Arion Bank

Second quarter results 2020

Investor presentation

29 July 2020

Highlights of the quarter

Arion Bank delivered strong results in Q2 with ROE at 10.5%, core revenues up 1.8% and operating expenses down 3% year-on-year

GDP is expected to contract and unemployment has increased despite strong economic stimulus and support from both the Central Bank and the Government

Arion Bank remains committed to supporting its customers through the challenging economic conditions brought on by the Covid-19 pandemic

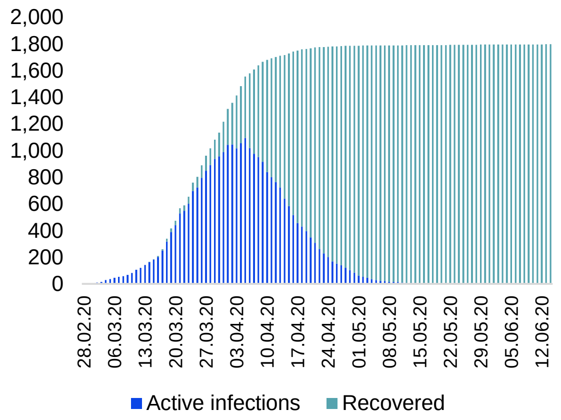
Arion Bank is uniquely positioned and well equipped to support its customers due to its strong capital position and efficient digital solutions

Iceland has coped very effectively with Covid-19 and the country has been open for tourism since June 16 which is of great importance for the economy

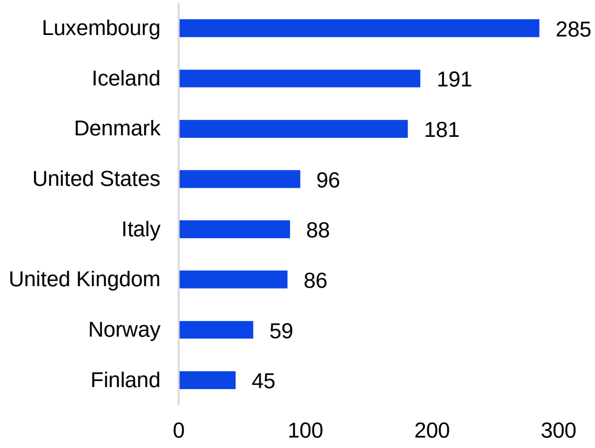
Response to Covid-19 in Iceland has been a success

- On June 16th Iceland welcomed the first international travelers again to Iceland
  - Travelers from EU and Schengen can now travel to Iceland
  - Testing is performed at Keflavik airport
  - Travelers from certain "safe" countries can now enter the country without being tested
- No hospitalization in Iceland for 3 months relating to Covid-19
- Very few new cases reported in the past few weeks and most of them are old infections resulting from border testing
- Iceland has been able to succeed with the participation of the general public and very limited social restrictions compared with many other countries

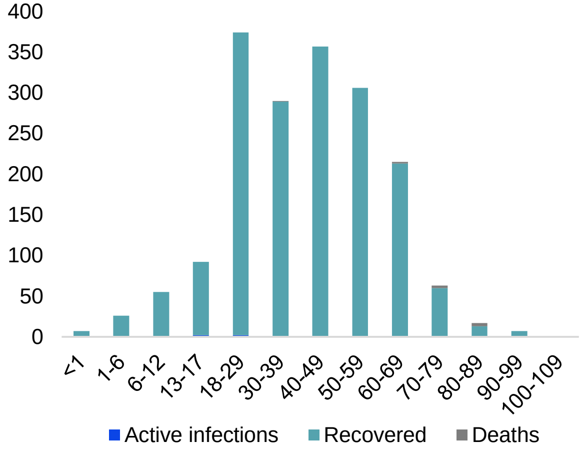
Number of active infections and number of recovered



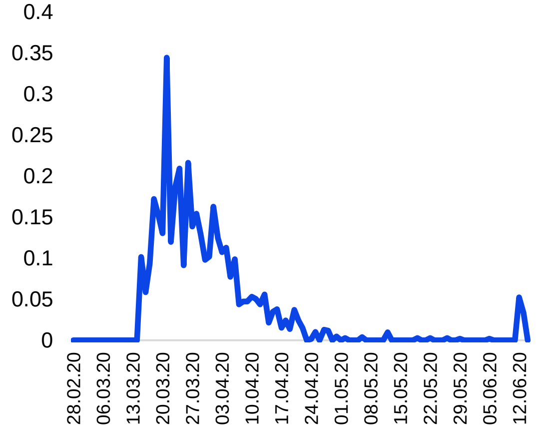
Tests per 1000 population (June 30)



Number of active infections, recovered and deaths by age (cumulative)



Infections as a percentage of tests conducted



Sources: WWW.COVID.IS, OECD

Regulatory and Government response to Covid-19

The Government and the Central Bank of Iceland have introduced numerous measures to deal with the expected impact of the pandemic

Eased requirements on the banking system

- Increased liquidity available for banks from the Central Bank
    - Covered bonds now eligible as collateral in transactions with the Central Bank
    - Reserve requirements lowered
- Reduced capital requirements
    - The countercyclical buffer reduced from 2% to zero
    - Bank capital preserved. No dividend payments or share buybacks for the time being
- The bank levy has been lowered from 0.318% to 0.145% in one step
- The Central Bank lowered its key interest rate to a historical low of 1.00% from 3.00% at the beginning of the year

Government assistance to companies and households

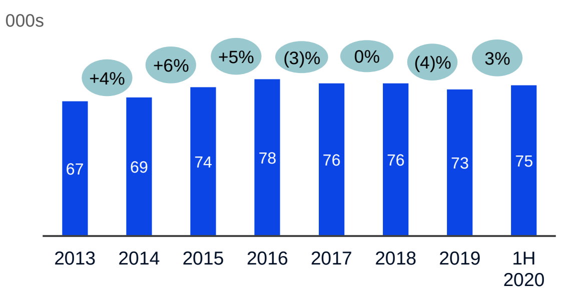
- Government to pay up to 75% of wages to employees of companies impacted by Covid-19
    - Also applicable during notice periods if companies need to lay off staff
- Deferral of tax payments of companies affected by Covid-19
- Early withdrawal of voluntary pension schemes
- Increased and expanded reimbursement of value-added tax on labor
- Special child benefits introduced
- **NEW in May: Government guarantees for up to 70% of new operating loans to companies fulfilling certain conditions**
- **NEW in July: Business support loans introduced for small and medium sized companies**

Digital services are changing customer behavior

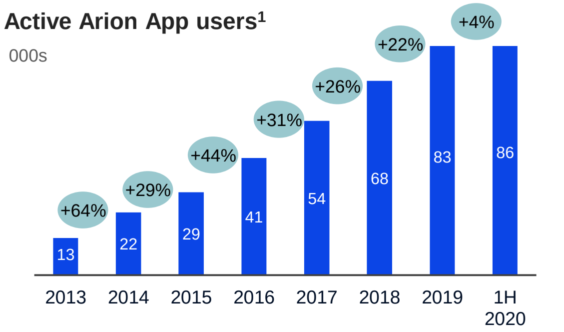
The Bank was able to fully operate and service its customers with all branches closed and 85% of staff working from home

- Fewer branches with key focus on professional services instead of simple transactions
  - Number of traditional branches decreased by 40% since 2013
  - Total branch space decreased by more than half since 2014
  - Visits to traditional branches continue to trend down - decreased by 46% since 2013
  - A new branch focusing only on SMEs opened in April 2020
- New digital branches continue to drive increased customer usage
- The growth in active Arion Bank app users was 22% in 2019 and continues in 2020
- More calls to call center in 1H 2020 due to Covid-19
- The experience from Covid-19 will expedite further developments in the Banks operations

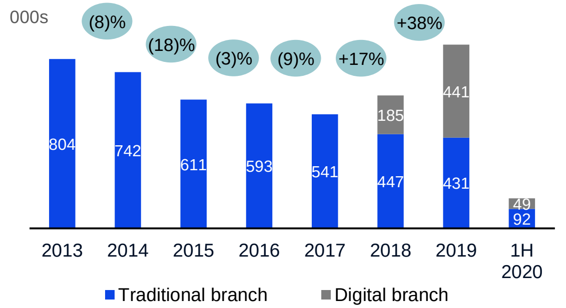
Active online bank users[1]



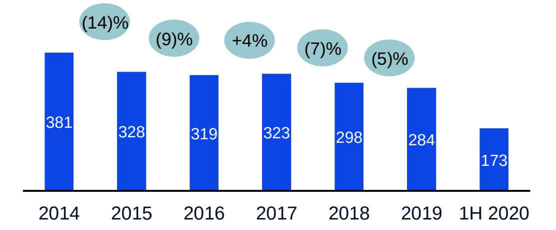
Active Arion App users[1]



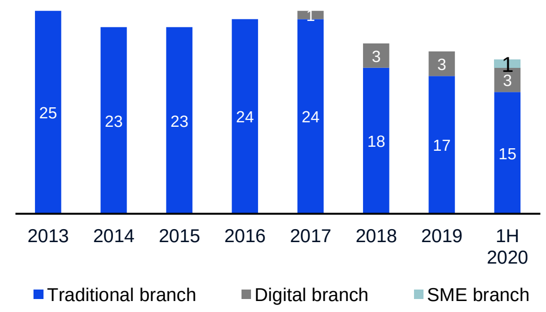
Number of visits to branches[2]



Number of calls to the call centre



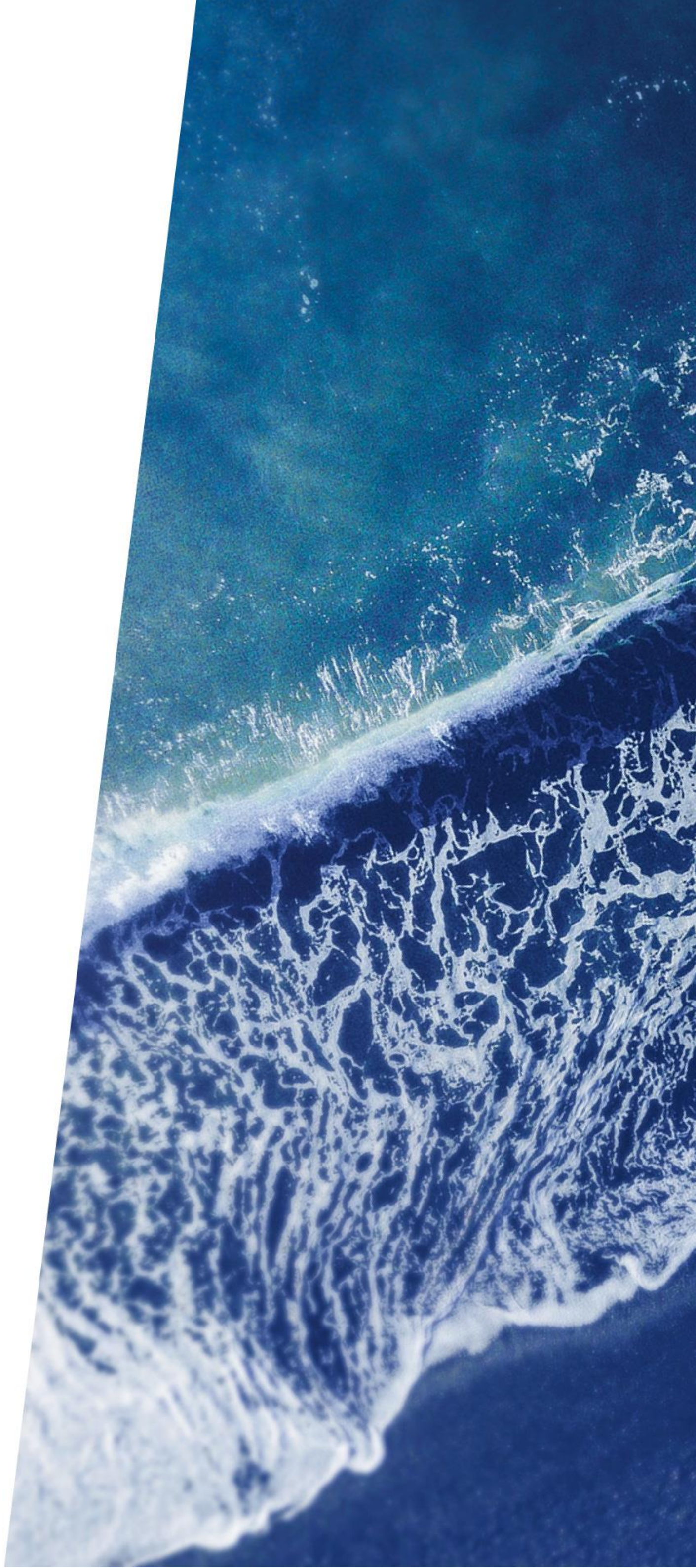
Number of branches[2]



Source: Company information

1. 90 day active online users/individuals and 90 day active app users,
2. Data: Qmatic ticketing system for traditional branches and Mobotix camera counting system for digital branches. Two different methods.

