Q3 Results 2023

Investor presentation 26 October 2023

Key results in Q3

Arion Bank continues momentum with solid quarter

- 12.9% ROE in the quarter and 13.9% YTD
- Key medium-term targets exceeded for the year
- Robust capital, liquidity and funding position

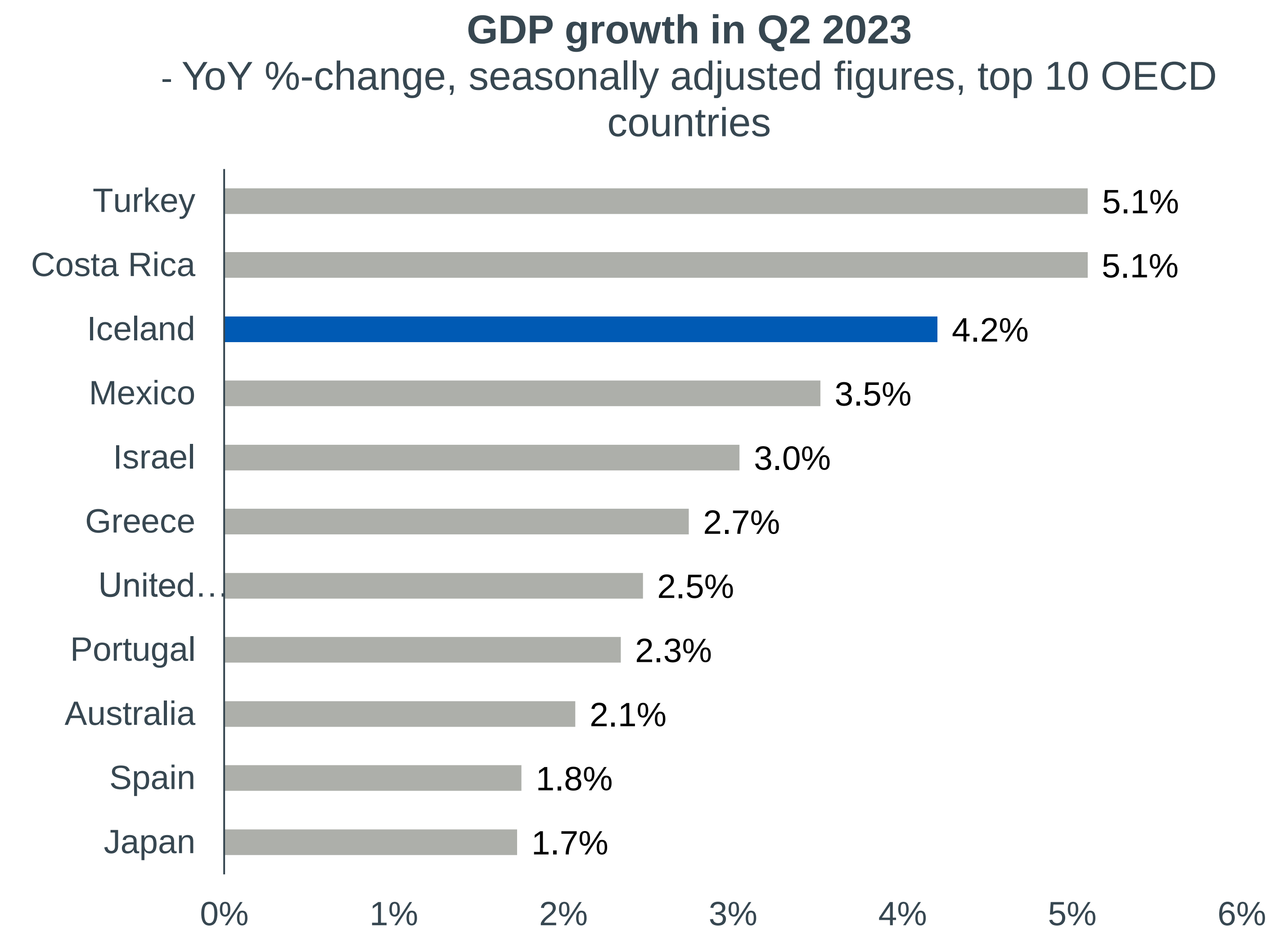
Key results	Medium-term targets	Q3 2023		9M 2023	
Return on equity	Exceed 13%	•	12.9%	✓	13.9%
Core operating income[4] / REA	Exceed 6.7% on core income	✓	7.0%	✓	7.2%
Insurance premium growth (YoY)	Premium growth (net of reinsurance) to exceed the growth of the domestic market by more than 3%[1]	✓	18.6%	✓	12.9%
Cost-to-core income[4] ratio	Below 48% on core income	✓	38.2%	✓	41.4%
CET1 ratio	150-250 bps management buffer[2]	•	450 bps	•	450 bps
Dividend payout ratio[3]	50%	✓	50% of net profit deducted from CET1	✓	50% of net profit deducted from CET1

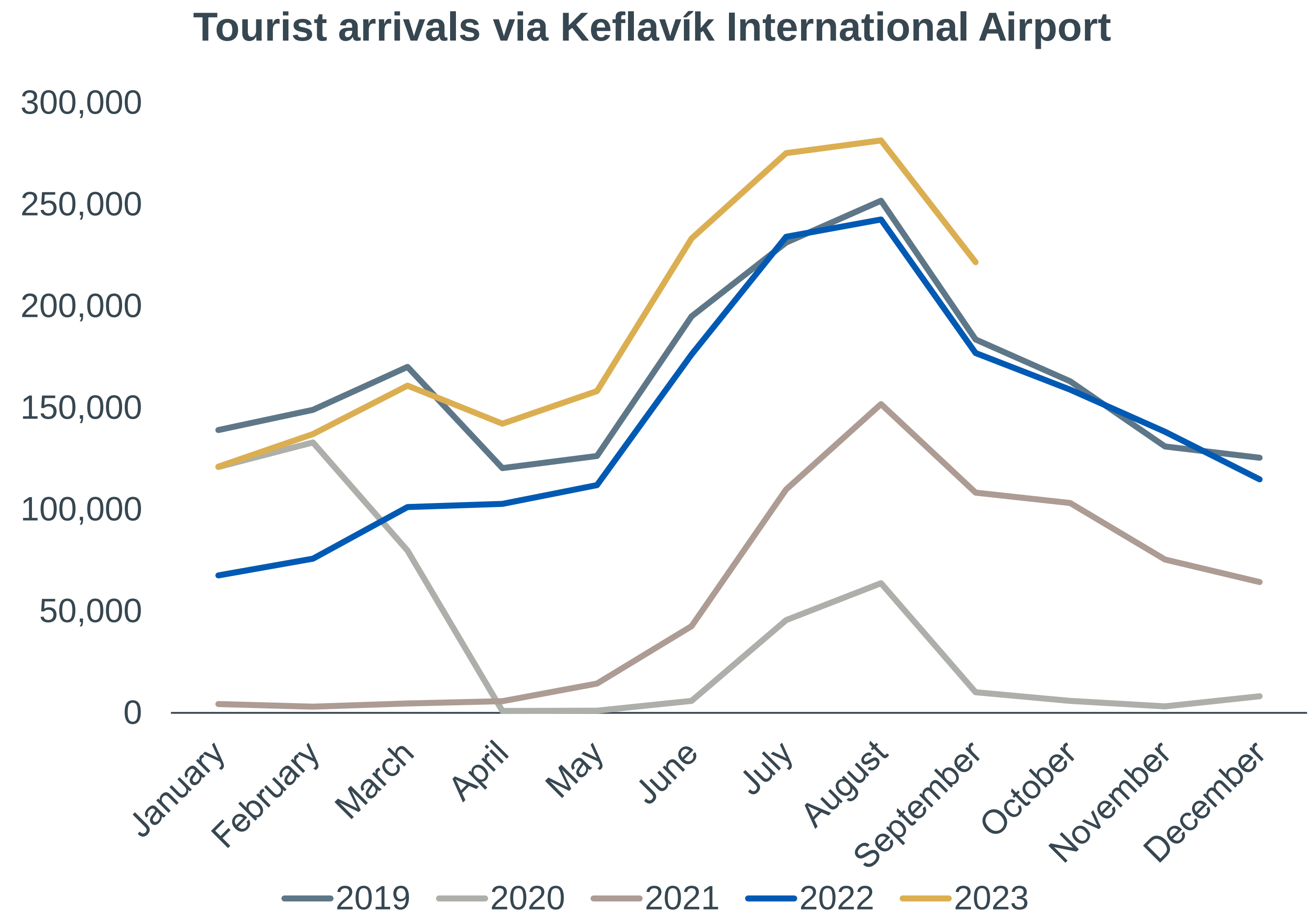
Medium-term targets are reviewed annually, and the underlying horizon is up to 3 years

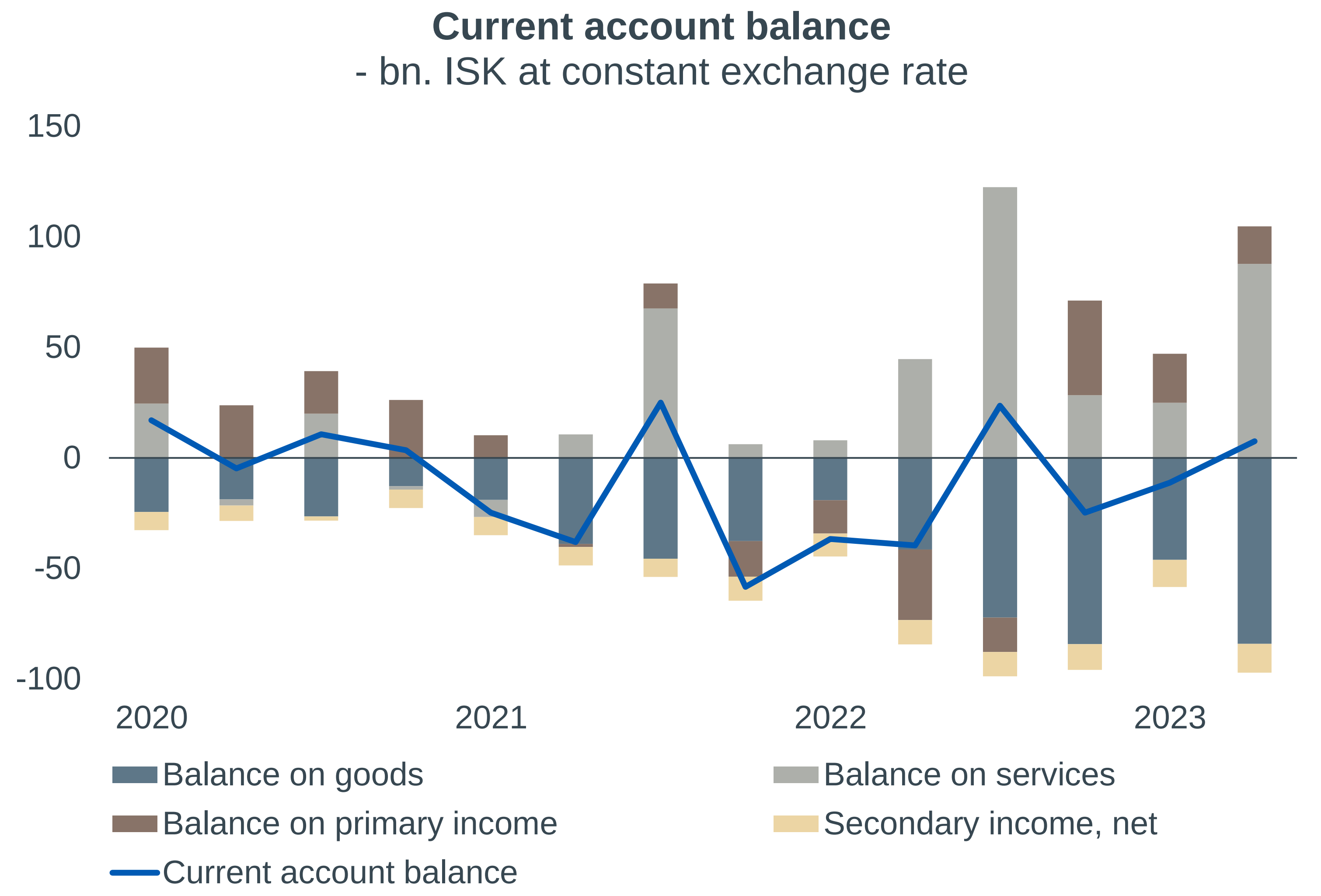
1 Premium growth in the domestic insurance market in H1 2023 was 9.8% and 7.5% in full year 2022
2 Approx.16.4 - 17.4% based on current capital requirements.
3 Pay-out ratio of approximately 50% of net earnings attributable to shareholders through either dividends or buyback of the Bank's shares or a combination of both. Additional distributions will be considered when Arion Bank's capital levels are above the minimum requirements set by the regulators in addition to the Bank's management buffer
4 Core income: Net interest income, net fee and commission income and insurance service results (excluding opex)

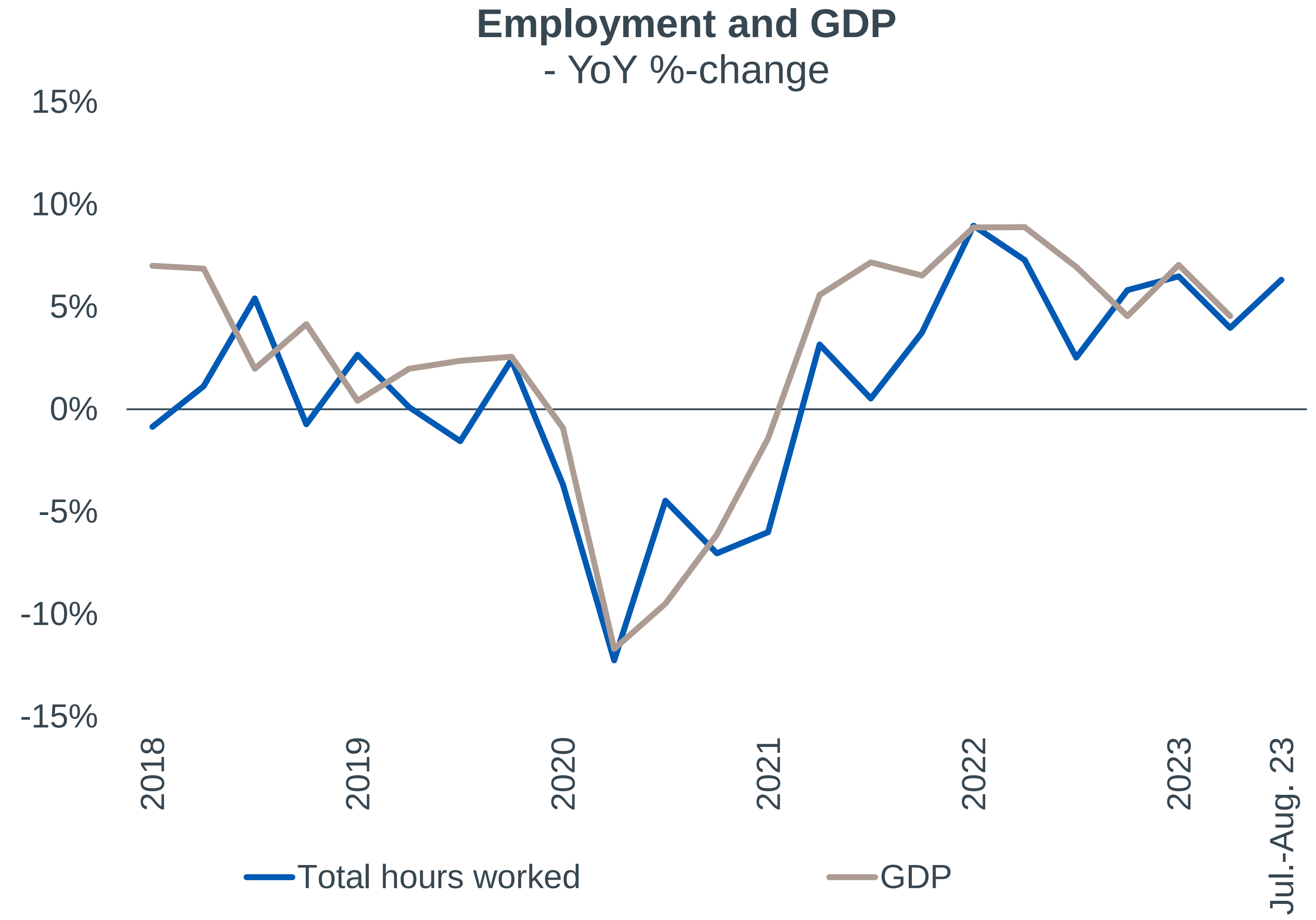
Icelandic economy: Growth continues to slow amid mixed short-term signals

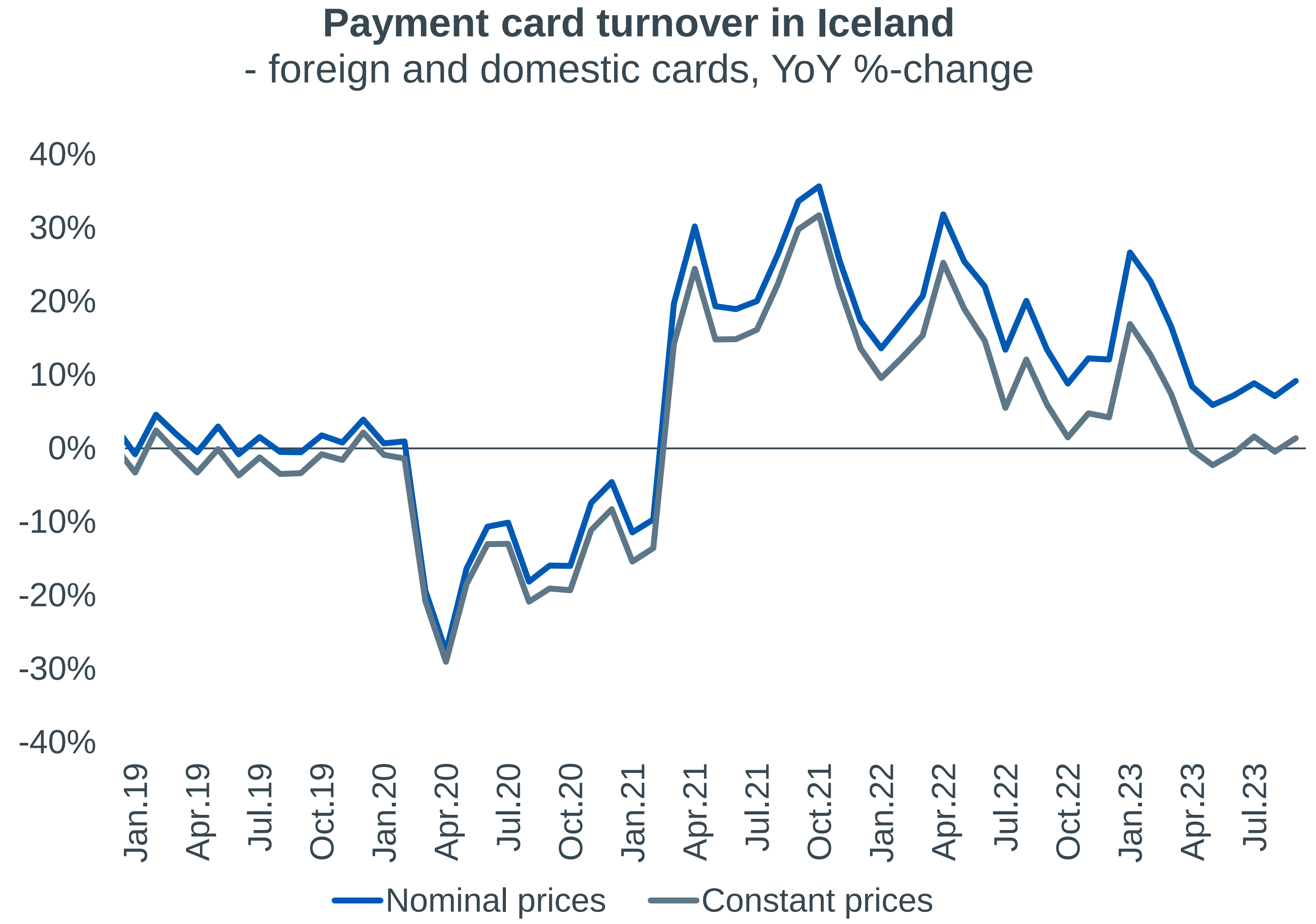
GDP grew by 4.2% in Q2 2023 by OECD measurements, and 4.5% YoY, signaling the economy remains strong. Labour market figures indicate continued growth in Q3, and strong exports are improving the current account. However, signs of slowing domestic demand are evident in recent payment card numbers.











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

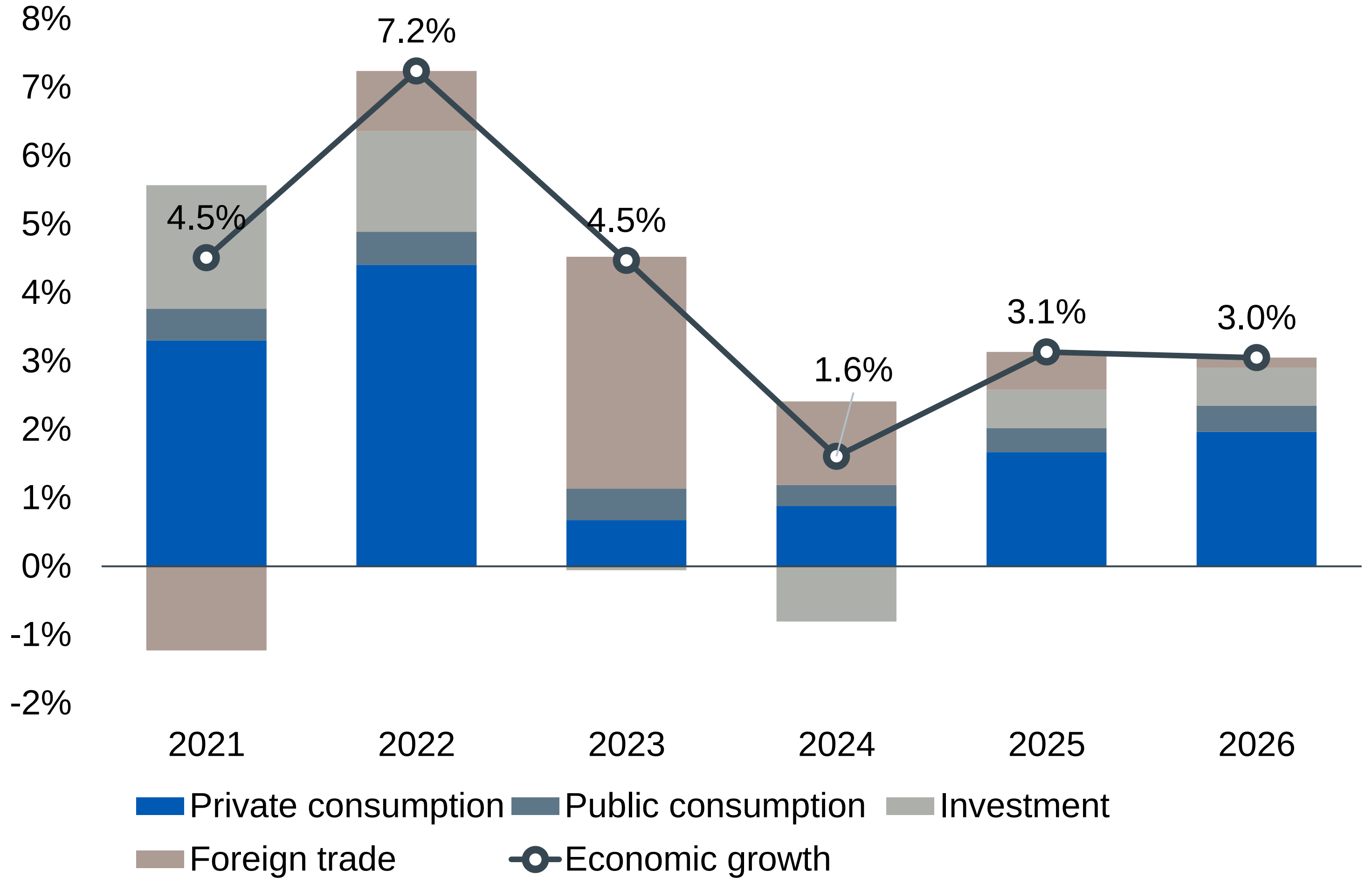
The outlook remains positive

- The Icelandic economy is set for strong growth in 2023, as illustrated by high labour demand and 5.8% growth in the first half of the year. Arion Research now projects 4.5% growth this year, revised from 5.1% in May

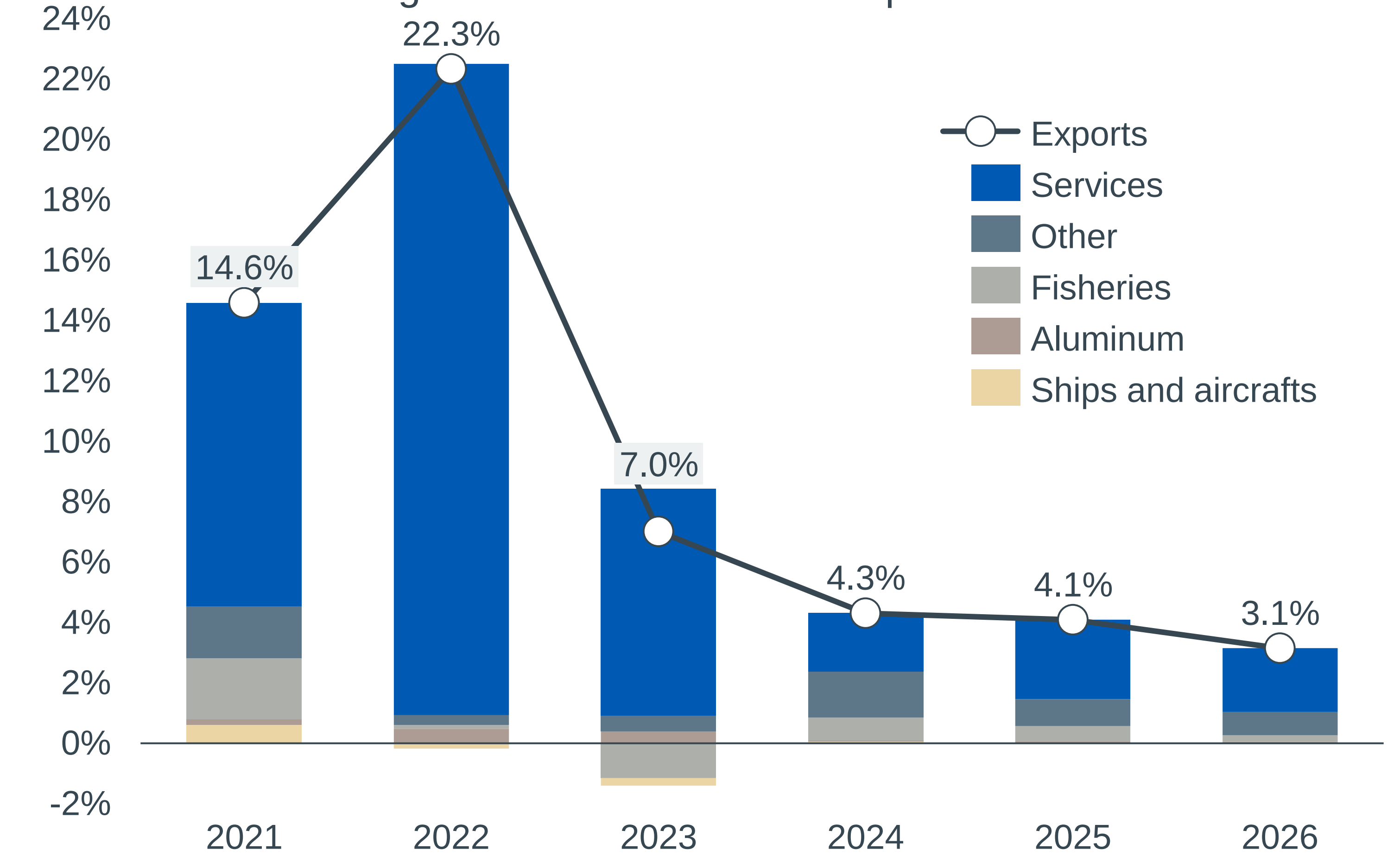
- Arion Research has revised its outlook for private consumption from 5% growth to just 1%. While domestic demand is slowing, the decline in imports has also outpaced Arion Research's expectations, resulting in a reduced impact on GDP. The forecast for 2024 remains unchanged at 1.6%, largely due to monetary tightening. That the effect of rising rates will be more significant is one of the largest risk factors over the short-term

- The outlook for exports remains strong and domestic demand is expected to bounce back in 2025, resulting in 3.1% and 3% growth in 2025 and 2026, respectively. Relatively high GDP growth in those two years is in part due to rapid, albeit slowing, population growth

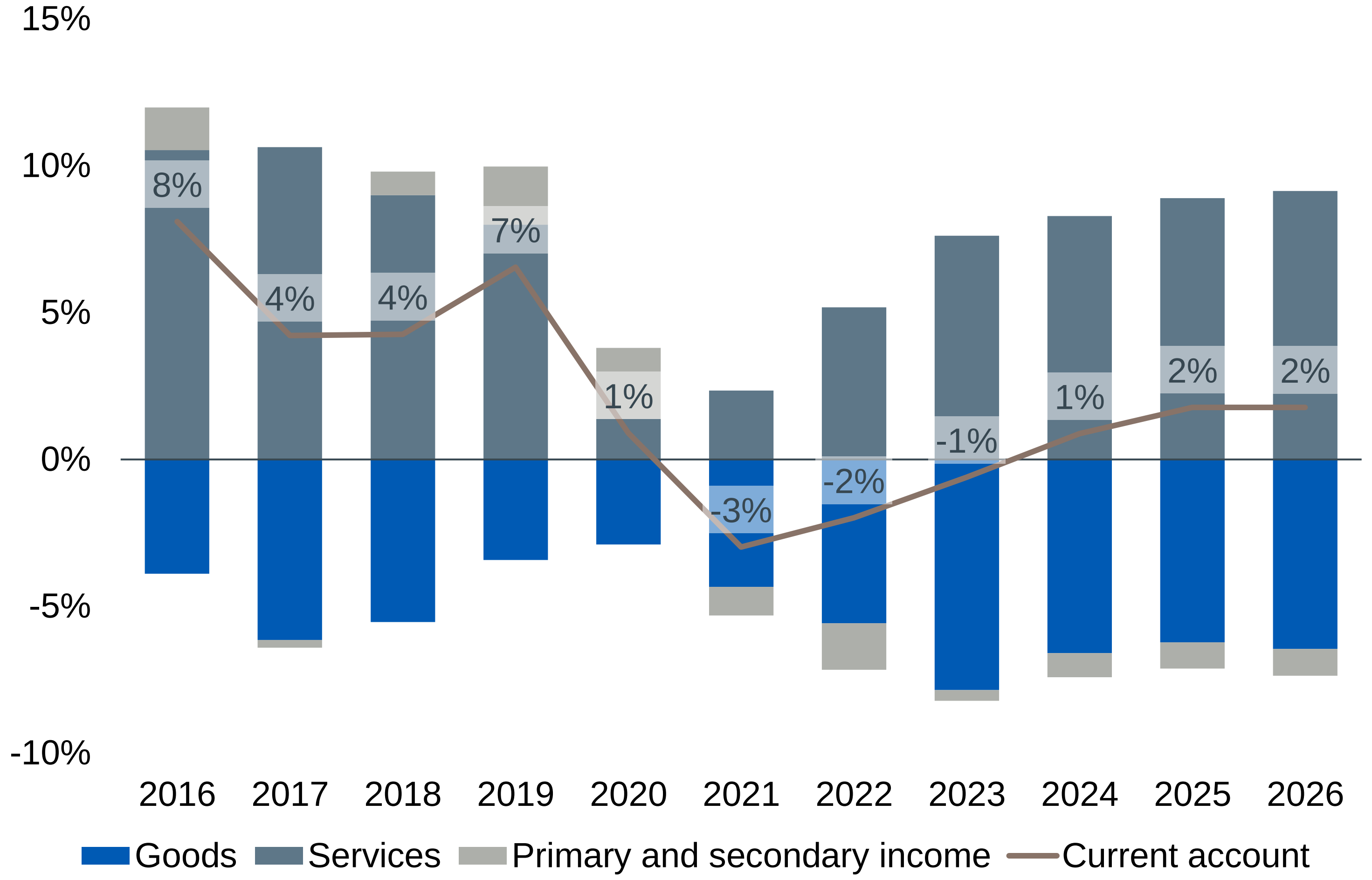
Economic growth
- growth contributions of GDP components



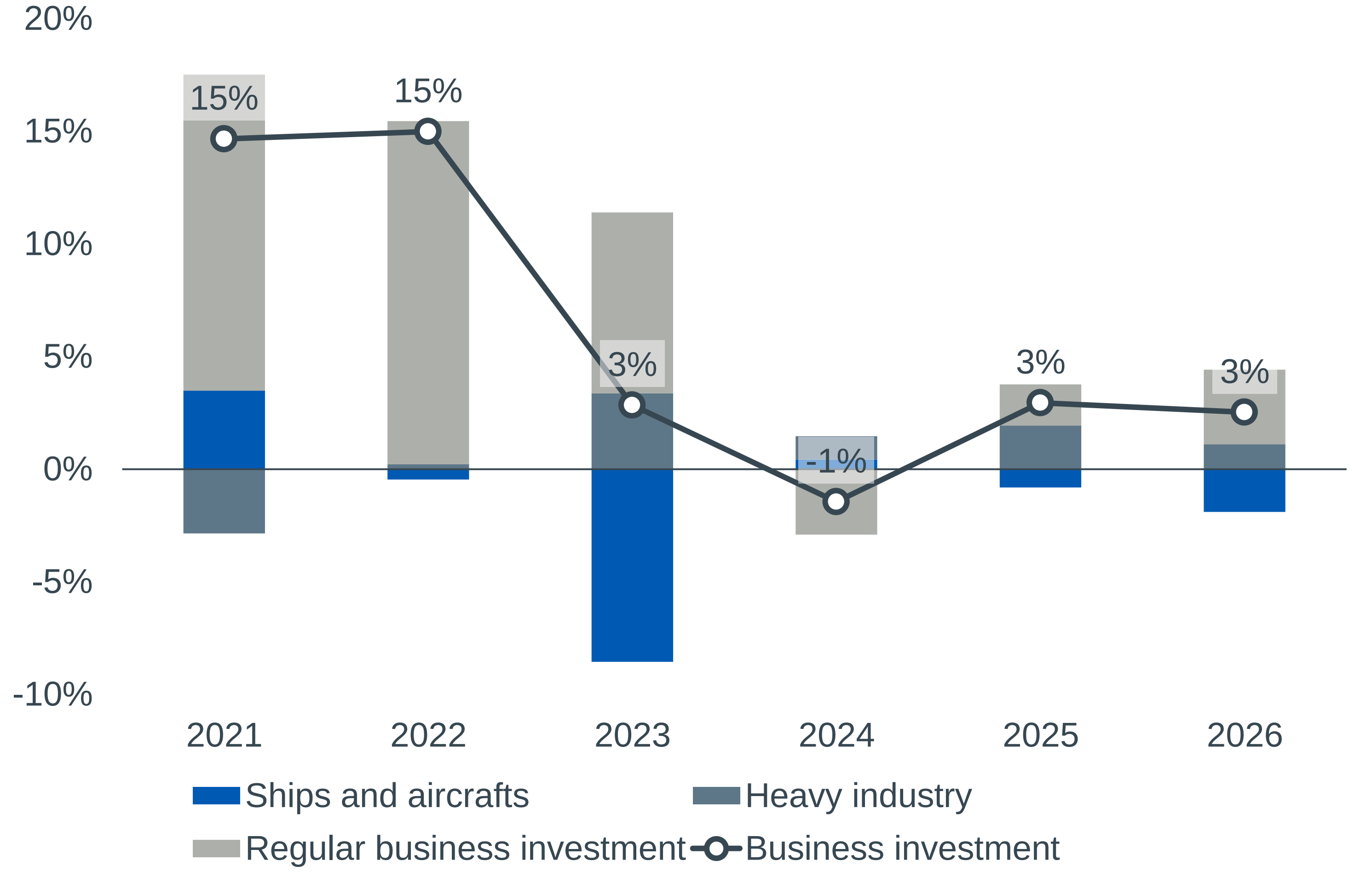
Exports
- growth contribution of components



Current account
- % of GDP



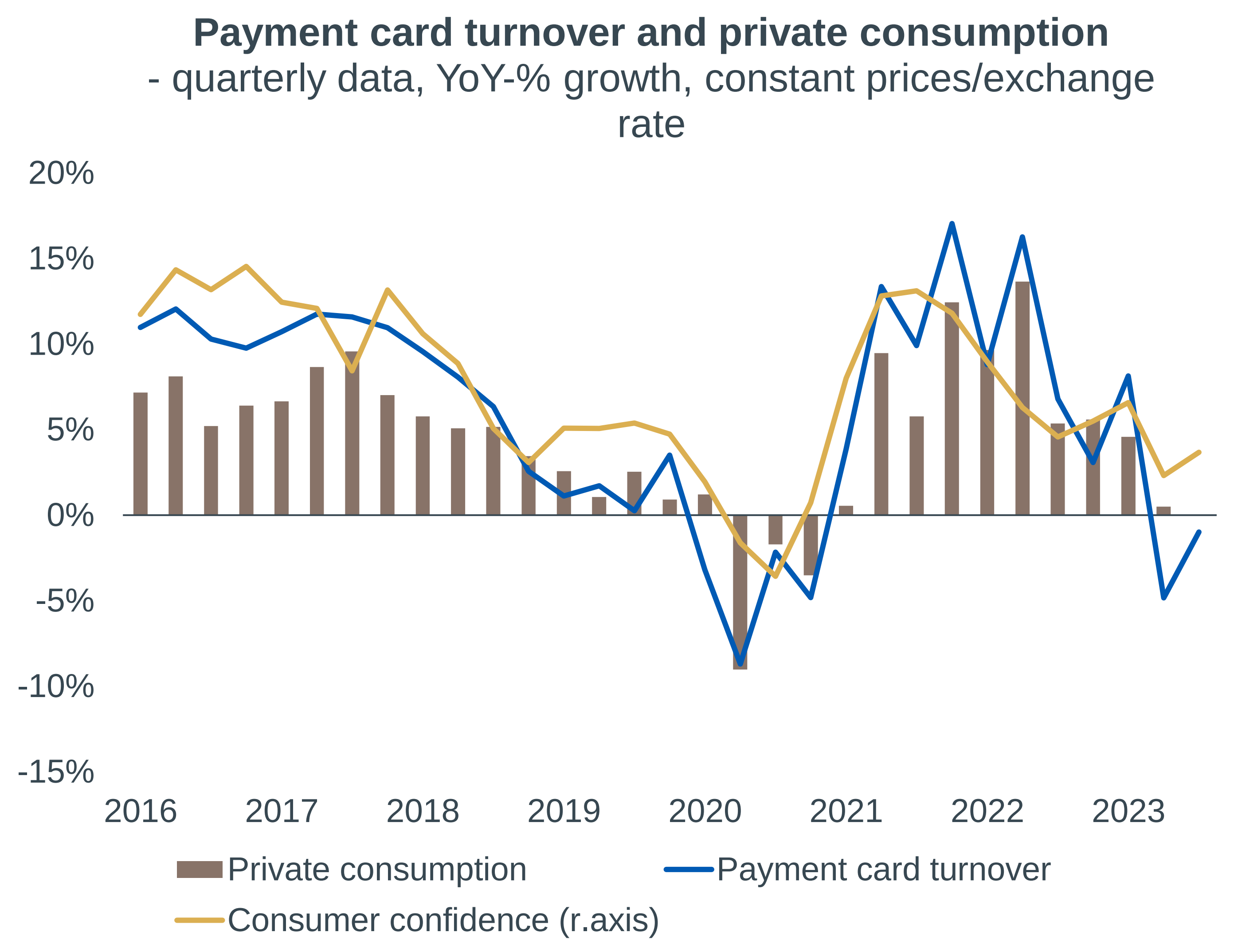
Business investment
- growth contribution of components

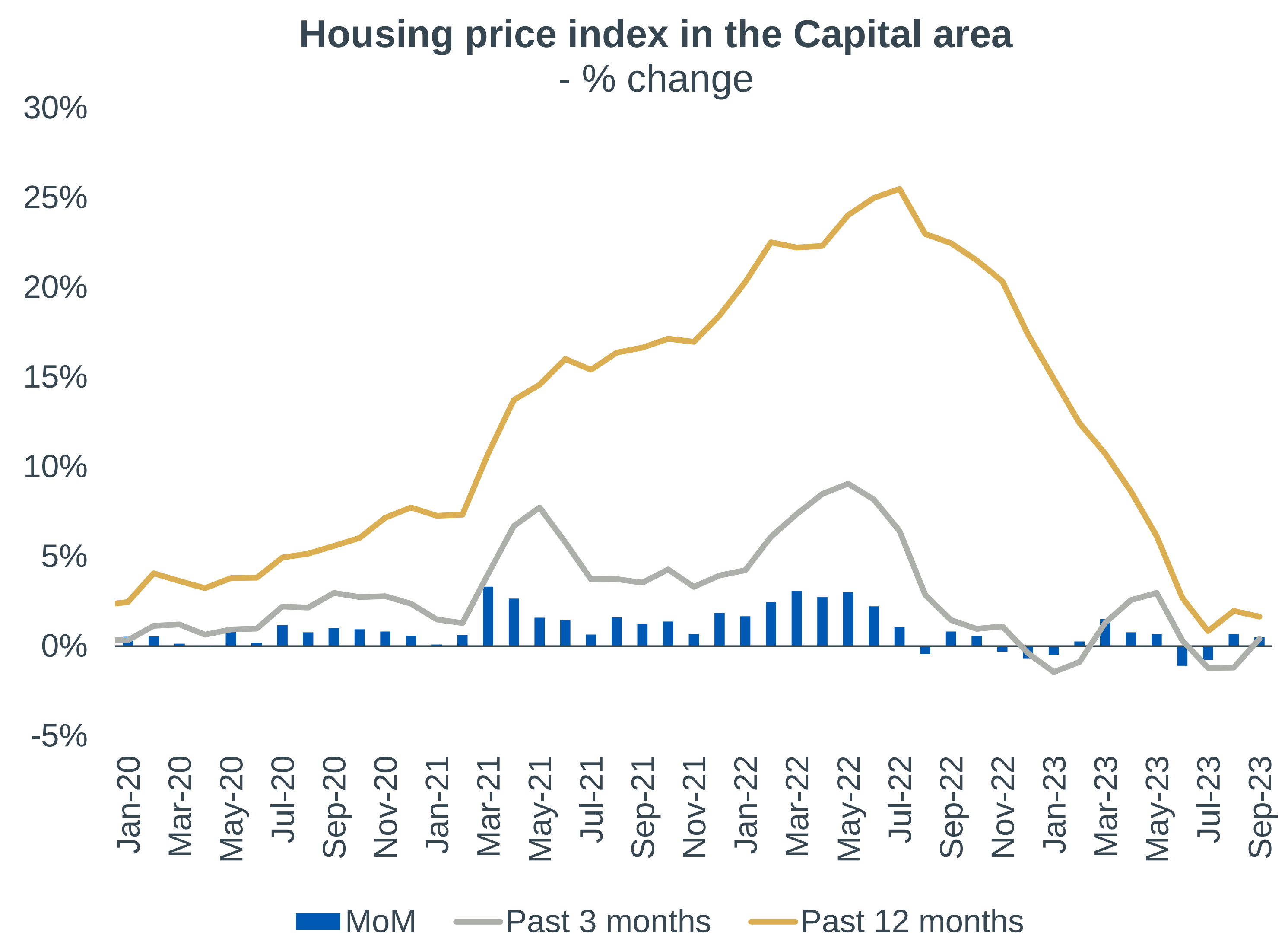


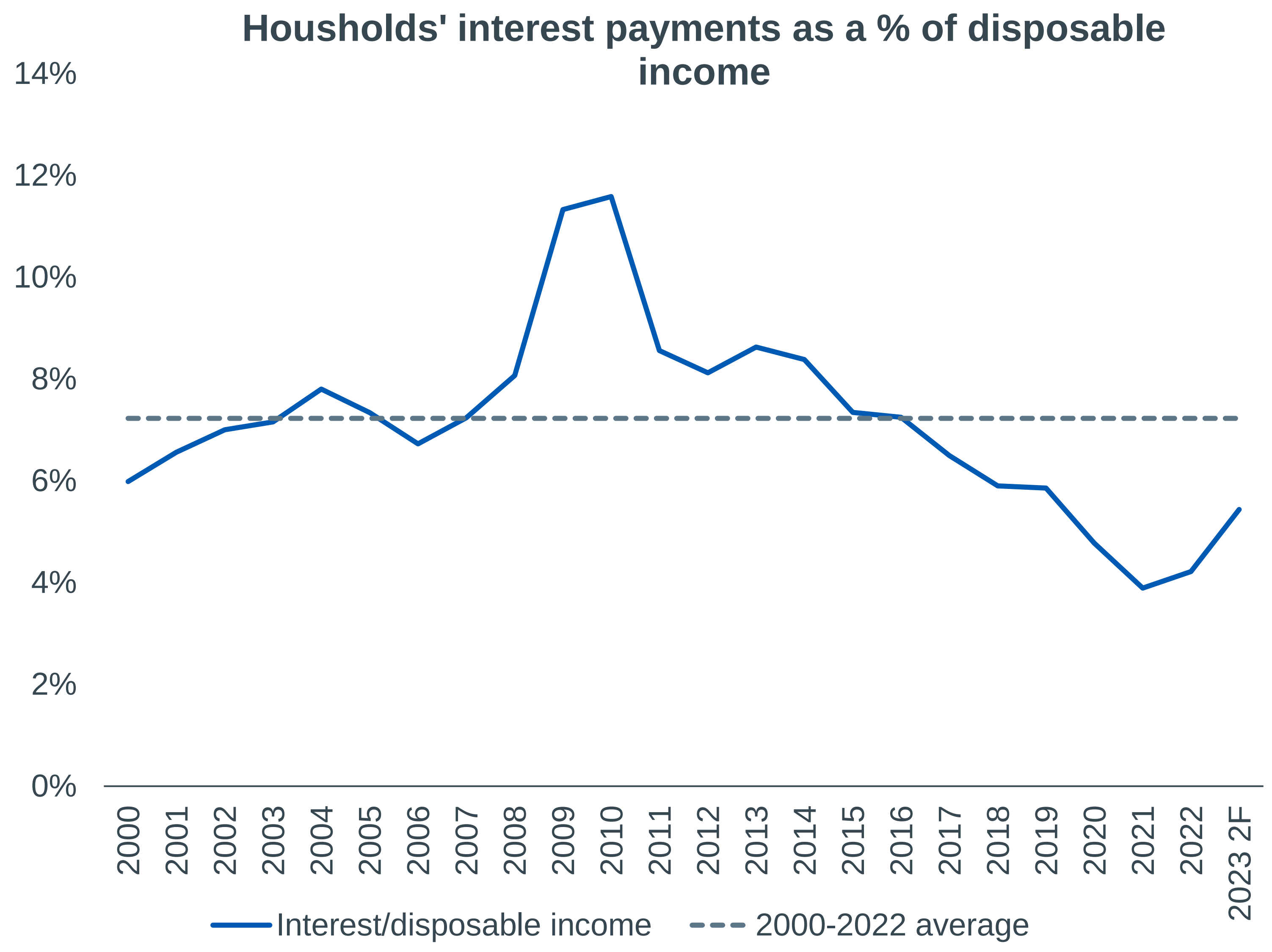
Sources: IMF, Central Bank of Iceland, Statistics Iceland, Arion Research.

