



# Q4 and full-year results 2024

Investor presentation  
12 February 2025

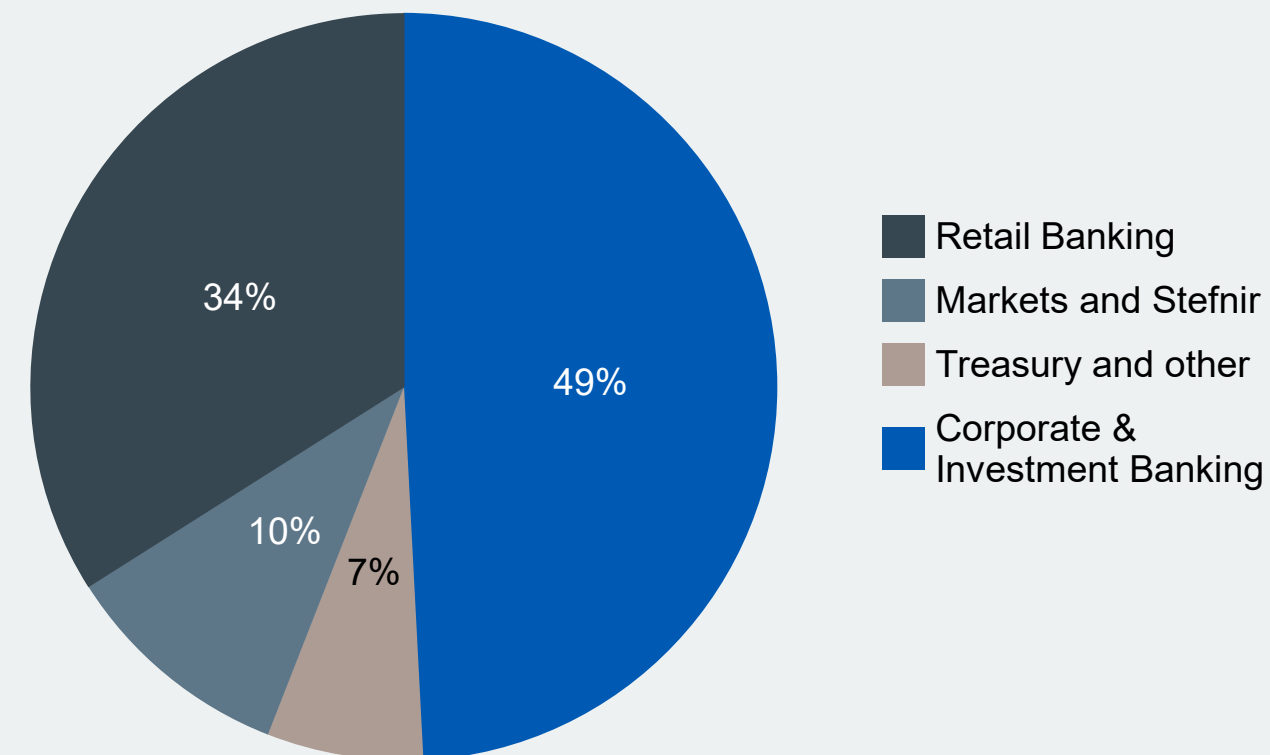
# Arion Bank – business overview and strategy

Diversified financial institution in Iceland with strong market position

## Retail Banking (including insurance)

- Comprehensive financial services to individuals
- Around one-third market share in Iceland
- Large provider of residential mortgages in Iceland
- Domestic digital leader in retail banking with focus on customer experience
  - The Arion app named the best banking app in Iceland for the last 8 years
  - 71% of core products sold digitally in 2024<sup>1</sup>
  - Insurance services to retail customers

## Operating income 2024



## Corporate & Investment Banking (including insurance)

- Corporate banking, advisory and insurance service to corporate customers
- Partner to large corporates and SMEs in Iceland and internationally, largely in the Arctic
- Leader in credit origination, using own balance sheet, private and capital markets, for clients. Significant growth in managed products
- Advised and managed 65% of public equity offerings in Iceland in the last decade
- Insurance services to corporate clients

## Markets and Stefmir



- The largest asset manager in the Icelandic market with ISK 1,633bn (EUR 11.2bn) in assets under management – around 1/3 of domestic GDP 2023
- Emphasis on institutional investors and high net worth clients
- Capital Markets had the highest market share in equities and fixed income trading in 2024
- Stefmir Funds is among largest fund management companies in Iceland with a variety of domestic and international assets under management

## Strategic focus

- Increase market share in target client segments
- Enhance business we do with our clients by cross-selling products and services from the group and partners
- Explore and capitalize on opportunities in the Arctic
- Elevate customer experience:
  - Be a leader in identifying and meeting customer needs
  - Customer centric and innovation focus, with the aim of enhancing the end-to-end customer journey
  - Reward loyalty to foster long-term relationships

## Insurance

Insurance revenue 2024: ISK 17.7bn



- Fastest growing insurance company in Iceland with 19% market share<sup>2</sup>
- Full range of insurance products and services
- Continued focus on a fully integrated bancassurance model with the Bank
  - Bancassurance ratio at 31.12 2024:
    - Individuals 36.7%
    - Corporates 28.5%

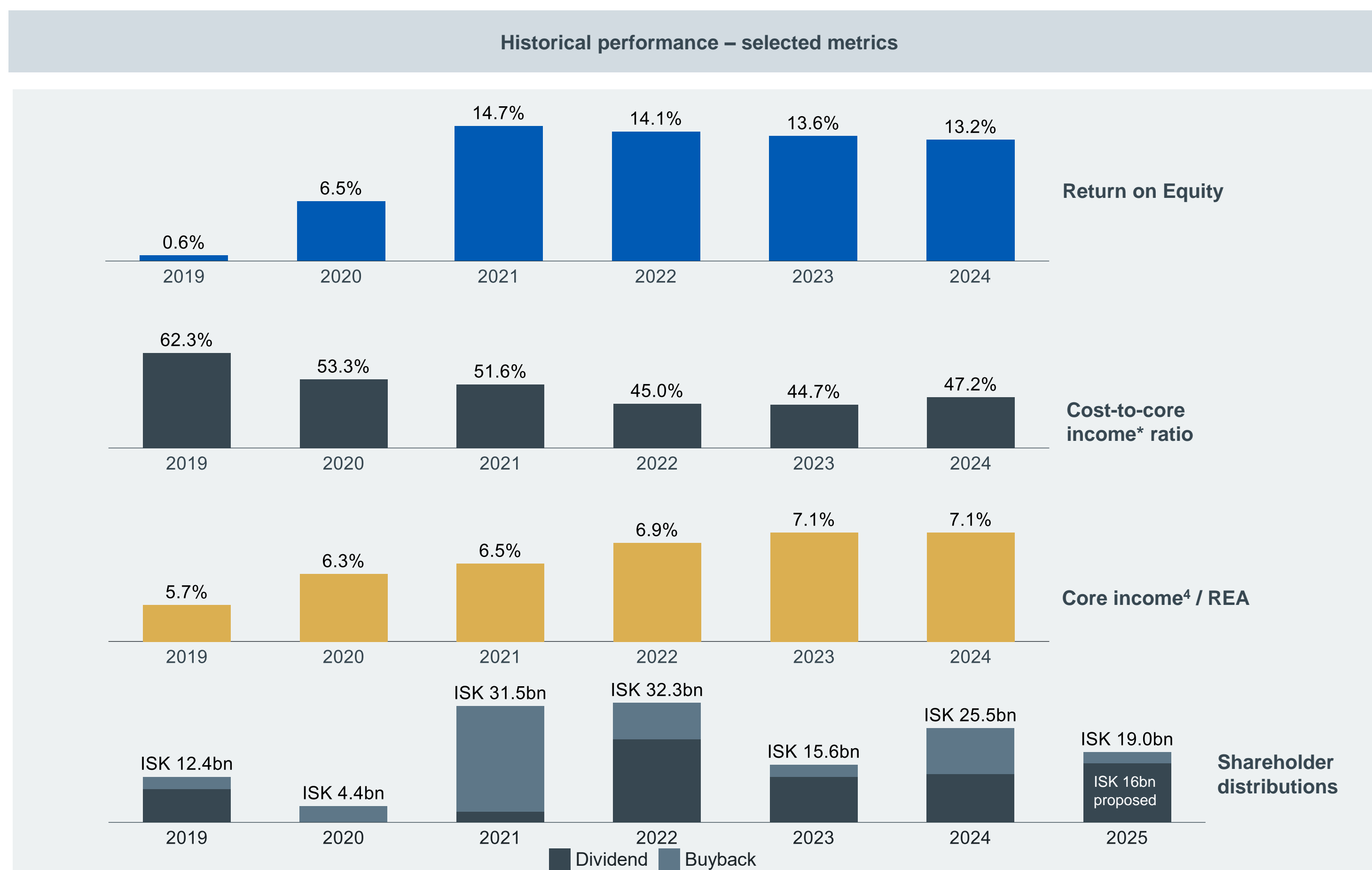
<sup>2</sup> 1 Core products: Current accounts, savings accounts, credit cards, personal loans, mortgages and investments  
2 Market share 30 September 2024



# Solid 13.2% ROE in 2024 and a dividend proposal of ISK 11.5 per share

Ongoing track record of delivering on key financial targets

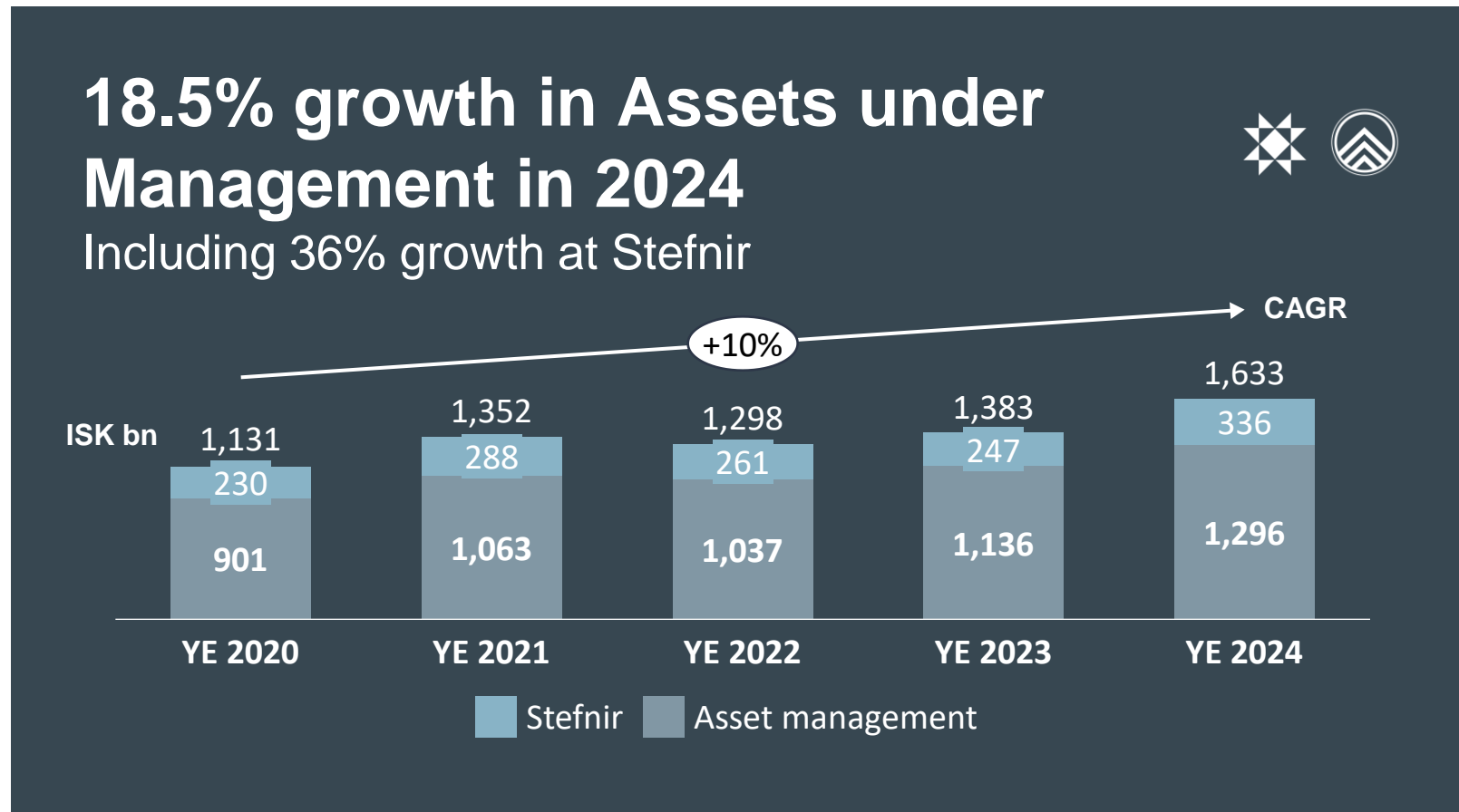
	2024	Medium-term targets
ROE	13.2%	Exceed 13%
Cost-to-core income ratio <sup>1</sup>	47.2%	Below 45%
Core income <sup>2</sup> / REA	7.1%	Exceed 7.2%
Insurance revenue growth (YoY) <sup>3</sup>	10.6%	In excess of market growth
Combined ratio Vördur	88.9%	Below 95%
CET1 ratio above regulatory capital requirements	293 bps	150-250 bps management buffer <sup>4</sup>
Dividend payout ratio <sup>5</sup>	61%	50%



1) Cost to core income ratio: Operating expenses, including opex from insurance operation / Core income  
 2) Core income: Net interest income, net fee and commission income and insurance service results (excluding opex)  
 3) Insurance revenue growth in the domestic insurance market in 9M 2024 was 9.6%  
 4) Approx. 16.8 - 17.8%  
 5) Pay-out ratio of approximately 50% of net earnings attributable to shareholders through either dividends or buyback of the Bank's shares or a combination of both. Additional distributions will be considered when Arion Bank's capital levels are above the minimum requirements set by the regulators in addition to the Bank's management buffer

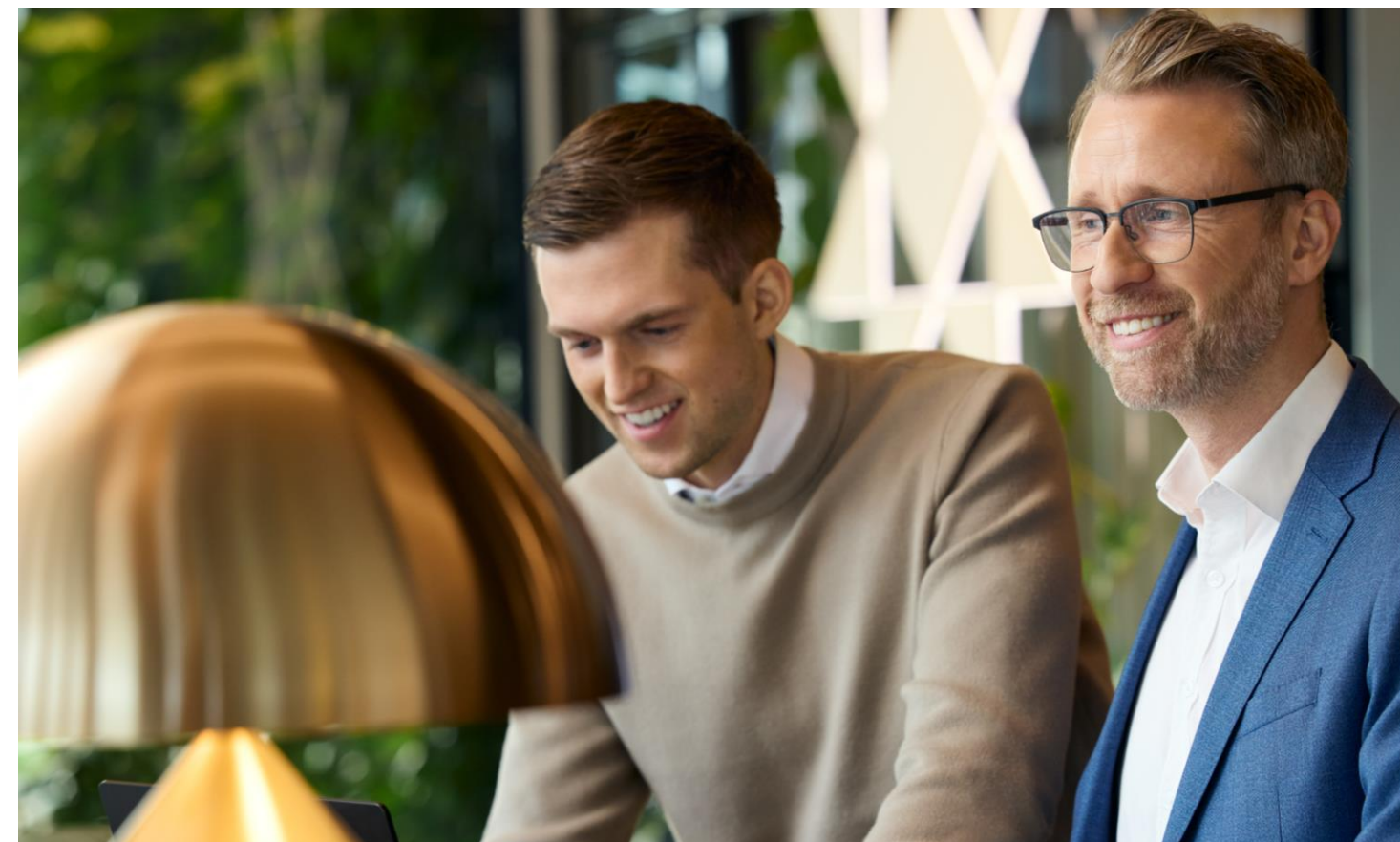


# Key milestones of the year



### Efficient Retail Bank

- 71% of core products sold digitally 2024\*
- 15.9% increase in household deposits
- 60.5% increase in insurance sales YoY
- Successful launch of Arion Family and Arion Rewards



### #1 Arion Bank Capital Markets

...in Iceland, both equity and fixed income trading volume 2024

### Robust activity in Corporate & Investment Banking

Strong position in listings on Nasdaq Iceland and First North Iceland and was further involved in numerous large transactions in 2024

### Frjálsi pension fund received international best-in-class award

- Awarded Best Pension Fund among European countries with populations under one million.
- Also nominated for Best Multi-Employer/Professional Pension Fund and Best Technology

Awarded by Investment & Pensions Europe

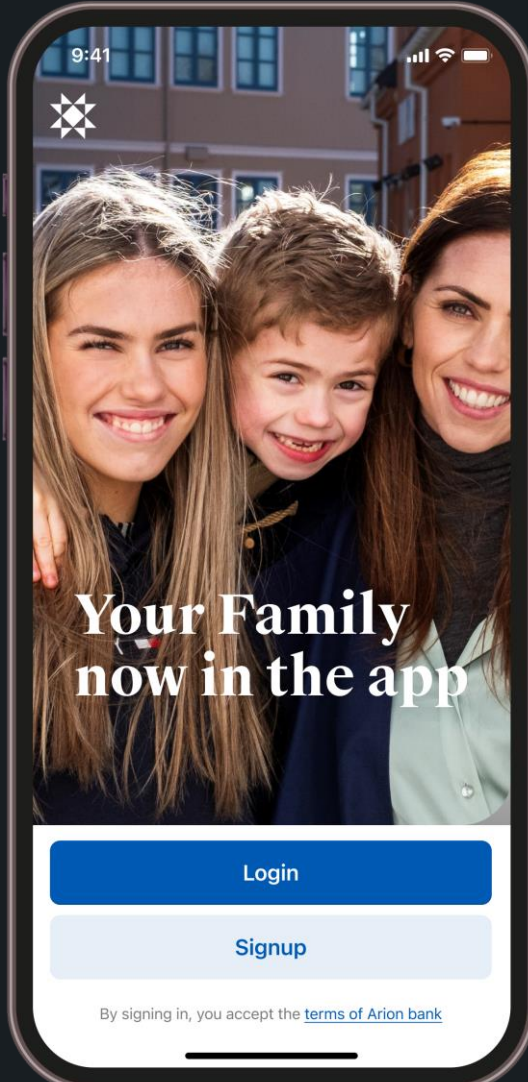
### Record insurance year

- Net earnings of ISK 3.7bn
- 30.8% ROE for Vördur stand-alone

Bancassurance ratio:

- Individuals 36.7% vs 34.9% YE 2023
- Corporates 28.5% vs 25.8% YE 2023

# Ongoing digital investments increasing customer satisfaction and efficiency



## Family Finances in the App

Guardians now have an automatic **overview** of their children's banking products

70%

of **deposit and savings accounts** created E2E in app by guardians

+50%

YOY increase in **custody account** creations for minors, of which...

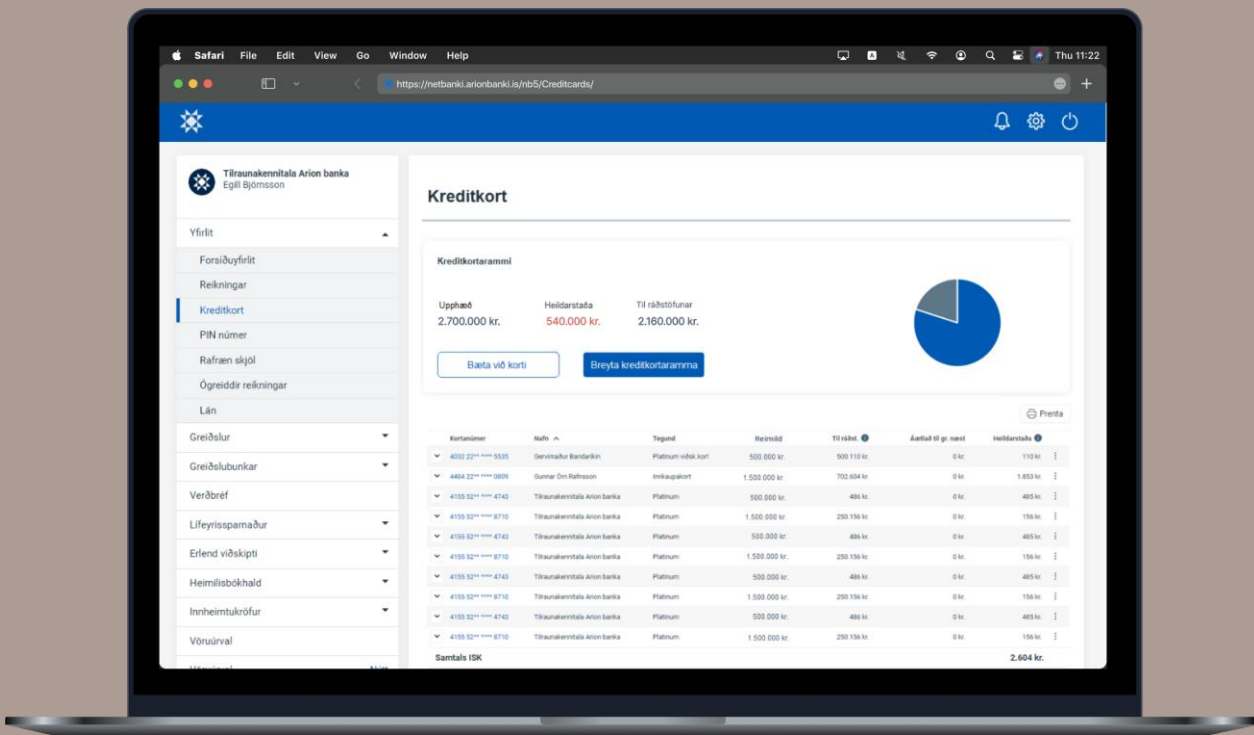
78%

of eligible customers onboarded into **Arion Refund**

95%

....created E2E digitally by guardians

## Smart Self-Service for Corporates



60%


of **credit cards** created E2E by customers

Receipt Capture for credit card transactions for increased efficiency

E2E

Overdraft application in the online bank

credit card limit management



Best digital bank in 2024 according to *Euromoney*

8<sup>th</sup>

Best banking app\* in Iceland for the year in a row

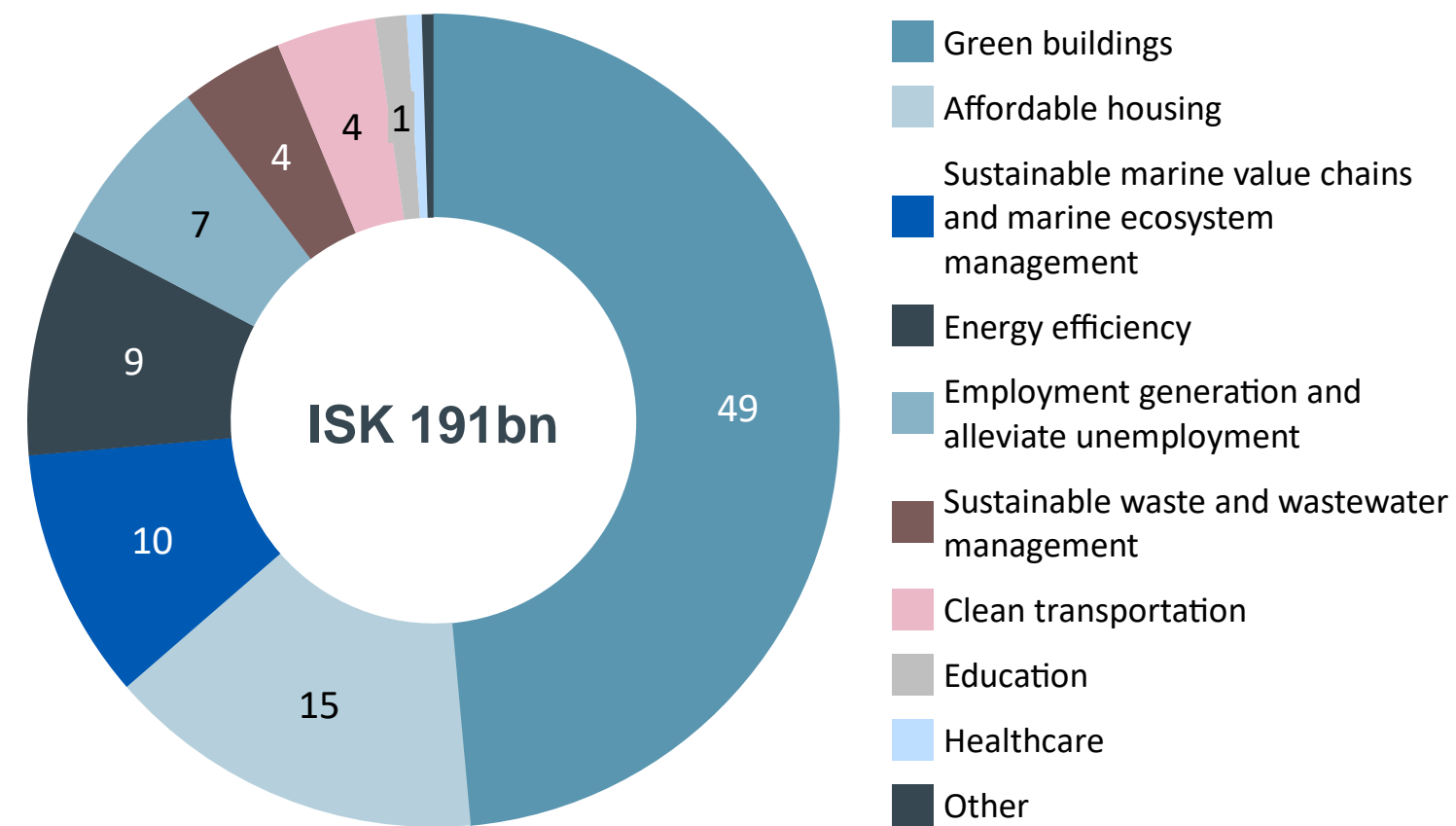


# Significant progress in sustainable lending and enhanced reporting

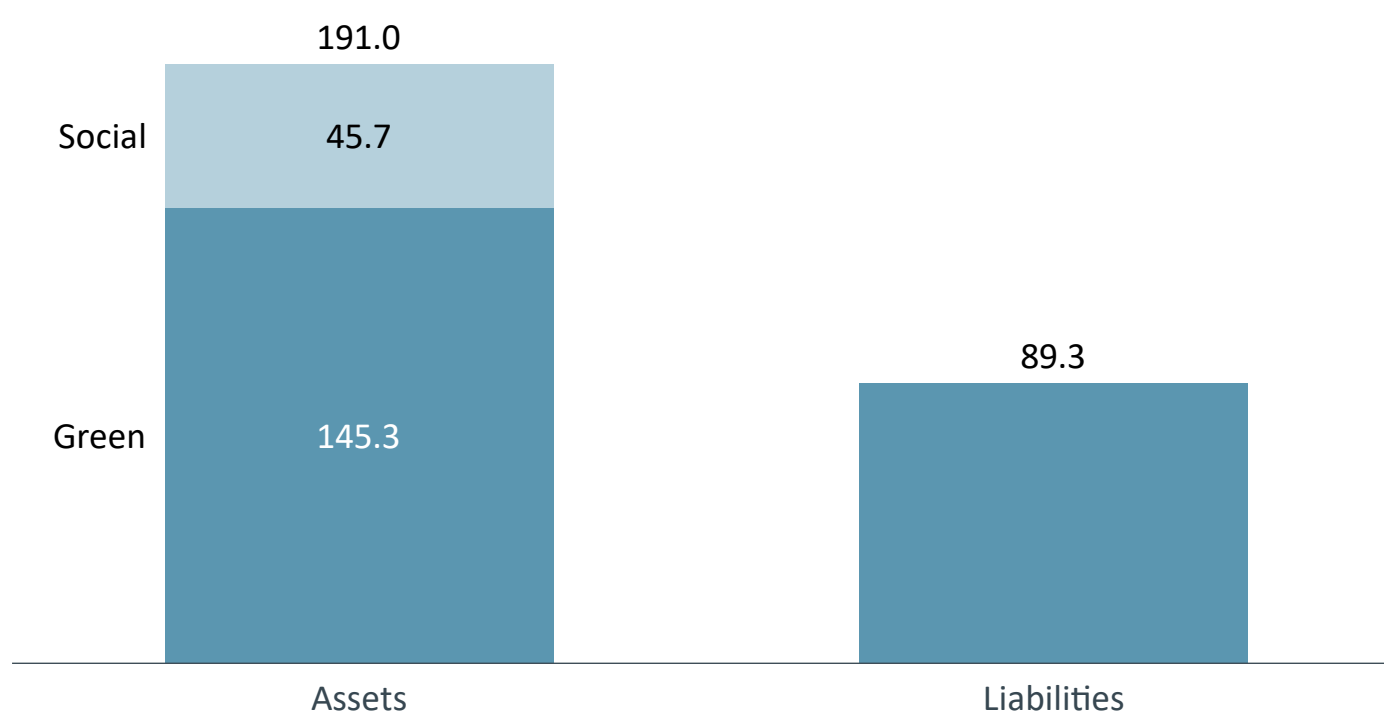
## Strong ESG ratings and targets on greenhouse gas emission reduction

### Sustainable asset pool

Committed finance by category (%)



### Sustainable assets and liabilities at the end of 2024



### ESG ratings

Morningstar Sustainalytics places Arion Bank in the **top 4% of banks** (around 1,000 banks globally) and the **top 2% of regional banks** (around 550 banks)

On a scale of 0-100, Arion Bank received 9.2 points which places the Bank in the **negligible risk category**

Arion Bank recently achieved again the score **“outstanding”** in Reitun’s ESG rating, scoring **90 out of 100** possible points placing it in category **A3**

This is the **highest score** currently issued by Reitun

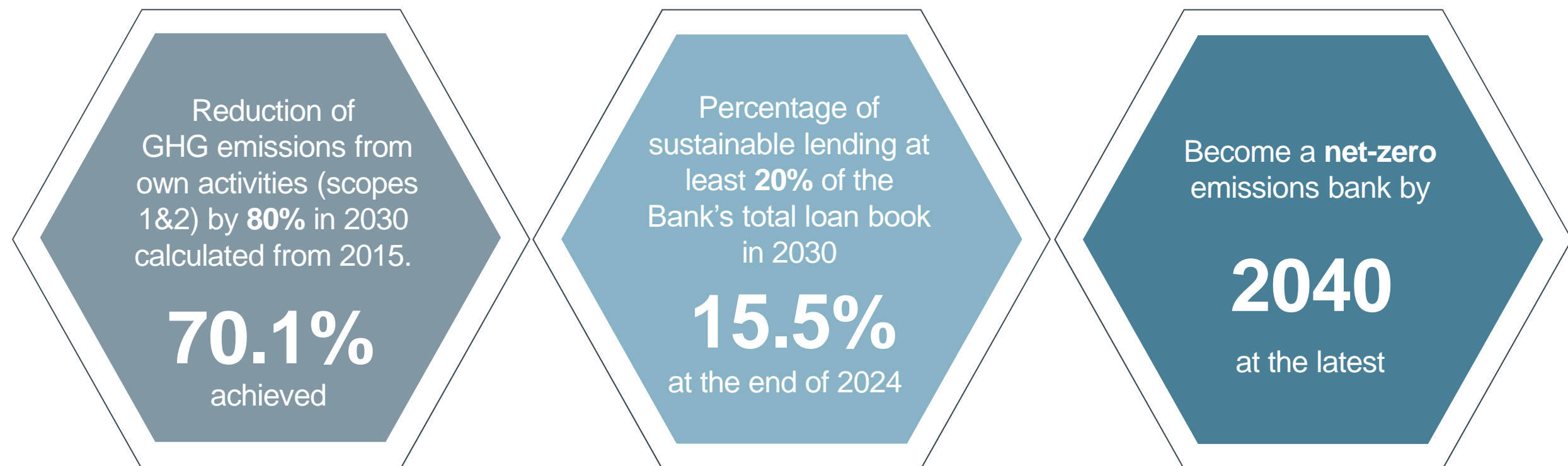


### Financed emissions and reduction targets

Arion Bank became a member of Science Based Targets initiative (SBTi) and Net-Zero Banking Alliance (NZBA) at the end of 2023.

The Bank has published its first **emissions reduction targets until 2030**, where the emphasis is on the most significant sectors:

- Seafood
- Power generation
- Transportation
- Agriculture
- Aluminium production
- Coal
- Oil



### EU taxonomy

The Bank faces ongoing challenges due to insufficient data in the Icelandic economy, which hampers its ability to satisfy the strict technical screening criteria necessary for classifying assets as environmentally sustainable under the Taxonomy regulation. As a result, the Green Asset Ratio (GAR) remains notably low.



# ✦ Women invest!

## Why

Women are underrepresented when it comes to investments and finance

## Objective

- Increase women's participation in financial markets
- Economic empowerment, and thereby life quality



## Significant impact 2024

In all areas of investments women are doubling or tripling their engagement compared with men

**8.5%** increase in assets held by women in custody accounts

**19%** increase in women regular savings program at Stefnir funds

**19%** increase in transactions conducted by women.



## Events 2024

- Campaign launched in January 2024
- Followed by seminars and online accessible information on how to start investing
- **Over 4,000 women attended 45 seminars all around the country**



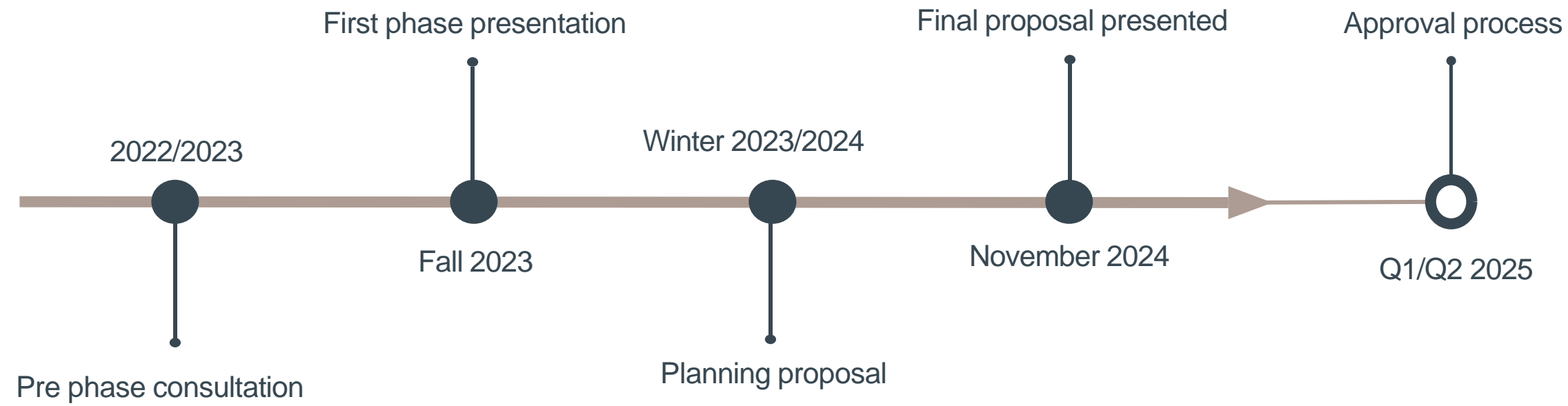
# We anticipate that 2025 will be a pivotal year for our key development assets

## Significant milestones near-term

### Arnarland

Arnarland spans 9 hectares and encompasses 450 residential as well as some commercial properties. Arion holds a 51% stake in a portion of the project, which covers approximately 55,000 square meters total. The current book value is ISK 1.6bn.

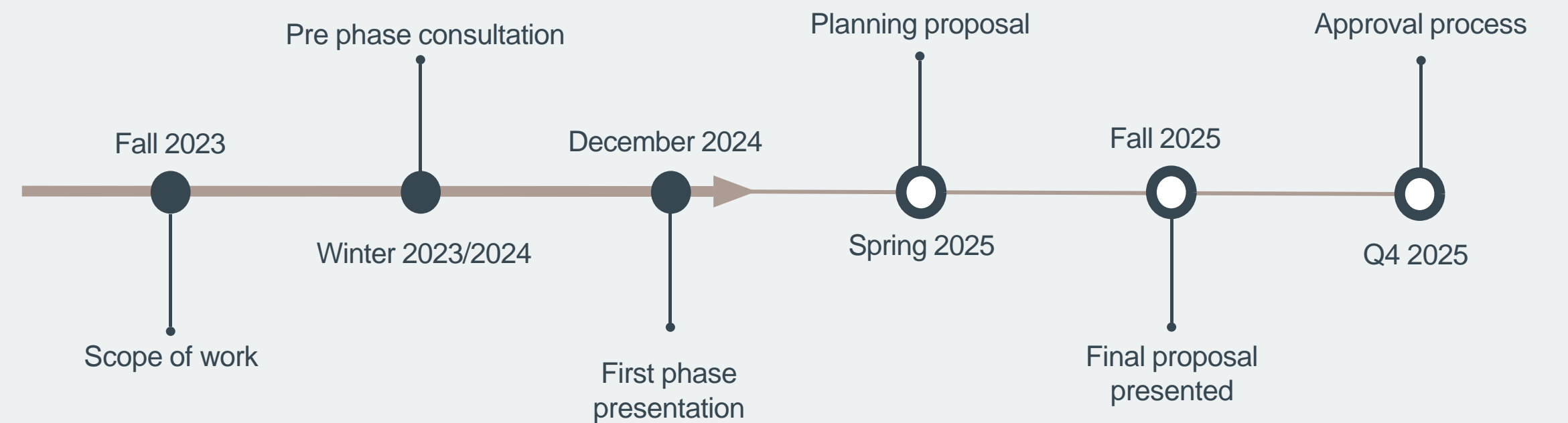
#### Current timeline



### Blikastaðir

The first phase of Blikastaðir land covers 30-35 hectares for estimated 1,200 – 1,300 residences. The first phase also includes the building of a school and preschool. The total size of Blikastaðir development land is close to 100 hectares. The current book value is ISK 6.7bn

#### Current timeline for the first phase design

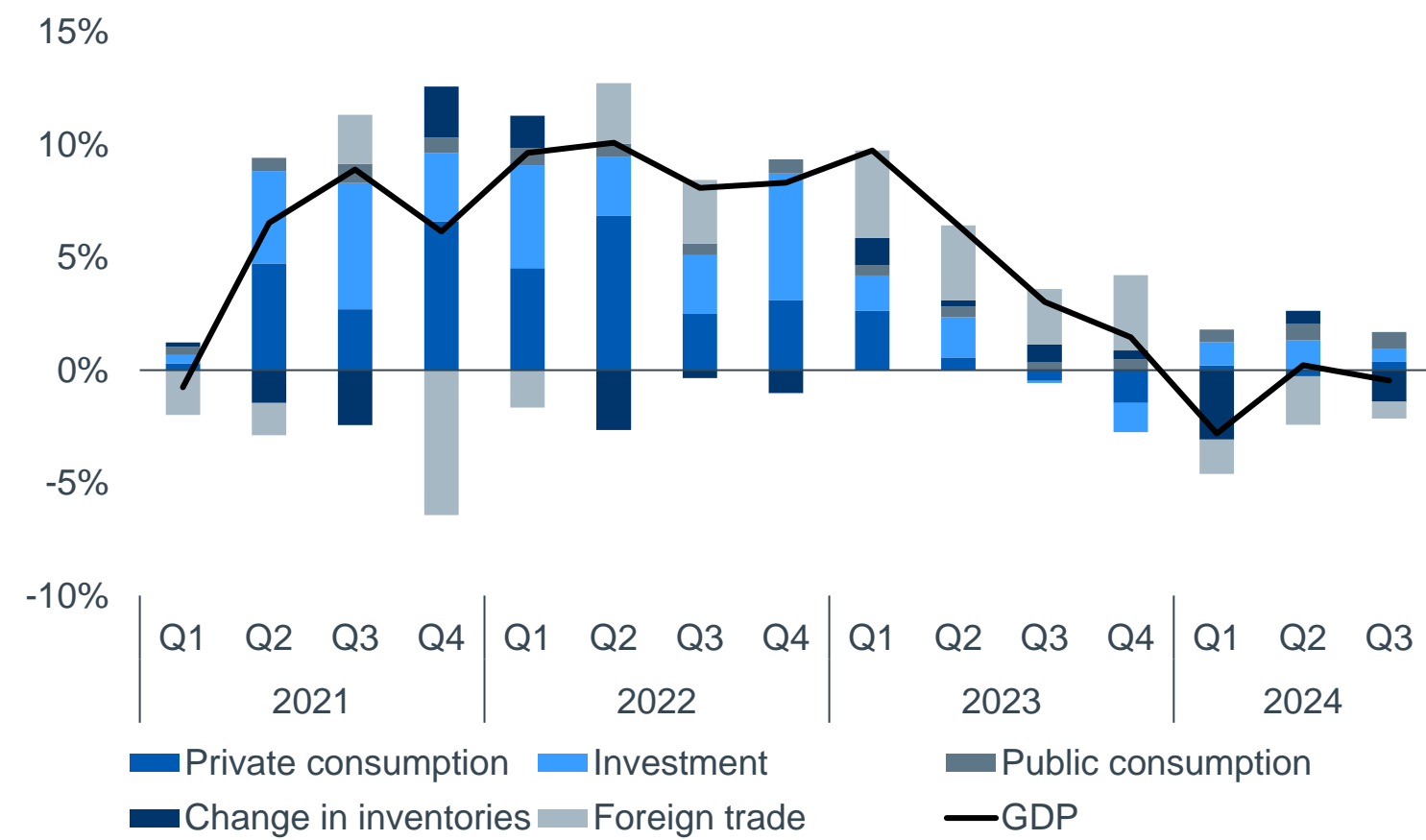




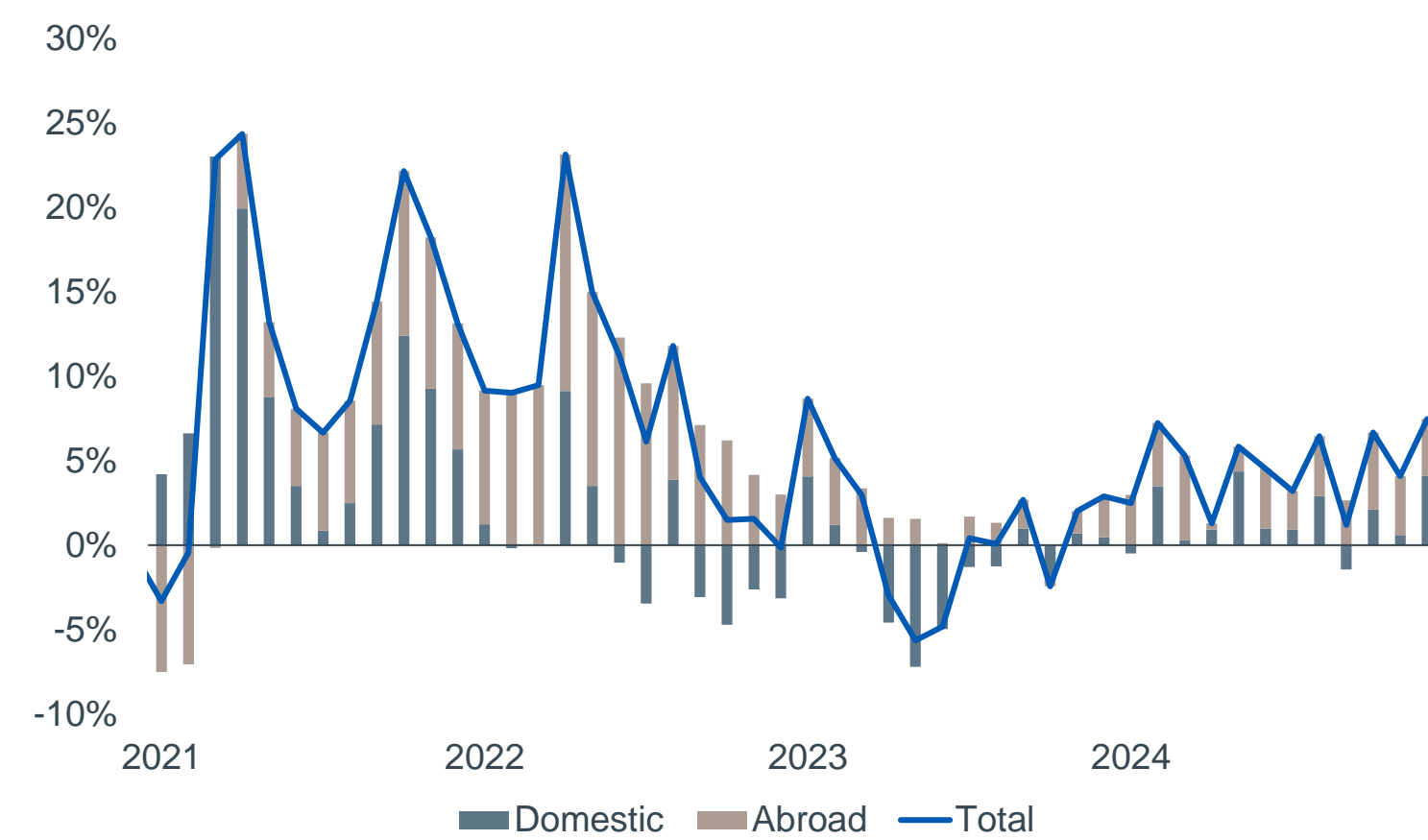
# Economic activity stronger than implied by NAS\*

GDP decreased by 1% between years in the first nine months of 2024, a result analysts have called into question. A slight increase in tourist arrivals, but shorter stays and consequently lower spending, have put pressure on the tourism industry. Despite a slight uptick in unemployment, the resilience of the labor market has been surprising, with the latest figures suggesting robust economic growth in Q4. Still, inflation has subsided, giving the monetary policy committee room to lower interest rates.