Macroeconomic environment

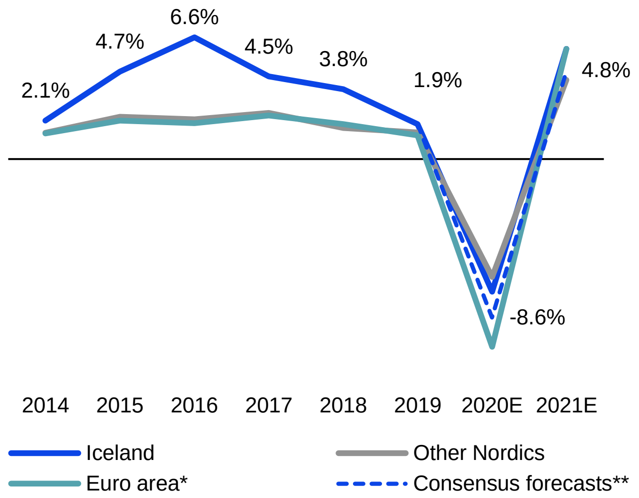


Iceland and Covid-19 – Expectation for a V-shaped recovery

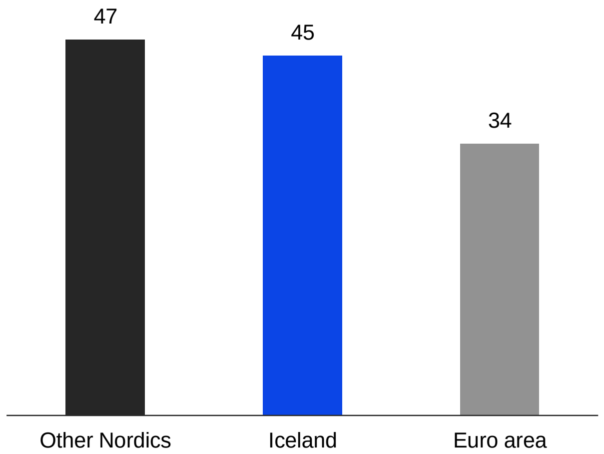
The spread of Covid-19 and subsequent travel and assembly bans have had a negative effect on the Icelandic economy

- The coronavirus crisis will heavily impact the Icelandic economy due to its dependency on tourism
- According to IMF's April forecast Iceland's GDP could shrink by 7.2% in 2020, followed by a strong rebound in 2021. Domestic analysts are more pessimistic, with the consensus at 8.6% contraction. Despite larger contraction than in other Nordics, GDP per capita will remain high
- At the same time countries have taken tentative steps to open their borders anew, some have observed a resurgence in new Covid-19 cases. Prolonged travel restrictions of some sort coupled with obligatory quarantine and social distancing have thus become more likely, dampening economic recovery
- Even though Iceland is opening up and easing travel restrictions it's clear that tourist arrivals will drop dramatically. Arion Bank's base case assumes that Iceland will welcome half a million tourists in 2020, which equals a 70% drop between years

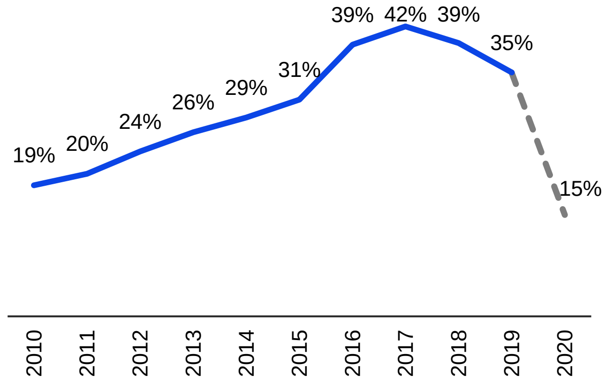
GDP growth



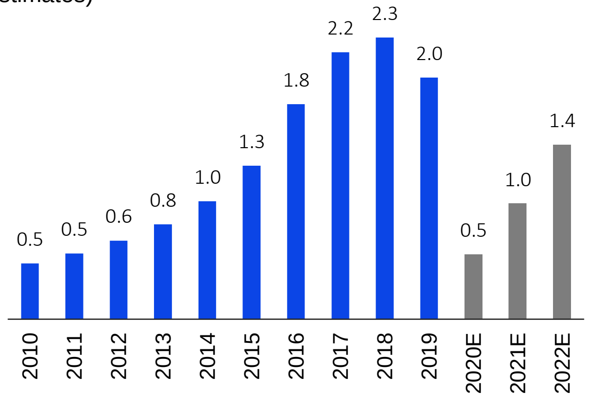
Estimated GDP per capita in 2020 (2011 international dollar, thous. IMF's estimates)



Tourism contribution to exports (Arion Bank estimates)



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



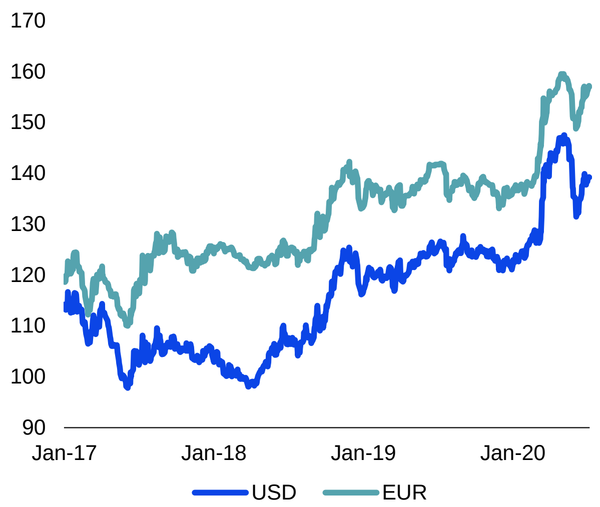
Sources: IMF, Icelandic Tourist Board, Statistics Iceland, Arion Bank. * IMF's latest forecast. ** Based on domestic analysts, both in the public and private sector.

Tale of two worlds

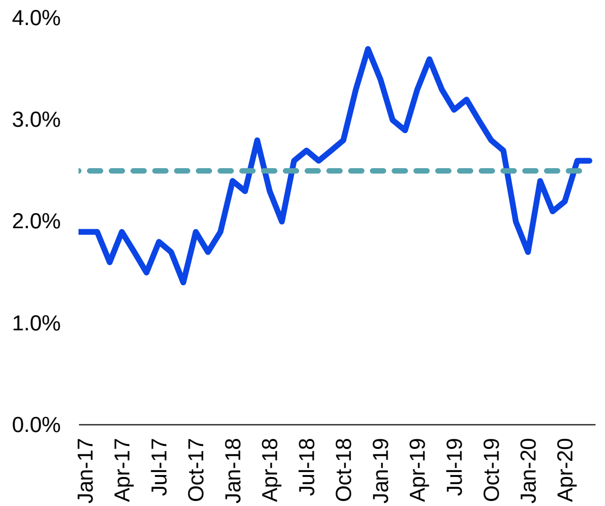
While unemployment continues to climb wages are on the rise. Nominal wage increases coupled with relatively low inflation have pushed real wages higher in the past couple of months

- With the largest export sectors struggling, it's no surprise that the ISK has depreciated. The CBI has intervened in the FX market on the most volatile days
- Inflation has risen in the past months due to the pass-through from the ISK depreciation. Arion Bank's Economic Outlook expects inflation to continue to inch upwards in the coming months but staying within tolerance levels
- The travel and assembly bans, in addition to mandatory closing, quickly translated into higher unemployment rate. However, according to forecasts the worst is yet to come as unemployment is expected to peak in the autumn once periods of notice expire
- Even though unemployment is reaching new heights, purchasing power as measured by the wage index is on the rise, creating stark contrasts on the labor market. Payment card turnover reflects the wage development and indicates that private consumption might bounce back quicker than many anticipated

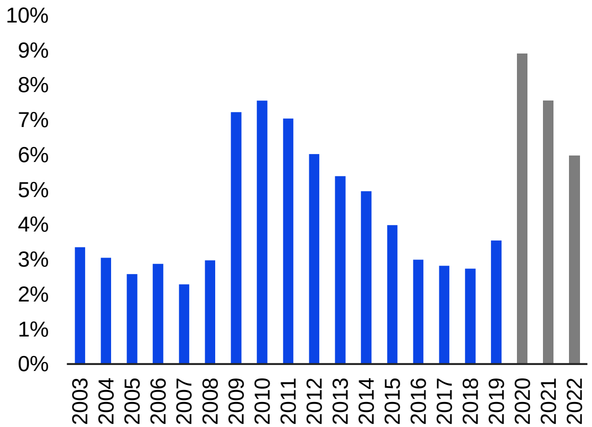
The ISK against major trade currencies



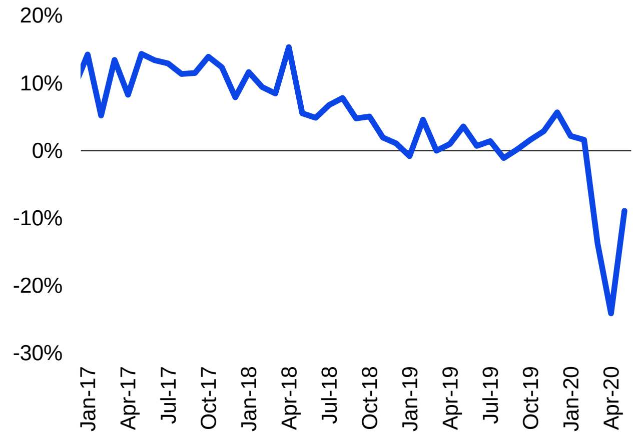
Inflation and inflation target



Unemployment rate (Arion Bank's estimates)



Total payment card turnover



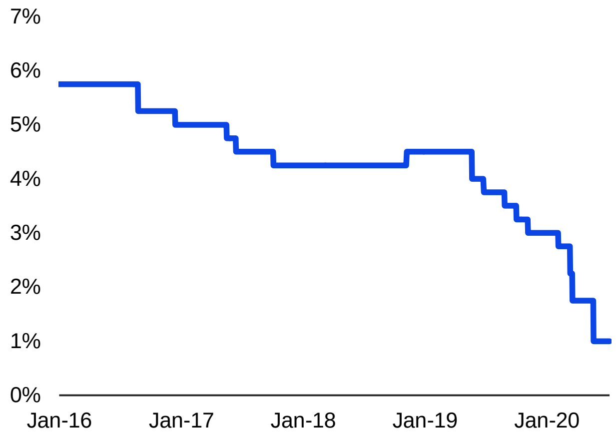
Sources: CBI, Statistics Iceland, Arion Bank.

Fiscal and monetary responses soften the economic blow

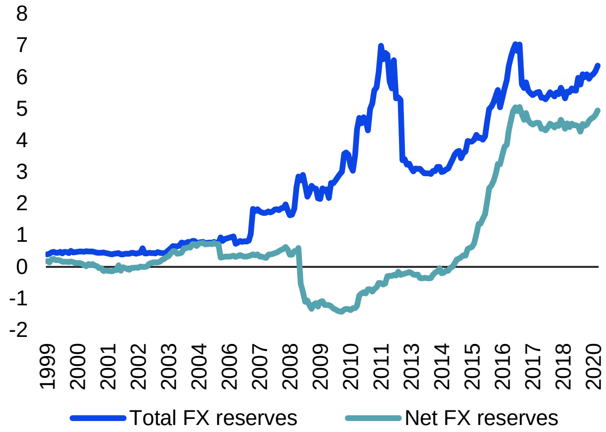
The government and the Governor of the CBI have underlined that all necessary measures will be taken

- Unlike many neighboring countries, the Icelandic authorities, especially the CBI, had plenty of firepower at their disposal to support the economy. The CBI has cut interest rates by 2 percentage points, eased the countercyclical capital buffer and launched a QE program. In addition, the CBI has ample FX reserves at its disposal, surely supporting investor confidence
- The CBI's FX reserves, well balanced external trade, despite everything, and the positive NIIP of the economy mean that balance of payments worries are limited
- More importantly, both the public and private sectors used the last upswing to deleverage, pushing debt levels to historic lows
- The Treasury bears the brunt when it comes to protecting the economy. So far numerous fiscal policy measures have been introduced, both aimed at mitigating the revenue shock suffered by households and companies and protecting jobs and companies
- So far the scope of the Government's measures amount to roughly 350 bn. ISK, or 12% of GDP. Measures that directly affect the fiscal budget amount to 4% of GDP, a similar scope to Norway and Denmark

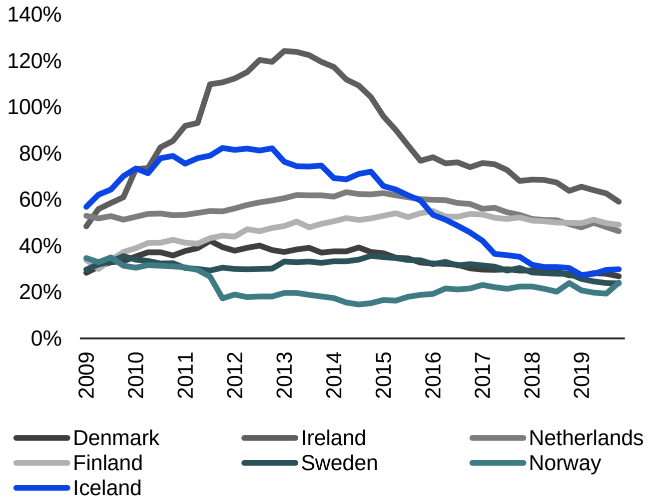
Key interest rates (seven-day term deposit rate)