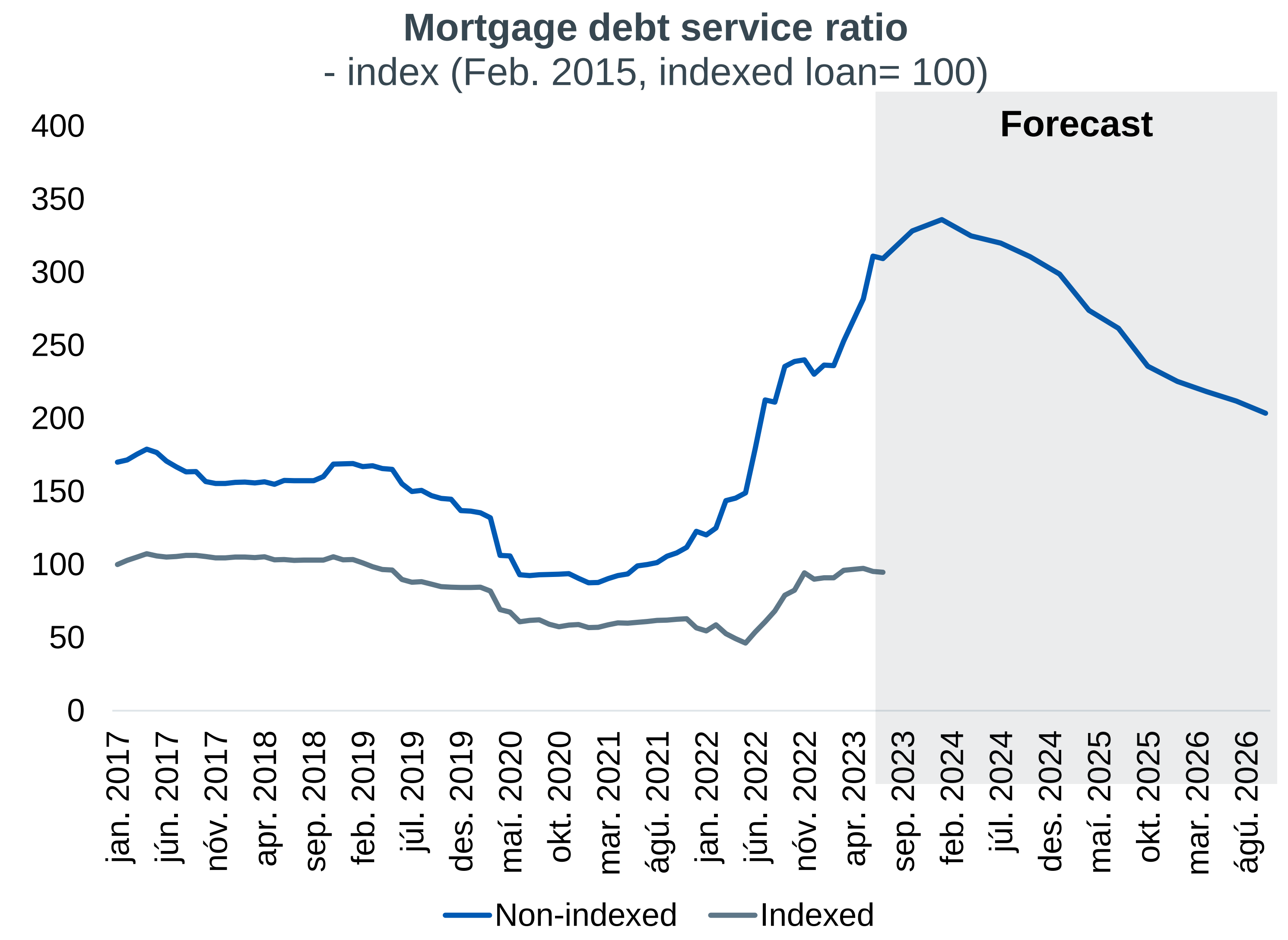
Households tap the brakes

- Households are visibly affected by tighter monetary policy and expectations of slower growth as illustrated by declining household payment card turnover. Nevertheless, consumer confidence remains only slightly below neutral, and card turnover dropped by only 1% in Q3. The fact that interest payments as a proportion of disposable income are still well below the historical average might explain robustness in private consumption
- Rising housing prices in August and September, by 0.8% and 1.4%, respectively, also illustrate fairly strong demand. The situation in the housing market can be characterized as a tug of war, where rising interest rates and costs are pulling towards lower prices, while the near 4% population growth is fueling the demand side. Households have generally been moving towards indexed-linked loans, which carry significantly lower monthly payments, a trend Arion Research expects to continue





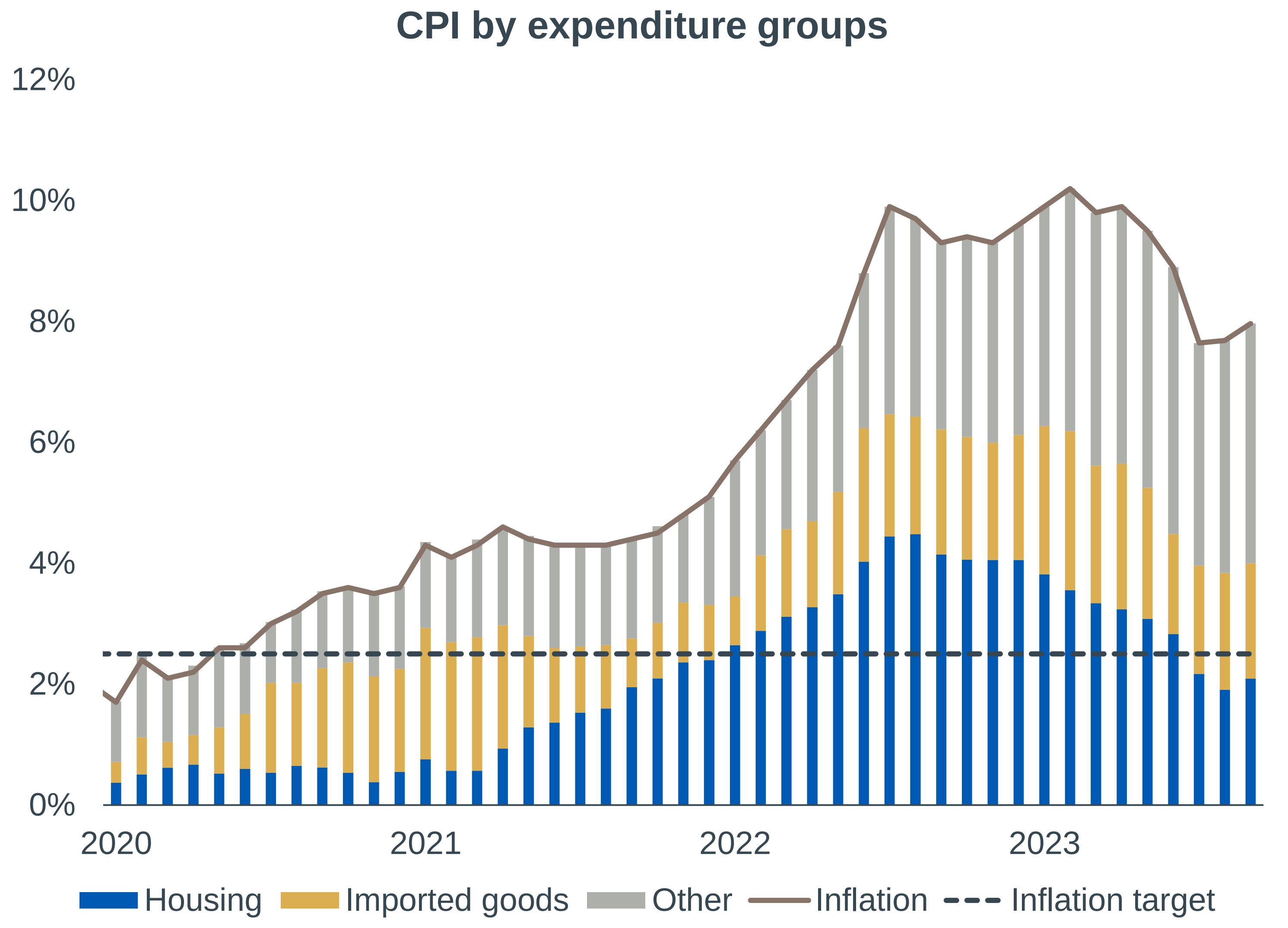


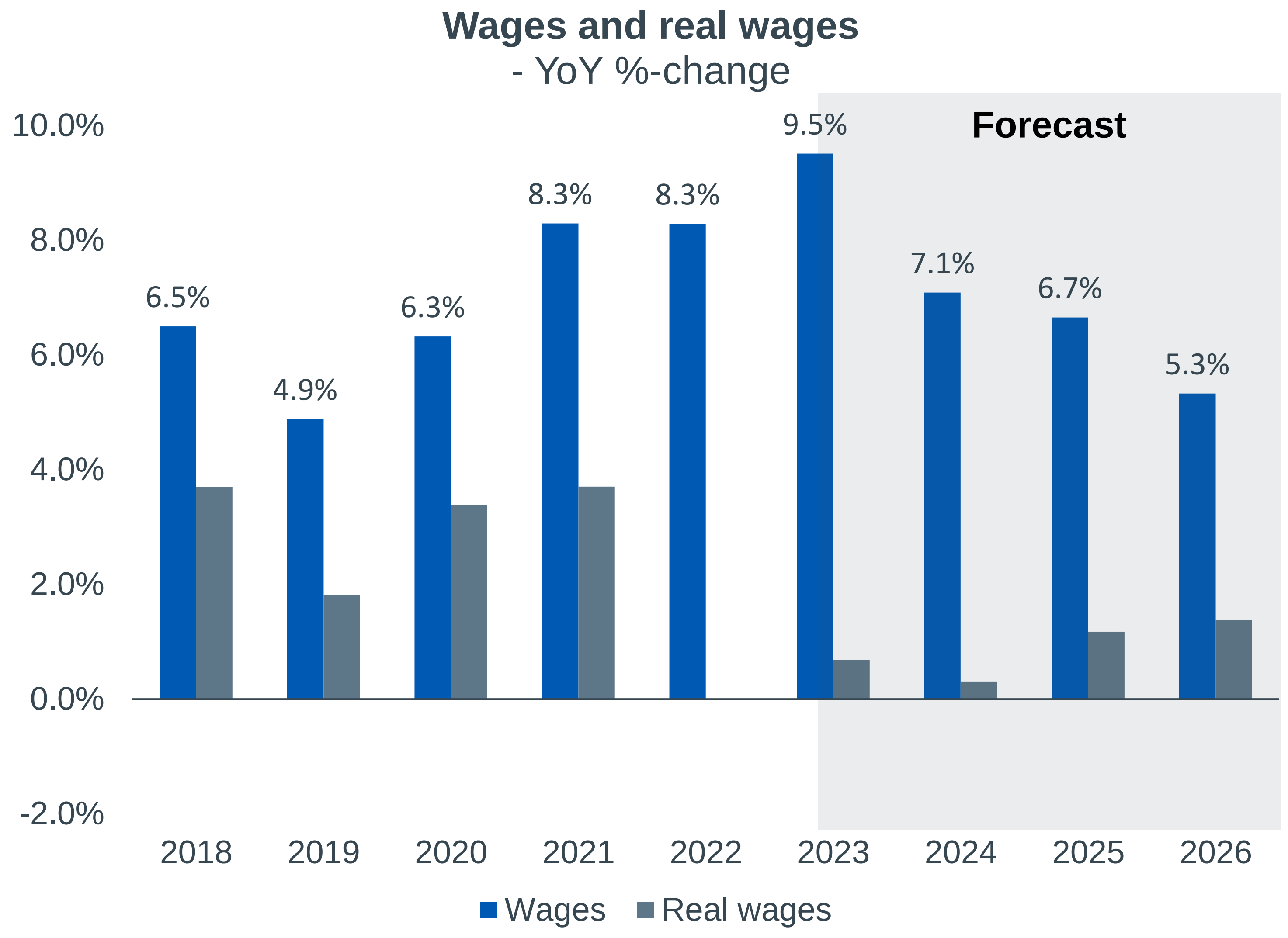


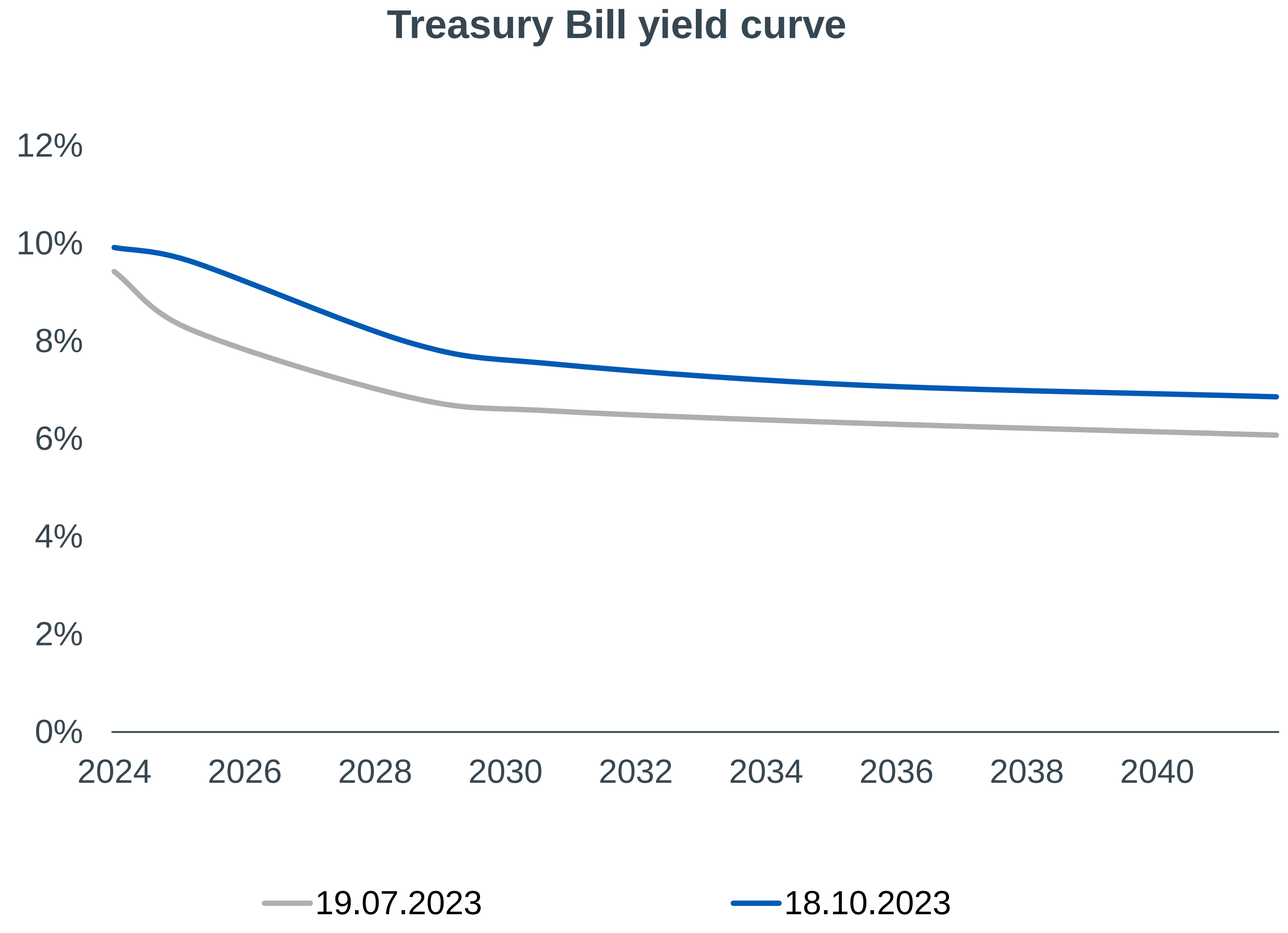
Sources: Central Bank of Iceland, Statistics Iceland, HMS, Arion Research.

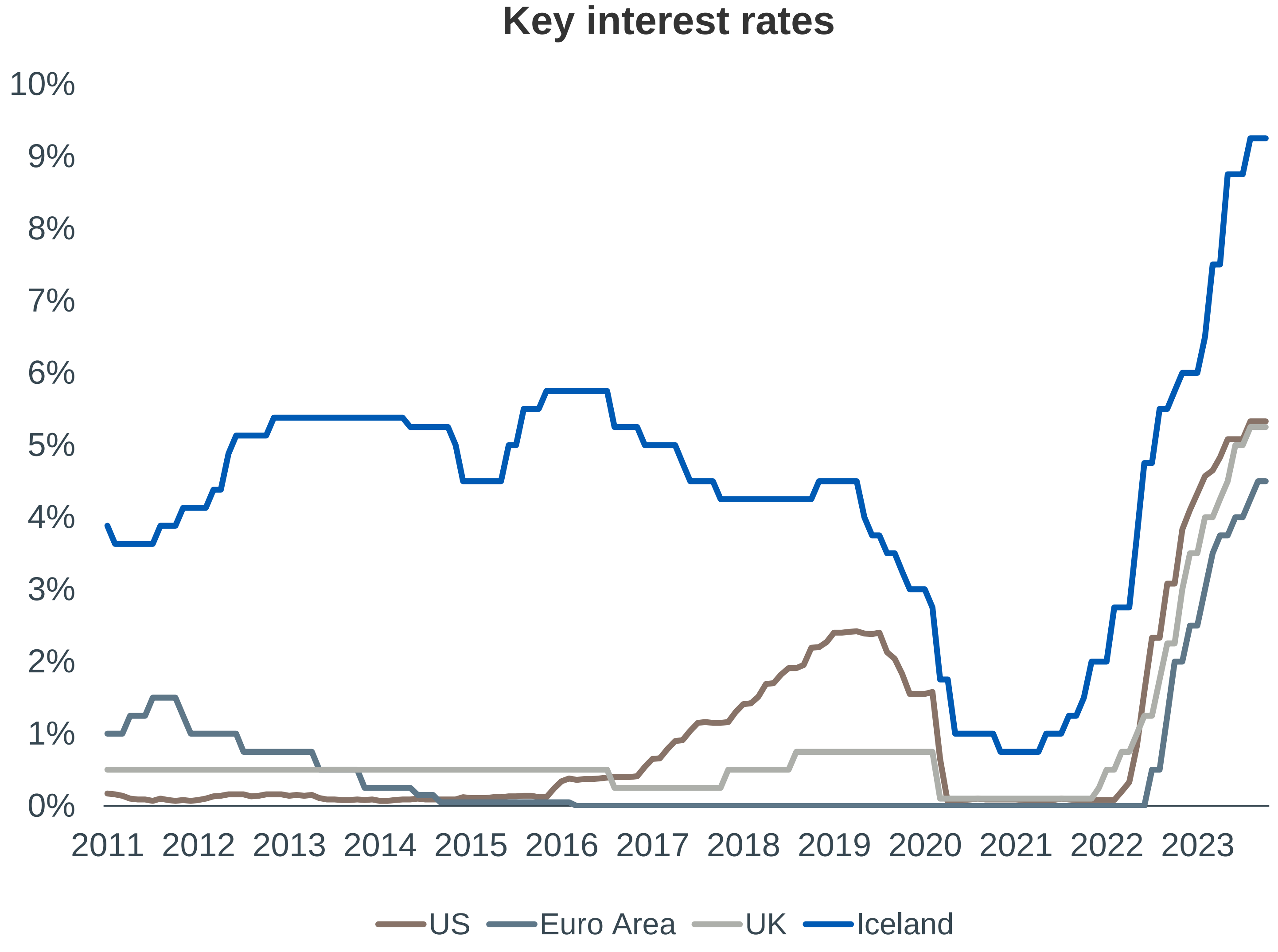
Inflation has slowed but rates might rise further

- Inflation continued to decelerate in Q3, although the signals from the most recent CPI numbers have been mixed. On one hand, the 12-month headline inflation rate has increased again to 8% in September after 7.6% inflation in July. On the other hand, by some measures, underlying price increases have been moderate over the past few months, as argued by the Central Bank’s monetary policy committee (MPC) following its decision to keep interest rates unchanged at its October meeting. The MPC had previously hiked rates by 50 basis points in August
- Arion Research expects inflation to remain near 7-8% until early next year when it will moderate, resulting in 6.7% average inflation rate in 2024. The inflation outlook overall is highly uncertain and will largely hinge on the upcoming collective bargaining. With the risk of persistent inflation and inflation expectations Arion Research expects the MPC to hike rates by 50 basis point in November, taking the key rate to 9.75%





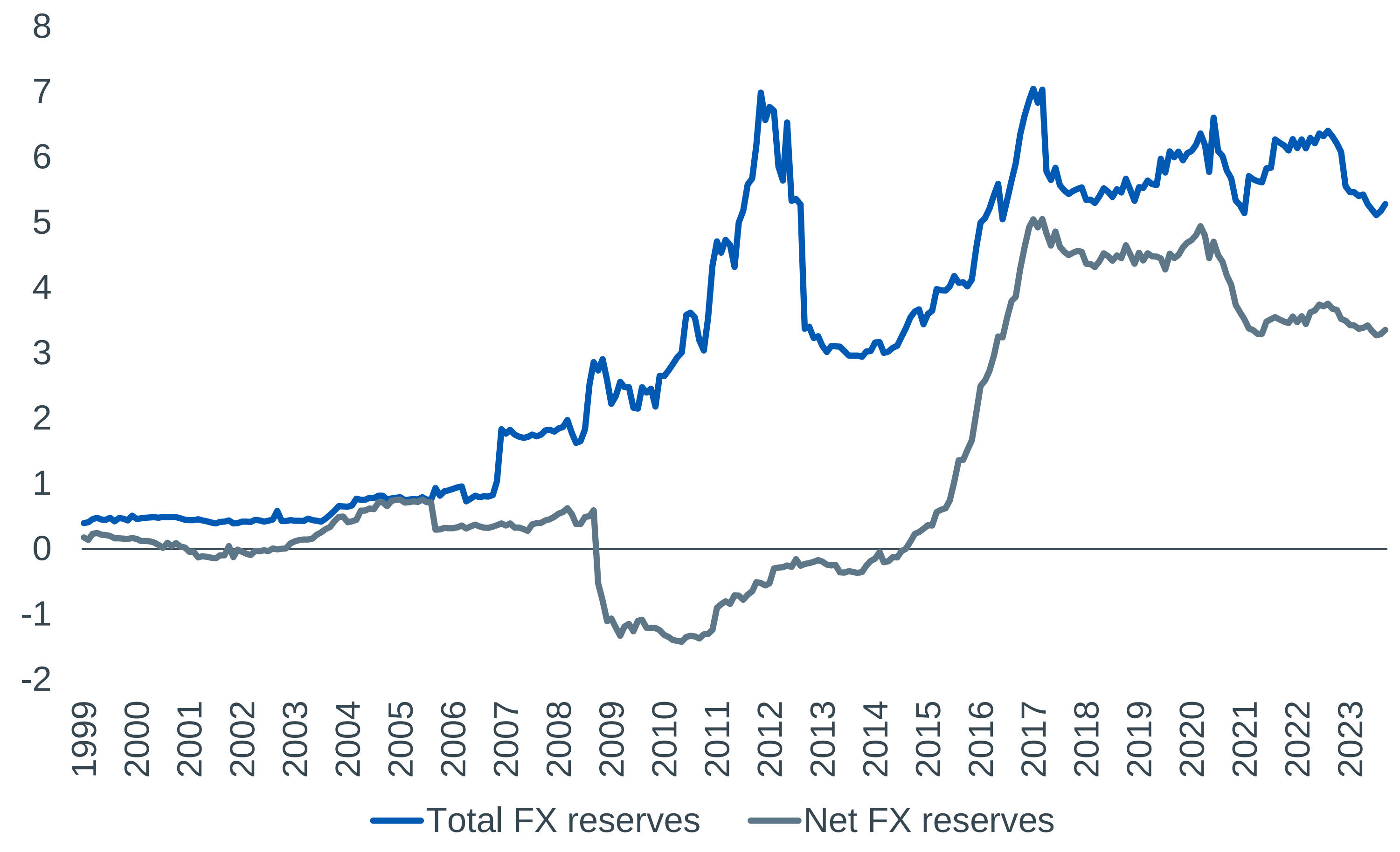




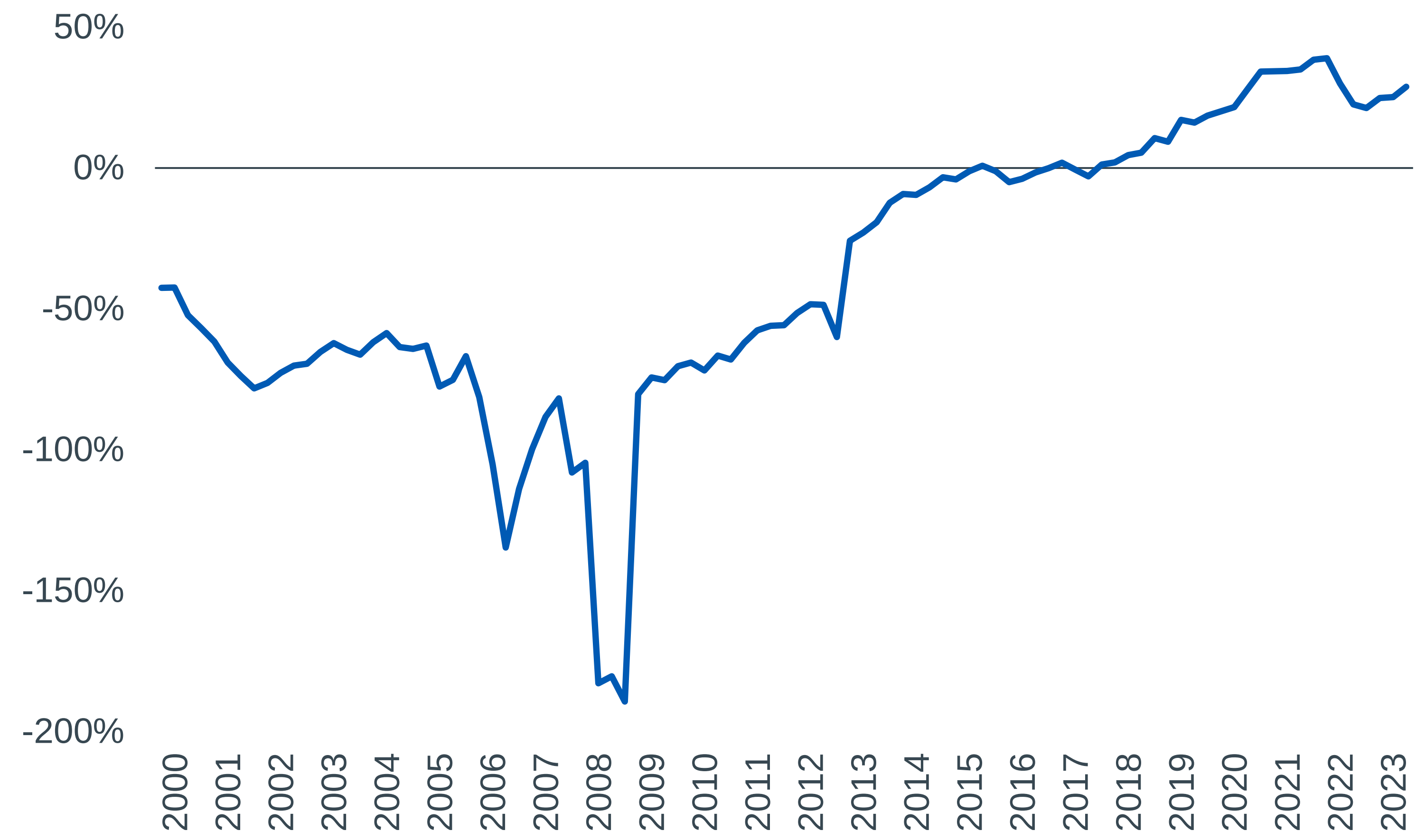
Sources: Statistics Iceland, Central Bank of Iceland, Kodiak BoE, ECB, Federal Reserve, Arion Research.

The Icelandic economy built on strong foundations

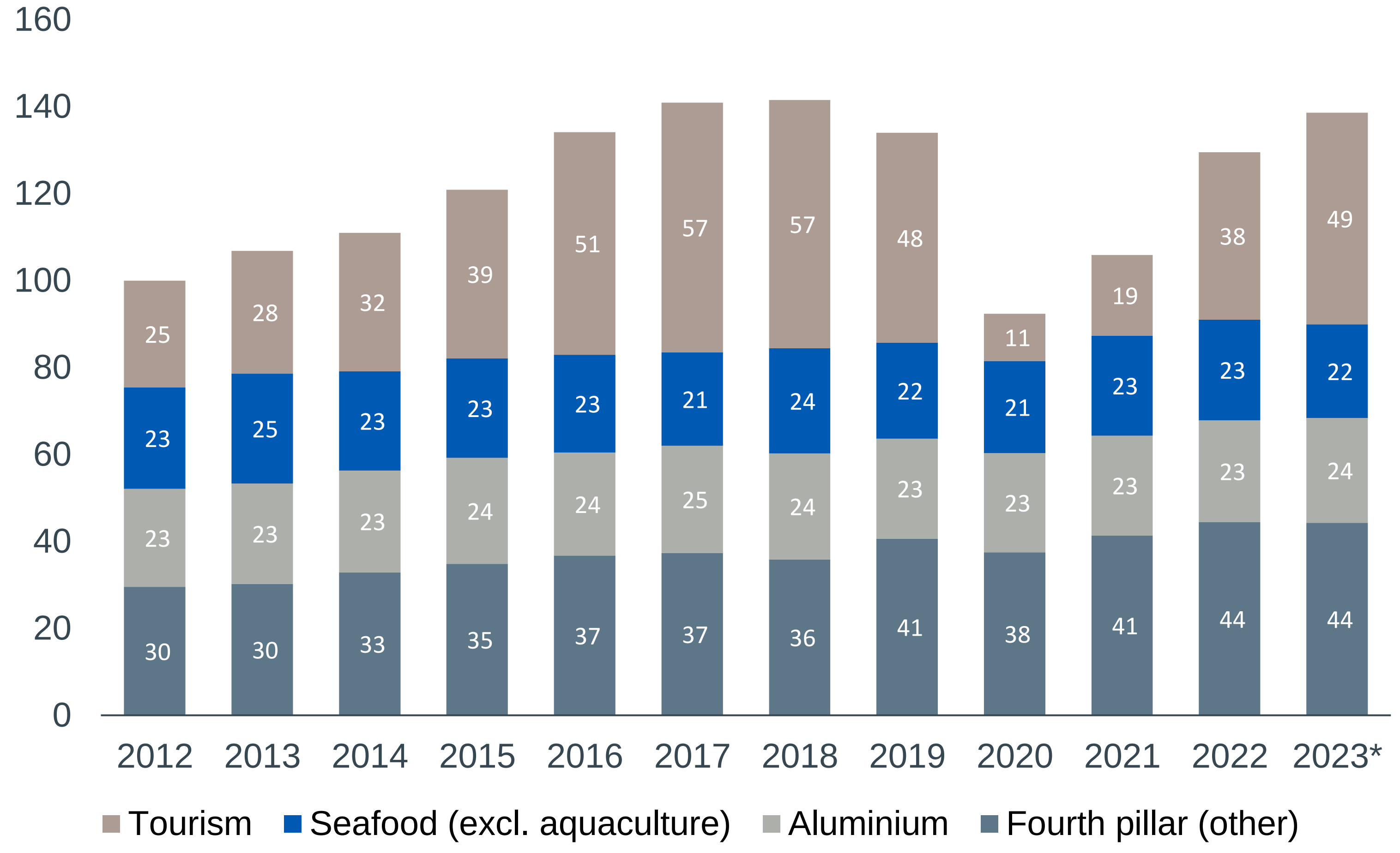
CBI's FX reserves
- bn. EUR



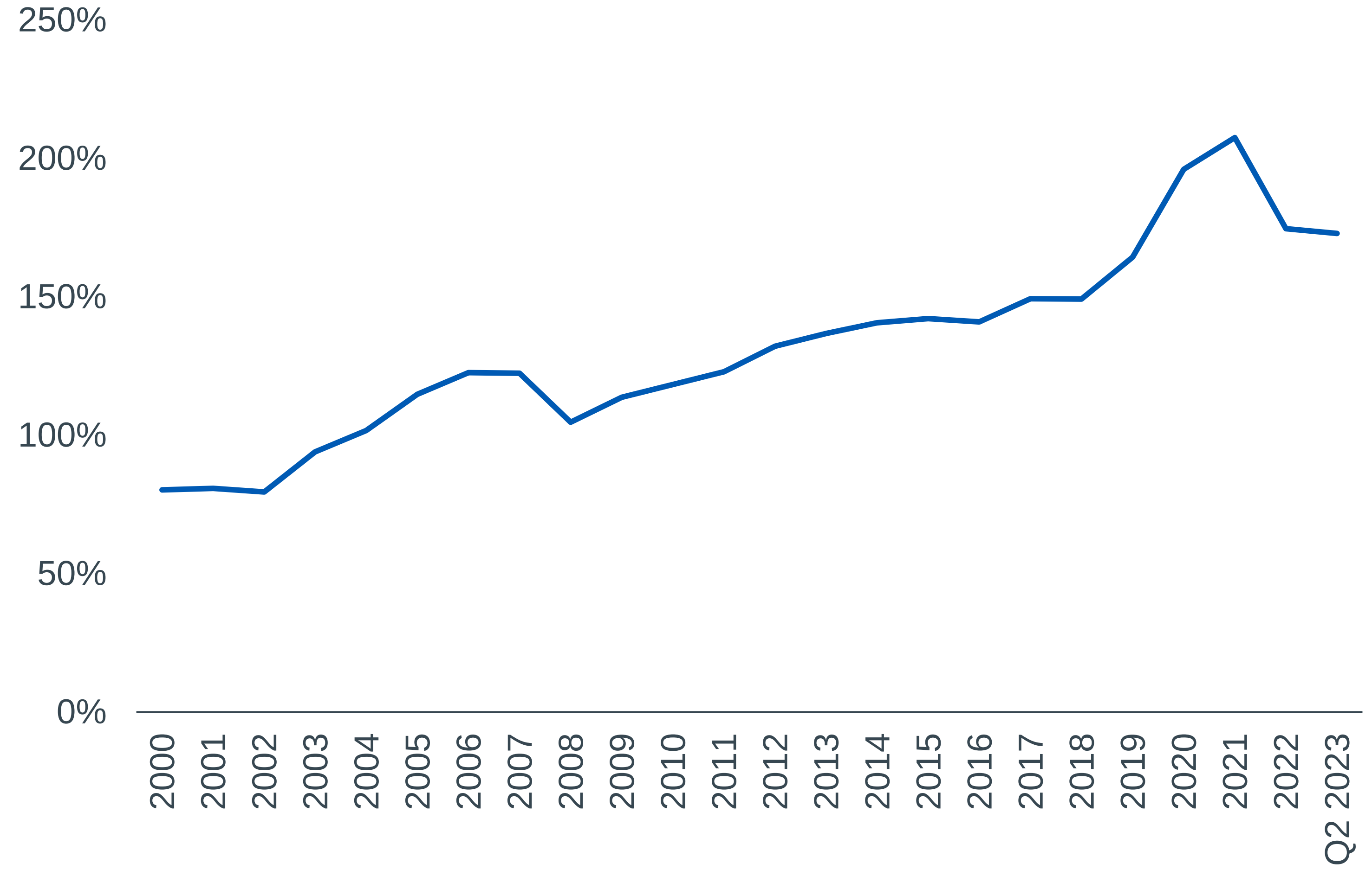
Net international investment position
- % of GDP