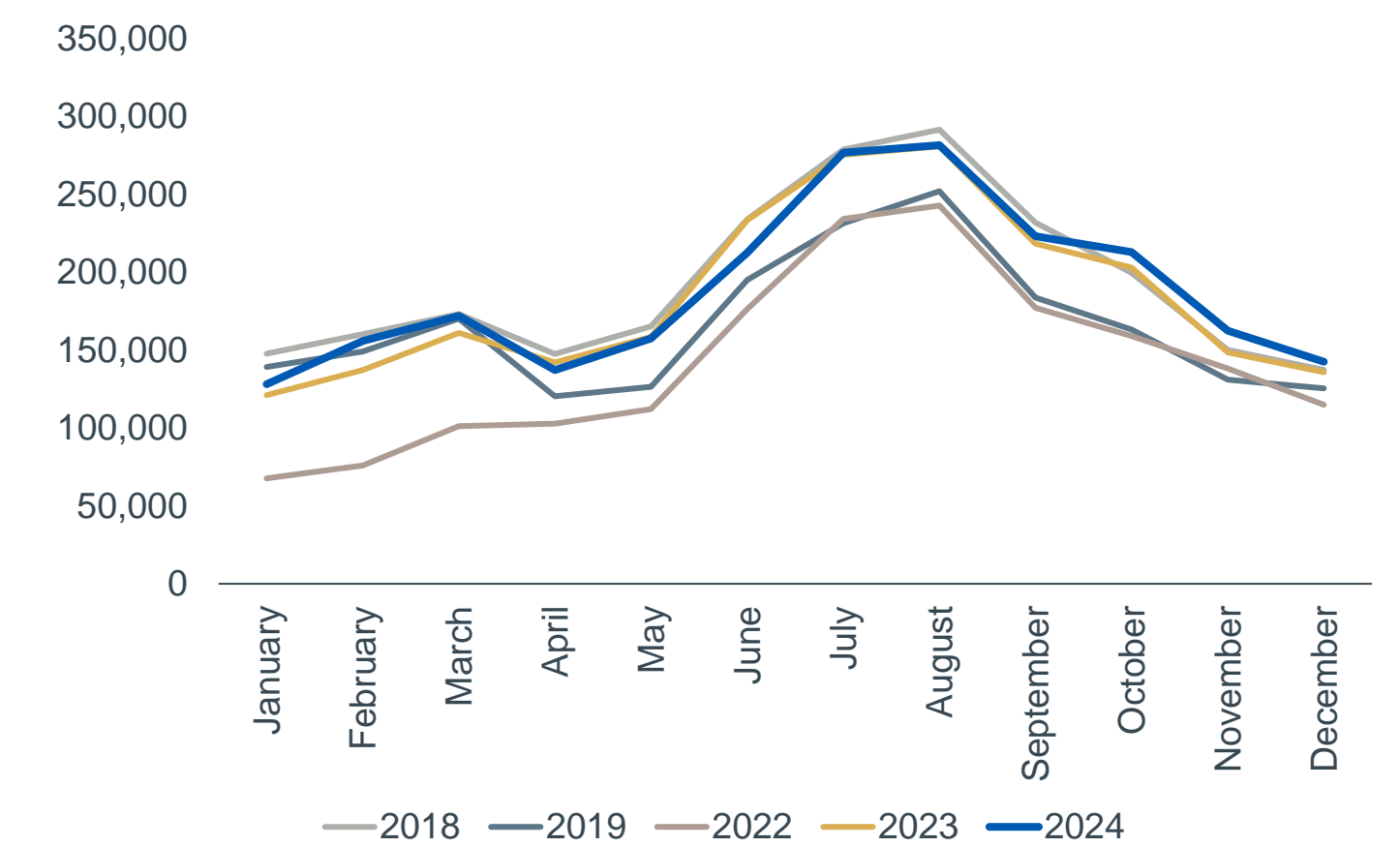
## Contributions of GDP components



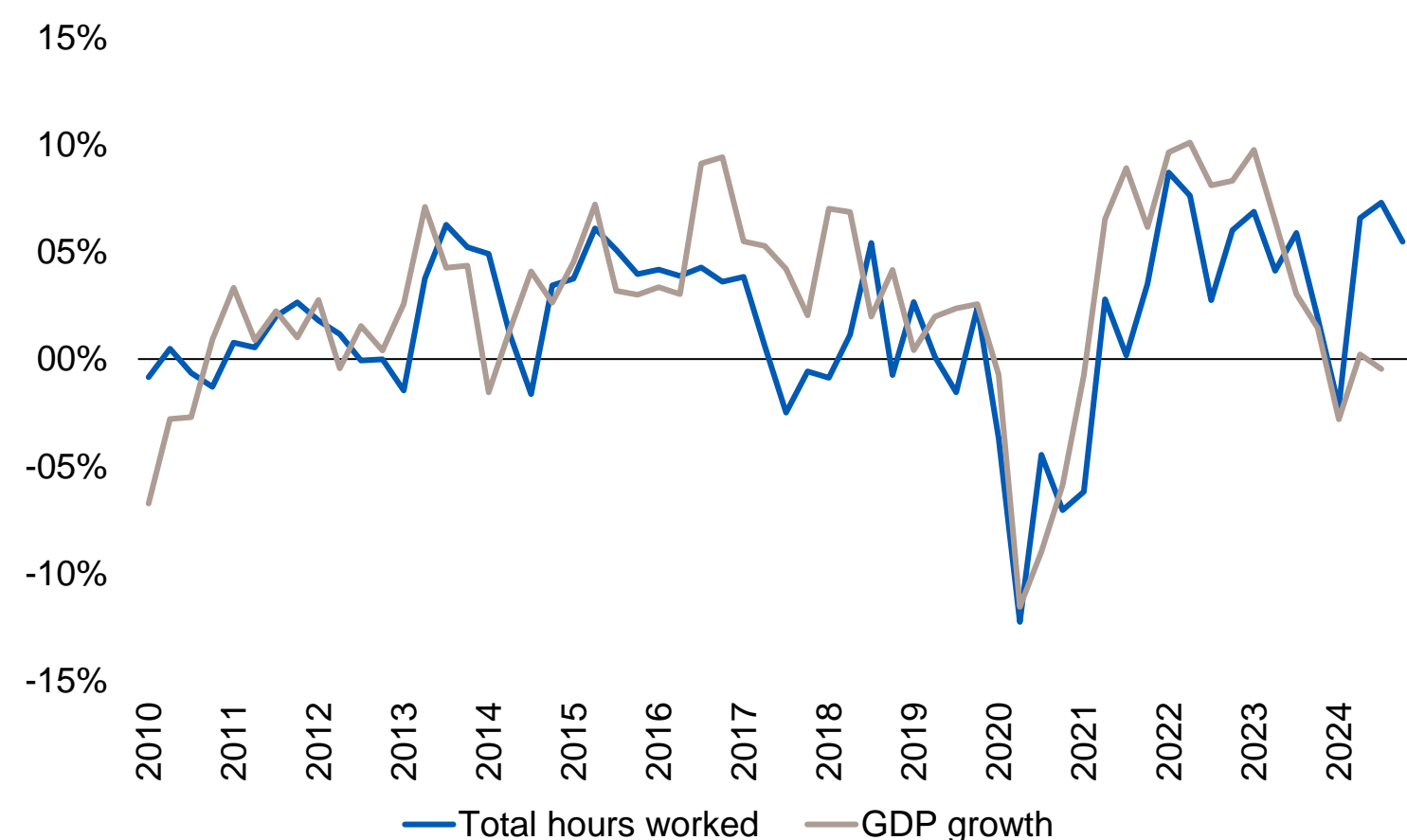
## Payment card turnover (YoY growth, growth contributions of underlying components)



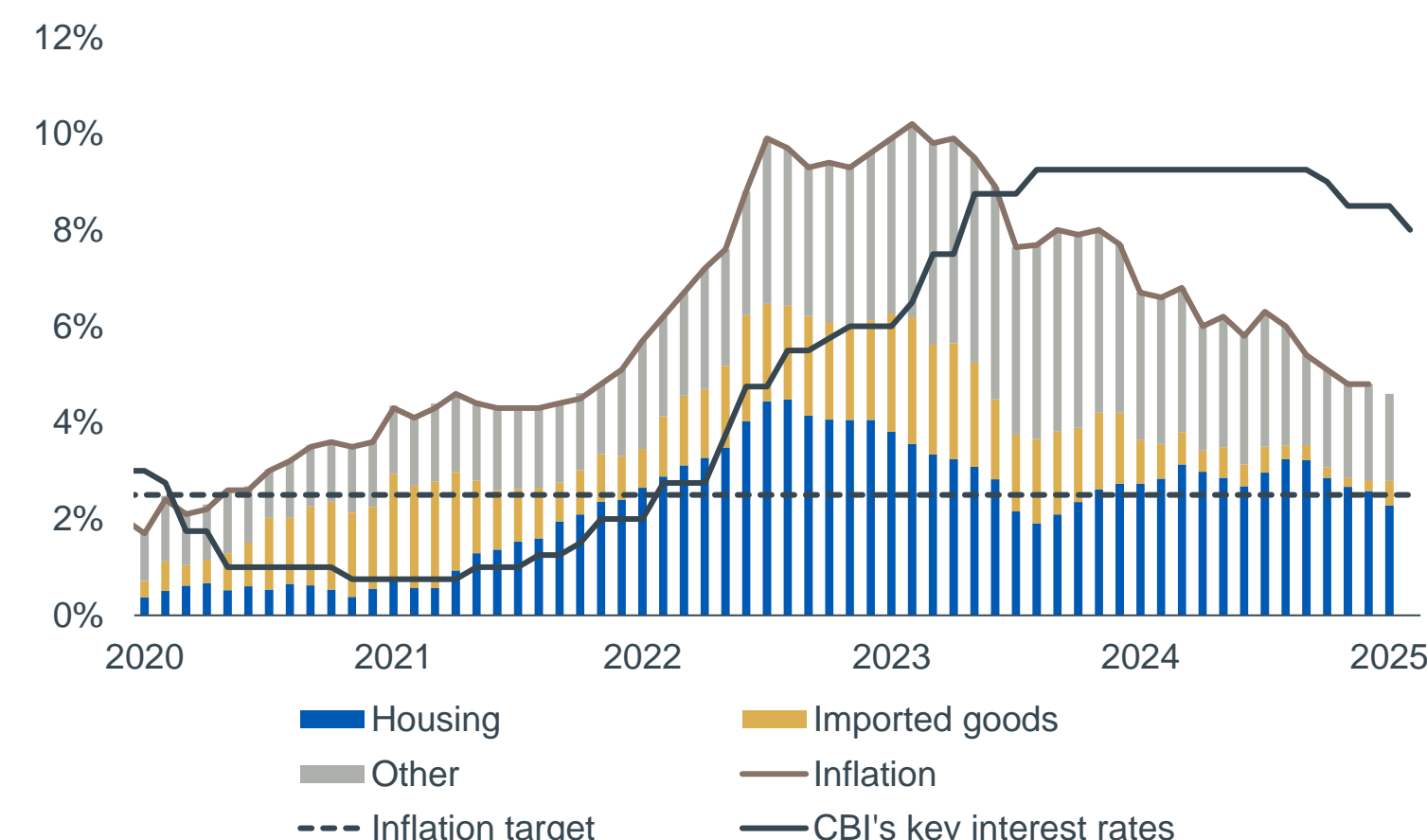
## Tourist arrivals via Keflavík International Airport



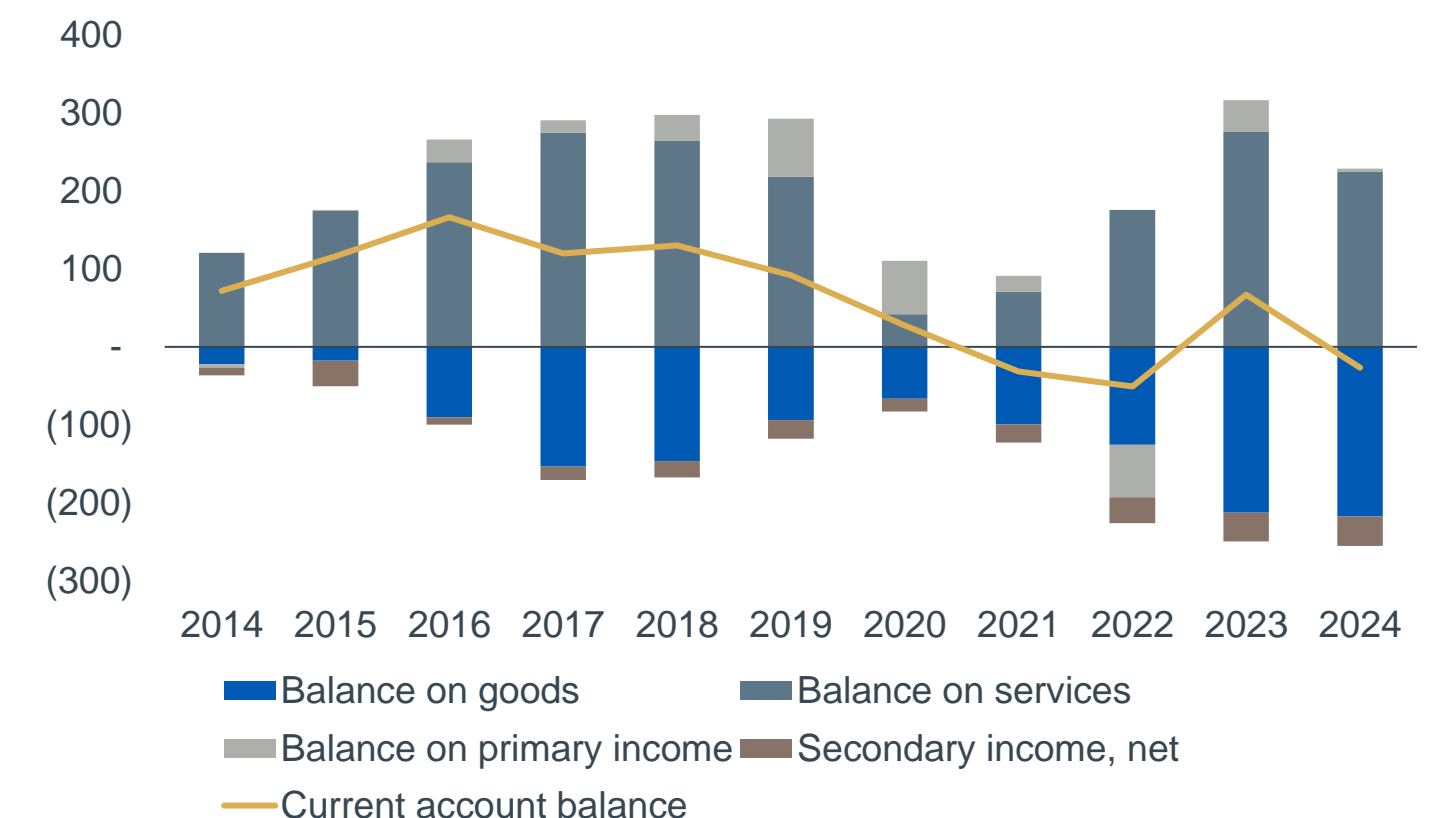
## GDP growth and total hours worked (YoY %-change)



## CPI expenditure groups



## Current account balance in the first 9 months of the year (ISK bn at constant exchange rate, adjusted)

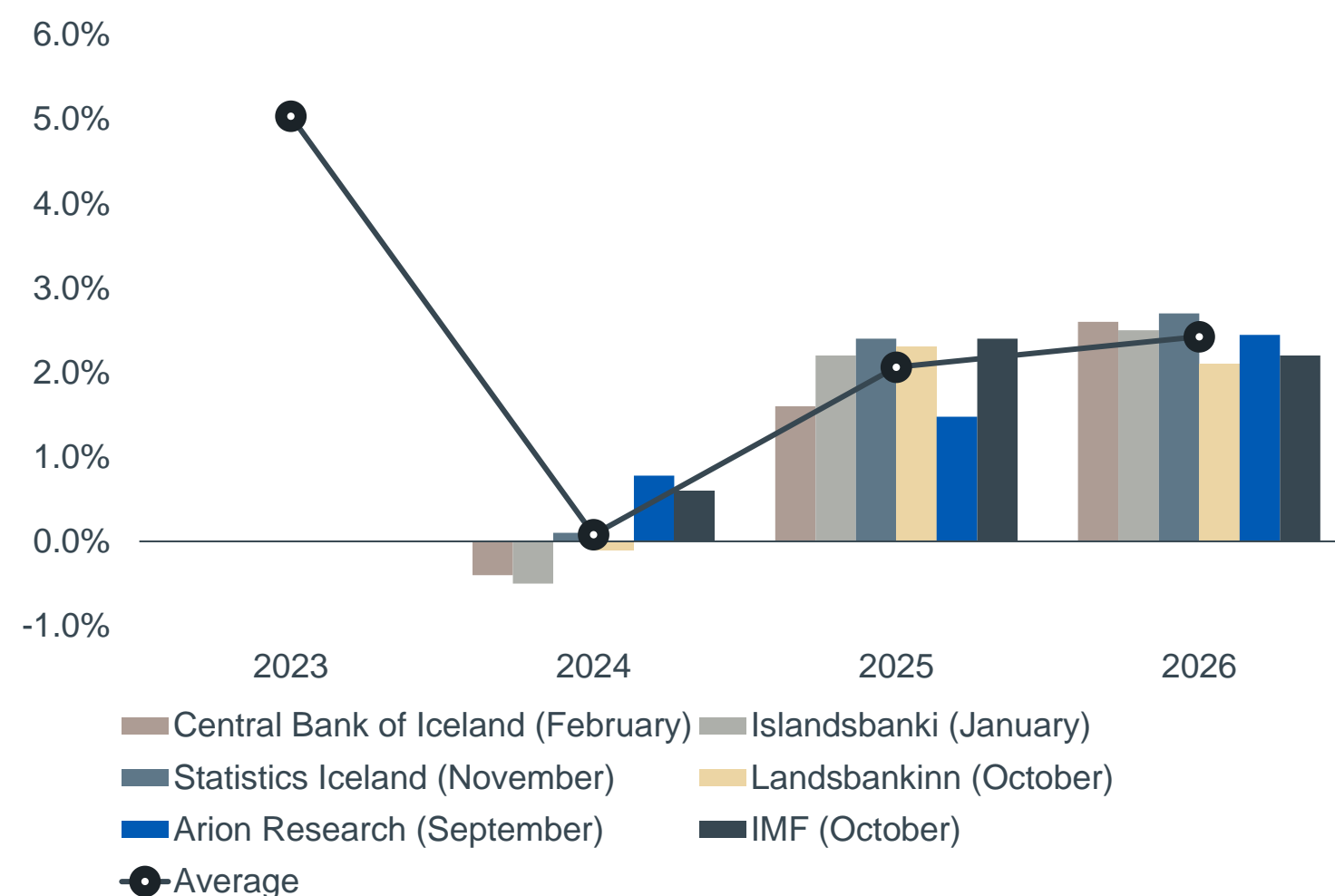


# The Economic Outlook: Bouncing Back?

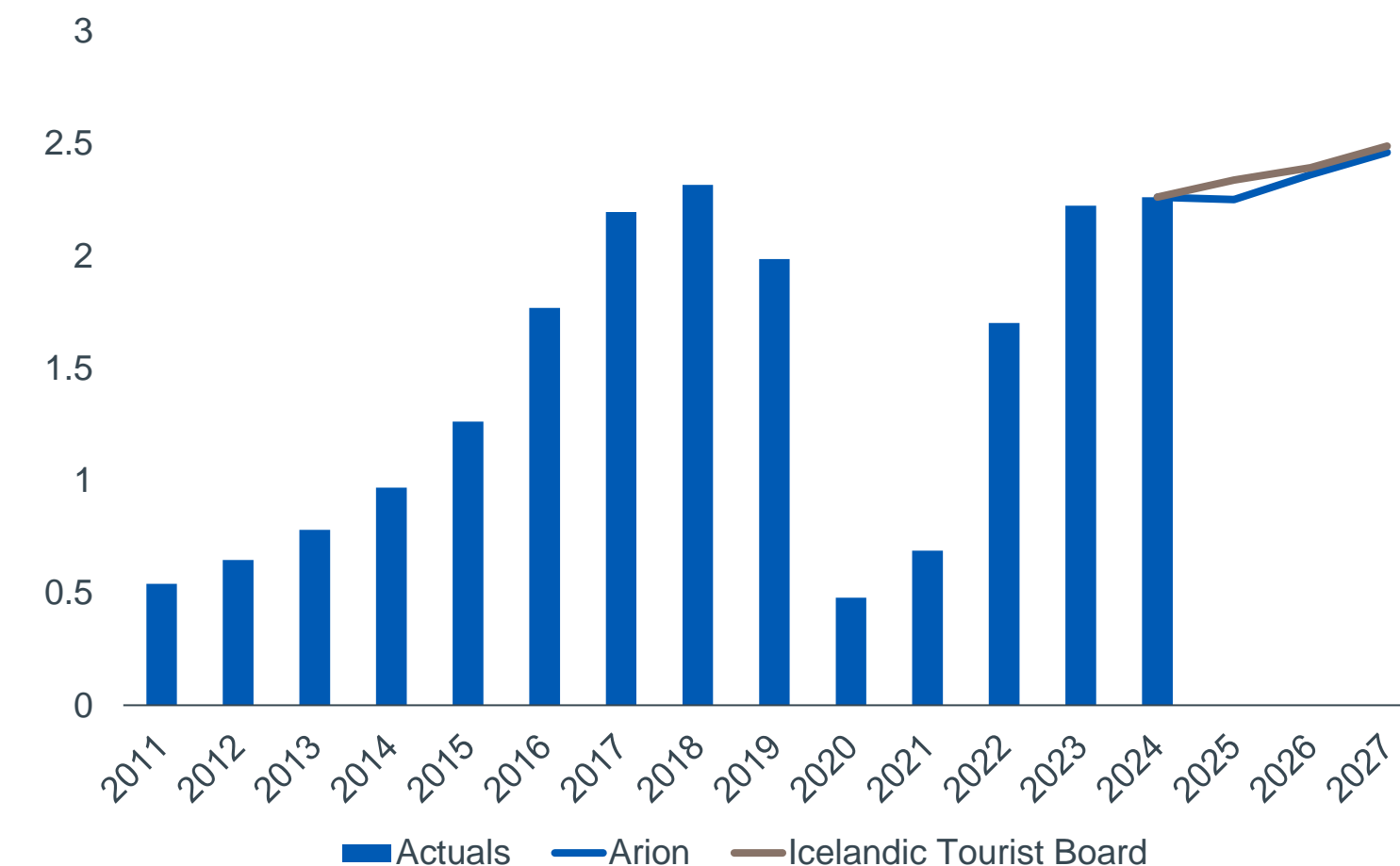
- Over the last few months analysts have revised downwards their economic forecasts for 2024, with the latest forecast assuming contraction in 2024, followed by 2.1% growth in 2025. This change is primarily due to slower exports growth than previously anticipated, with tourism at the forefront
- Just under 2.3 million tourists visited the country last year, with the fourth quarter slightly exceeding expectations. The forecast for this year has deteriorated, primarily due to challenging operating conditions for the Icelandic airlines, and a decline in the competitiveness of the national economy. Besides the challenges faced by the tourism industry this year, a capelin shortage is impacting the fisheries sector, and heavy industry struggles with electricity shortages
- Growing trade protectionism, especially in the US, could dampen global economic activity, which in turn would affect Iceland. It is still unclear whether Iceland will be directly affected by tariffs, and to what extent as most of the country's exports to the US are in the form of services, mainly tourism

Sources: Central Bank of Iceland, Statistics Iceland, Icelandic Tourist Board, ISAVIA, IMF, Landsbanki, Islandsbanki, Arion Research.  
 \*Number of overnight stays booked through online travel agents according to data administered by Godo. Paired comparison for January - March 2025, according to the booking status as of 31 January 2025. Three-month moving average.

### Economic growth forecasts for 2024-2026

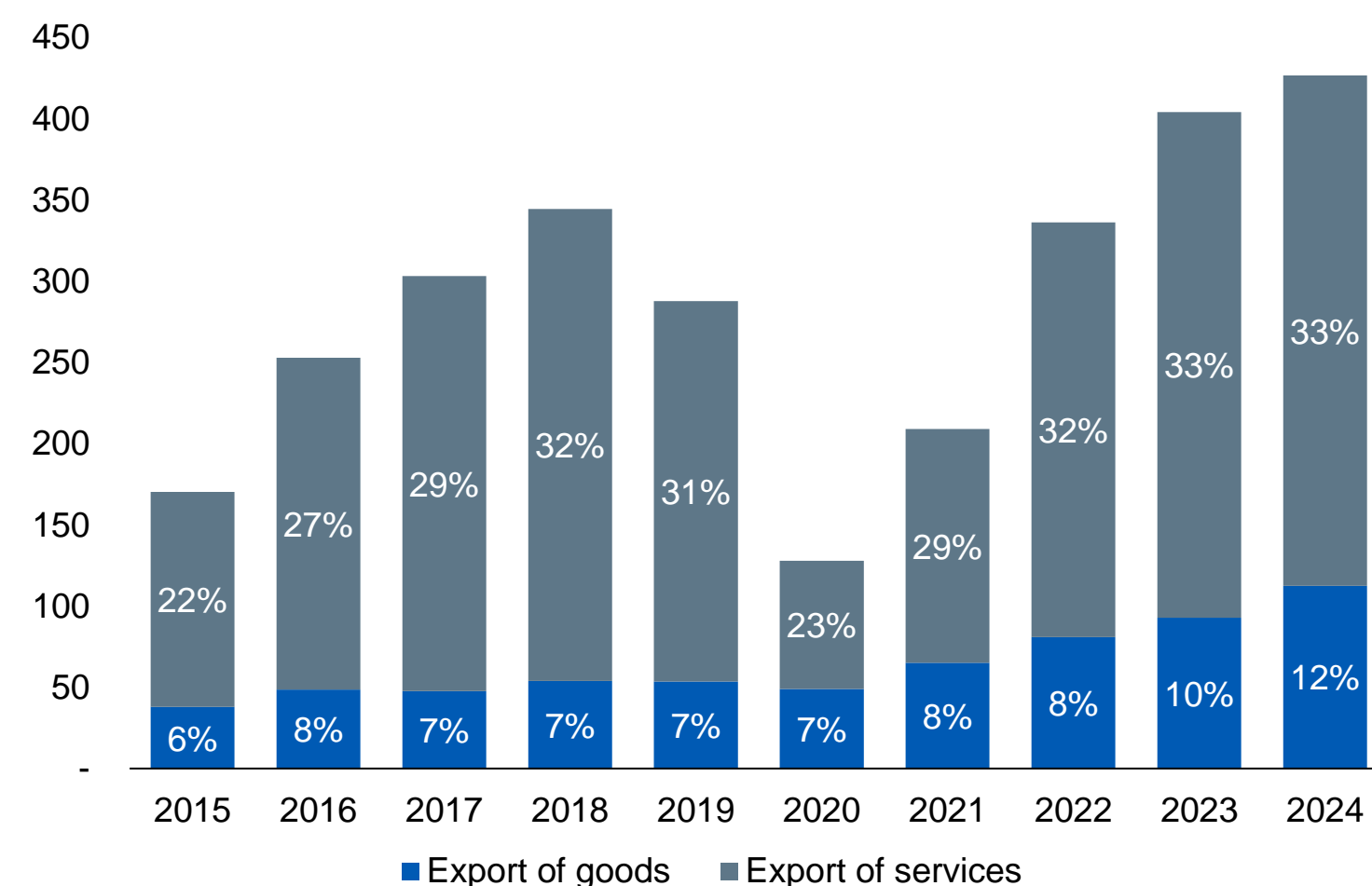


### Tourist arrivals via Keflavik International Airport (millions annually)

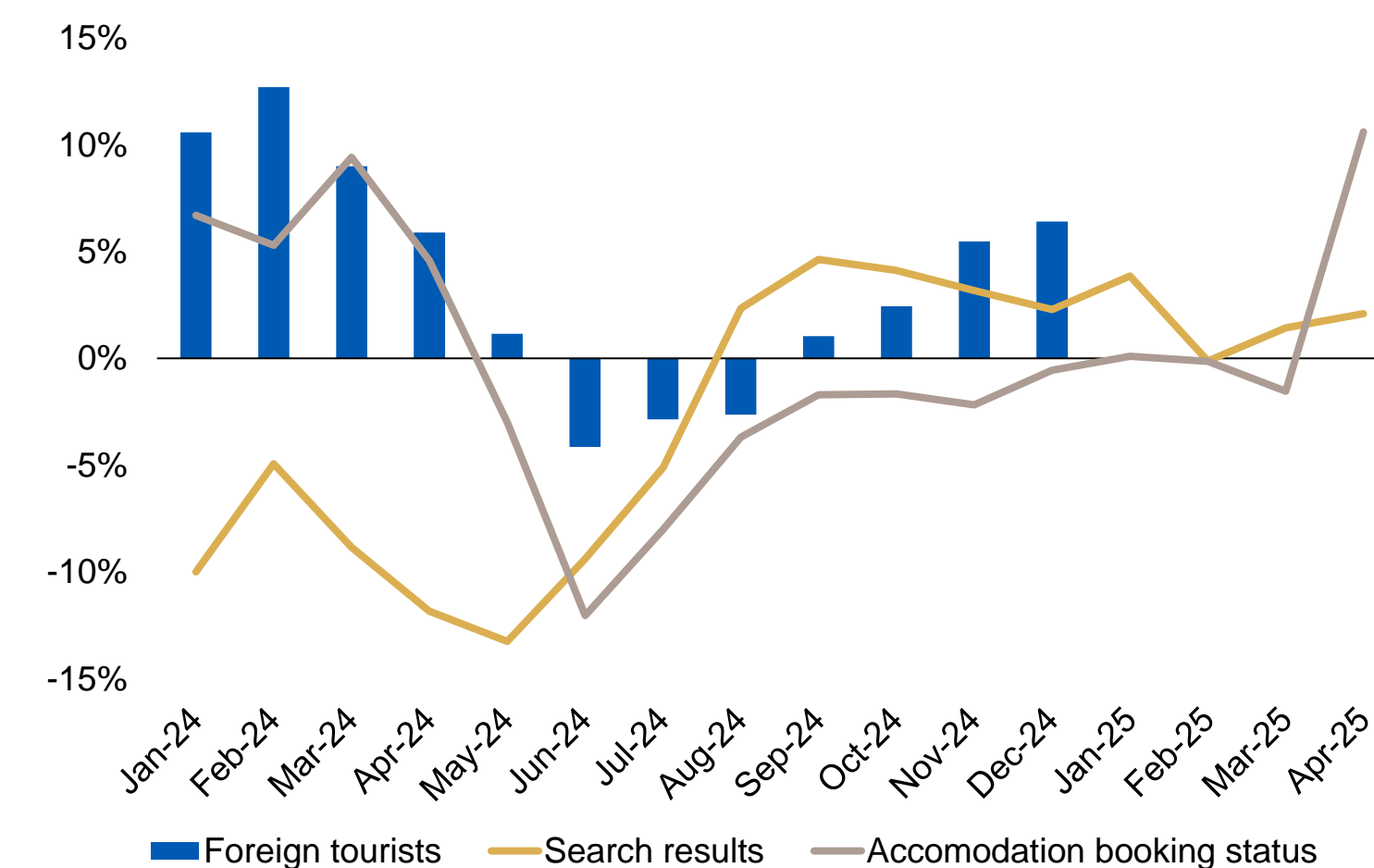


### Exports to the US (ISK bn)

% of total exports of goods and total exports of services



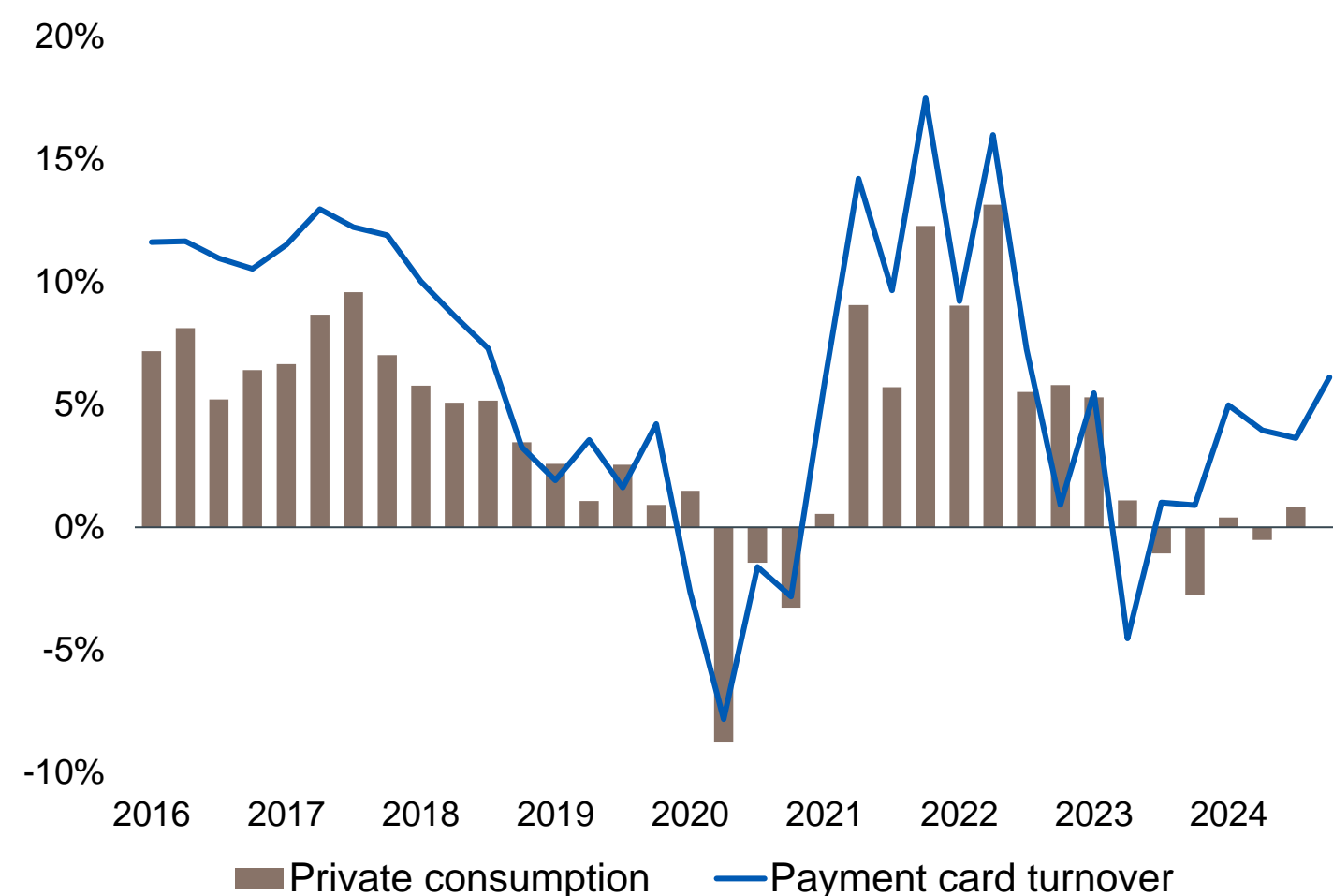
### Travel to Iceland\* (YoY %change)



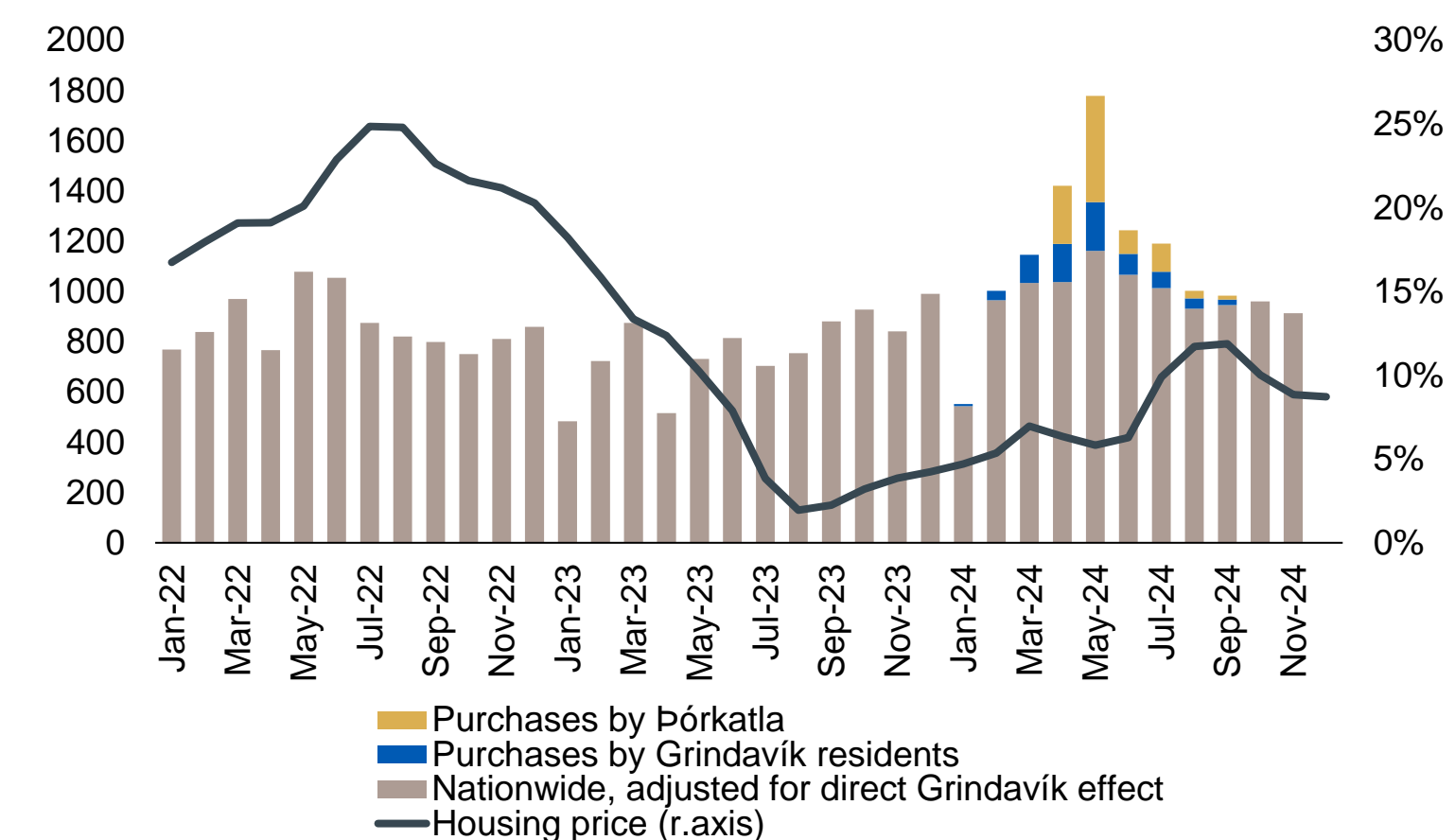
# Households' financial position could fuel consumption

- Although private consumption has remained soft, payment card turnover has remained robust, reaching 6.3% year-over-year growth in Q4 in real terms, suggesting that demand has picked up. In this context it is worth noting that analysts, including the Central Bank of Iceland, have called the National Accounts figures into question, partly due to the disconnect between economic growth and the increase in labor input
- Revised figures from Statistics Iceland indicate that real disposable income grew significantly more than was previously estimated. Because of this, the Central Bank has revised its private consumption forecast upwards, from 1.8% growth to 2.5% growth in 2025
- While net wealth of households has continued to grow, and households' overall financial position is good, the enhanced transmission of monetary policy could have notable impact in coming months, as access to indexed mortgages has been significantly restricted. The effects on the housing market remain to be seen, as volcanic eruptions and increasing population have driven up demand, while supply has failed to keep pace

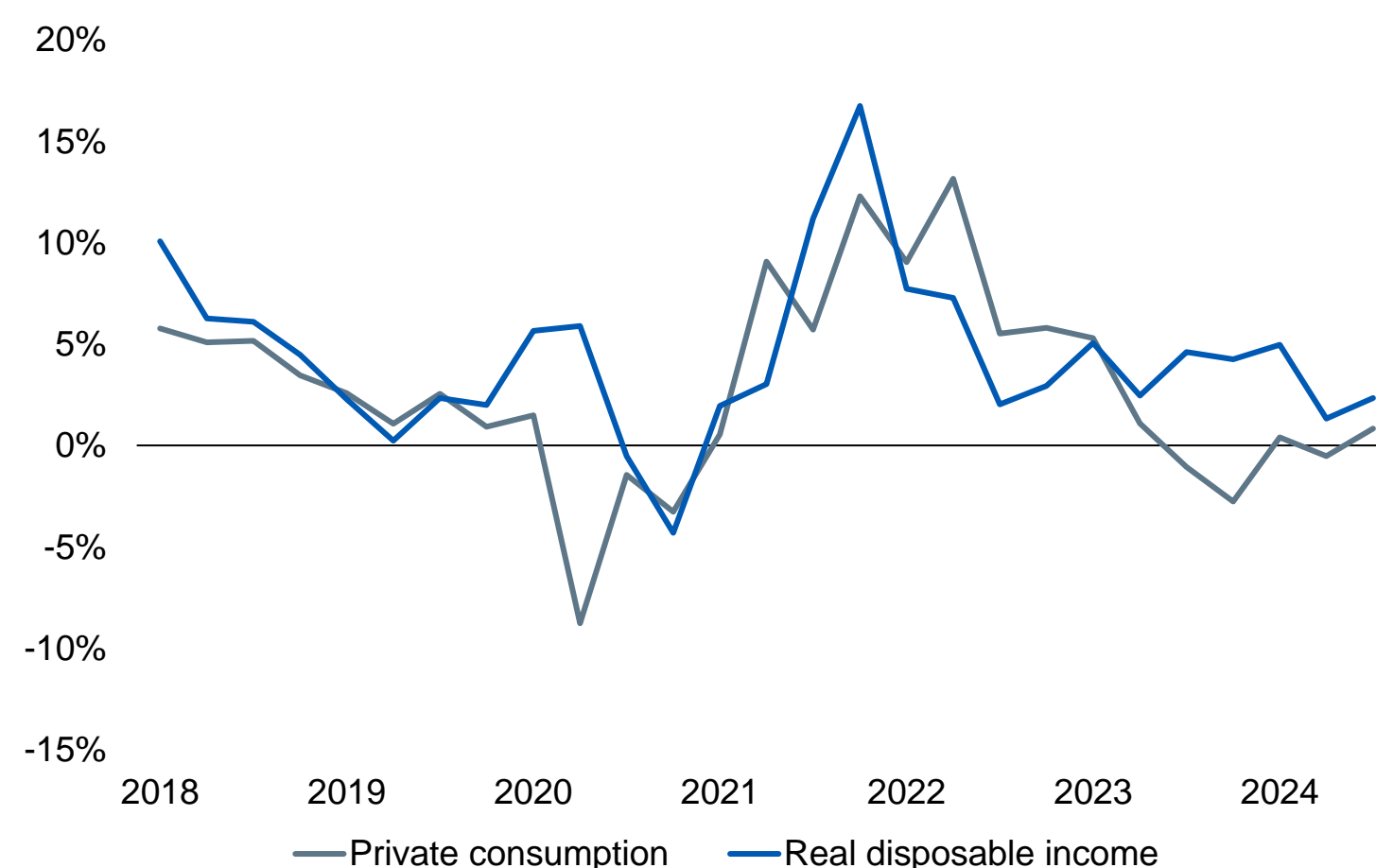
**Payment card turnover and private consumption** (Quarterly data, YoY-% growth, constant prices/exchange rate)