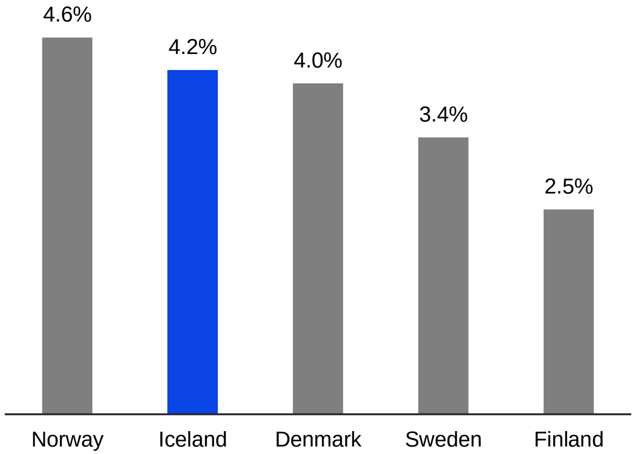
CBI's FX reserves (bn. EUR)



Central government debt (% of GDP)

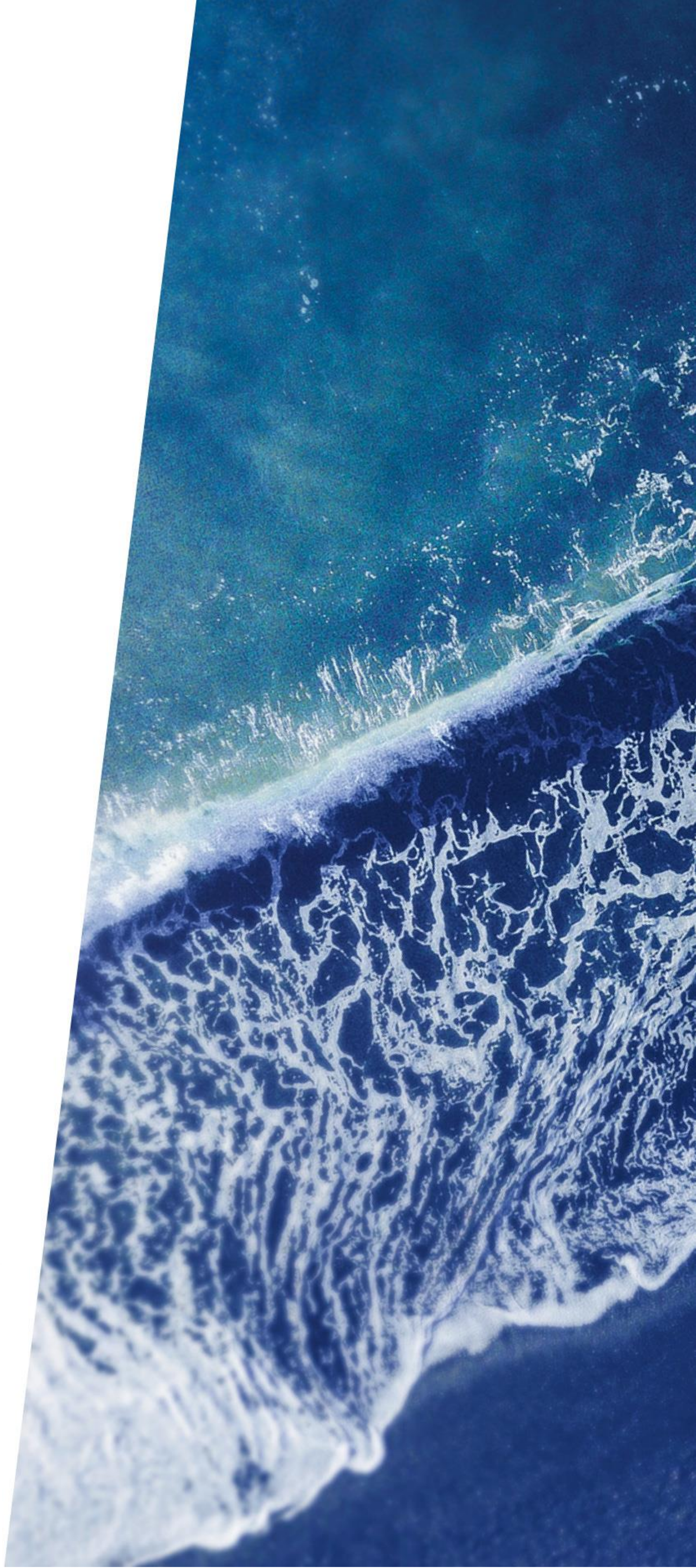


Pandemic response (international comparison of fiscal measures*)



Sources: CBI, Eurostat. * Only those measures that directly affect the national treasury's profit and loss account are included.

Financials



Operational highlights of the second quarter 2020

- Arion Bank’s strategy results in core operations trending positively
  - NIM improves 10 bps YoY
  - NII to Credit risk improves
  - Core revenues up 1.8%
  - OPEX is down 3% YoY
- Results are enhanced by very strong net financial income
- The balance sheet and loan book increase from year end 2019 but REA remains stable
- Deposits continue to trend higher
- Surplus Capital of ISK 43 billion on top of a ISK 20.5 – 27.5 billion management buffer, including the vacated countercyclical buffer

	Q2 2020	H1 2020	Target
Return on equity	10.5%	2.9%	Exceed 10%
ROE assuming 17% CET 1	13.1%	3.2%	Exceed 10%
Operating income / REA	7.9%	6.2%	Exceed 6.5%
Cost-to-income ratio	45.5%	54.7%	Below 50%
CET 1	22.9%	22.9%	17.0%

Income statement Q2 2020

Earnings improve substantially

- Core income, NII, NCI and Net insurance income, increases 1.8% YoY
  - Net interest income improves despite a smaller loan book and lower interest rates
    - Increased inflation has a positive effect
  - Increase in net commission income mostly due to lending and guarantees
  - Decrease in Net insurance income due to Covid-19 discount to private customers
- Strong net financial income from both equity and bond holdings
- Salaries decreased by 6% YoY as the Bank has reduced the number of FTEs but is up from Q1 due to general wage agreements, redundancies and seasonal variances
- Uncertainty continues to persist regarding impairments going forward
- Valitor operations are improving but continued volatility can be expected in discontinued operations, however, at reduced levels

	Q2 2020	Q2 2019	Diff%	Q1 2020	Diff%
Net interest income	7,857	7,808	1%	7,253	8%
Net commission income	2,688	2,478	8%	3,076	(13%)
Net insurance income	761	823	(8%)	501	52%
Net financial (loss) income	2,691	1,023	163%	(2,000)	-
Share of (loss) profit of associates	(5)	(7)	(29%)	(24)	(79%)
Other operating income	71	95	(25%)	170	(58%)
Operating income	**14,063**	**12,220**	**15%**	**8,976**	**57%**
Salaries and related expenses	(3,577)	(3,805)	(6%)	(3,130)	14%
Other operating expenses	(2,818)	(2,813)	0%	(3,077)	(8%)
Operating expenses	**(6,395)**	**(6,618)**	**(3%)**	**(6,207)**	**3%**
Bank levy	(324)	(912)	(64%)	(331)	(2%)
Net impairment	(918)	(988)	(7%)	(2,860)	(68%)
Earnings / loss before income tax	**6,426**	**3,702**	**74%**	**(422)**	**(1,623%)**
Income tax expense	(1,468)	(891)	65%	(860)	71%
Net earnings / loss from continuing operation	**4,958**	**2,811**	**76%**	**(1,282)**	**-**
Discontinued operations, net of tax	(45)	(715)	(94%)	(889)	(95%)
Net earnings / loss	**4,913**	**2,096**	**134%**	**(2,171)**	**-**

All amounts in ISK million

Income statement H1 2020

- Earnings from continued operations decrease by 27% due to negative developments in NFI and impairments YoY
- Core income increases by 5.3% YoY. The reduction in NII derives from smaller loan book in line with strategy
- Turmoil in equity markets due to Covid-19 in Q1 drive NFI down from a very high level, especially when taking one-off share of profit from associates into account
- Operating expenses reduce by 7% and the objective is to reduce them further
- The bank levy rate has been lowered which has a noticeably positive effect
- Increase in net impairment is mainly due to more negative assumptions in IFRS 9 models
- Income tax expense increases YoY due to combination of revenue items
- Effect of discontinued operations still high but down from a very difficult H1 last year

	H1 2020	H1 2019	Diff	Diff%
Net interest income	15,110	15,242	(132)	(1%)
Net commission income	5,764	4,696	1,068	23%
Net insurance income	1,262	1,076	186	17%
Net financial income	691	1,789	(1,098)	(61%)
Share of profit of associates	(29)	720	(749)	-
Other operating income	241	405	(164)	(40%)
Operating income	**23,039**	**23,928**	**(889)**	**(4%)**
Salaries and related expenses	(6,707)	(7,435)	728	(10%)
Other operating expenses	(5,895)	(6,045)	150	(2%)
Operating expenses	**(12,602)**	**(13,480)**	**878**	**(7%)**
Bank levy	(655)	(1,818)	1,163	(64%)
Net impairment	(3,778)	(2,069)	(1,709)	83%
Net earnings before income tax	**6,004**	**6,561**	**(557)**	**(8%)**
Income tax expense	(2,328)	(1,513)	(815)	54%
Net earnings from continuing operations	**3,676**	**5,048**	**(1,372)**	**(27%)**
Discontinued operations, net of tax	(934)	(1,934)	1,000	(52%)
Net earnings	**2,742**	**3,114**	**(372)**	**(12%)**

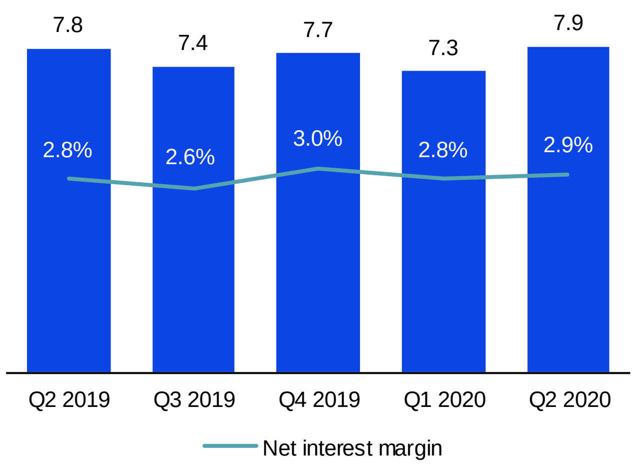
All amounts in ISK million

Net interest income

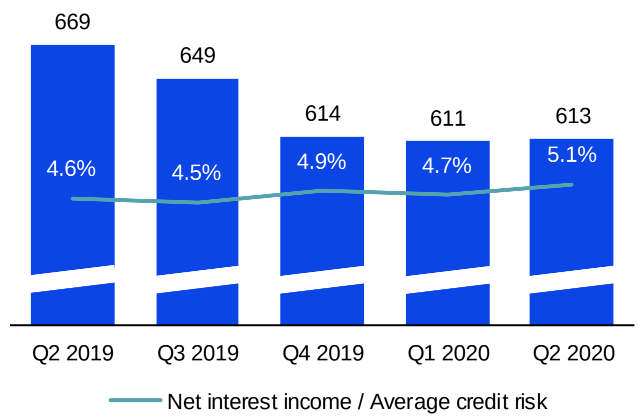
10 bps improvement in NIM in a challenging environment

- Net interest income / average credit risk improved markedly
  - Net interest income increased by 0.6% from Q2 2019 whilst interest bearing assets decreased by 1.4%
- Strong net interest margin in light of:
  - Policy rate, which was at historic low during the period
  - Issuance of Tier 2 subordinated bonds in 2019 and AT1 in Q1
  - Excessive liquidity
- Inflation during the quarter was 5.1% compared with 4.4% in Q2 2019
- Increase in deposits and a corresponding reduction of wholesale funding have positive effect on NIM

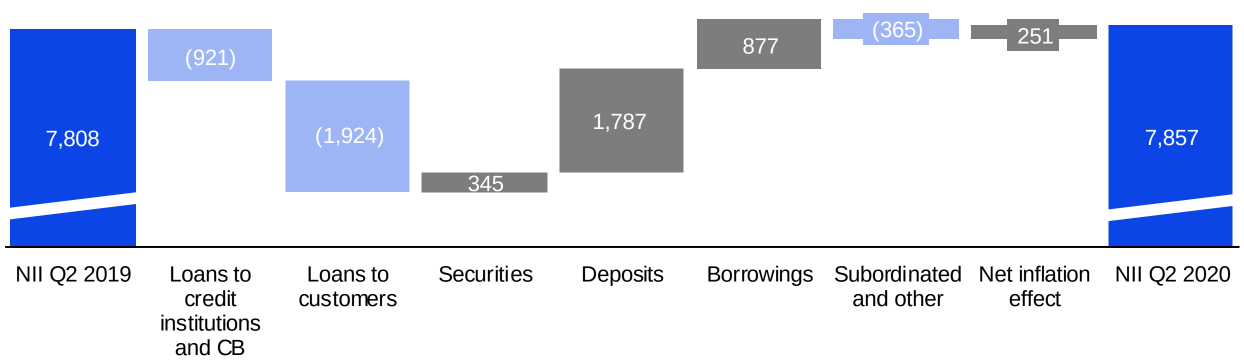
Net interest income



Credit risk



Net interest income Q2 2019 vs Q2 2019 (ISK million)

