  - Loss allowance on customers in the tourism sector decreased by 24.3%

- 4.8% decrease in total loss allowance during the quarter mostly due to more optimistic assumptions and inputs
  - Loss allowance on individuals decreased by 1.6%
  - Loss allowance on corporates decreased by 5.6%
  - Loss allowance on customers in the tourism sector decreased by 7.0%



# Balance sheet – equity and liabilities

Strong capital position and good funding mix

30.09.2021  
ISK 1,346 billion

31.12.2020  
ISK 1,173 billion

30.09.2020  
ISK 1,236 billion

- Strong equity position and very high leverage ratio
- The funding mix is well balanced between deposits, covered bonds and senior unsecured bonds
- Deposits increased by 6.4% from 30.9.2020
- 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
- Inaugural EUR covered bond issue diversifies funding options and broadens investor base
- Arion Bank will continue its 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 22.7 billion during 9M 2021

## Equity

CET1 ratio 20.9%  
CAD ratio 25.4%  
Leverage ratio 12.4%

## Borrowings (in ISK)

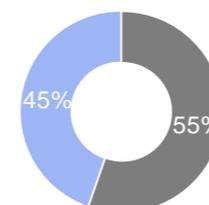
ISK 167 billion  
EUR 208 billion  
Other currencies 21 billion

## Deposits

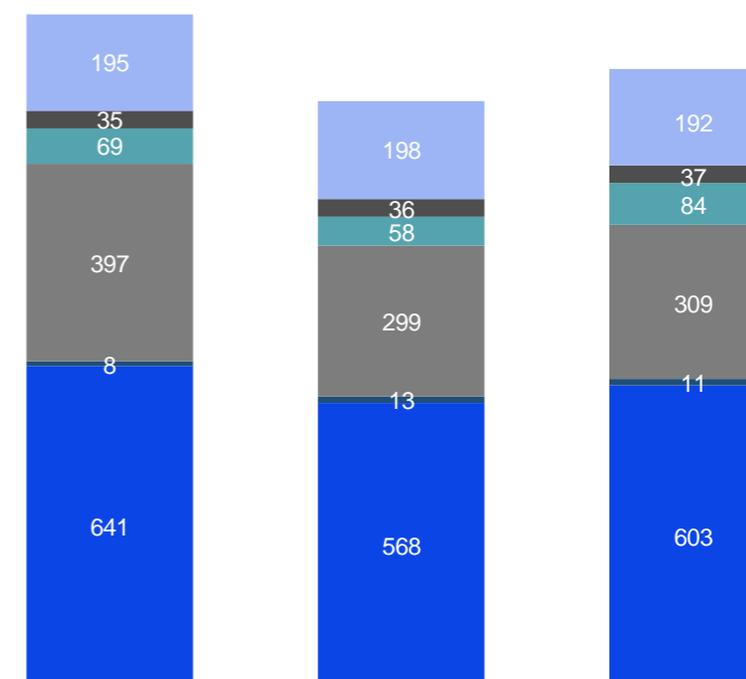
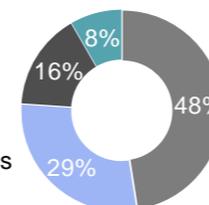
On demand 75%  
Up to 3M 22%  
More than 3M 3%

12.8% 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

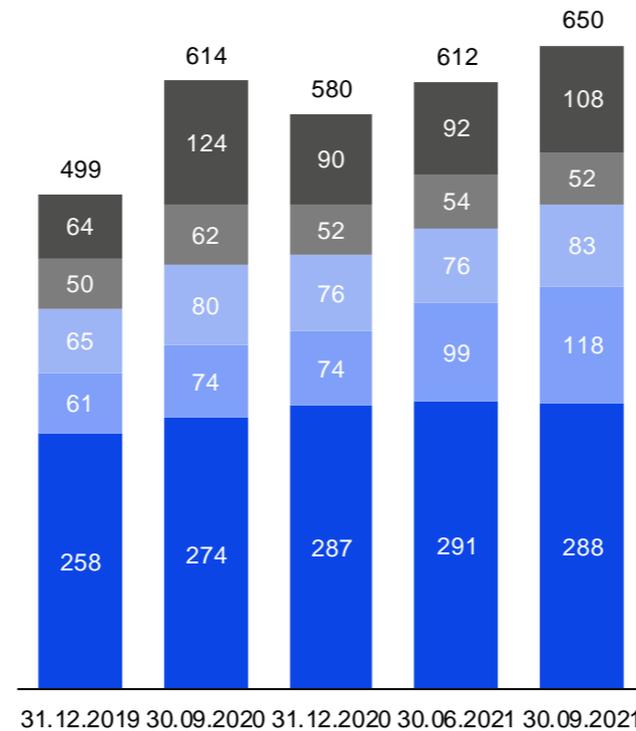


# Deposits

The strategic focus on deposits has been successful

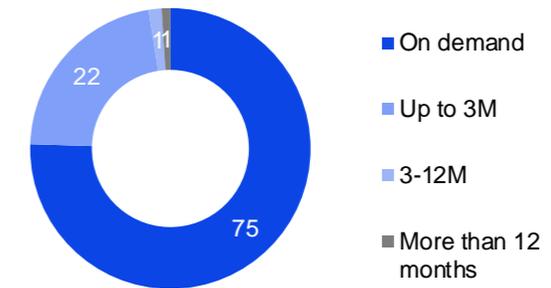
- Deposits represent 56% of the Bank's total liabilities
- Strong growth of 14.2% in core deposits from 30.9.2020
  - Core deposits are from individuals, SME's and corporates
- Loans to deposits decreased from 160% to 140% over the last two years
- A fairly new product, green deposits, has been very well received and is up 109% since YE 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**



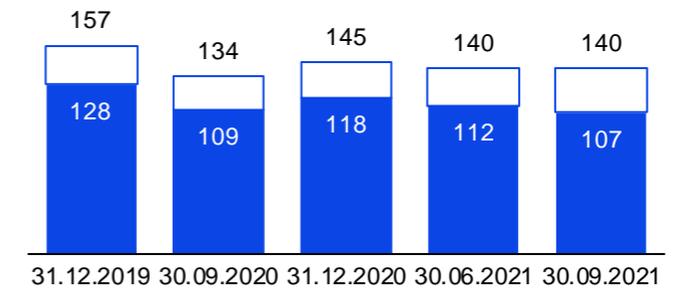
■ Individuals ■ SME's ■ Corporates ■ Pension funds ■ Other

**Maturity of deposits (%)**



**Loans-to-deposits ratio (%)**

(without loans financed by covered bonds)