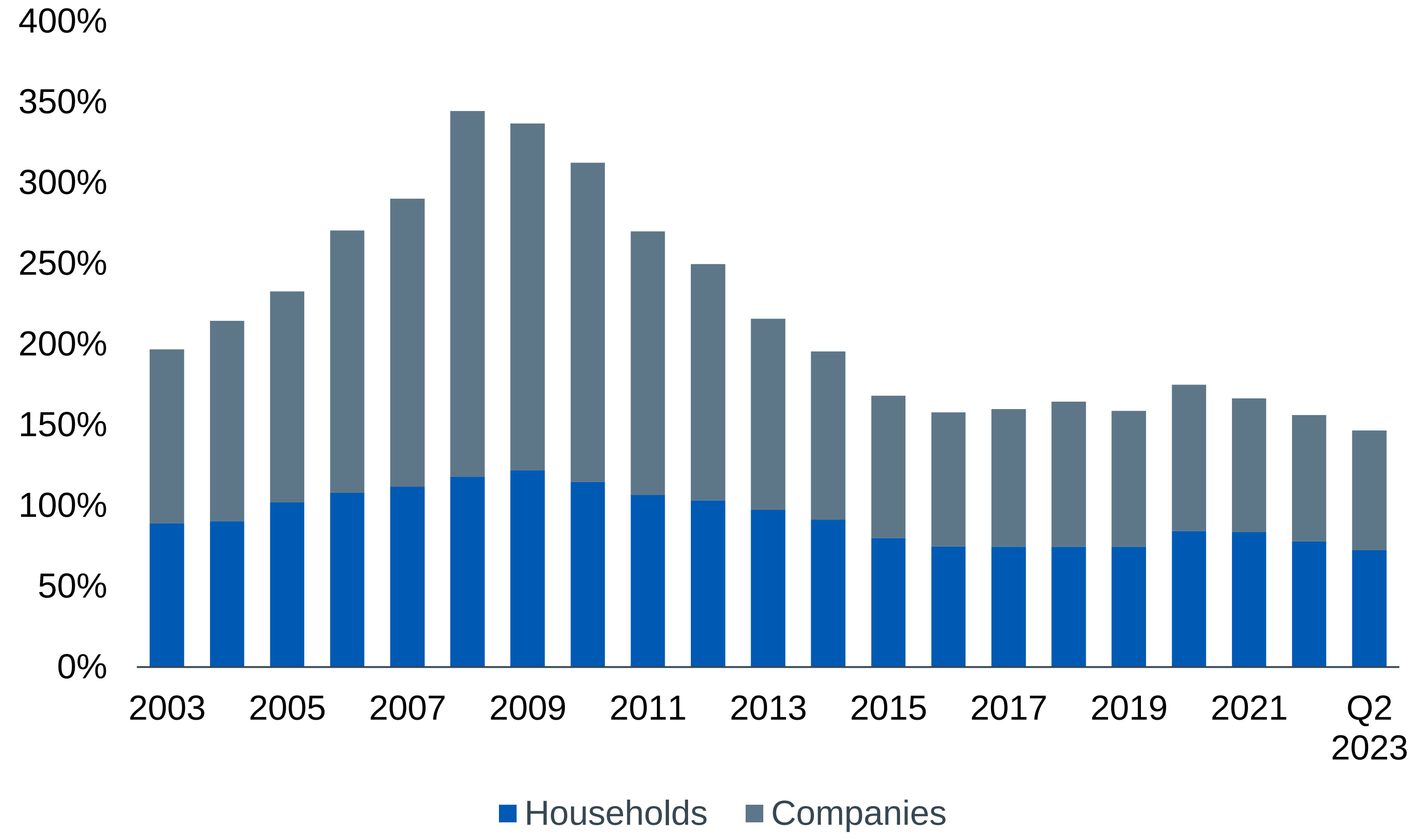
Real exports
- index, total in 2012=100



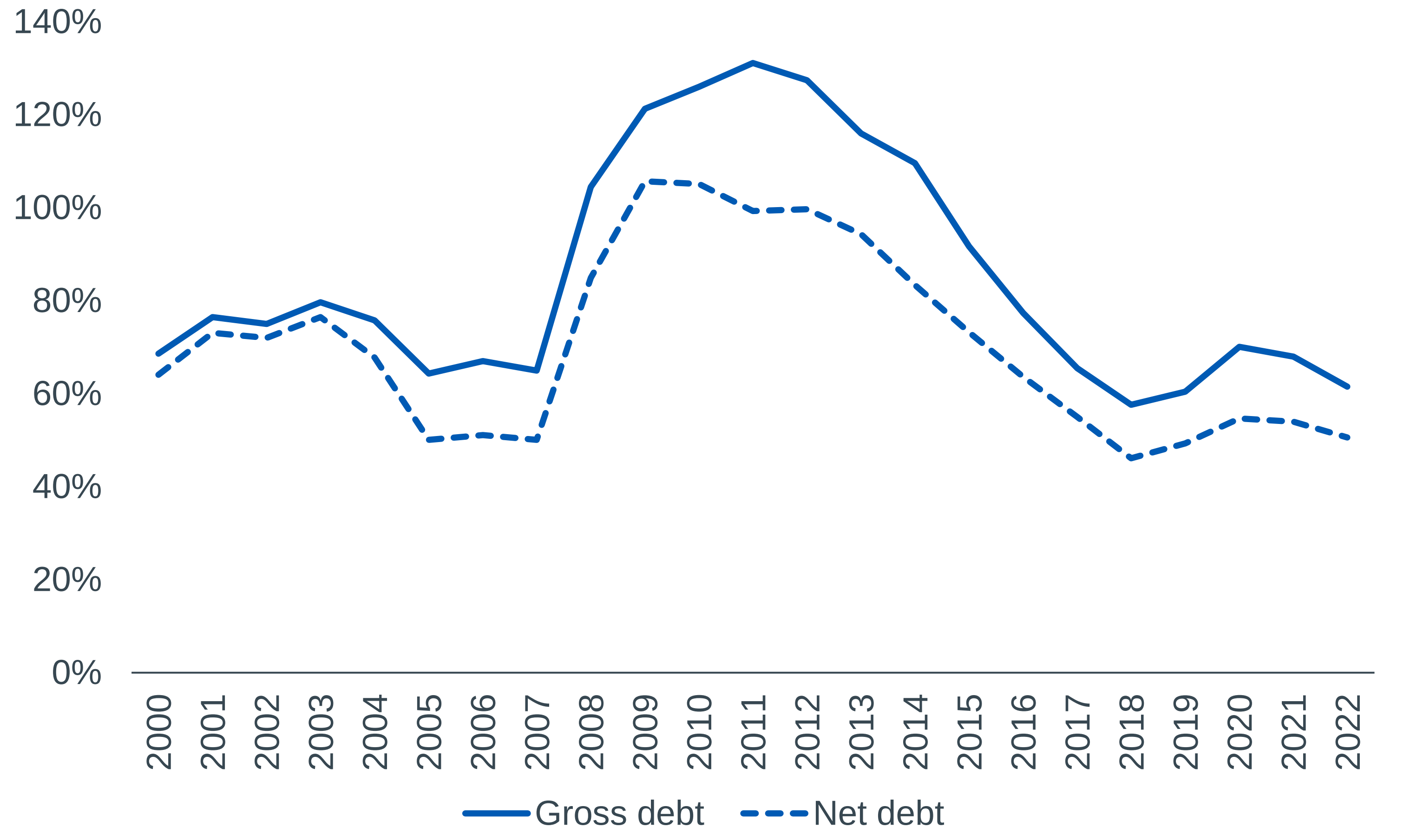
Pension funds assets
- % of GDP



Household and non-financial corporate debt
- % of GDP



Debt of central government
- % of GDP



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

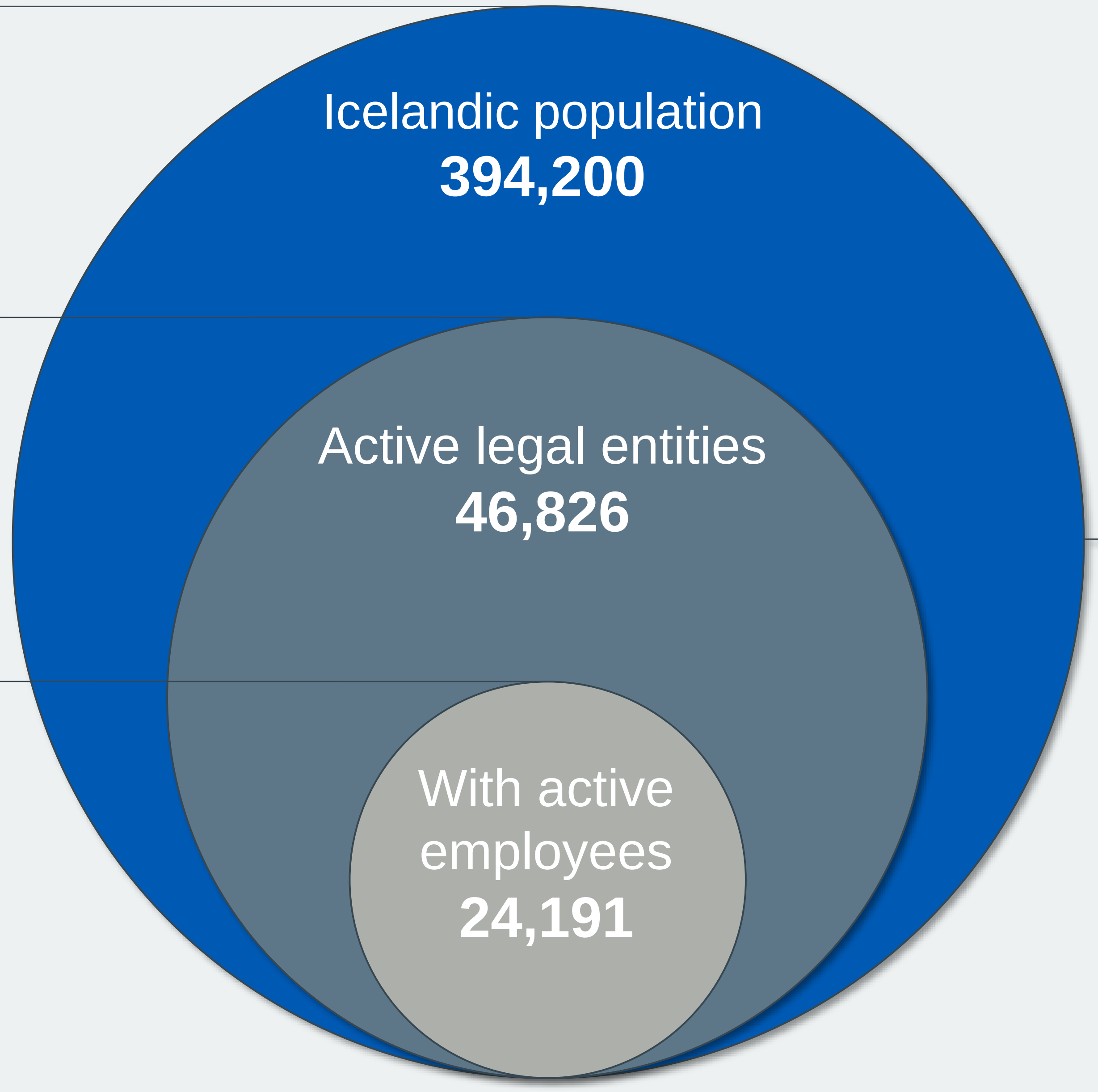
Iceland's dynamic business climate

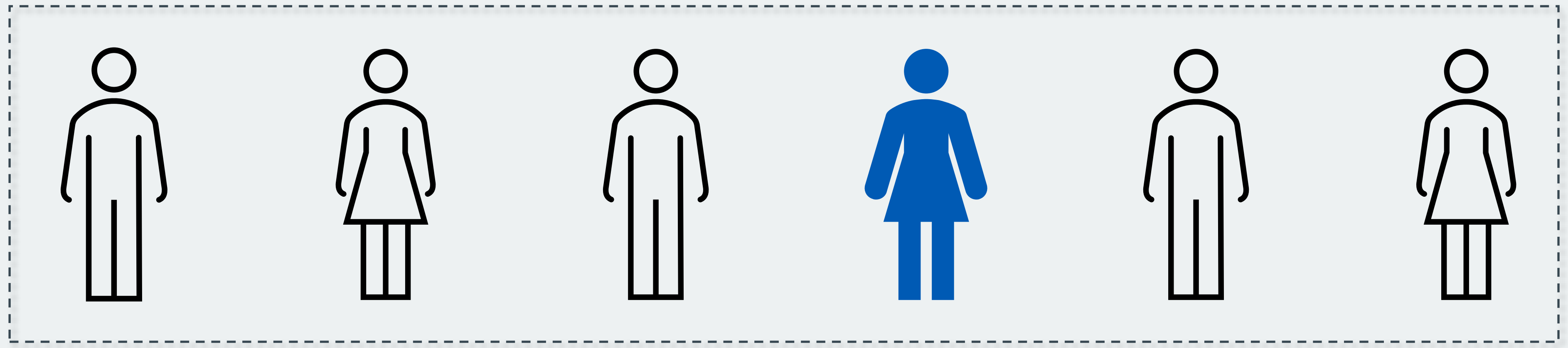
With a ratio of one active company per six adults, Iceland exemplifies a culture of innovation and economic engagement…

Record growth of the Icelandic population, growing by 12,830 or 3.4% YOY

Active legal entities grew by 6% between 2021 and 2022 representing roughly 12% of the total population or 15% of the adult population

Nearly half of active legal entities have at least one person on payroll





… and Arion plays an important role in Iceland's active business landscape, tailoring solutions for diverse needs.

- Broad product offering with around 190,000 active customers representing close to 50% of the population
- Known for innovation – digital at the core and customer-first focus
- Top corporate and institutional bank in Iceland and the fastest growing in business banking with a clear focus on more capital-efficient activities
- Positioned in the most attractive customer segments with a strong full-force offering

Sources: Statistics Iceland, Iceland Revenue and Customs

Key operational highlights in Q3

Moody's upgraded Arion Bank's rating to A3 with a stable outlook

Stefnir Funds issued its first PCAF report

Arion Bank, Vörður insurance and Stefnir Funds all received recognition for being exemplary companies in corporate governance

Ongoing proactive engagement with customers with upcoming interest rate resets of their fixed nominal mortgages

The Bank is well prepared to support its customers by offering various products and solutions to manage mortgage debt service

Momentum in bancassurance strategy

- Bancassurance ratio for individuals to 34.7% vs. 33.1% in Q3 2022
- Bancassurance ratio for corporates to 25.4%. vs 22.4% in Q3 2022

COO role introduced as part of organizational changes

Key focus:

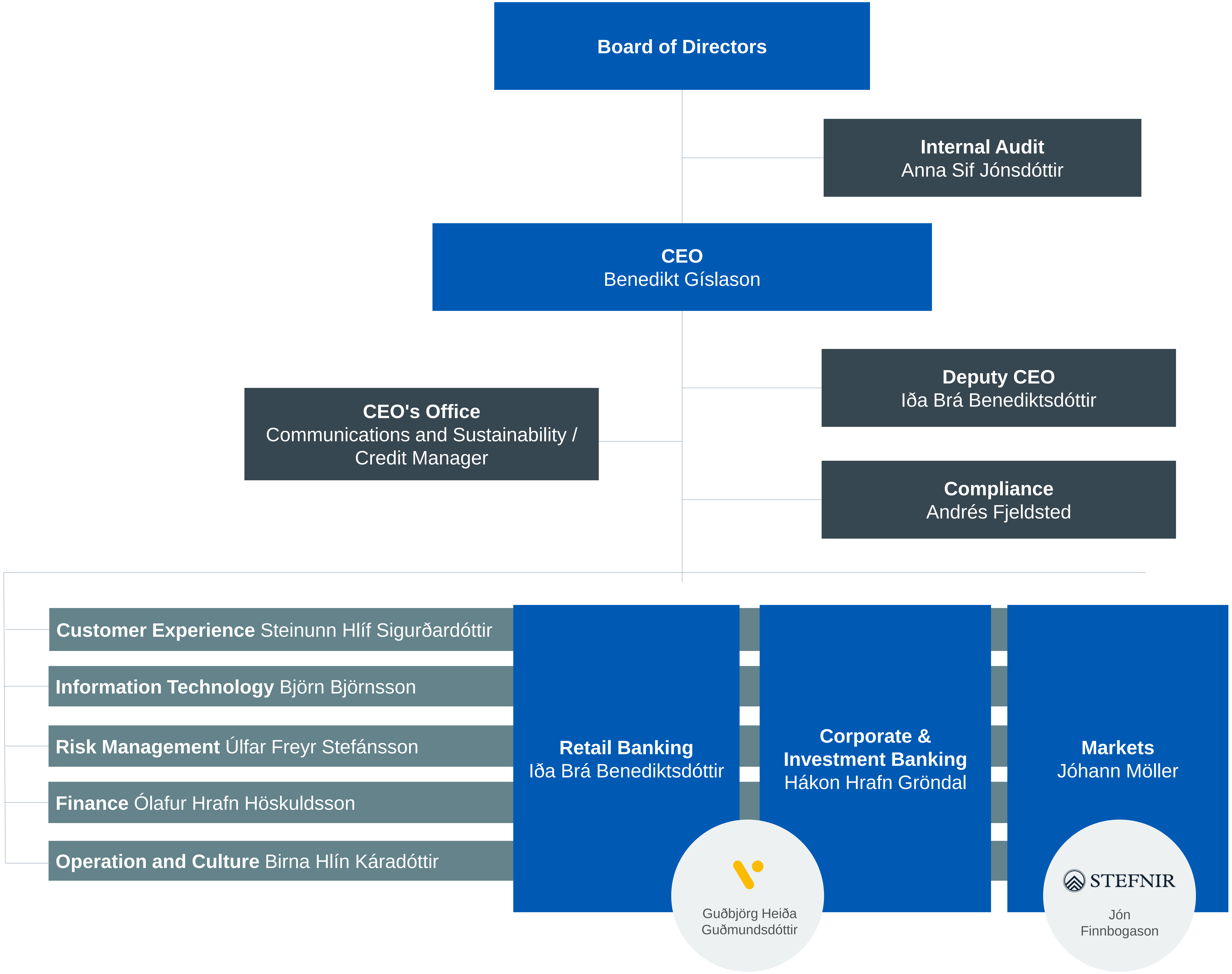
- Unite important support units
- Increase collaboration
- Break down silos

Operation & Culture is a new cross functional support unit

Birna Hlín Káradóttir has been General Counsel at Arion Bank since 2019. She has now taken up the role of Chief Operating Officer.

She has extensive experience in the financial market and held the positions of general counsel at Fossar Markets, Straumur Investment Bank and Straumur-Burðarás, as well as Arion Bank.

She has taught financial market law at Reykjavík University and the University of Iceland and has served on the boards of directors of several companies and organizations in Iceland and abroad. Birna Hlín has completed an Advanced Management Program at IESE Business School Barcelona and has a Cand. Jur. degree from the University of Iceland. She is a district court attorney and a licensed securities broker.



Driving coordinated delivery of strategic goals

Delivery of strategic goals

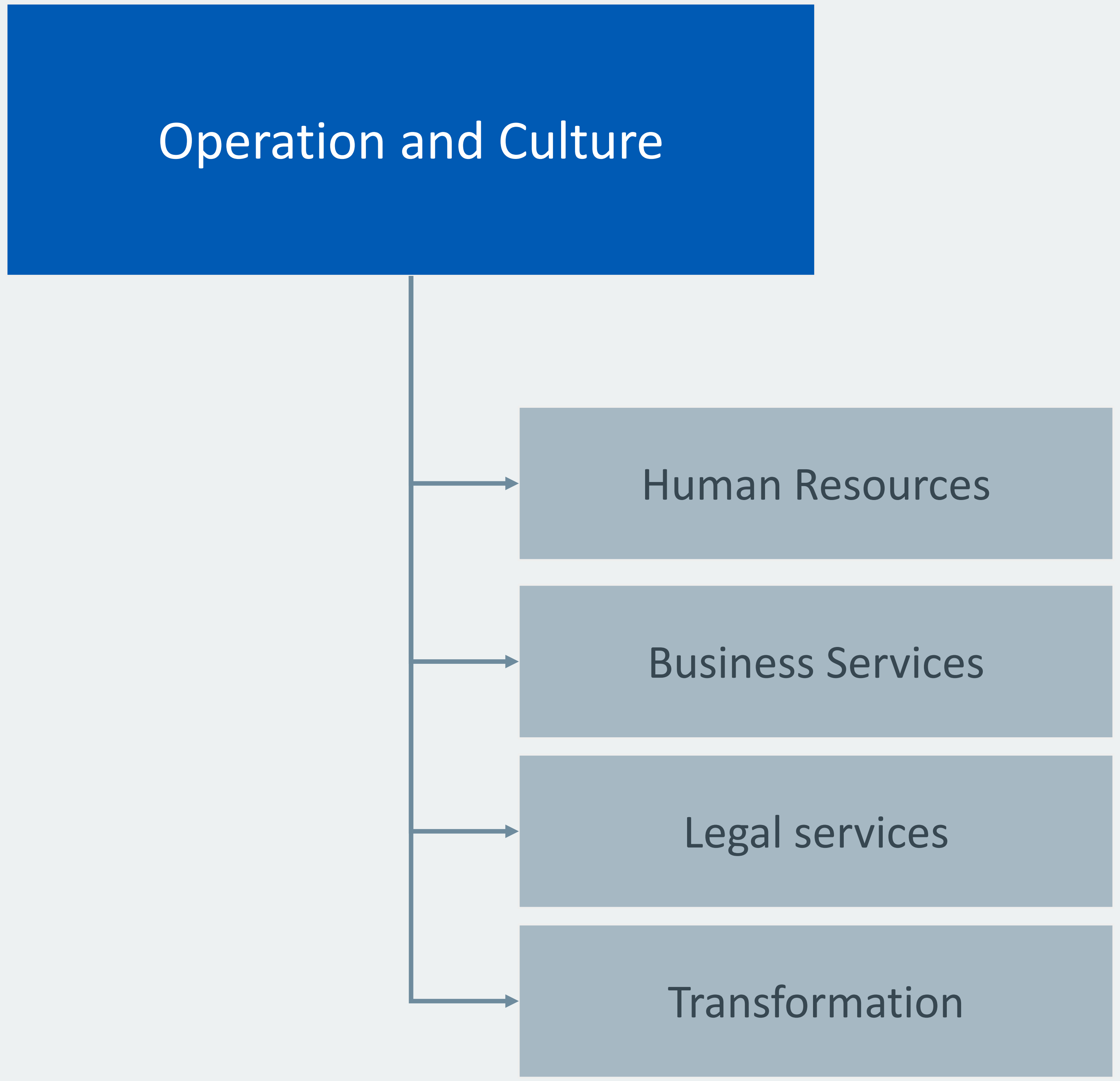
- The COO will consolidate management of support functions, thus providing a central lead focused on delivering strategic goals, leading transformation, building strong corporate culture and creating competitive advantage by improving ways of working and talent management.
- These factors will positively affect business outcomes, risk mitigation, customer experience, employee engagement and attraction of talent.

Closer collaboration

- Operation and Culture will take over a range of projects which were previously the responsibility of other divisions.
- These changes are designed to foster closer collaboration between support units, bring greater efficiency to operations, manage transformation projects more effectively, and bring a clearer focus on service and customer experience.

Important support units united

- Operation and Culture will incorporate human resources, back & middle office, operations, transformation and legal services.
- The changes are key to Arion Group being ahead of rapid development in customer and employee needs, complex regulation and new technology.



Key takeaways in Q3 2023

Operational performance *Solid quarter*	▸ Solid quarter with ROE of 12.9%, resulting in ROE for 9M 2023 of 13.9% ▸ Diversity and maturity of the Group's main businesses support continued robust operating performance ▸ Ongoing cost discipline and efficiency focus support continued reduction in operating expense
Net interest income *Robust while fluctuations increase*	▸ Robust net interest income, although higher deposit beta and lower inflation, combined with reduced loan growth, resulted in a slight drop between quarters. ▸ Near-term NIM expected to remain robust. However, this will be impacted by policy rate trajectory, increased % of CPI-linked lending and upcoming fixed rate asset and liability maturities/resets which may increase fluctuations between quarters
Loan book *Growth subsiding*	▸ Loan growth reduced in recent quarters, driven mainly by reduced economic activity in Iceland in rising rate environment ▸ Recent S&P action and raised capital thresholds from the agency also play a role in reduced loan growth
Capital, funding and liquidity *Strong position*	▸ Capital position very strong with a CET1 ratio of 19.4% or 450bps above regulatory minimum ▸ MREL buffer of 12.4% above requirements and balanced wholesale funding maturity profile ▸ Upgrade of rating from Moody's to A3 during the quarter ▸ Diversified and seasoned deposit base continued to grow in the quarter, primarily in stable categories ▸ Liquidity position strong with an LCR of 179%. Average duration of liquidity bond portfolio within one year and no HTM accounting

[1] Net interest income, net fee and commission income and insurance service results (excluding opex)

Income statement Q3 2023

- Net profit of ISK 6.1bn resulting in ROE of 12.9%
- Core income* increases 2% YoY
- NII decreases between quarters, partly due to lower inflation and increase in funding cost through deposits and borrowings
- Robust NCI, although slightly down between quarters partly due to seasonality in lending and capital markets activities
- Positive momentum in insurance business, with 19% increase in insurance revenue over past year. Insurance results down YoY driven by claims ratio
- Another challenging quarter in net financial income which continues to be impacted by market volatility
- Operating expense increased by 3% YoY but decreased by 10% from last quarter, mainly due to seasonality. In terms of total Opex, including expense from insurance operation, the increase was 4% YoY
- Net impairments for Q3 calculated at 26bps and have increased slightly in recent quarters
- Effective tax ratio of 27.1%

	Q3 2023	Q3 2022	Diff	Q2 2023	Diff
Net interest income	10,918	10,357	5%	11,426	(4%)
Net commission income	3,848	4,057	(5%)	4,187	(8%)
Insurance service results	395	487	(19%)	762	(48%)
Net financial income	(183)	(1,476)	(88%)	(617)	(70%)
Other operating income	8	98	(92%)	1,586	-
Operating income	**14,986**	**13,523**	**11%**	**17,344**	**(14%)**
Operating expenses	(5,392)	(5,222)	3%	(6,009)	(10%)
Bank levy	(468)	(444)	5%	(457)	2%
Net impairment	(741)	42	-	(568)	30%
Net earnings before taxes	**8,385**	**7,899**	**6%**	**10,310**	**(19%)**
Income tax expense	(2,274)	(2,885)	(21%)	(3,226)	(30%)
Net earnings from continuing operations	**6,111**	**5,014**	**22%**	**7,084**	**(14%)**
Discontinued operations net of tax	20	(6)	-	7	-
Net earnings	**6,131**	**5,008**	**22%**	**7,091**	**(14%)**
Return on equity	12.9%	10.9%		15.5%	
Core income*	15,812	15,660	1%	17,116	(8%)

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

 All amounts in ISK million

Income statement 9M 2023

- Net profit of ISK 19.5bn resulting in ROE of 13.9%
- Core income* increases 8.9% YoY
- Strong increase in NII YoY, mainly due to increased base rate and 11% growth in loans to customers from the same period last year
- Continuing positive NCI development, despite slowing activity in the economy and in capital markets activities
- Insurance revenue grew by 13% YoY and claims increased by 15% for the same period
- Net financial income challenging during the first nine months with volatility in markets
- Positive result in other income is mainly from revaluation of the investment property Blikastadir in Q2
- Operating expense increased by 6% YoY but taking into account opex connected to insurance operation, there was an increase of ISK 1.4bn or 7.5%
- Net impairments for the first nine months calculated at 20bps

	9M 2023	9M 2022	Diff
Net interest income	33,338	29,578	13%
Net commission income	12,486	12,195	2%
Insurance service results	436	847	(49%)
Net financial income	(4)	(3,234)	-
Other operating income	1,613	1,262	28%
Operating income	**47,869**	**40,647**	**18%**
Operating expenses	(17,871)	(16,855)	6%
Bank levy	(1,374)	(1,253)	10%
Net impairment	(1,361)	(267)	410%
Net earnings before taxes	**27,263**	**22,273**	**22%**
Income tax expense	(7,787)	(8,189)	(5%)
Net earnings from continuing operations	**19,476**	**14,084**	**38%**
Discontinued operations net of tax	37	6,909	(99%)
Net earnings	**19,513**	**20,993**	**(7%)**
Return on equity	13.9%	15.2%	
Core income*	48,456	44,606	9%

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

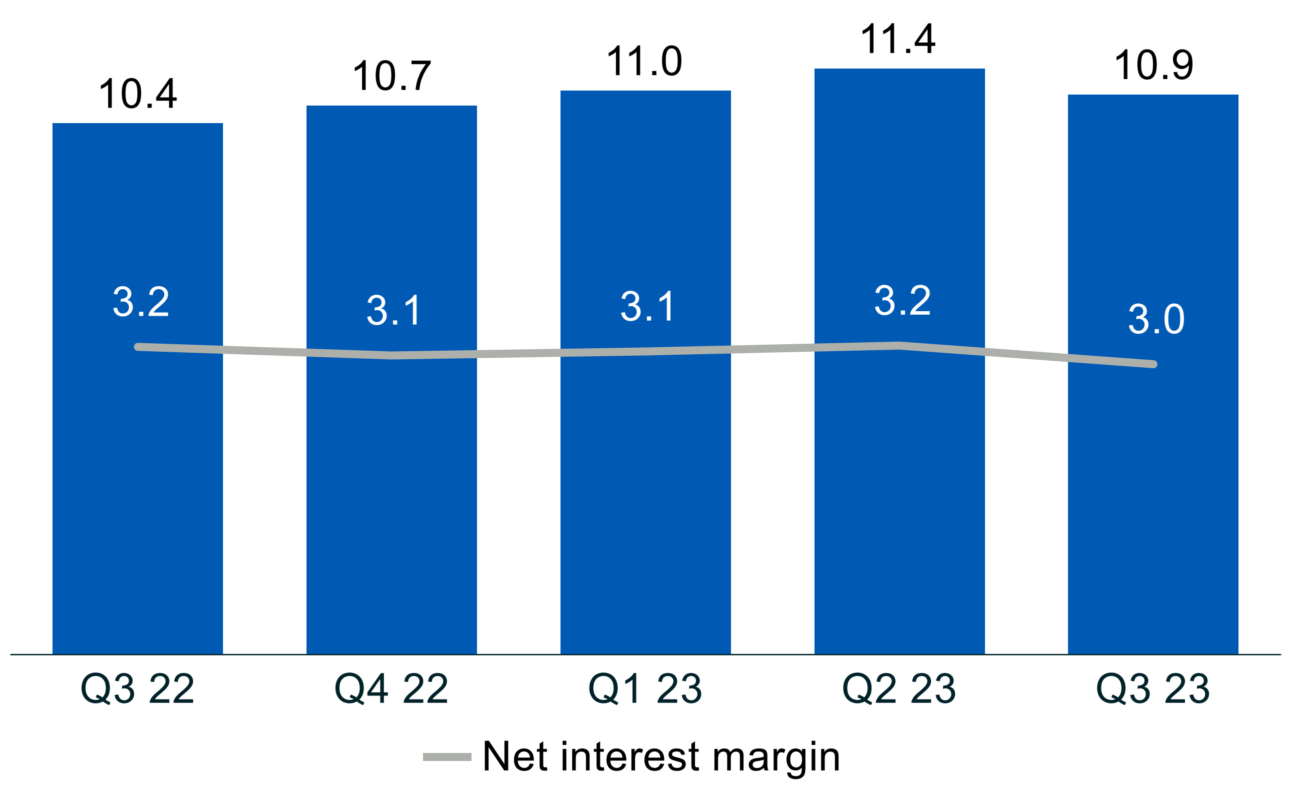
All amounts in ISK million

Net interest income

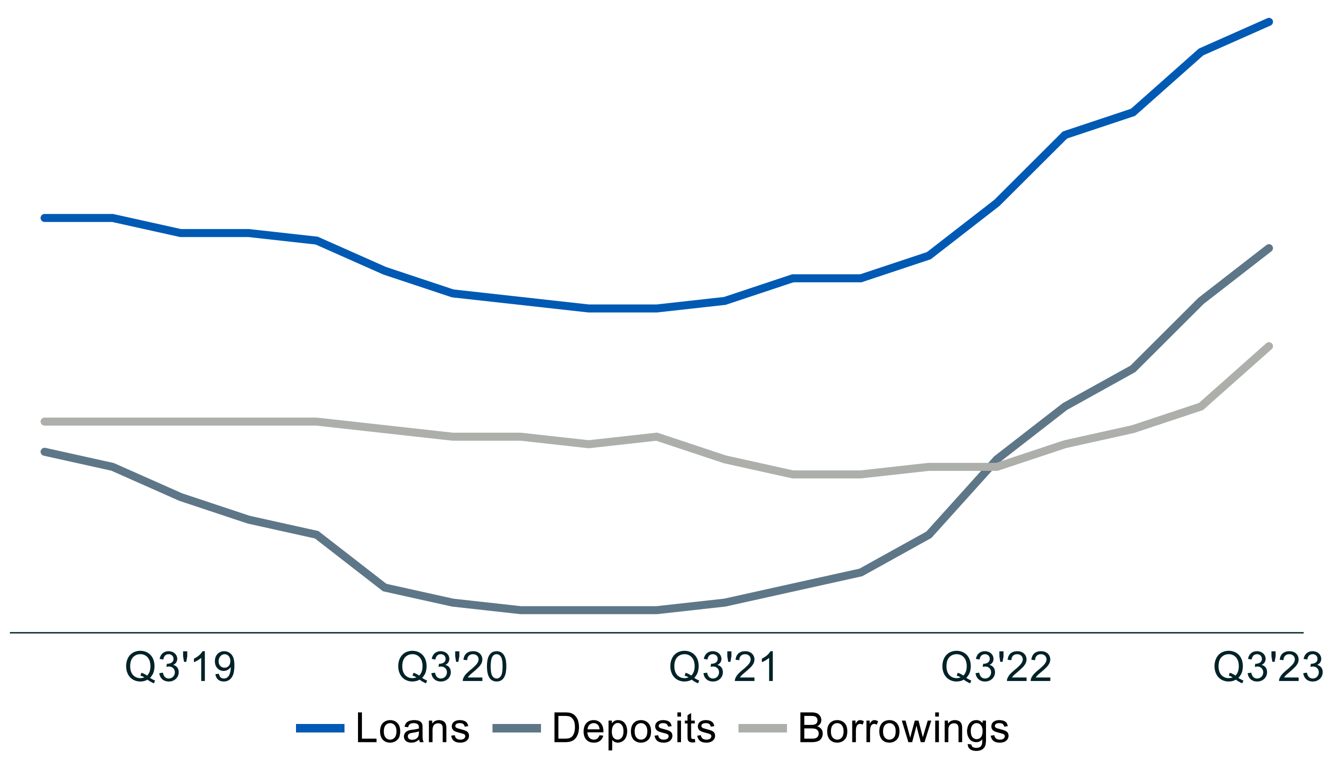
Robust margin but reduction in the quarter

- Net interest income in Q3 increased by 5.4% from Q3 2022 but decrease by 4.4% from Q2 2023
- Lower inflation in Q3 vs. Q2 partially explains impact between quarters
- Deposit margin has been increasing gradually with rising policy rates
- Increased fluctuations in the margin expected going forward:
    - Maturities and resets of fixed rate assets and liabilities over coming years, will start to pick up in coming quarters
    - Increasing CPI-linked lending will increase NII volatility

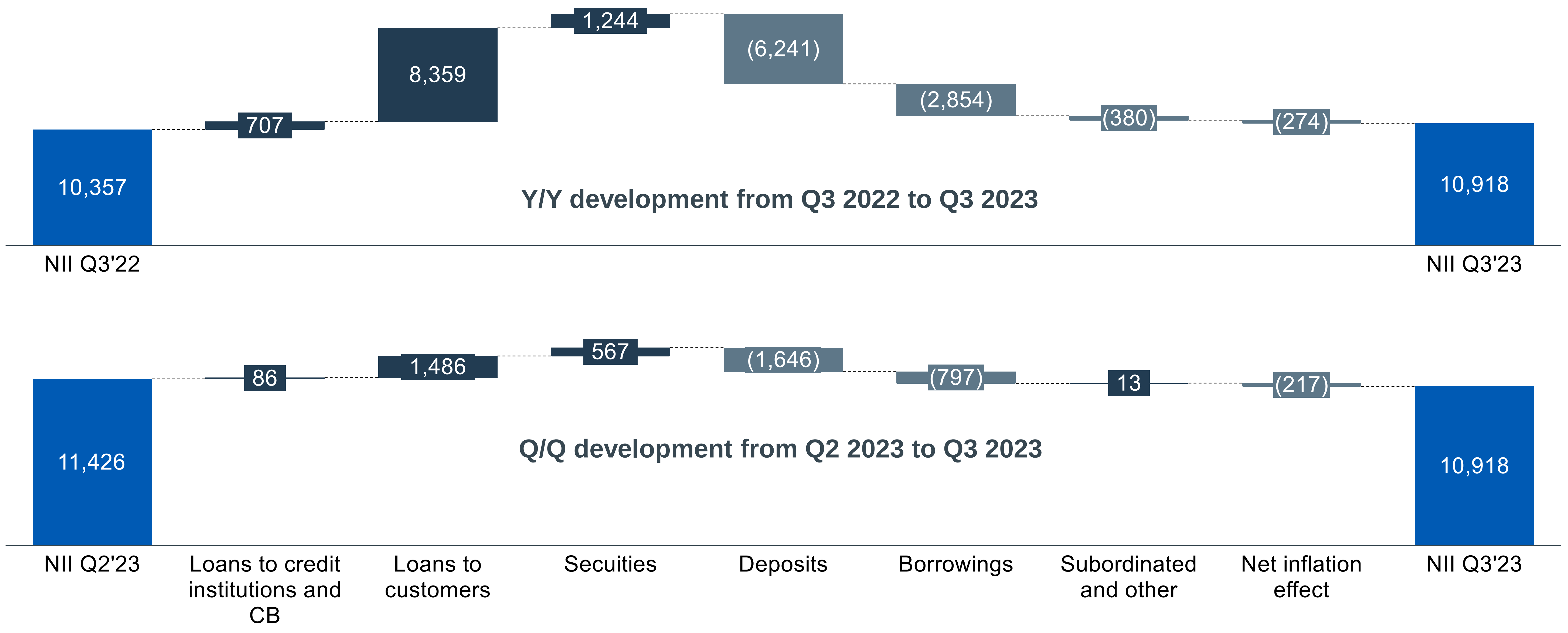
Net interest income (ISK bn)



Main interests (%)



Net interest income development (ISK m)

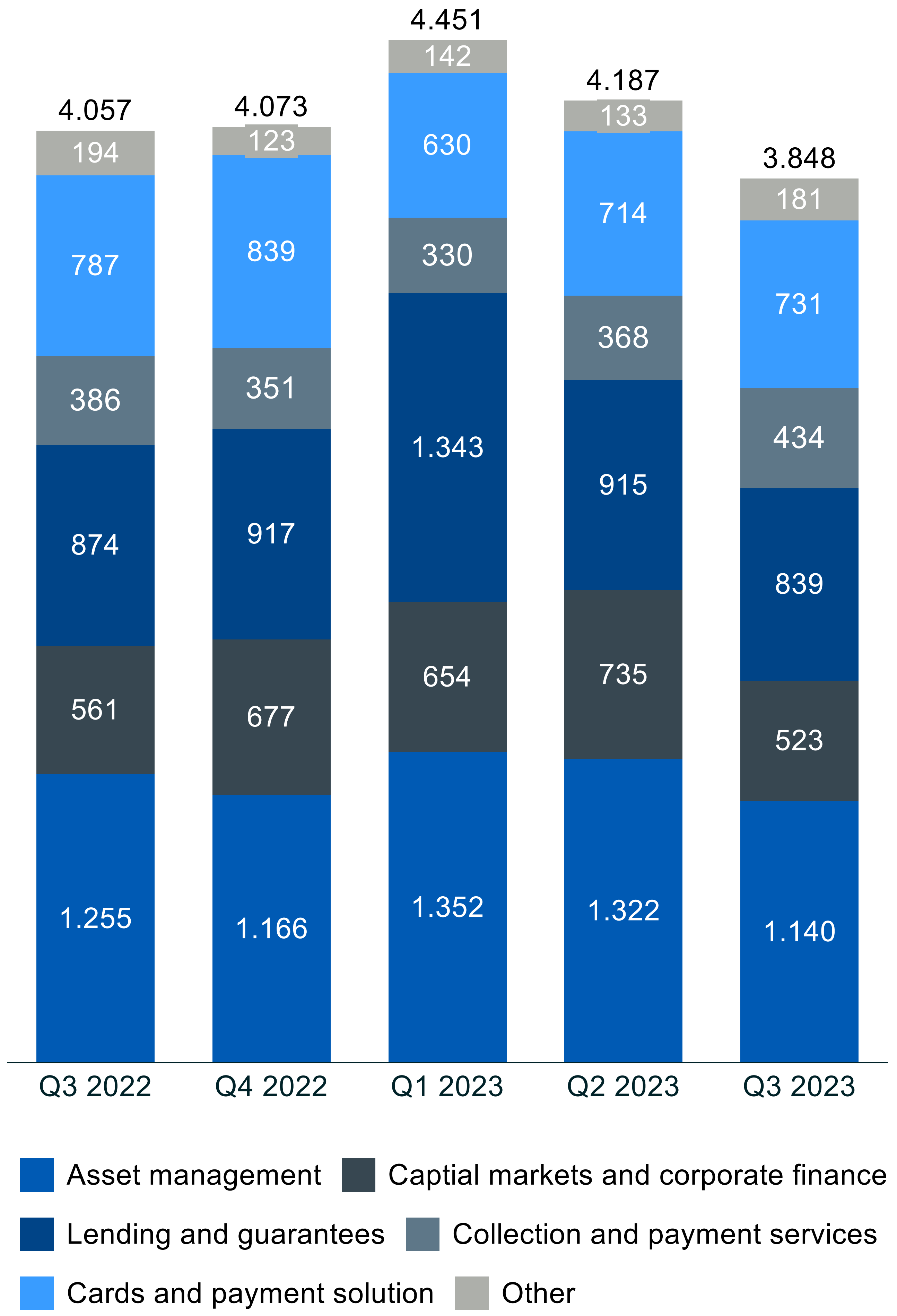


Net fee and commission income

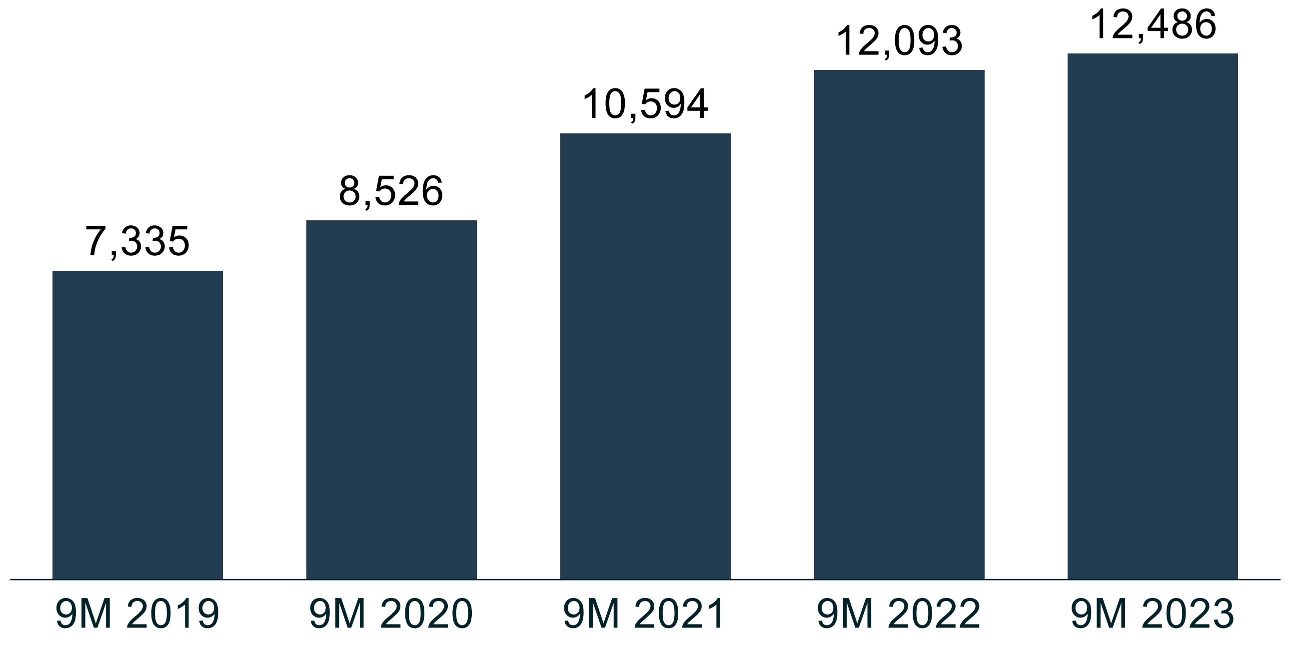
Diversified fee businesses support continued robust fee generation