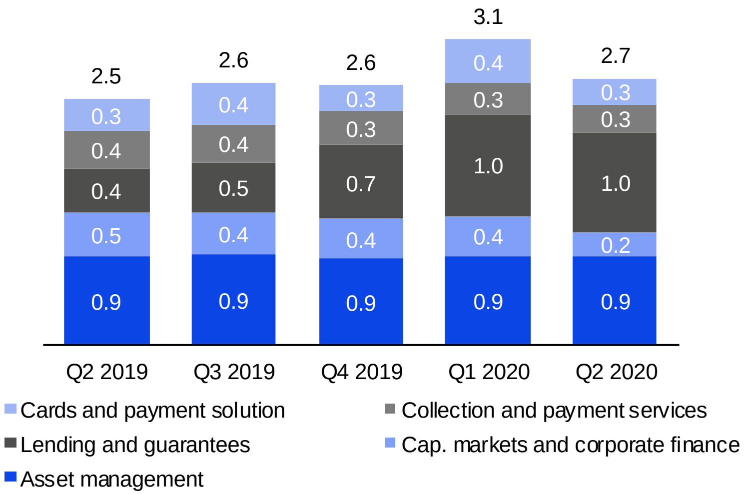


All amounts in ISK billion

Net fee and commission and net insurance income

Positive trends in both fee and insurance based operations

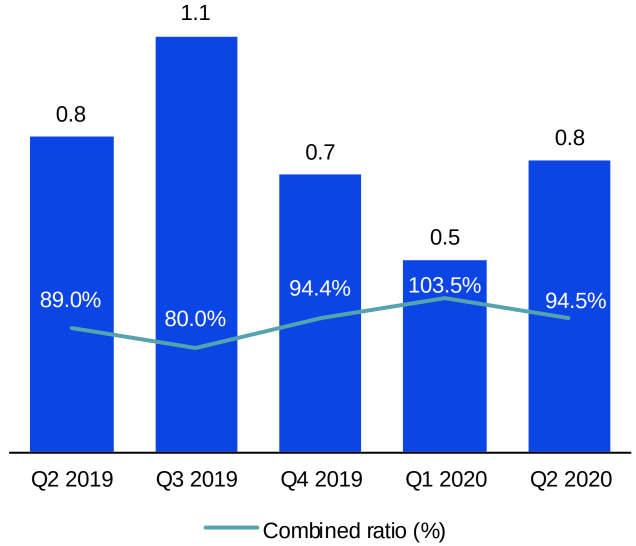
Net fee and commission income



	Q2 2019	Q3 2019	Q4 2019	Q1 2020	Q2 2020
Cards and payment solution	0.3	0.4	0.3	0.4	0.3
Collection and payment services	0.4	0.4	0.3	0.3	0.3
Lending and guarantees	0.4	0.5	0.7	1.0	1.0
Cap. markets and corporate finance	0.5	0.4	0.4	0.4	0.2
Asset management	0.9	0.9	0.9	0.9	0.9
Total	2.5	2.6	2.6	3.1	2.7

- Income from lending and guarantees exceptionally strong, mainly driven by prepayment of loans and loan service agreements
- Cards and payment solutions decrease during the quarter as turnover decreased due to Covid-19
- Income from asset management is stable. Assets under management were ISK 1,059 billion at 30 June, almost the size of the Bank's balance sheet, 4.6% increase from YE 2019
- Strategy calls for increased fee and commission income going forward

Net insurance income



- Strong quarter but a slight decrease from Q2 2019, as private customers received a discount of 1/3 on premiums in May in relation to Covid-19. Increase from Q1 due to seasonality in non-life insurance
  - Constant premium growth of 8% during the year compared with prior year, when taking into account the discount
- Combined ratio of 94.5% in Q2

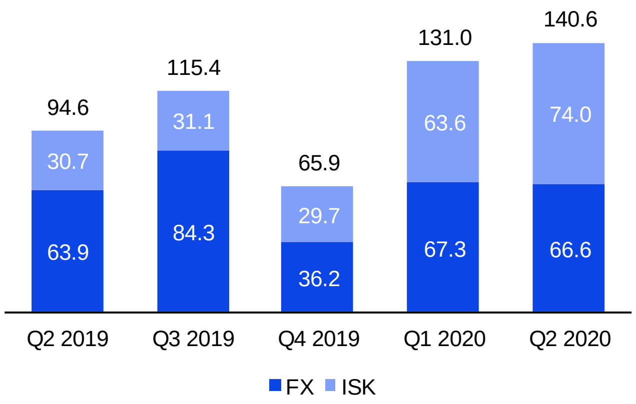
All amounts in ISK billion

Net financial income

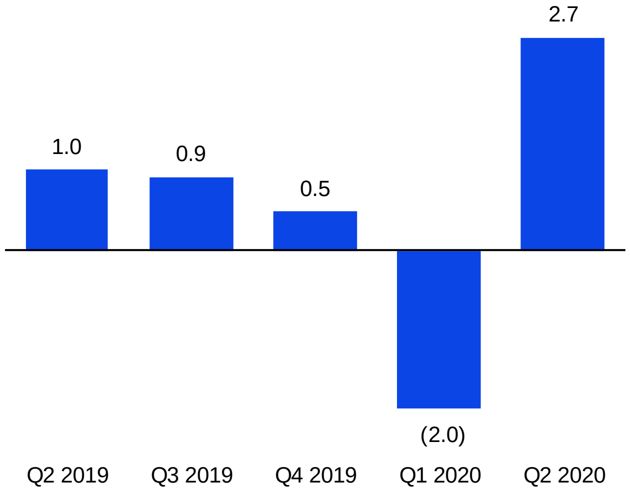
Good performance on bonds and equities in Q2

- Net financial income in Q2 was positively affected by:
  - Equity holdings measured at fair value as markets were positive following a difficult first quarter
  - Continued positive development of fixed income in the lowering interest rate environment
- Bond holdings increase as the Bank's liquidity position increases
- Equity holdings remain stable YoY
- Total portfolio of Vördur included in the Group figures is ISK 21.0 billion; ISK 14.6 billion of bonds and ISK 6.4 billion in equity instruments

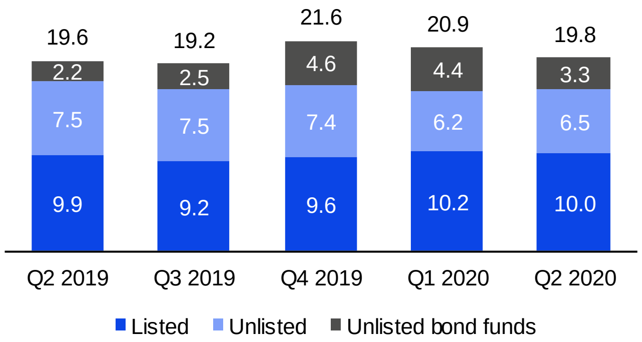
Bond holdings



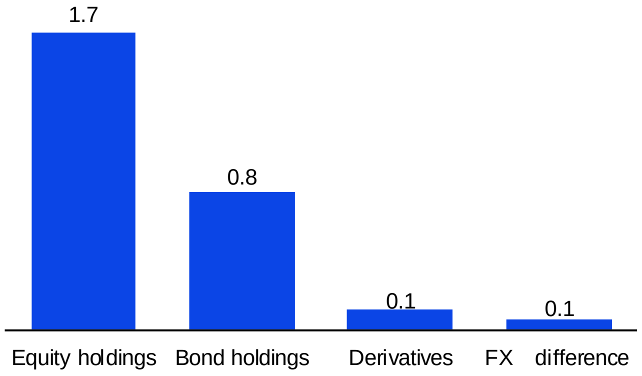
Net financial income



Equity holdings



Net financial income by type in Q2 2020



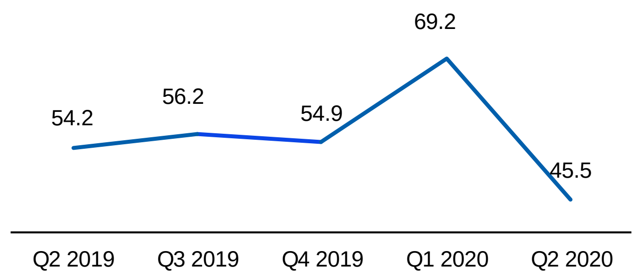
All amounts in ISK billion

Total operating expenses

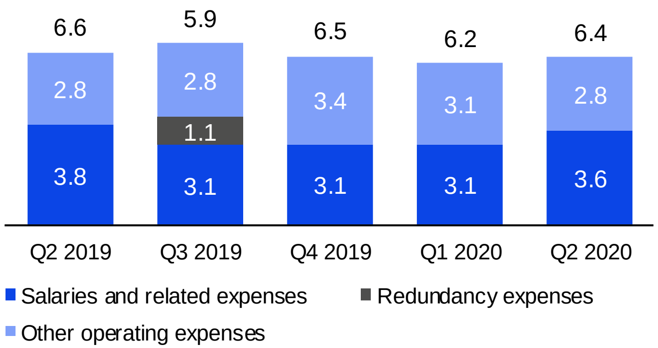
Cost-to-income ratio during H1 was 54.7% and cost reduction will remain a core issue

- Number of FTEs reduced by 14.9% at the parent company from Q2 2019 and 5% from the end of last year
- Salaries and related expenses reduced by 6.0% from Q2 2019 whilst the number of FTEs reduced by 11%. General wage inflation in Iceland was 6.7% in the same period
  - Salaries and related expenses were affected by capitalized salaries which amounted to ISK 150 million in Q2 (ISK 120 million in Q2 2019) relating to investment in the Sopra core system
- Other operating expenses stable from Q2 2019. IT expenses increased significantly both due to Covid-19 and depreciation of the ISK, as many IT services are imported. Other expense items decreased and the Bank will continue to focus on OPEX over the coming quarters
- Net financial income had a significant positive effect on cost-to-income ratio during Q2

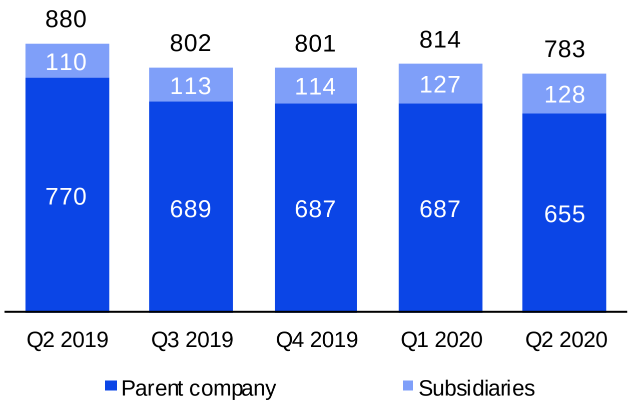
Cost-to-income ratio (%)



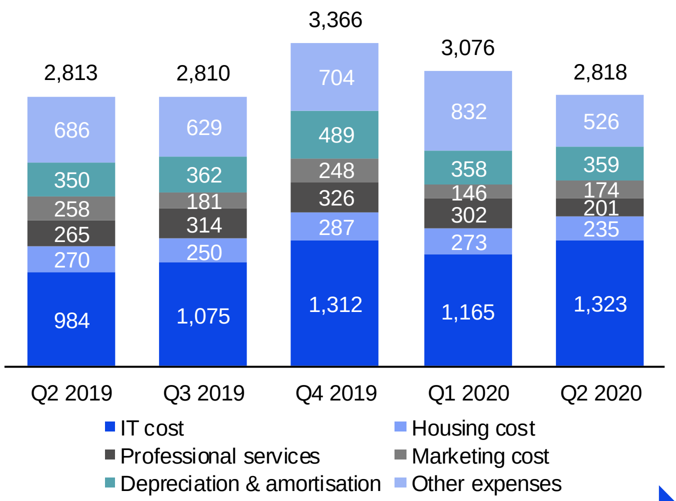
Total operating expenses



Number of employees



Other operating expenses (ISK million)