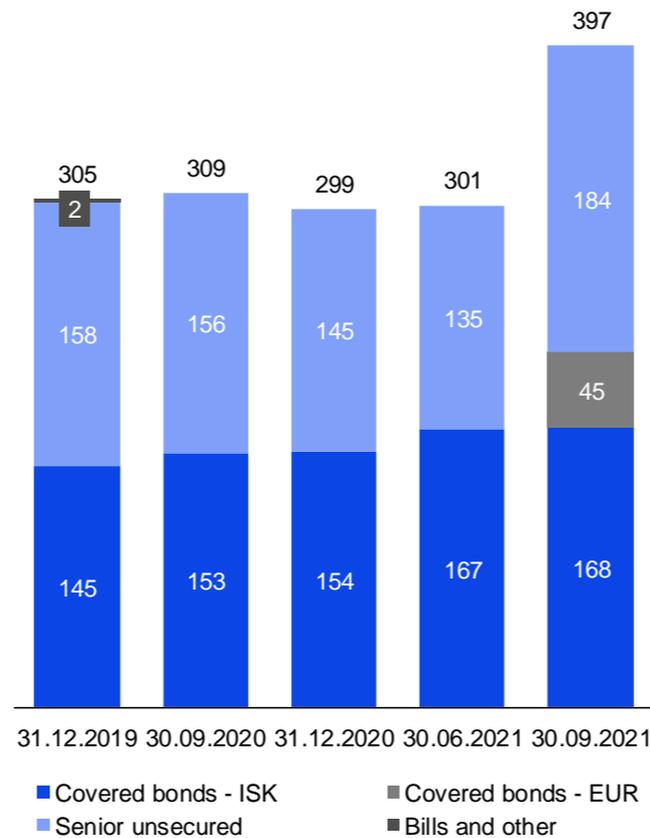


# Borrowings

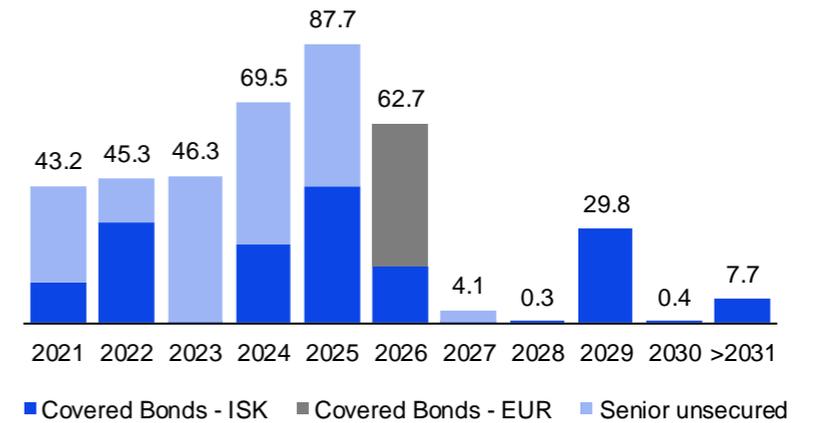
Stable low cost funding profile – successful inaugural issuance of euro denominated covered bonds and green bonds during the quarter

- Increase in borrowings in Q3 due to debut EUR 300 million green bond in July and EUR 300 million debut international covered bond in the end of September
  - Bond issuances during the quarter at favorable funding spread
  - Funding of upcoming redemption of borrowings in Q4 2021 (EUR 200 million) and Q1 2022 (NOK 750 million) as well as to support balance sheet growth
- Stable funding profile
  - Evenly distributed maturities of long term funding
  - Balance between unsecured and secured funding and between domestic and international funding
  - Solid investment grade rating (BBB for senior debt and A- for covered bonds)
  - Lower cost of funding achieved with inaugural € covered bond and inaugural green bonds

## Borrowings by type



## Maturities of borrowings



## Ratings – S&P (October 2021)

		
Senior unsecured	BBB	A
Covered bond	A-	N/A
Short term debt	A-2	A-1
Outlook	Stable	Stable

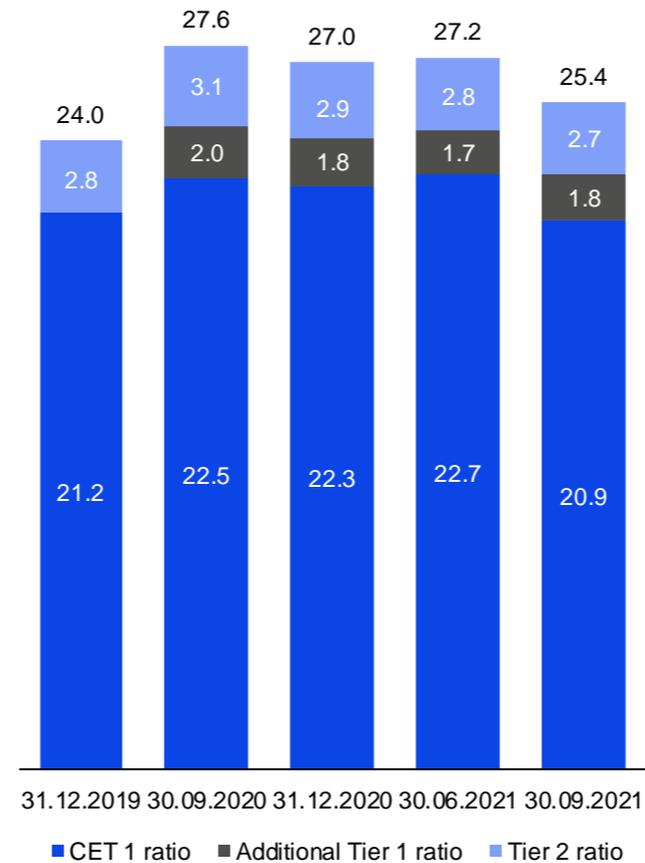


# Own funds

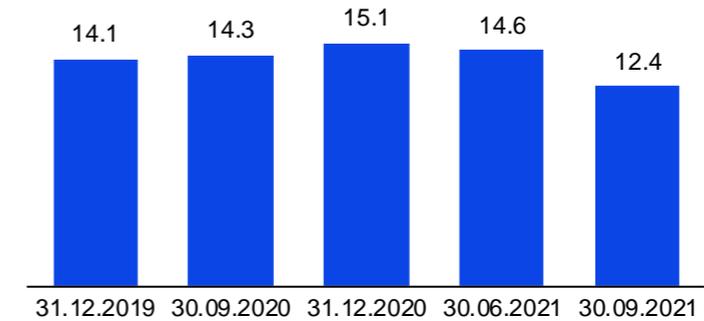
The capital ratios continue to be very strong while capital optimization efforts are ongoing