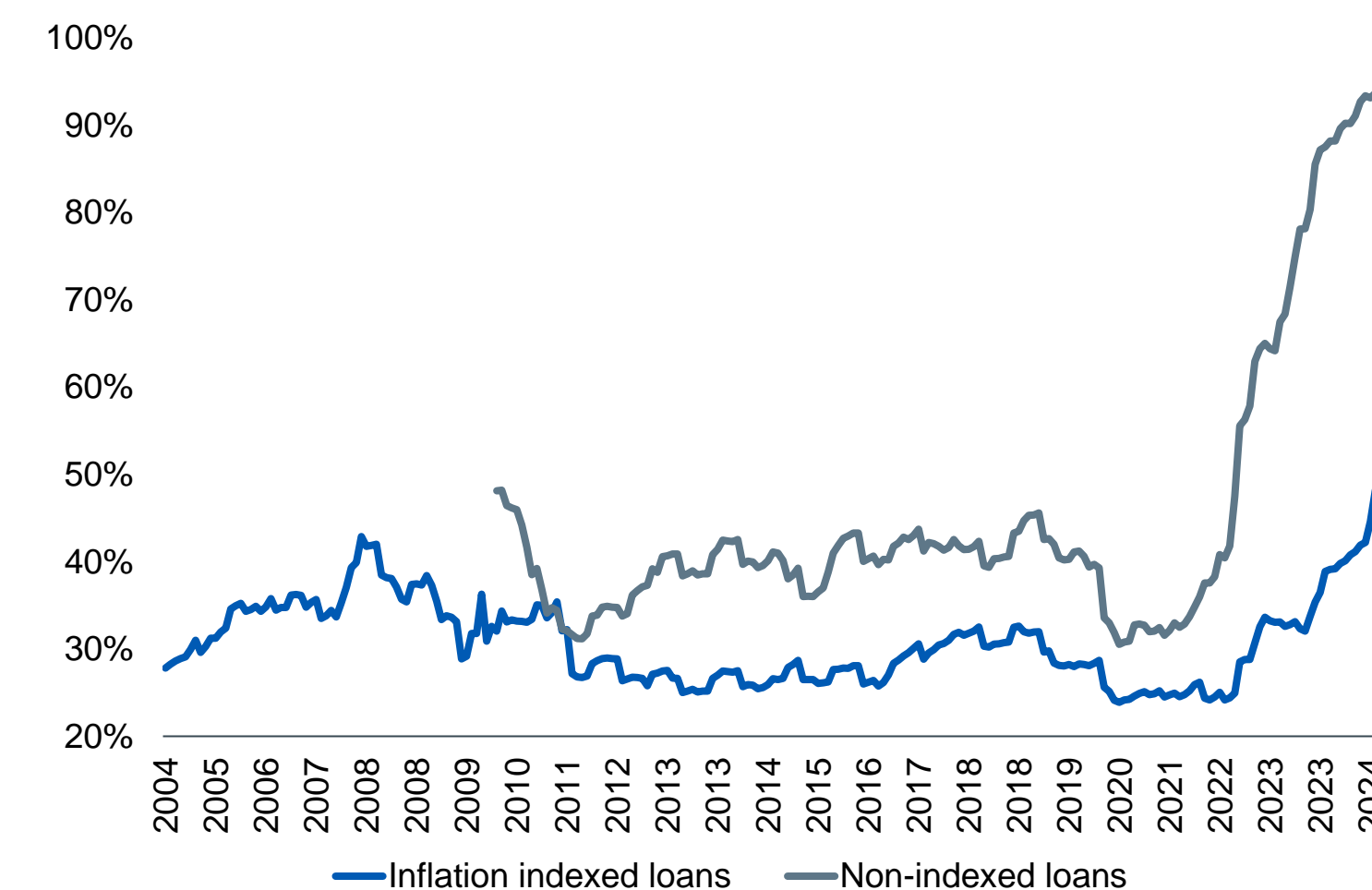
**Number of home purchase agreements and housing price nationwide**



**Private consumption and real disposable income** (YoY %-change)



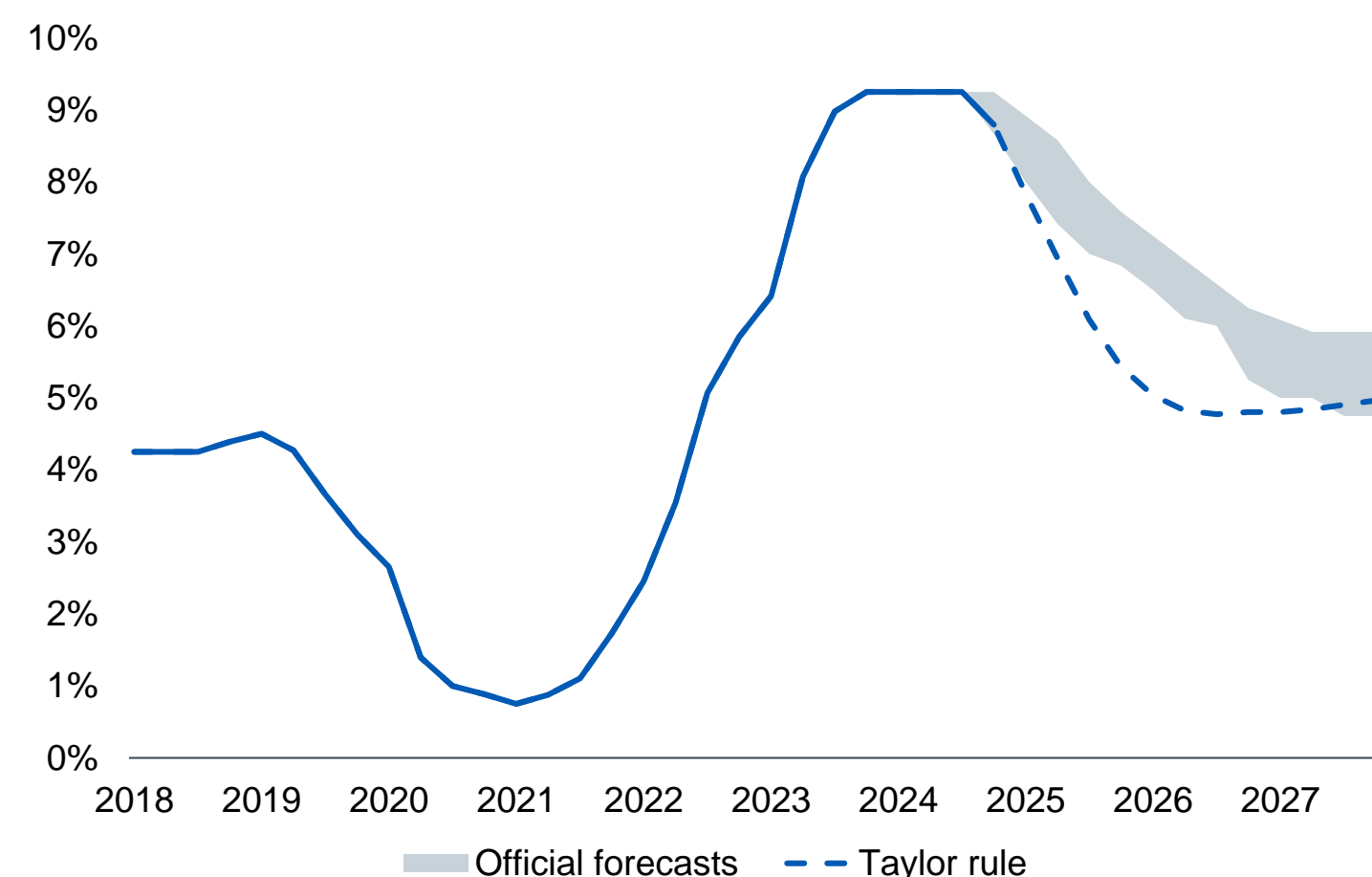
**Debt service relative to disposable income** (variable rates, 40 year mortgage, housing in the Capital Region)



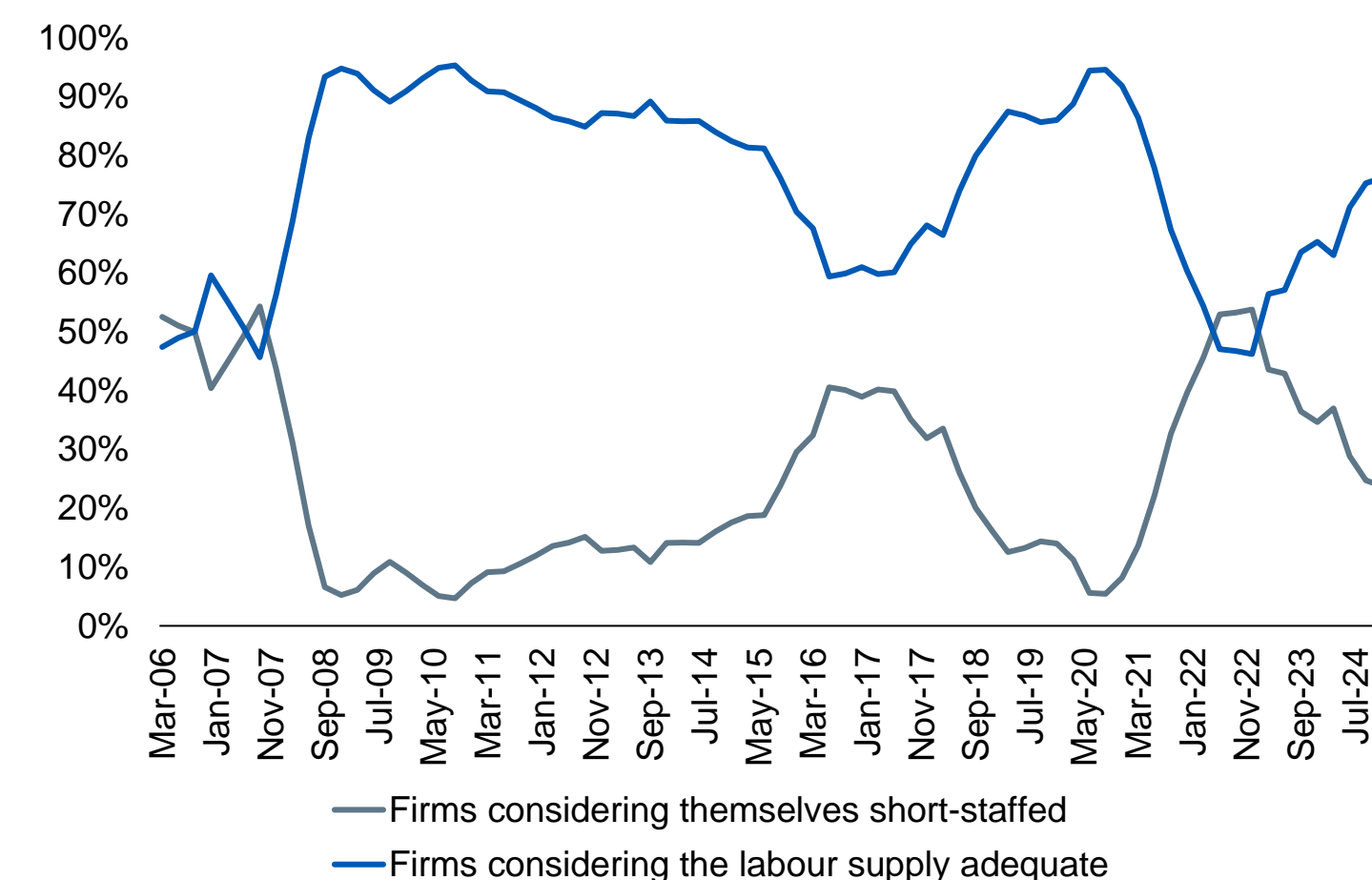
# The rate-cutting cycle gains momentum

- Despite some easing, inflation has proven to be resistant, measuring 4.6% in January. Headline inflation, however, does not fully reflect underlying inflationary pressures, as one-off items stemming from government measures have had a significant impact on inflation. As a result, underlying inflation has not tapered off as quickly as headline inflation
- Still, with inflation subsiding, a slowdown in the labor market and some inflation expectations moving in a favorable direction, the MPC decided to cut rates by 50 basis points in February, taking key interest rates down to 8%. According to the Taylor rule, interest rates could continue to fall quickly in the first half of 2025
- Further rate cuts are expected, despite increased geopolitical uncertainty. However, with underlying demand pressures remaining quite strong and inflation expectations above the inflation target, analysts anticipate cautious steps and a tight monetary stance going forward, with real interest rates around 4%

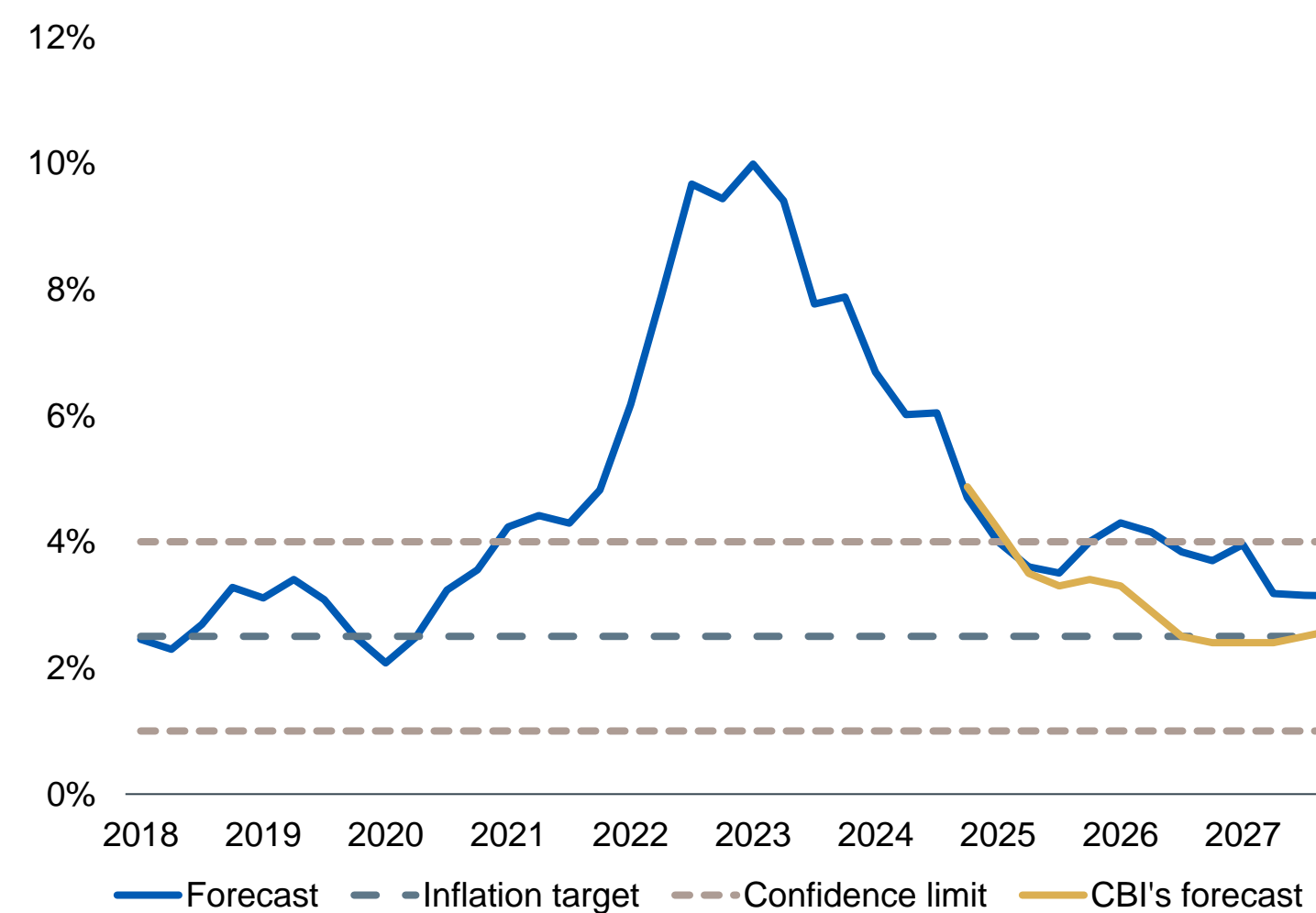
### Taylor rule and interest rate forecasts



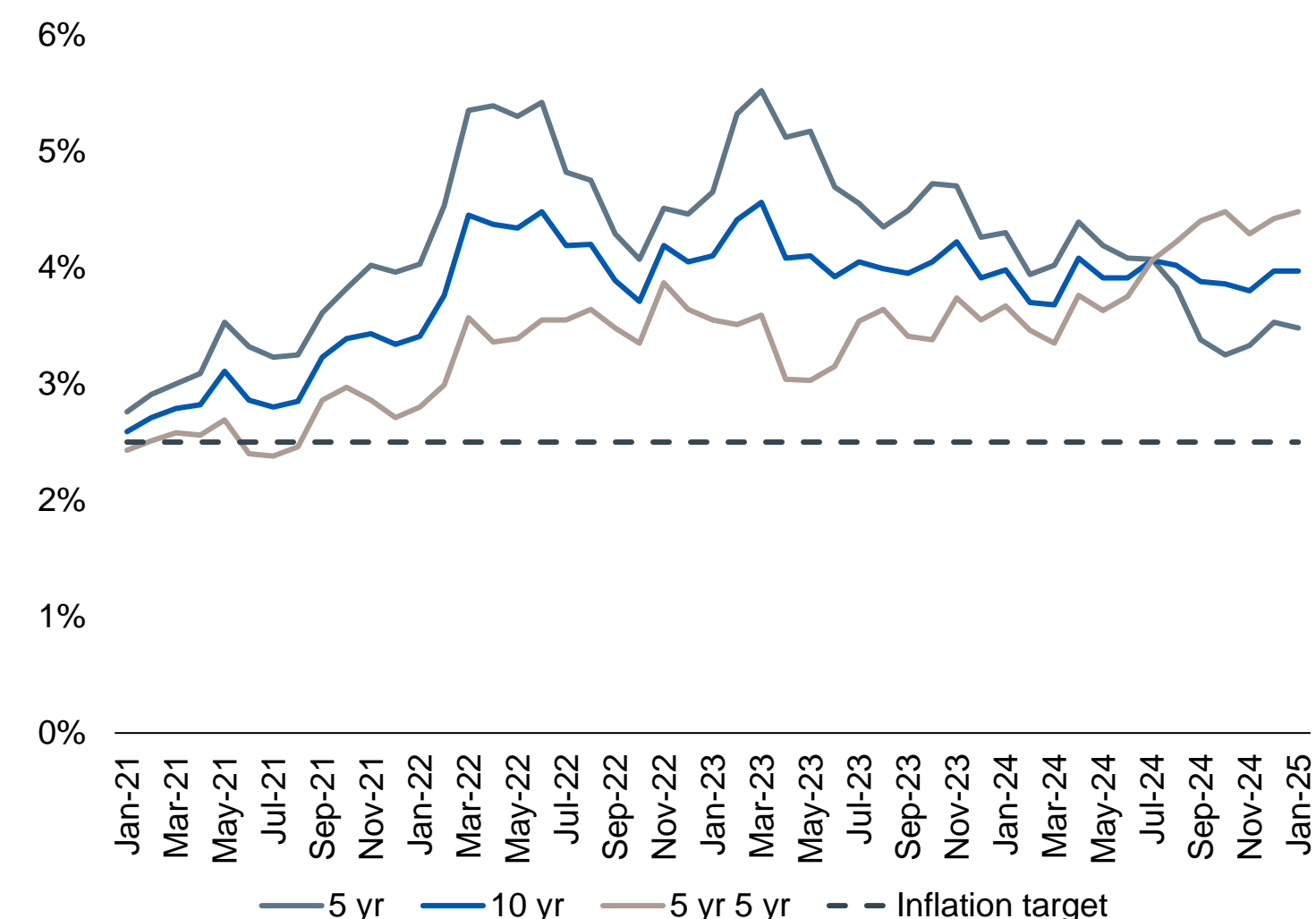
### Labour supply



### Inflation

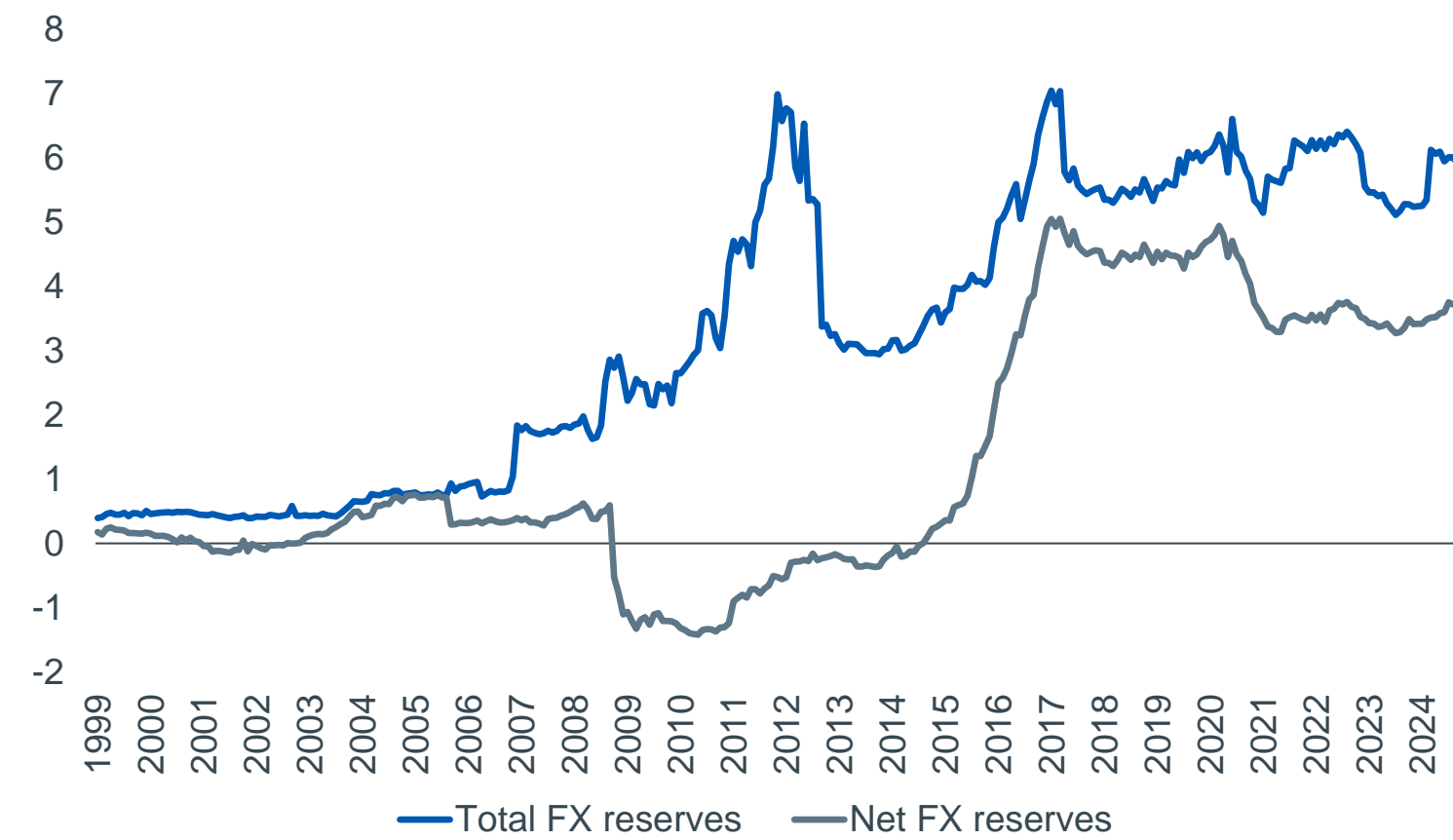


### Breakeven inflation rate in the bond market (Monthly averages)

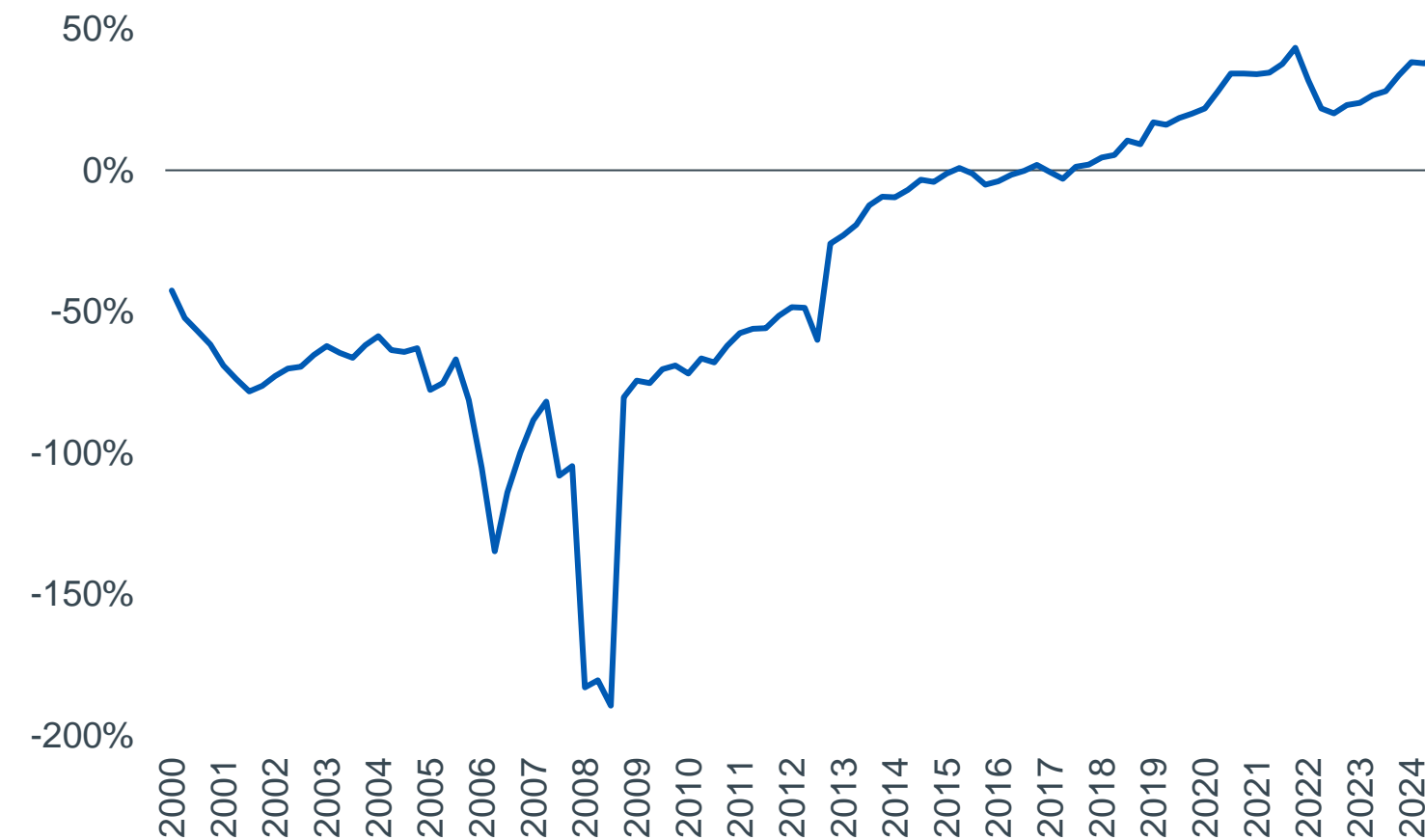


# Small economy, strong foundations

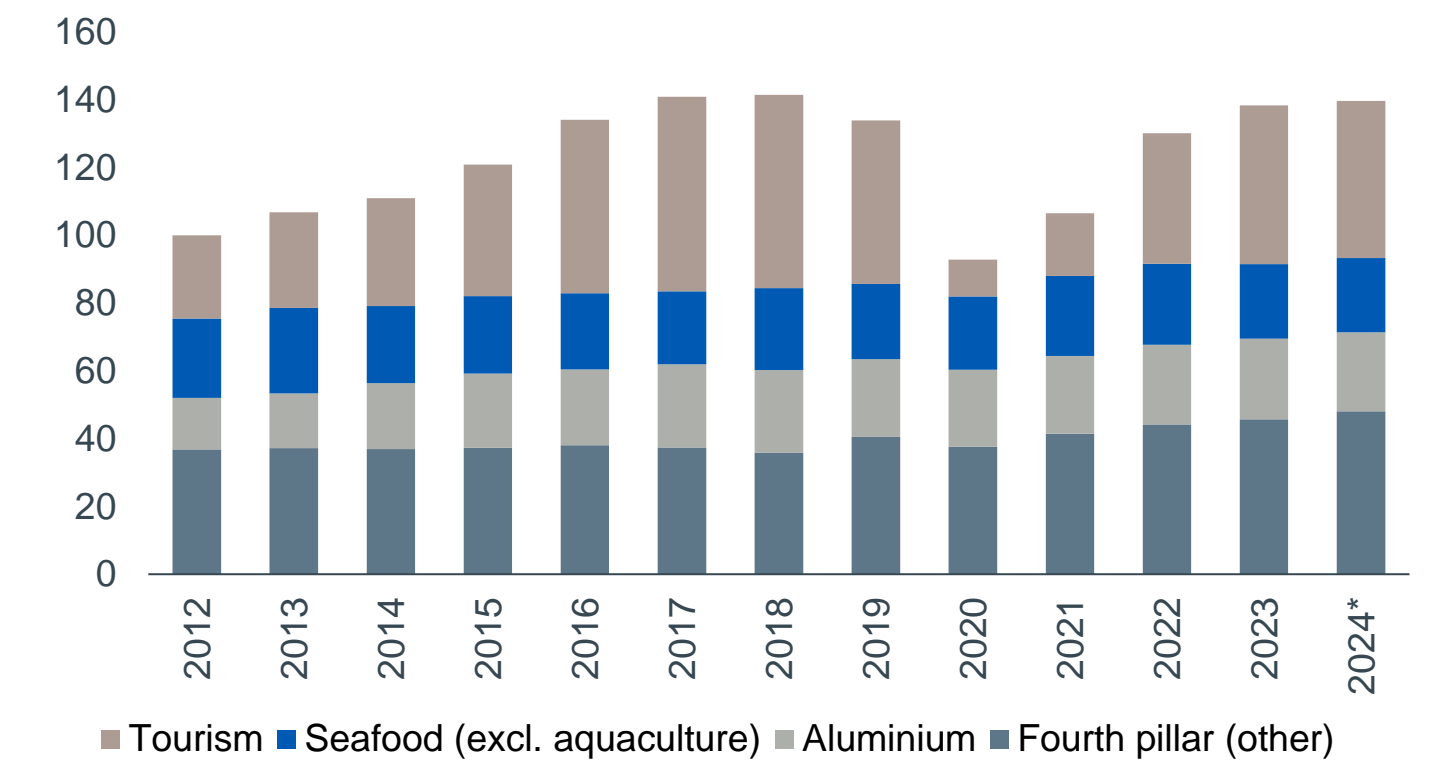
**CBI's FX reserves** (EUR bn)



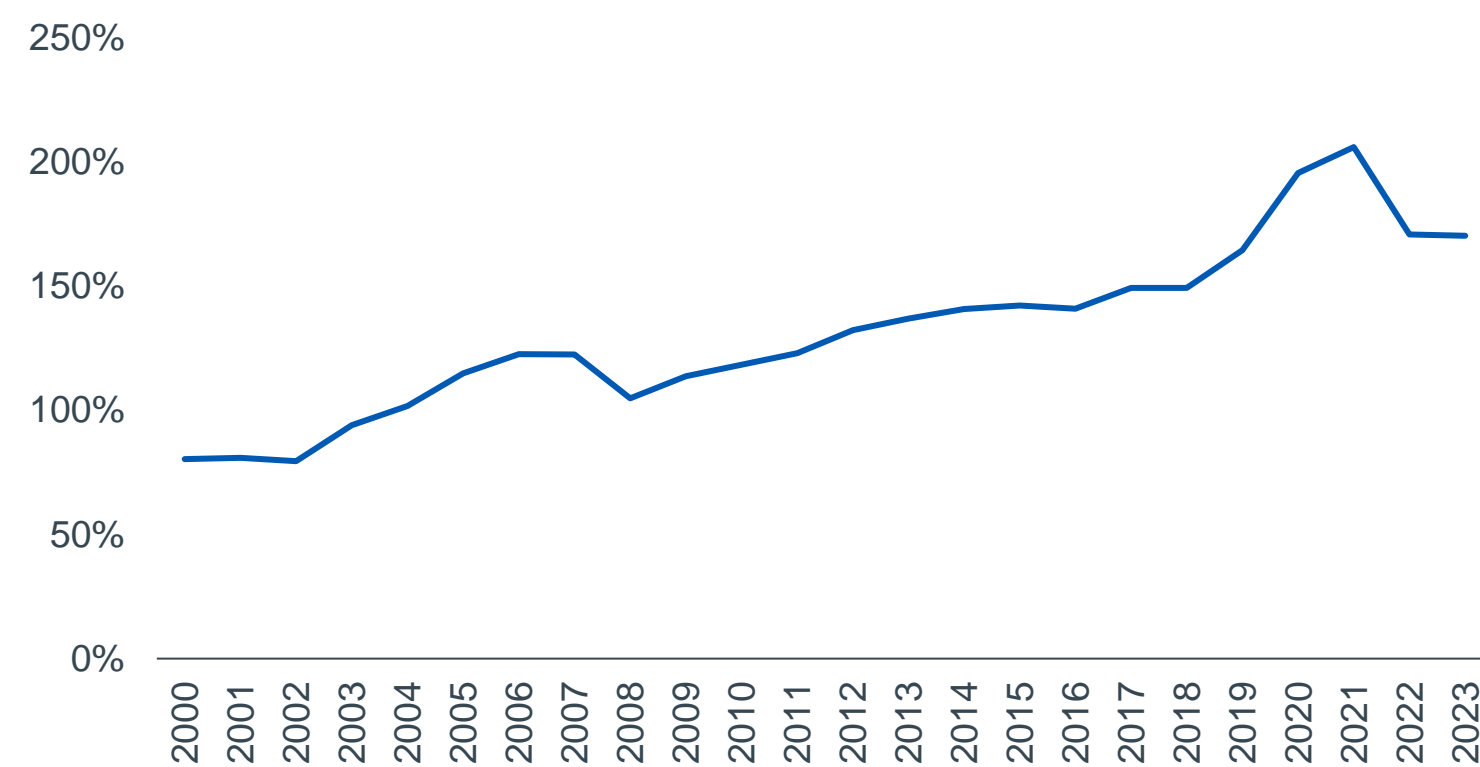
**Net international investment position** (% of GDP)



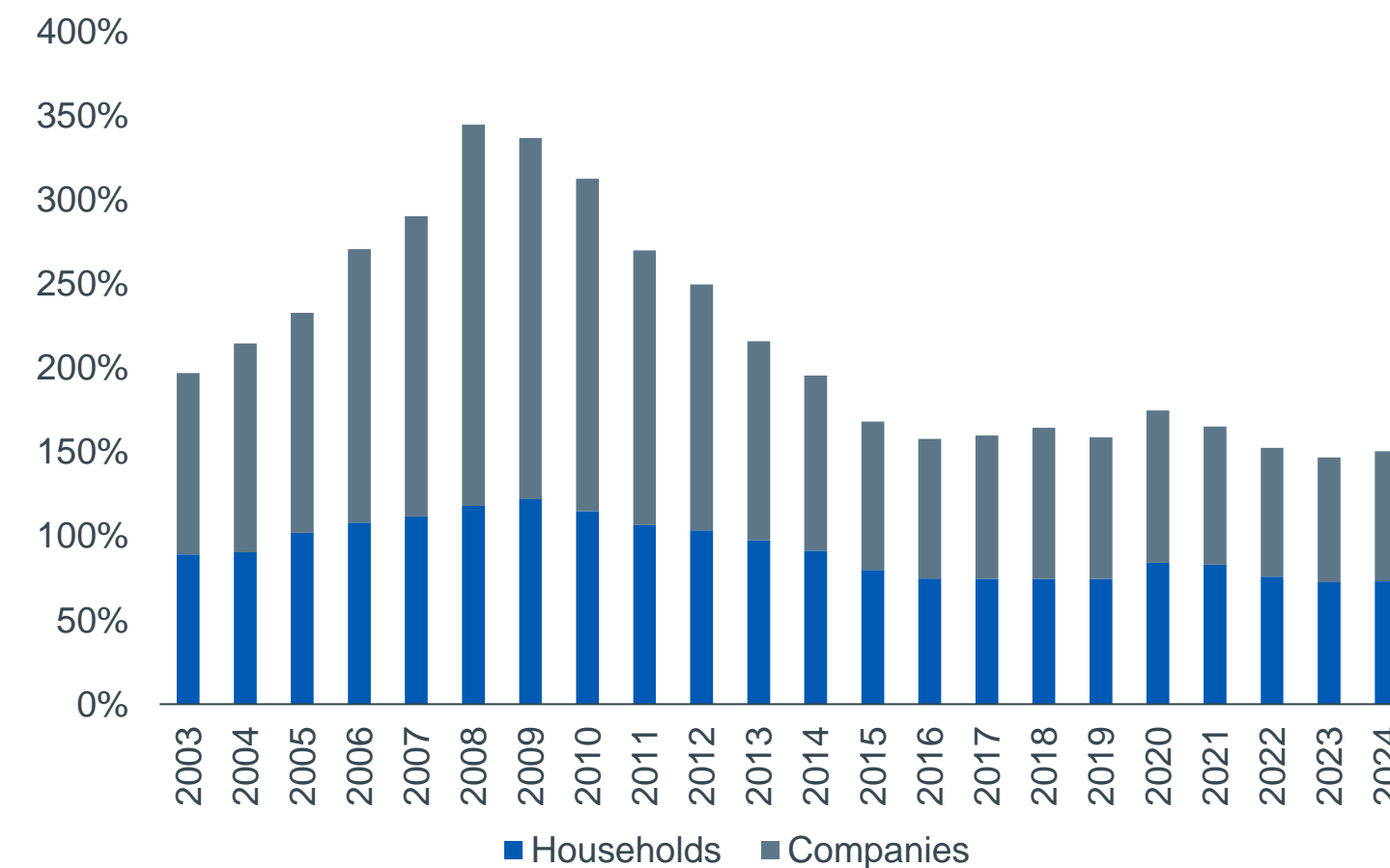
**Total exports composition** (index, total in 2012=100)



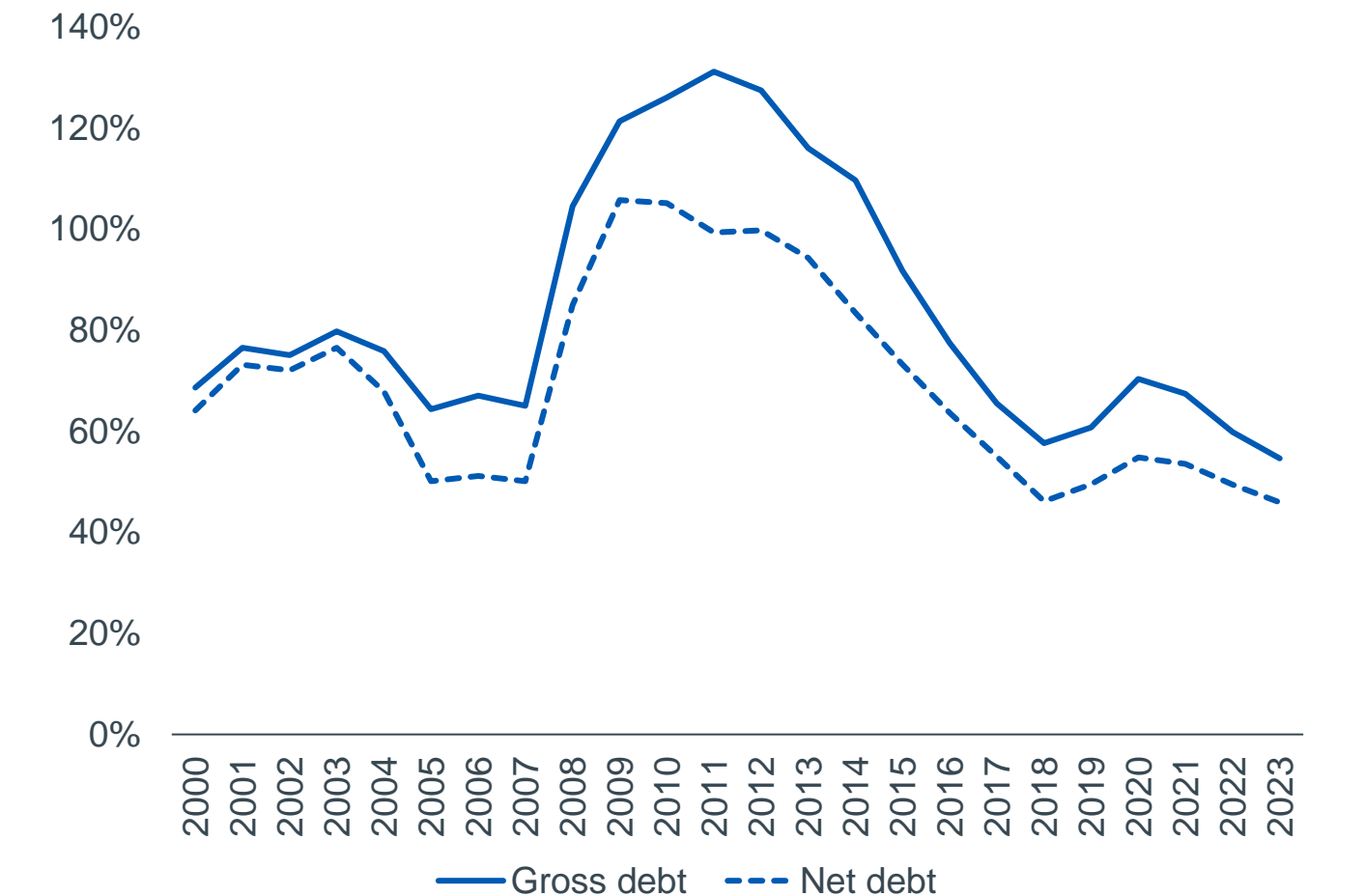
**Pension funds assets** (% of GDP)



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



**Debt of central government** (% of GDP)



# Key takeaways from Q4 2024 and full-year 2024

## Operational performance

- ▶ ROE of 16.3% in the quarter which results in 13.2% for the year
- ▶ Diversified pillars of the Group continue to support earnings momentum through the cycle

## Vördur insurance

- ▶ Solid fourth quarter which concludes the strongest year for the business with net results for 2024 of ISK 3.7bn
- ▶ Very positive traction in terms of new business and bancassurance effort

## Net interest margin

- ▶ Solid net interest margin of 2.9% amid a challenging external rate environment
- ▶ As previously guided for, the near-term rate and inflation environment can increase fluctuations in the margin, while the medium-term outlook remains stable with an anticipated margin of around 3%

## Capital, funding and liquidity

- ▶ Capital position strong with a CET1 ratio of 18.2% or 293bps above regulatory minimum
- ▶ Includes a deduction of ISK 19bn related to dividend proposal and ongoing share buy-back program
- ▶ Liquidity position very strong, stable deposits continue to grow and wholesale funding profile balanced