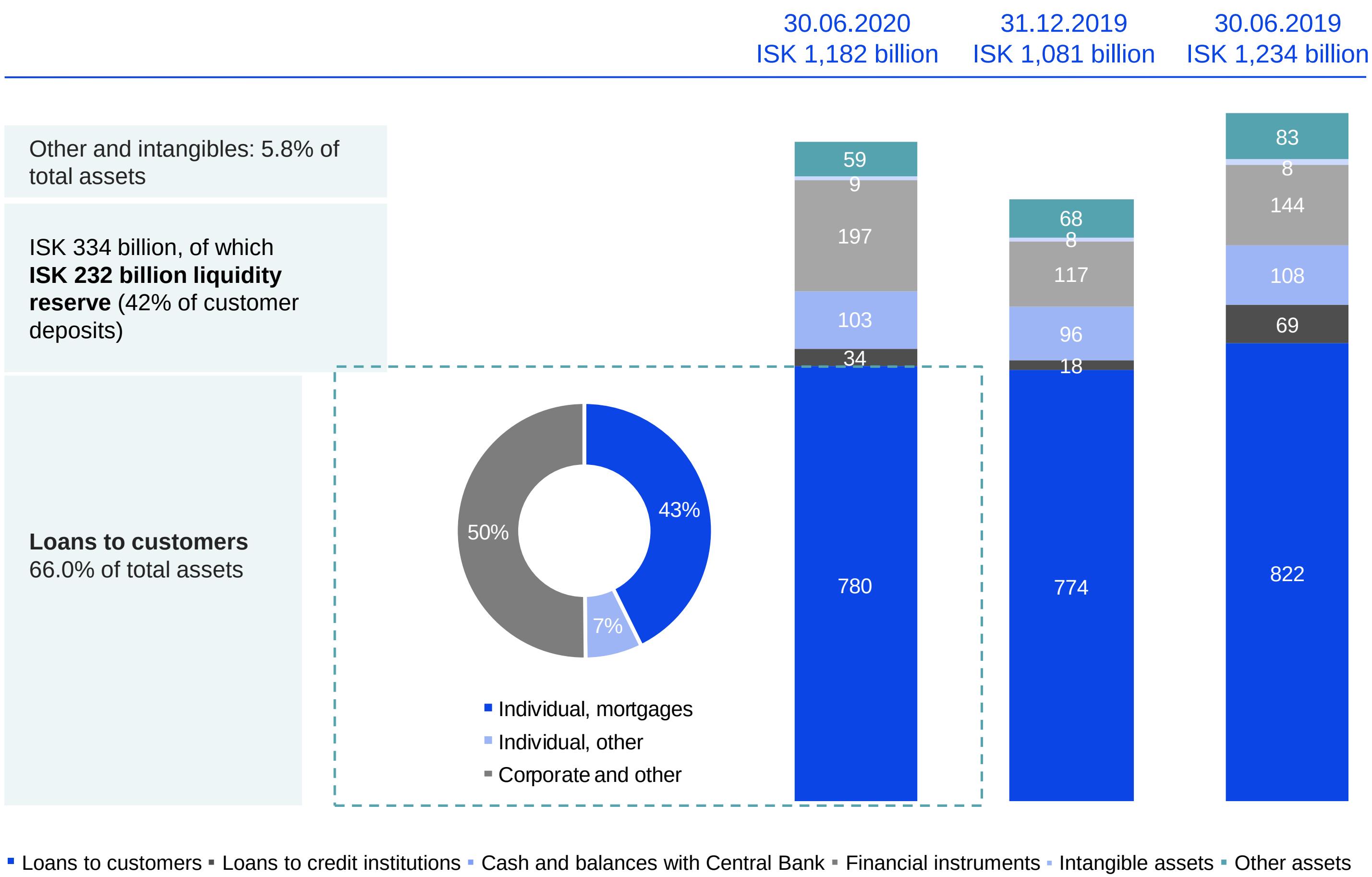


All amounts in ISK billion

Balance sheet – Assets

The balance sheet is extraordinarily strong which is prudent at this time of economic uncertainty but not efficient in the short term

- The Balance sheet increased by 9.3% from 31.12.2019, the increase mainly being liquid assets
  - REA decreased 0.8% from YE 2019 despite the balance sheet growth
- Loans to customers increased slightly from the end of 2019, mainly due to mortgage lending. Corporate lending held up in ISK as foreign currency loans increased in value with the depreciation of the ISK from year end
- Increase in liquid assets due to postponement of dividend payment, issuance of AT1 and increase in deposits
  - The Bank has used liquidity to repay bonds at maturity and buy back senior bonds
- Very strong liquidity position
  - Total LCR ratio is 206% 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 provide customers with solutions through the economic turmoil that may lie ahead



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

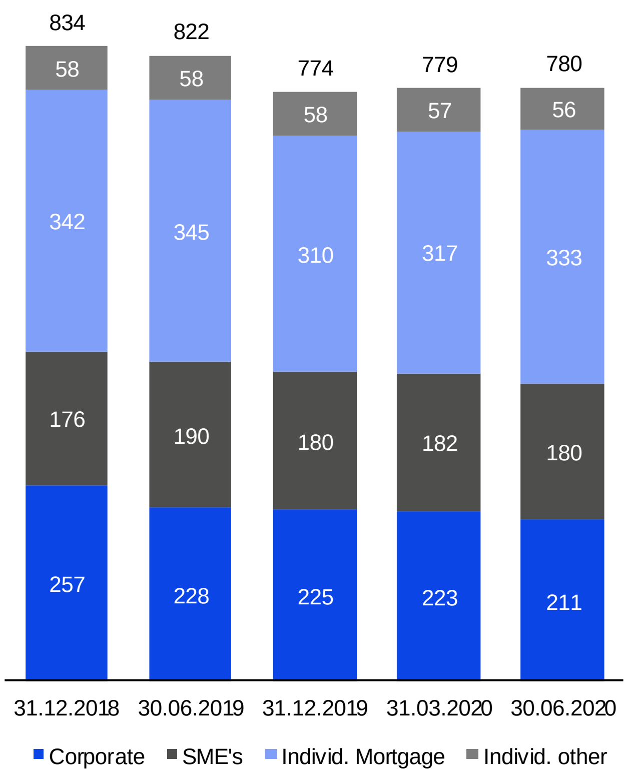
All amounts in ISK billion

Loans to customers

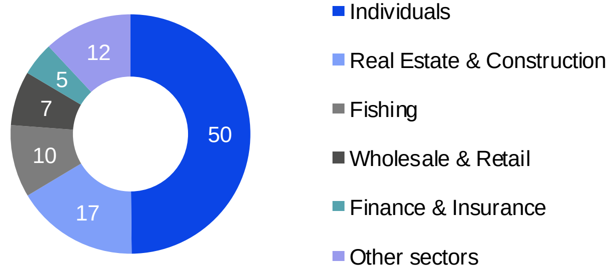
The loan book is stable from the previous quarter but components vary slightly

- The loan book continues to be well balanced between individuals and corporates
- Loans to individuals increased by 4.0% during the quarter mainly due to strong mortgage lending
- The corporate loan book reduced by 7% from Q2 in line with strategy
  - Good diversification between sectors in the corporate loan book
- Demand for new lending is recovering, reflected in loan commitments which increase 20% from 31.03.2020
- Calculated cost of risk was 13 bps of loans to customers
  - Of which 6.7 bps (51% of net impairment) is due to changes in economic scenarios in IFRS 9 models
  - 3.0 bps (22% of net impairment) is due to specific impairment (Stage 3)
  - 3.6 bps (27% of net impairment) is due to other increases in credit risk
- REA from loans to customers reduces by 0.8% from YE 2019 despite increase in the loan book, partly due to regulatory changes regarding SME exposures

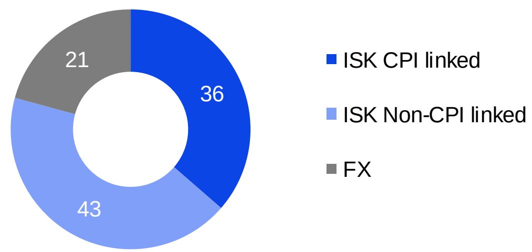
Loans to customers



Loans to customers by sector (%)



Loans to customers by currency (%)



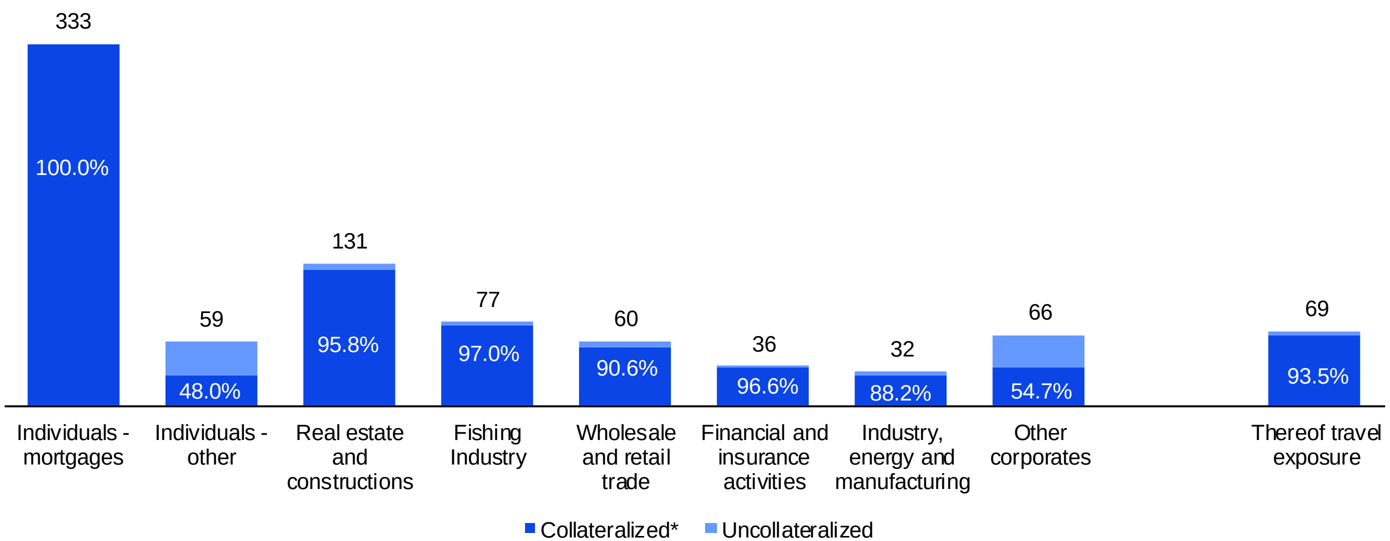
All amounts in ISK billion

Loans to customers – asset quality

Very well collateralized loan portfolio supports asset quality

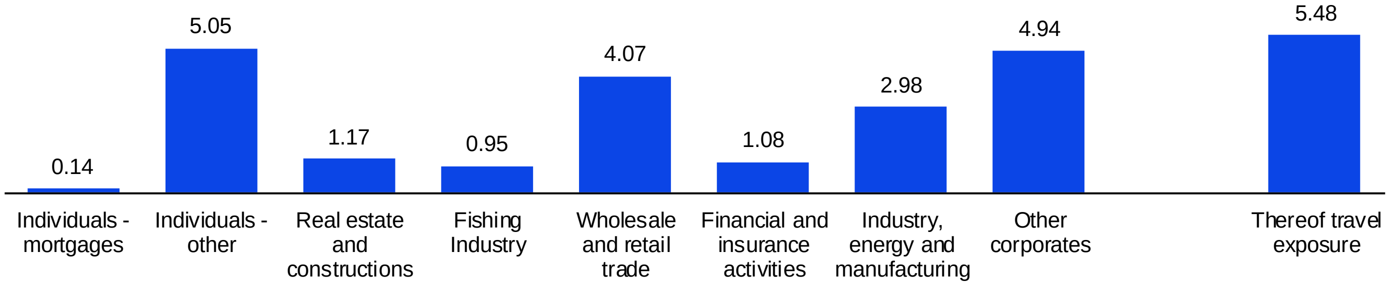
- Approximately 90% of loans to customers are secured by collateral, of which 78% are secured by real estate
- Mortgages to individuals are about 43% of the loan portfolio
- Due to Covid-19 pandemic, the Bank decided to transfer all tourism-related loans to Stage 2 in Q1. Increased loss allowance of tourism exposure amounted to approx. ISK 1,400 million during the first quarter
- Coverage ratio of 30.4% – rather low in international comparison due to high collateral rate

Loans to customers by sector (ISK billion)



*Collateral / Face value

Loss allowance by sector (% of face value)