- The CET1 decreases by 1.8% from 30.06.2021
  - Deducting from the capital base 50% of net earnings and foreseeable share buy-backs
- REA's increase by 4.3% during the quarter
- Arion Bank has optimized the AT1 and Tier 2 buckets with issuance in 2018-2020
- Leverage ratio remains very strong

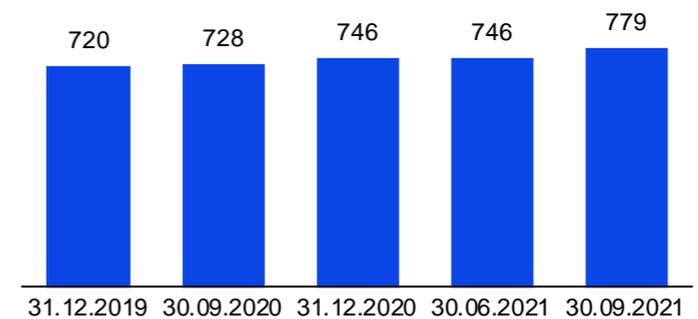
**Total capital ratio (%)**



**Leverage ratio (%)**



**Risk-weighted exposure amount**

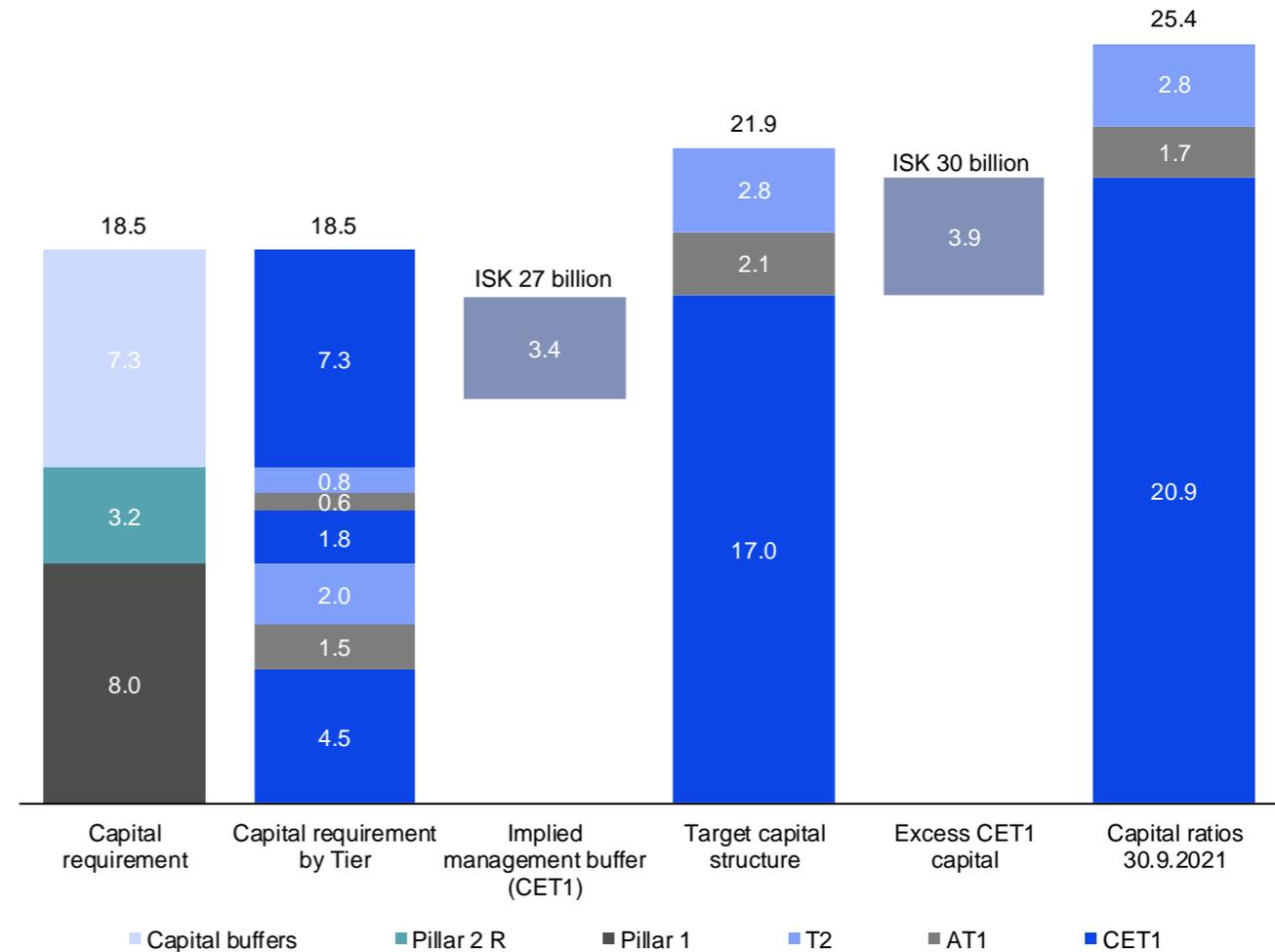


# Capital adequacy

Capital ratios remain very strong following significant distributions to shareholders

- Purchase of own shares and dividend payment in 9M 2021 is ISK 25.5 billion
- Total foreseeable dividend and buy-back of own shares of ISK 21.3 billion is included in the capital ratios, which account for interim profits
- The Pillar 2 requirement is 3.2% as a result of the SREP process based on year-end 2020 financials
- The Financial Stability Council has announced that the countercyclical buffer will be increased to 2% as of 29 September 2022 from its current level of 0%
- Target CET1 ratio remains unchanged at 17%
  - Implied 3.4% CET1 management buffer (ISK 27 billion) which is the difference between the target CET1 ratio and regulatory CET1 requirement
  - Thus, the Bank is prepared for the announced increase in the countercyclical capital buffer, when the value of that becomes 2% then the implied management buffer will be 1.4% CET1
  - CET1 capital of ISK 30.0 billion in excess of target capital structure, in addition to the foreseeable equity release of ISK 21.3 billion
- The solvency ratio of Vördur insurance was 154% at 30.09.2021
- Impact from the sale of Valitor, subject to the ICA approval, is expected to increase the Bank's capital adequacy by 1.4 percentage points

Own funds and capital requirements (%)



## Going forward



Robust operational trajectory a strong testament to the strategic direction of the group. Growth and diversity in fee income and increased importance in the Groups core earnings a clear positive.