- Solid quarter with total fees of ISK 3.8bn, taking fees for the year to ISK 12.5bn (compared with ISK 7.3bn for the same period in 2019)
- Net fee and commissions income covers 62% of total operating expenses, up from 36% compared to the first half of 2019
- Seasonality means lending and capital markets fees generally lower in Q3, while clearly lower activity in the economy and capital markets also create a head wind
- Continued strong and stable income from asset management, despite challenging market conditions. Assets under management robust and end the quarter at ISK 1,314bn

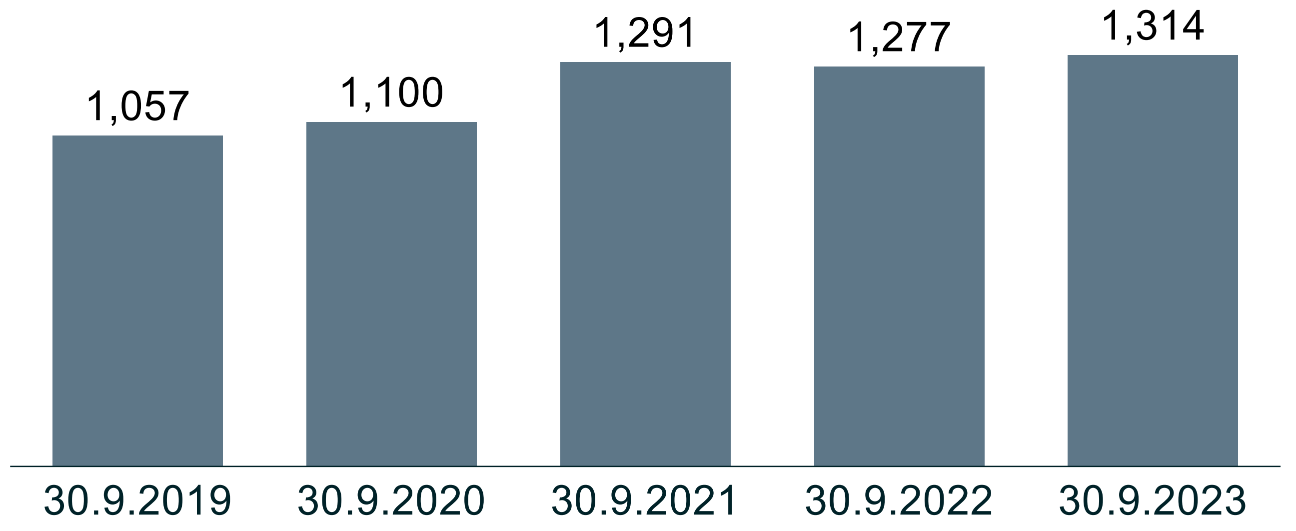
Net fee and commission income (ISK m)



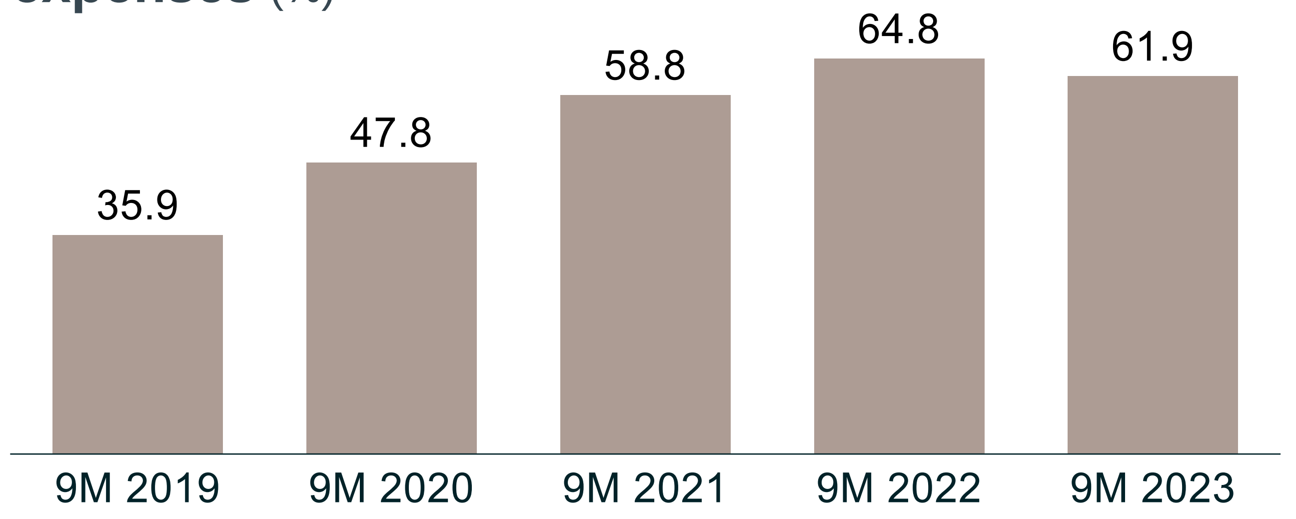
Net fee and commission income (ISK m)



Assets under management (ISK bn)



Net fee and commission income / Total operating expenses (%)

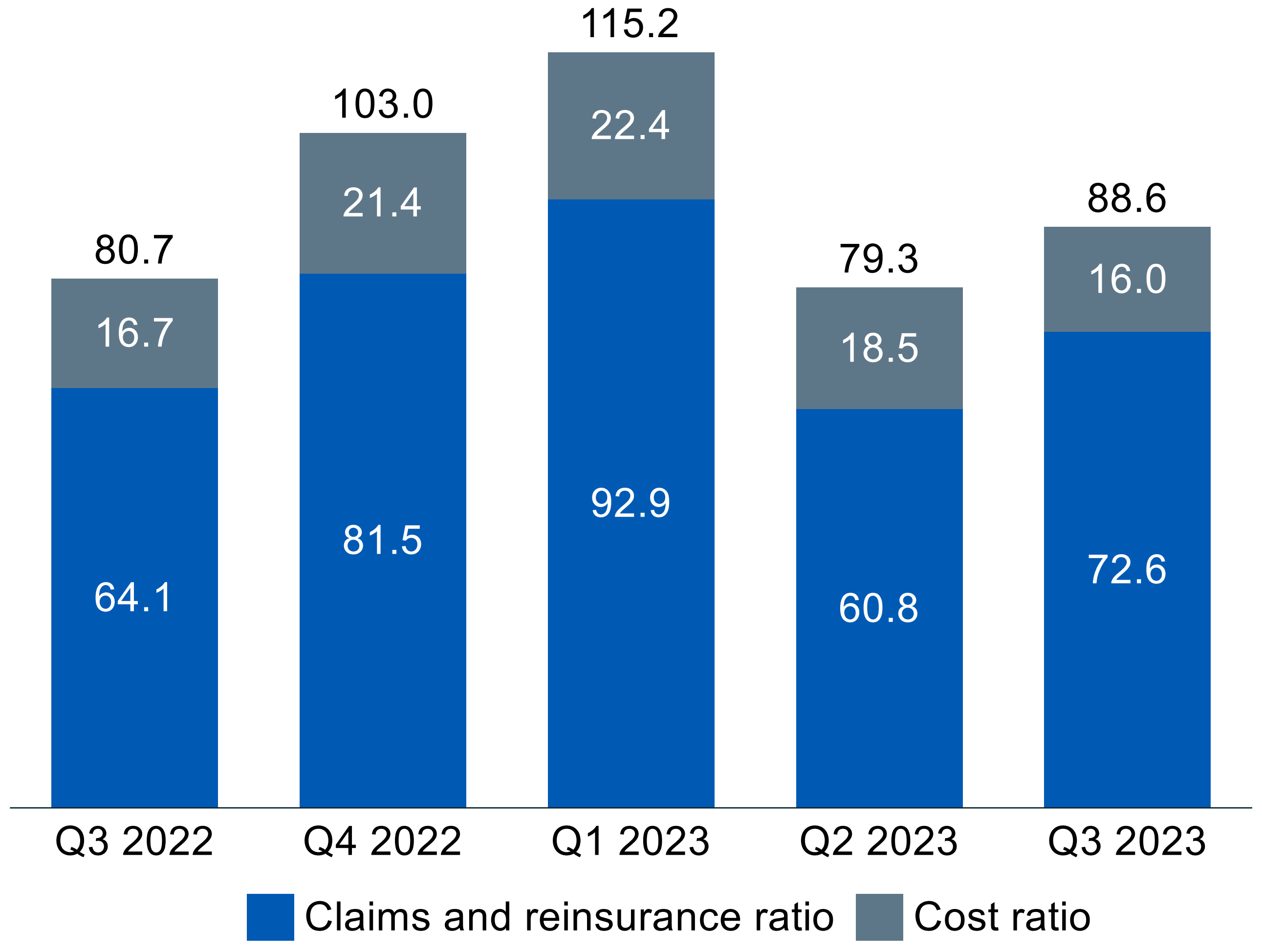


Insurance service results

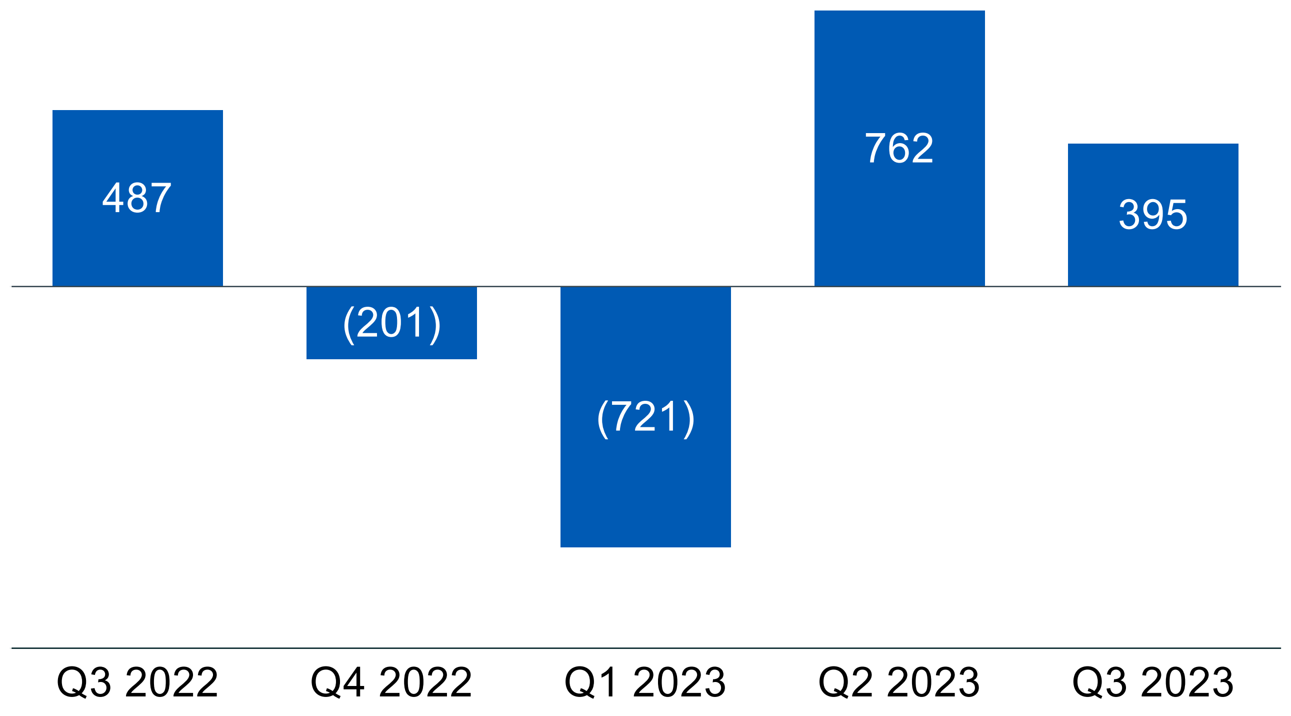
Positive traction in driving growth in premiums

- Strong growth of 12.9% in premiums from 9M 2022 and 18.6% for the quarter YoY*
  - Corporate sales have increased considerably following the transition of the corporate insurance team to Arion Bank's CIB division. Strong synergies provide early bancassurance benefits
  - Sales through the Arion app and web are picking up and will gain further momentum through product and service development over coming years
- Combined ratio of Vördur was 88.6% in Q3 and 93.9% for 9M 2023, including insurance revenue from Arion Group
- Cost ratio which was impacted by one-off items in recent quarters stabilizing. Q3 also generally a seasonal low in terms of operating expenses.

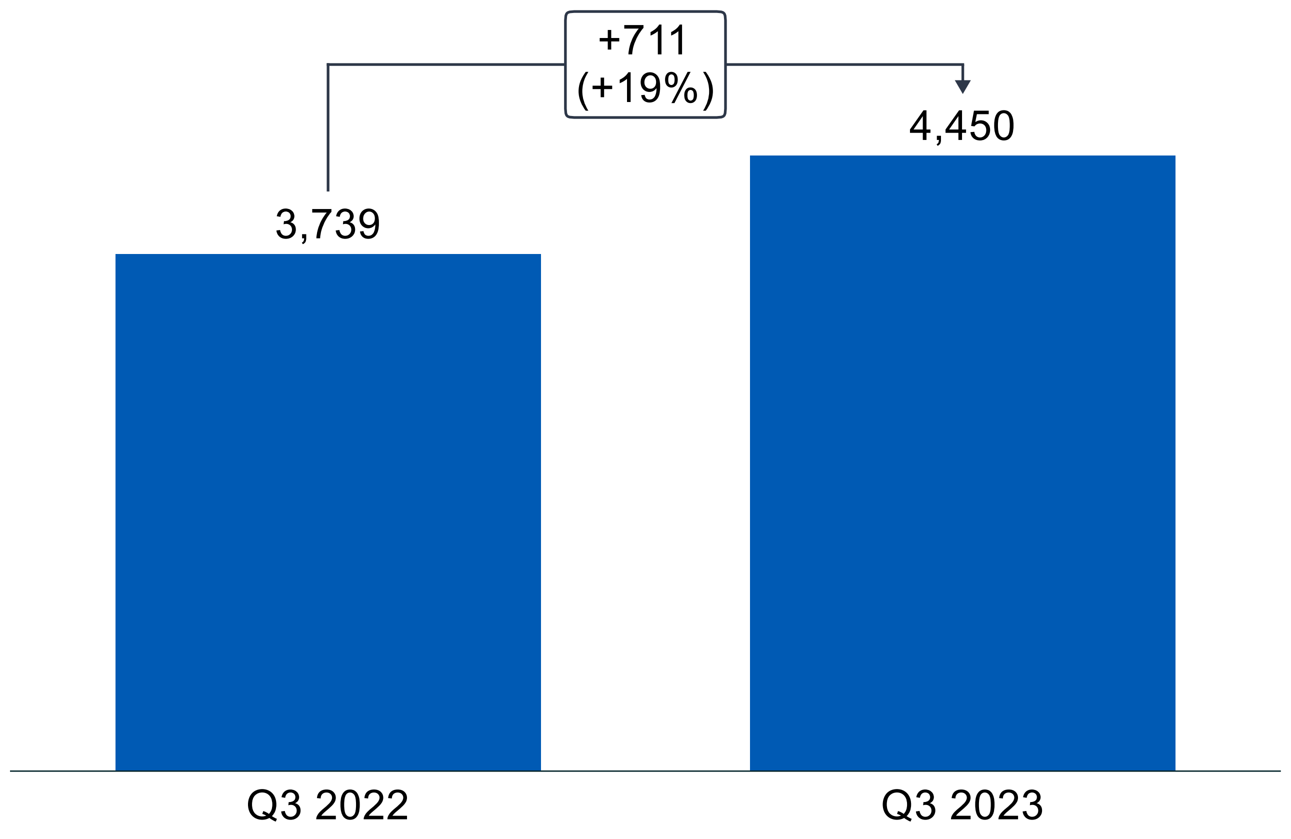
Combined ratio (%)



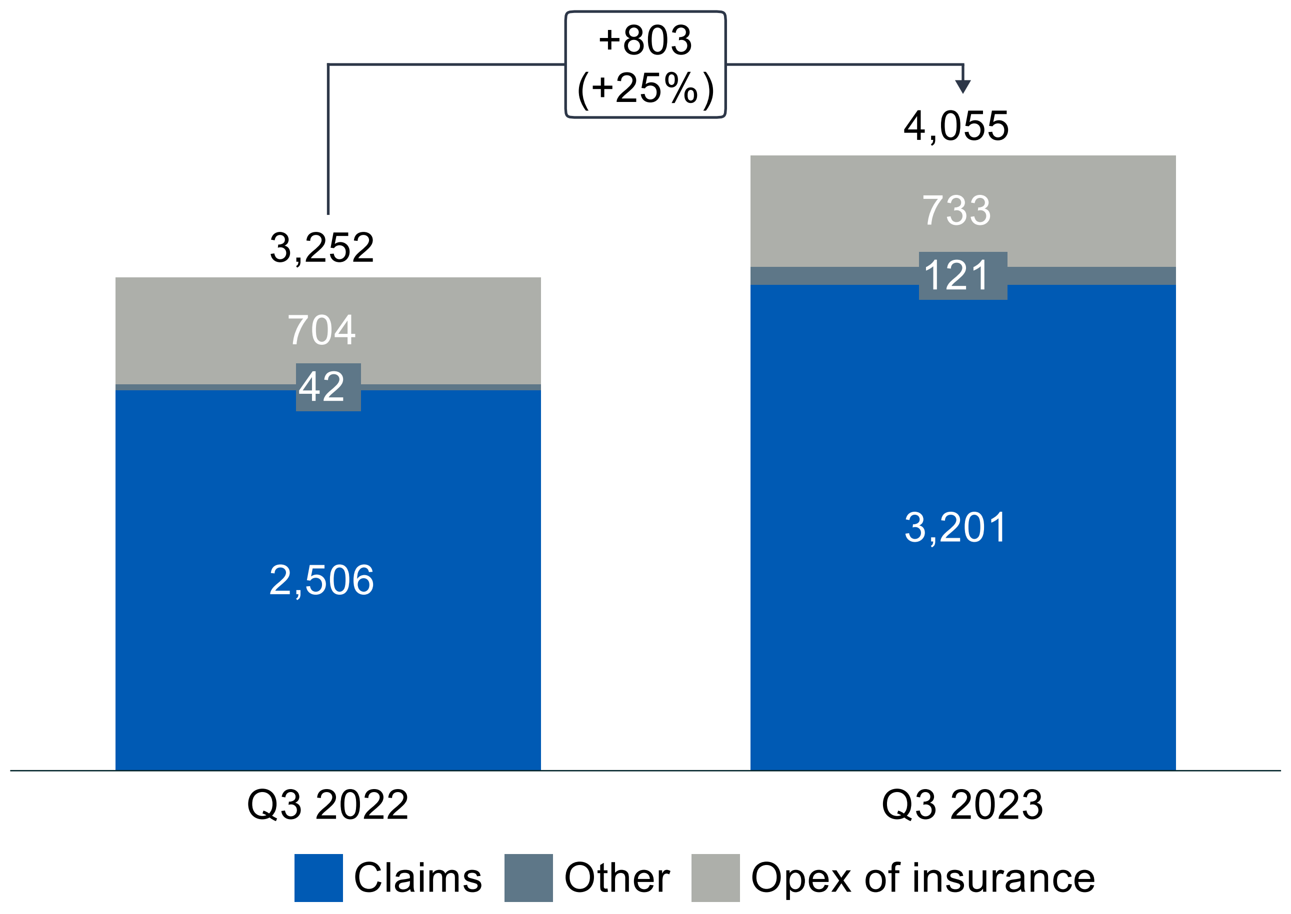
Insurance service result (ISK m)



Insurance revenue (ISK m)



Insurance service expenses net of reinsurance (ISK m)



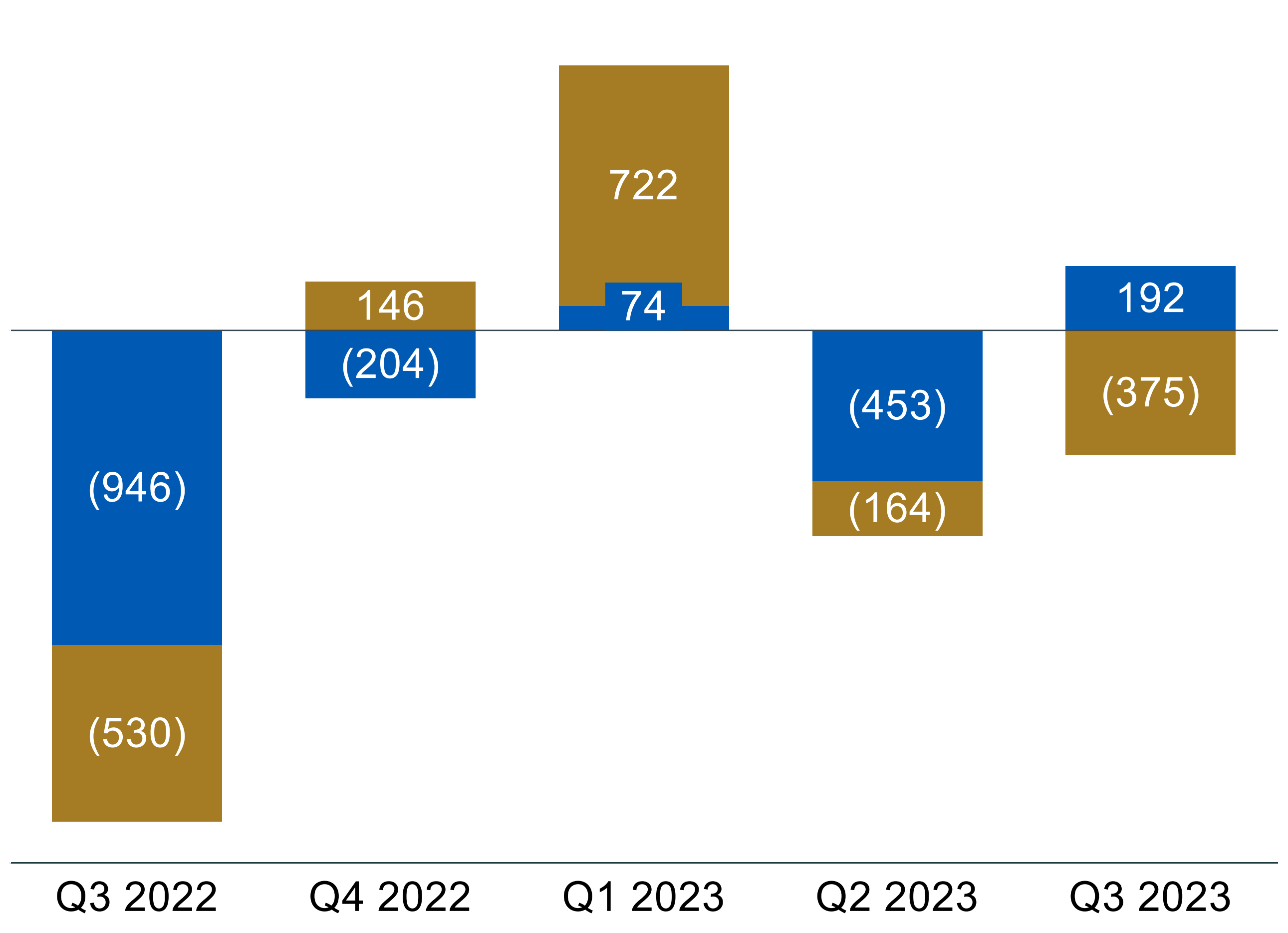
*Premiums written net of reinsurance and unearned premiums

Net financial income

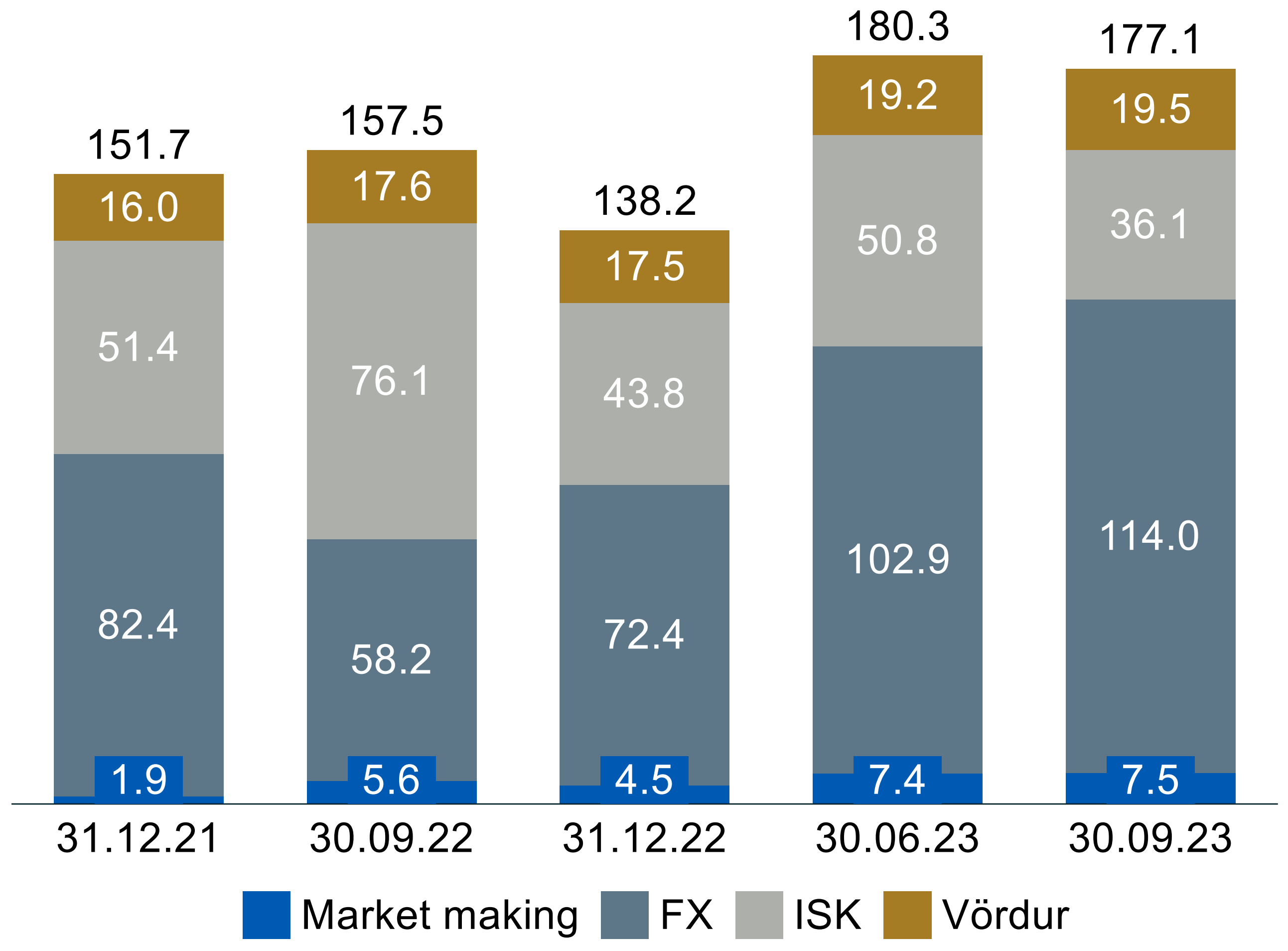
Ongoing market volatility impacts results while equity holdings at bank level are reduced

- Another challenging quarter with ongoing challenging capital markets
- Bond holdings fluctuate between quarters in line with liquidity management
  - No held-to-maturity (HTM) accounting within bond portfolio, with all market value changes incorporated in capital position
  - Average duration of liquidity portfolio within one year
- Total investment portfolio of Vördur is ISK 26.8bn; ISK 19.5bn of bonds and ISK 7.3bn in equity instruments, yielding a loss of ISK 375m in the quarter
- Largest unlisted equity holdings currently held at bank level are Controlant hf., Ísfélag hf. (previously Rammi hf.) and Carbon Recycling International (CRI hf.)

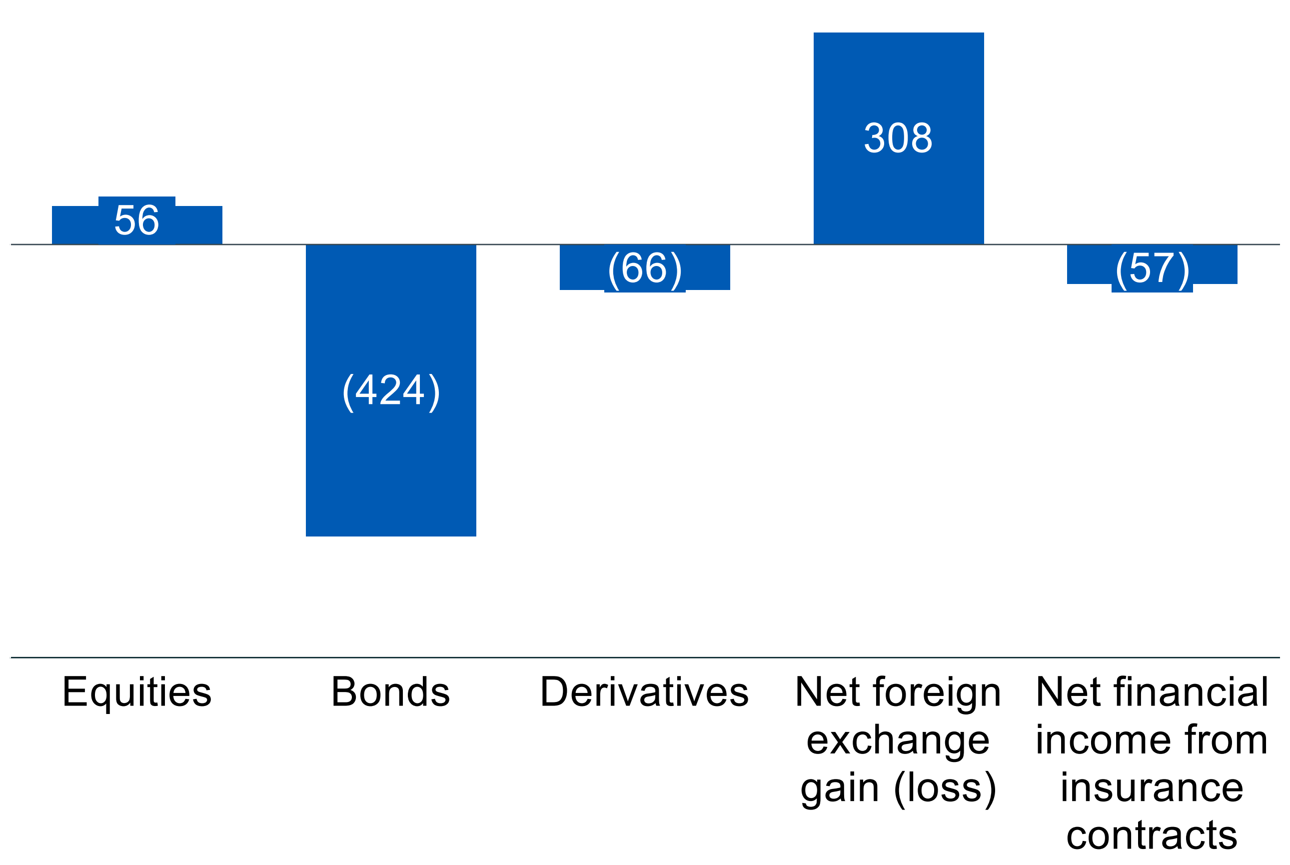
Net financial income (ISK m)



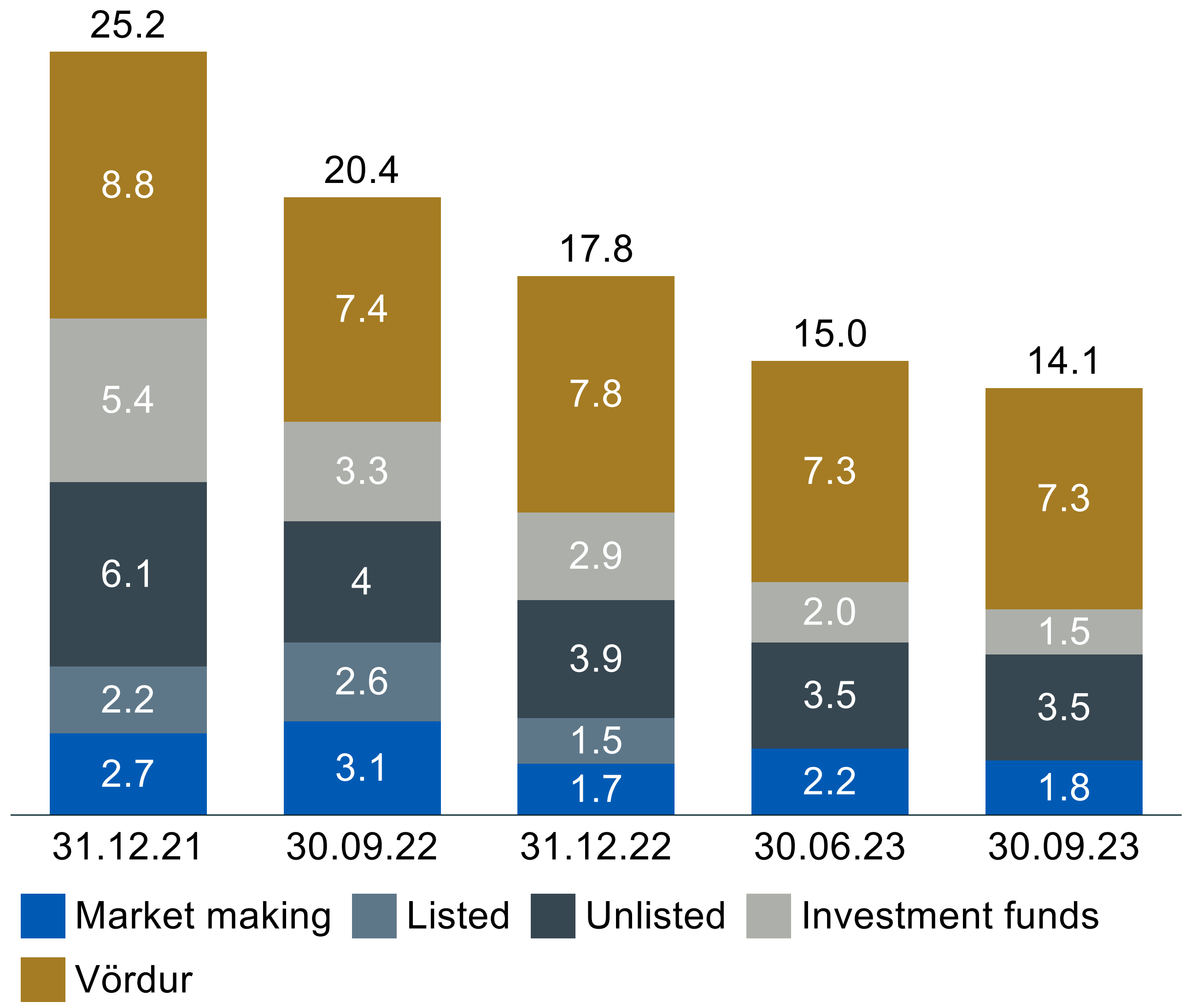
Bond holdings (ISK bn)



Net financial income by type Q3 2023 (ISK m)



Equity holdings (ISK bn)

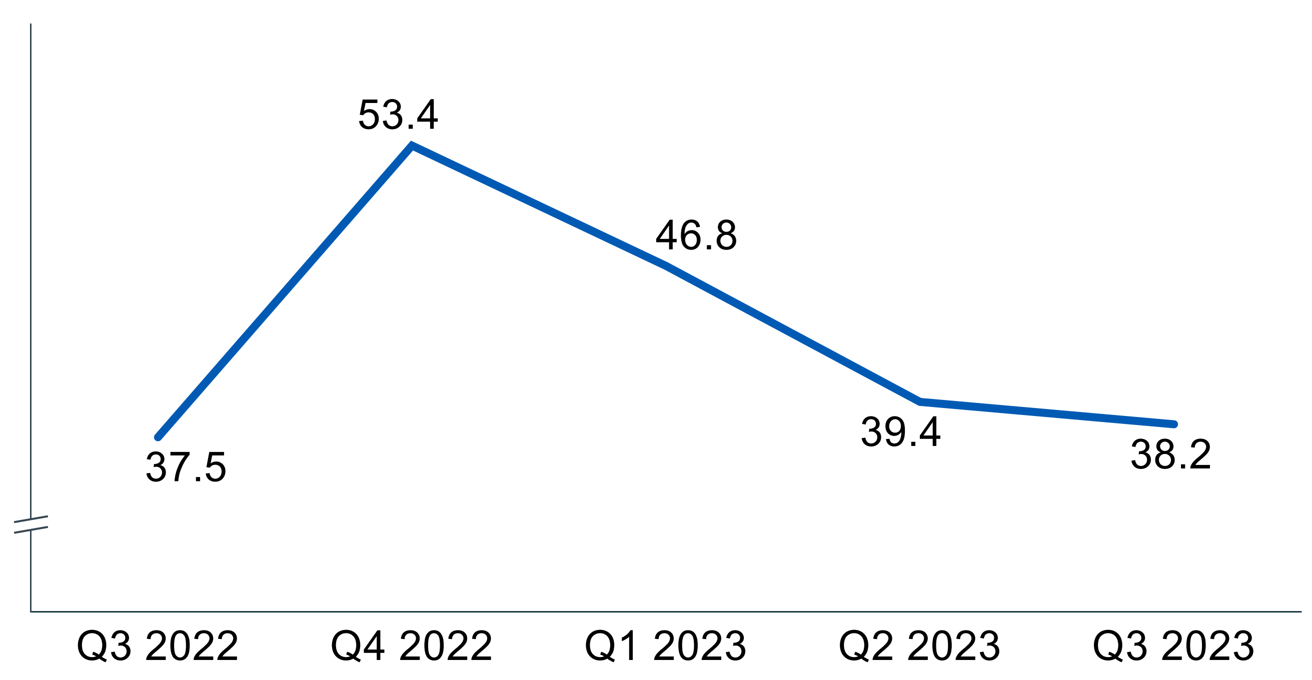


Operating expenses*

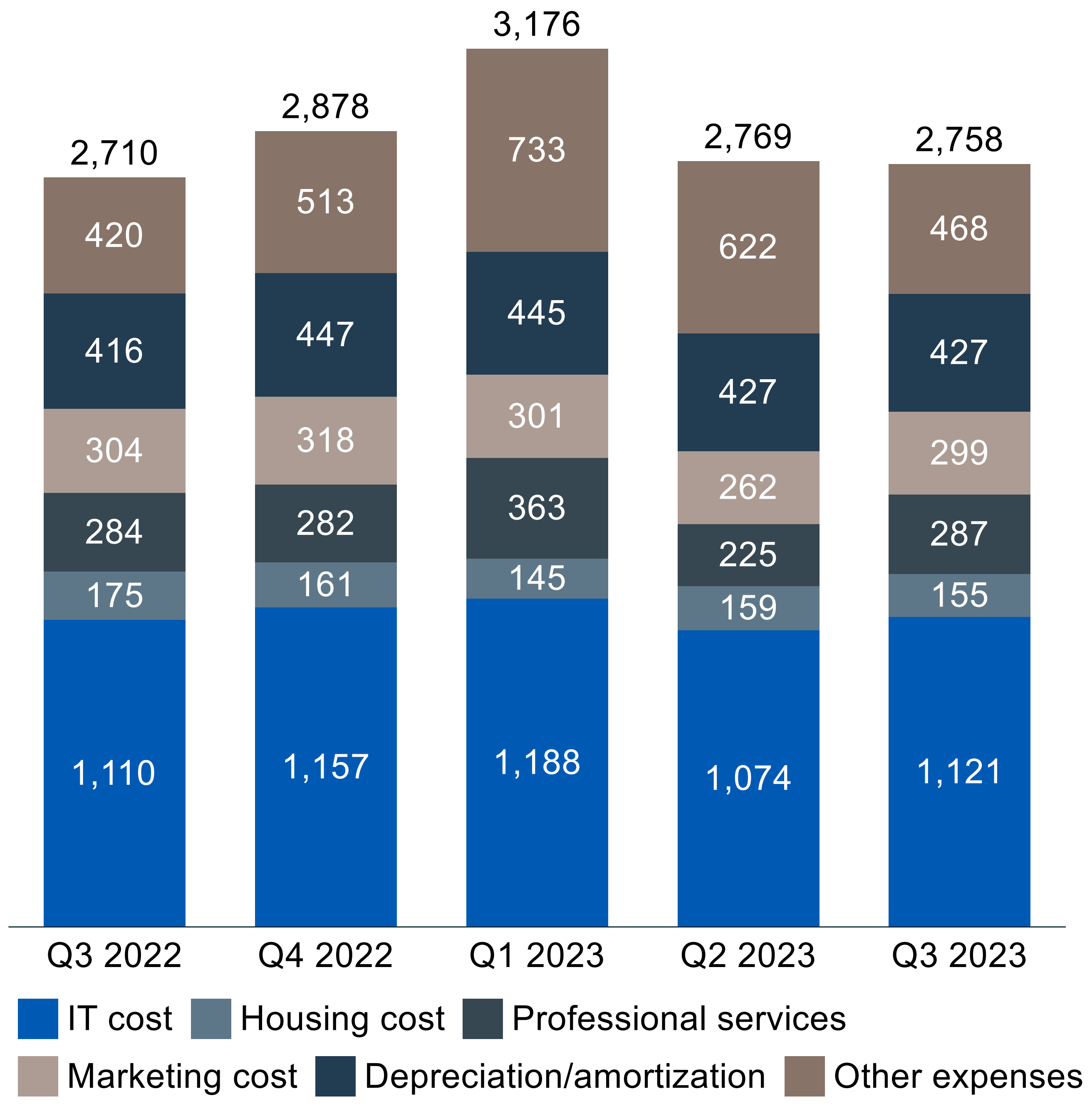
Continued cost discipline while inflationary pressure remains