# Income statement

## Q4 2024

- Net profit of ISK 8.3bn resulting in ROE of 16.3%
- Core income\* increase by 5.8% YoY
- Net interest income decreases by 0.8% YoY, mainly due to lower inflation
- Solid fee income in the quarter, highest in over a year
- Strong performance in insurance operation, with steady growth in insurance revenue and lower claim rate
- Financial income improvement between years as equity and bond markets were generally more supportive
- Operating expenses increase, largely due to cost of variable incentive scheme of ISK 1.8bn in the quarter compared with ISK 1.4bn last year
- Impairments positive in the quarter due to periodic revision of previous provisions and discounts on single-name loans and loan portfolios
- Effective tax rate of 14.7% due to favorable combination of income

	Q4 2024	Q4 2023	Diff	Q3 2024	Diff
Net interest income	11,246	11,347	(1%)	11,863	(5%)
Net fee and commission income	4,136	3,903	6%	3,880	7%
Insurance service results	327	(284)	-	1,532	(79%)
Net financial income	2,193	1,370	60%	524	319%
Other operating income	4	(24)	-	(313)	-
<b>Operating income</b>	<b>17,906</b>	<b>16,312</b>	<b>10%</b>	<b>17,486</b>	<b>2%</b>
Operating expenses	(8,601)	(7,830)	10%	(6,021)	43%
Bank levy	(488)	(422)	16%	(500)	(2%)
Net impairment	913	13	-	(954)	-
<b>Net earnings before taxes</b>	<b>9,730</b>	<b>8,073</b>	<b>21%</b>	<b>10,011</b>	<b>(3%)</b>
Income tax expense	(1,430)	(1,808)	21%	(2,114)	(32%)
<b>Net earnings from continuing operations</b>	<b>8,300</b>	<b>6,265</b>	<b>32%</b>	<b>7,897</b>	<b>5%</b>
Discontinued operations net of tax	(11)	(41)	(73%)	(6)	83%
<b>Net earnings</b>	<b>8,289</b>	<b>6,224</b>	<b>33%</b>	<b>7,891</b>	<b>5%</b>
Return on equity	16.3%	12.7%		16.1%	
Core income*	16,728	15,814	6%	18,016	(7%)
Net interest margin	2.9%	3.1%		3.1%	
Cost-to-core income ratio	57.5%	54.9%		37.5%	
Cost-to-income ratio	48.0%	48.0%		34.4%	

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



# Income statement 2024

- Net profit of ISK 26.1bn resulting in ROE of 13.2%
- Core income\* increase by 4.6% YoY
- Net interest income increases by 3.6% from prior year while fee income decreased, partly due to closure of Keflavik airport branch and reclassification of card insurance income during the year
- Insurance service results improve significantly between years, with insurance revenue increasing by 12.9% and decrease in claim rate
- Solid performance in net financial income driven by Vördur investment portfolio
- Other operating income is mainly due to valuation changes in investment properties
- Operating expense increased by 10% YoY, partly due to higher cost of variable incentive scheme compared with last year and ISK 585m fine following a settlement with the regulator in June. Inflation during the year was 4.8%
- Impairments are calculated at 9bps during the year
- Effective tax rate of 25.4%

	2024	2023	Diff
Net interest income	46,302	44,685	4%
Net fee and commission income	15,360	16,389	(6%)
Insurance service results	2,166	152	-
Net financial income	2,845	1,366	108%
Other operating income	(222)	1,589	-
<b>Operating income</b>	<b>66,451</b>	<b>64,180</b>	<b>4%</b>
Operating expenses	(28,328)	(25,701)	10%
Bank levy	(1,924)	(1,796)	7%
Net impairment	(1,131)	(1,348)	(16%)
<b>Net earnings before taxes</b>	<b>35,068</b>	<b>35,336</b>	<b>(1%)</b>
Income tax expense	(8,919)	(9,595)	(7%)
<b>Net earnings from continuing operations</b>	<b>26,149</b>	<b>25,741</b>	<b>2%</b>
Discontinued operations net of tax	(37)	(4)	-
<b>Net earnings</b>	<b>26,112</b>	<b>25,737</b>	<b>1%</b>
Return on equity	13.2%	13.6%	
Core income*	67,219	64,270	5%
Net interest margin	3.1%	3.1%	
Cost-to-core income ratio	47.2%	44.7%	
Cost-to-income ratio	42.6%	40.0%	



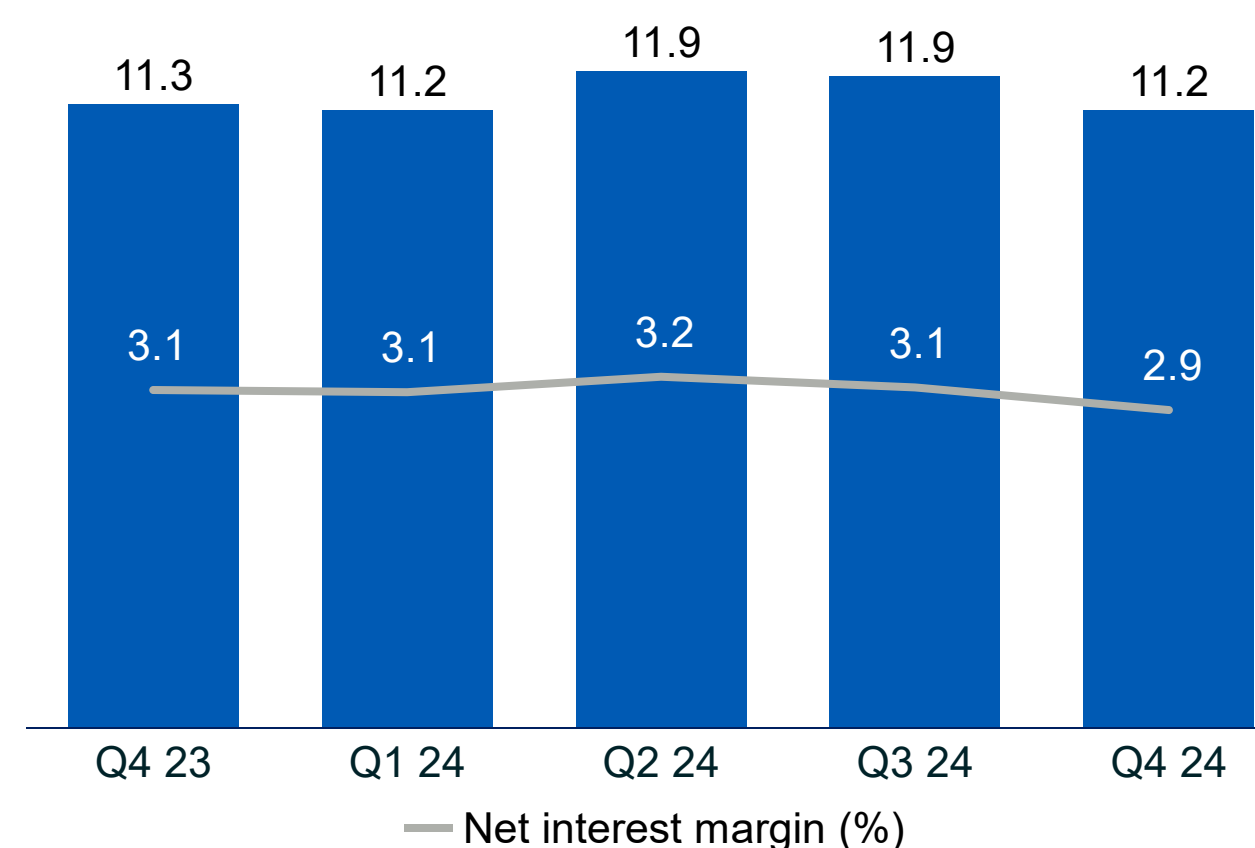


# Net interest income

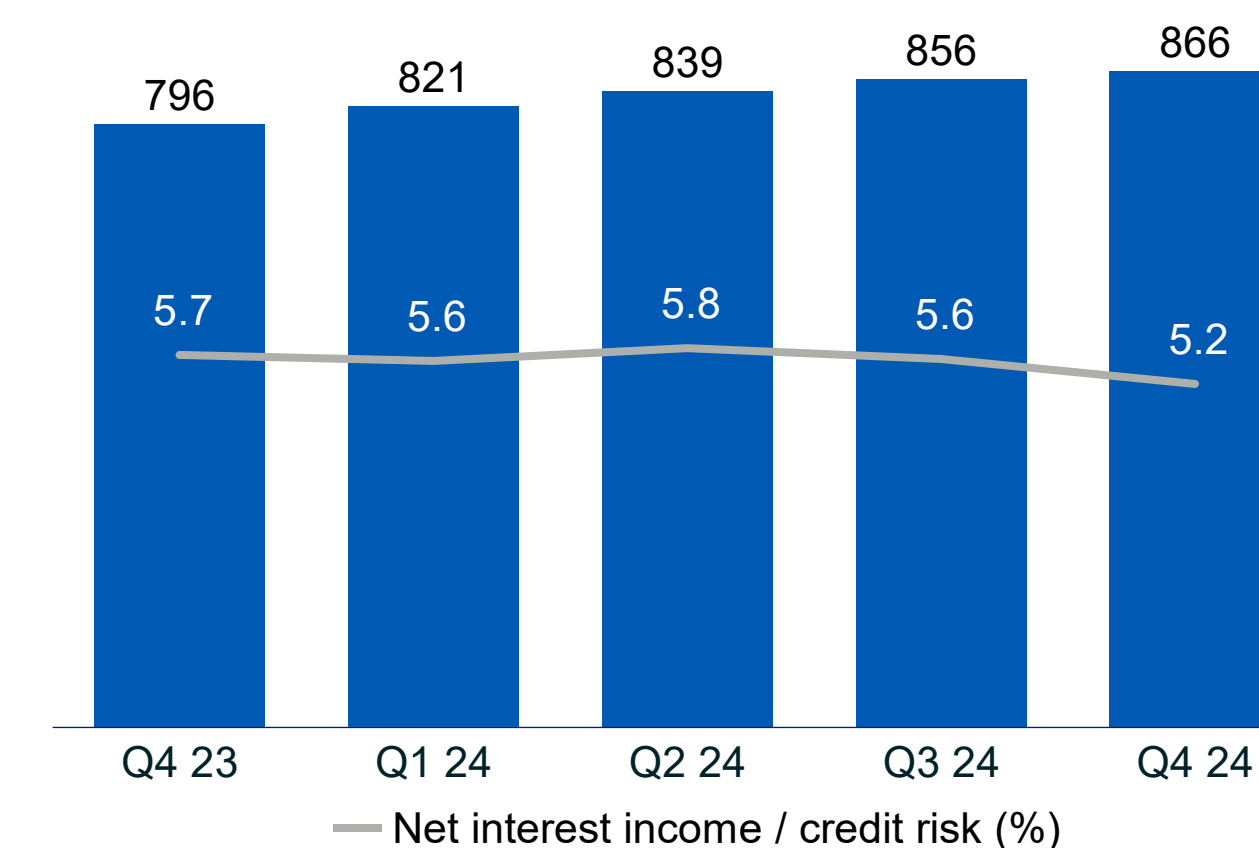
Reduced but solid margin in line with guidance

- Net interest income of ISK 11.2bn in Q4 which is a decrease of 0.9% between years
- Fluctuations in the net interest margin anticipated and guided for in recent quarters
  - Main impact from lower margin on CPI linked mortgages
  - This has countered ongoing tailwind from resetting of fixed rate non-CPI linked mortgages
  - The Bank has defended the margin through pricing strategy both on asset and liability side
  - During the year there has been an added headwind from interest-free reserve requirements increased by the Central Bank in May from 2% to 3%
- Guidance for the margin near term continues to be around 3% level, with development of real policy rates and in turn the margin of CPI linked mortgage lending, the key source of fluctuations

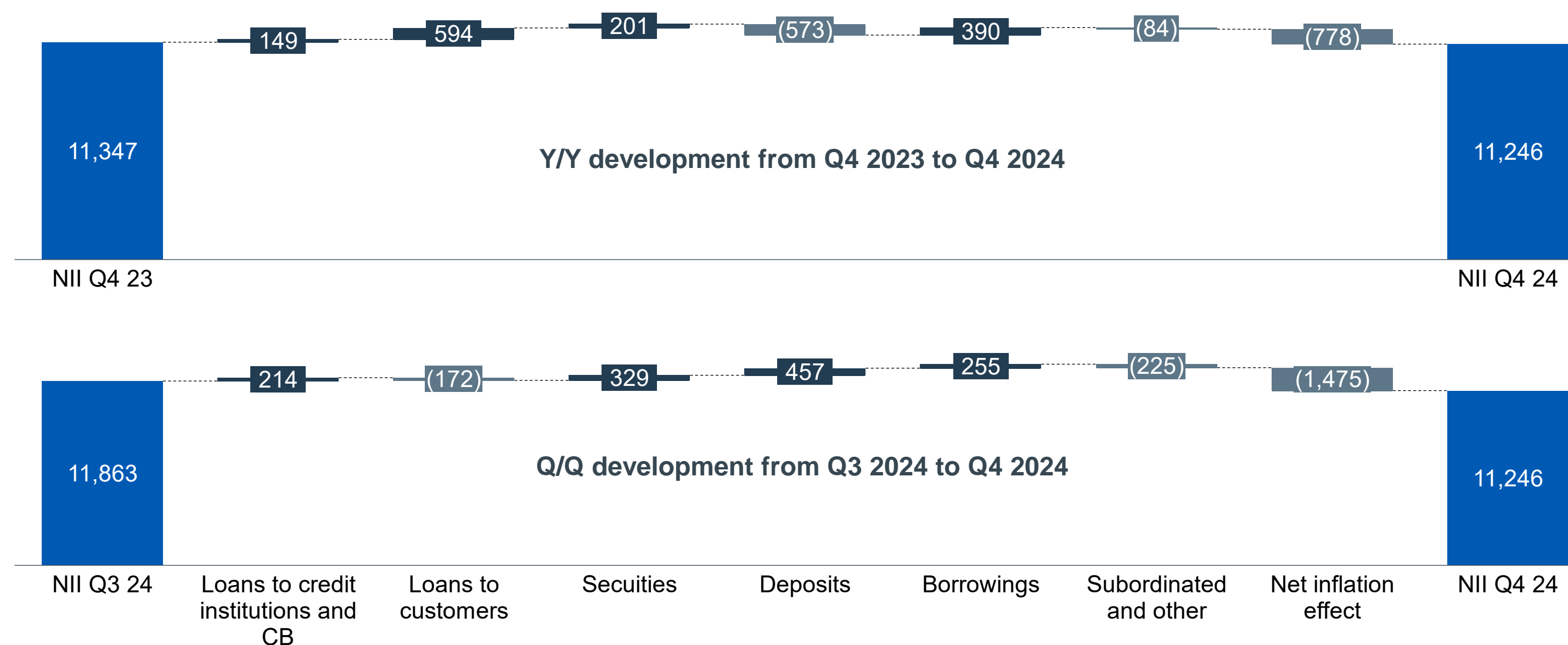
Net interest income (ISK bn)



Credit risk (ISK bn)



Net interest income development (ISK m)

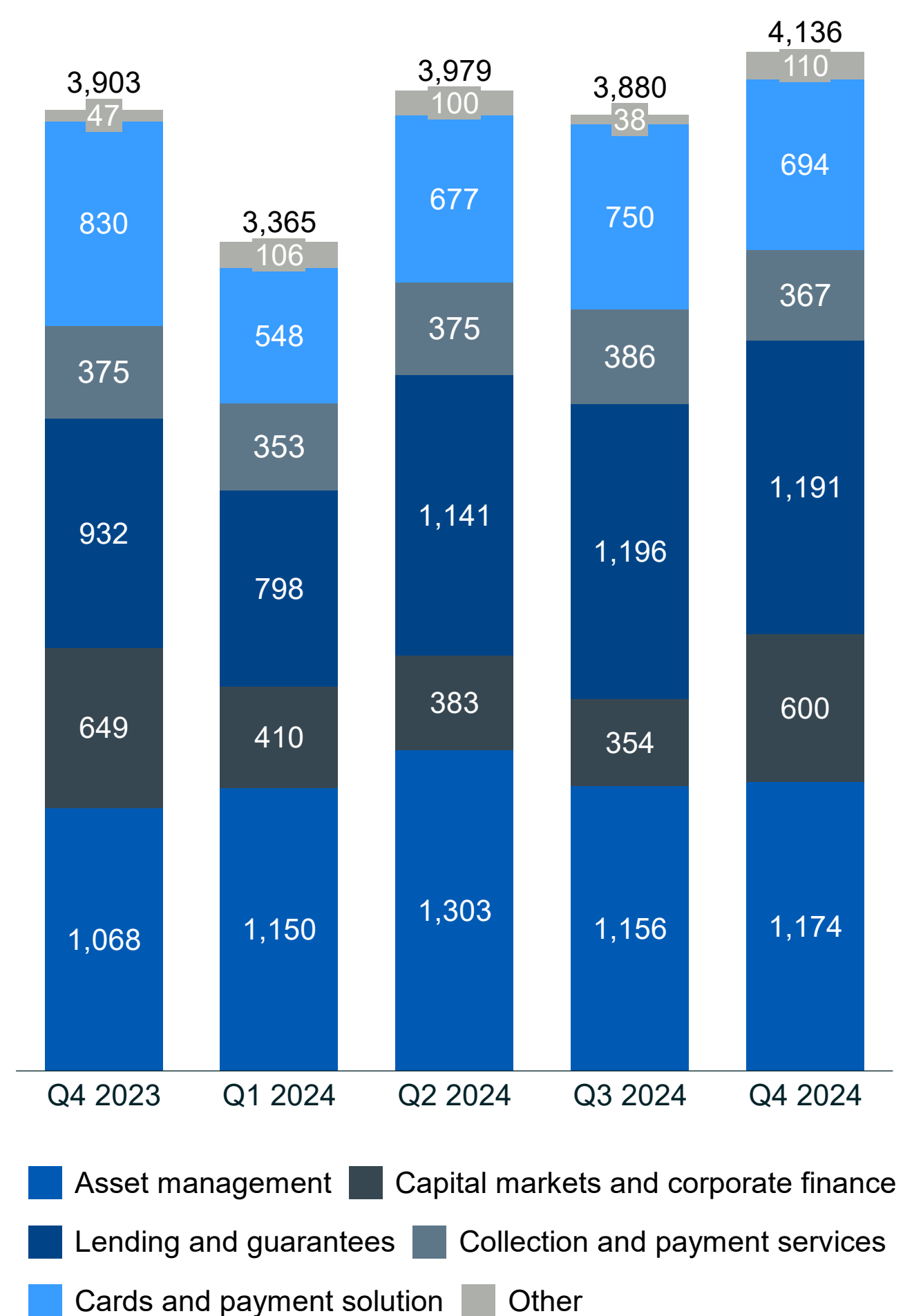


# Net fee and commission income

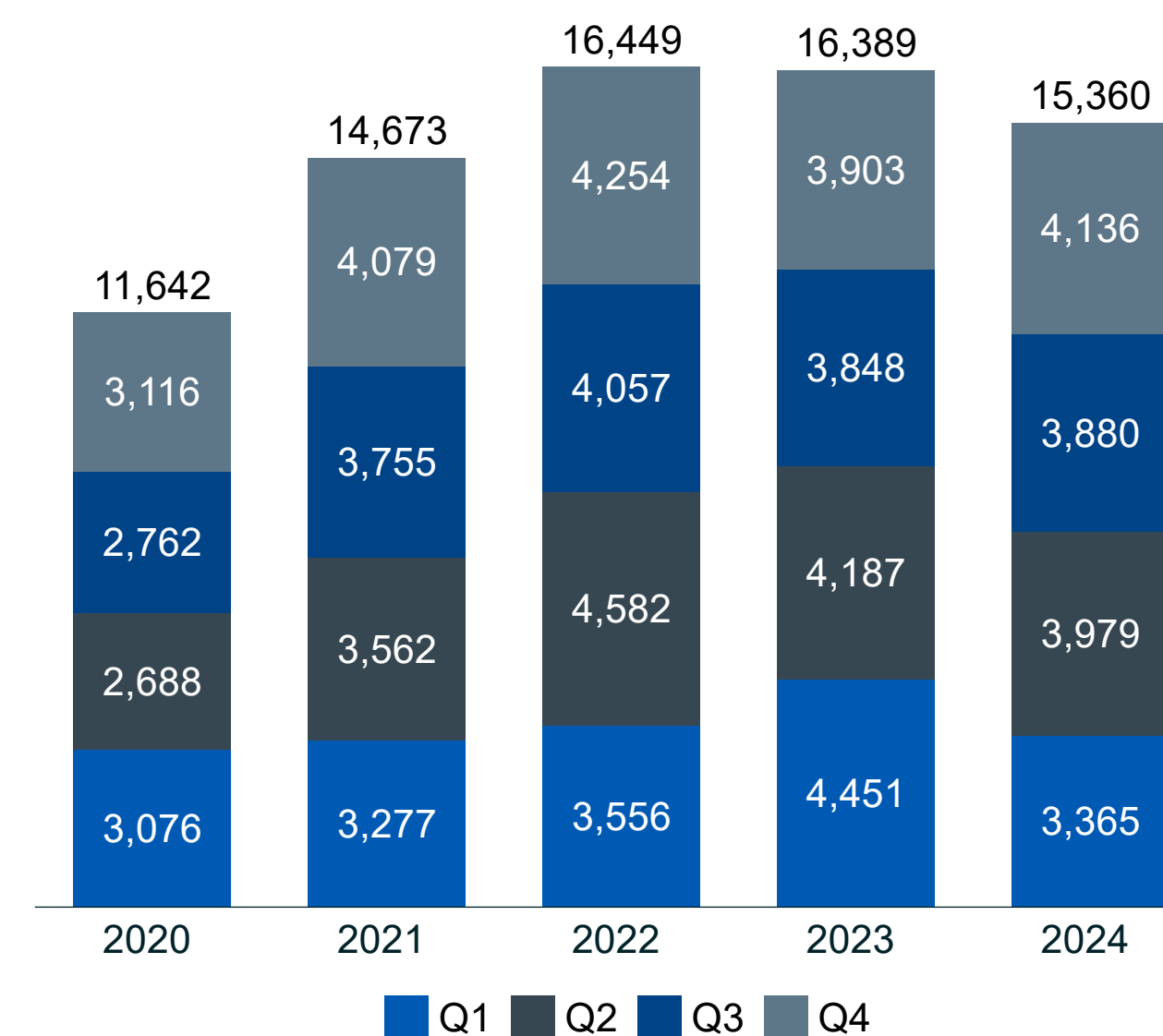
## Strong quarter

- Best quarter in terms of fees for over a year, which continues to be broad-based and diversified
- Comparison between years impacted by closure of Keflavik airport branch and reclassification of card insurance fees from Q1 2024. Fee income from these sources amounted to ISK 227m in Q4 2023
- Strong quarter for capital markets and corporate finance
- Lending and guarantees fees continue to be robust despite slower growth in lending
- Asset management fees stable with AuM increasing to ISK 1,633bn at year-end which now for the first time exceeds the balance sheet of the group

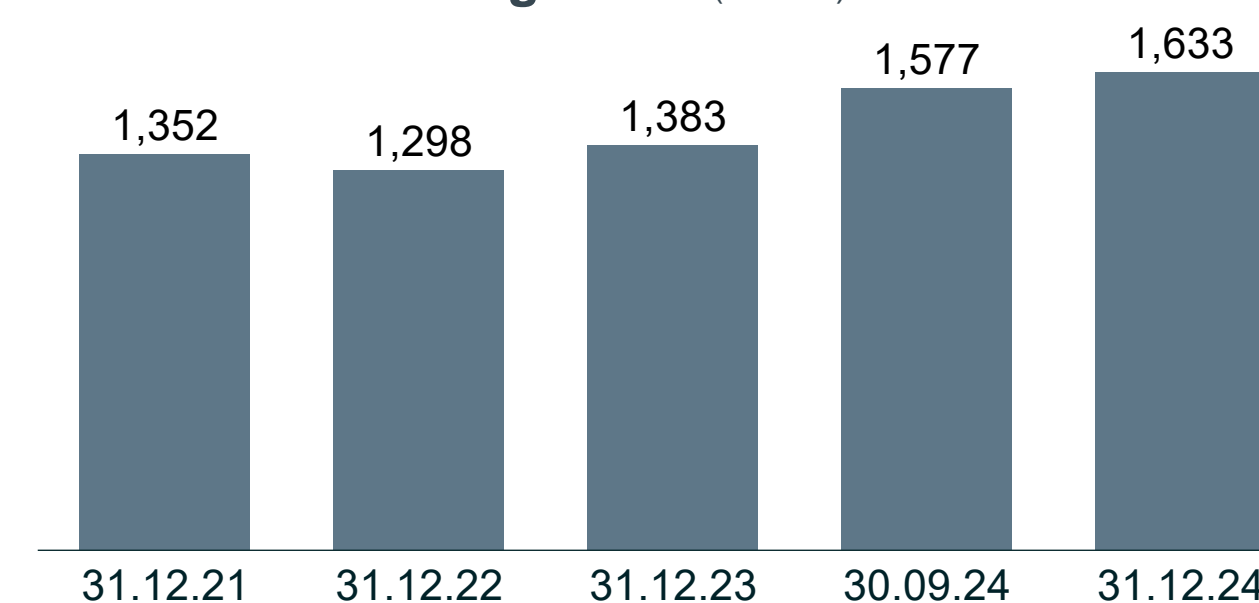
Net fee and commission income (ISK m)



Net fee and commission income (ISK m)



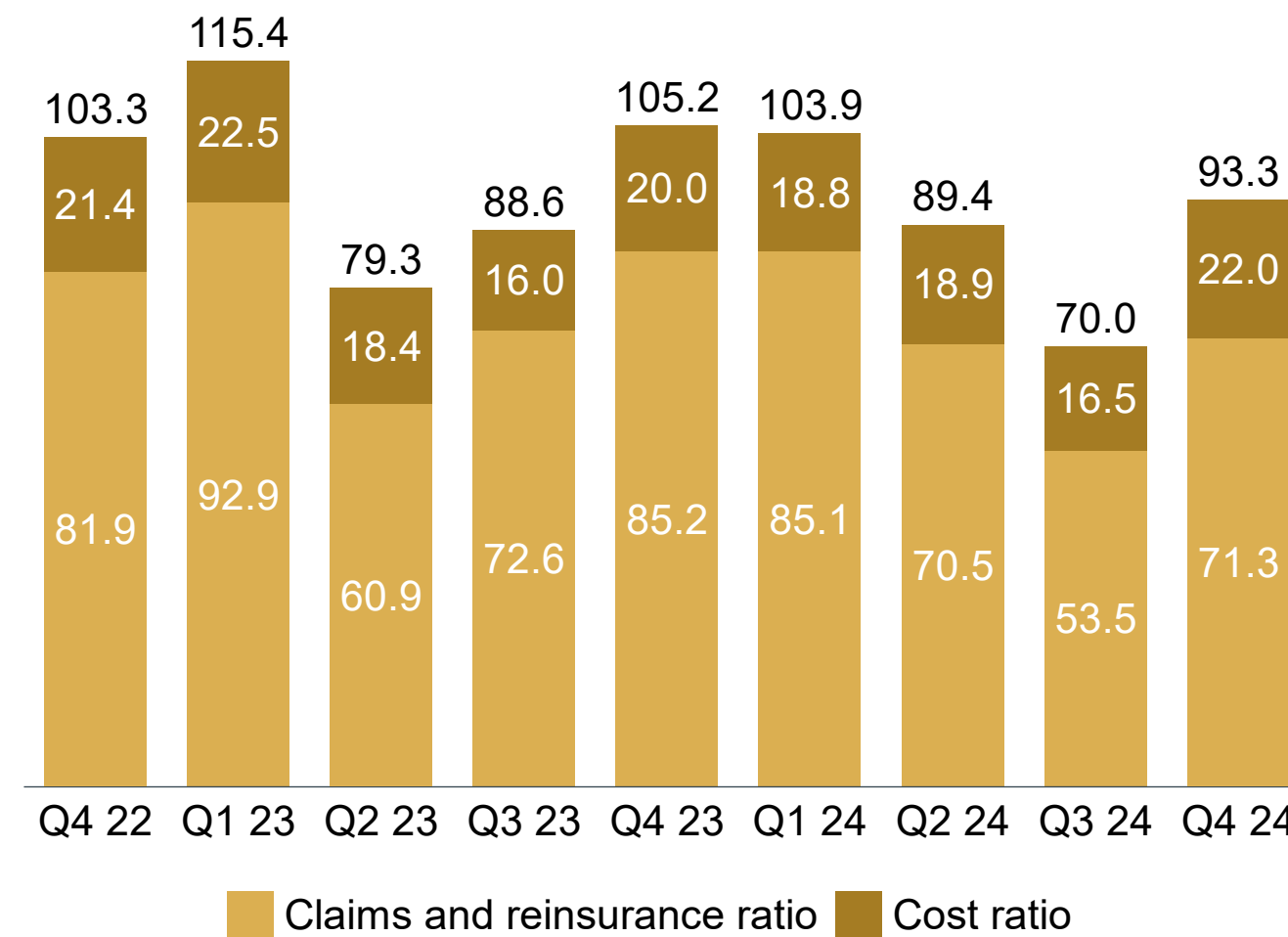
Assets under management (ISK bn)



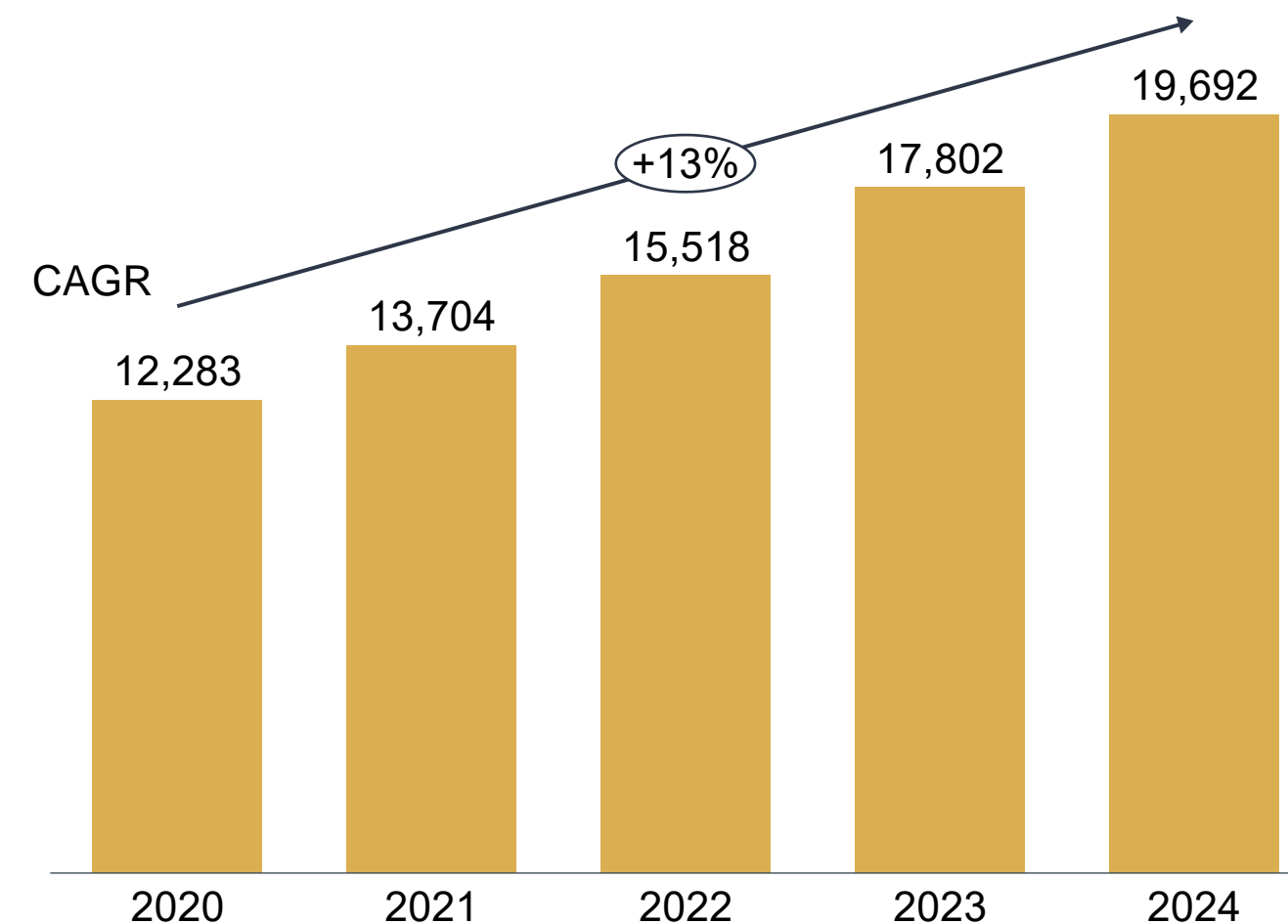
## Best full year results for insurance business

- Net profit in the quarter of ISK 1,698m compared with ISK 457m in Q4 2023
- Favorable claims and reinsurance compared with Q4 2023 at 71.3%
- Investment income in Q4 is positive by ISK 1,697m compared with ISK 802m in Q4 2023
- For the full year net profit of ISK 3,675m compared with ISK 840m in 2023
  - Both insurance and investment income developed favorably from last year
  - ROE of 30.8% in 2024 compared with 8.7% in 2023 for Vördur stand-alone
- Combined ratio of 88.9% in 2024 compared with 97.0% in 2023
- Revenue growth 10.6% in 2024 compared with 9.6% growth in the domestic market\*\*
- Sales to individuals exceed last year by 21% and by 15% overall to both corporates and individuals

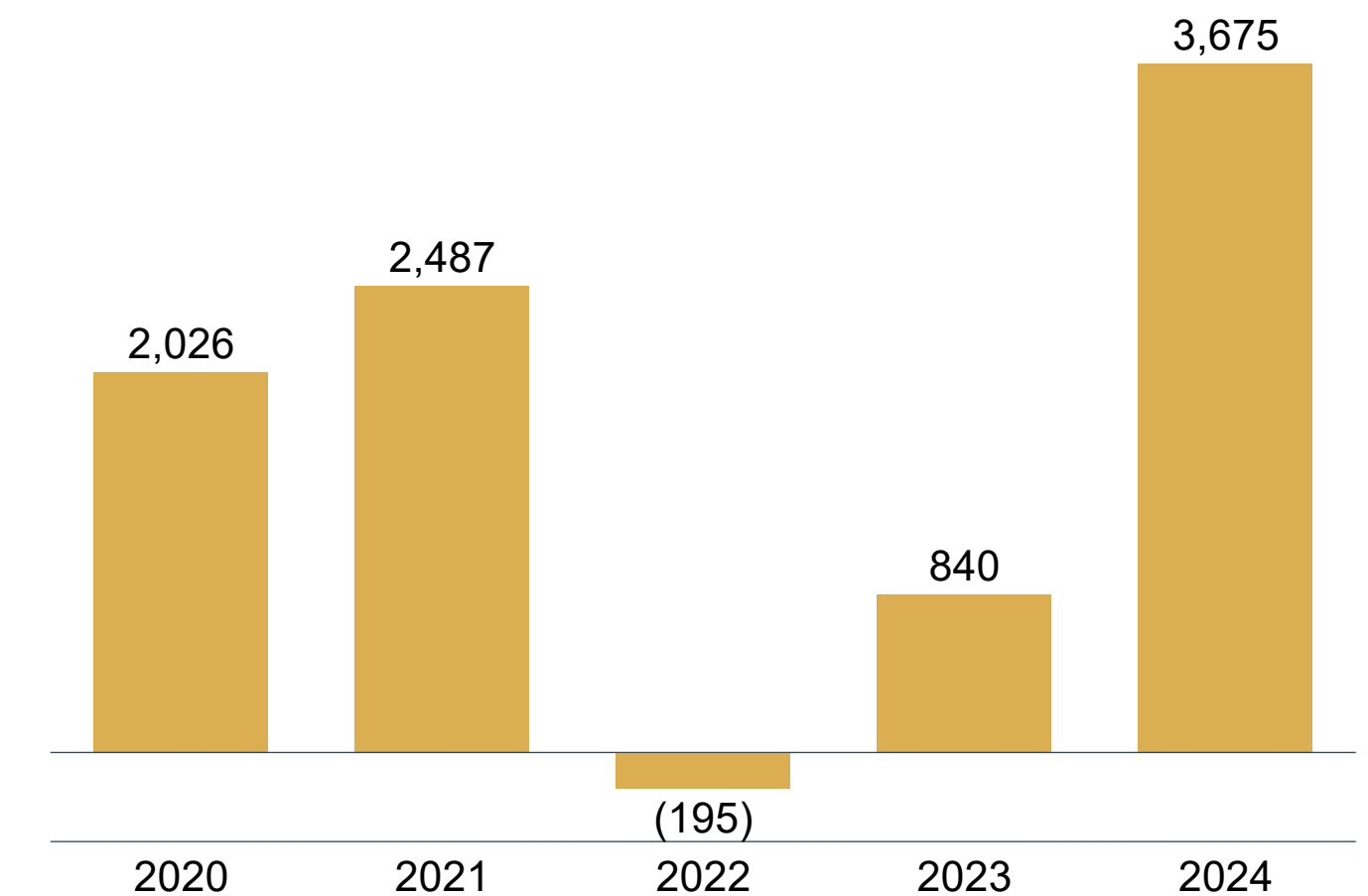
Combined ratio (%)



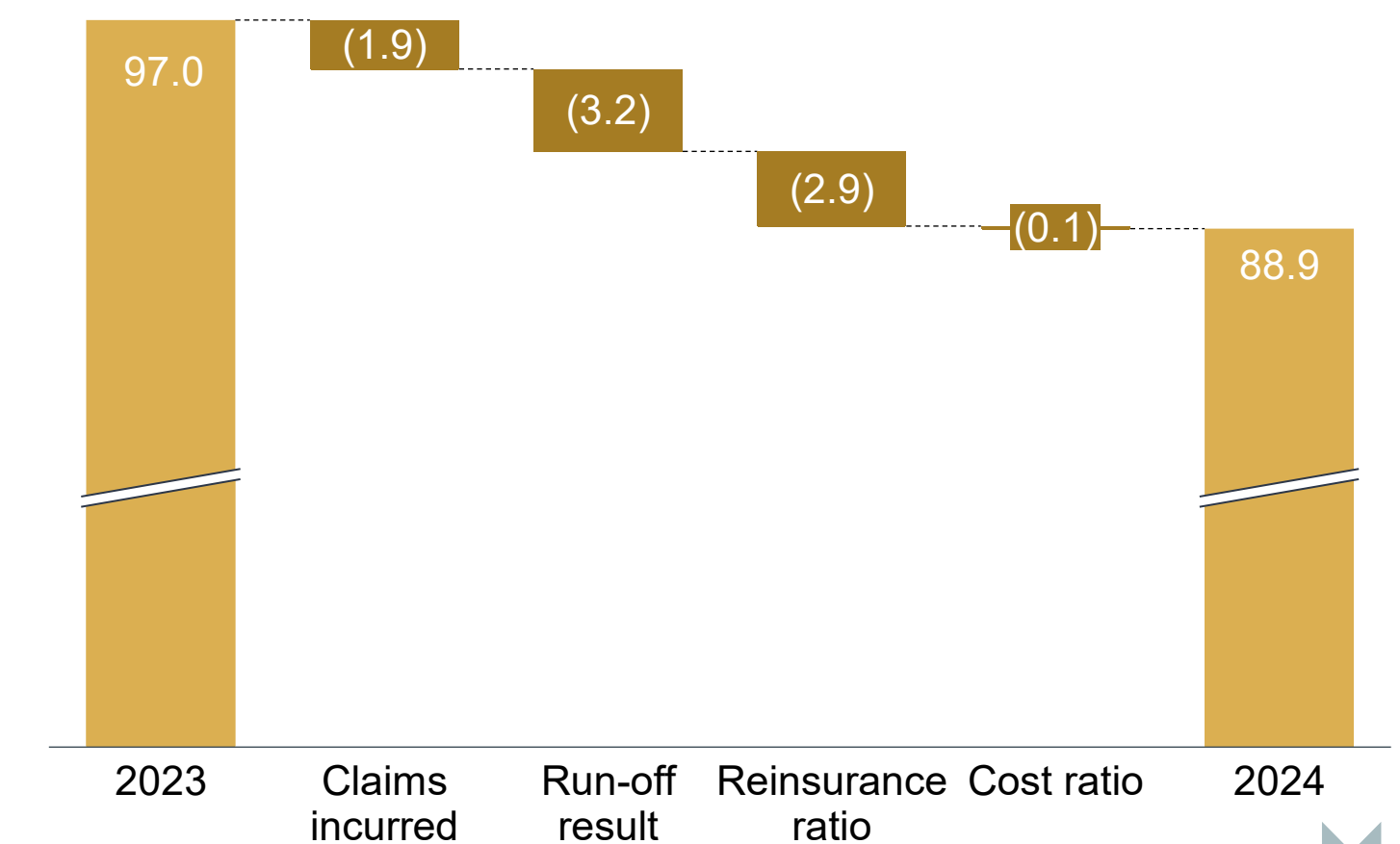
Insurance revenue (ISK m)



Vördur net earnings (ISK m)



Change in combined ratio between years (%)

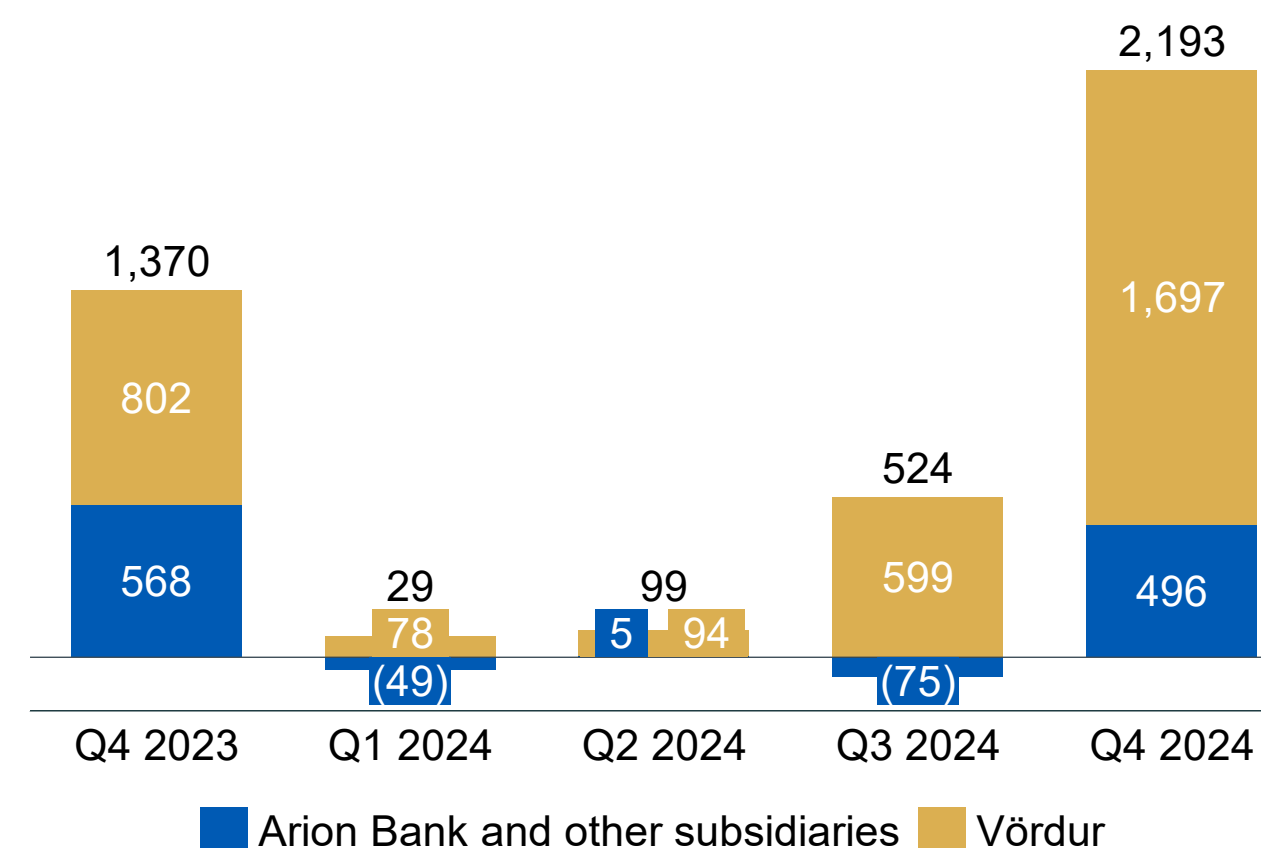


# Net financial income

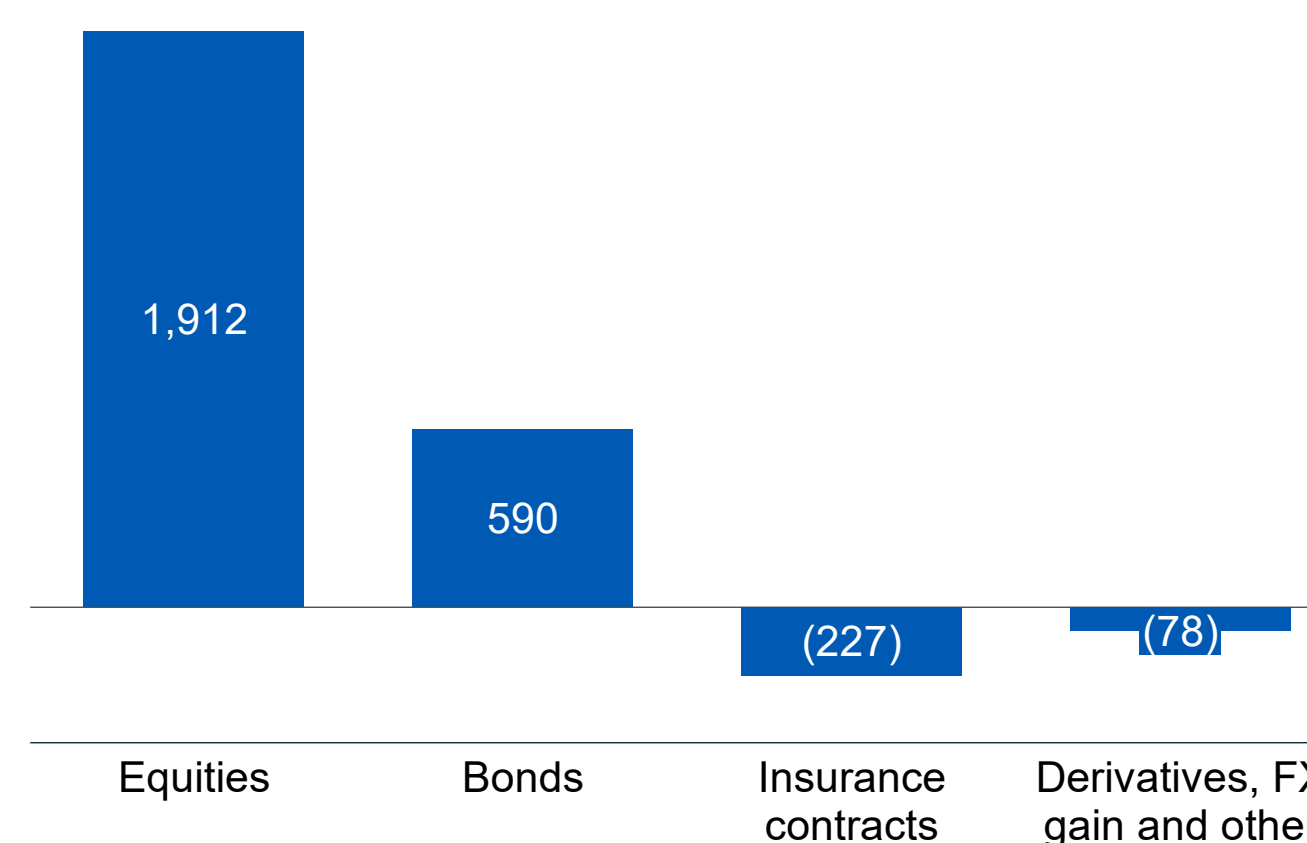
Improving market sentiment supports solid results