An improving economic climate further supports a positive outlook and expected to facilitate higher profitable loan growth in the medium term



Strong deposit inflow and broadening of funding options through the inaugural EUR covered bond and senior unsecured green bond strengthens the funding profile



Considering its strong capital position and earnings generation the Bank expects to pay dividend and/or buy-back own shares in excess of ISK 30 billion in addition to already foreseeable dividend and share buy-backs of ISK 21 billion included in equity calculation

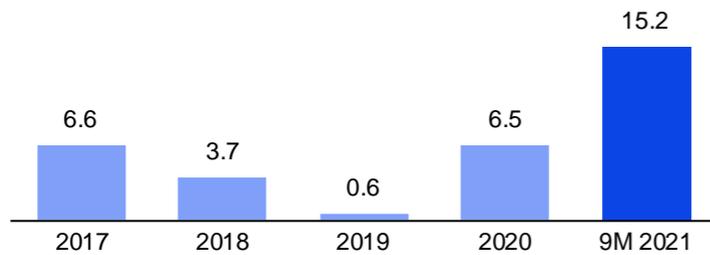


Key strategic projects expected to further support the medium term outlook

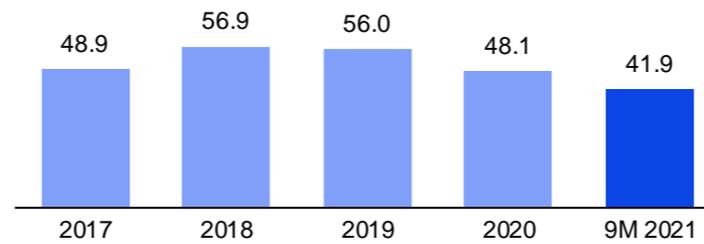


# Key financial indicators – annual

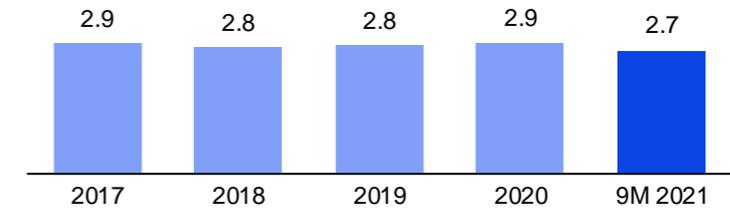
Return on equity (%)



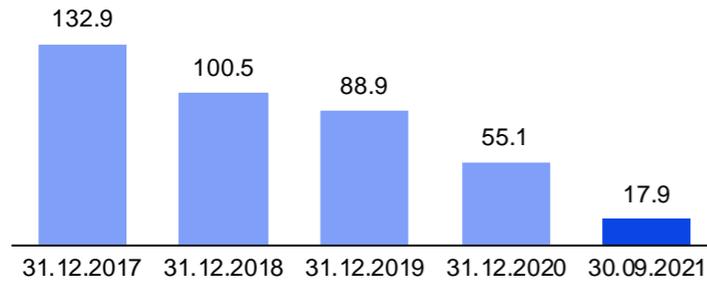
Cost-to-income ratio (%)



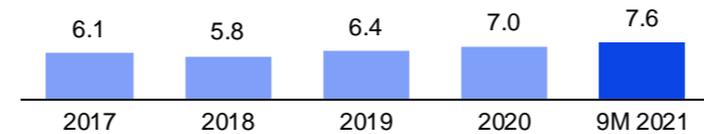
Net interest margin (%)



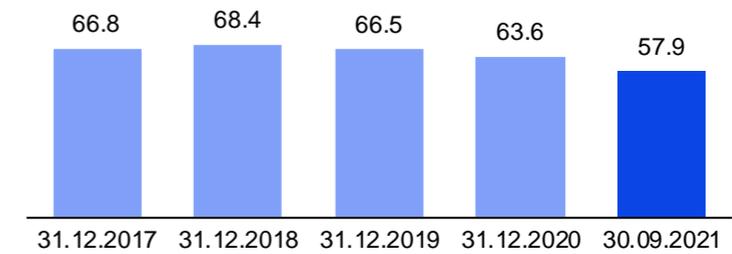
CPI imbalance (ISK billion)



Operating income / REA (%)

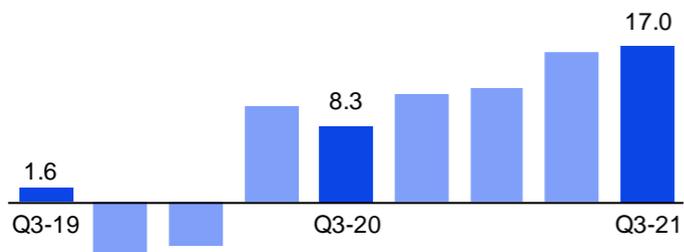


Risk weighted assets / Total assets (%)

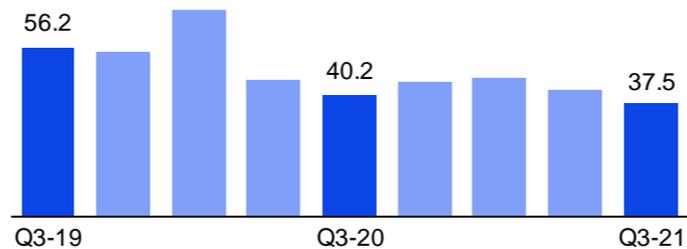


# Key financial indicators – quarterly

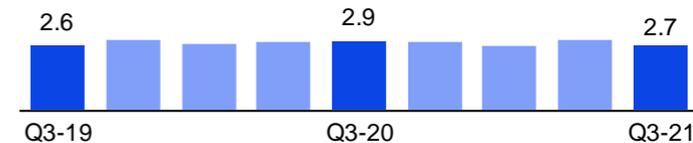
Return on equity (%)



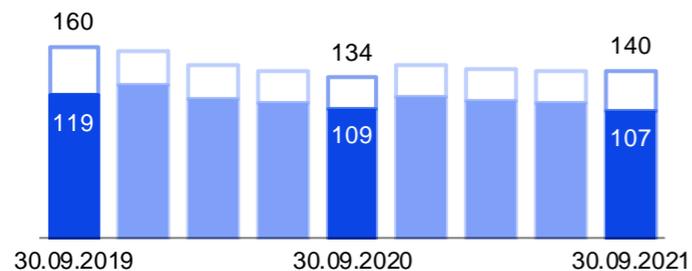
Cost-to-income ratio (%)



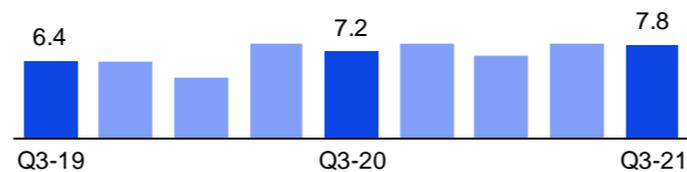
Net interest margin (%)