- Total operating expenses outlined here include costs related to insurance business which is accounted for through insurance service results post IFRS17. The increase of total operating expenses from Q3 2022 was 4.1%
- Ongoing focus on efficiency
  - Total opex increases by 4.1% from same quarter last year while inflation was 8.1%
  - Core income per employee has been increasing steadily in recent years
- Seasonality generally means Q3 is low in terms of expenses, especially salaries

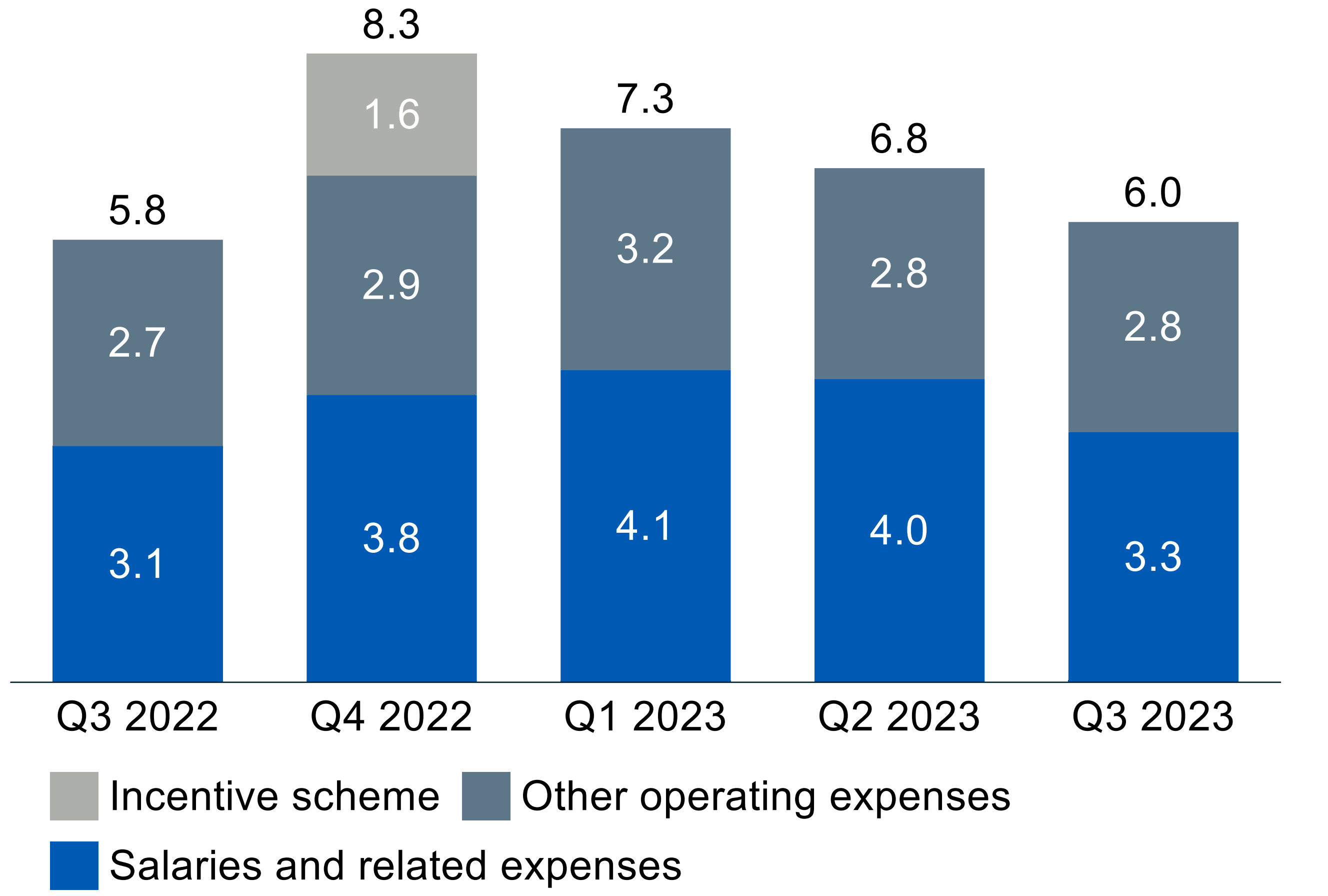
Cost-to-Core income ratio (%)



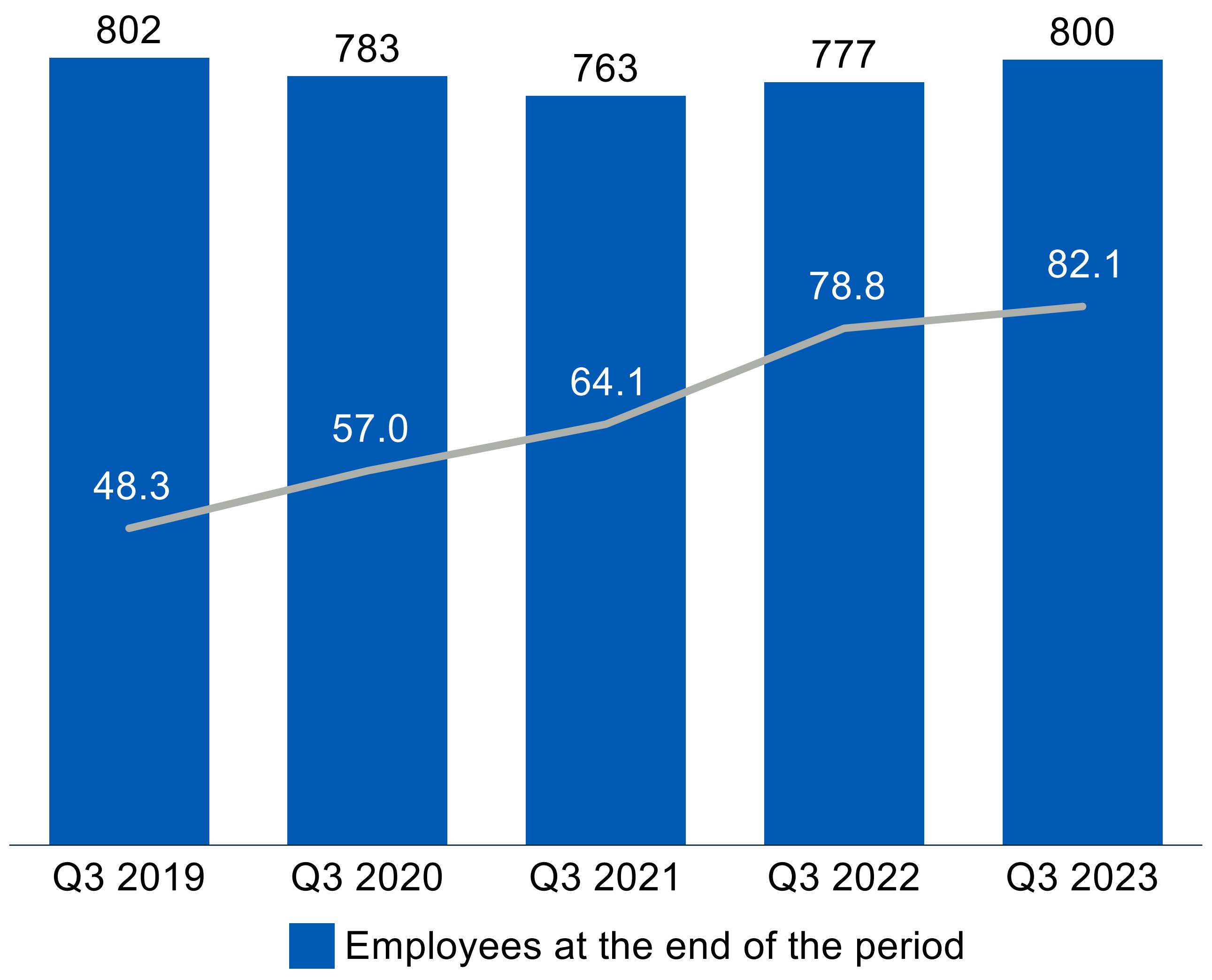
Other operating expenses (ISK m)



Total operating expenses (ISK bn)



Core income per FTE (ISK m)



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

Balance sheet

Robust and relatively simple balance sheet

- Loan growth slowing while deposits continue to grow in the quarter
  - Loans to customers increased by 0.8% in Q3
  - Deposits increased by 3.2% in Q3
- Liquidity position remains strong:
  - Liquidity coverage ratio (LCR) of 179% (104% in ISK)
  - Net stable funding ratio (NSFR) of 122%

Assets	**30.09.2023**	**30.06.2023**	**Diff.**	**31.12.2022**	**Diff.**	**30.09.2022**	**Diff.**
Cash & balances with CB	80	76	5%	114	(30%)	68	18%
Loans to credit institutions	51	43	18%	46	13%	53	(3%)
Loans to customers	1,143	1,135	1%	1,085	5%	1,045	9%
Financial assets	221	226	(2%)	193	14%	223	(1%)
Other assets	45	38	18%	28	60%	35	28%
Total Assets	**1,541**	**1,518**	1%	**1,466**	5%	**1,424**	8%

Liabilities and Equity							
Due to credit institutions & CB	13	22	(39%)	12	12%	5	158%
Deposits from customers	806	781	3%	755	7%	740	9%
Other liabilities	74	77	(4%)	71	5%	82	(10%)
Borrowings	408	406	1%	393	4%	377	8%
Subordinated liabilities	47	46	1%	47	(1%)	34	37%
Total Liabilities	**1,348**	**1,332**	1%	**1,278**	6%	**1,238**	9%
Equity	193	186	3%	188	2%	186	3%
Total Liabilities and Equity	**1,541**	**1,518**	1%	**1,466**	5%	**1,424**	8%

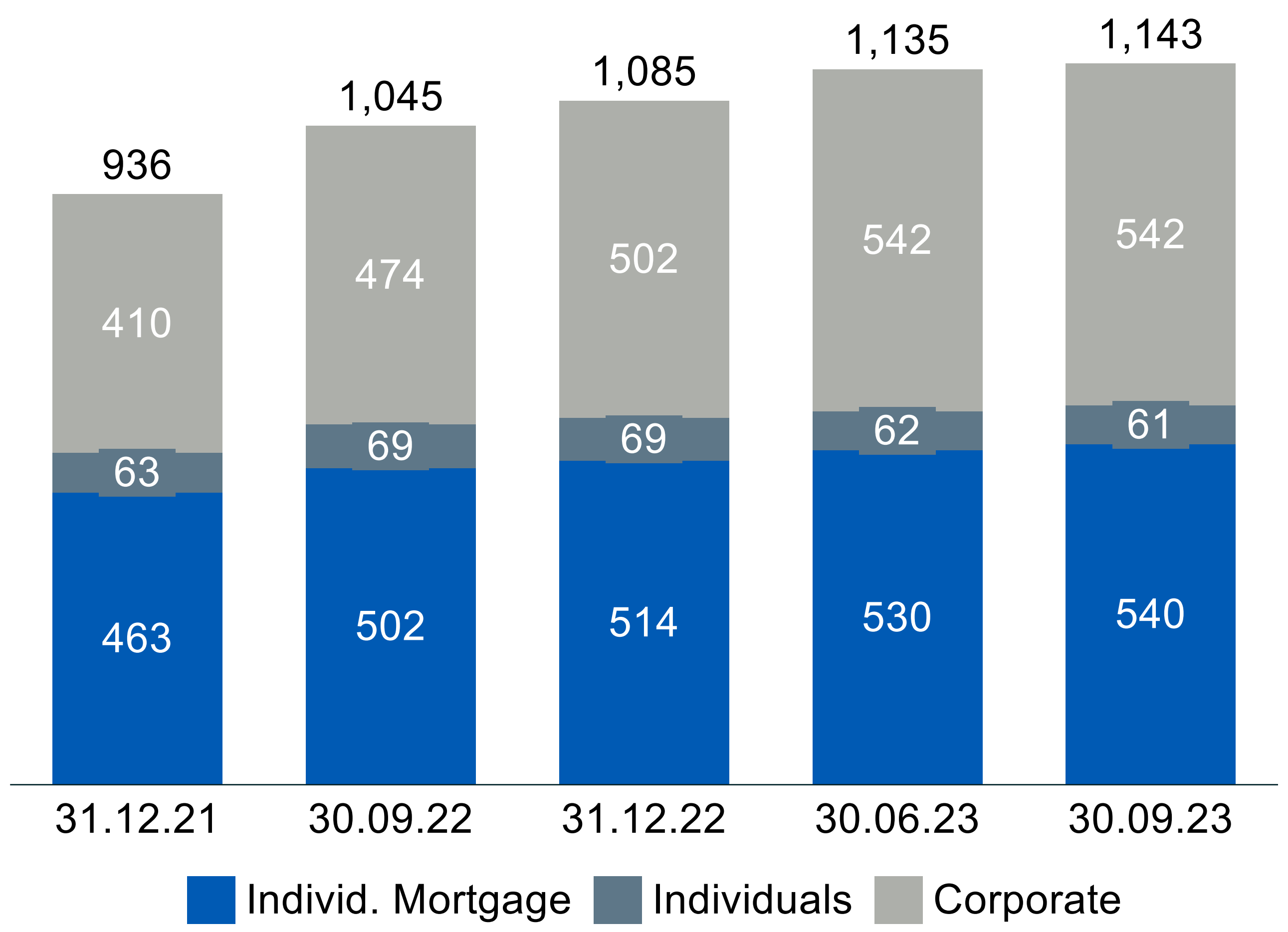
All amounts in ISK billion

Loans to customers

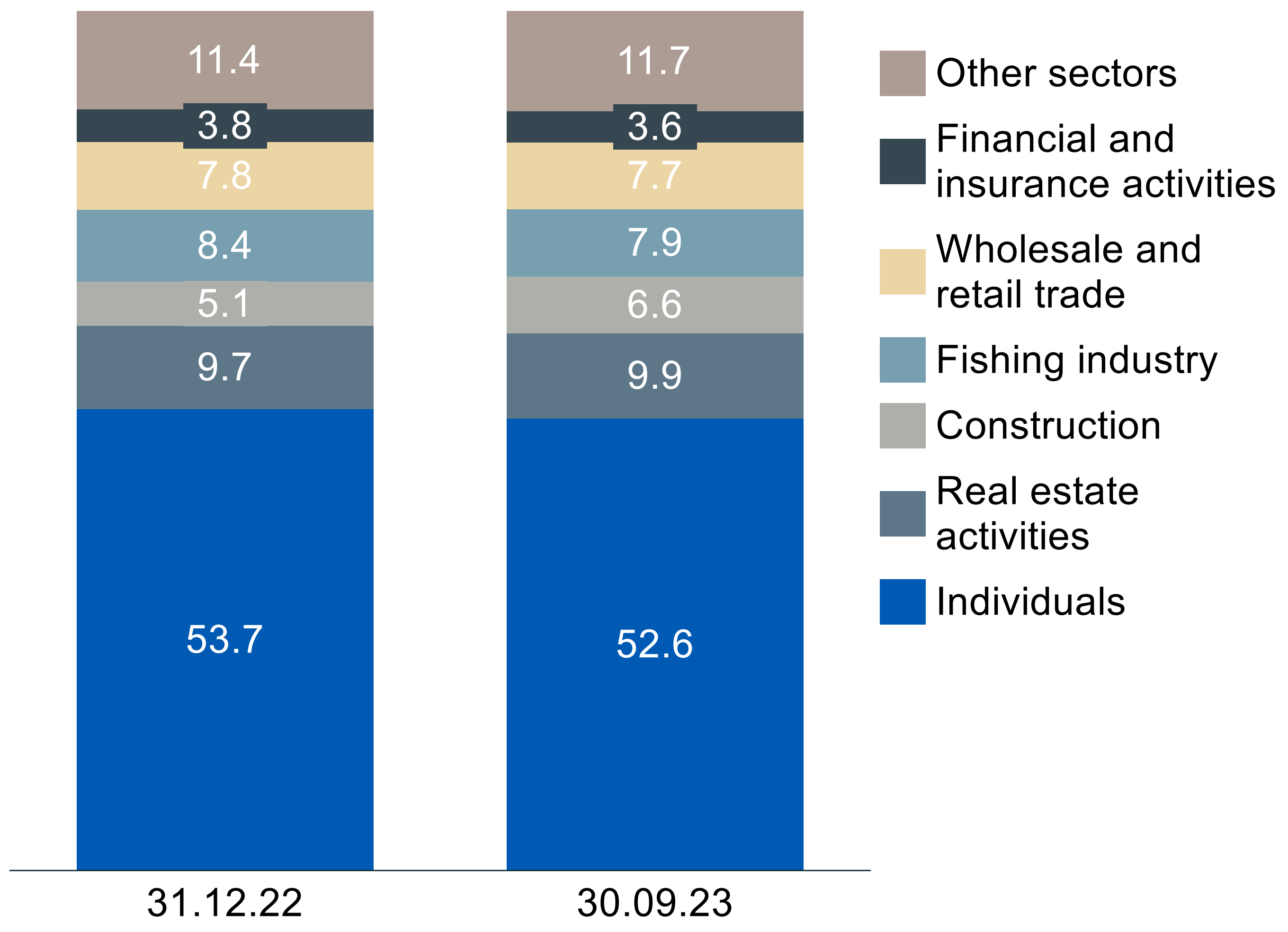
Growth slowing in line with economic activity and S&P constraints

- Loans to customers increased by ISK 8.9bn or 0.8% during the quarter
  - Loans to corporates did not change but loans to individuals increased by ISK 8bn, or 1.5%
  - Total loans increased by ISK 3.8bn due to inflation, of which ISK 3.0bn mortgage lending. FX loans decreased by ISK 2.5bn during the quarter due to stronger ISK, primarily corporate loans
- The diversification of the corporate loan book continues to be good and in line with the Bank's credit strategy

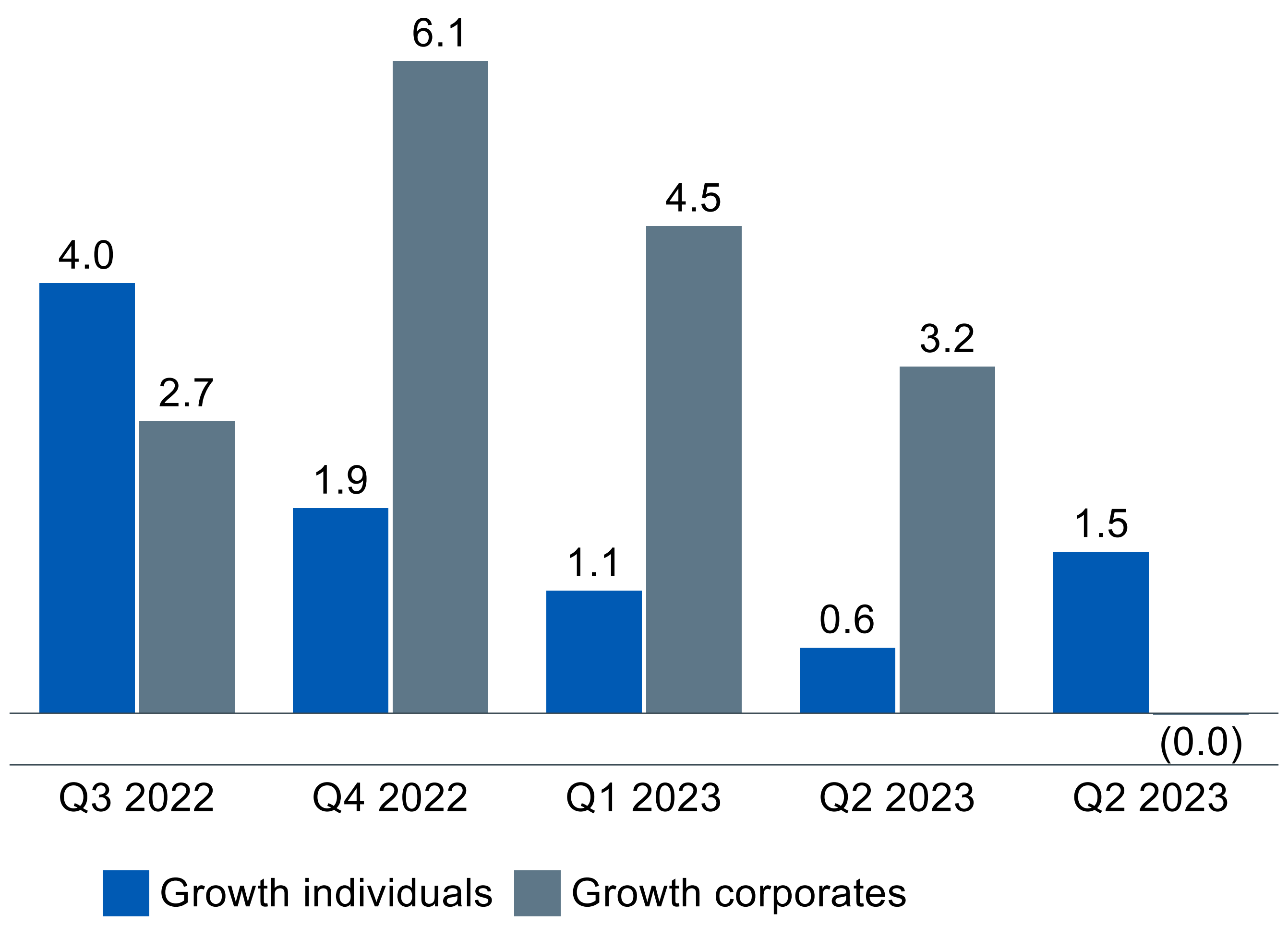
Loans to customers (ISK bn)



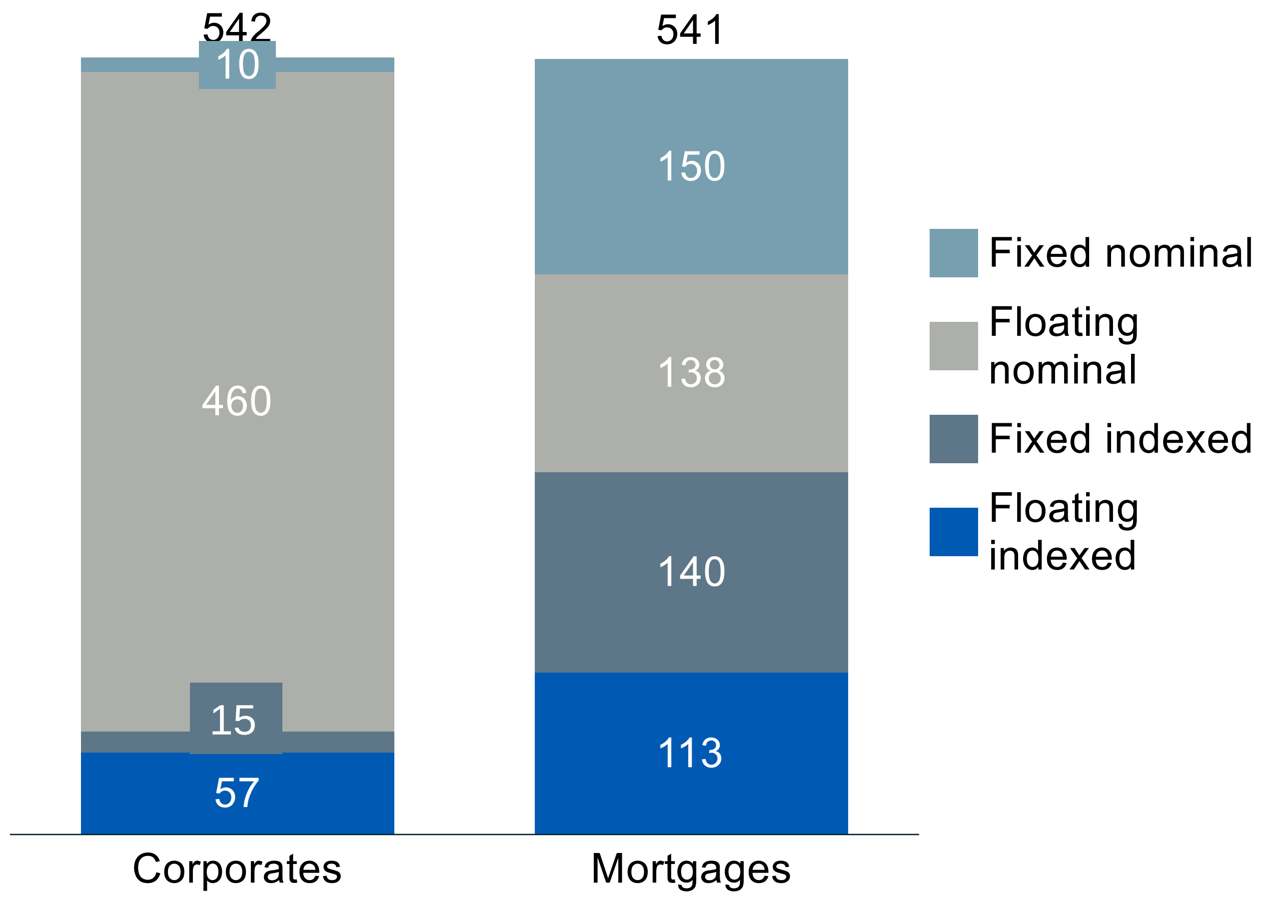
Loans to customers by sector (%)



Loan growth (%)



Loans to customers by interest rate type at period end (ISK bn)



Residential mortgages

Low default rates and comfortable LTV levels, but increased risk due to rising costs for borrowers

Macroprudential measures:

- Loan-to-value capped at 80% (85% for first-time buyers, which was already applied by Arion)
- Debt service-to-income < 35% (40% for first-time buyers). In June 2022, the Central Bank introduced prescribed minimum interest rates for debt-service which primarily affects indexed loans.
- Affects mostly first-time buyers and higher loan applications

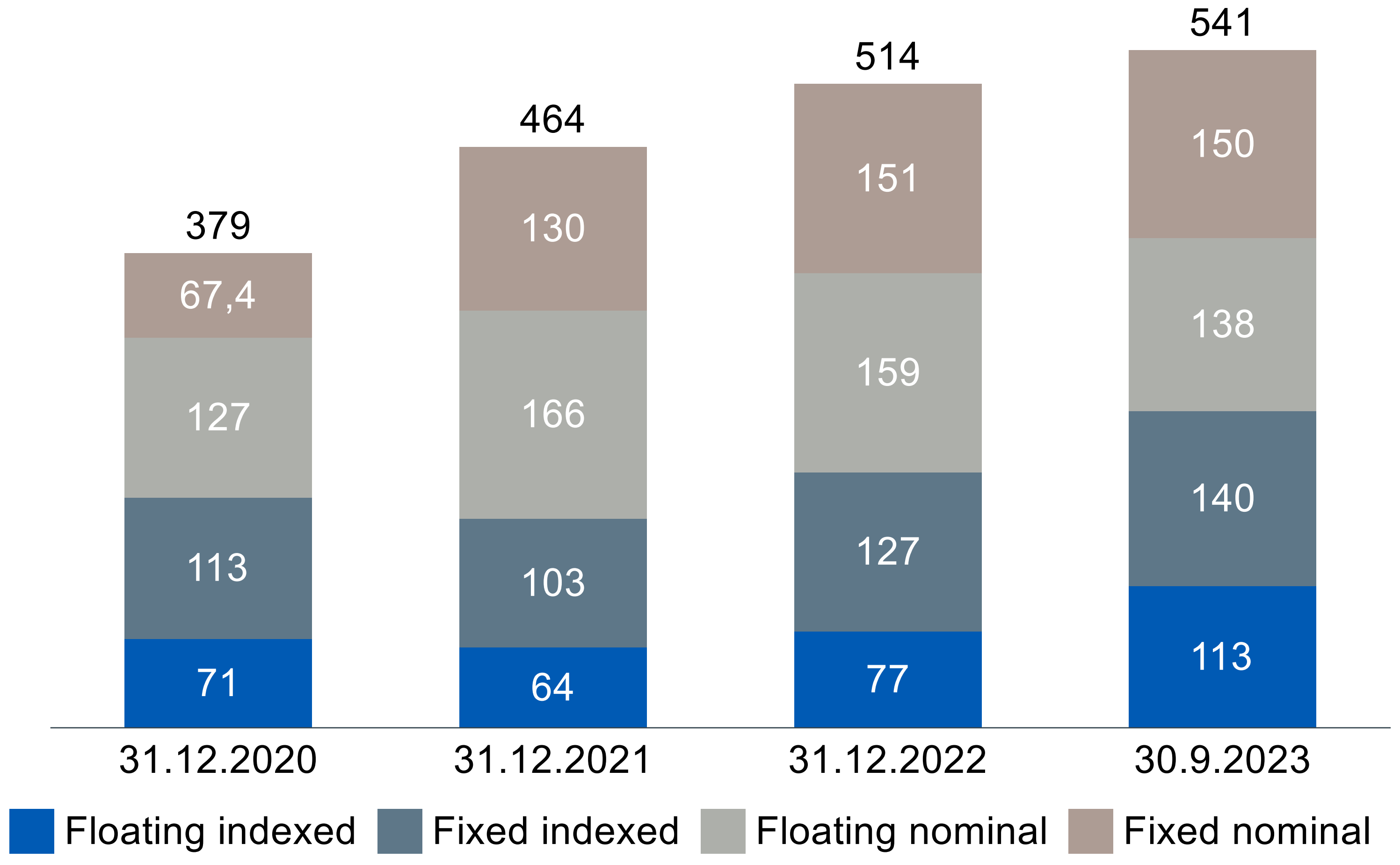
The Bank has adjusted its criteria for household expenditures in its customer payment assessment, taking into account the rising cost of living.

Internal stress test of fixed nominal portfolio shows that up to one third of borrowers may need to seek lower monthly payments, e.g., through refinancing to indexed loans.

- In this stress test floating nominal rates reach a maximum of 13% in 2024 and rates remain high into 2025.
- The stress test reveals that following refinancing to lower debt servicing, further measures may be needed for 1% of borrowers assuming the indexed rates offered currently. If rates were to rise by 100bps however, the % of customers facing payment difficulties could rise to 3%.

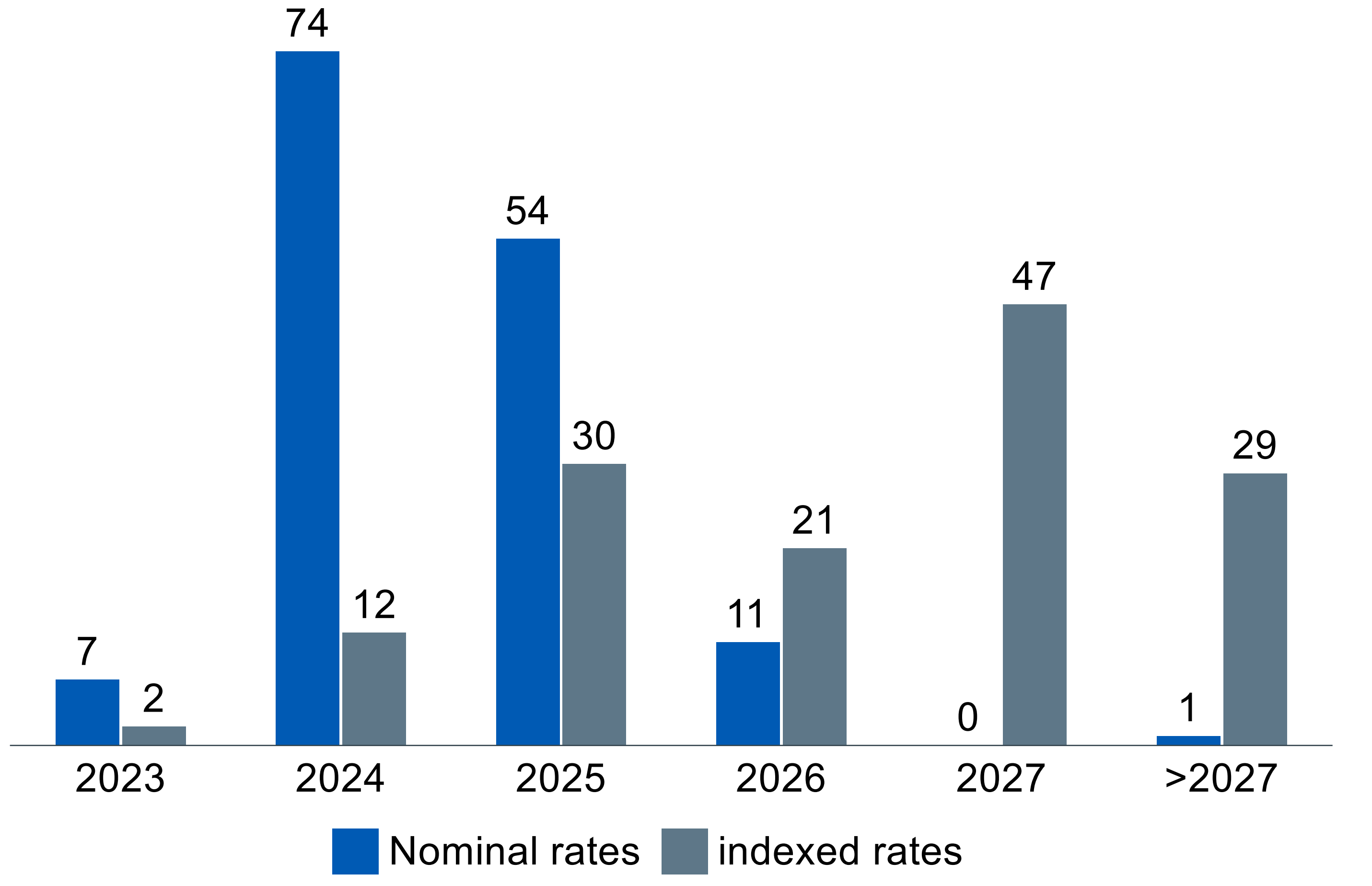
Residential mortgages by interest rate type (ISK bn)

Nominal rate loans are 53% of the mortgage portfolio at end of Q3 2023. Demand for indexed loans is picking up again.



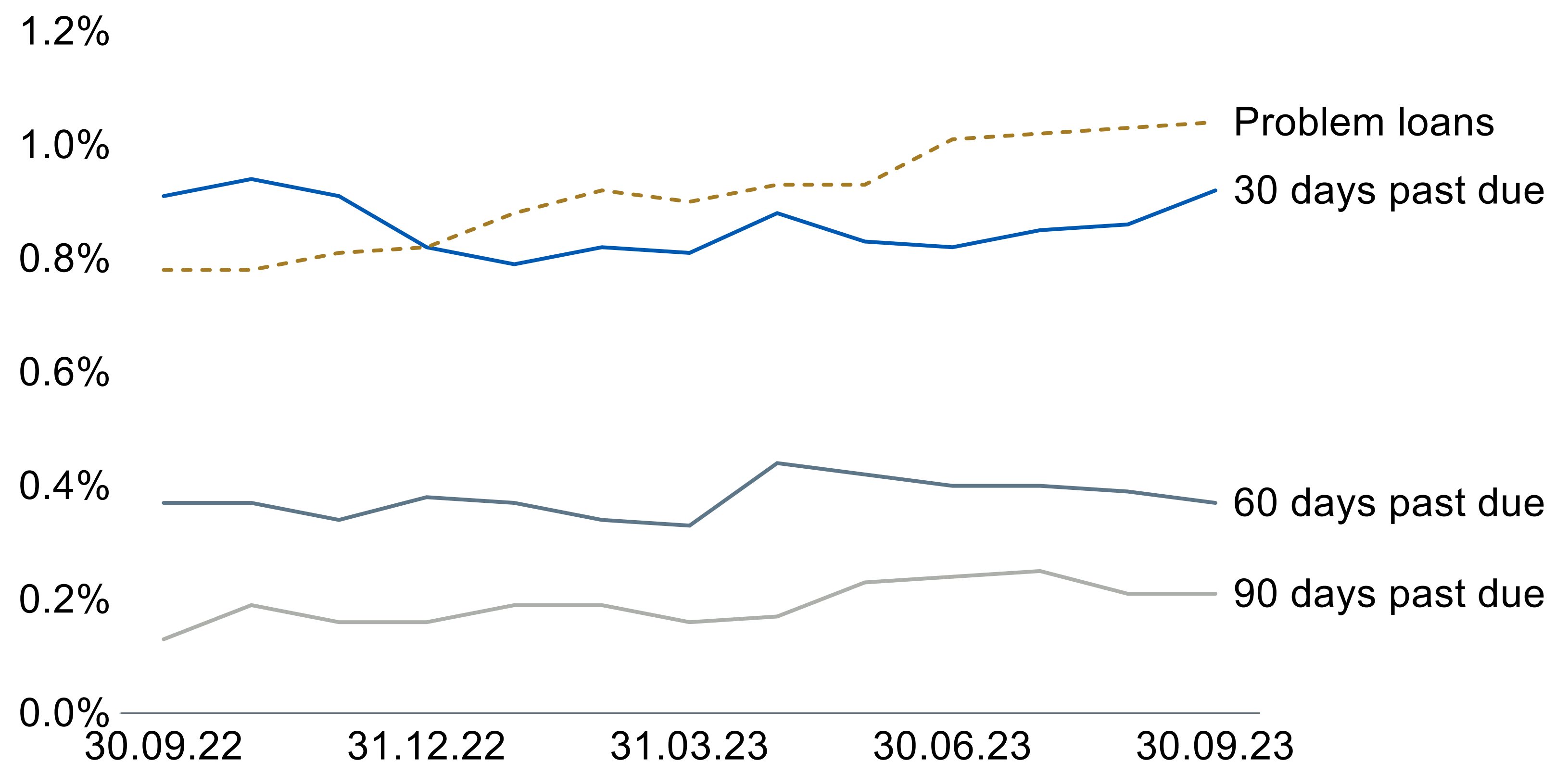
Interest rate reset profile for fixed rate mortgages (ISK bn)

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



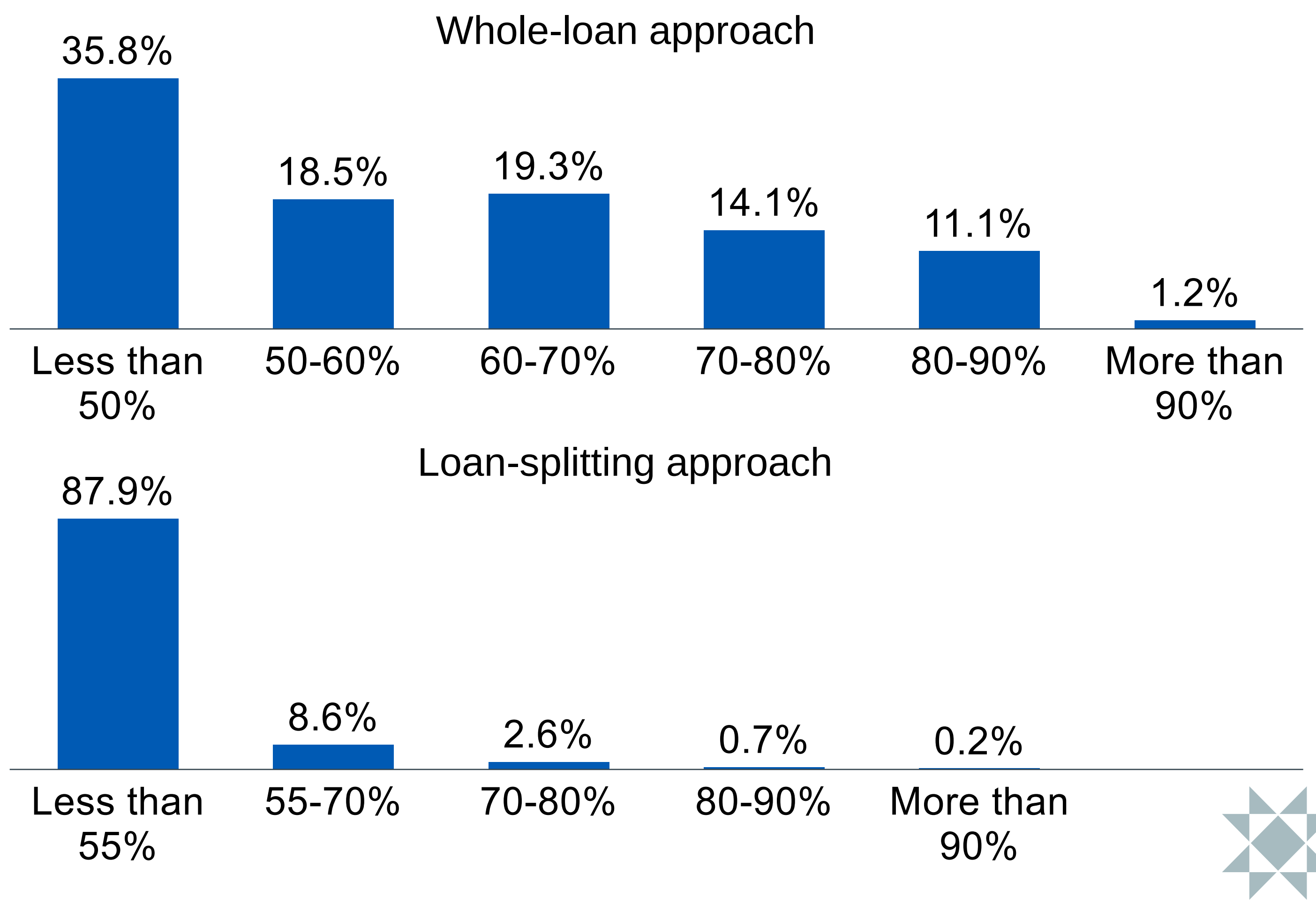
Rate of defaults and payments past due

Non-performing loans are 1.0% of the mortgage portfolio with a slight trend upwards from YE 2022.



Loan to value distribution

Loan-to-value below 80% accounts for 88% of the mortgage portfolio (whole-loan approach).