All amounts in ISK billion

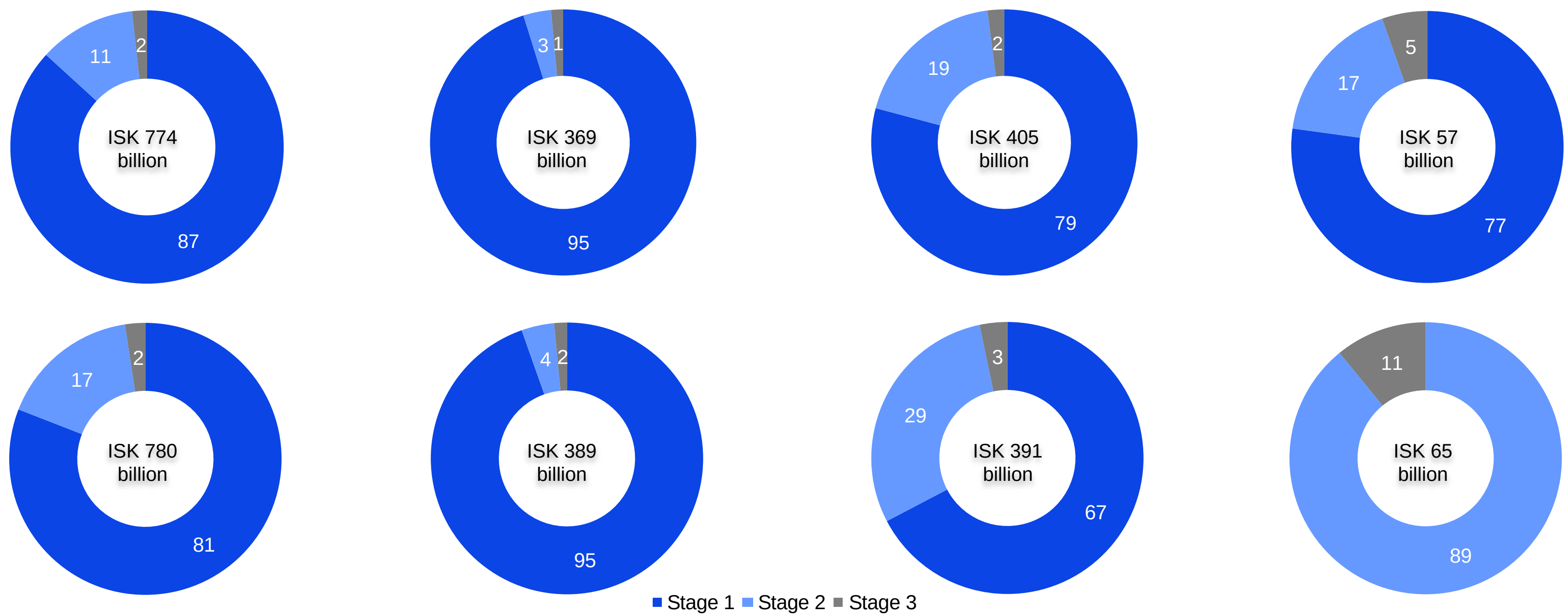
Loans to customers by IFRS 9 stages

Significant transfers between stage 1 and stage 2 from year end as Covid-19 affects IFRS 9 models

Loans to customers total | Individuals | Corporates | Thereof travel exposure

31.12.2019

30.06.2020



Collateral rate on face value

	Loans to customers total	Individuals	Corporates	Thereof travel exposure
31.12.2019	88.5%	91.5%	85.9%	95.3%
30.06.2020	91.1%	92.2%	88.0%	93.6%

- Loans in stage 3 increased by approx. ISK 5.4 billion or 39% from YE 2019
- Travel sector transferred to Stage 2

All amounts in ISK billion

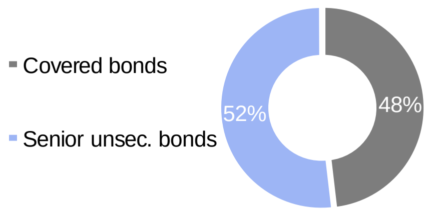
Balance sheet – Liabilities and equity

Deposits are increasing in the funding mix in line with strategy

- Strong equity position and a very high leverage ratio
- The Bank is a frequent issuer of covered bonds in the domestic market and a regular issuer of senior unsecured in the international market. Increase in borrowings from 31.12.2019 is primarily due to weaker ISK against foreign currencies as the Bank did not need new wholesale funding during the quarter
- Deposits increased by 12.8% from YE 2019 – continued focus on deposits going forward
- The funding mix is well balanced between deposits, covered bonds and senior unsecured bonds
- The Bank issued its first AT1 instrument during the Q1 (USD 100 million or ISK 13 billion) and has previously issued a number of Tier 2 subordinated bonds in line with its capital strategy

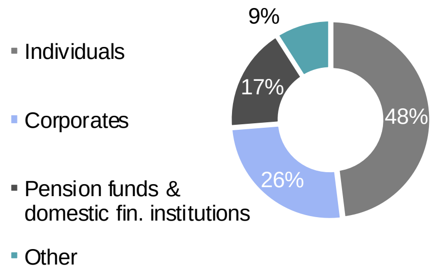
Equity
CET1 ratio 22.9% Capital adequacy ratio 28.1%
Leverage ratio 14.9%

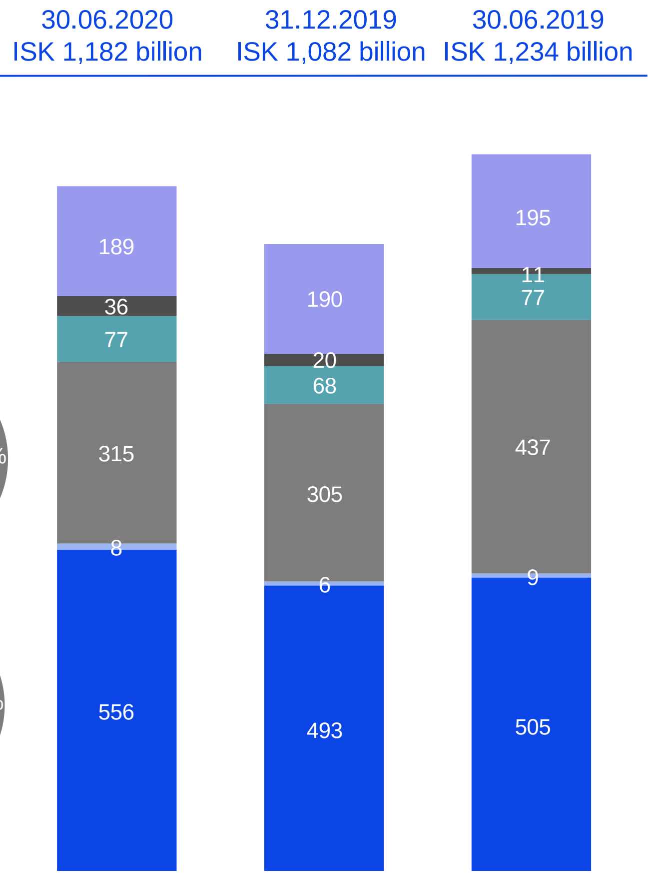
Borrowings (in ISK)
ISK 152 billion
EUR 124 billion
Other currencies 39 billion



Deposits
On demand 71%
Up to 3M 19%
More than 3M 10%

10.1% increase from 30.06.2019





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

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

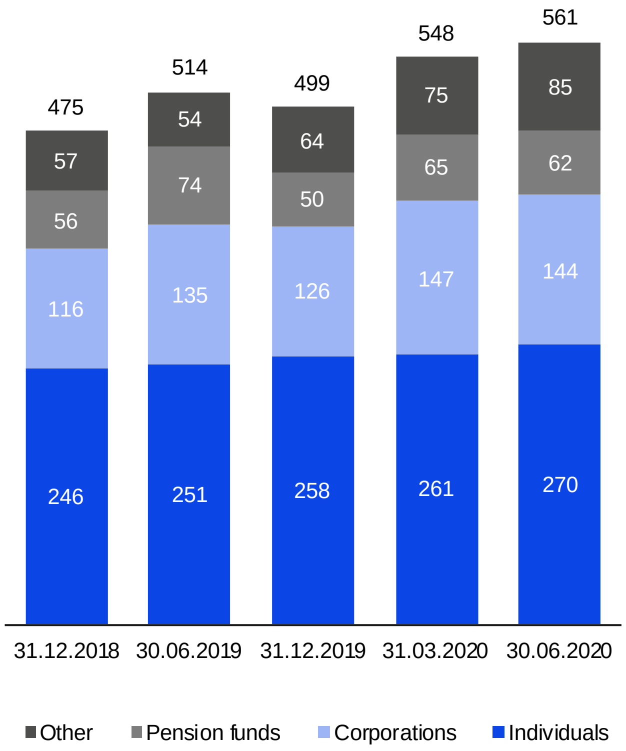
All amounts in ISK billion

Deposits

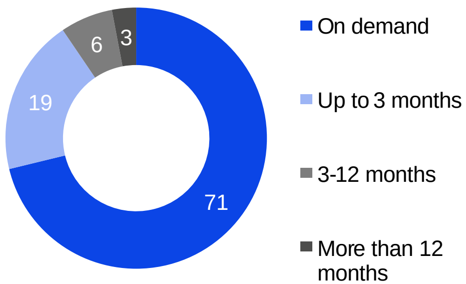
Corporate deposits increased source of funding

- Deposits represent 57% of the Bank's total liabilities
- Special emphasis on corporate deposits
  - 27% growth from YE 2018 and 17% growth from YE 2019
- FX deposits represent 15% of total deposits compared with 14% at year-end 2019, increase mainly due to depreciation of the ISK
- The Bank will continue focusing on deposits from individuals and corporates as they provide long term stable funding
- The Bank has also launched a new deposit product, Green deposits, designed to support its ESG strategy

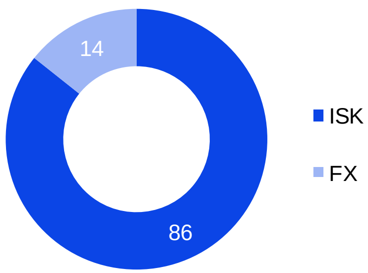
Deposits and due to credit institutions and Central Bank



Maturity of deposits (%)



Deposits by currency (%)



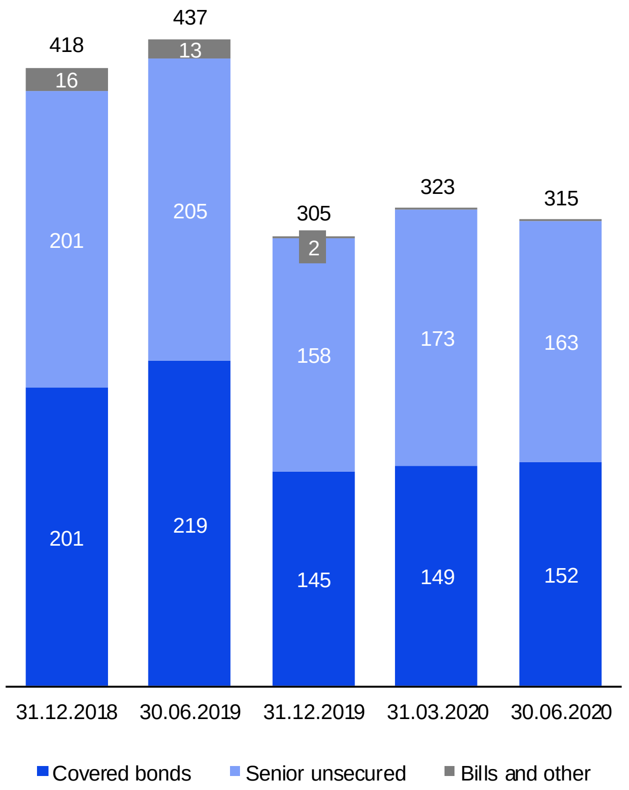
All amounts in ISK billion

Borrowings

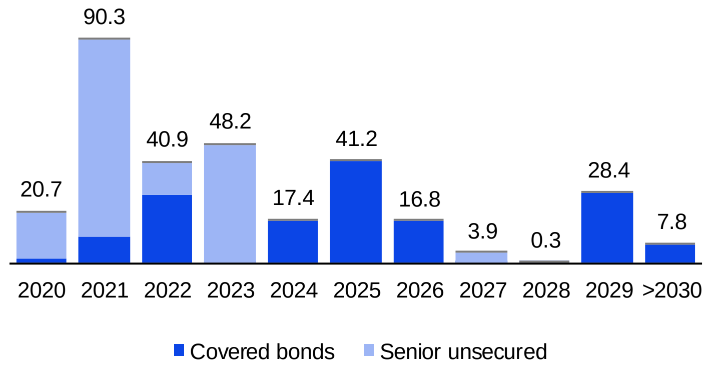
Limited need to access international wholesale funding markets in 2020

- A strong liquidity position gives the Bank room to maneuver and there has been continued emphasis on the reduction of funding cost both through prepayments, buy-backs or other activities
  - In the months of April and May 2020 Arion Bank bought back in the market outstanding EUR notes ARION 1 03/20/23 for approximately EUR 20 million.
  - In July 2020 the Bank fully repaid at maturity a bond issue amounting to NOK 800 million without any new issuance
- Arion Bank continued to a limited extent to issue covered bonds which are secured under the Covered Bond Act No. 11/2008. During the first half of 2020 the Bank issued covered bonds amounting to ISK 5,060 million
- Liquidity Coverage Ratio of 206%, far above the regulatory minimum of 100%
- No material redemption of long term funding until December 2021

Borrowings by type



Maturities of borrowings



Ratings - S&P (April 2020)