- Good quarter for core investment business; insurance and market making
- Total investment portfolio of Vördur is ISK 34.3bn, yielding a profit of ISK 1.7bn in the quarter, including negative net effects from insurance contracts
- 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

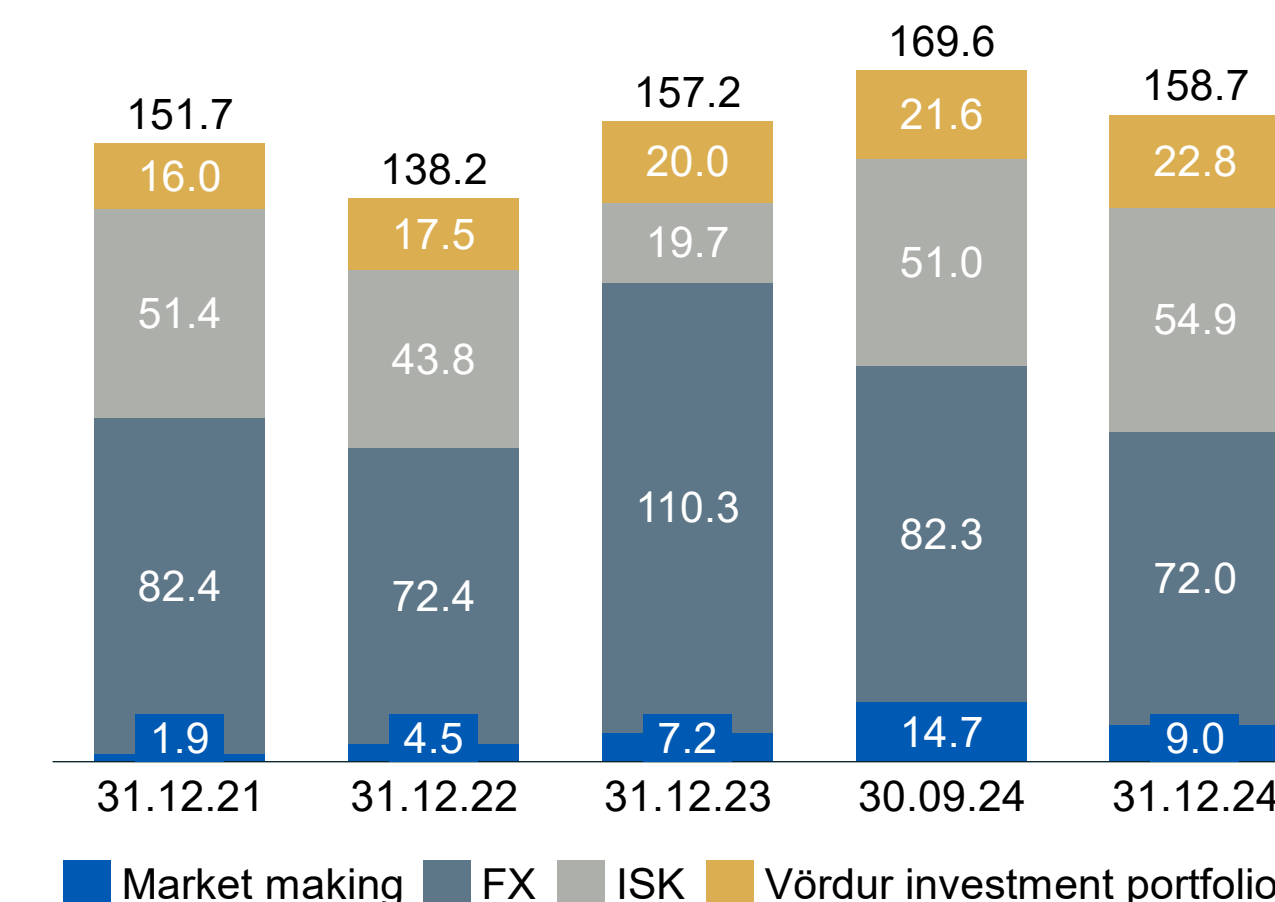
Net financial income (ISK m)



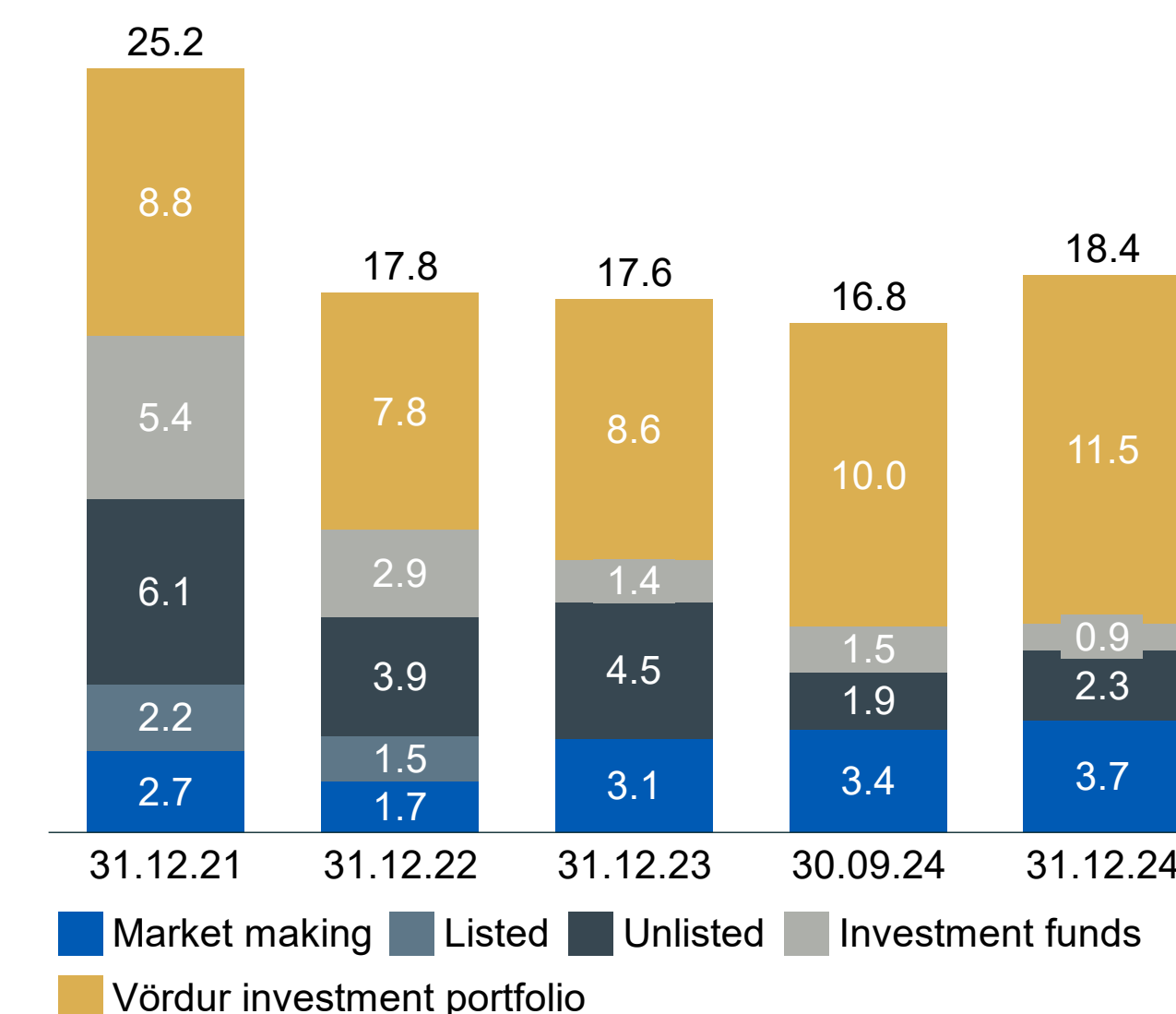
Net financial income by type Q4 2024 (ISK m)



Bond holdings (ISK bn)



Equity holdings (ISK bn)

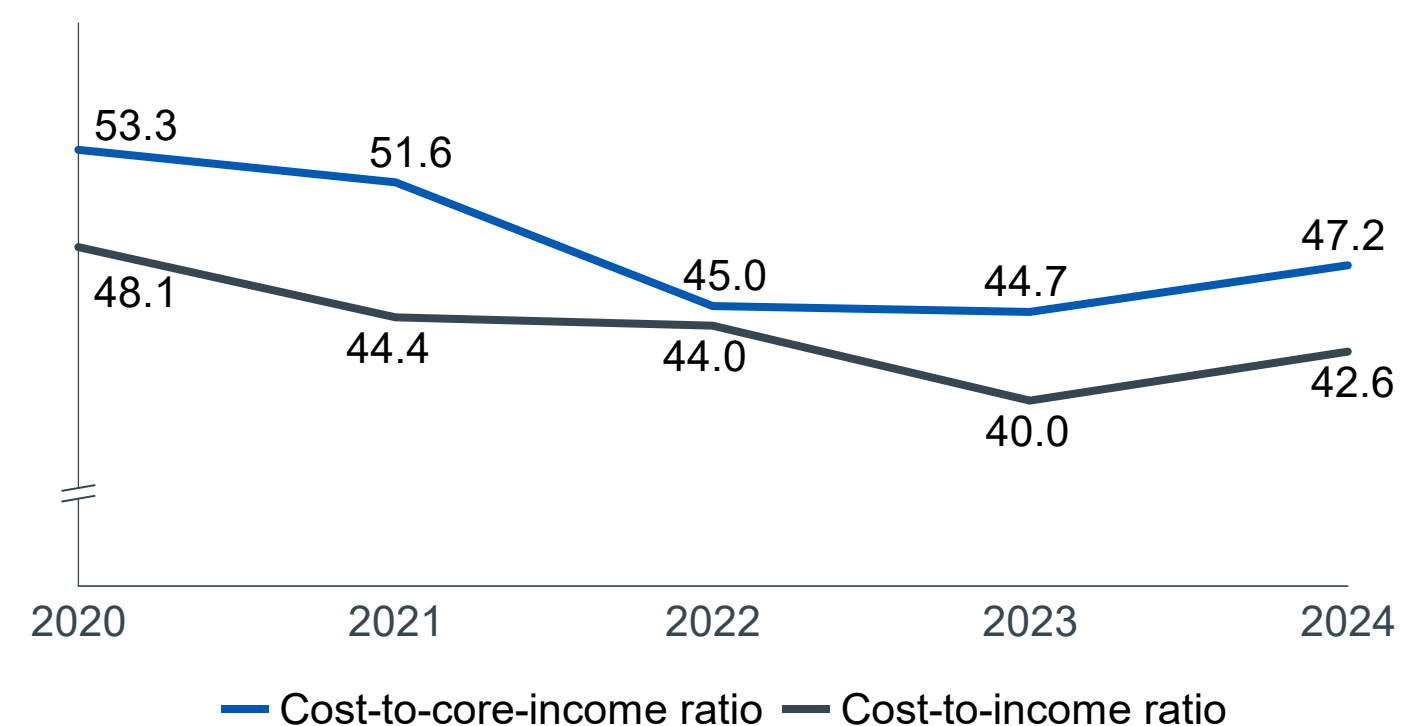


# Operating expenses\*

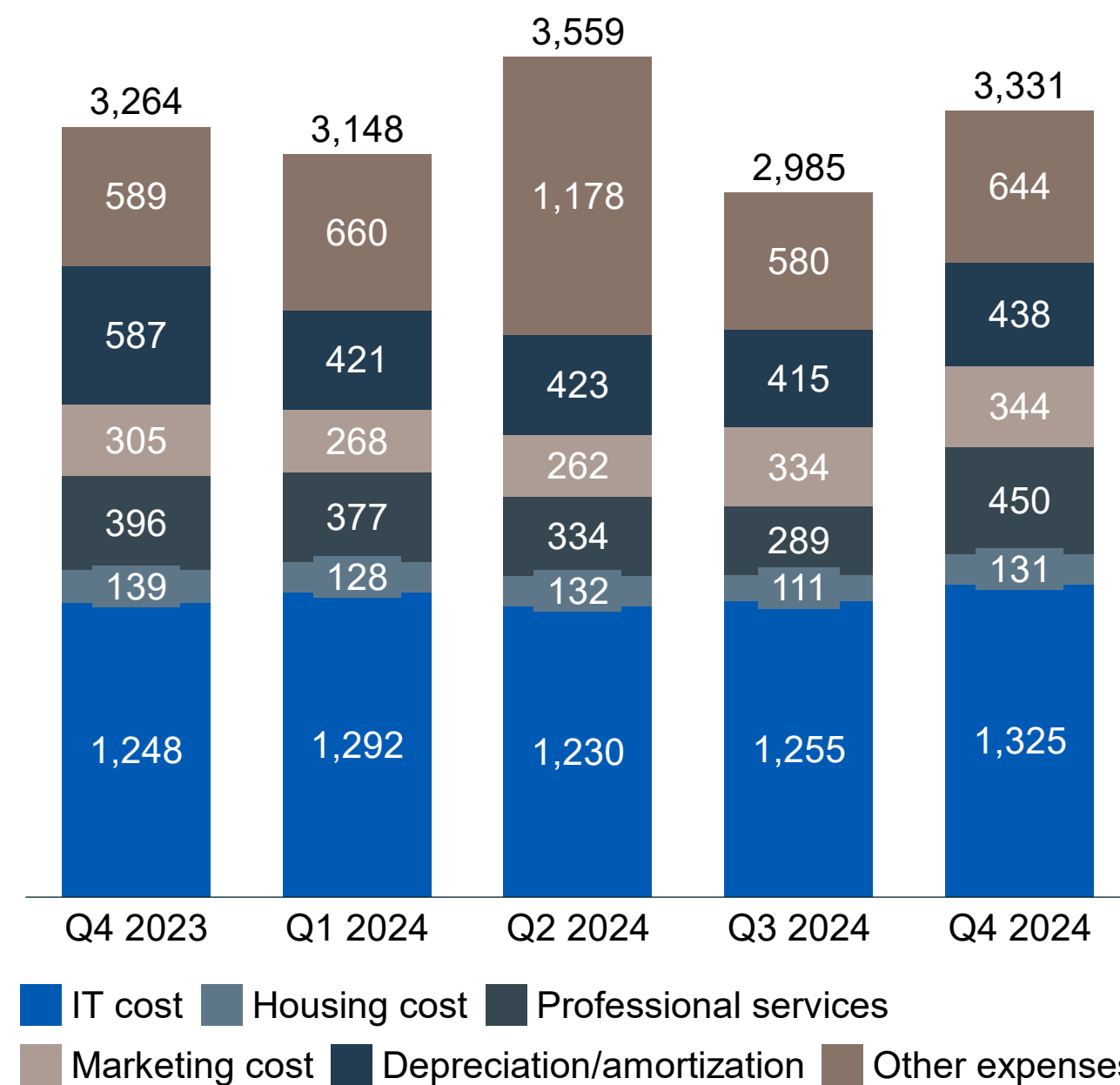
Stable cost base in continued inflationary environment

- Total operating expenses outlined here include costs related to insurance business which is accounted for through insurance service results post IFRS17
- Seasonality generally means Q4 is high in terms of expenses due to cost of variable incentive scheme
- The increase of total operating expenses from Q4 2023 was ISK 943m or 10.9%
  - Salaries and related expenses increased by ISK 875m or 16.2%, with around half of the increase due to higher cost of variable incentive scheme. Remainder of the increase due to increase in FTE and general wage increases
  - Other operating expenses develops in line with expectations in an inflationary environment
- The increase in FTE during the year is mainly in IT and insurance operation in line with investment strategy

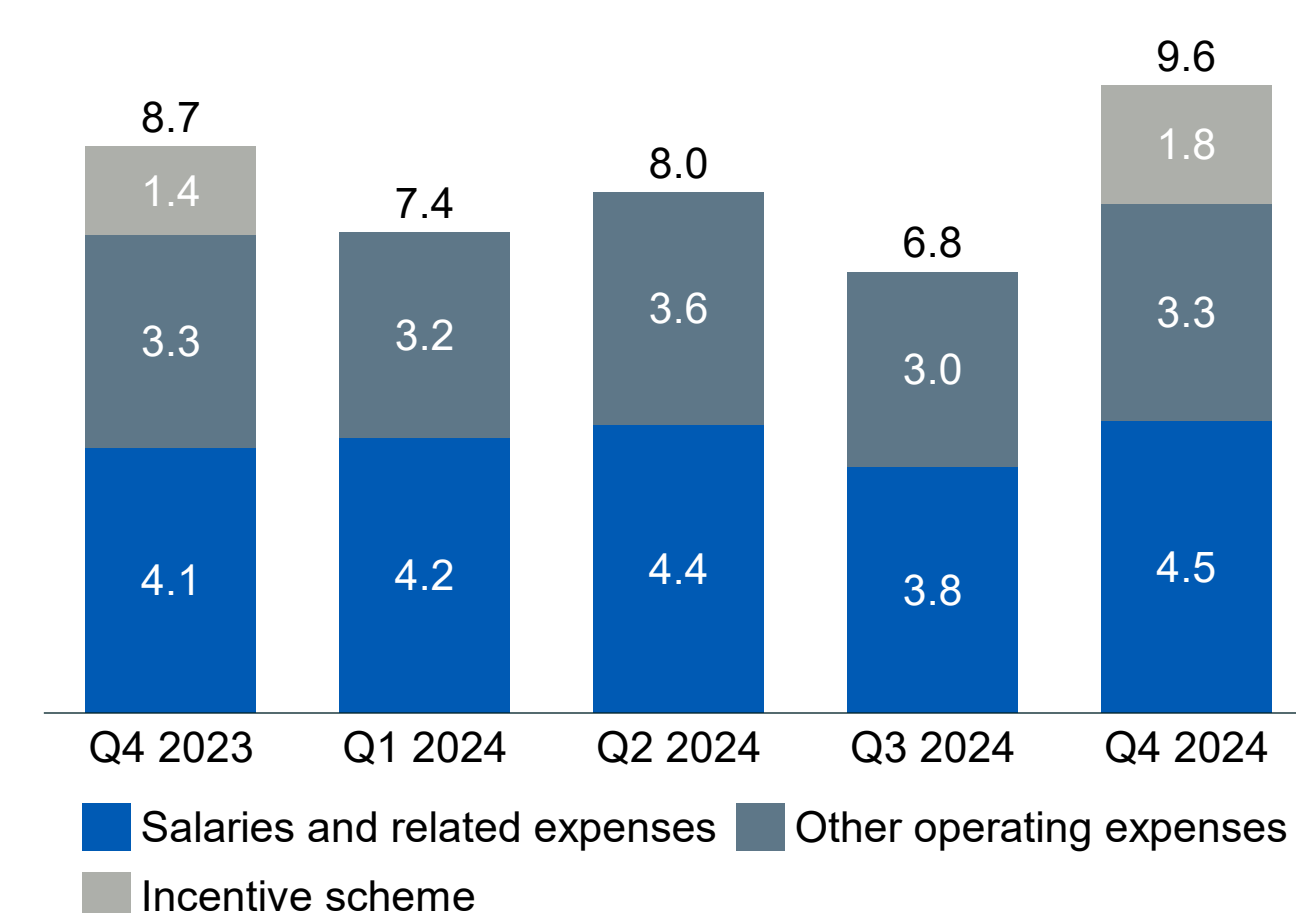
Cost ratios (%)



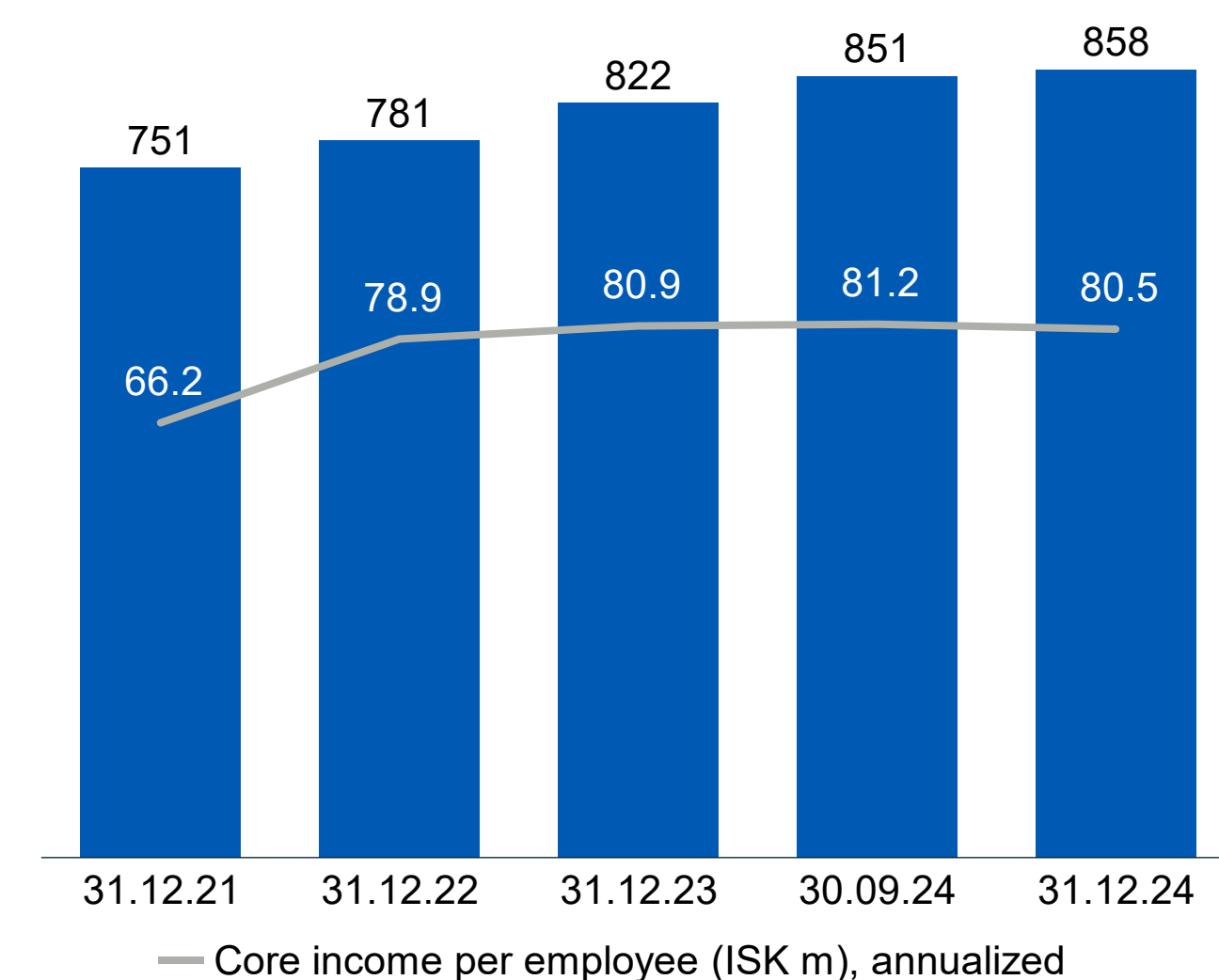
Other operating expenses (ISK m)



Total operating expenses (ISK bn)



Number of FTE



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

**Cost to core income:** Core operating income excluding opex from insurance operations/ Operating expenses including opex from insurance operations

**Cost to income ratio:** Operating income / Operating expenses



# Balance sheet

## Robust and relatively simple

- Loans to customers increased by ISK 9.6bn or 0.8% in Q4
- Deposits stable between quarters
  - Loans to deposits ratio of 143.5%. 114.5% without loans financed by covered bonds
- Very strong liquidity position:
  - Liquidity coverage ratio (LCR) of 181% (147% in ISK)
  - Net stable funding ratio (NSFR) of 118%

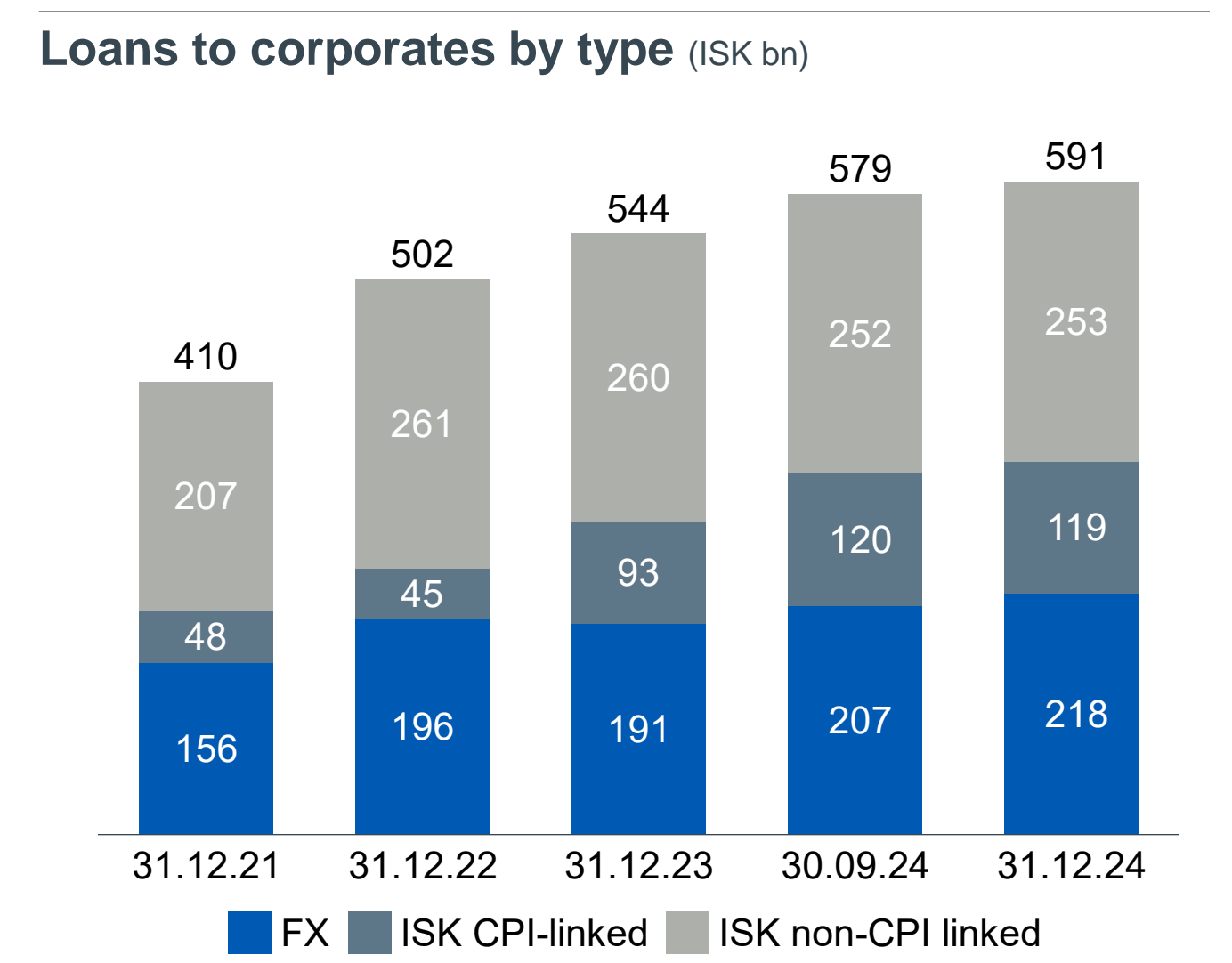
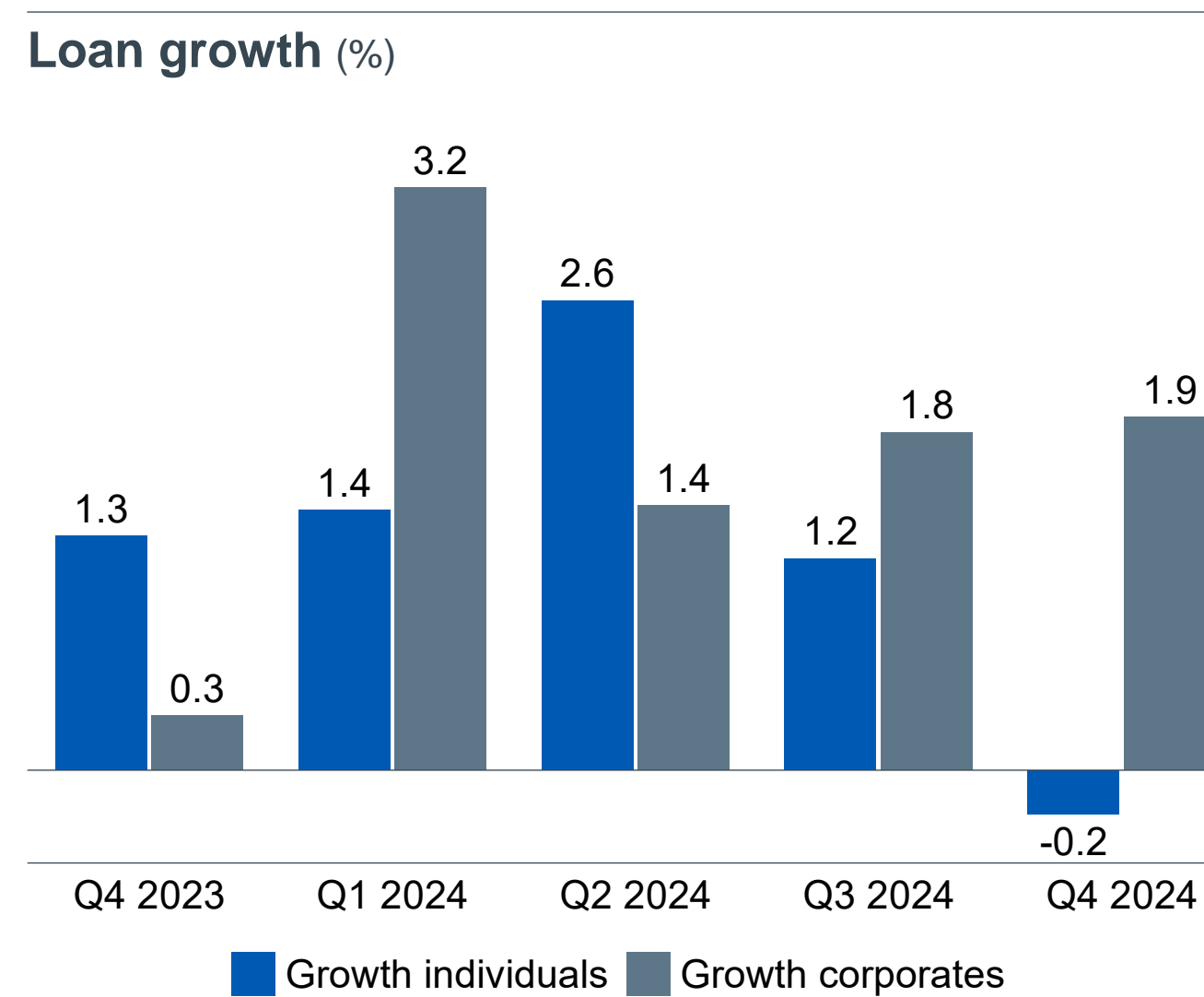
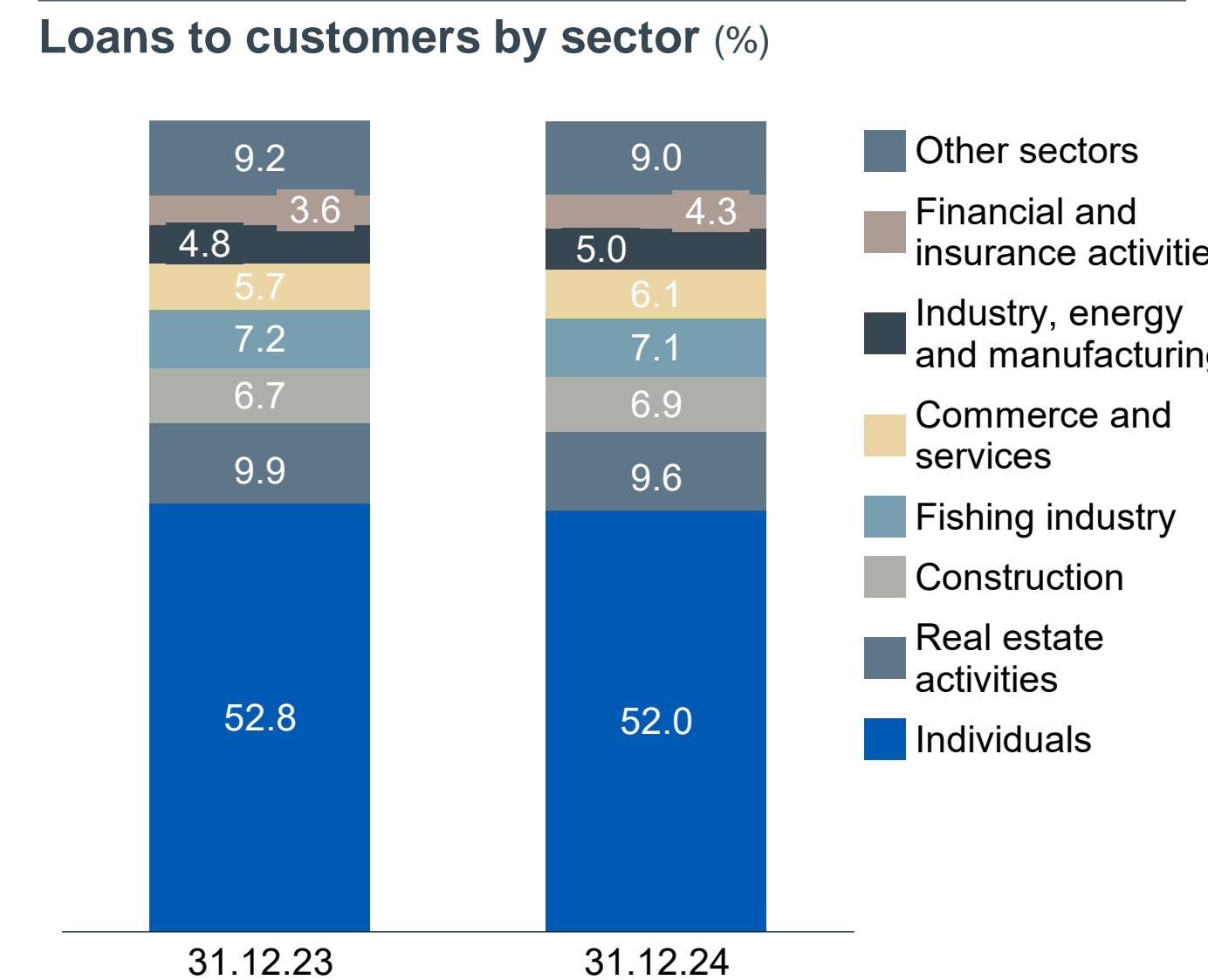
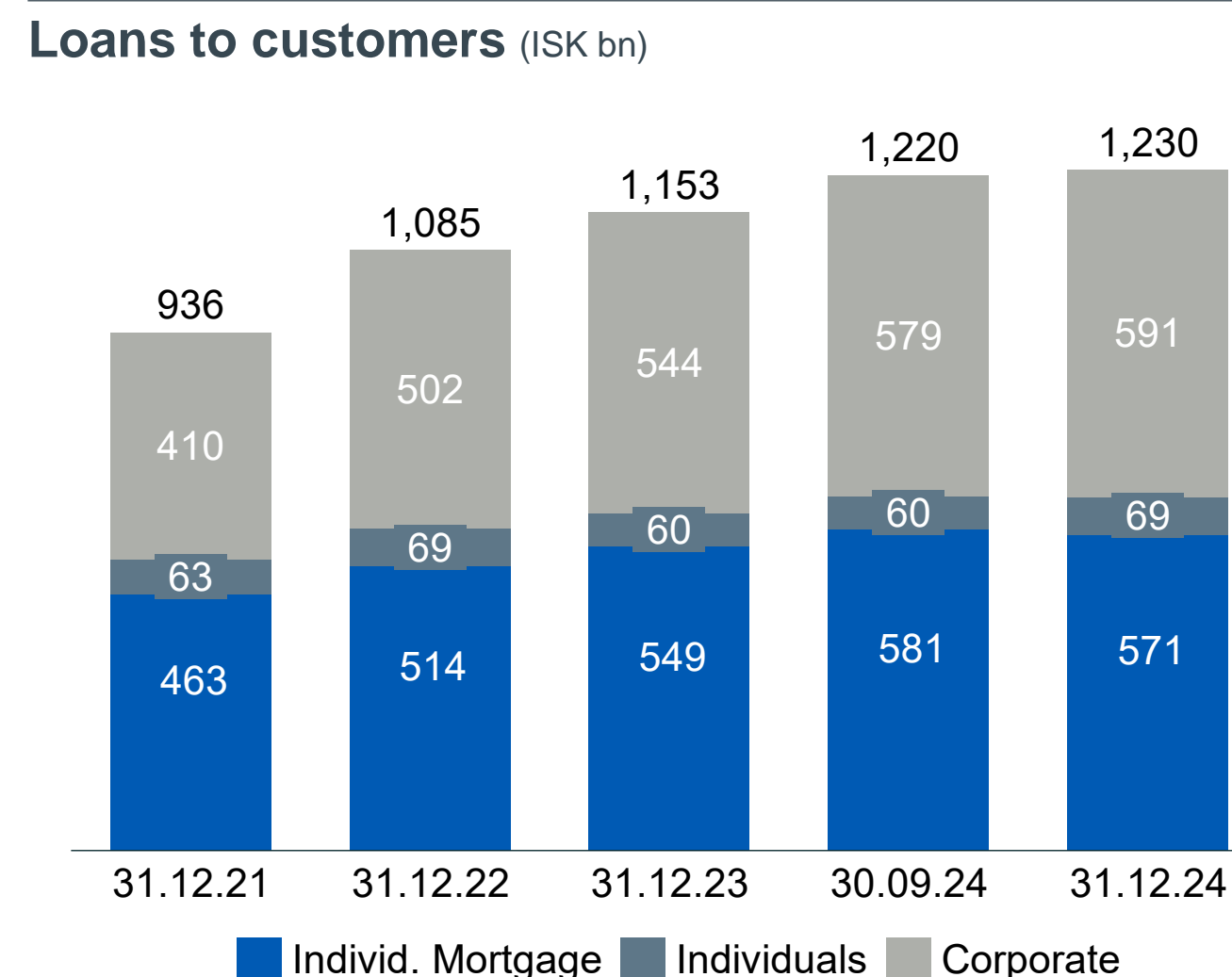
<b>Assets</b>	<b>31.12.2024</b>	<b>30.09.2024</b>	<b>Diff.</b>	<b>31.12.2023</b>	<b>31.12.2022</b>	<b>31.12.2021</b>
Cash & balances with CB	124	96	29%	102	114	69
Loans to credit institutions	26	33	(22%)	29	46	30
Loans to customers	1,230	1,220	1%	1,153	1,085	936
Financial assets	206	214	(4%)	206	193	226
Investment property	9	9	1%	9	8	7
Other assets	23	33	(31%)	27	20	43
<b>Total Assets</b>	<b>1,618</b>	<b>1,606</b>	<b>1%</b>	<b>1,526</b>	<b>1,466</b>	<b>1,311</b>
<b>Liabilities and Equity</b>						
Due to credit institutions & CB	7	7	(1%)	3	12	5
Deposits from customers	857	848	1%	793	755	655
Other liabilities	69	77	(9%)	69	71	65
Borrowings	433	431	0%	420	393	357
Subordinated liabilities	45	44	1%	41	47	35
<b>Total Liabilities</b>	<b>1,411</b>	<b>1,407</b>	<b>0%</b>	<b>1,326</b>	<b>1,278</b>	<b>1,117</b>
Equity	207	199	4%	199	188	194
<b>Total Liabilities and Equity</b>	<b>1,618</b>	<b>1,606</b>	<b>1%</b>	<b>1,526</b>	<b>1,466</b>	<b>1,311</b>



# Loans to customers

## Balanced loan portfolio

- Loans to customers total ISK 1,230bn at the end of the year, increasing by ISK 9.6bn or 0.8% during the quarter. Effect of FX and CPI changes were minimal
- With CPI linked mortgage margins compressed the Bank has managed growth more towards corporate lending during the quarter. Growth will continue to be dynamically managed within credit strategy parameters
- Continued CIB focus on capital velocity, with corporate loans for ISK 22.1bn sold to institutional investors in 2024 compared with ISK 20.9bn in 2023
- The diversification in terms of sector and single name concentration of the corporate loan book continues to be good and in line with the Bank's credit strategy
- The sustainable loan book was ISK 191bn at year-end. The previous green loan book was ISK 123bn at the end of 2023