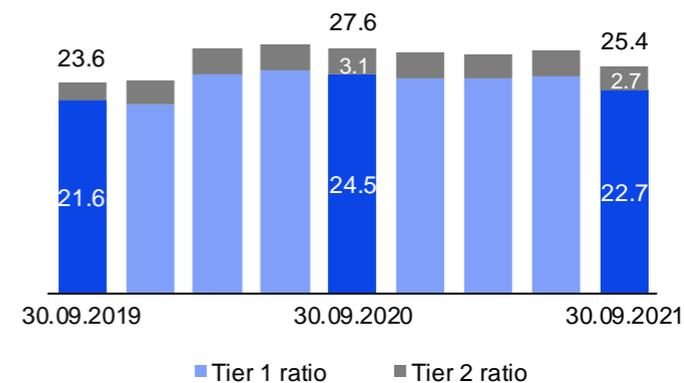
Loans-to-deposits ratio (%)  
(without loans financed by covered bonds)



Operating income / REA (%)



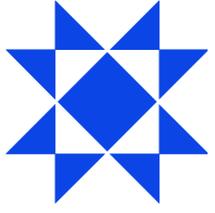
Capital ratio (%)



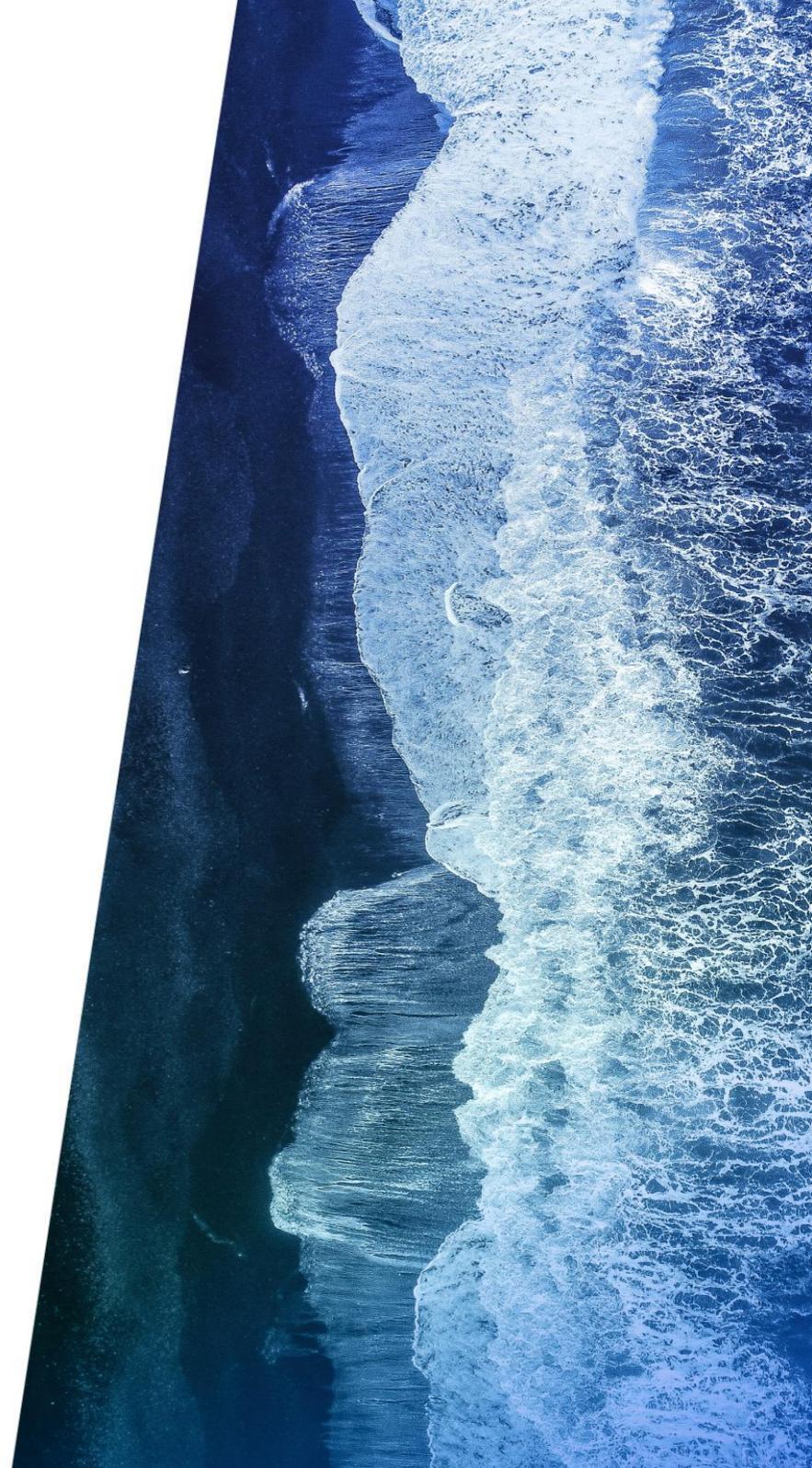
## Key figures

<b>Operations</b>	<b>9M 2021</b>	<b>9M 2020</b>	<b>9M 2019</b>	<b>9M 2018</b>	<b>9M 2017</b>	<b>Q3 2021</b>	<b>Q2 2021</b>	<b>Q1 2021</b>	<b>Q4 2020</b>	<b>Q3 2020</b>
Net interest income	23,295	23,099	22,624	21,350	21,857	7,937	8,016	7,342	8,059	7,989
Net commission income	10,594	8,526	7,335	7,603	7,087	3,755	3,562	3,277	3,116	2,762
Operating income	42,991	36,051	36,272	35,219	34,717	14,890	15,004	13,097	14,713	13,012
Operating expenses	18,008	17,834	20,420	19,679	16,450	5,588	6,372	6,048	6,607	5,232
Net earnings	22,093	6,708	3,877	6,159	10,354	8,238	7,816	6,039	5,761	3,966
Return on equity	15.2%	4.7%	2.6%	3.9%	6.3%	17.0%	16.3%	12.5%	11.8%	8.3%
Net interest margin	2.7%	2.9%	2.7%	2.7%	2.9%	2.7%	2.9%	2.7%	2.9%	2.9%
Return on assets	2.4%	0.8%	0.4%	0.7%	1.2%	2.6%	2.6%	2.1%	1.9%	1.3%
Cost-to-income ratio	41.9%	49.5%	56.3%	55.9%	47.4%	37.5%	42.5%	46.2%	44.9%	40.2%
Cost-to-total assets	2.0%	2.0%	2.3%	2.2%	2.0%	1.7%	2.1%	2.1%	2.2%	1.7%
<b>Balance Sheet</b>										
Total assets	1,346,091	1,236,217	1,213,155	1,219,529	1,144,853	1,346,092	1,217,921	1,181,093	1,172,706	1,236,217
Loans to customers	896,940	807,866	812,481	819,965	750,947	896,940	843,988	837,162	822,941	807,866
Mortgages	483,514	387,271	372,938	359,960	190,008	483,514	452,881	423,732	409,641	387,271
Share of stage 3 loans, gross	2.6%	3.2%	2.5%	3.0%	-	2.6%	2.8%	2.9%	2.6%	3.2%
REA/ Total assets	58.0%	58.9%	62.2%	66.2%	68.4%	58.0%	61.3%	63.9%	63.6%	58.9%
CET 1 ratio	20.9%	22.5%	21.6%	21.6%	26.6%	20.9%	22.7%	22.4%	22.3%	22.5%
Leverage ratio	12.4%	14.3%	12.8%	0.0%	0.0%	12.4%	14.6%	14.7%	15.1%	14.3%
Liquidity coverage ratio	221.0%	212.6%	246.4%	169.1%	228.6%	221.0%	215.1%	191.6%	188.5%	212.6%
Loans to deposits ratio	139.9%	134.0%	159.9%	169.2%	168.4%	139.9%	139.6%	141.3%	144.8%	134.0%