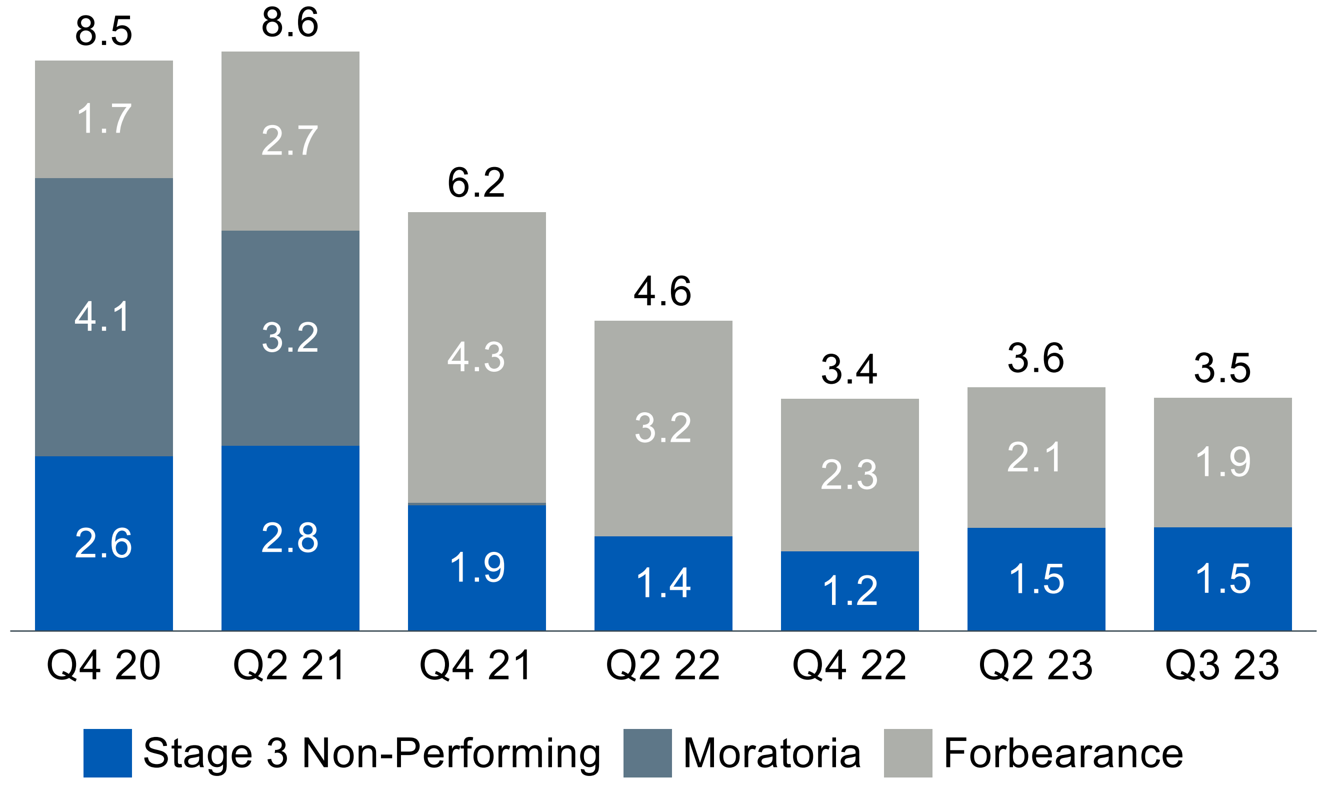


Risk profile

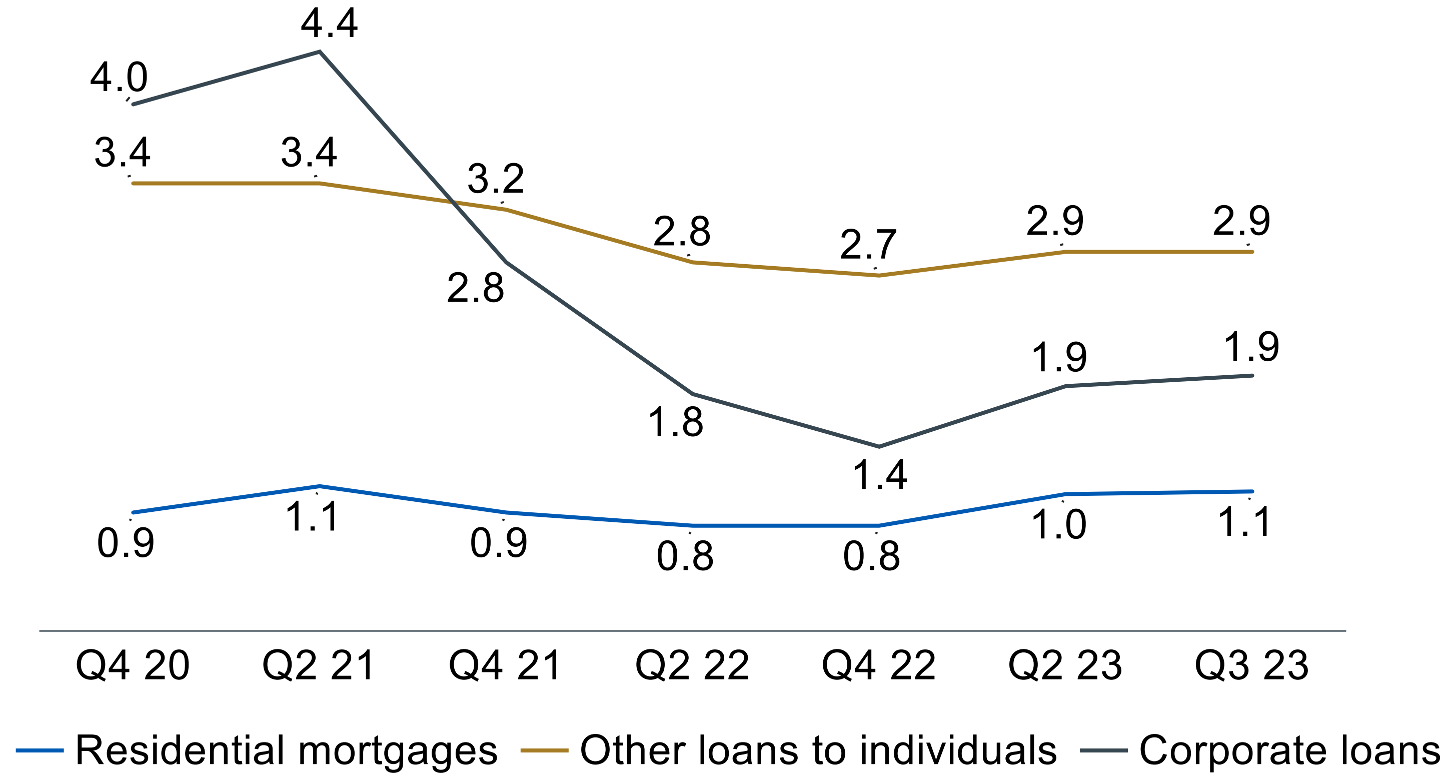
Strong credit quality indicators while a slight trend towards higher rate of payments past due observed

- Despite increased provisioning through management's forward looking macro-economic assumptions, risk indicators of credit quality remain at healthy levels
- In 2023, the problem loans ratio has increased for the first time since before Covid-19, especially for retail SME loans and loans to individuals. The ratios are however below long-term averages
- Forborne exposures that are not in Stage 3 represent 1.9% of loans to customers at 30.9.2023. The majority is in tourism-related activities that are recovering from the impact of Covid-19
- Total expected credit loss is expected to approach around 25bps in the long term based on current loan book composition. At the end of Q3 the expected 12-month expected credit loss ratio of 31bps reflects management's prudent view in the current challenging conditions
- The NPL coverage ratio at 30.9.2023 was 22%. Approximately 50% of problem loans are exposures secured by real estate, which have low coverage in general

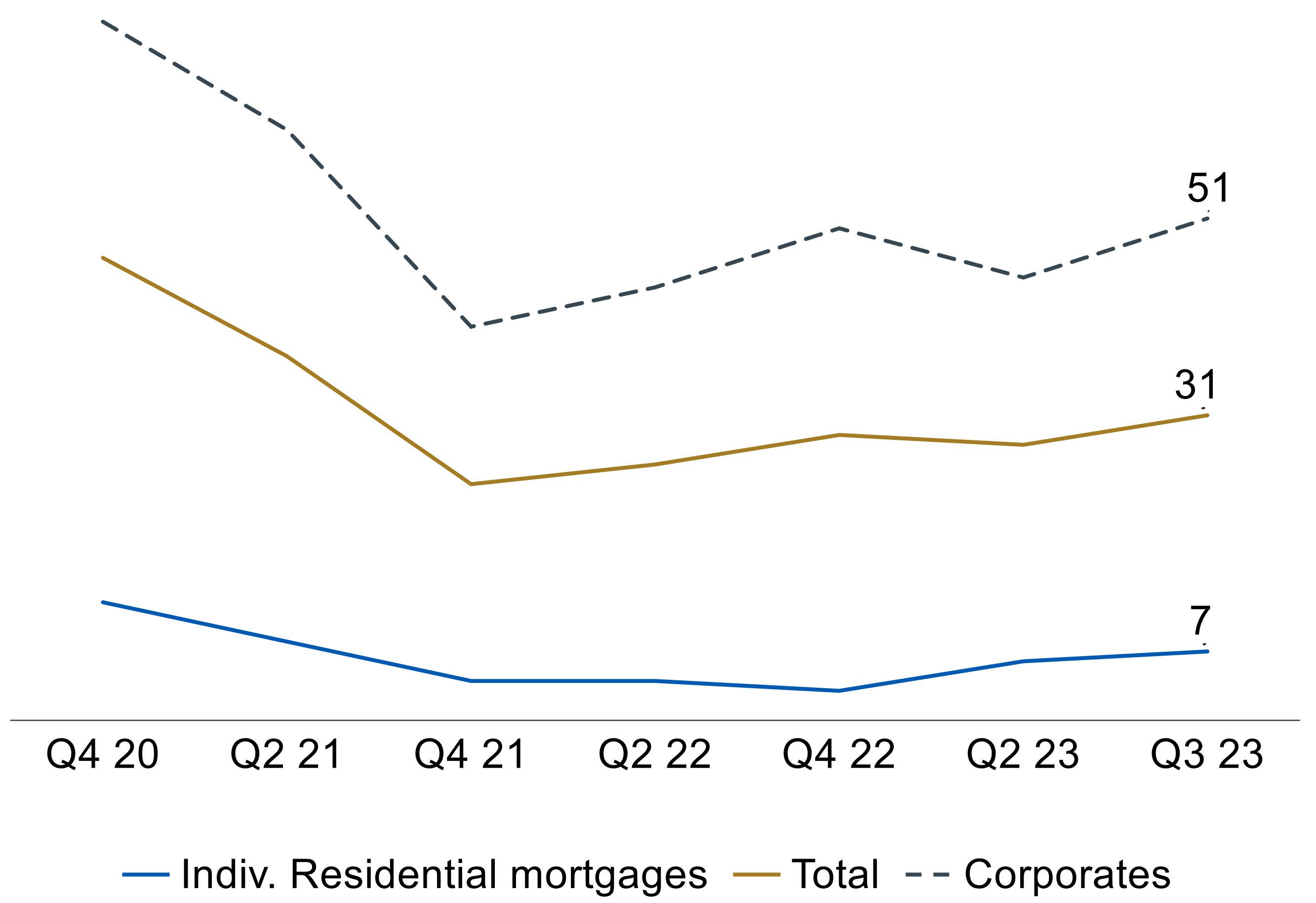
Development of non-performing loans, moratoria and forbearance (% of total loan book)



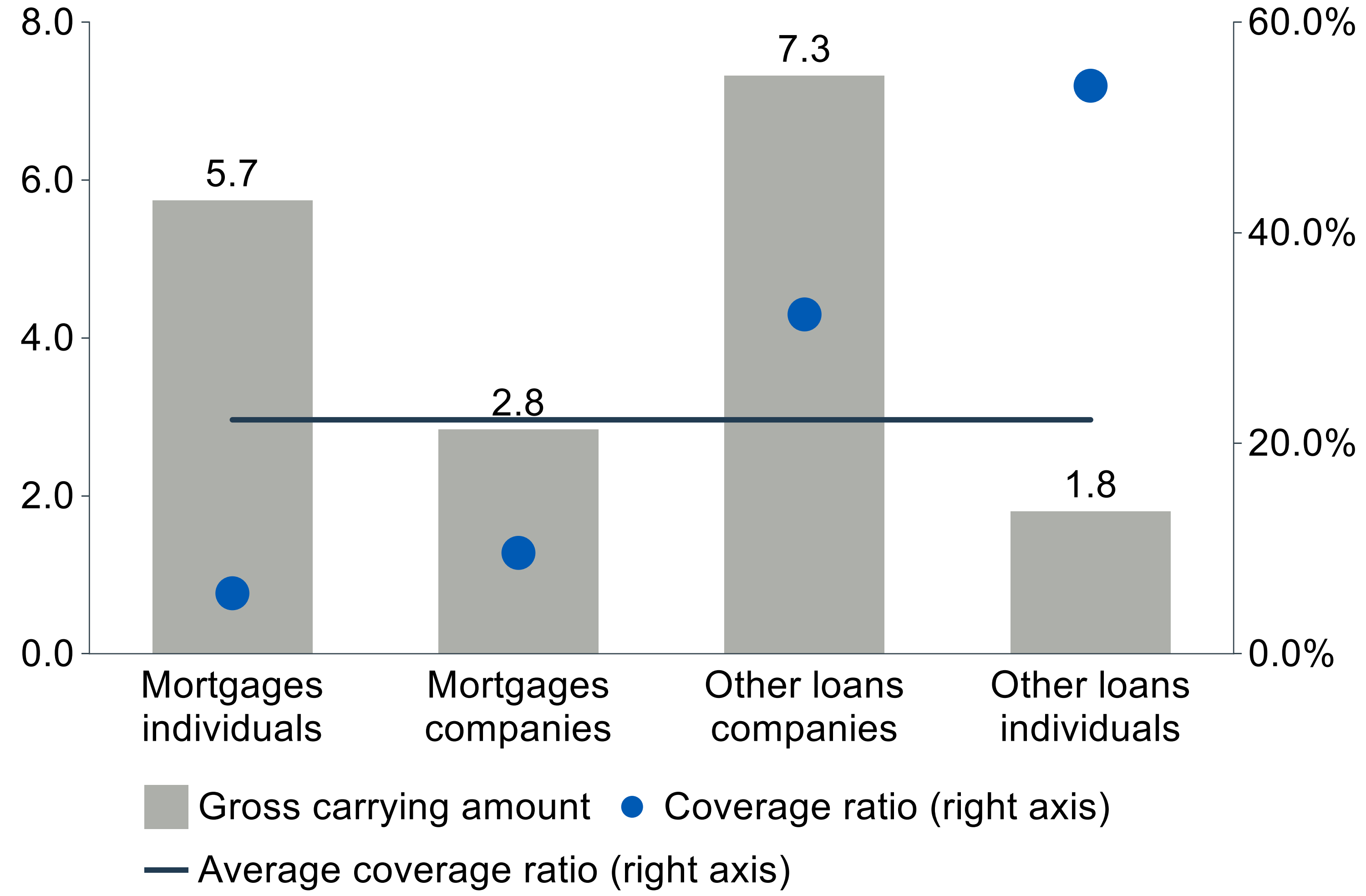
Development of problem loans ratio for loan portfolios (% of relevant loan book)



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



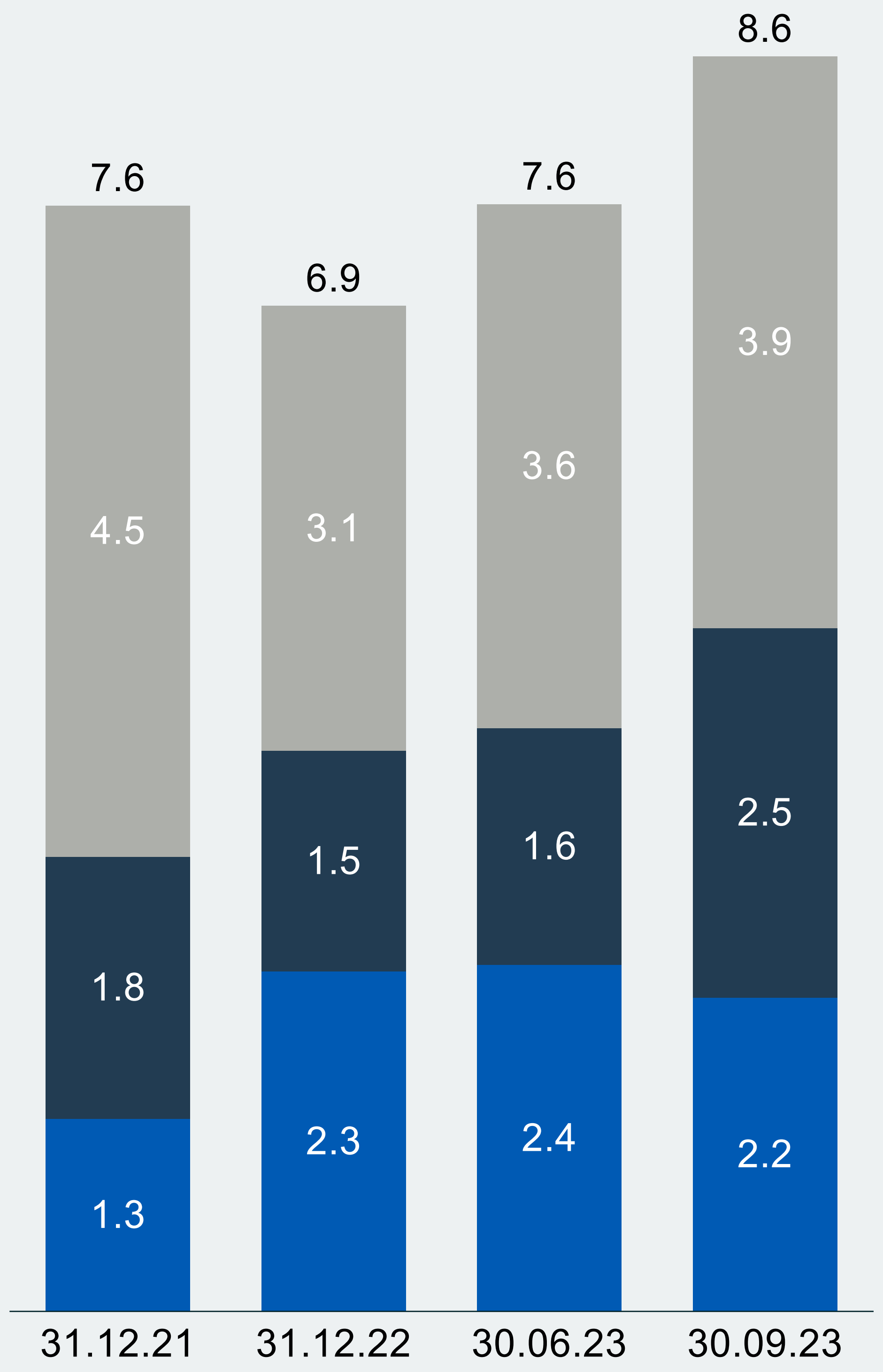
NPL coverage breakdown (ISK bn)



Loss allowance by IFRS 9 stages

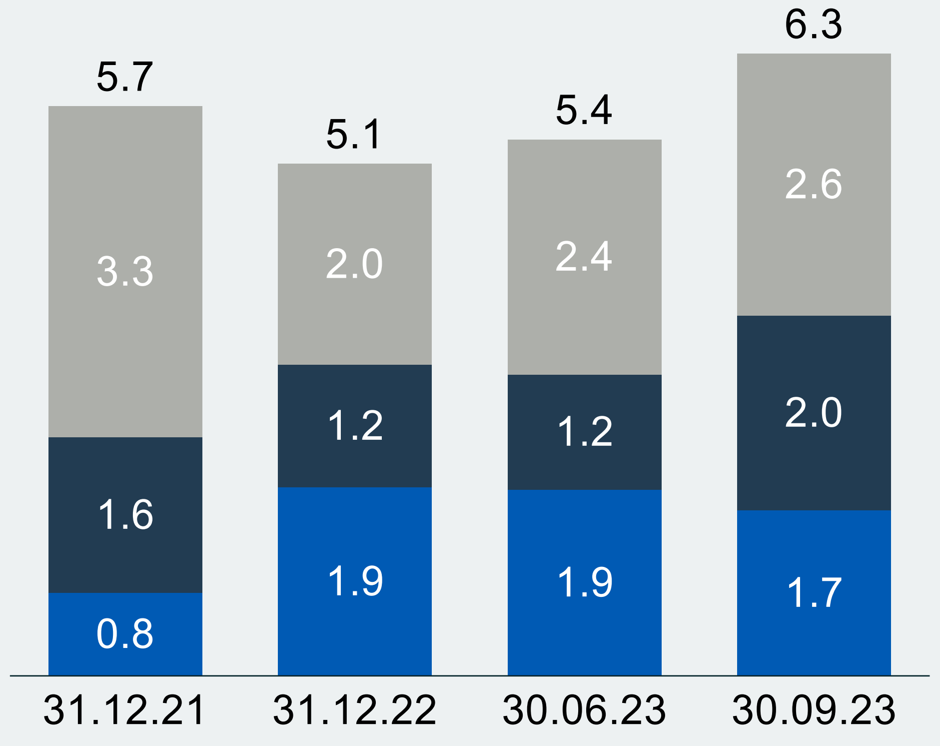
On loans to customers total (ISK bn)

Loans to customers are 0.75% provisioned at period end compared to 0.63% at YE 2022



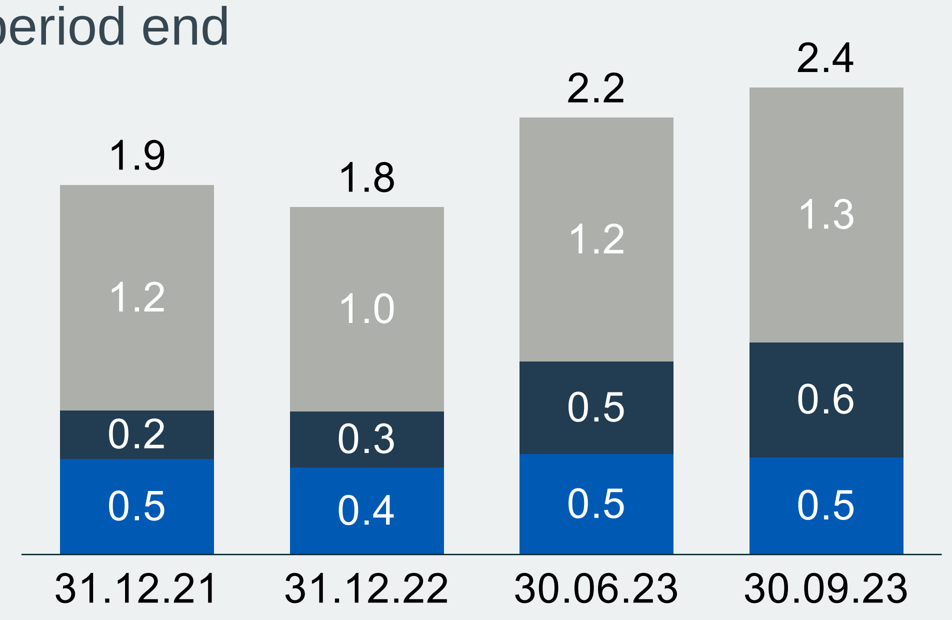
Thereof on loans to corporates (ISK bn)

Loans to corporates are 1.14% provisioned at period end



Thereof on loans to individuals (ISK bn)

Loans to individuals are 0.40% provisioned at period end



Stage 1 Stage 2 Stage 3

IFRS9 economic scenarios and assumptions

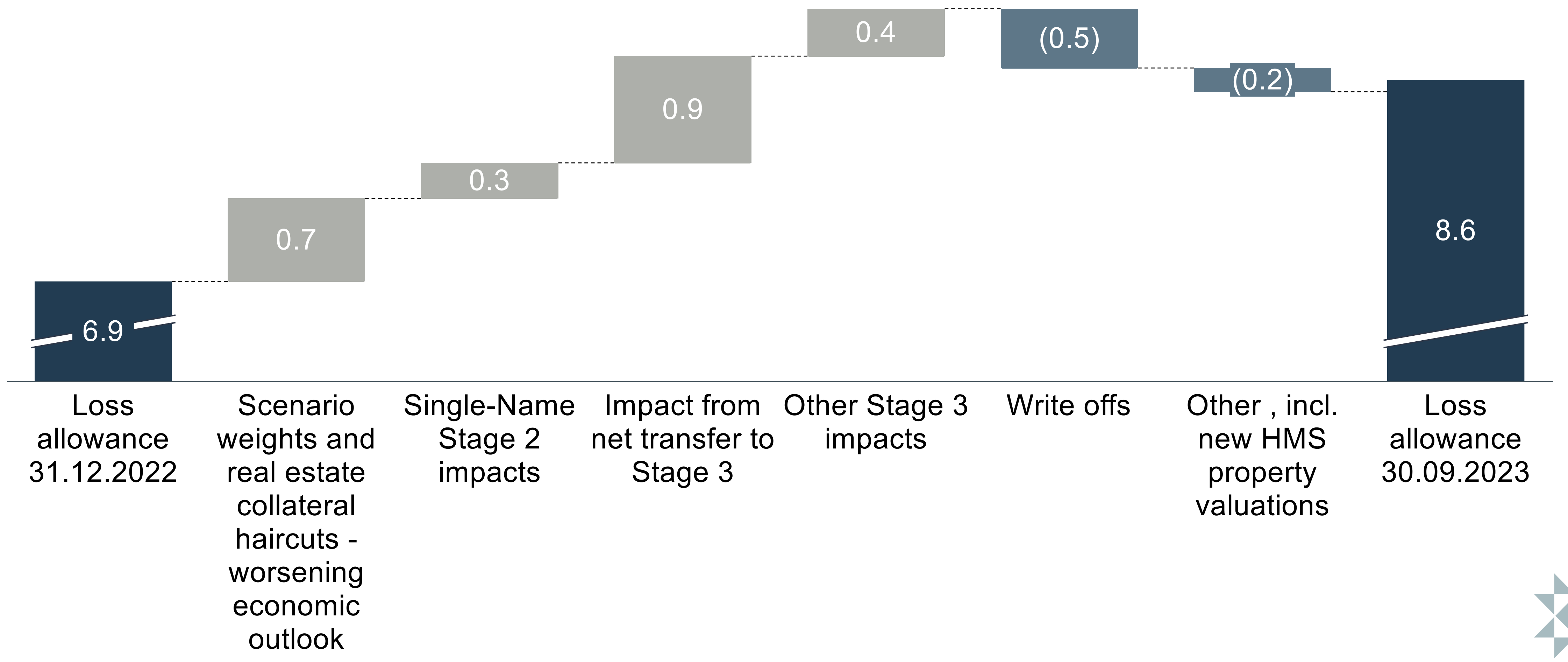
Deteriorating economic outlook is captured in a movement of weights during the past quarters from the optimistic case to the base and pessimistic case and increase in haircuts on real estate collateral

IFRS9 scenario likelihood	YE 2021	YE 2022	Q3 2023
Optimistic	20%	10%	10%
Base case	60%	65%	60%
Pessimistic	20%	25%	30%

Real estate collateral haircut	Q1 2023 and prior		Q2 2023 and onward	
	Base case	**Pessimistic**	**Base Case**	**Pessimistic**
Residential	20%	35%	25%	40%
Commercial	30%	45%	35%	50%

Changes to loss allowance on loans to customers in 9M (ISK bn)

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

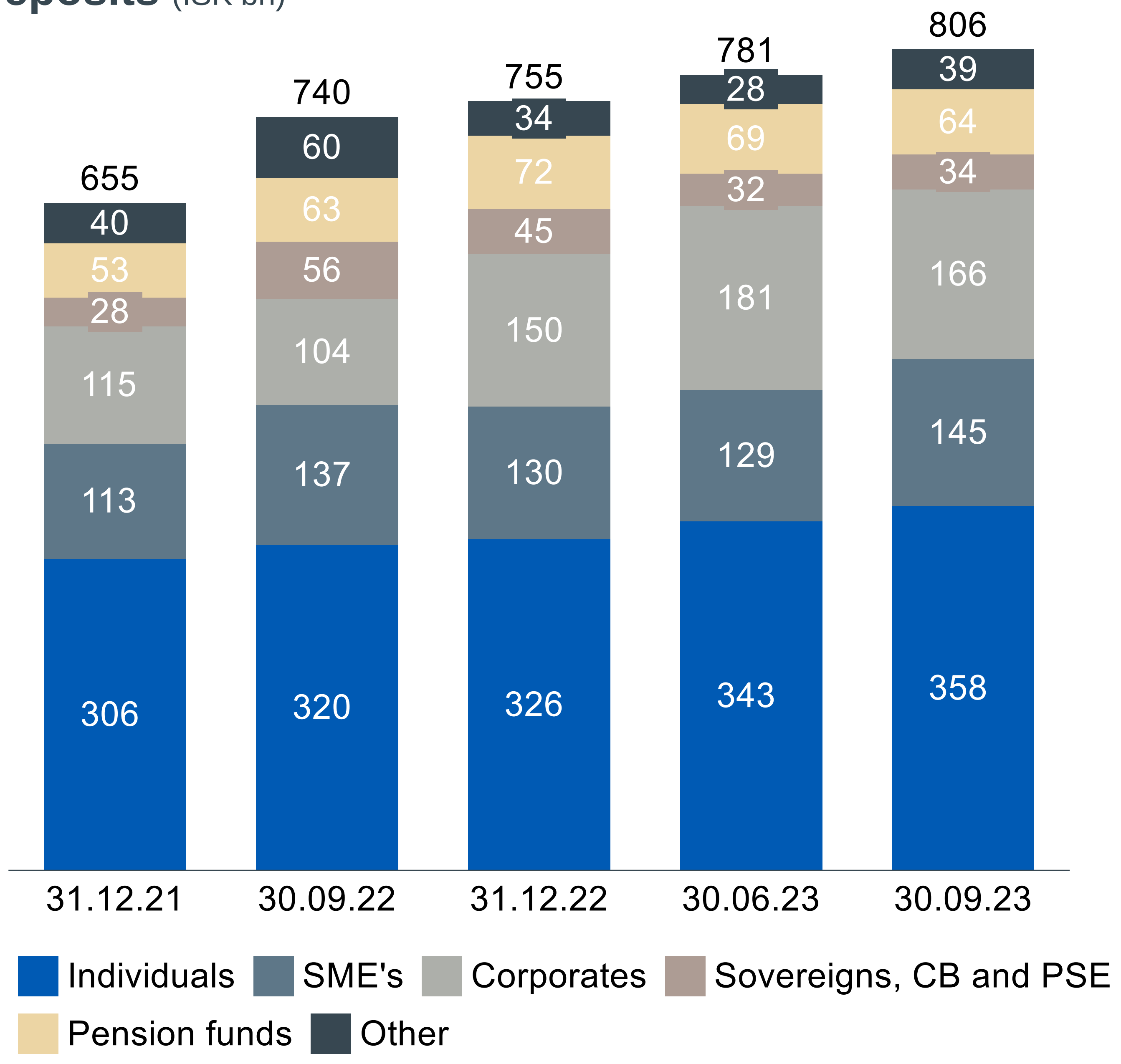


Deposits from customers

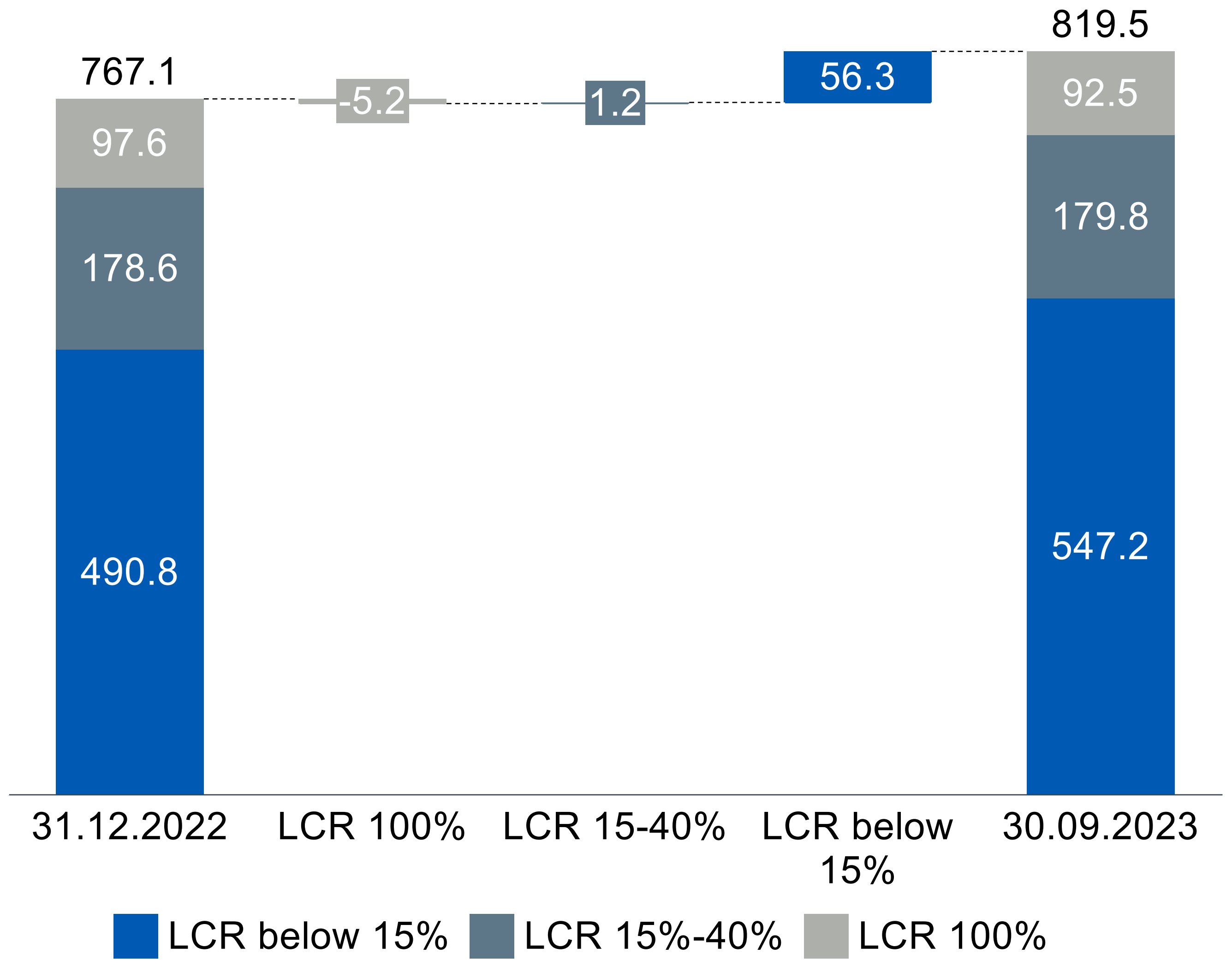
Robust position in competitive market

- Seasoned and diversified deposit base supports another quarter of growth in deposits
- Total deposits of ISK 806bn represent 60% of the Bank’s total liabilities
- Growth in deposits from customers during the quarter was 3% and 9% YoY
- Growth over past quarters has primarily been in “stable” LCR category and term deposits. During the year categories that have an LCR outflow of below 15% grew by ISK 56bn, while categories in 100% outflow category decreased by ISK 5bn
- Loans to deposits ratio of 142% at the end of the quarter and has been relatively stable over the last three years

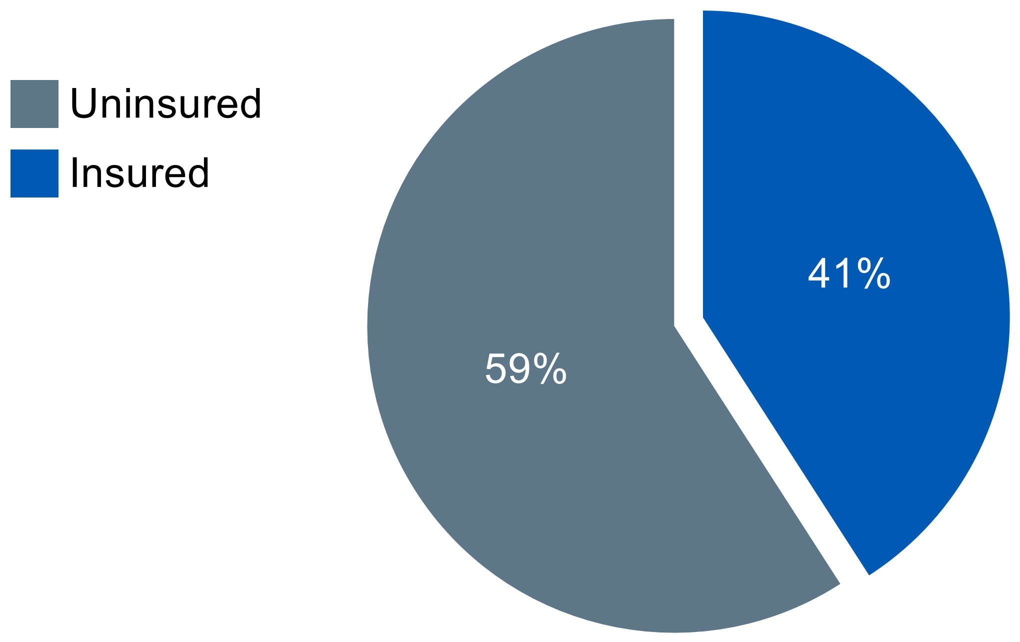
Deposits (ISK bn)



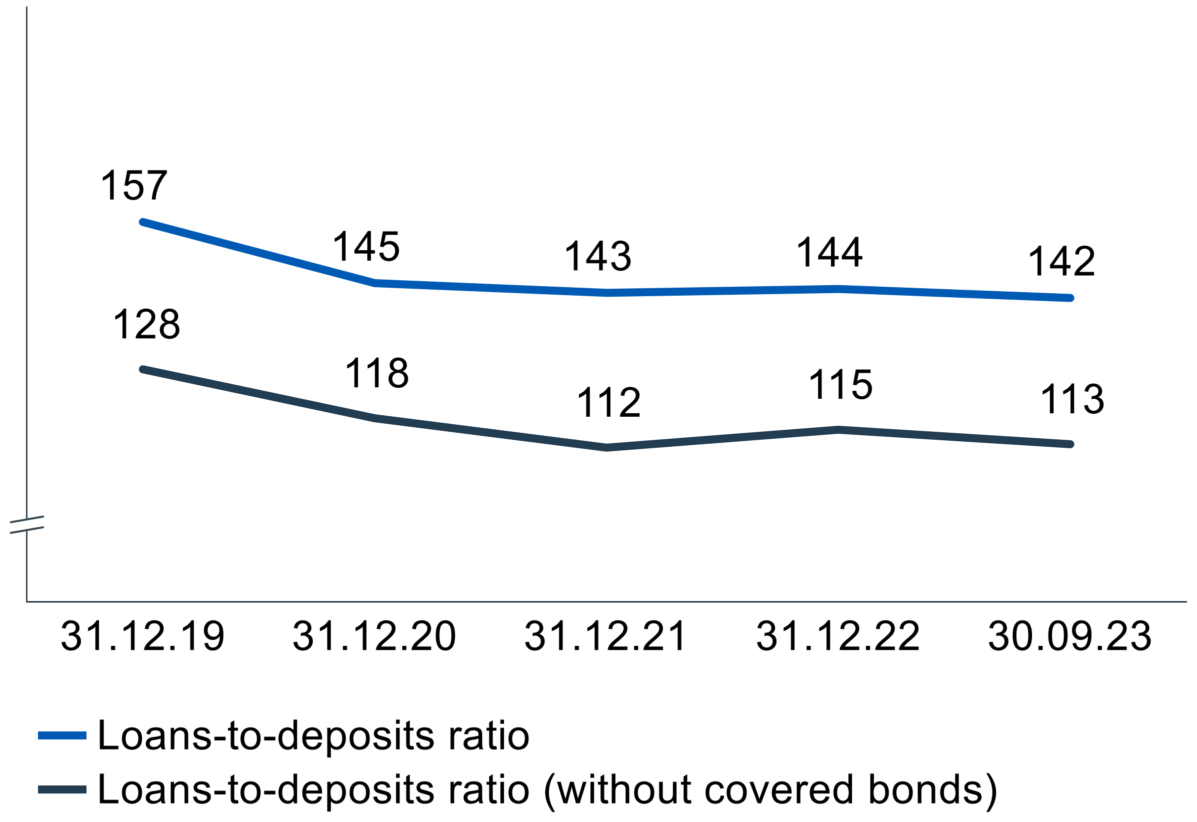
Deposit growth by LCR outflow category (including loans to credit institutions) (ISK bn)



Deposits by insurance scheme



Loans to deposits ratio (%)