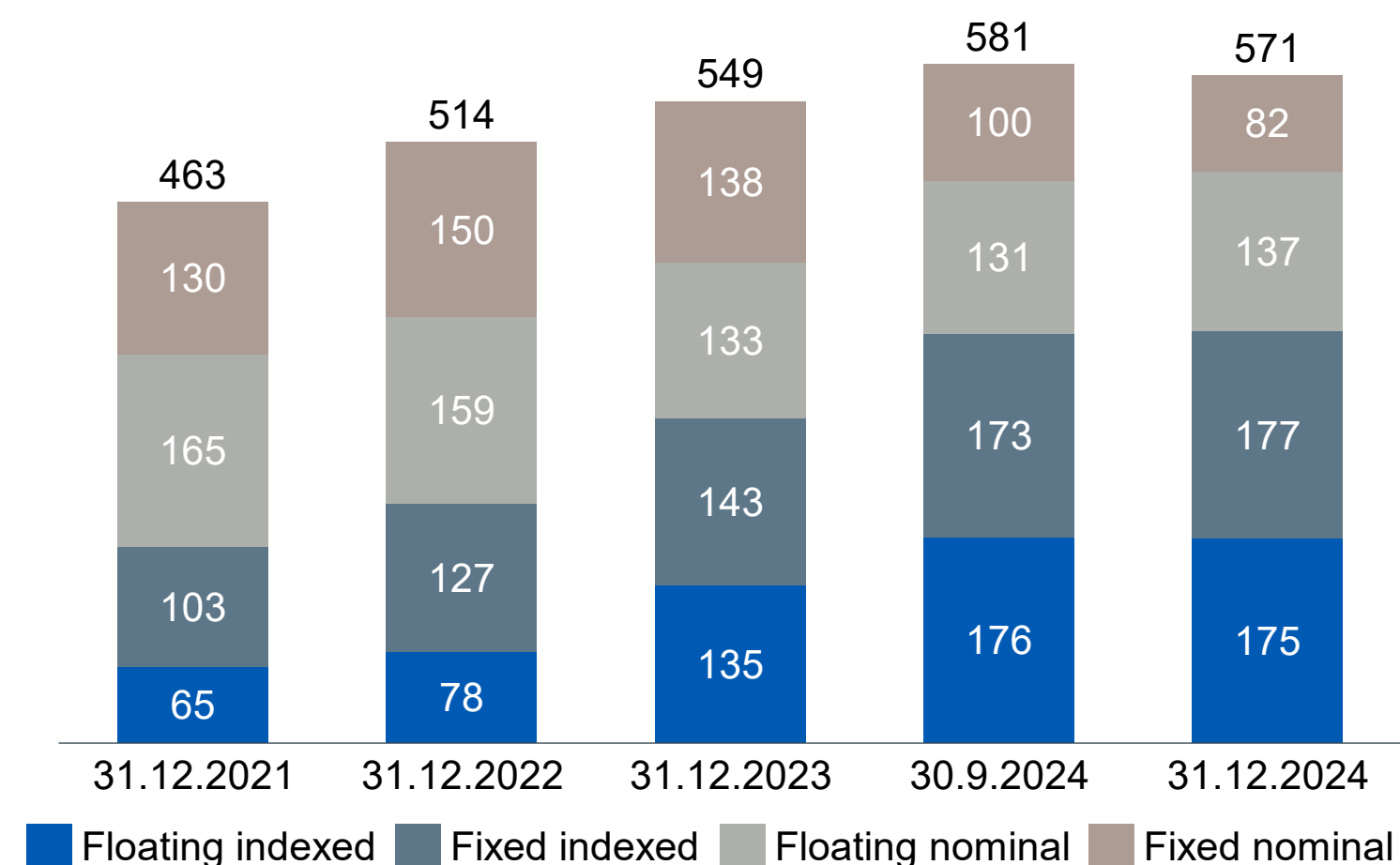
# Residential mortgages

Low default rates and comfortable LTV levels, but rising costs for borrowers

- The average loan-to-value of the mortgage portfolio is 47.1%
- The problem loans ratio was 1.3%, which is below the historical average
- As a result of current interest rate levels, there has been a shift towards indexed mortgages
- The Bank has adjusted its criteria for household expenditures in its customer payment assessment, considering the rising cost of living
- A significant portion of fixed nominal rate mortgages were reset in 2024 without notable impact on default rates, which is in line with the Bank's targeted credit quality analysis performed on a regular basis since the start of 2023 in response to rising interest rates

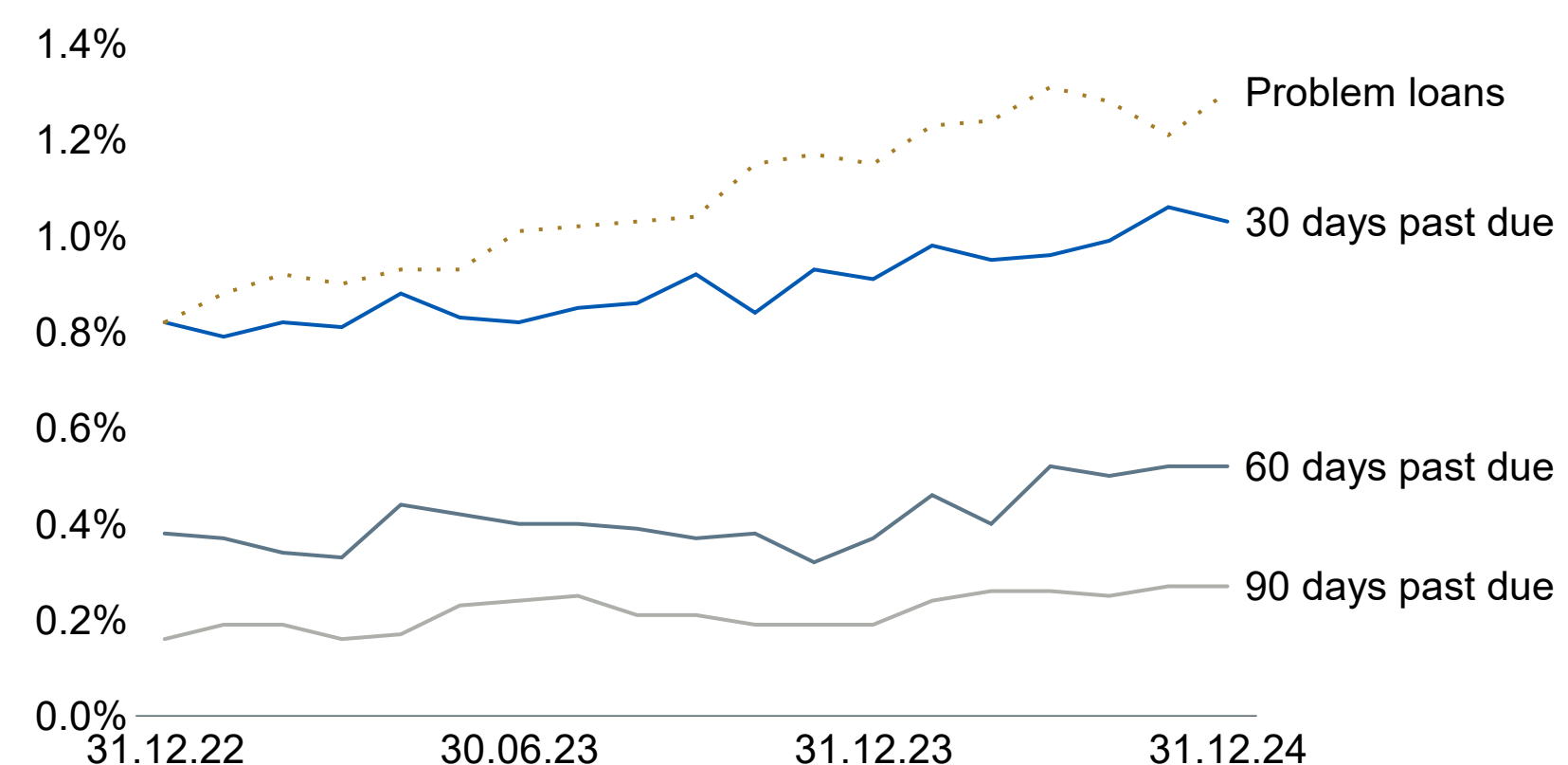
## Residential mortgages by interest rate type (ISK bn)

Indexed mortgages were 62% of the portfolio at 31.12.2024



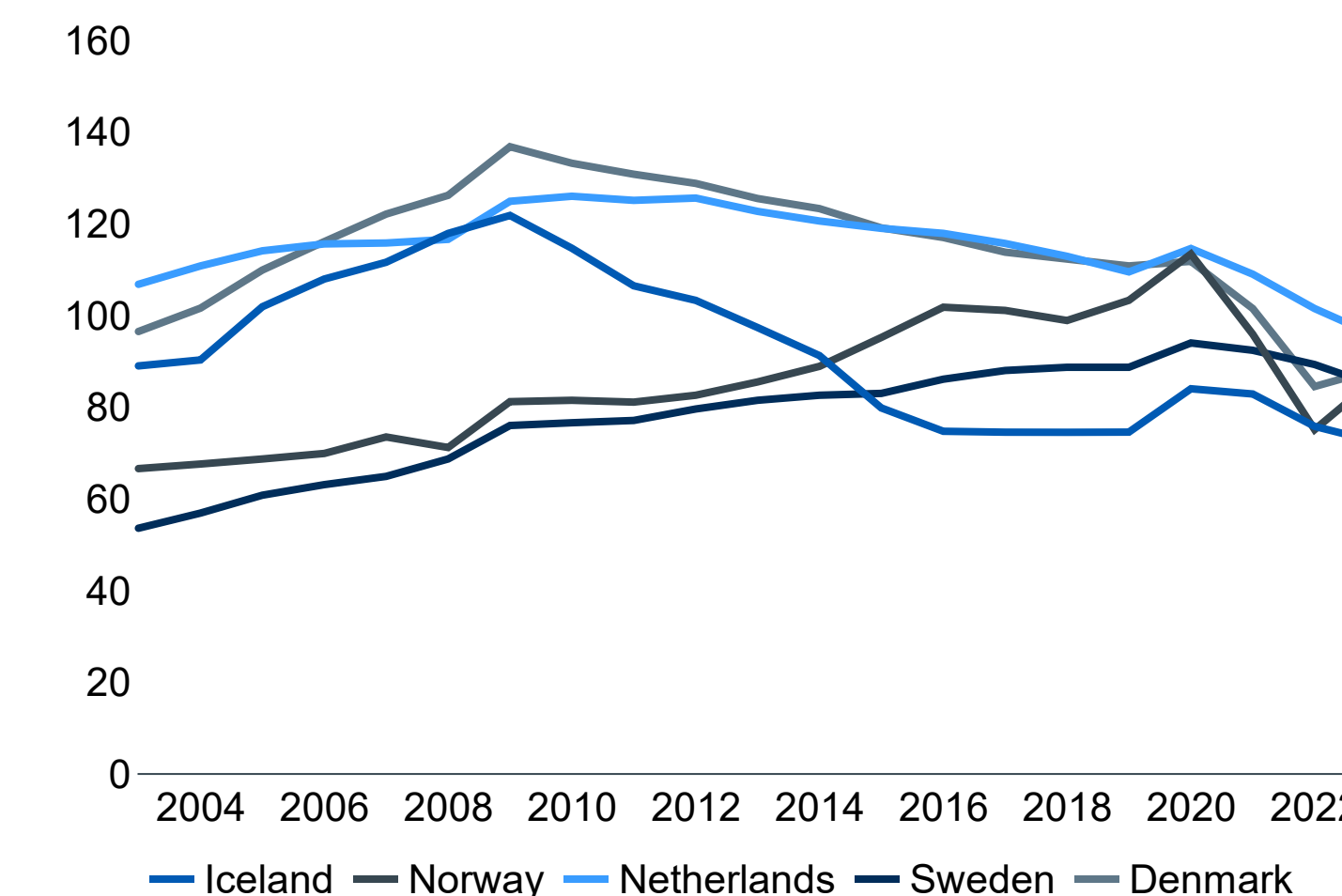
## Rate of defaults and payments past due

Problem loans are 1.3% of the mortgage portfolio with a slight trend upwards from YE 2022



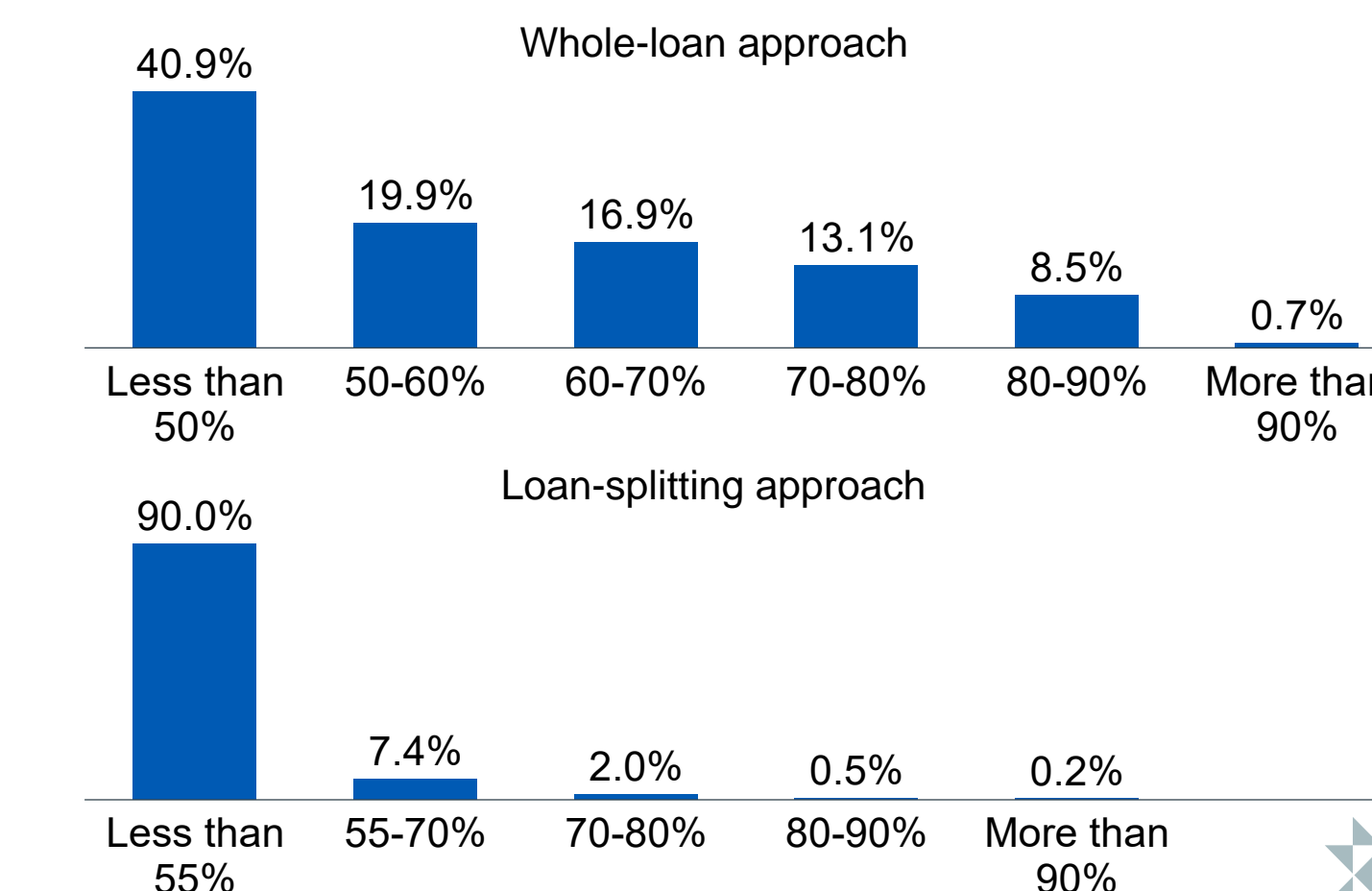
## Household debt to GDP (%)

Relatively low household debt



## Loan to value distribution

Around 91% of mortgage exposures have LTV below 80%





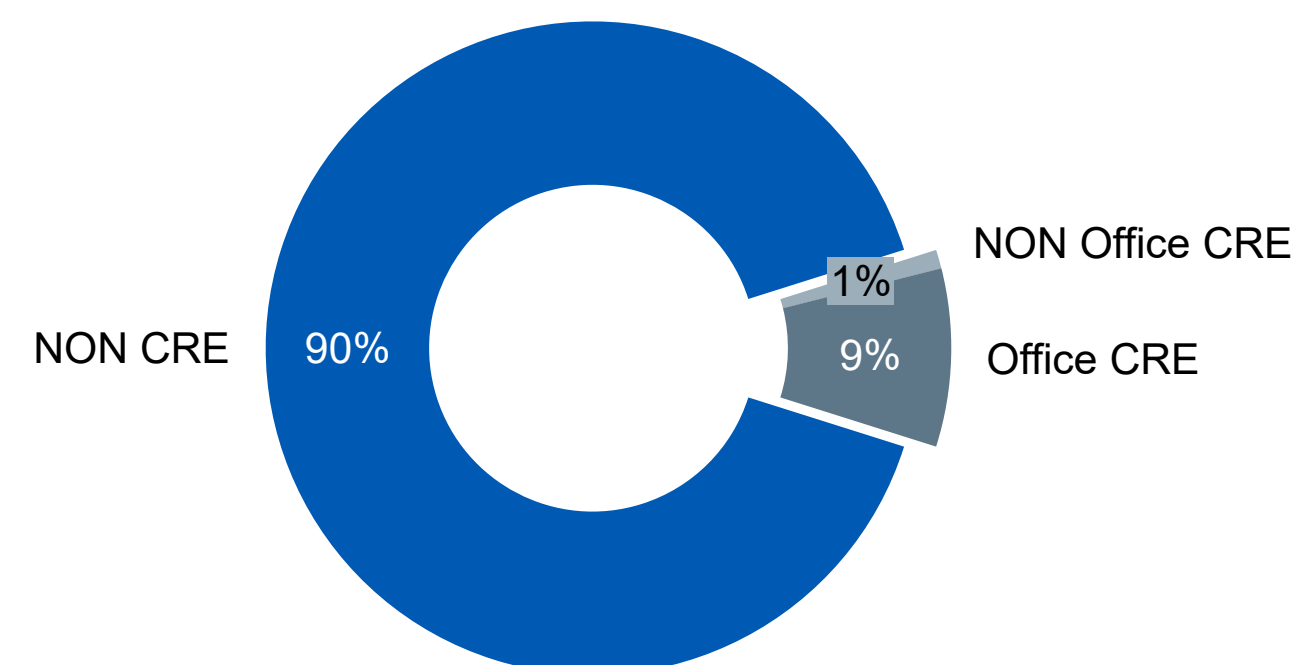
# Real estate sector

## Diversified portfolio

- Overall real estate related lending in the corporate loan book comprises a total of ISK 117bn or 9.6% of the loan book with an average LTV of 61.6%
- The portfolio is highly diversified
  - 39% of the portfolio comes from SME retail exposures (< ISK 600m per customer)
  - The portfolio is split between companies that lease properties to operating companies within the same group (parent, subsidiaries or sister companies) and property management companies, both residential and commercial
  - Exposure to office real estate is small or around ISK 11.4bn or 0.9% of the loan book
- From 2020 to the end of 2022, the portion of CPI linked loans to real estate companies decreased significantly. With the hikes in interest rates this trend has been reversed and CPI linked loans are now 64% of the portfolio

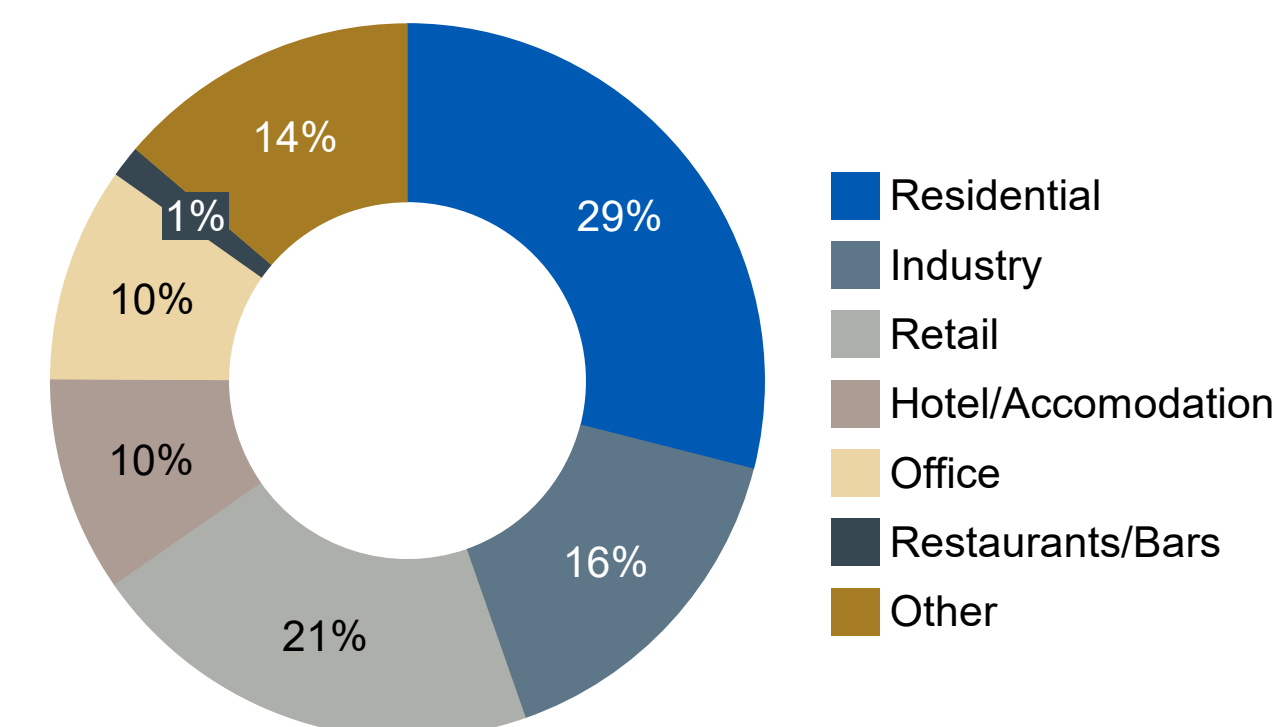
## Loans to customers

Loans to real estate companies are approx. 9.6% of total loans to customers and 1.0% relate to office buildings



## Real estate collateral by type<sup>1</sup>

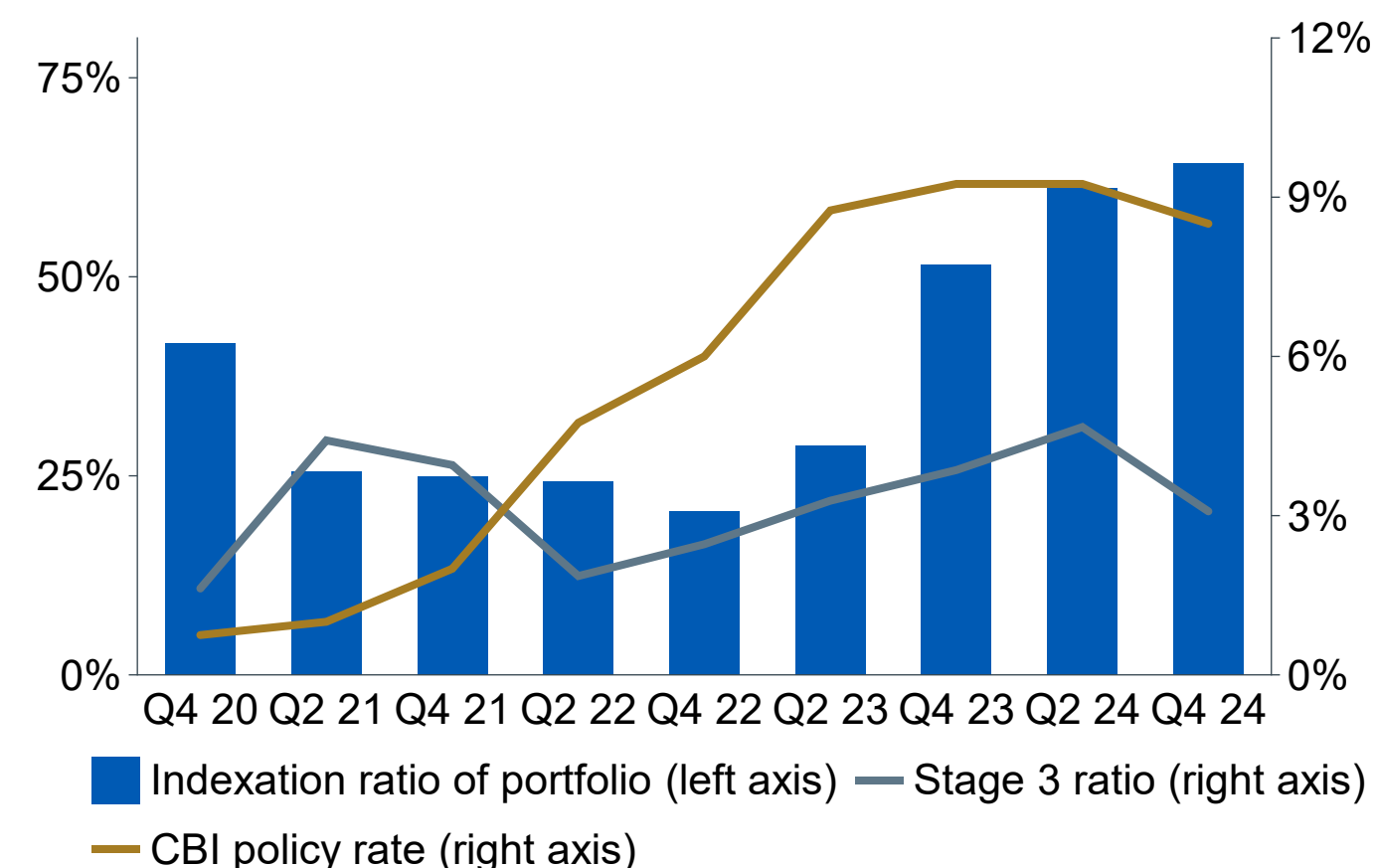
Well diversified collateral in terms of real estate type



1. For real estate sector only

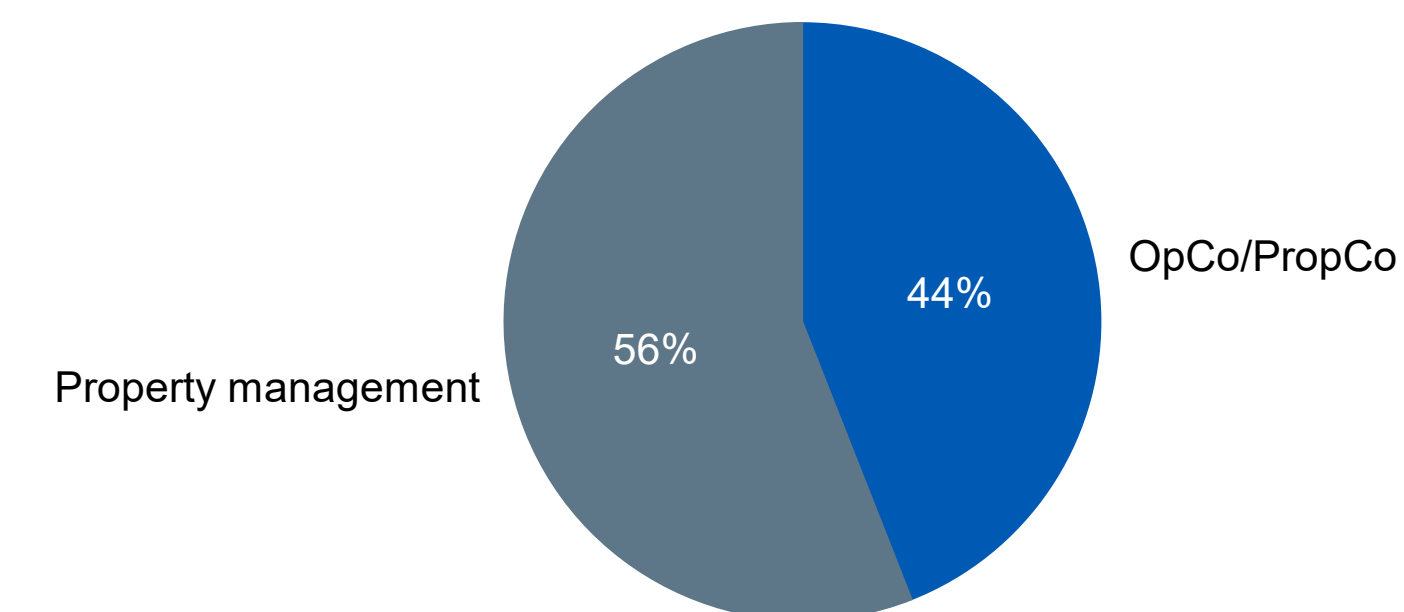
## Development of indexed loans and 90 days past due

Customers have reverted to indexed loans due to high interest rates. The delinquency rate remains low



## Borrower type

The Bank is focused on real estate exposures that are occupied by operational companies that are customers of the Bank (Opco/Propco). Property management contains both exposures to companies renting residential real estate and commercial real estate

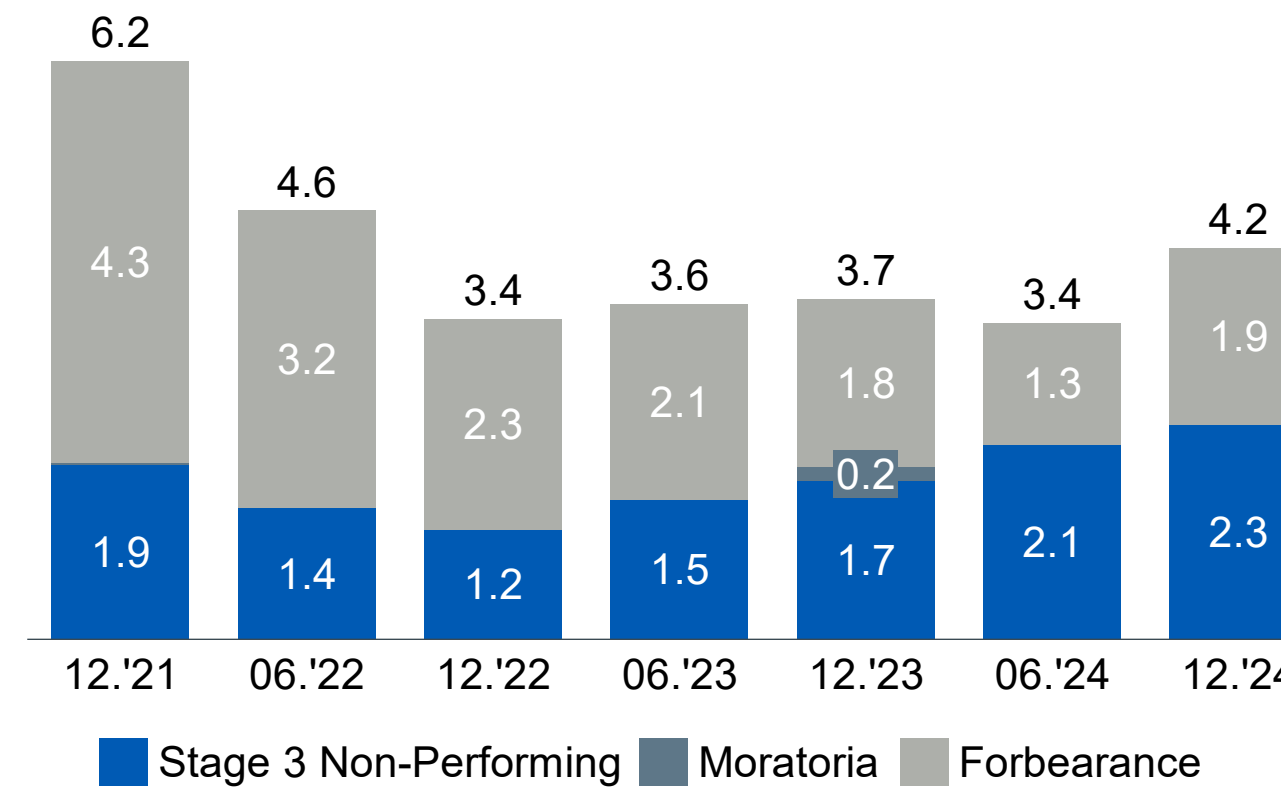


# Risk profile

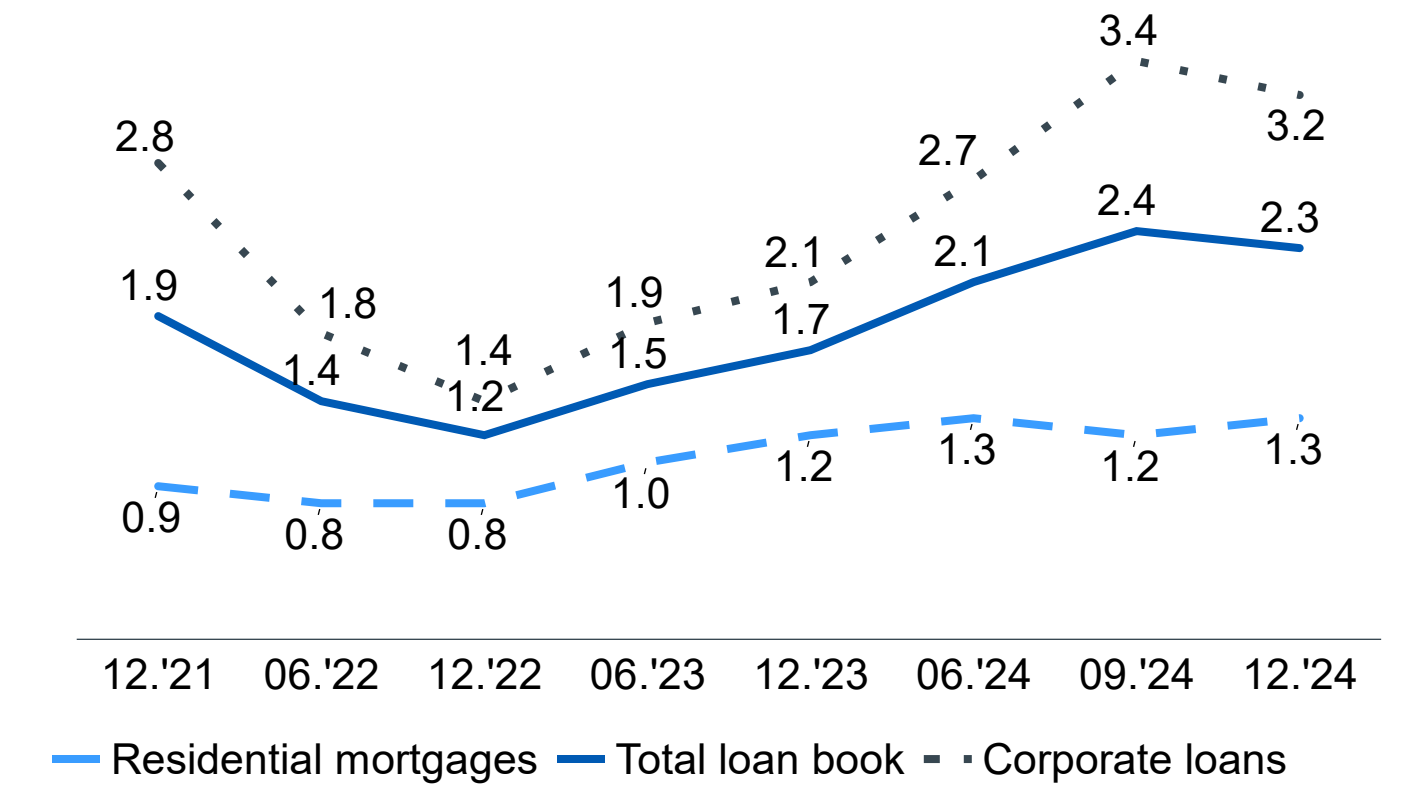
Strong credit quality indicators while the problem loans ratio has recently trended upwards

- The problem loans ratio has trended upwards since the start of 2023 but dropped in Q4 2024. The ratios are however still below long-term averages. The development is correlated with changes to the policy rate and future development is likely to depend on the pace of monetary easing
- The increase to corporate problem loans is mainly concentrated in the construction sector, which is impacted by elevated funding costs amid a slowing housing market
- Problem loans generally have good collateral coverage, as reflected in a Stage 3 coverage ratio of 18.6%
- Forborne exposures that are not in Stage 3 are 1.9% of loans to customers at year-end 2024, an increase from last quarter
- Total expected credit loss is expected to approach between 20-25bps in the long term based on current loan book composition. At the end of Q4 the 12-month expected credit loss ratio of 27bps reflects management's prudent view given current economic conditions

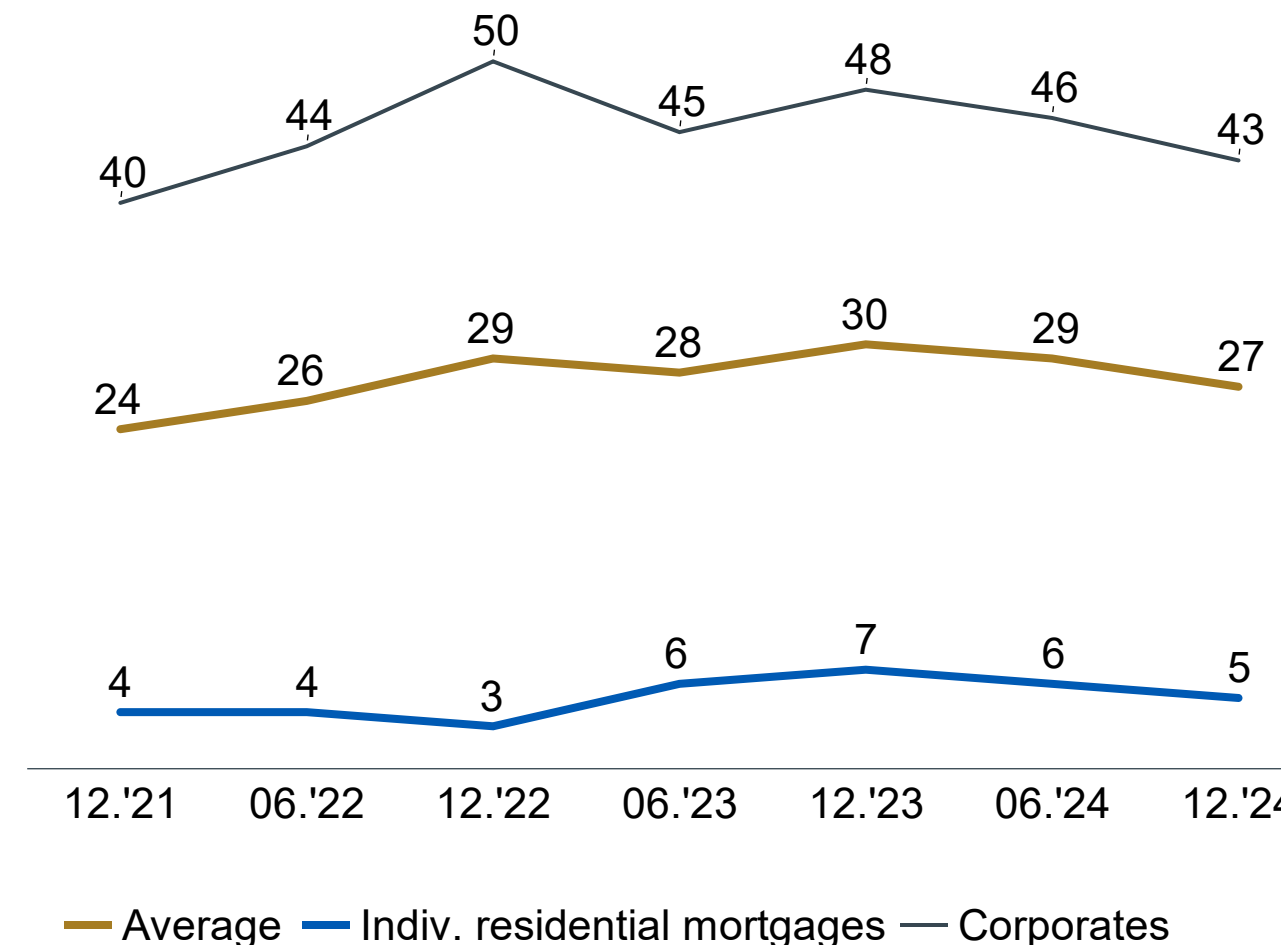
**Development of problem loans, moratoria and forbearance**  
(% of total loan book)



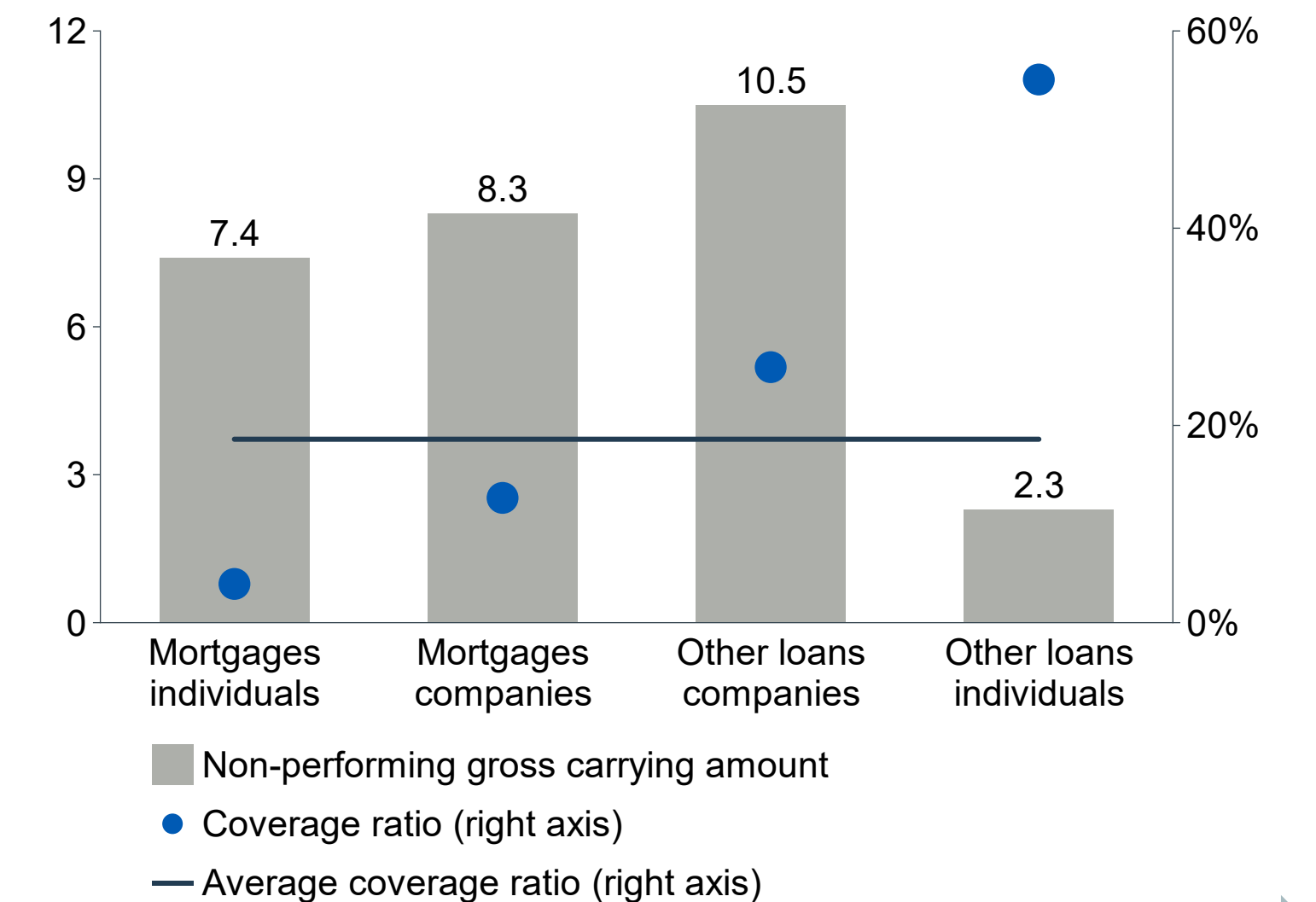
**Development of problem loans ratio for loan portfolios**  
(% of relevant loan book)