# Macroeconomic environment

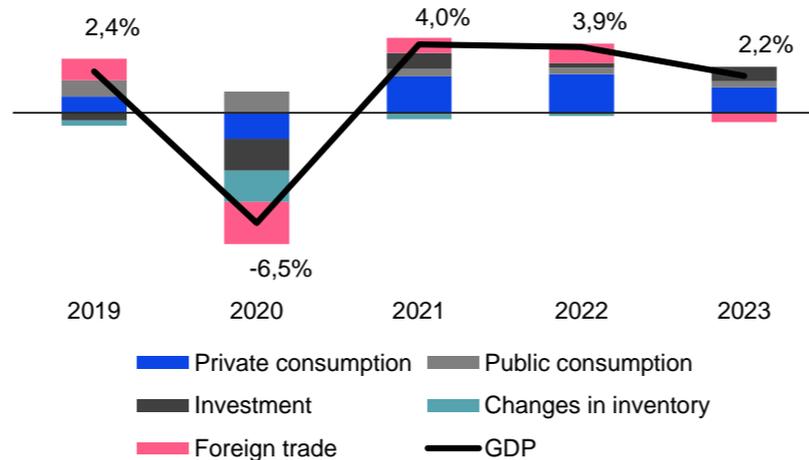


# Economic impact of the pandemic softer than expected

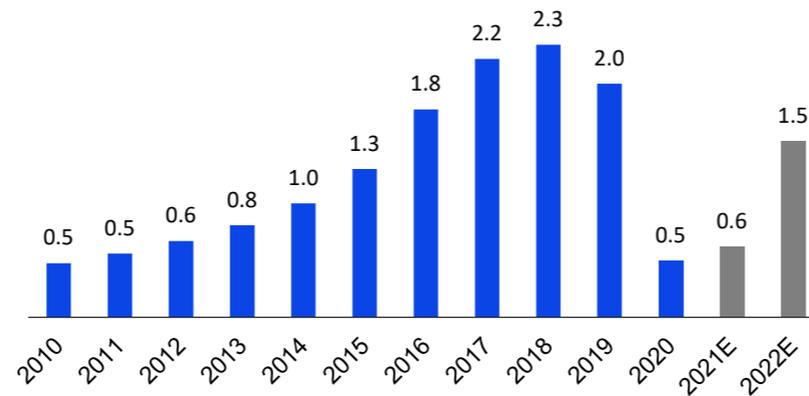
Economic support schemes are paying off and increased number of tourists are positively affecting unemployment figures

- The Icelandic economy is slowly but surely regaining its footing following a sharp contraction in 2020. The outlook for foreign trade is positive, with tourism prospering, capelin returning in large quantities and other industries, e.g., the intellectual industry, going from strength to strength.
- Tourists arriving at Keflavik Airport July-September reached 370,000 which is 45% less than in 2019. The trend is upward, with September figures reaching roughly 60% of September 2019.
- At the same time the situation in the labor market is improving. Registered unemployment was 5% in September compared to 9.8% a year ago. The labour market has still a way to go before reaching its previous size. Figures from Statistics Iceland indicate that since June 2019 approximately 6,000 jobs have been lost. New jobs are currently being created in non tourist part of the labour market, but the trend in tourism has been reversed, with more jobs created than lost.

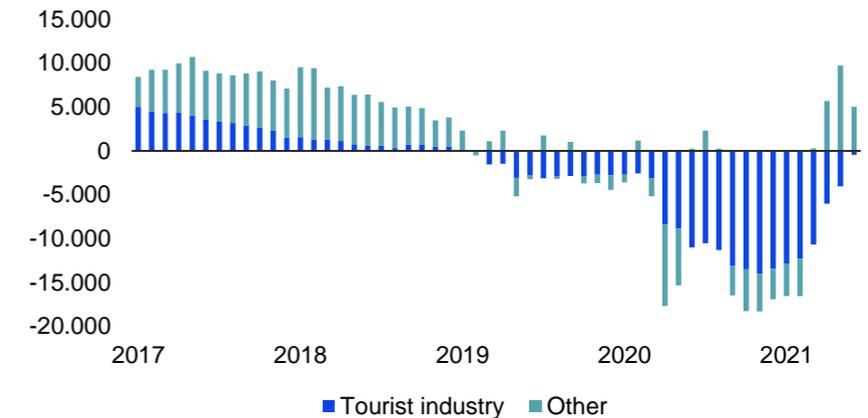
**GDP growth**



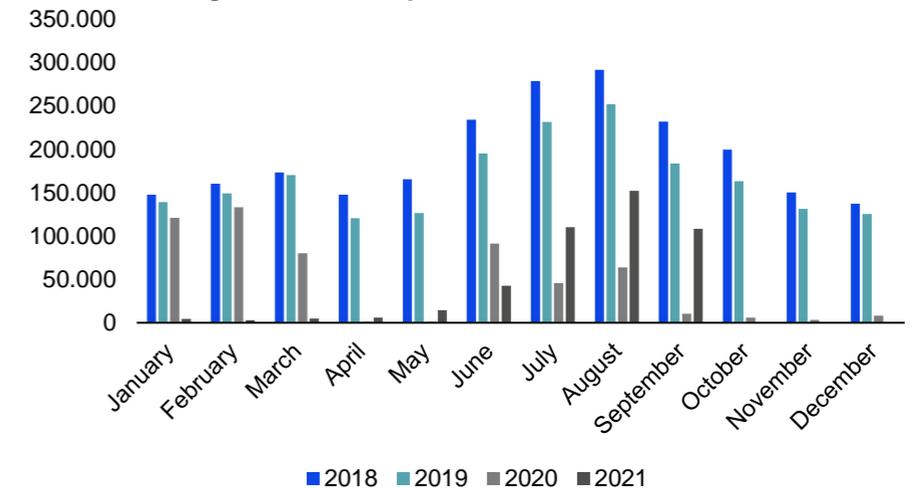
**Tourist arrivals via KEF airport** (millions, Arion Bank's March 2020 estimates)