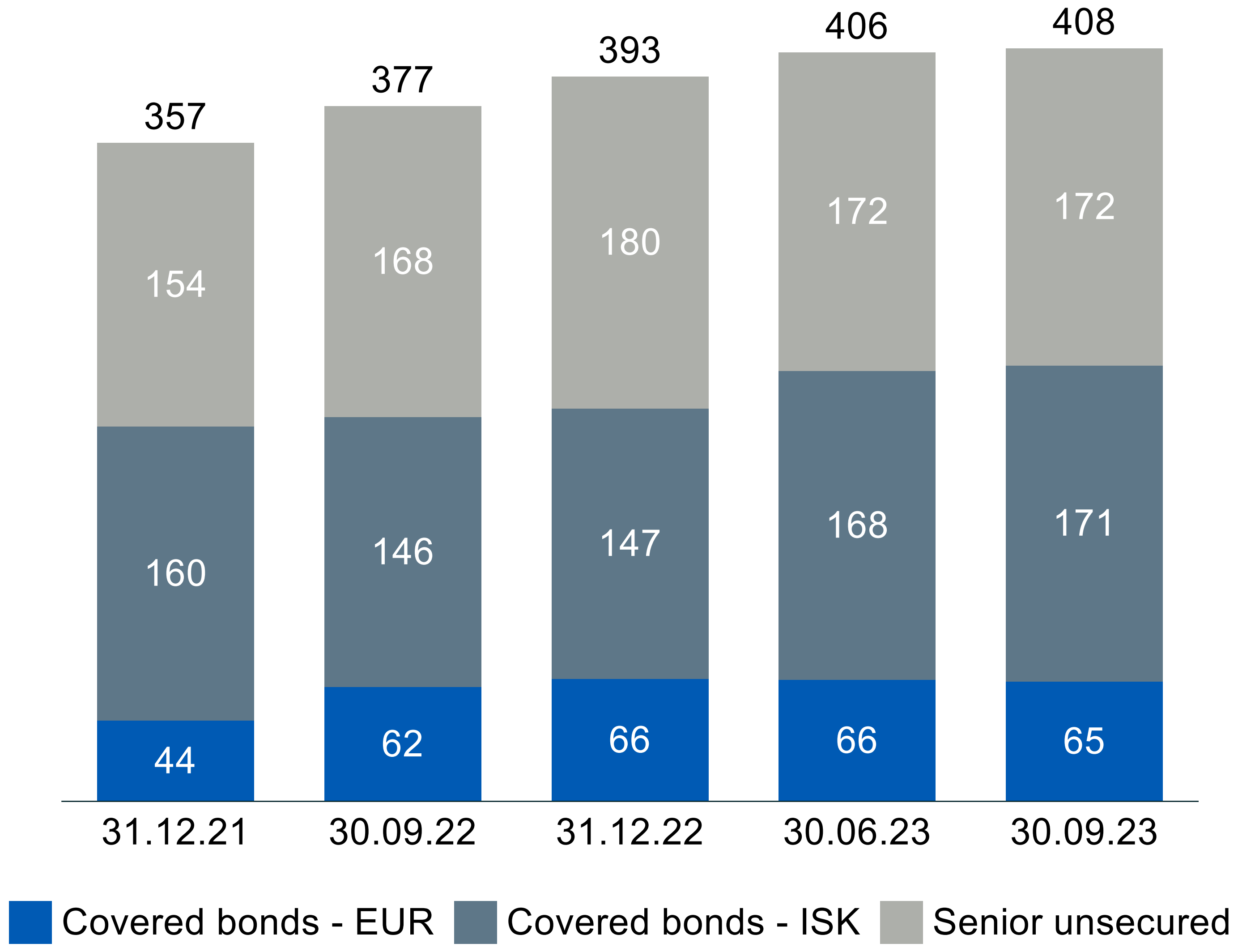


Borrowings

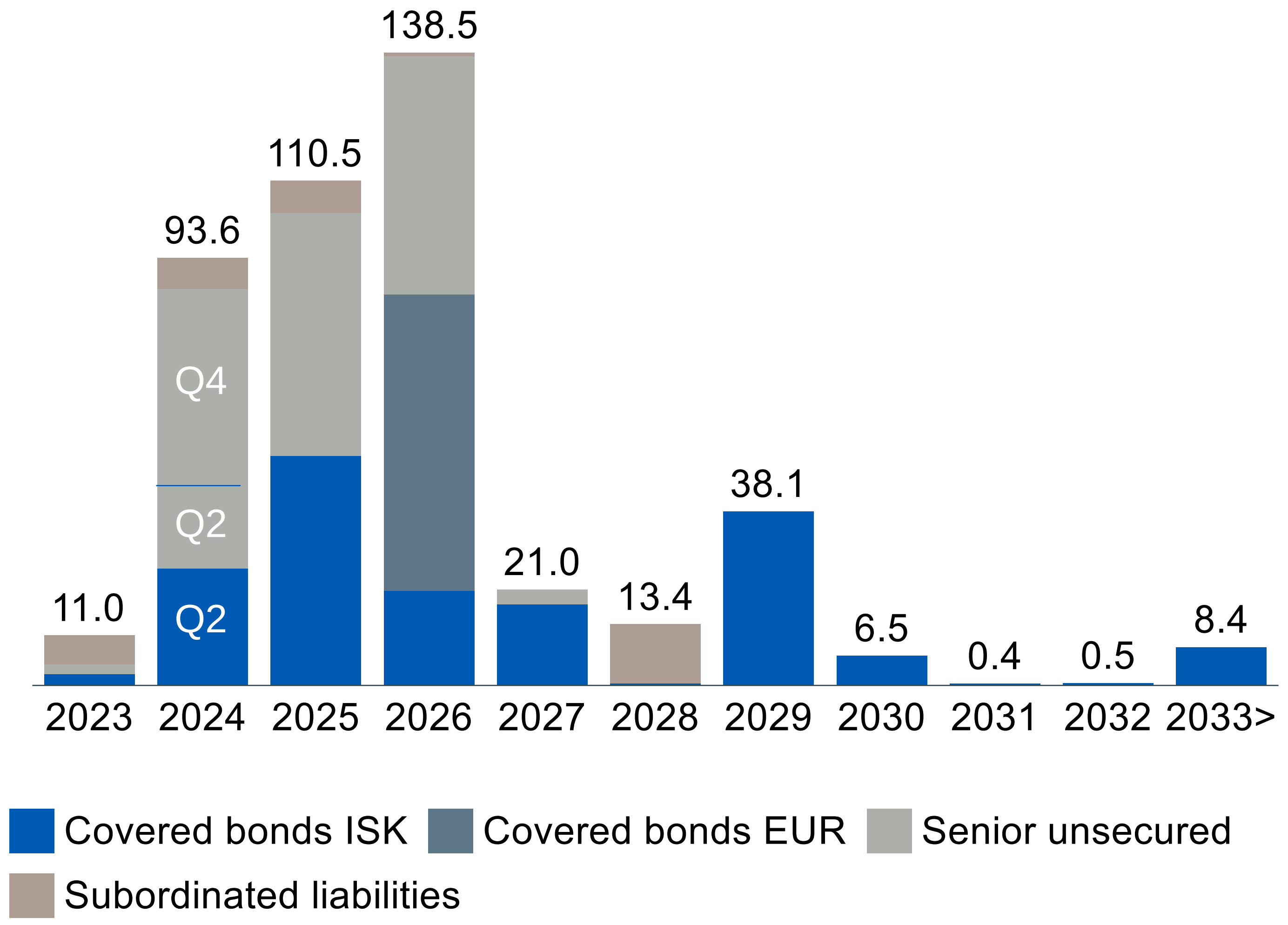
Moody's upgrade supports funding effort and maturity profile balanced

- Moody's upgraded Arion Bank's issuer rating to A3.
  - The long-term and short-term deposit rating was upgraded to A2/P-1
  - The outlook was changed to stable from positive
  - Moody's assessment of Arion Bank's ESG risk has also been raised to G-2 from G-3. This reflects low governance risk following the Bank's improved financial strategy and risk management practices.
- The Bank continued to issue covered bonds in the domestic market.
- Total covered bond issuance YTD ISK 44.2 bn, of which ISK 22.6 bn. for own use
- The Bank will continue to regularly issue in the domestic market and opportunistically access the international markets

Borrowings by type (ISK bn)



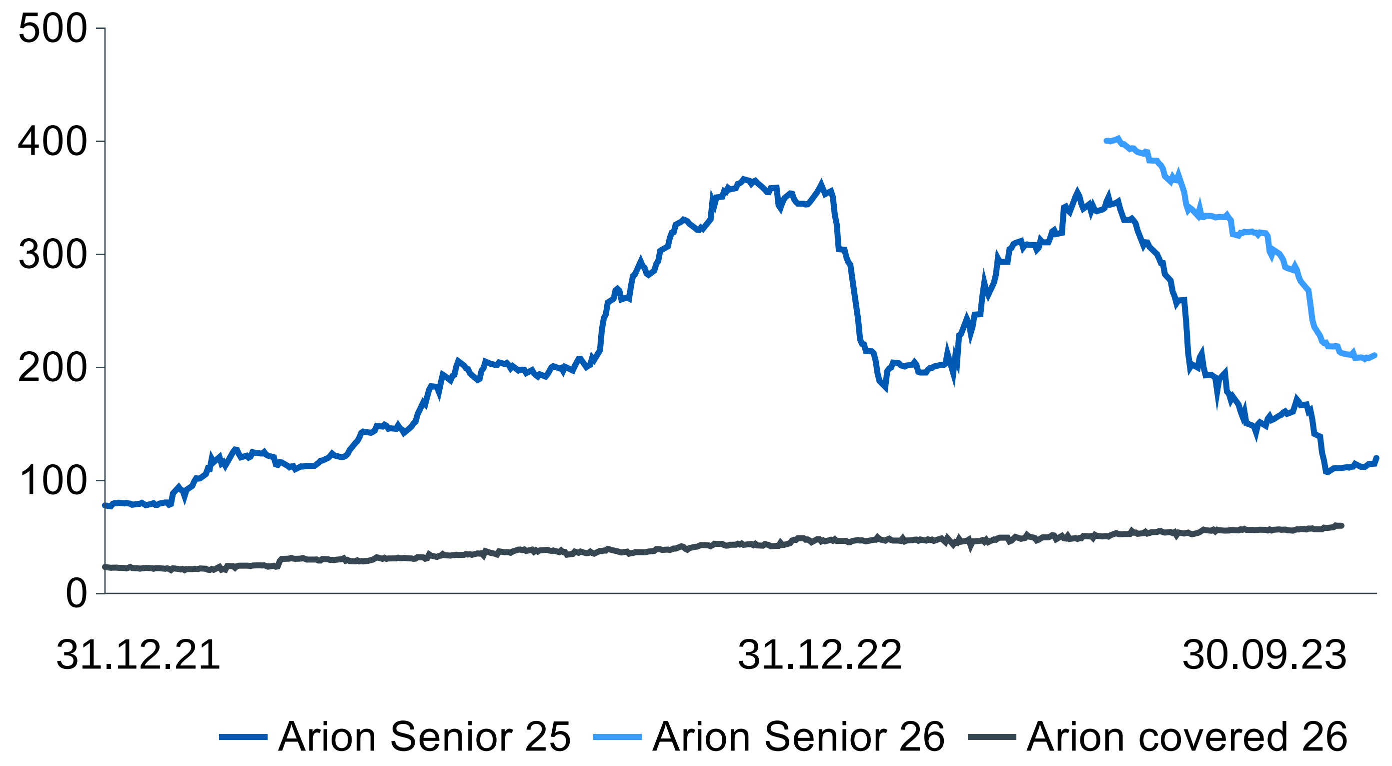
Maturities of borrowings and call dates on subordinated liabilities (ISK bn)



Ratings

S&P		
Long term	BBB	A
Covered bond	A	N/A
Short term	A-2	A-1
Outlook	Negative	Positive
Moody's		
Deposits - long term	A2	N/A
Issuer - long term	A3	A2
Outlook	Stable	Positive

Development of EUR funding spreads (bps)

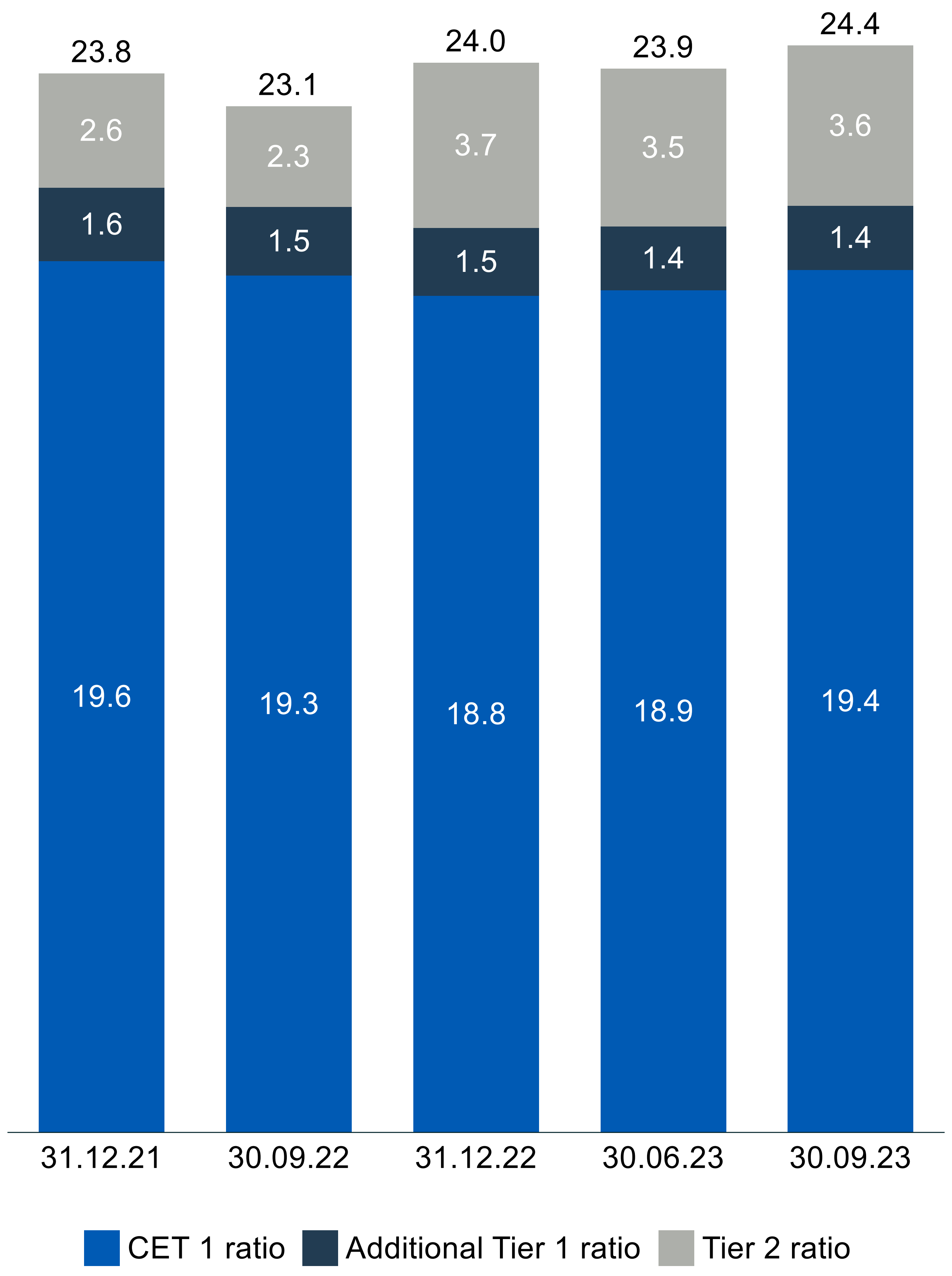


Own funds

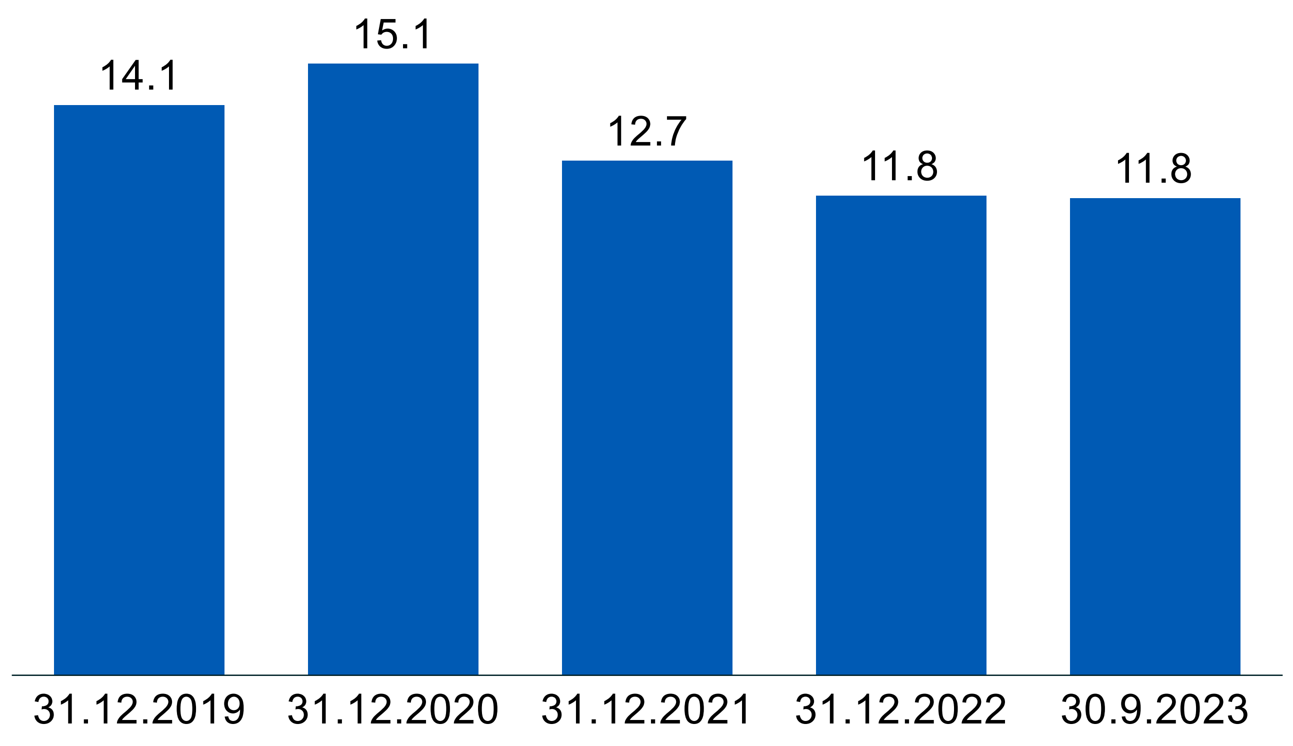
Strong capital position

- Capital position increases between quarters with CET1 ratio increasing by 50 bps to 19.4%
- CET1 position 450 bps above regulatory requirements
- Leverage ratio of 11.8% significantly above most international peers
- The solvency ratio of Vördur insurance is 146.2%

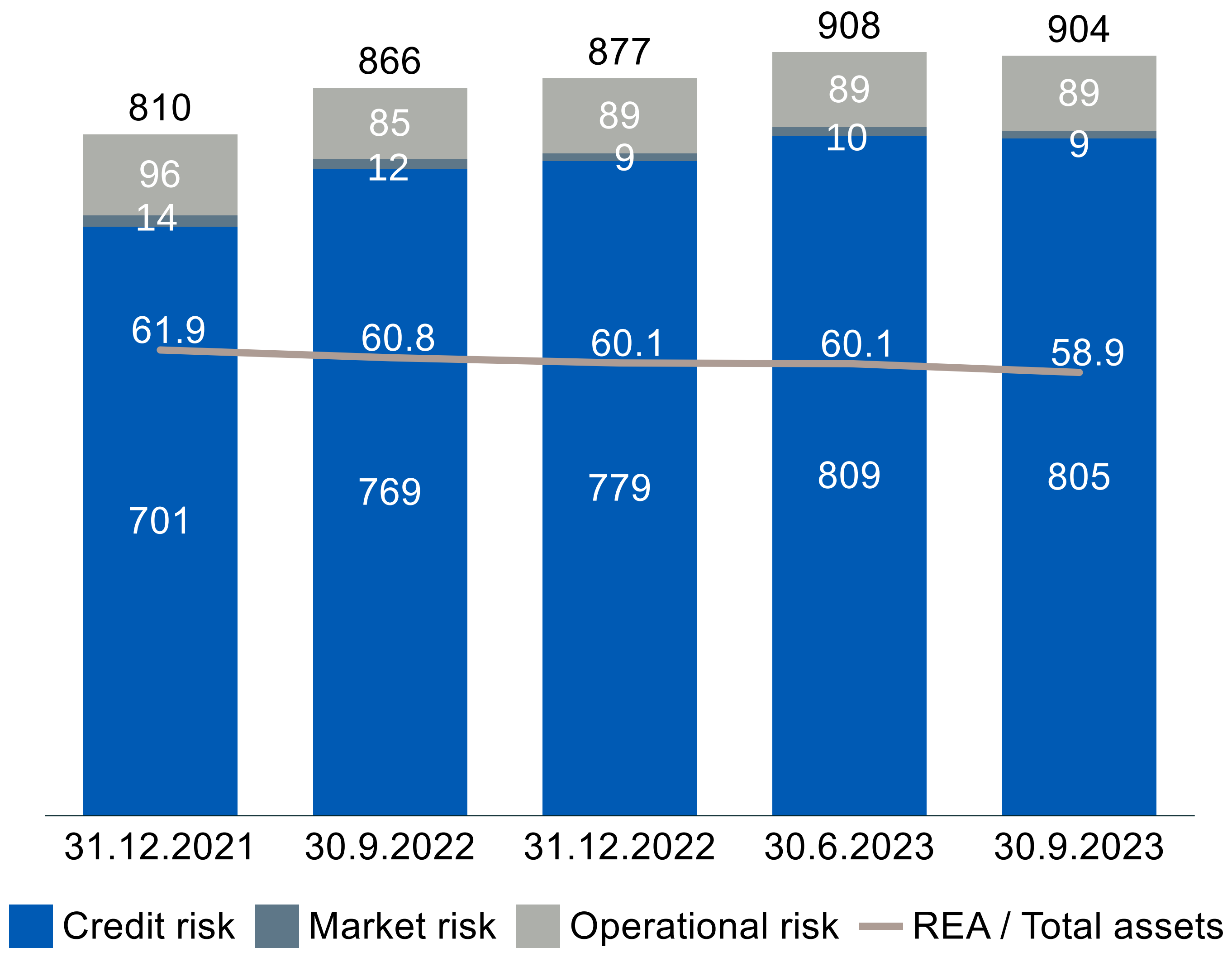
Capital ratio (%)



Leverage ratio (%)



Risk-weighted exposure amount (ISK bn)

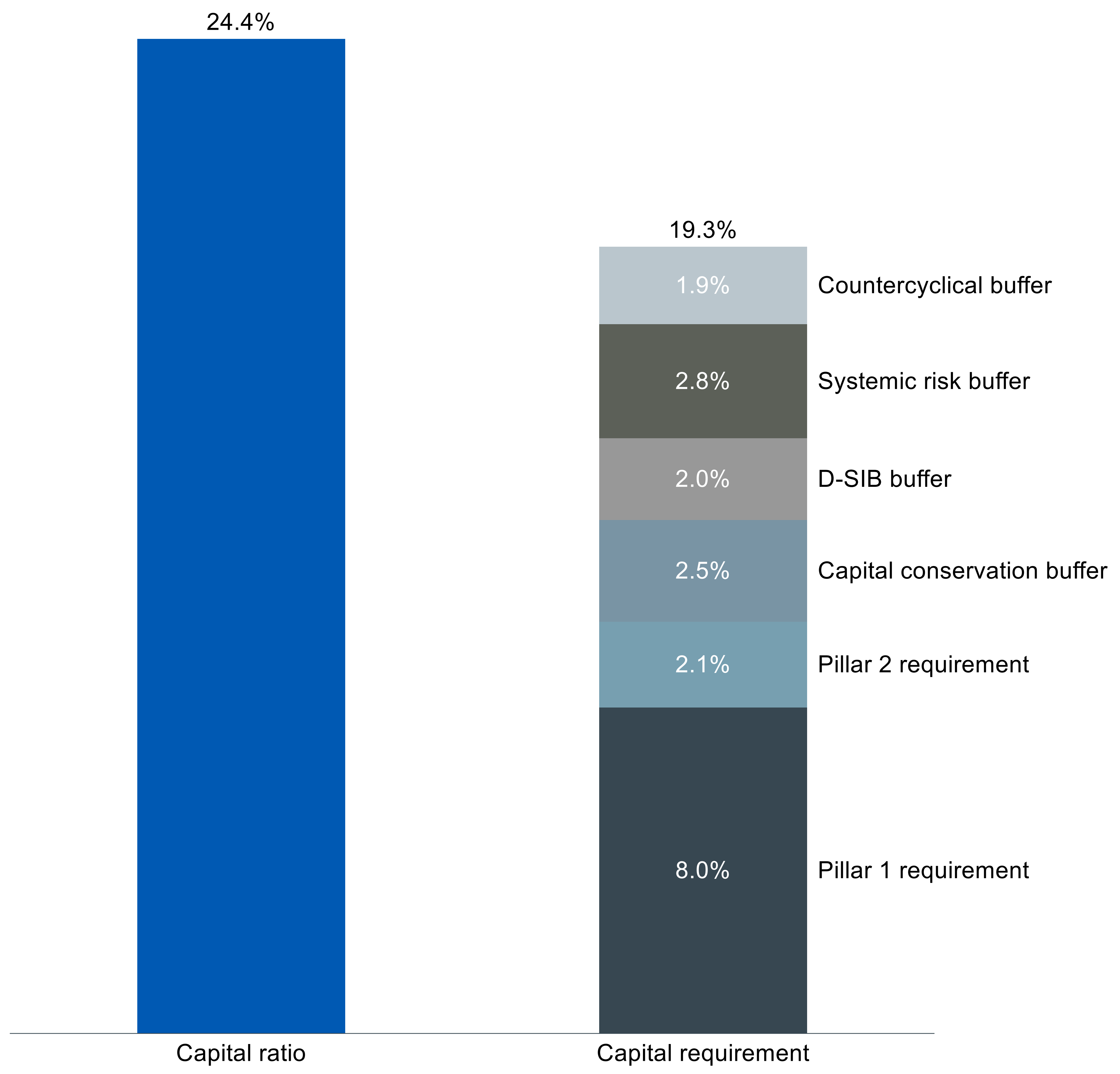


Own funds

Capital ratios comfortably above regulatory requirements

- The FME has published in Q2 a revised Pillar 2 requirement for the Bank at 2.1% of REA, based on year-end 2022 financials, a decrease of 1.4 percentage points from the previous result
- The countercyclical capital buffer in Iceland will increase from 2.0% to 2.5% in March 2024, bringing the total capital requirement to 19.7%.
- Capital ratios account for foreseeable dividend that correspond to 50% of profits in accordance with the Bank's dividend policy.
- The medium-term capital management buffer target is 150-250bps.
- Considering the raised countercyclical buffer to 2.5%, the Bank has ISK 34 billion of surplus capital. The management buffer range implies surplus capital beyond the management buffer in the range from ISK 11 bn to 20 bn. Note, however, rating considerations on the next page, which impact capital management near term.

Own funds and capital requirements (%)



Own funds

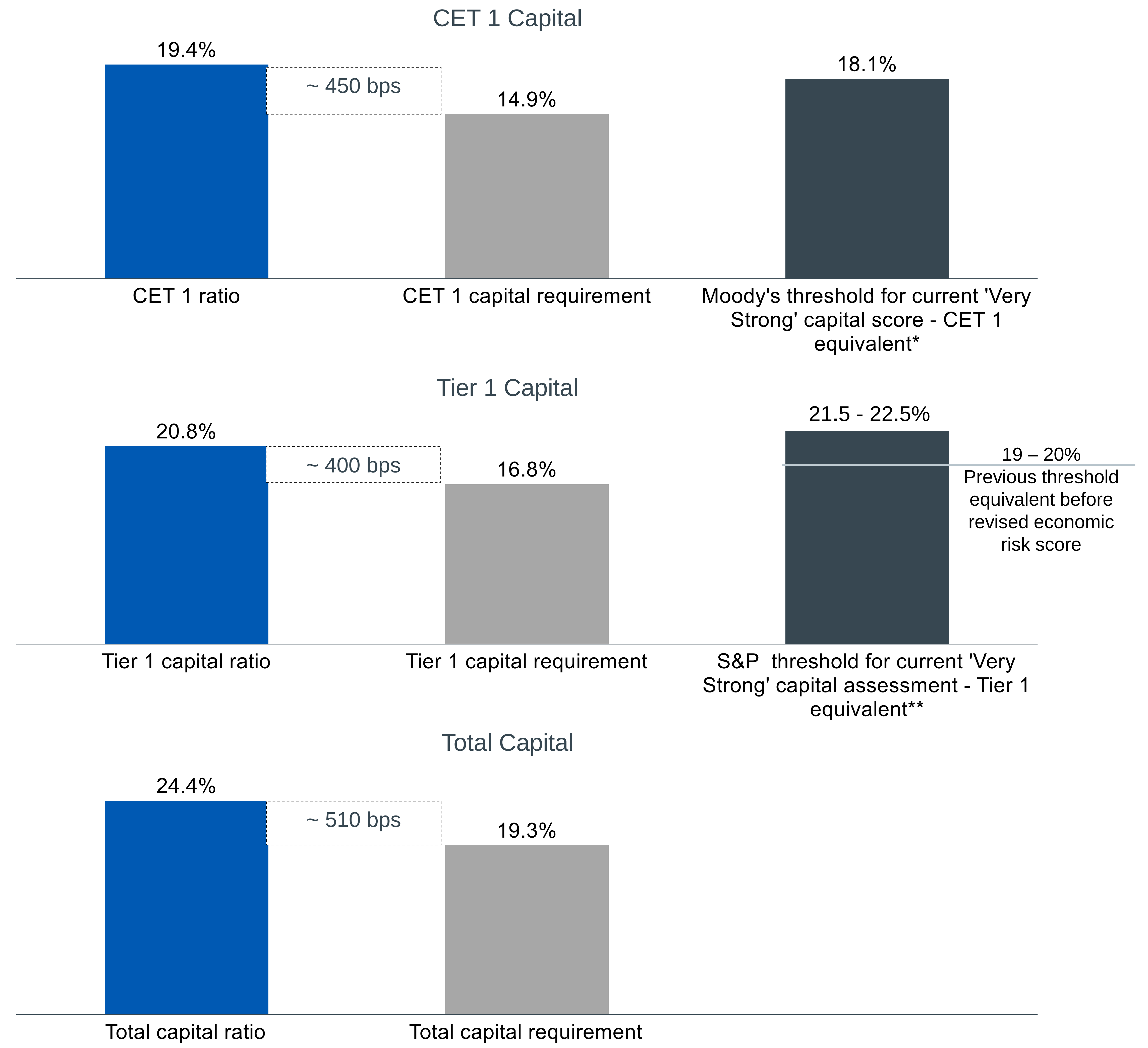
Rating considerations impact capital management in the short-term

- The Bank’s issuer ratings from Moody’s and S&P are A3 (stable outlook) and BBB (negative outlook) respectively.
- Both rating agencies’ assessment of the Bank’s capital position is ‘Very Strong’ as per the different methodologies.
- S&P’s capital assessment was significantly impacted by its elevated economic risk assessment for the Icelandic banking sector which was confirmed in a report early this year.
- The Bank’s risk-adjusted capital ratio is currently below S&P’s revised threshold, which prompted a change to negative outlook in May.
- The Bank will adhere to capital thresholds of the rating agencies in the short-term, which implies raising the Tier 1 management buffer to 400-500bps. The expectation is however that constructive economic development and/or positive impact of other rating factors will result in convergence of capital benchmarks over the medium term.

* Moody's capital benchmark ratio is tangible common equity over REA, with REA add-on of 20% risk-weight for sovereign exposures. The threshold for the current 'Very Strong' score for capital is 18%, which corresponds to 18.1% CET1 capital given fixed REA.

** S&P's risk-adjusted capital ratio (RAC) is total adjusted capital over S&P's own risk-weighted assets, where the risk-weights are a function of Iceland's economic risk score and banking industry country risk assessment (BICRA) score. The benchmark for 'Very Strong' capital assessment is a RAC ratio above 15% which roughly corresponds to a Tier 1 ratio of 22.4% but is a function of balance sheet composition, especially unlisted equity holdings.

Own funds: capital requirements and rating benchmarks (%)

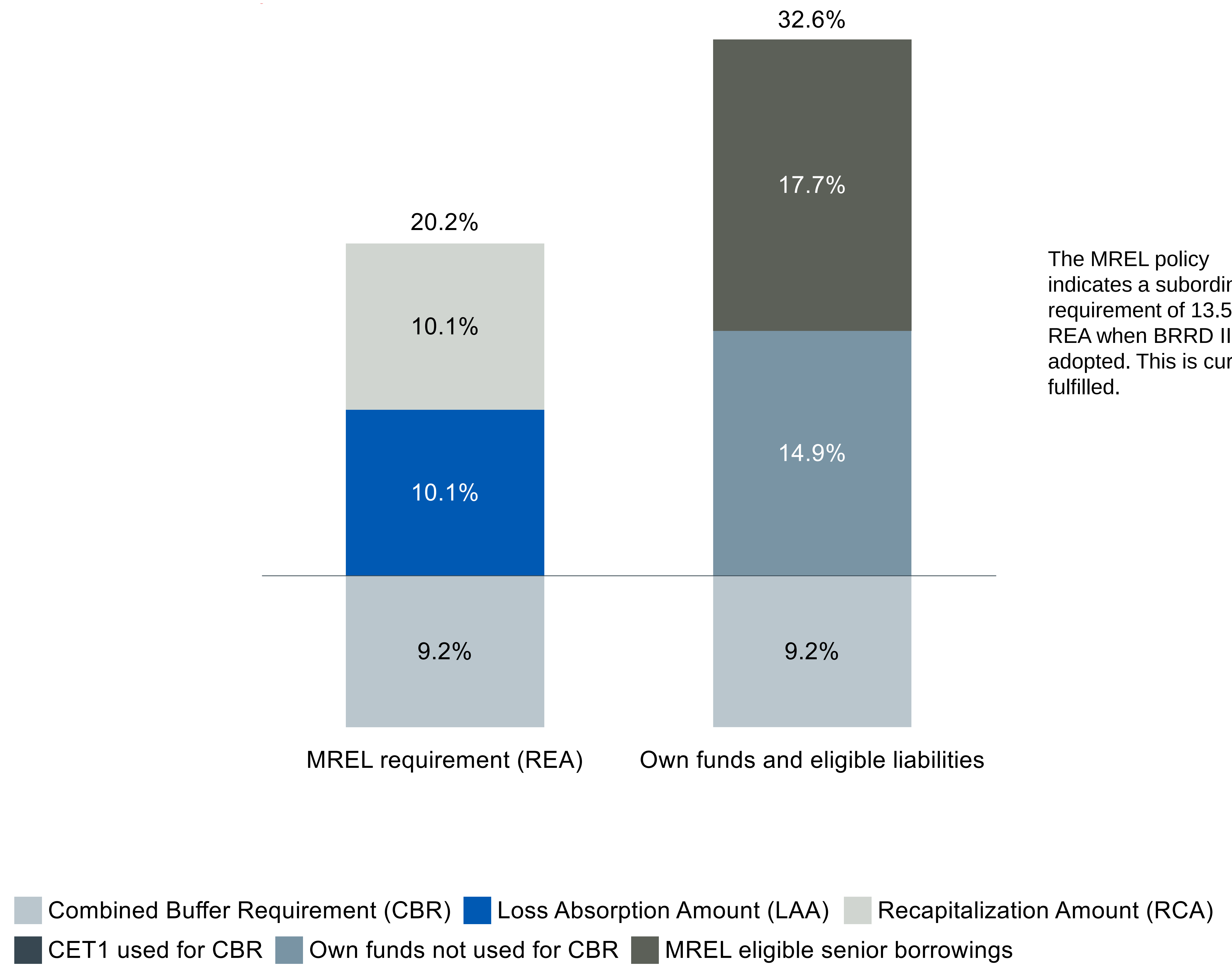


MREL requirement

Comfortably exceeding MREL requirements

- Buffer above MREL requirements 12.4% of REA at the end of the quarter
- The BRRD II approach to MREL has been codified in Icelandic law
- In October 2023, the Central Bank of Iceland published a decision on the MREL requirements for Arion Bank, 20.2% of REA and 6% of TEM (exposure measure for the leverage ratio) in addition to the CBR, which corresponds to 10.4% of REA
- Senior unsecured debt is MREL eligible unless it is excluded from the scope of bail-in
- The Central Bank has published its MREL policy
  - Both Loss Absorption Amount (LAA) and Recapitalization Amount (RCA) equal Pillar 1 plus Pillar 2, currently 10.1% of REA
  - No Market Confidence Charge (MCC) because of the high level of combined buffer requirement (CBR), currently 9.2% of REA
  - No subordination requirement has been implemented
  - Some details of the BRRD II requirements may change as the Central Bank finalizes the implementation
- The Senior Non-Preferred (SNP) rank has been introduced into Icelandic law, but the Bank does not see a need to issue SNP debt in the coming year

MREL requirement as % of REA*



The MREL policy indicates a subordination requirement of 13.5% of REA when BRRD II is adopted. This is currently fulfilled.

*According to BRRD I, MREL requirement should be expressed in terms of total liabilities and own funds (TLOF) but % of REA is more relevant for determining the size of the requirement. Actual requirement is 14.7% TLOF which corresponds to 24.2% REA at 30.9.2023

Going forward

Solid performance over the year in a volatile external market backdrop

Solid third quarter results conclude a strong operating performance by the Group for the first nine months of the year, with all key targets achieved

The rating upgrade from Moody's during the quarter was a positive confirmation of the Group's operational momentum. Recent positive outlook reviews on the Icelandic sovereign are also strong indications of the resilience of the economy

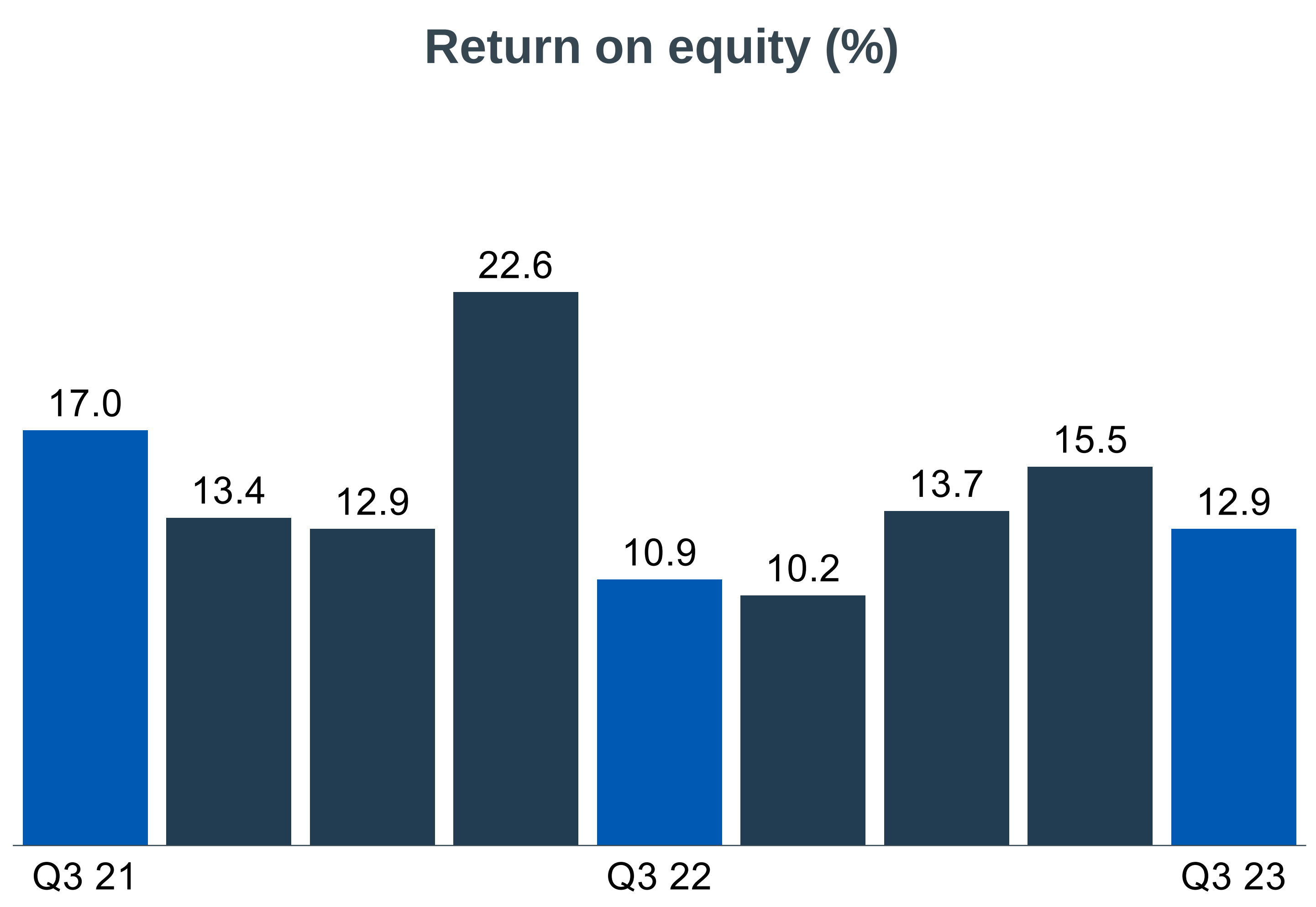
The interest rate environment has started to slow the economy. The Central Bank's pausing of rate hikes at its last meeting was positive sign in efforts to manage inflation

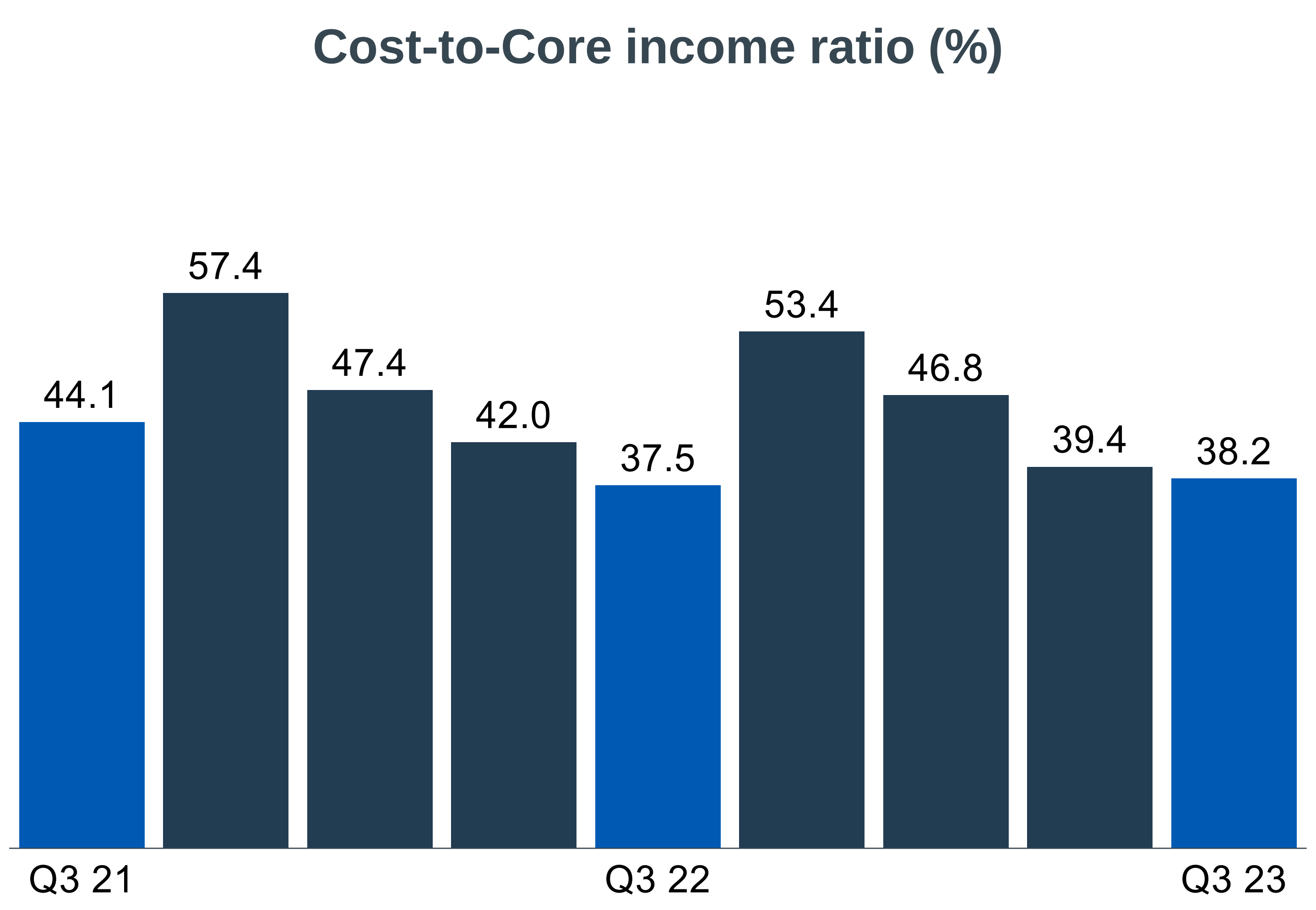
Robust capital, liquidity and funding position. Near-term capital management driven by S&P position, while expectation is that regulatory and rating capital thresholds should converge more over medium term