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

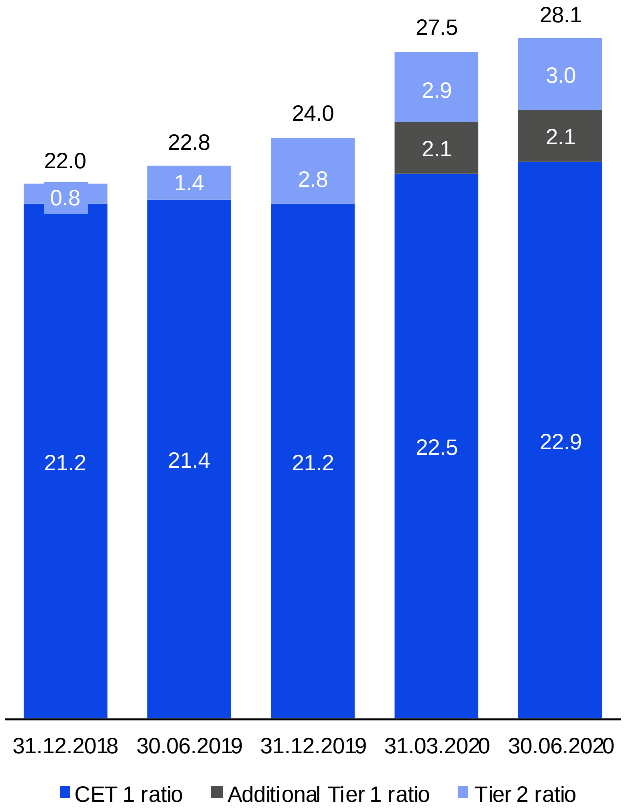
All amounts in ISK billion

Own funds

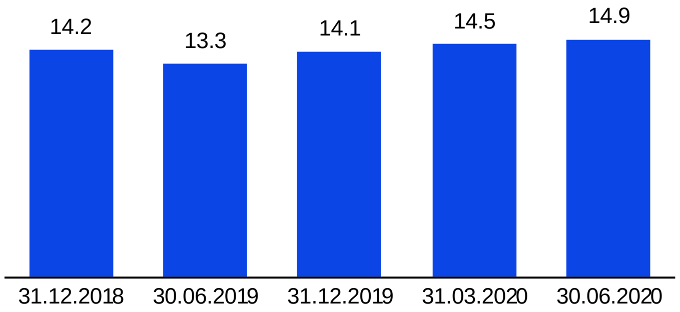
Capital ratio at 28.1% is exceptionally strong as is the leverage ratio of 14.9%

- The CET1 ratio is further enhanced to 22.9% from Q1 through earnings, management of REA and IFRS 9 related regulatory changes
- REA is stable despite a 9.3% increase in balance sheet from YE 2019
- Arion Bank filled the 3% Tier 2 bucket with issuance in 2018 and 2019
- The AT1 bucket was filled with issuance in February 2020
- Both instruments strengthen the Bank's own funds and are a milestone towards the Bank's medium-term targets
- Leverage ratio remains very strong in all respects

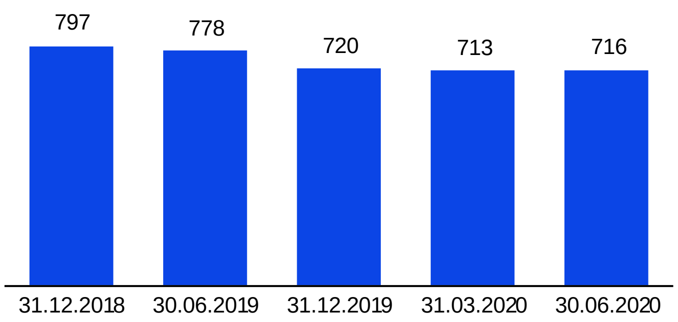
Capital ratio (%)



Leverage ratio (%)



Risk-weighted exposure amount



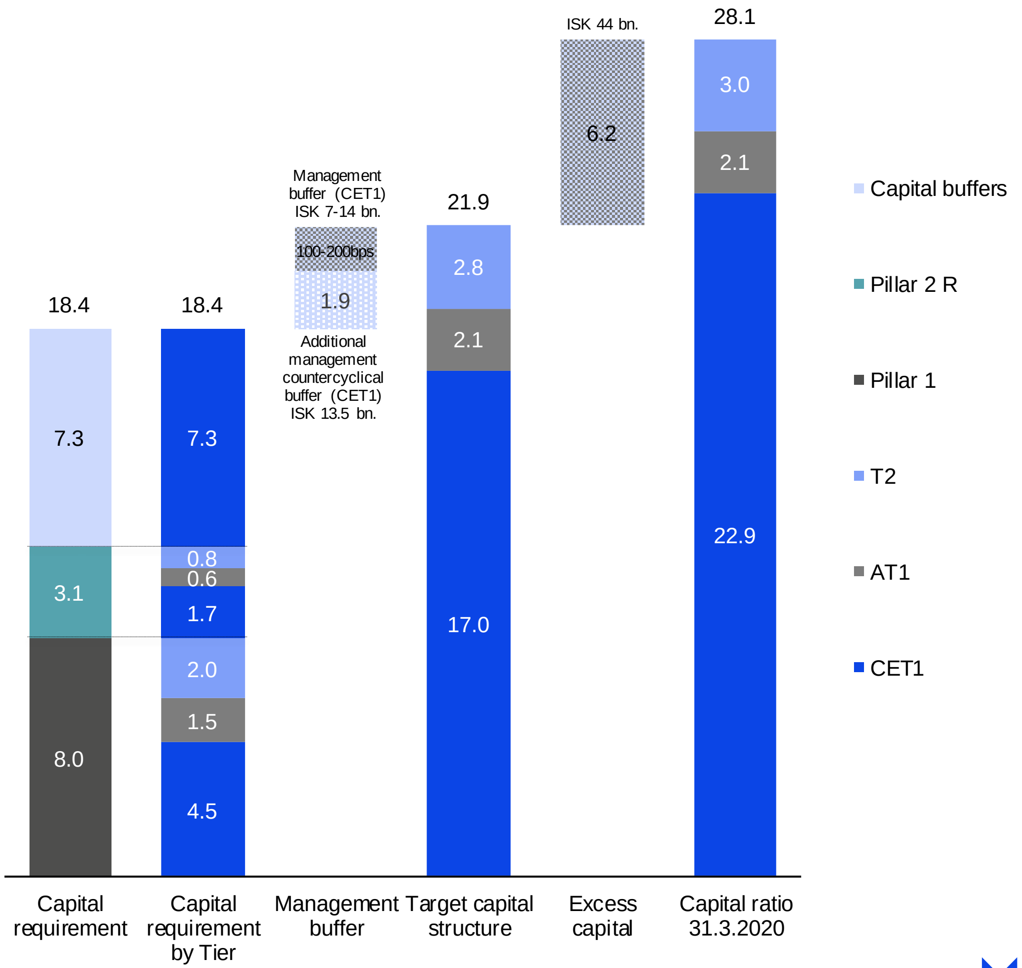
All amounts in ISK billion

Capital adequacy

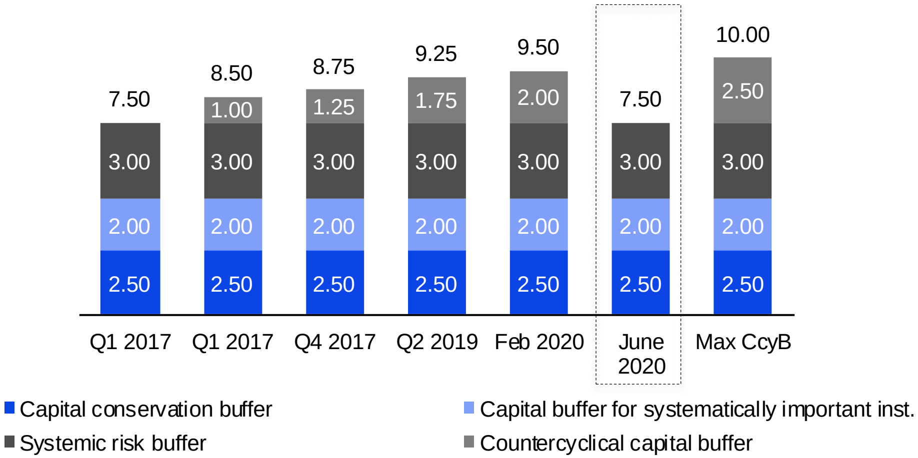
Exceptionally strong capital position

- Own funds increased by ISK 4.9 billion in Q2 2020
  - ISK 1.5 billion added back to the CET1 capital through the IFRS9 transitional arrangement which was ratified into Icelandic law on 4 May 2020
- Target CET1 ratio remains unchanged at 17%
  - Additional 1.9% management buffer (ISK 13.6 billion) that corresponds to the previous Countercyclical capital buffer which was vacated entirely in Q1 2020. The traditional 100-200bps management buffer amounts to ISK 7.2-14.3 bn.
  - CET1 capital of ISK 43 billion in excess of target capital structure.

Own funds and capital requirements (%)



Development of capital buffers (%)



Arion Bank Group

Diversified business model and strong market position

Arion Bank

- A progressive universal bank, focusing on digital products and solutions, with the vast majority of its operations in the domestic market
- Number of FTE's at 30 June 2020: 655
- Total assets: ISK 1,182 bn.
- Assets under Management: ISK 833 bn.
- Market share amongst most products: Approx 30%

vörður

- The Bank's subsidiary Vördur is the largest life insurance and the 4th largest non-life insurance company in Iceland
- Number of FTEs at 30 June 2020: 101
- Markets share: Approx 17% on a consolidated basis
- RoE for H1 2020: ~ 19%

STEFNIR

- The Bank's subsidiary Stefnir is a leading fund management company in the Icelandic market
- Number of FTEs at 30 June 2020: 21
- Assets under Management: ISK 227 bn.
- RoE for H1 2020: ~ 25%

VALITOR

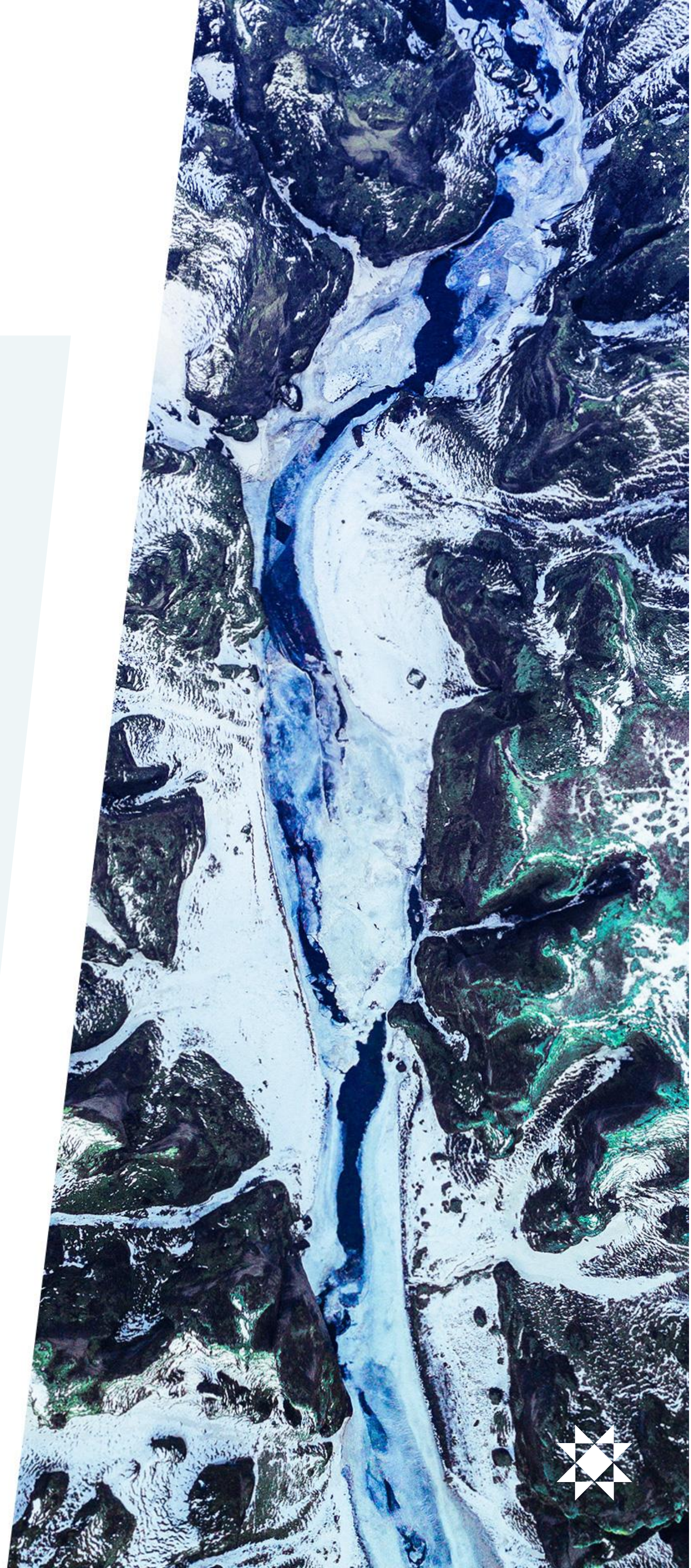
- The Bank's subsidiary Valitor is the largest payment company in Iceland (based on operating revenues)
- Number of FTEs at 30 June 2020: 214
- Markets share: Approx. 42% in the Icelandic market
- RoE for H1 2020: Loss