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



**Problem loan coverage breakdown\* (ISK bn)**



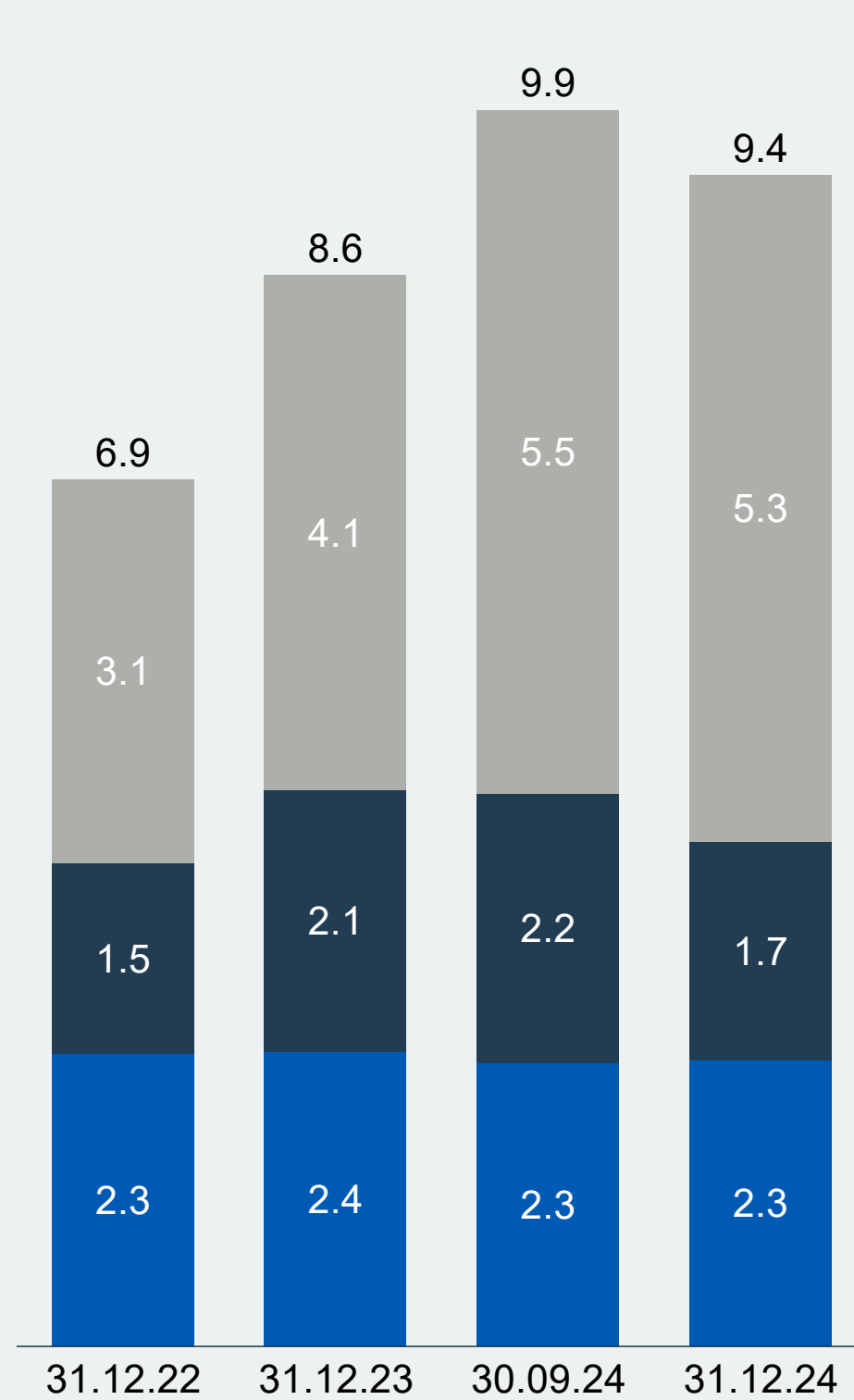
\*Residential property development or secured by residential real estate or land



# Loss allowance by IFRS 9 stages

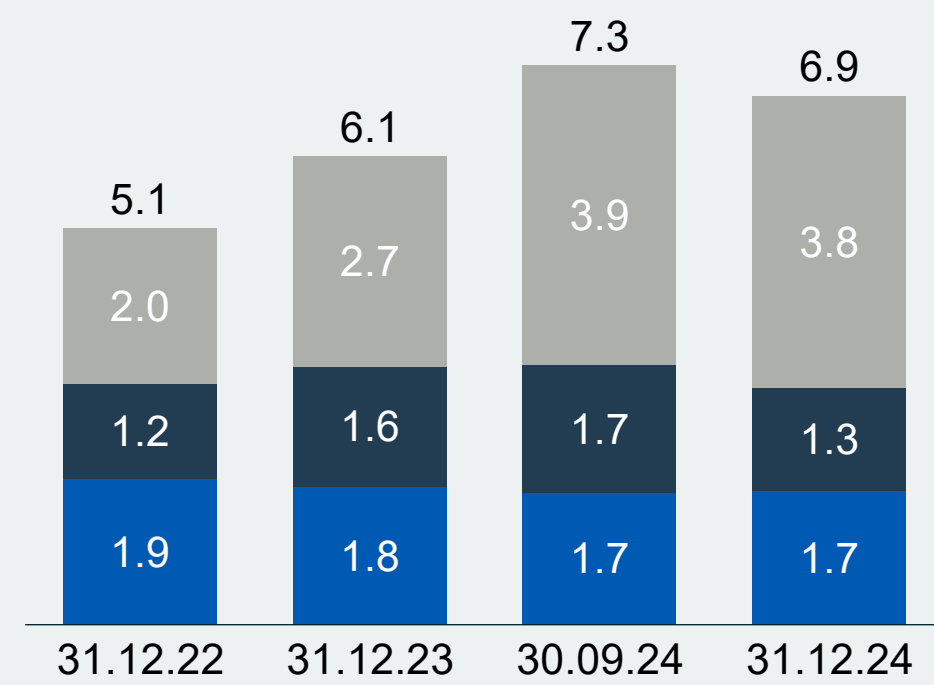
## On loans to customers total (ISK bn)

Loans to customers are 0.75% provisioned at year end, 0.74% at YE 2023



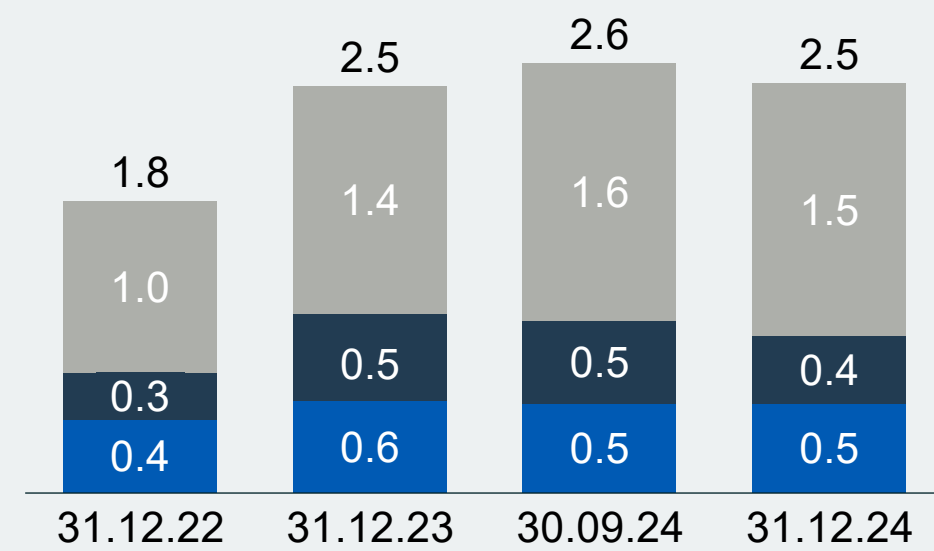
## Thereof on loans to corporates (ISK bn)

Loans to corporates are 1.15% provisioned at year end



## Thereof on loans to individuals (ISK bn)

Loans to individuals are 0.39% provisioned at year end



■ Stage 1 ■ Stage 2 ■ Stage 3

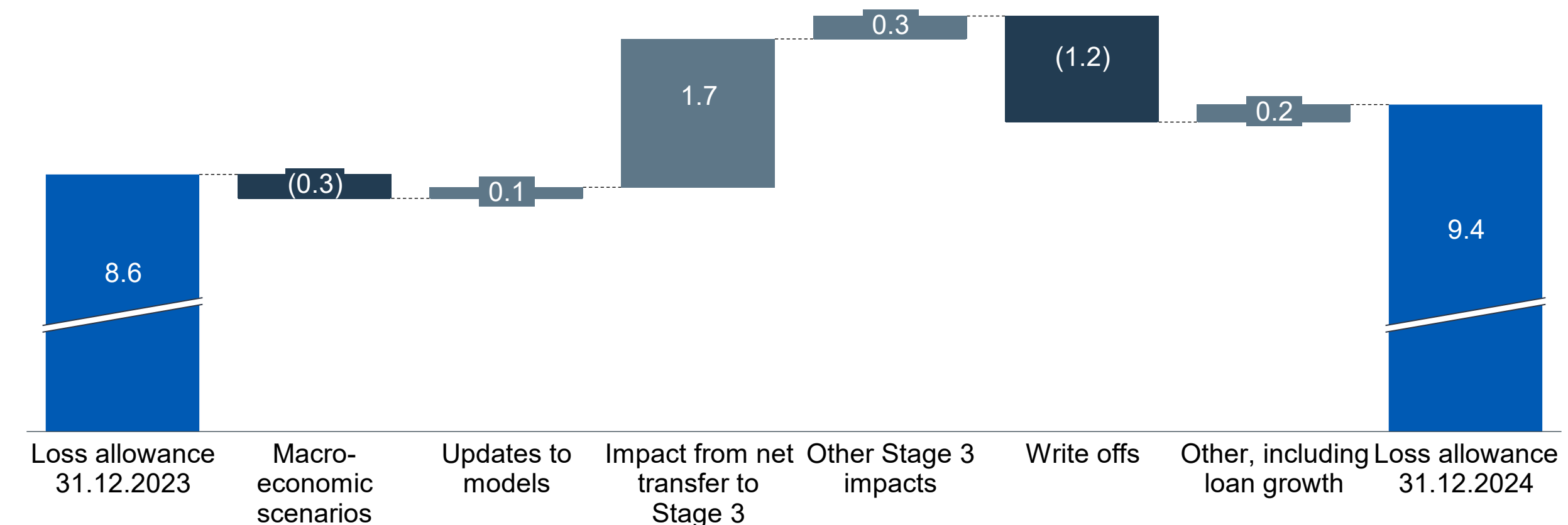
## IFRS9 economic scenarios and assumptions

Scenario weights remained unchanged throughout the year, following a shift from the base case to the pessimistic case in 2023

IFRS9 scenario likelihood	YE 2021	YE 2022	YE 2023	YE 2024
Optimistic	20%	10%	10%	10%
Base case	60%	65%	60%	60%
Pessimistic	20%	25%	30%	30%

## Changes to loss allowance on loans to customers YTD (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

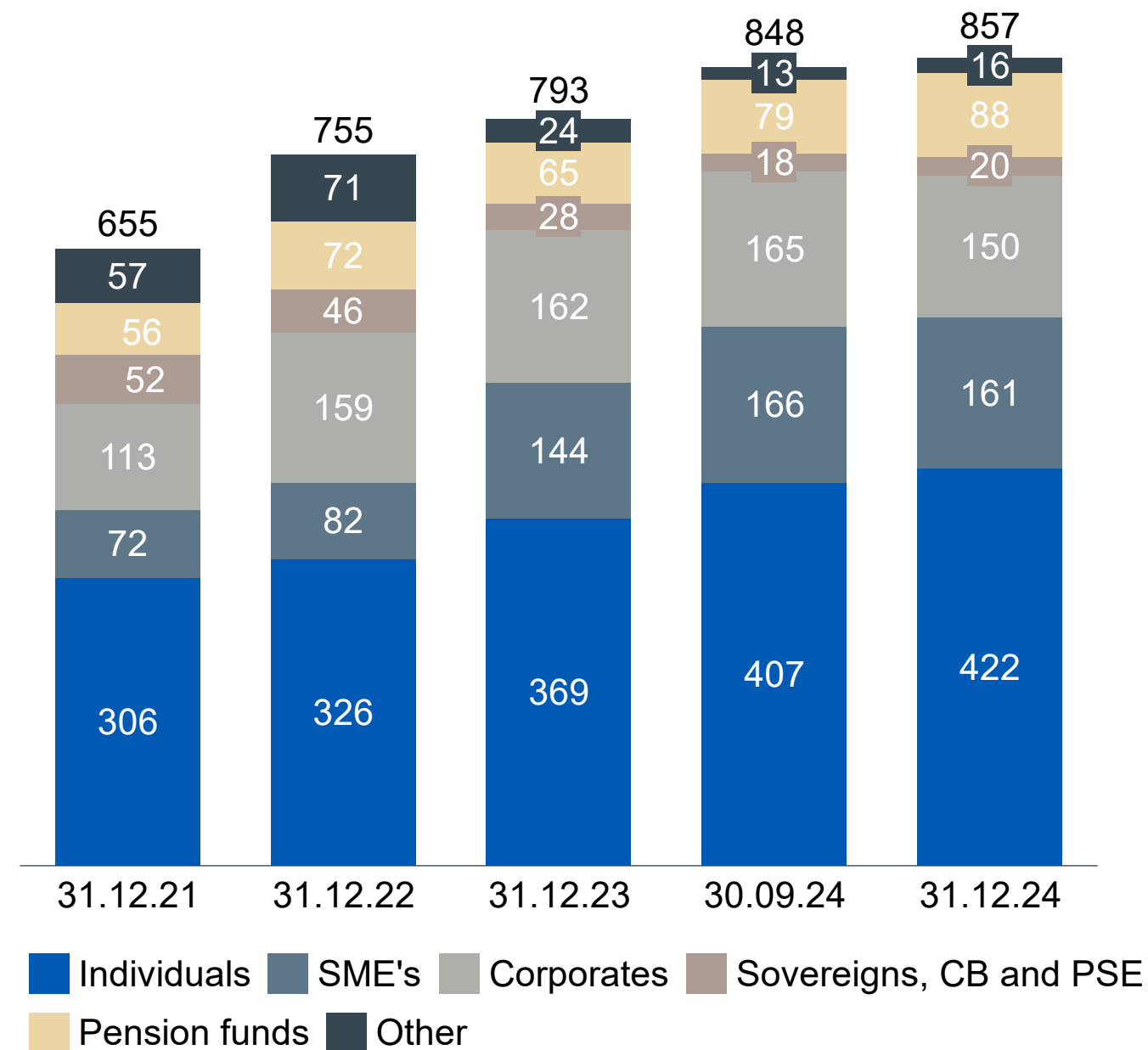


# Deposits from customers

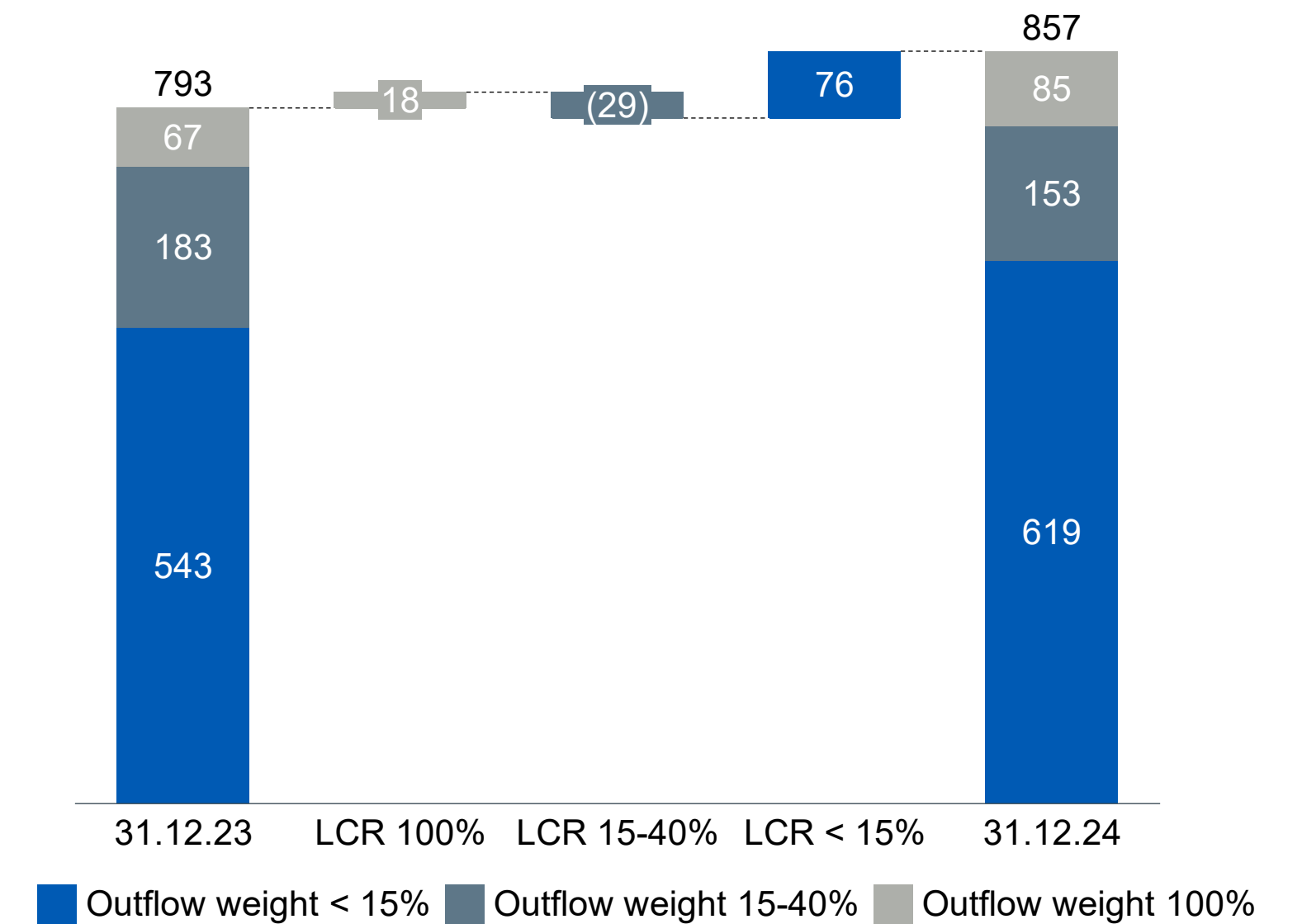
## Continued momentum in stable deposits

- Deposits from customers of ISK 864bn represent 61% of the Bank's total liabilities
- YoY growth has primarily been in "stable" LCR categories and term deposits, reflecting the strategic focus
- Loans to deposits ratio of 143% at the end of the year and has been relatively stable over the last few years

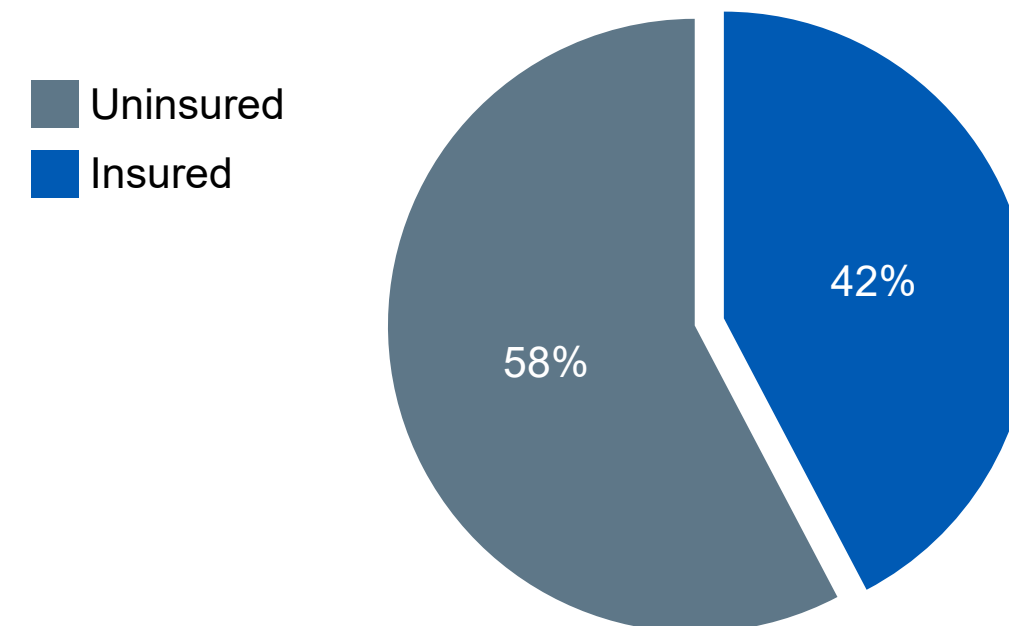
Deposits (ISK bn)



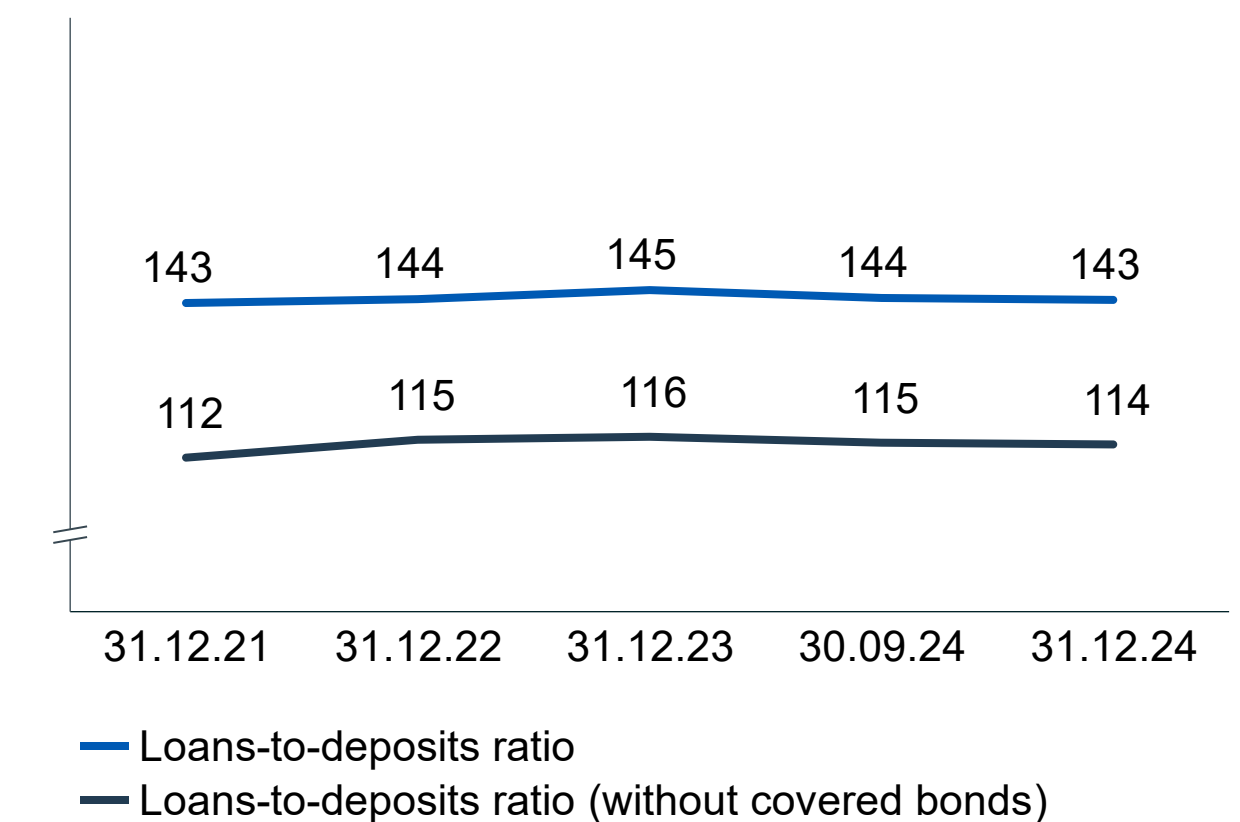
Deposit growth by LCR outflow category (ISK bn)



Deposits by insurance scheme



Loans to deposits ratio (%)

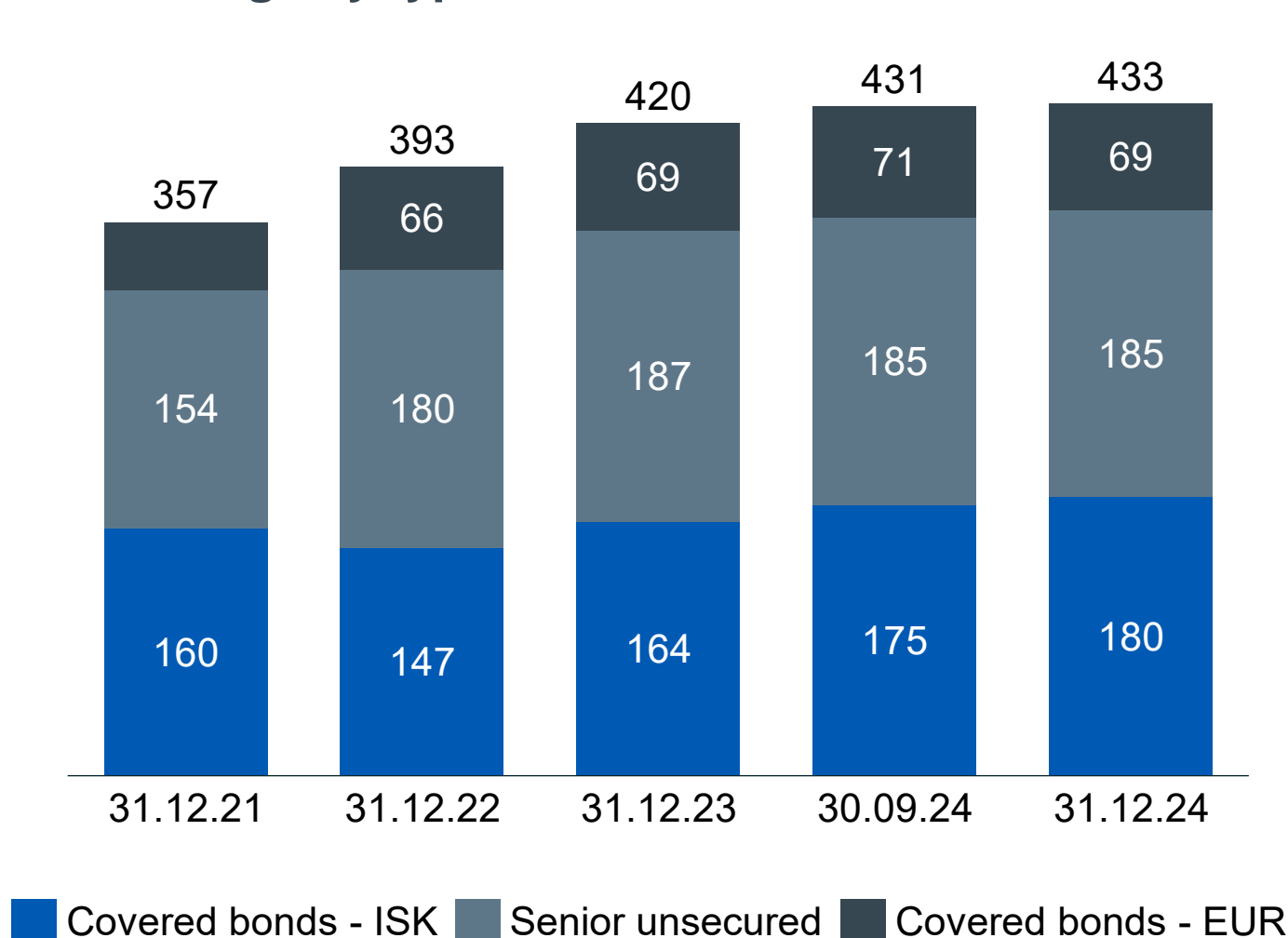


# Funding and rating

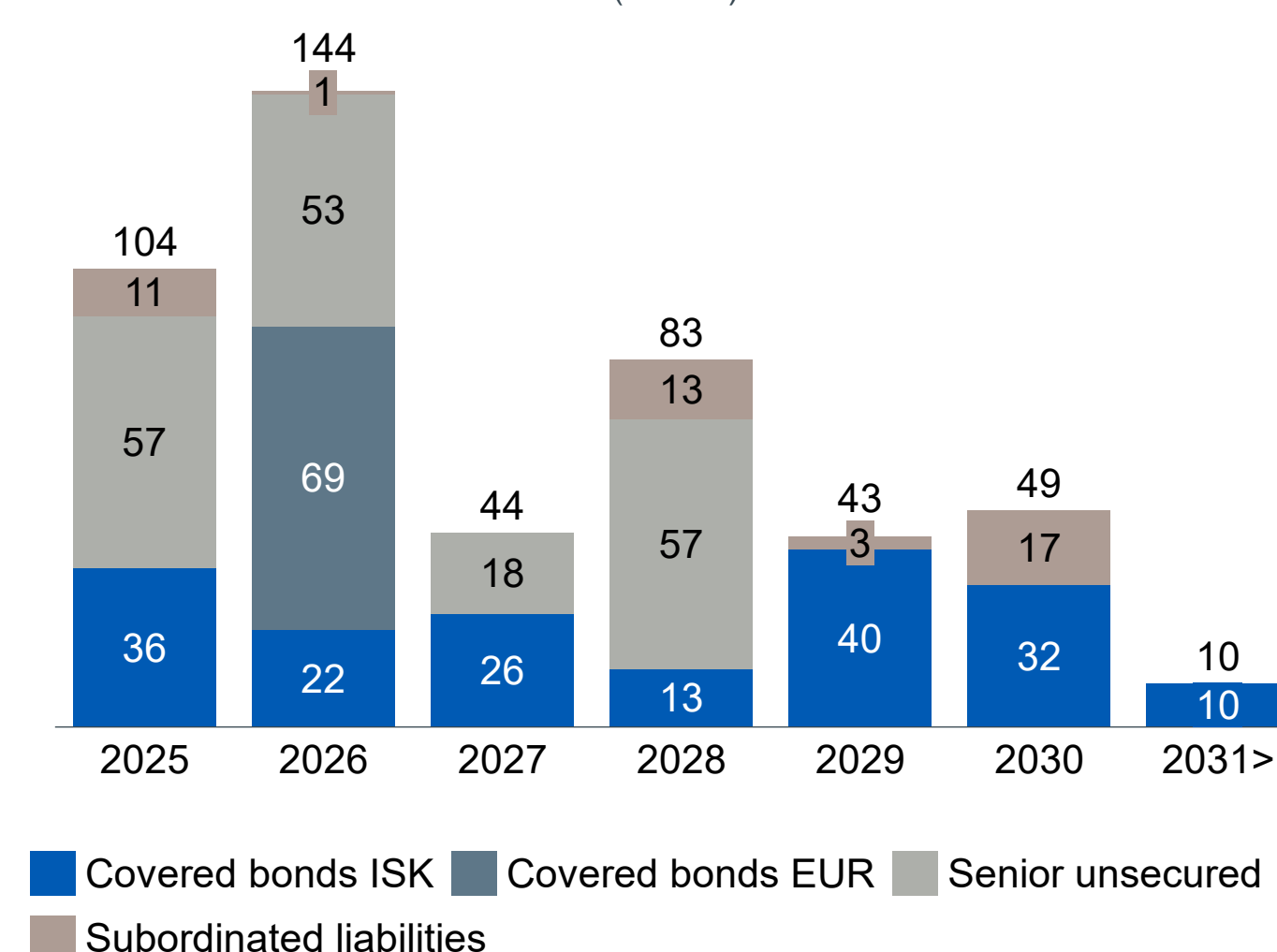
Balanced maturity profile and positive spread development

- Successful issuance of Green Senior preferred notes in SEK and NOK in October
  - Total issuance of SEK 500m and NOK 500m
  - The bonds were floating rate and were priced at a spread of 120bps over 3-month NIBOR and STIBOR
- In November Arion issued Tier 2 for total of SEK 225m
  - The bonds have 10NC5 and were priced at a spread of 265bps over 3-months STIBOR
- Credit spreads have been relatively stable in the quarter after contracting sharply over past year
- Total issuance of ISK covered bonds in 2024 was ISK 41.7bn and total issuance of ISK senior bonds was ISK 3.3bn
- Moody's raised Arion Bank's covered bond rating to Aa1 and affirmed the Bank's A3 long term issuer rating in 2024 on stable outlook



Borrowings by type (ISK bn)



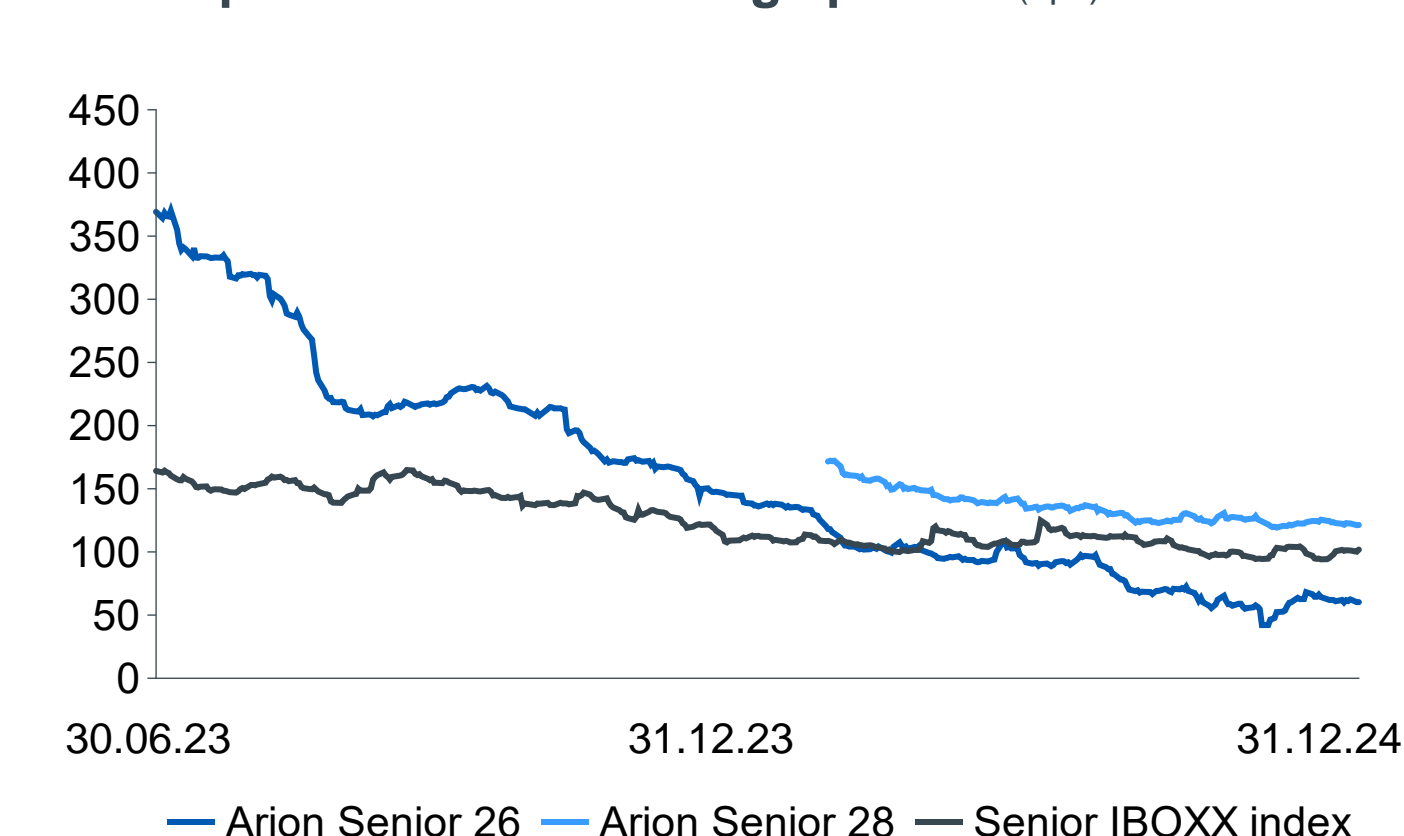
Maturities of borrowings and call dates on subordinated liabilities (ISK bn)



## Ratings

		
Issuer - long term	A3	A1
Covered bond	Aa1	N/A
Outlook	Stable	Stable

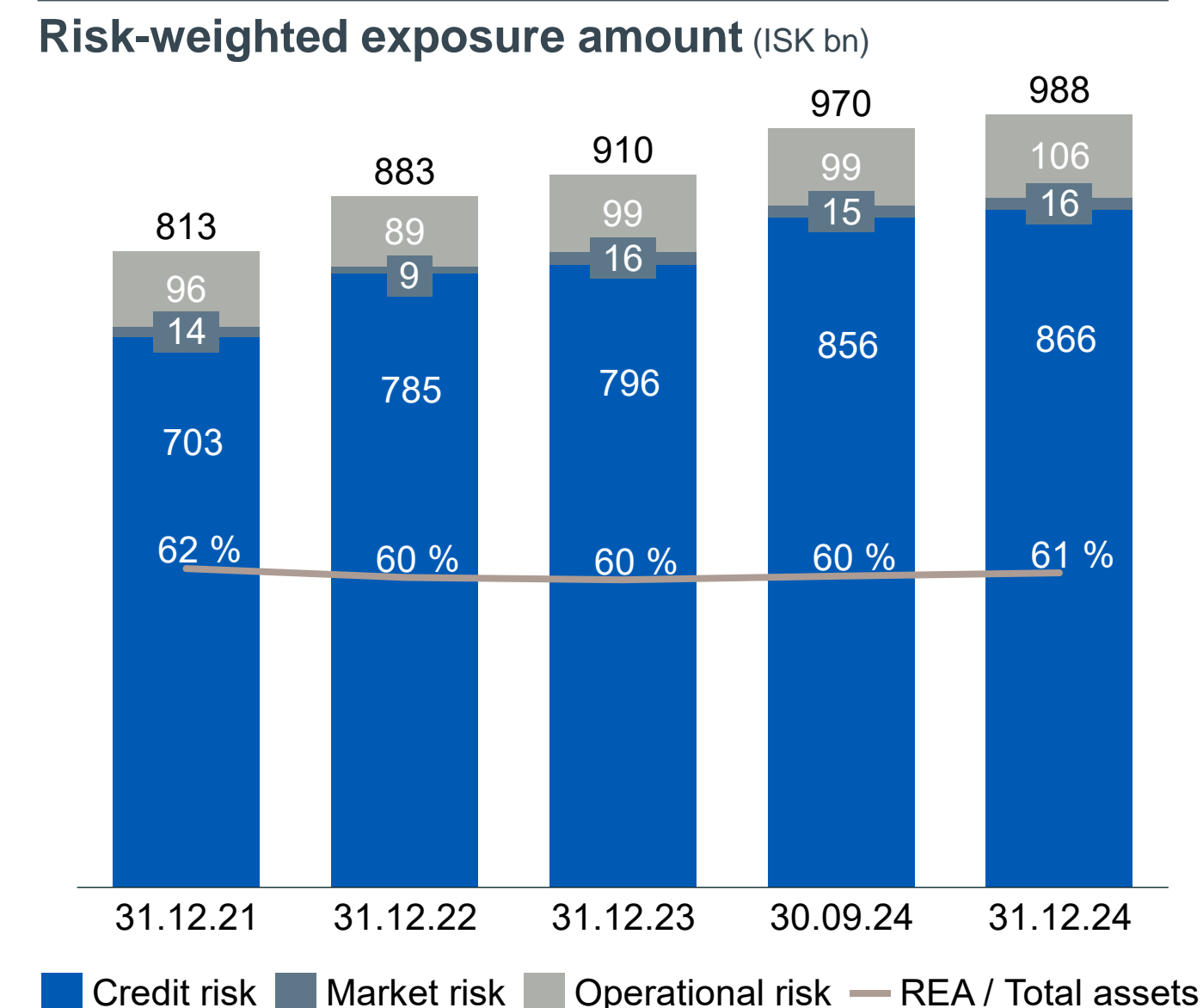
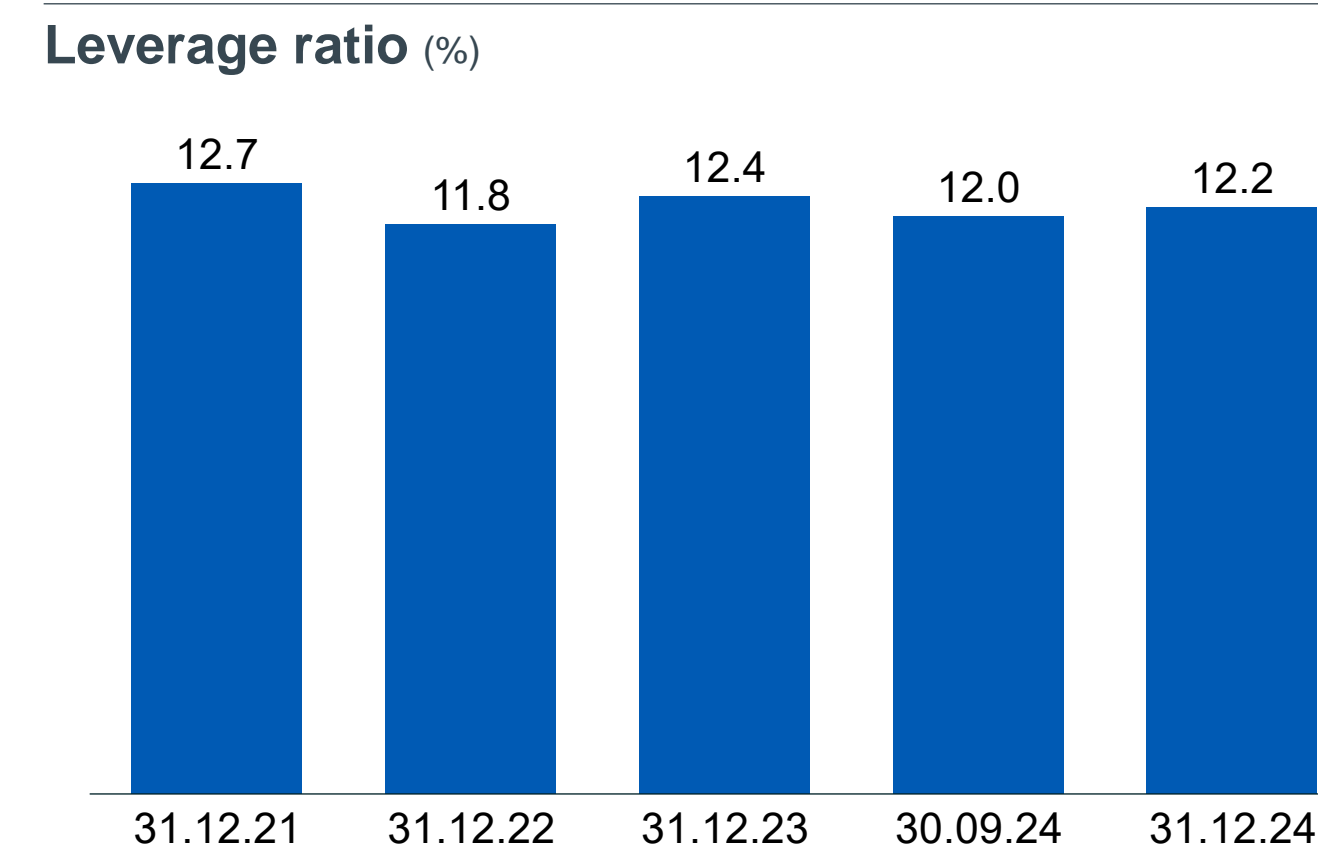
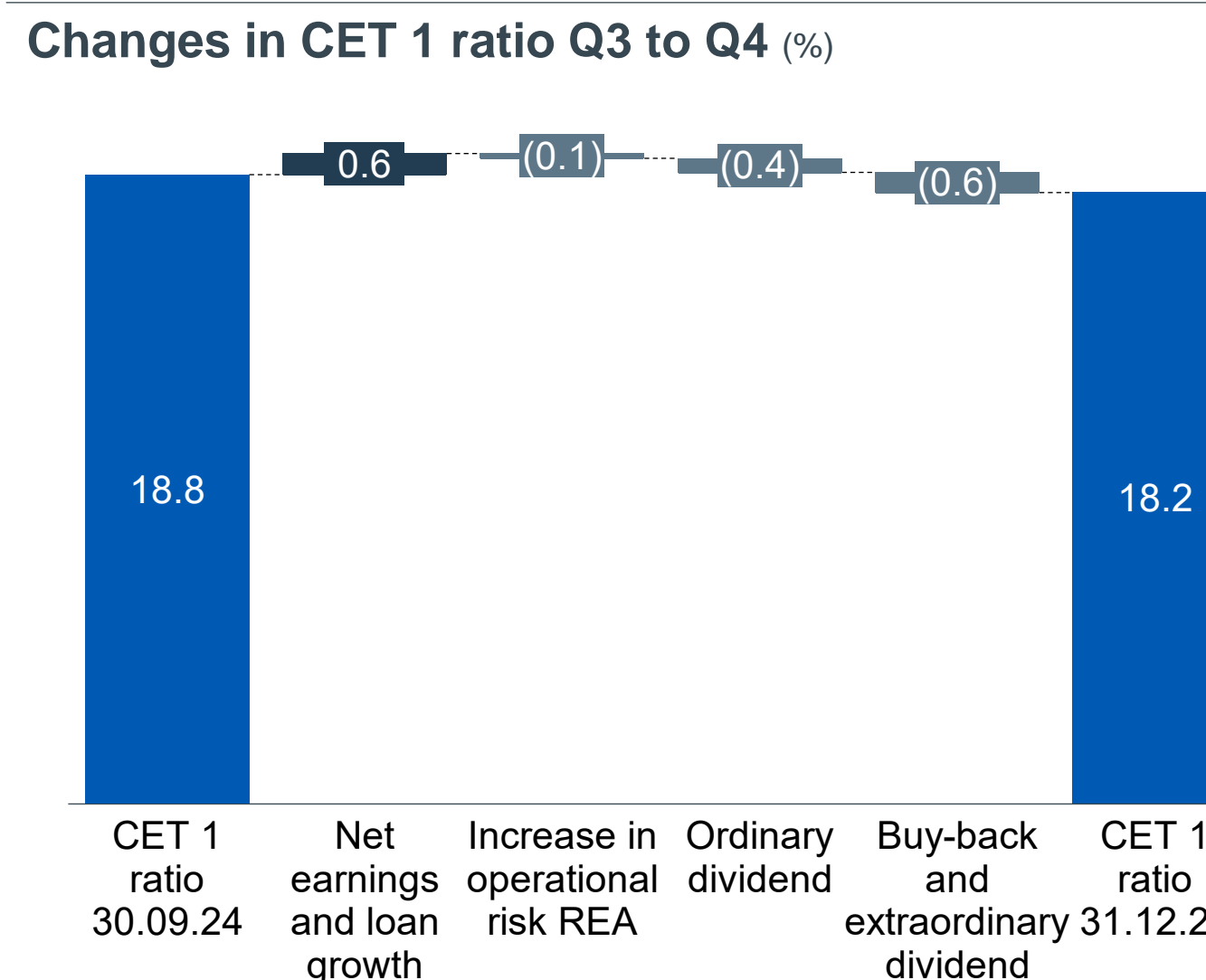
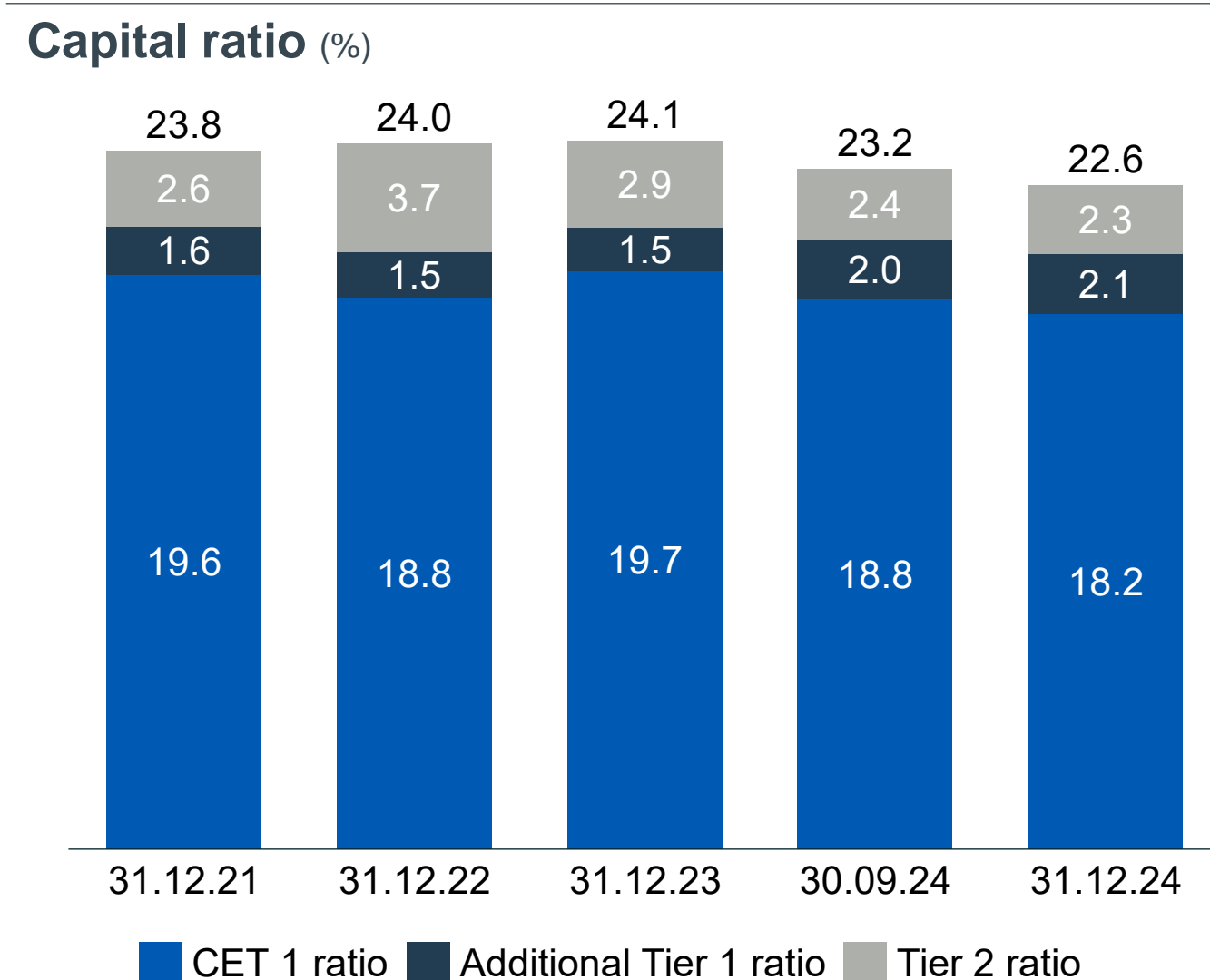
Development of EUR funding spreads (bps)