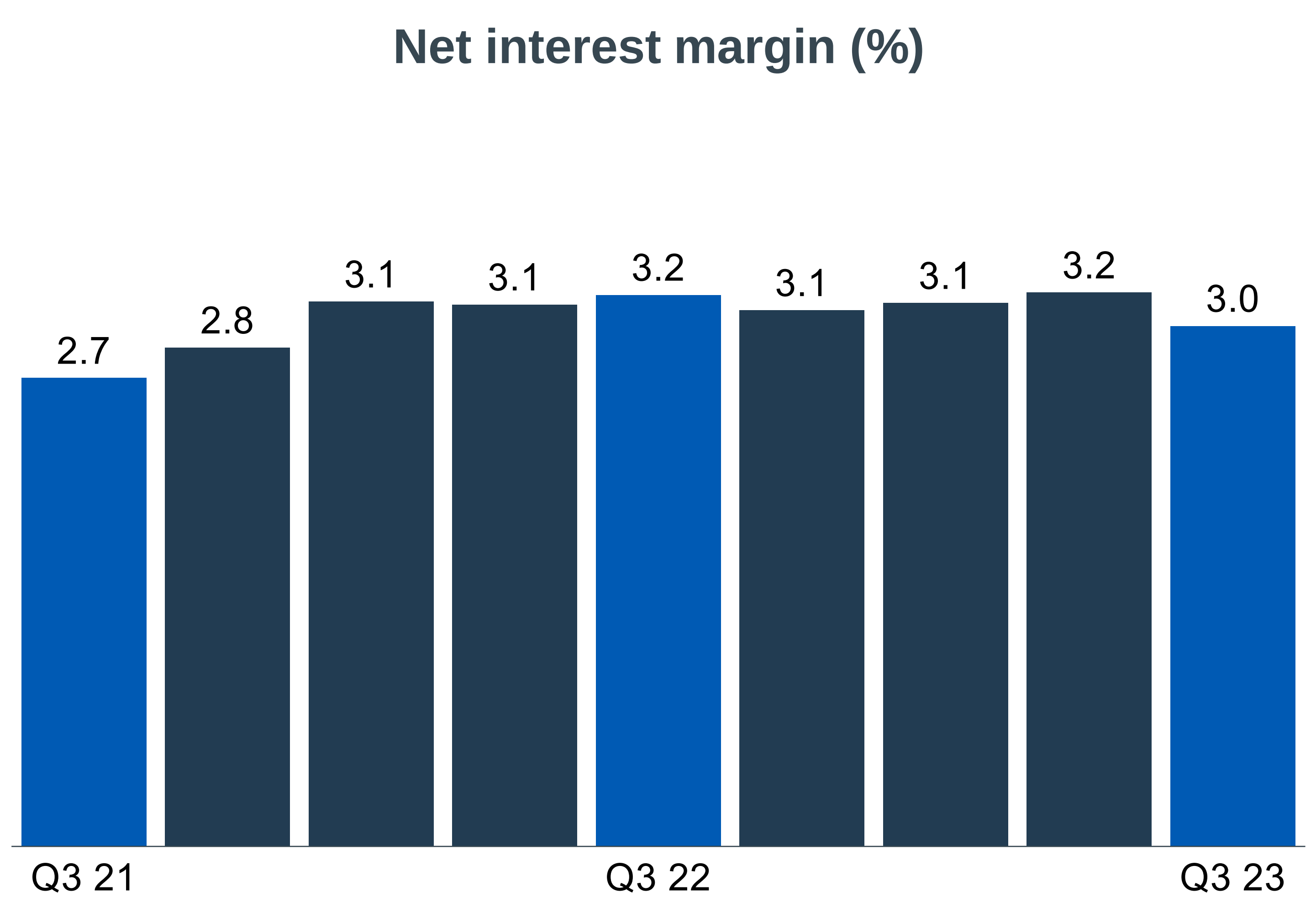
The Group is in a strong position to navigate the current external operational environment with diverse and seasoned businesses and conservative and agile balance sheet management

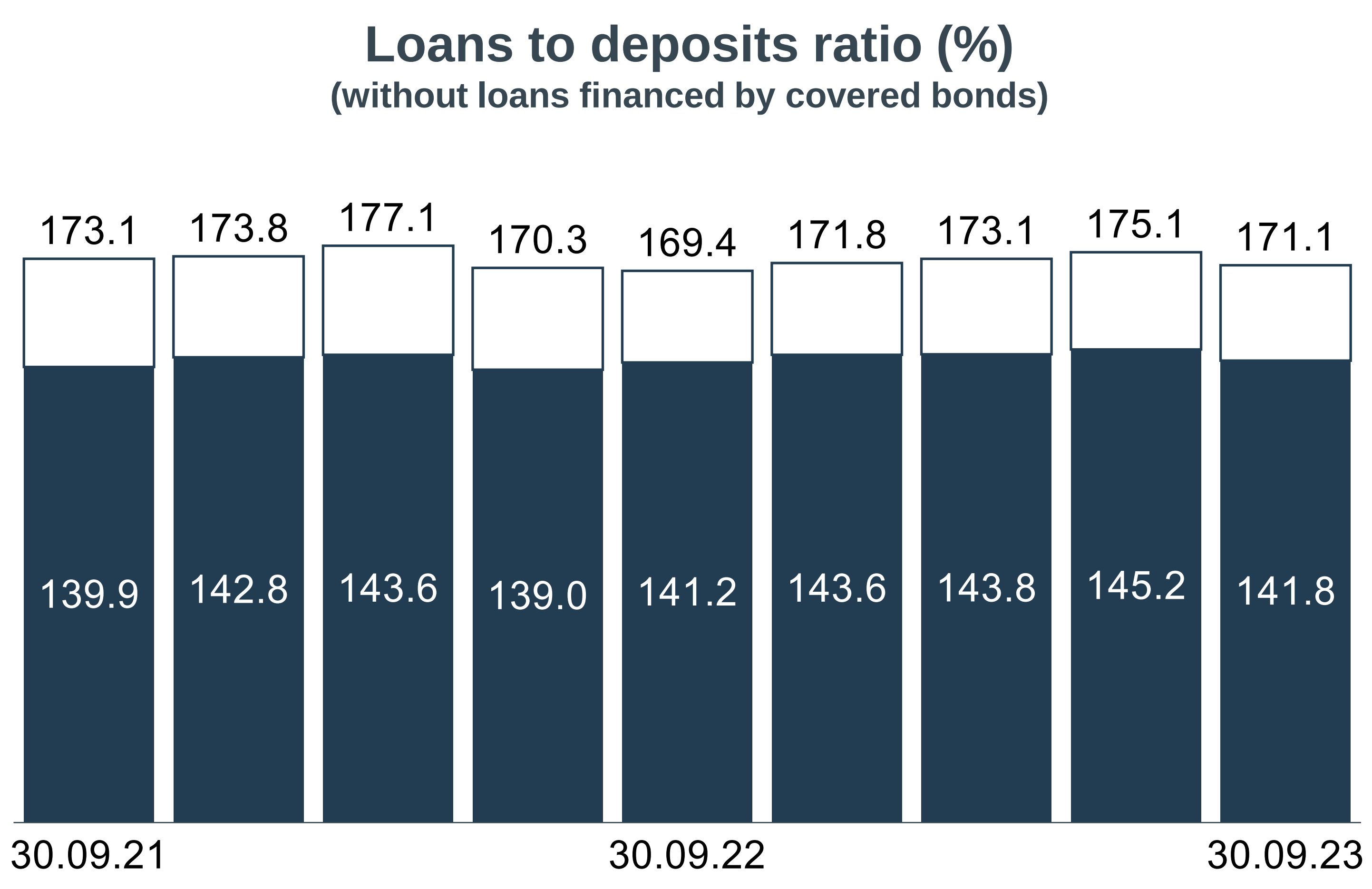
Capital Markets day planned for 1 March 2024 to provide an update on key strategic initiatives and outlook

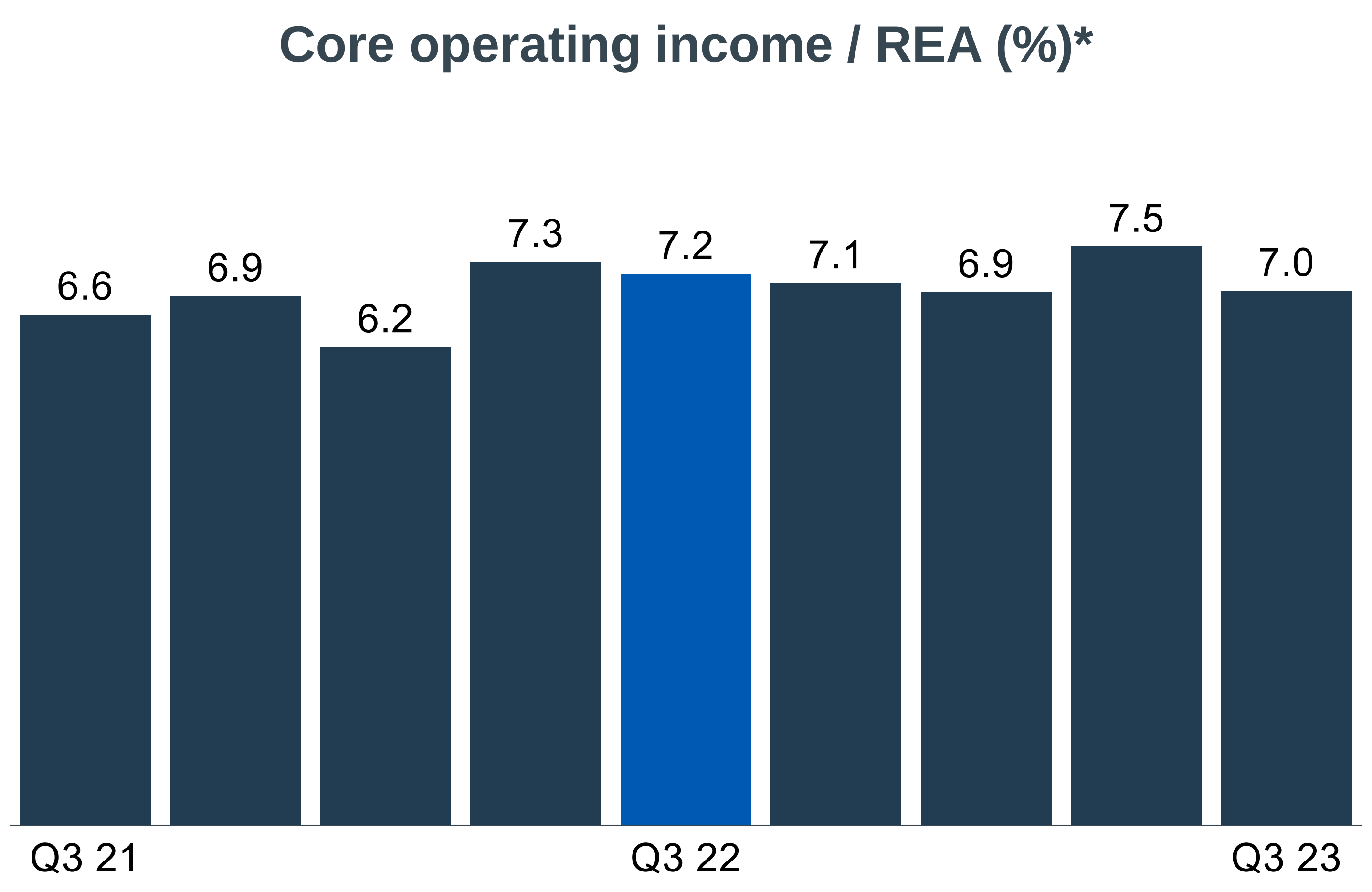
Key financial indicators - quarterly

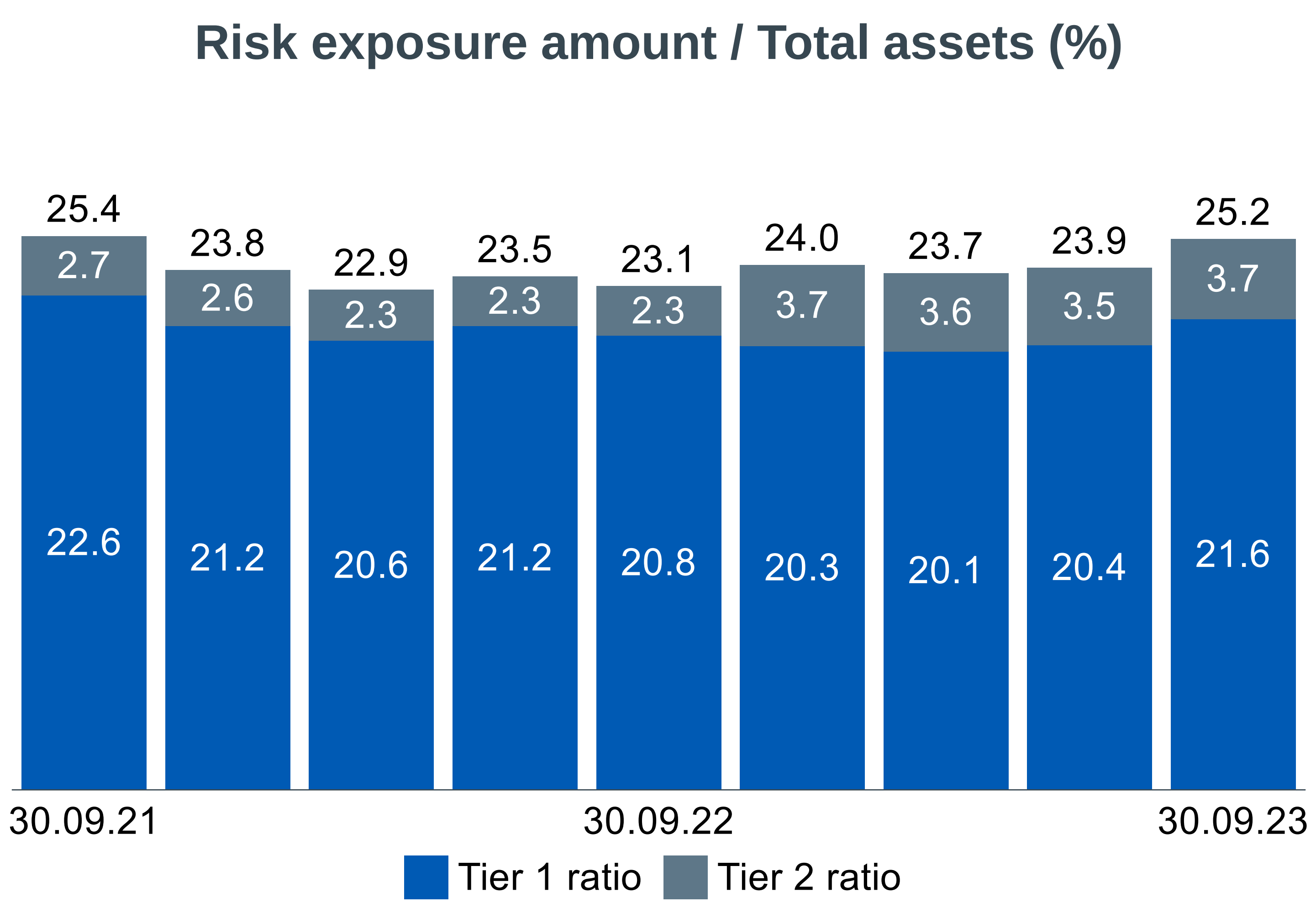




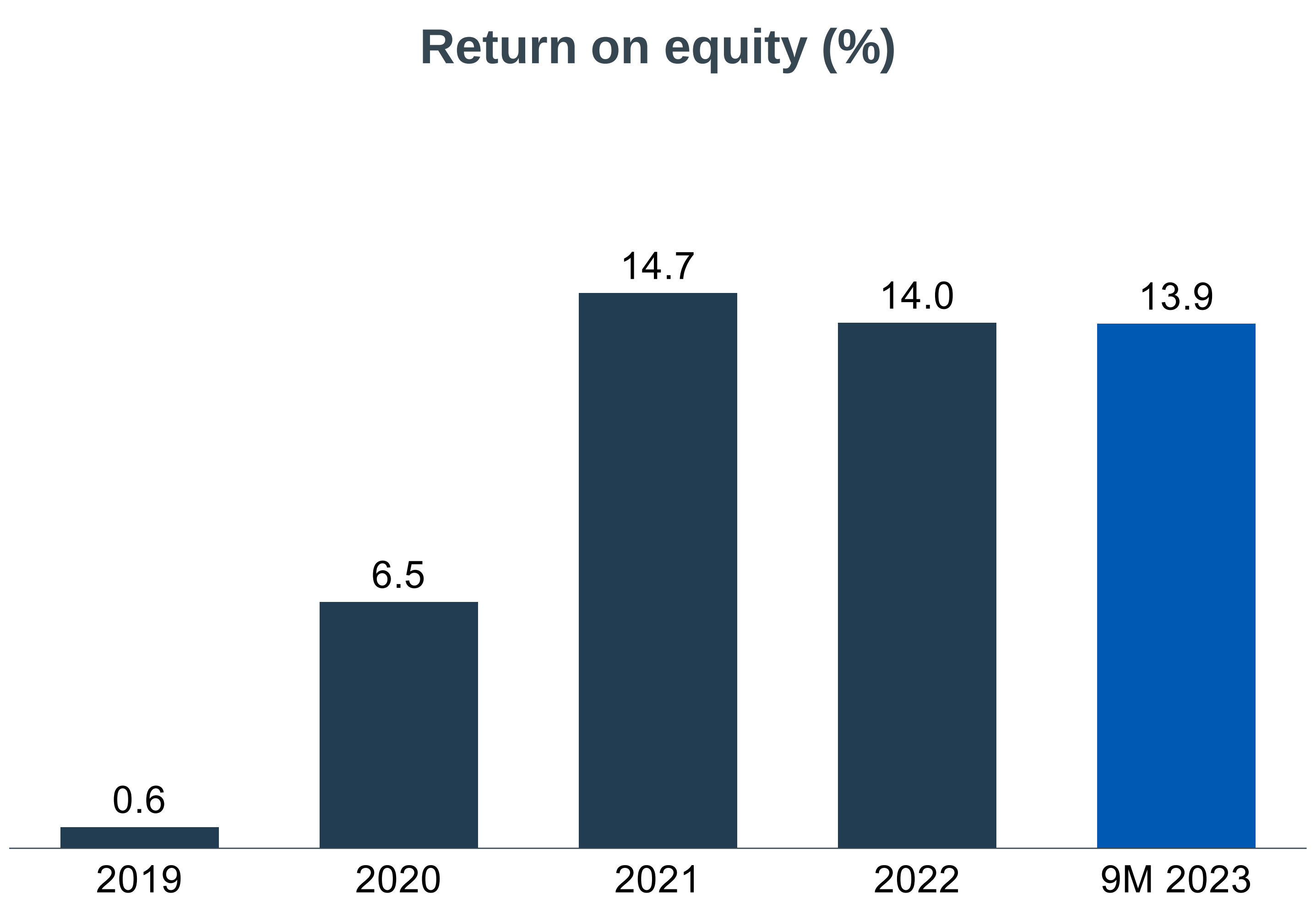


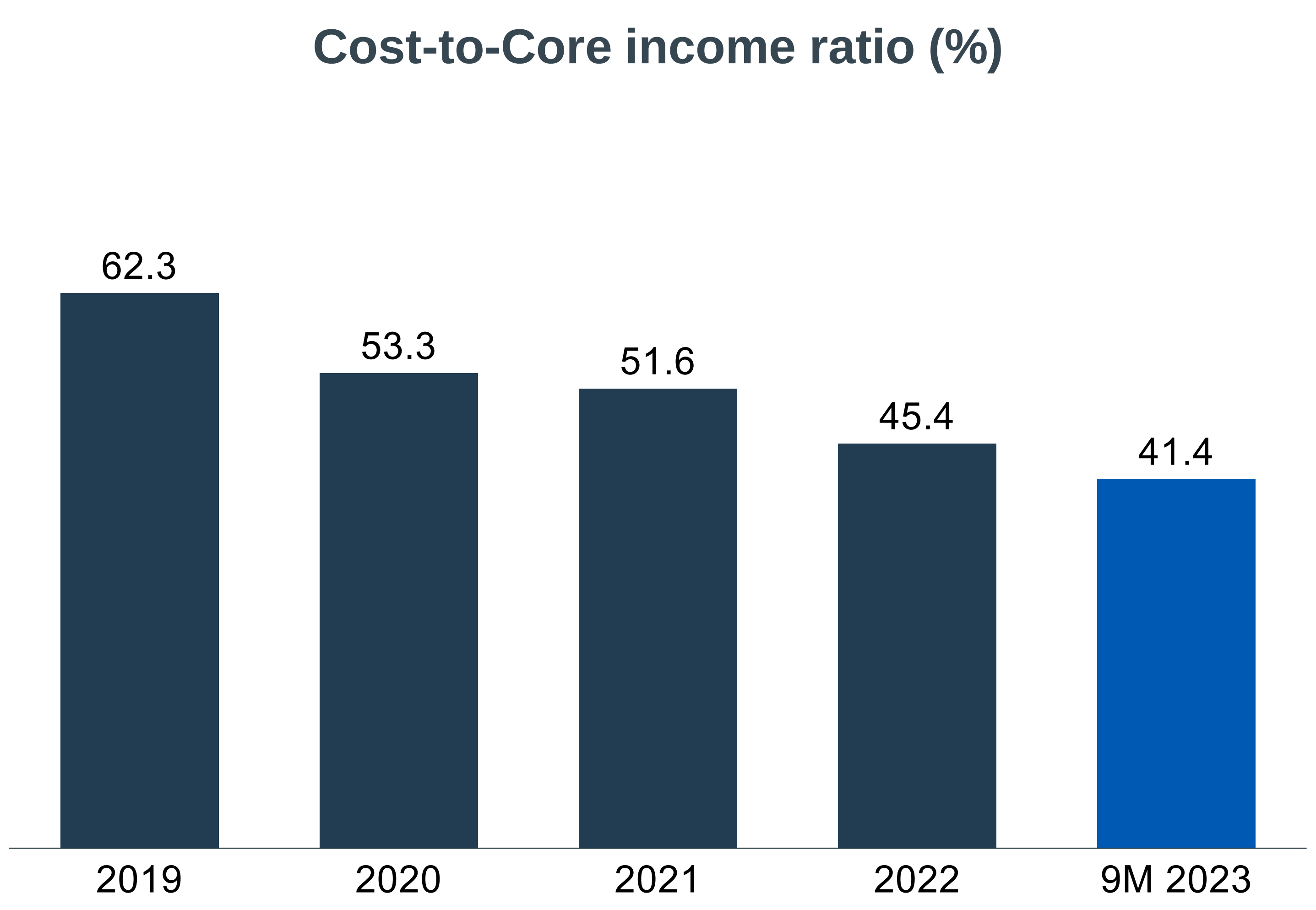


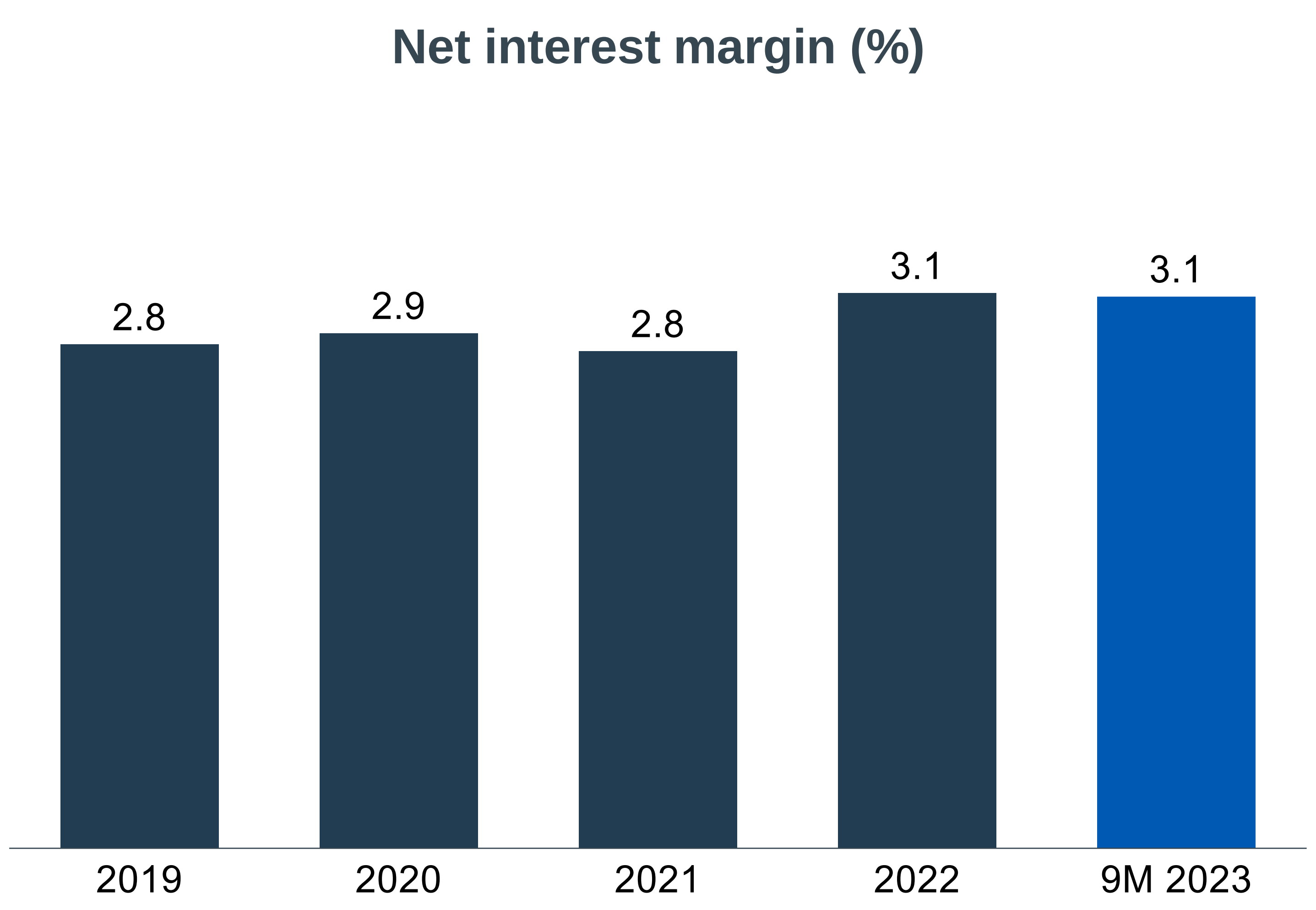


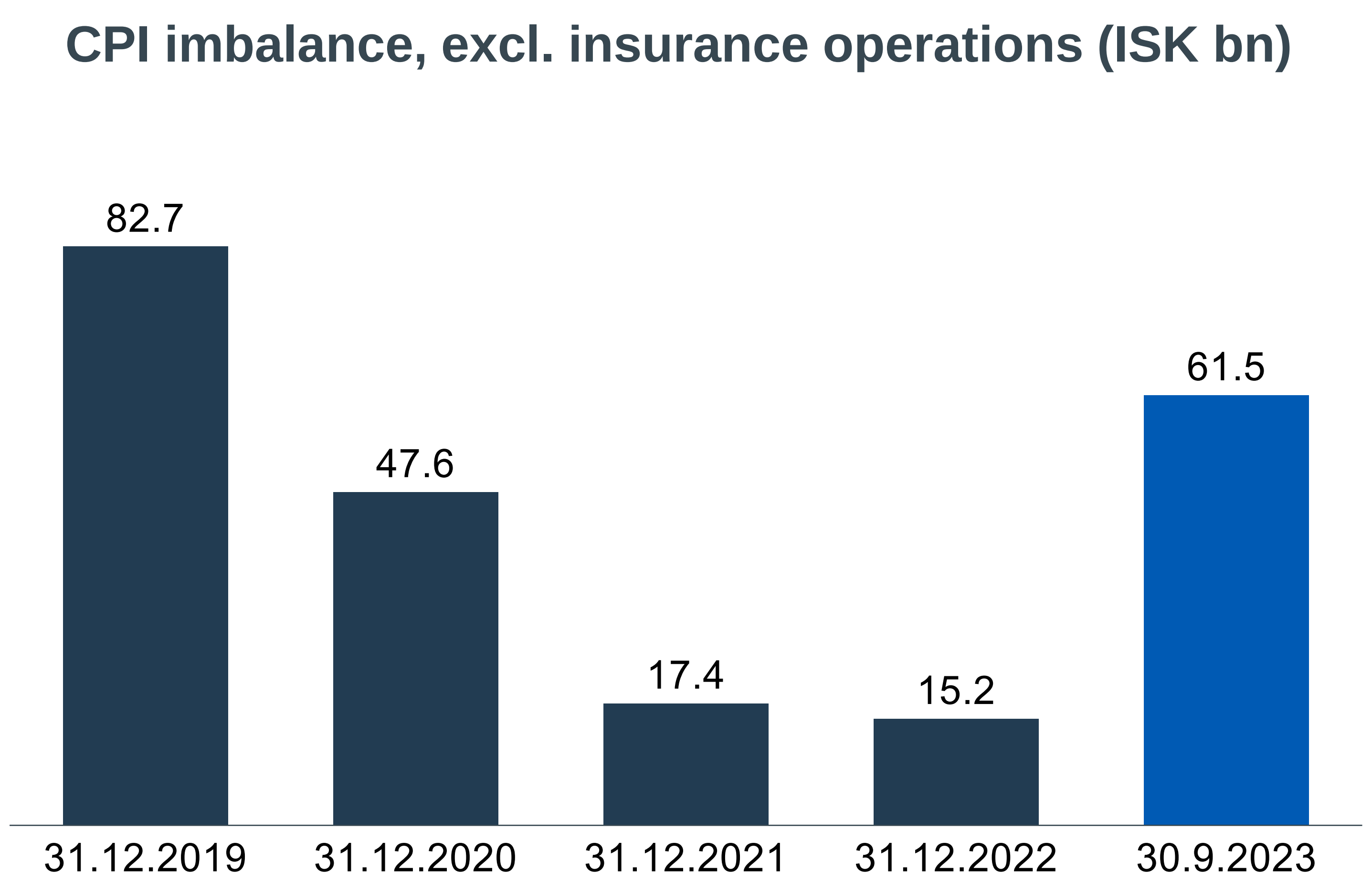


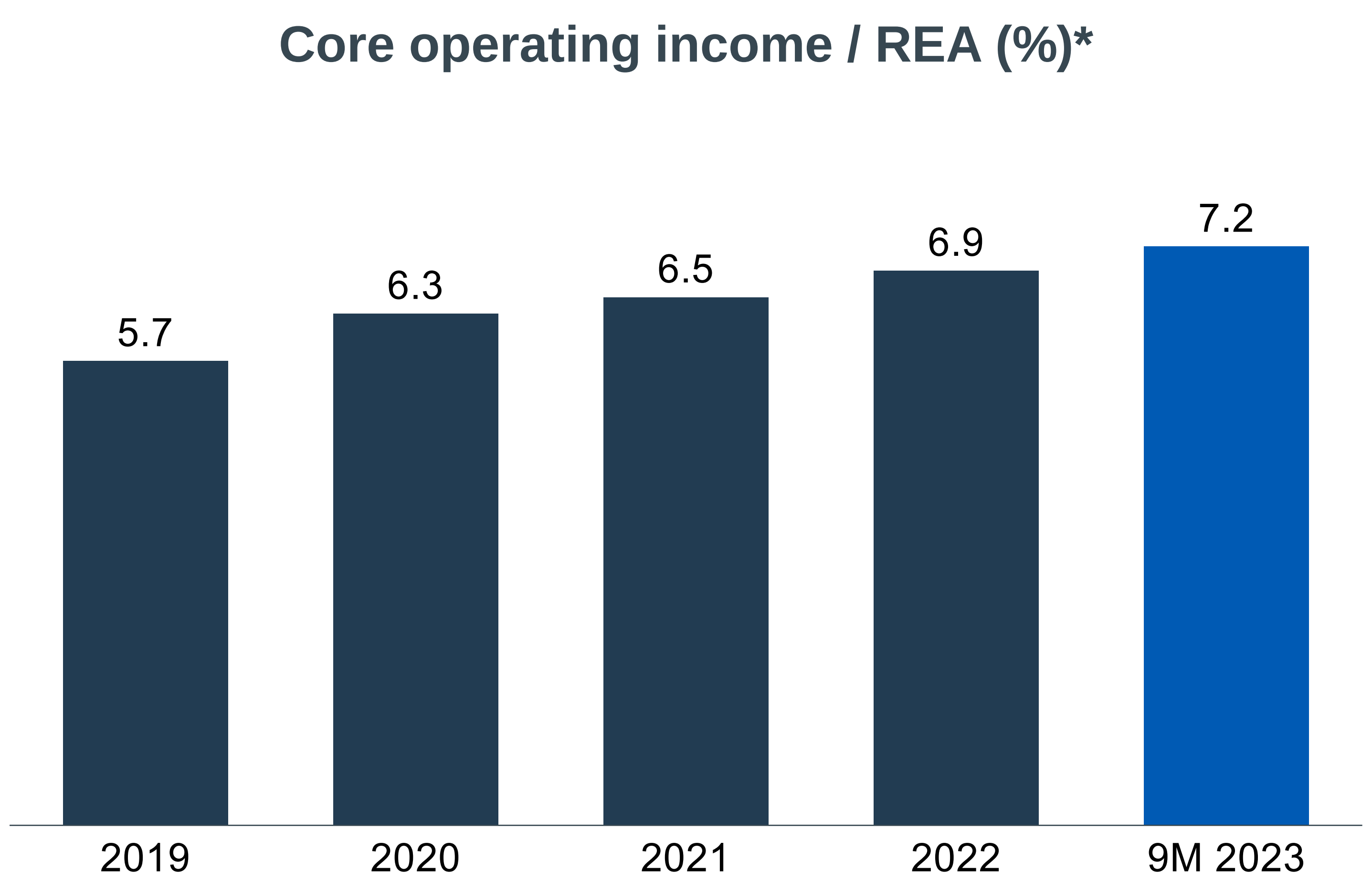
Key financial indicators - annual

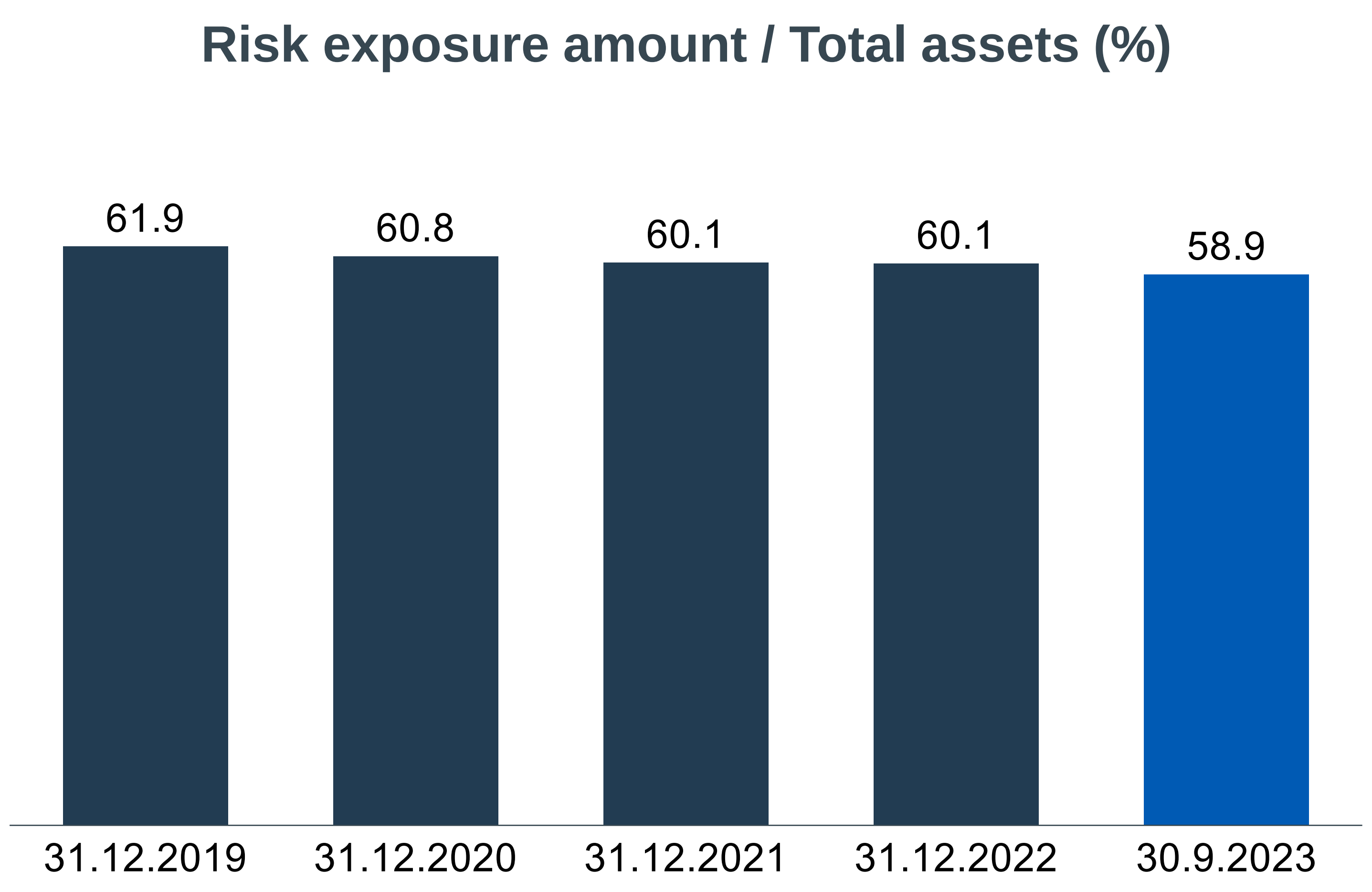












Key figures*

Operations	9M 2023	9M 2022	9M 2021	9M 2020	9M 2019	Q3 2023	Q2 2023	Q1 2023	Q4 2022	Q3 2022
Net interest income	33,338	29,578	23,295	23,099	22,624	10,918	11,426	10,994	10,706	10,357
Net commission income	12,486	12,195	10,594	8,526	7,335	3,848	4,187	4,451	4,073	4,057
Operating income	47,869	40,648	42,991	36,051	36,272	14,986	17,344	15,539	14,678	13,523
Operating expenses	(17,871)	(12,850)	(12,420)	(12,602)	(13,480)	(5,392)	(6,009)	(8,251)	(5,810)	(6,649)
Net earnings	19,513	20,993	22,095	6,707	3,875	6,131	7,091	6,291	4,965	5,008
Return on equity	13.9%	15.2%	15.2%	4.7%	2.6%	12.9%	15.5%	13.7%	10.6%	10.9%
Net interest margin	3.1%	3.1%	2.7%	2.9%	2.7%	3.0%	3.2%	3.1%	3.1%	3.2%
Return on assets	1.7%	2.1%	2.4%	0.8%	0.4%	1.6%	1.9%	1.7%	1.4%	1.4%
Cost-to-core income ratio	41.4%	42.0%	49.4%	52.6%	63.6%	38.2%	39.4%	46.8%	53.4%	37.5%
Cost-to-income ratio	37.3%	41.5%	41.9%	49.5%	56.3%	36.0%	34.6%	41.6%	50.9%	38.6%
Cost-to-total assets	1.6%	1.6%	2.0%	2.0%	2.3%	1.4%	1.6%	1.7%	2.1%	1.5%

Balance Sheet	30.09.2023	31.12.2022	31.12.2021	31.12.2020	31.12.2019	30.09.2023	30.06.2023	31.03.2023	31.12.2022	30.09.2022
Total assets	1,540,669	1,465,609	1,310,710	1,172,706	1,081,854	1,540,669	1,518,227	1,500,645	1,465,609	1,424,042
Loans to customers	1,143,473	1,084,757	936,237	822,941	773,955	1,143,473	1,134,621	1,114,128	1,084,757	1,045,152
Mortgages	605,449	574,029	504,877	409,641	333,406	605,449	595,896	576,861	574,029	562,617
Share of stage 3 loans, gross	1.5%	1.2%	1.9%	2.6%	2.7%	1.5%	1.5%	1.4%	1.2%	1.4%
REA/ Total assets	58.9%	60.1%	61.9%	63.6%	66.5%	58.9%	60.1%	60.4%	60.1%	60.8%
CET 1 ratio	19.4%	18.8%	19.6%	22.3%	21.2%	19.4%	18.9%	18.6%	18.8%	19.3%
Leverage ratio	11.8%	11.8%	12.7%	15.1%	14.1%	11.8%	11.7%	11.3%	11.8%	12.0%
Liquidity coverage ratio	179.1%	158.5%	202.8%	188.5%	188.3%	179.1%	162.9%	173.6%	158.5%	189.3%
Loans to deposits ratio	141.8%	143.6%	142.8%	144.8%	157.0%	141.8%	145.2%	143.8%	143.6%	141.2%

*Figures for periods before 9M 2022 have not been restated according to IFRS 17

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