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



**Tourists arriving at Keflavik Airport**

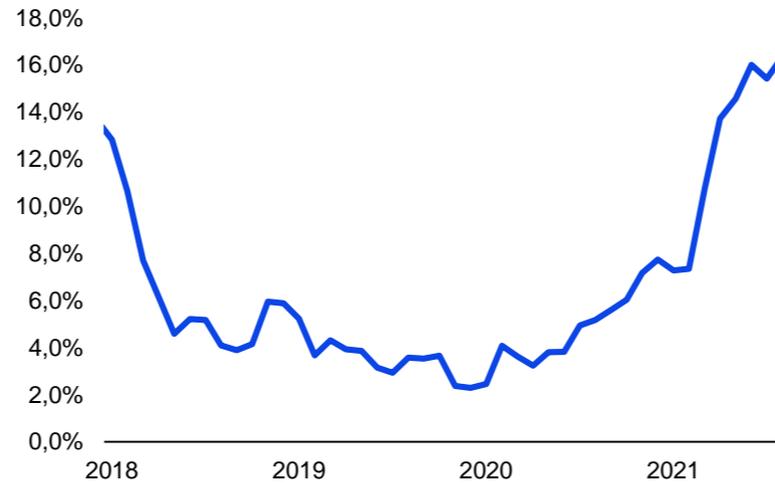


# Soaring housing prices stoke inflation

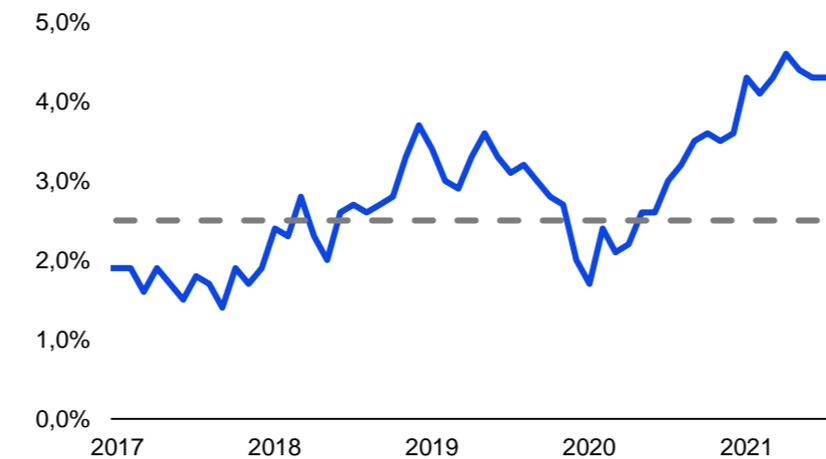
Housing prices are rising, and inflation figures are reducing slower than anticipated

- Inflation has been more persistent than expected and is still above 4%. Although this persistence has come as a surprise, most analysts expect that inflation has peaked but will remain close to 4.5% until the end of the year.
- Housing prices are currently the main driving factor behind inflation, as housing prices have been rising rapidly for the last year. Inflation excluding housing prices stands at the target rate of the Central Bank of Iceland (CBI).

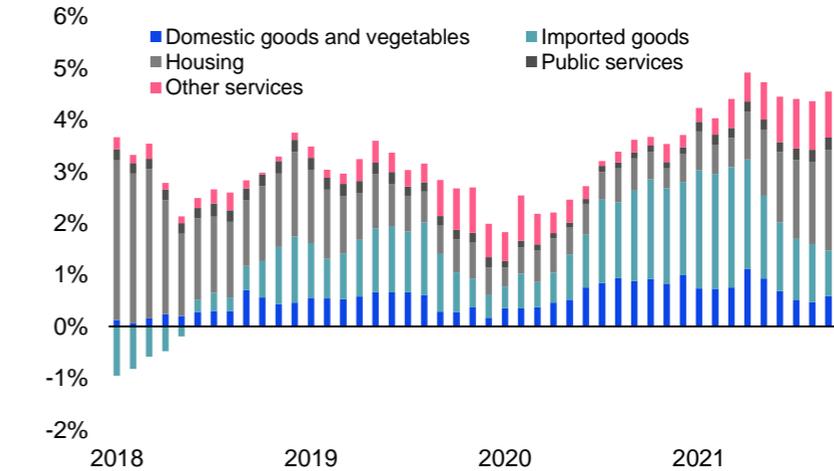
**Housing prices in the Capital Area (YoY %-change)**