Based on information from various companies

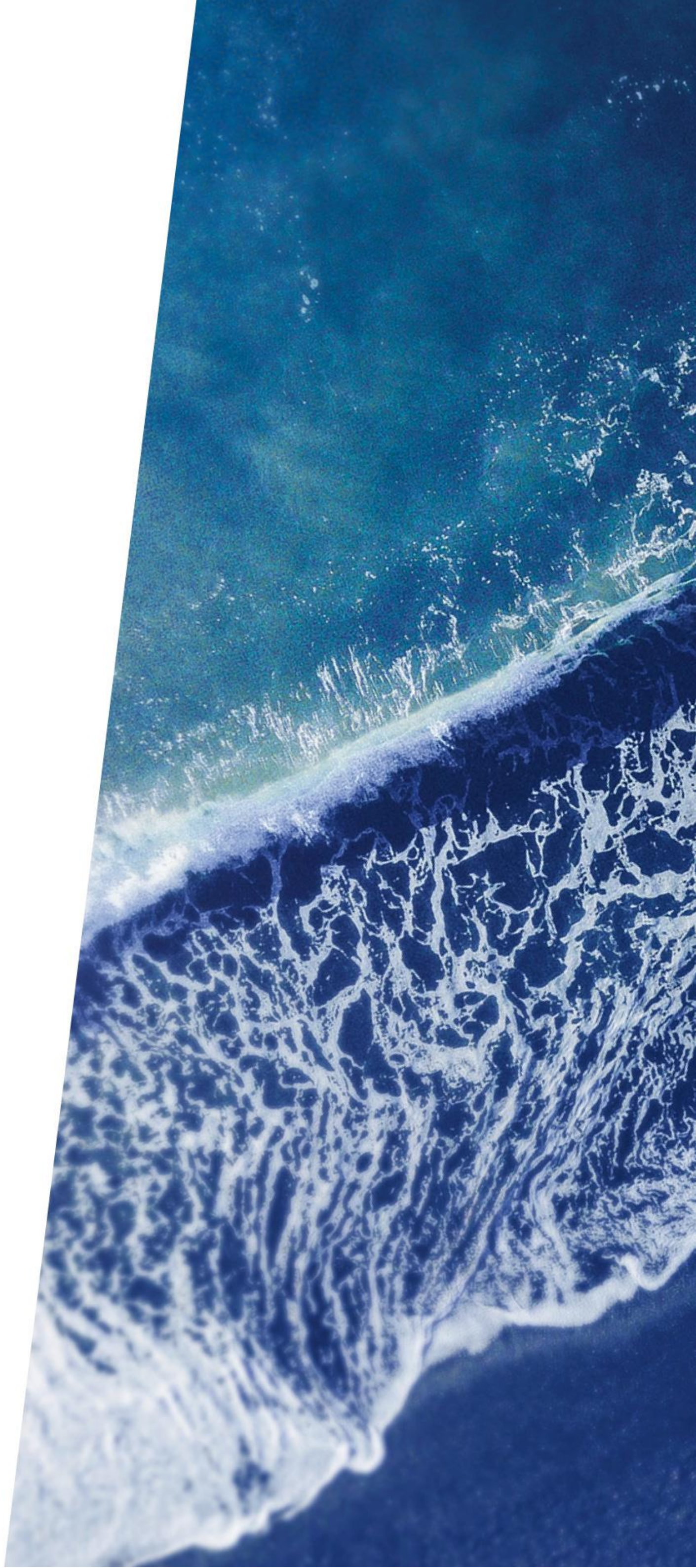
The subsidiaries (Vördur, Stefnir and Valitor) are independent entities regulated by the FME.
Arion Bank exercises ownership through strategy and board memberships.

Going forward

- Macro economic developments, in Iceland and to a greater extent internationally, will dominate in the coming quarters
- Arion Bank will support its customers as much as possible and has the financial strength to be an active participant in the rebuilding of the economy
- Continued focus will be on core revenues and operating expenses
- Economic uncertainty persists and additional Covid-19 related impairments can be expected in the coming quarters
- The Bank does not rule out the possibility that the current economic environment, coupled with the Banks very strong capital and liquidity position, might open up opportunities to efficiently use some of these resources for either internal or external growth
- The Bank is committed to its medium term targets, assuming the economy recovers in the medium term

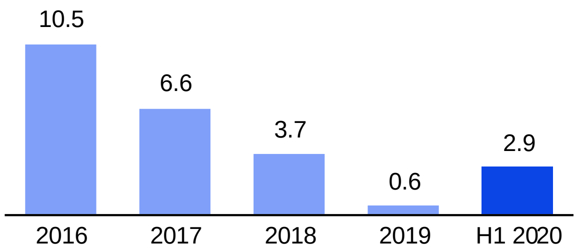


KFI's and other information

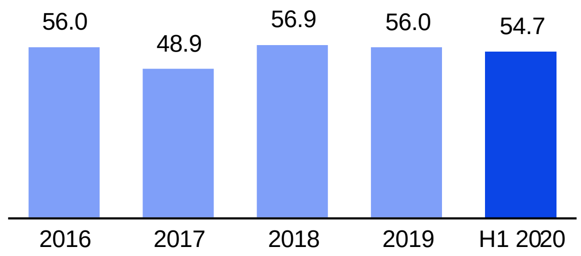


Key financial indicators - annual

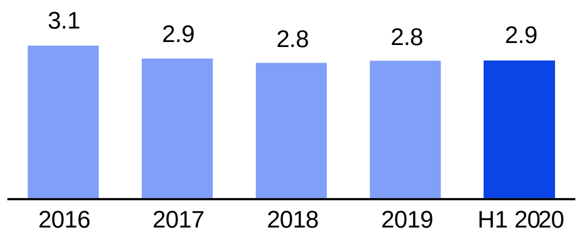
Return on equity (%)



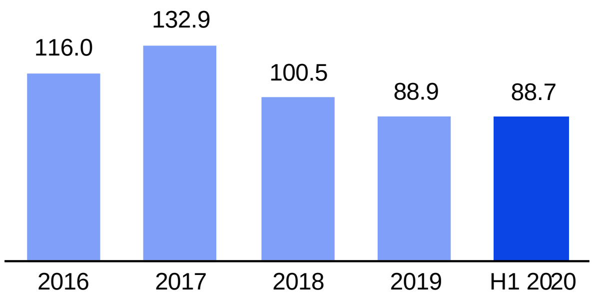
Cost-to-income ratio (%)



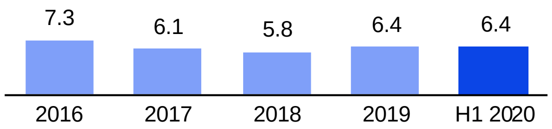
Net interest margin (%)



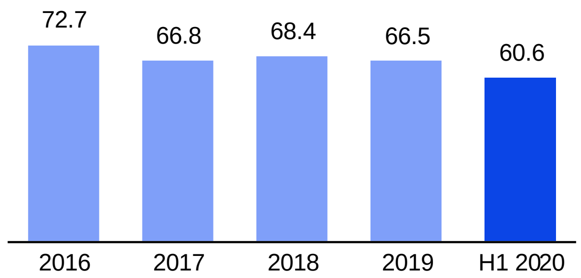
CPI imbalance (ISK billion)



Operating income / REA (%)

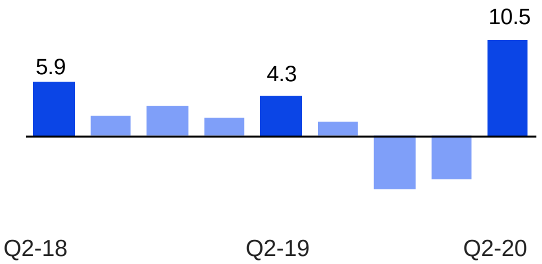


Risk weighted assets / Total assets (%)

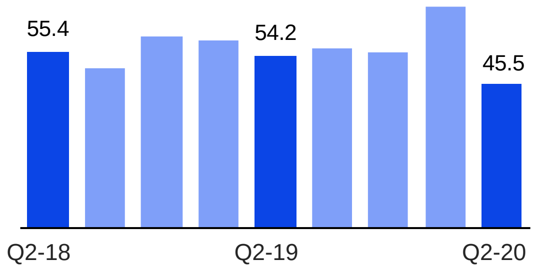


Key financial indicators - quarterly

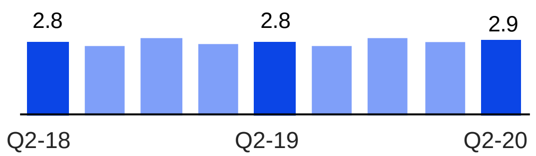
Return on equity (%)



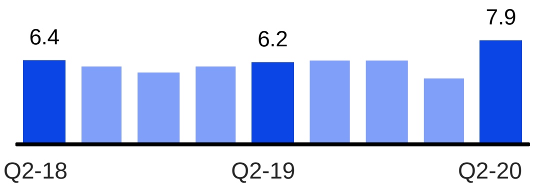
Cost-to-income ratio (%)



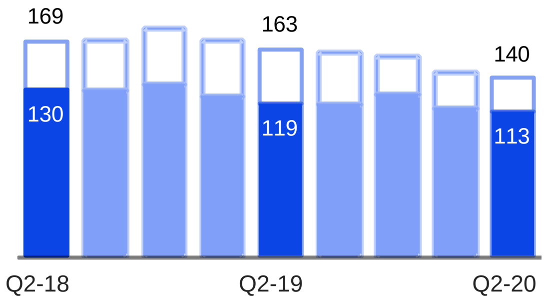
Net interest margin (%)



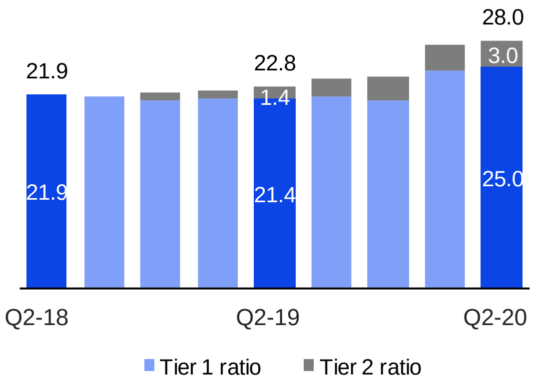
Operating income / REA (%)



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



Capital ratio (%)



Key figures

Operations	H1 2020	H1 2019	H1 2018	H1 2017	H1 2016	Q2 2020	Q1 2020	Q4 2019	Q3 2019	Q2 2019
Net interest income	15,110	15,242	14,141	14,824	14,626	7,857	7,253	7,693	7,382	7,808
Net commission income	5,764	4,696	4,917	4,608	6,747	2,688	3,076	2,615	2,639	2,478
Operating income	23,039	23,928	23,315	24,813	27,638	14,063	8,976	11,726	12,344	12,220
Operating expenses	12,602	13,480	13,686	10,519	15,155	6,395	6,207	6,443	6,940	6,618
Net earnings (loss)	2,742	3,114	5,013	10,465	9,761	4,913	(2,171)	(2,775)	761	2,096
Return on equity	2.9%	3.2%	4.7%	9.7%	9.5%	10.5%	(4.6%)	(5.8%)	1.6%	4.3%
Net interest margin	2.9%	2.8%	2.7%	3.0%	3.1%	2.9%	2.8%	3.0%	2.6%	2.8%
Return on assets	0.5%	0.5%	0.9%	1.9%	1.9%	1.7%	(0.8%)	(1.0%)	0.2%	0.7%
Cost-to-income ratio	54.7%	56.3%	58.7%	42.4%	54.8%	45.5%	69.2%	54.9%	56.2%	54.2%
Cost-to-total assets	2.2%	2.2%	2.4%	1.9%	3.0%	2.2%	2.2%	2.2%	2.3%	2.2%
Balance Sheet										
Total assets	1,182,250	1,233,419	1,174,844	1,126,411	1,035,003	1,182,250	1,187,820	1,081,854	1,213,155	1,233,419
Loans to customers	779,902	821,731	803,694	733,649	713,136	779,902	778,823	773,955	812,481	821,731
Mortgages	356,312	369,583	348,434	309,339	190,008	356,312	340,235	333,406	372,938	369,583
Share of stage 3 loans, gross	3.4%	2.4%	-	-	-	3.4%	2.9%	2.7%	2.5%	2.4%
REA/ Total assets	60.6%	63.1%	67.8%	67.0%	71.8%	60.6%	60.0%	66.5%	62.2%	63.1%
Tier 1 ratio	25.0%	21.4%	21.9%	27.8%	26.8%	25.0%	24.6%	21.2%	21.6%	21.4%
Leverage ratio	14.9%	13.3%	14.3%	0.0%	0.0%	14.9%	14.5%	14.1%	12.8%	13.3%
Liquidity coverage ratio	206.3%	198.0%	231.7%	266.2%	179.8%	206.3%	224.2%	188.3%	246.4%	198.0%
Loans to deposits ratio	140.3%	162.8%	168.8%	167.7%	168.6%	140.3%	144.4%	157.0%	159.9%	162.8%

All amounts in ISK million

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