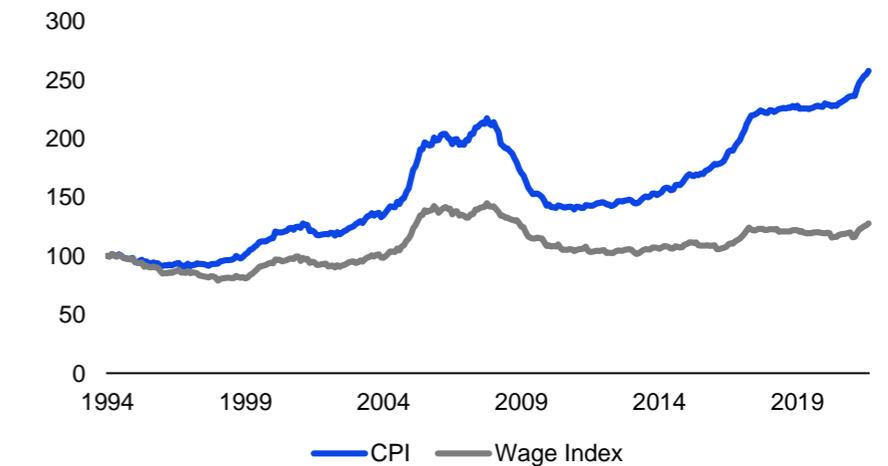
**Inflation and inflation target**



**Composition of the Icelandic CPI**



**Housing prices in the Greater Reykjavík area in real terms - (1994=100)**

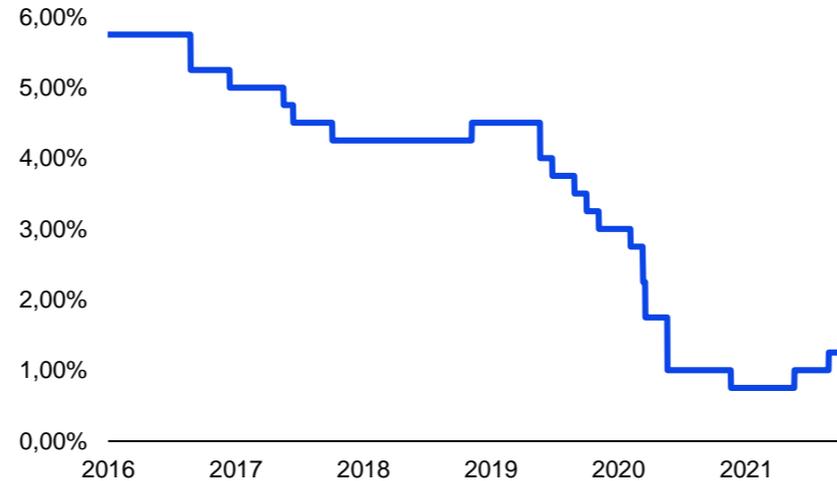


# Financial stability committee – Debt service to income ratio is set at 35%

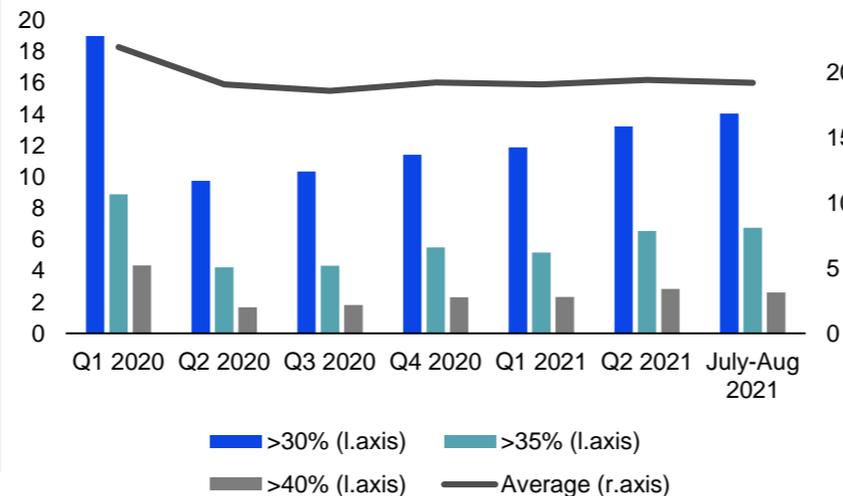
Housing prices are rising, and inflation figures are reducing slower than anticipated

- Persistent inflation has compelled the CBI to raise interest rates by 75 bps. since May this year.
- At the same time The Financial Stability Committee is trying to reduce risk in the housing market. At the end of June the maximum LTV of new mortgages was lowered to 80% from 85%. First time buyers are still allowed to take on a mortgage with 90% LTV. At the end of September, a maximum debt service to income ratio of 35% was introduced (40% first time buyers).
- Data from the Central Bank indicates that risk taking has increased among consumer mortgage applicants and the Central bank is trying to stem the tide.
- Although there are signs that risk is on the rise, the consumer mortgage market will likely contract this year. Based on monthly new mortgages from January to August we estimate that the mortgage market will be approximately ISK 300 billion in 2021 – a contraction of 4% while housing prices have risen by 16.4% in August YoY.

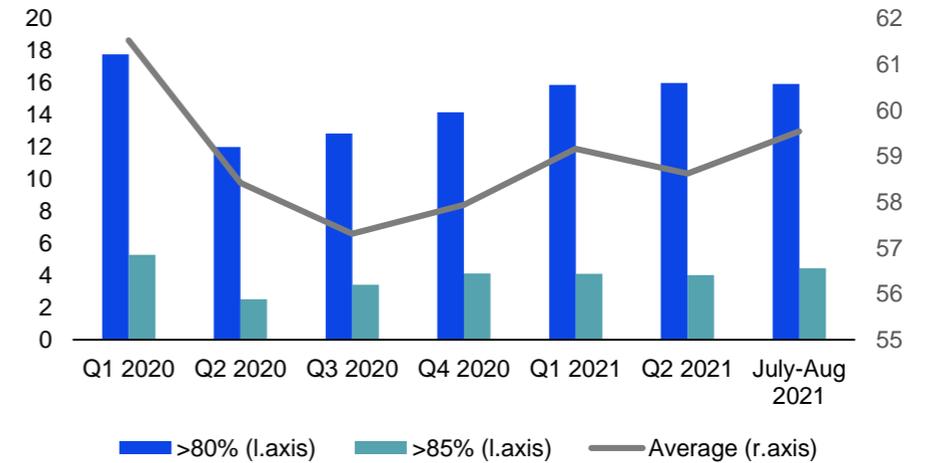
Key interest rates (seven-day term deposit rate)



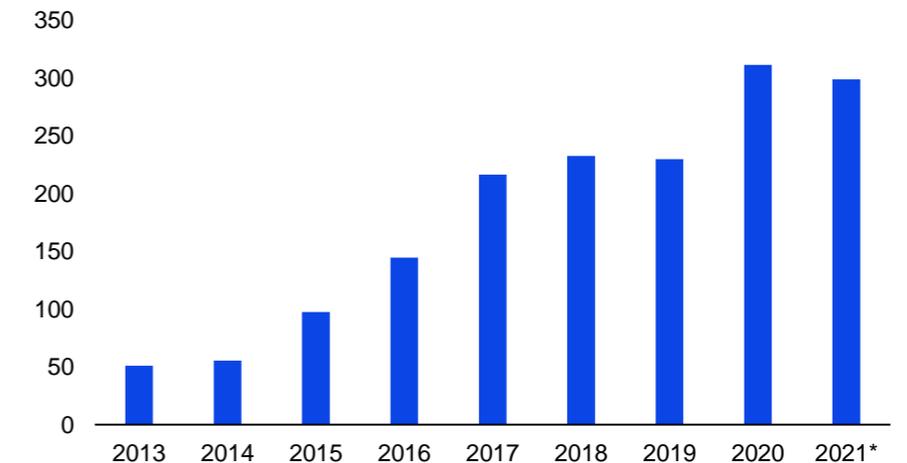
Average debt service ratio on new consumer mortgages



Average LTV on new consumer mortgages



Consumer mortgages market in Iceland (ISK billion)



\* Forecast for 2021 based on monthly data from January-August



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