# Own funds

## Strong capital position

- CET1 position is 293bps above regulatory requirement
- AT1 position optimized with new USD issue during the year
- REA increased by ISK 18bn or 1.8% during the quarter, partly due to 7% increase in operational risk, which is updated yearly
- Leverage ratio of 12.2% significantly above most international peers
- The Resolution Authority of the Central Bank of Iceland presented the Bank with updated MREL requirements in October
  - The MREL requirements are 19.6% of REA
  - At the end of the year the ratio was 26.0%
  - Additionally, the Resolution Authority has introduced a subordinated MREL requirement of 13.5% which will apply to the Bank from 1 August 2026

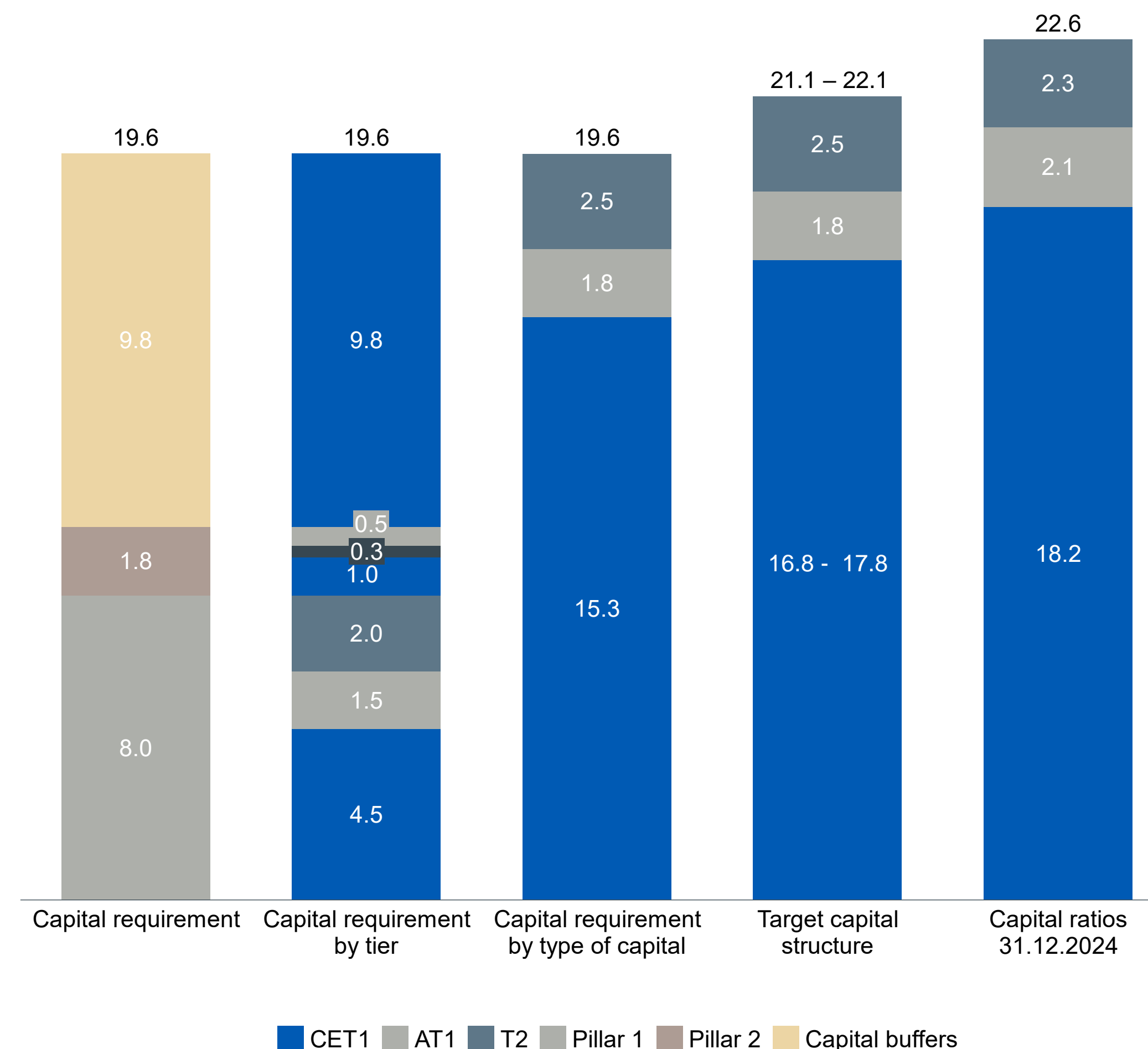


# Own funds

The capital ratios continue to be strong while capital optimization continues

- Full-year net earnings of ISK 26.1bn and foreseeable dividends and ongoing buy-backs of ISK 19.0bn included in the capital ratios shown. The proposed dividends represent 61% of net earnings and are thus beyond the dividend policy of 50% of net earnings
- The Pillar 2 requirement is 1.8% as a result of the SREP process based on year-end 2023 financials
- The countercyclical buffer in Iceland rose from 2.0% to 2.5% as of 16 March 2024 based on a decision of The Financial Stability Council from a year earlier. In December 2024, the systemic risk buffer was lowered from 3% to 2% and the buffer for systemically important institutions raised from 2% to 3%
- The medium-term capital management buffer target is around 150-250bps over regulatory requirements which considers the capital benchmarks of credit rating agencies
- CRR3 is expected to come into effect in Iceland in the second half of 2025. The implementation is subject to regulatory interpretation and guidelines for several subjects, but based on the Bank's current expectations, a capital relief of around ISK 5bn is anticipated
- The solvency ratio of Vördur insurance is 168.9%

Own funds and capital requirements (%)



# Going forward

## Operational momentum

- Positive operational momentum across the Group provides optimism for 2025
- The Group benefits from diversified and seasoned businesses and has demonstrated ability to deliver on targets through the cycle

## External environment

- Cautious stance as to evolving external rate and economic environment
- Positive milestones in lowering policy rates and reduced inflation

## Balance sheet

- Very strong balance sheet position with ability to capture growth opportunities
- Strong milestones in capital optimization and expect to reach target levels over the coming year





# Key figures\*

Operations	2024	2023	2022	2021	2020	Q4 2024	Q3 2024	Q2 2024	Q1 2024	Q4 2023
Net interest income	46,302	44,685	40,201	32,063	31,158	11,246	11,863	11,948	11,245	11,347
Net commission income	15,360	16,389	16,449	14,673	11,642	4,136	3,880	3,979	3,365	3,903
Operating income	66,451	64,181	55,293	58,225	50,764	17,906	17,486	16,585	14,474	16,312
Operating expenses	(28,328)	(25,701)	(24,329)	(12,420)	(12,602)	(8,601)	(6,021)	(7,152)	(6,554)	(7,830)
Net earnings	26,112	25,737	25,960	28,614	12,469	8,289	7,891	5,500	4,432	6,224
Return on equity	13.2%	13.6%	14.1%	14.7%	6.5%	16.3%	16.1%	11.5%	9.1%	12.7%
Net interest margin	3.1%	3.1%	3.1%	2.8%	2.9%	2.9%	3.1%	3.2%	3.1%	3.1%
Return on assets	1.7%	1.7%	1.9%	2.3%	1.1%	2.1%	2.0%	1.4%	1.2%	1.6%
Cost-to-core income ratio	47.2%	44.7%	45.0%	51.6%	53.3%	57.5%	37.5%	46.2%	48.4%	54.9%
Cost-to-income ratio	42.6%	40.0%	44.0%	44.4%	48.1%	48.0%	34.4%	43.1%	45.3%	48.0%
Cost-to-total assets	1.8%	1.7%	1.8%	2.1%	2.1%	2.1%	1.5%	1.8%	1.7%	2.0%

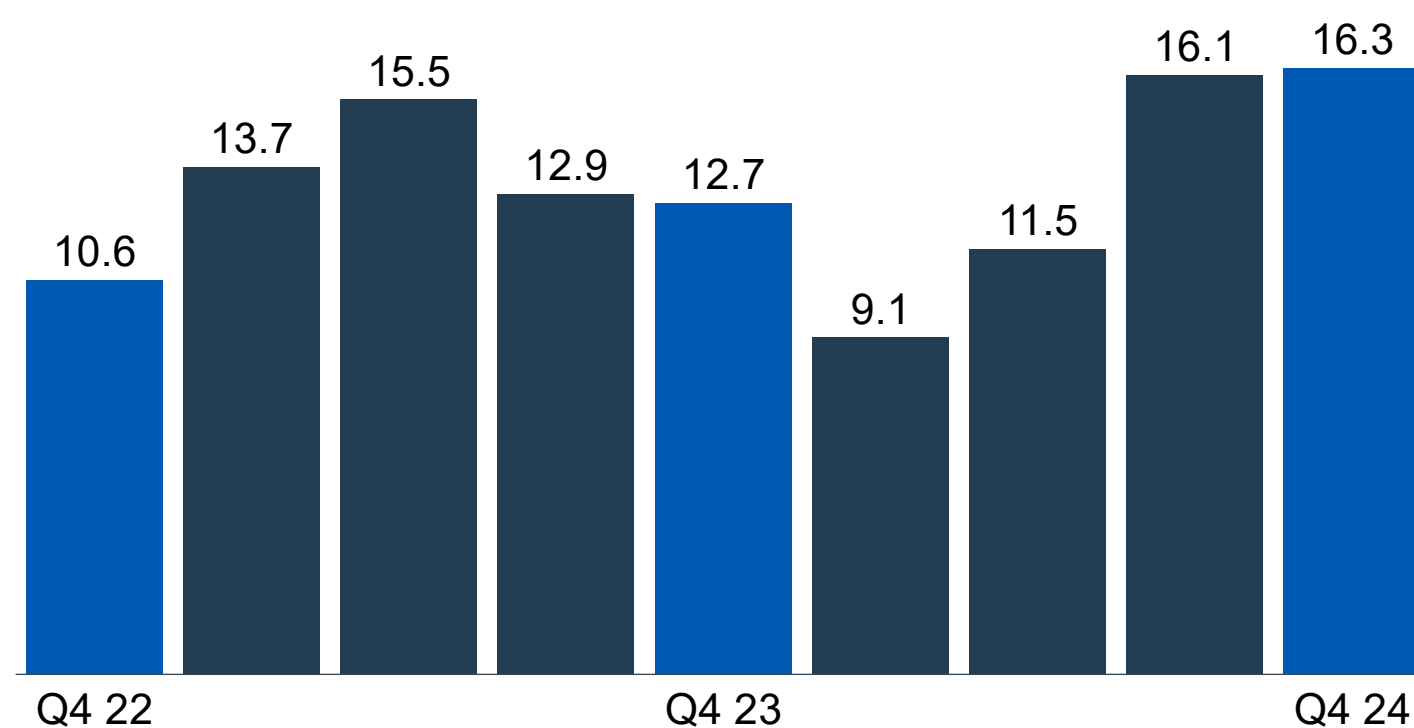
Balance Sheet	31.12.2024	31.12.2023	31.12.2022	31.12.2021	31.12.2020	31.12.2024	30.09.2024	30.06.2024	31.03.2024	31.12.2023
Total assets	1,618,267	1,525,672	1,465,609	1,310,710	1,172,706	1,618,267	1,605,717	1,568,789	1,544,432	1,525,672
Loans to customers	1,230,058	1,152,789	1,084,757	936,237	822,941	1,230,058	1,220,424	1,202,616	1,178,700	1,152,789
Mortgages	570,842	549,371	513,605	463,457	377,873	570,842	580,813	575,229	558,692	549,371
Share of stage 3 loans, gross	2.3%	1.7%	1.2%	1.9%	2.6%	2.3%	2.4%	2.1%	1.9%	1.7%
REA/ Total assets	61.0%	59.7%	60.1%	61.9%	63.6%	61.0%	60.4%	60.7%	60.7%	59.7%
CET 1 ratio	18.2%	19.7%	18.8%	19.6%	22.3%	18.2%	18.8%	18.5%	18.8%	19.7%
Leverage ratio	12.2%	12.4%	11.8%	12.7%	15.1%	12.2%	12.0%	11.9%	12.0%	12.4%
Liquidity coverage ratio	180.6%	191.8%	158.5%	202.8%	188.5%	180.6%	178.6%	154.4%	143.6%	191.8%
Loans to deposits ratio	143.5%	145.4%	143.6%	142.8%	144.8%	143.5%	143.8%	142.0%	147.0%	145.4%

\*Figures for periods prior to 2022 have not been restated according to IFRS 17

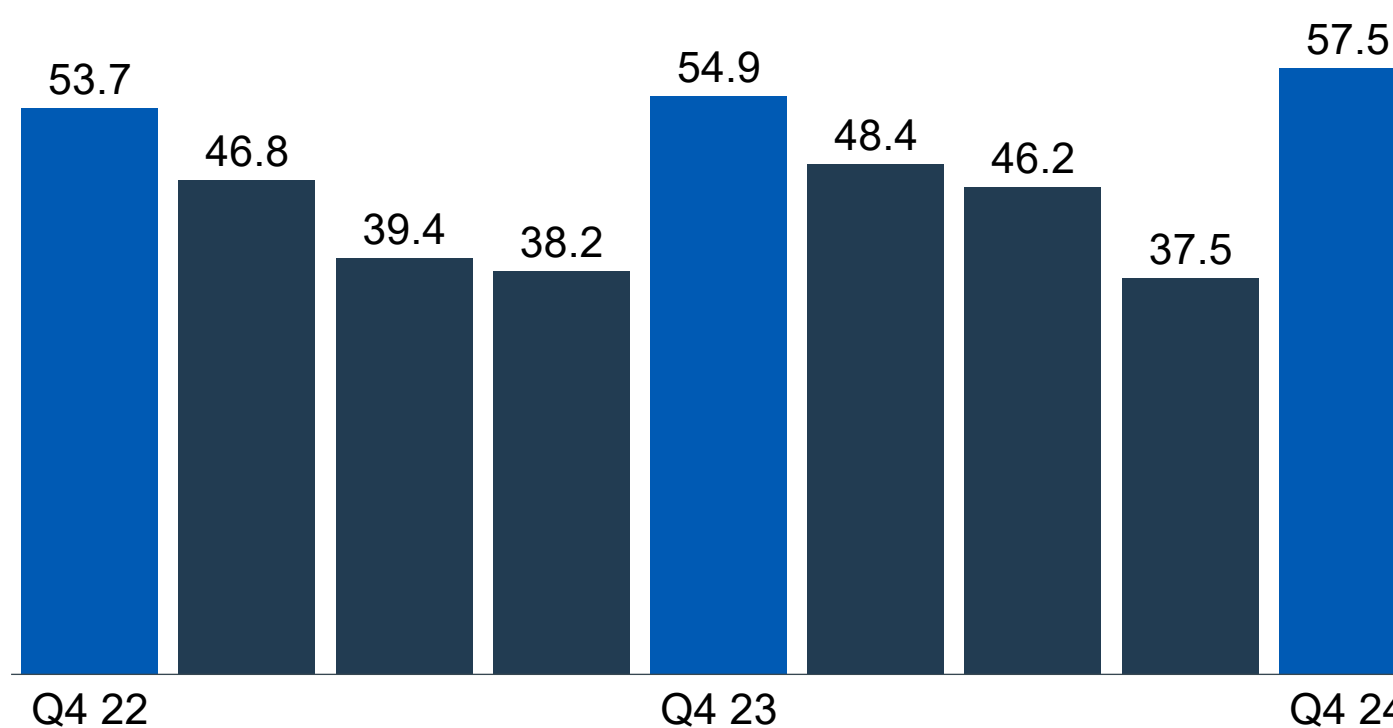


# Key financial indicators - quarterly

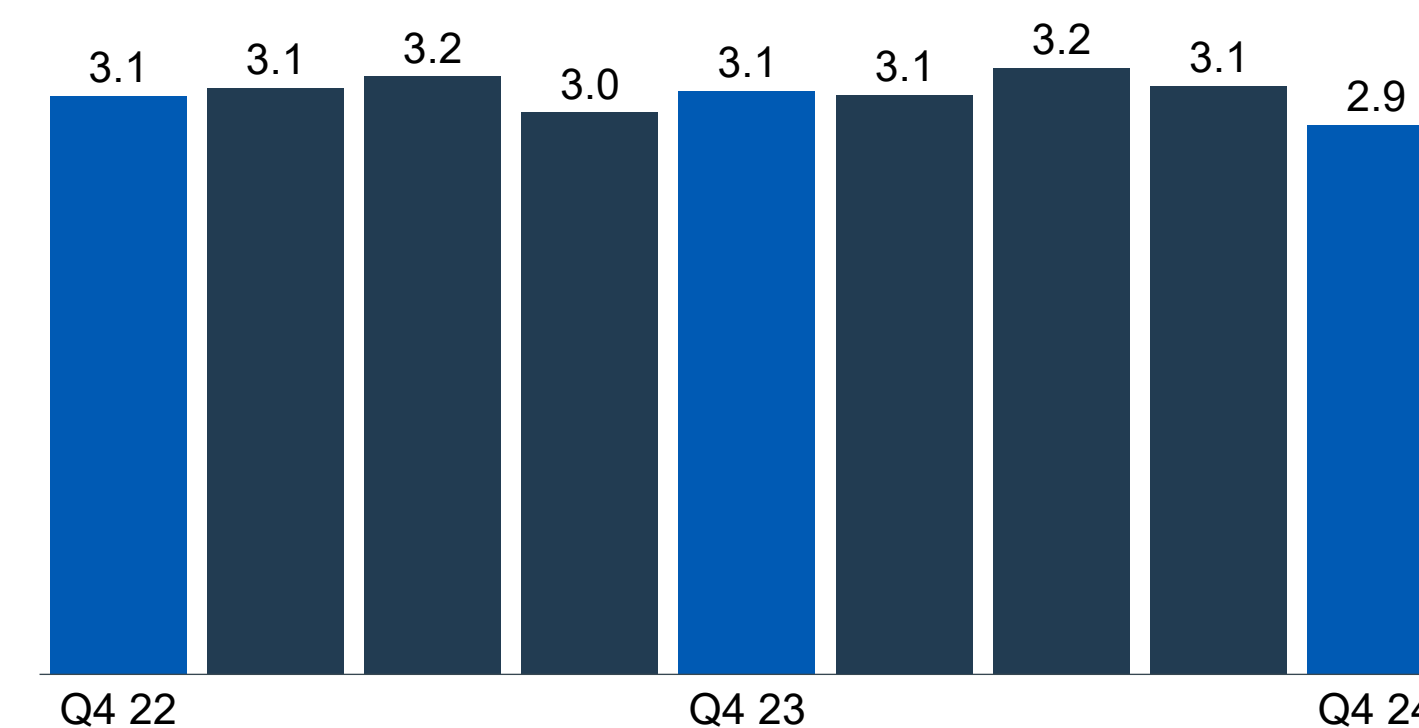
Return on equity (%)



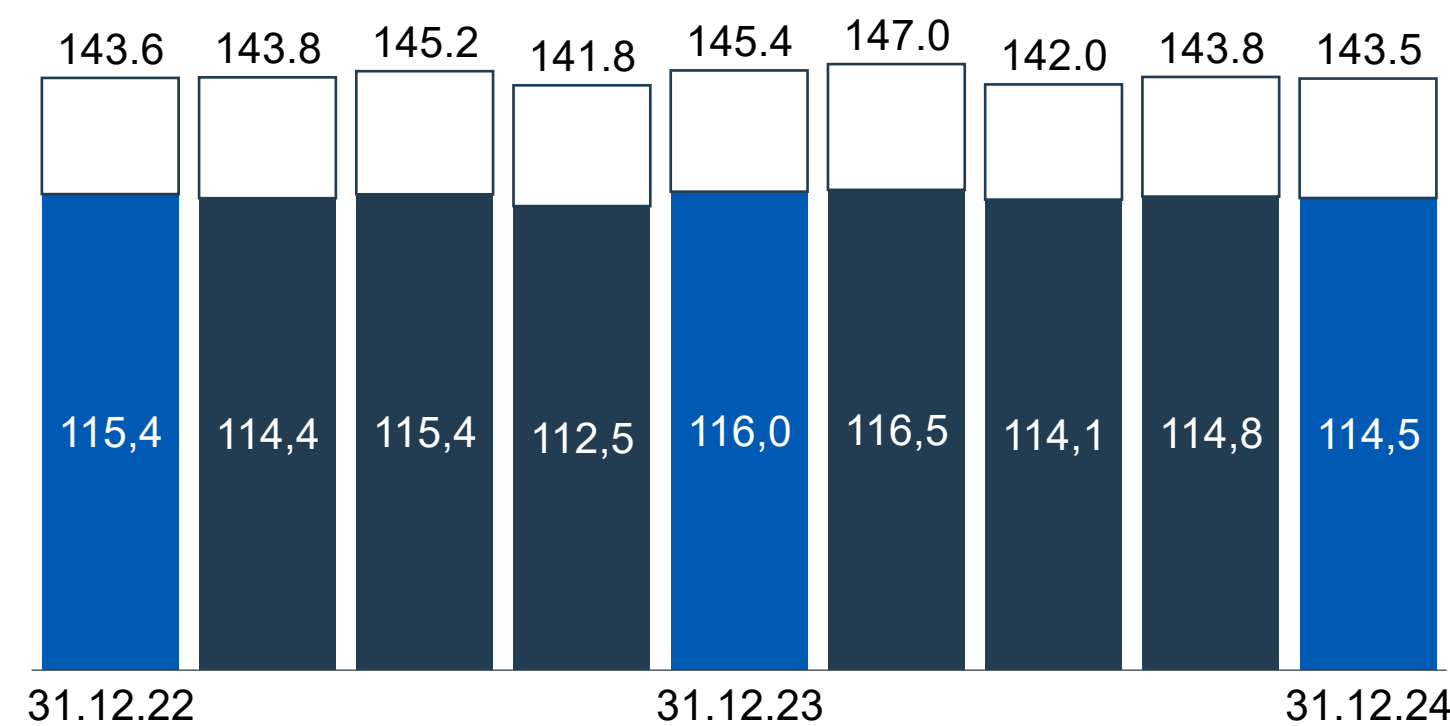
Cost-to-Core income ratio (%)



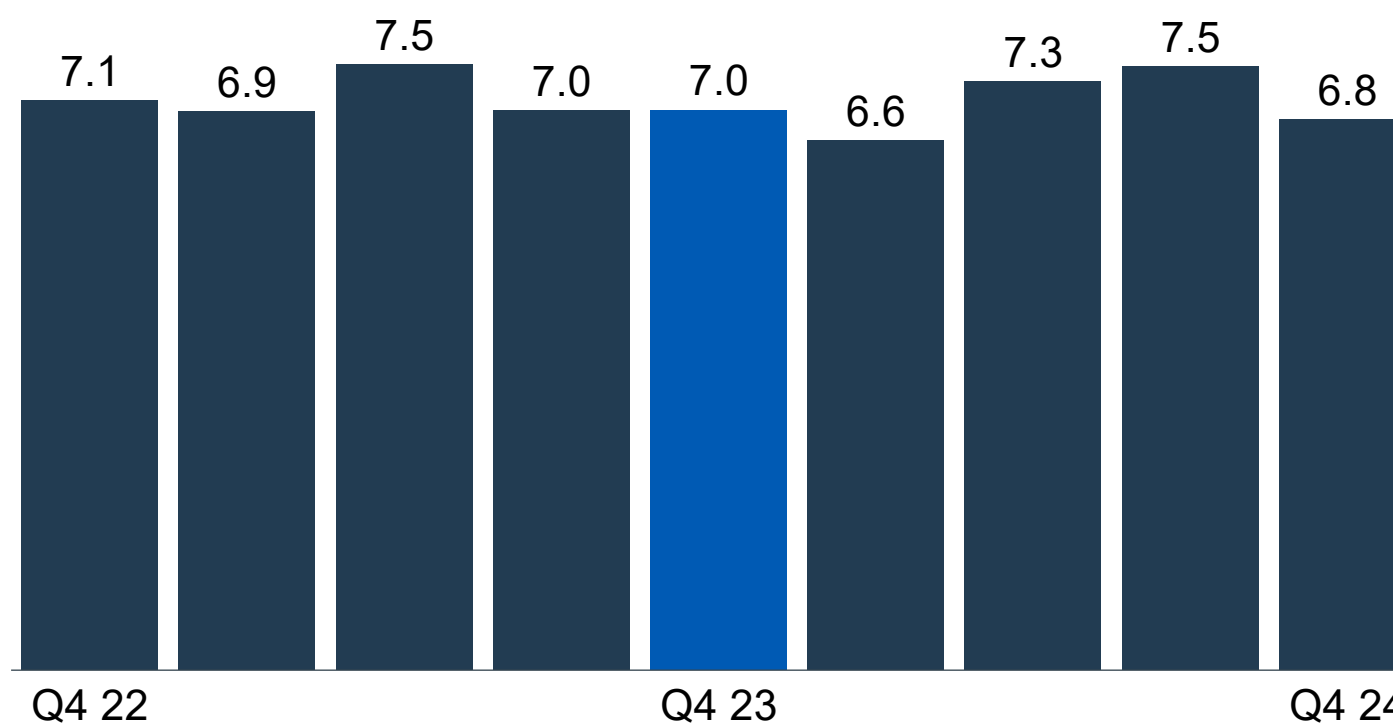
Net interest margin (%)



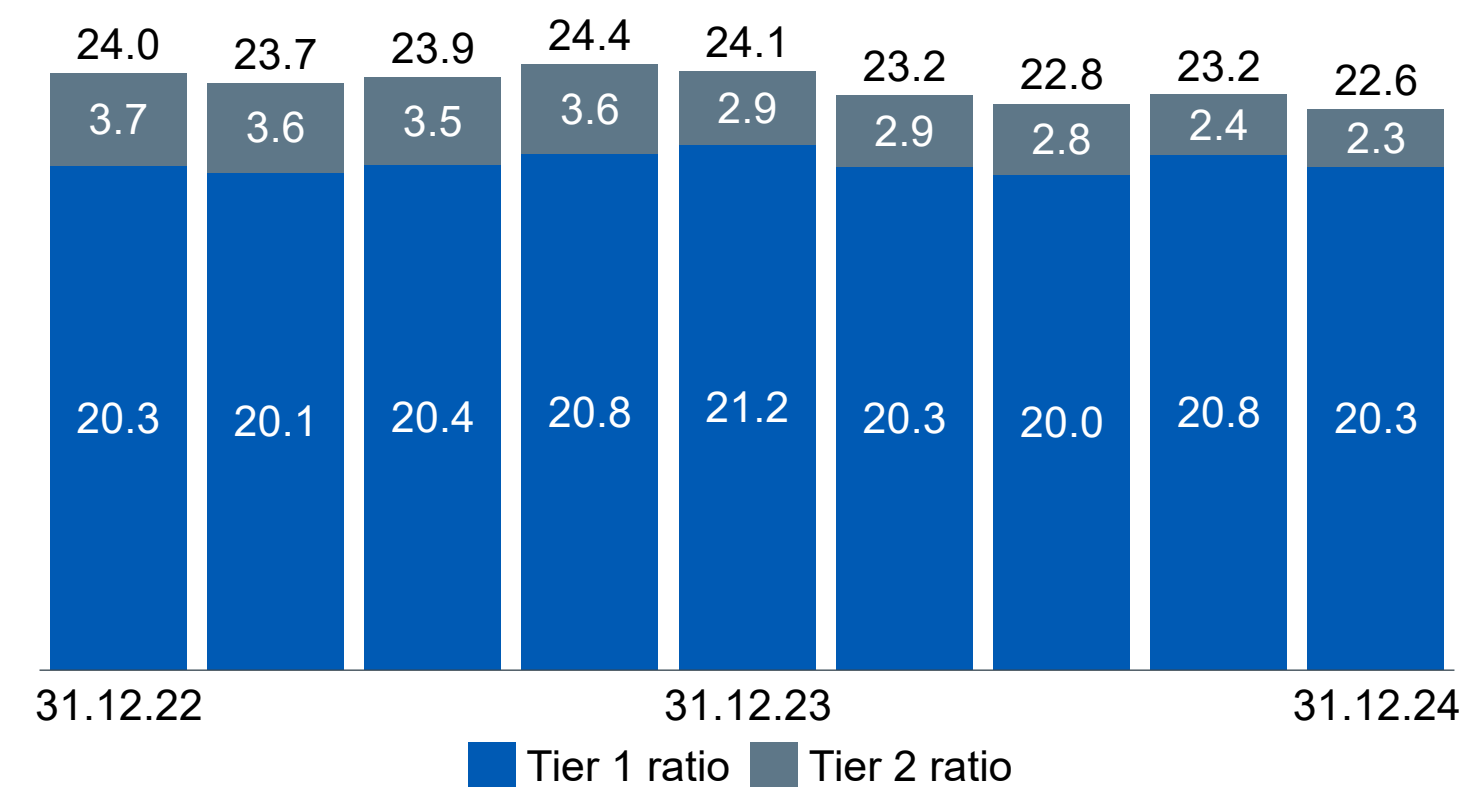
Loans to deposits ratio (%)  
(without loans financed by covered bonds)



Core operating income / REA (%)

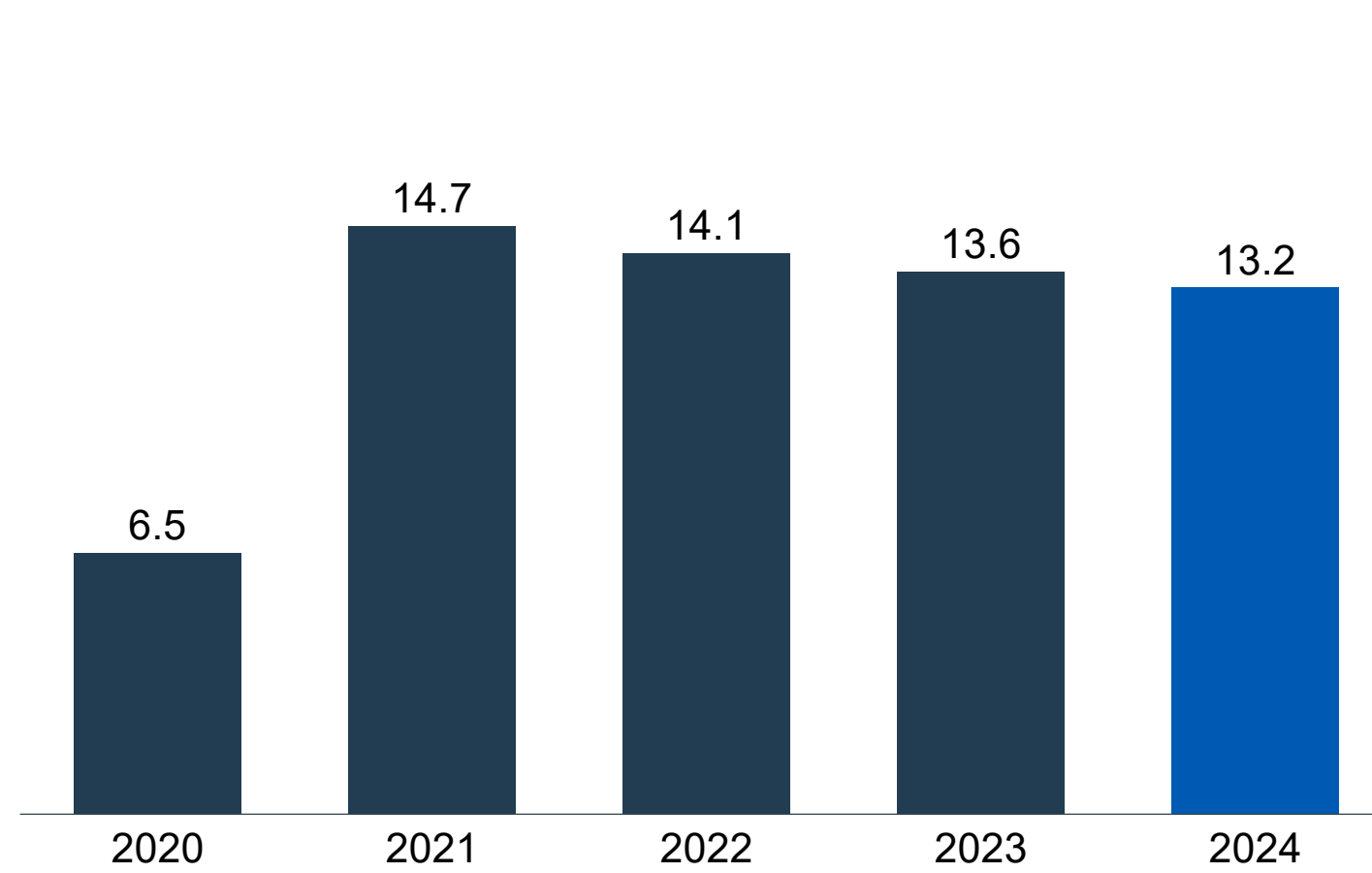


Capital ratio (%)

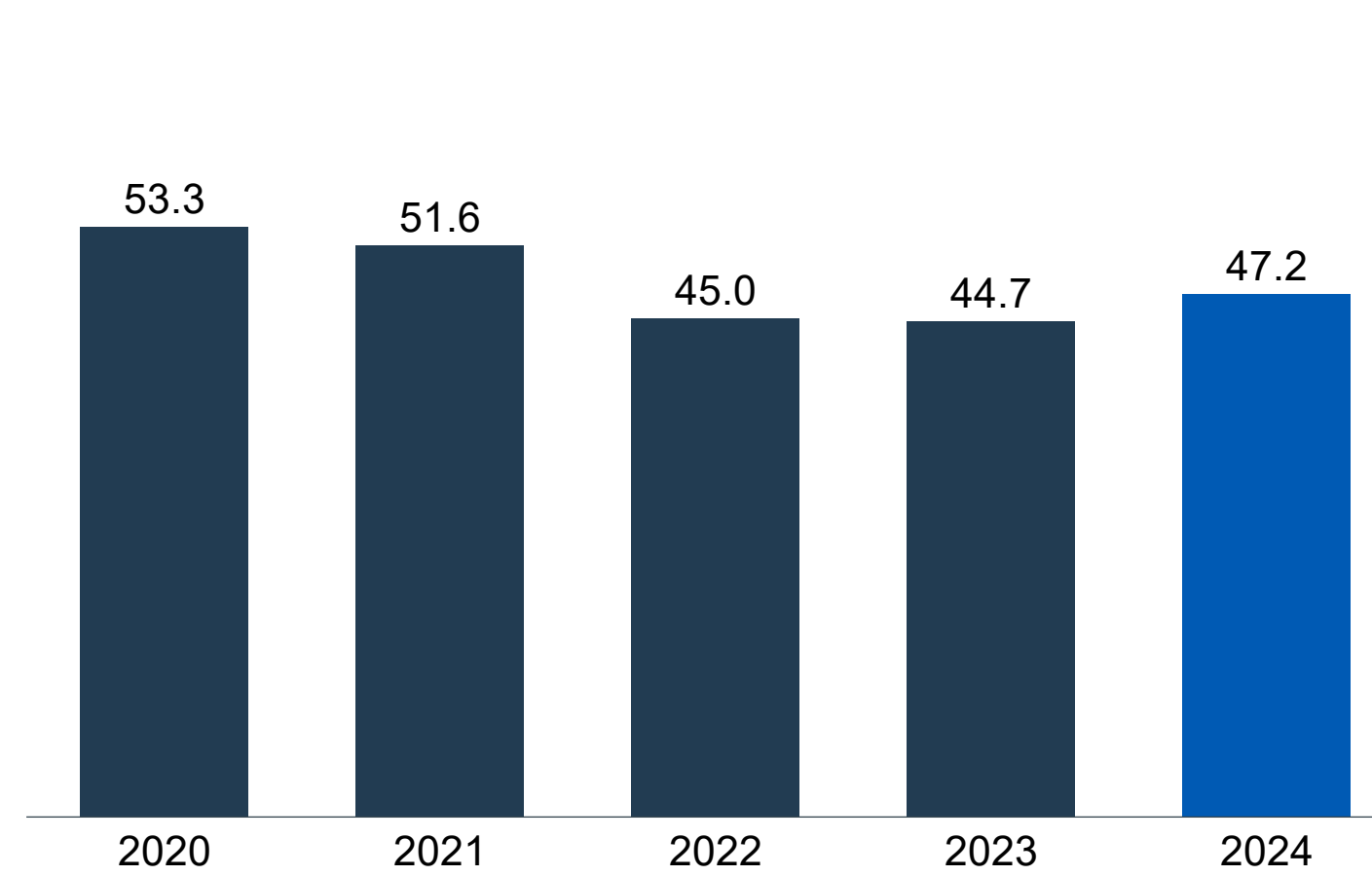


# Key financial indicators - annual

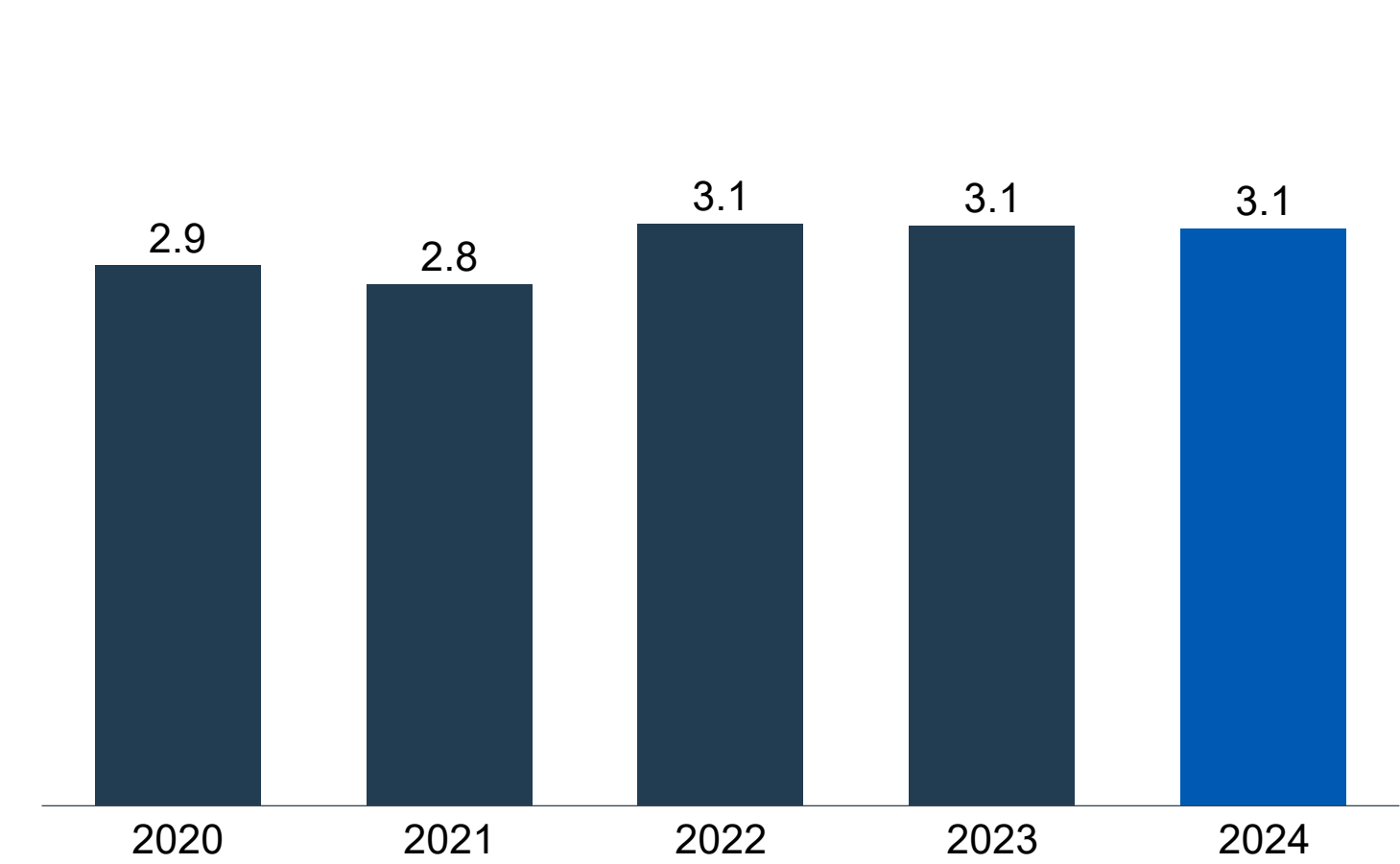
Return on equity (%)



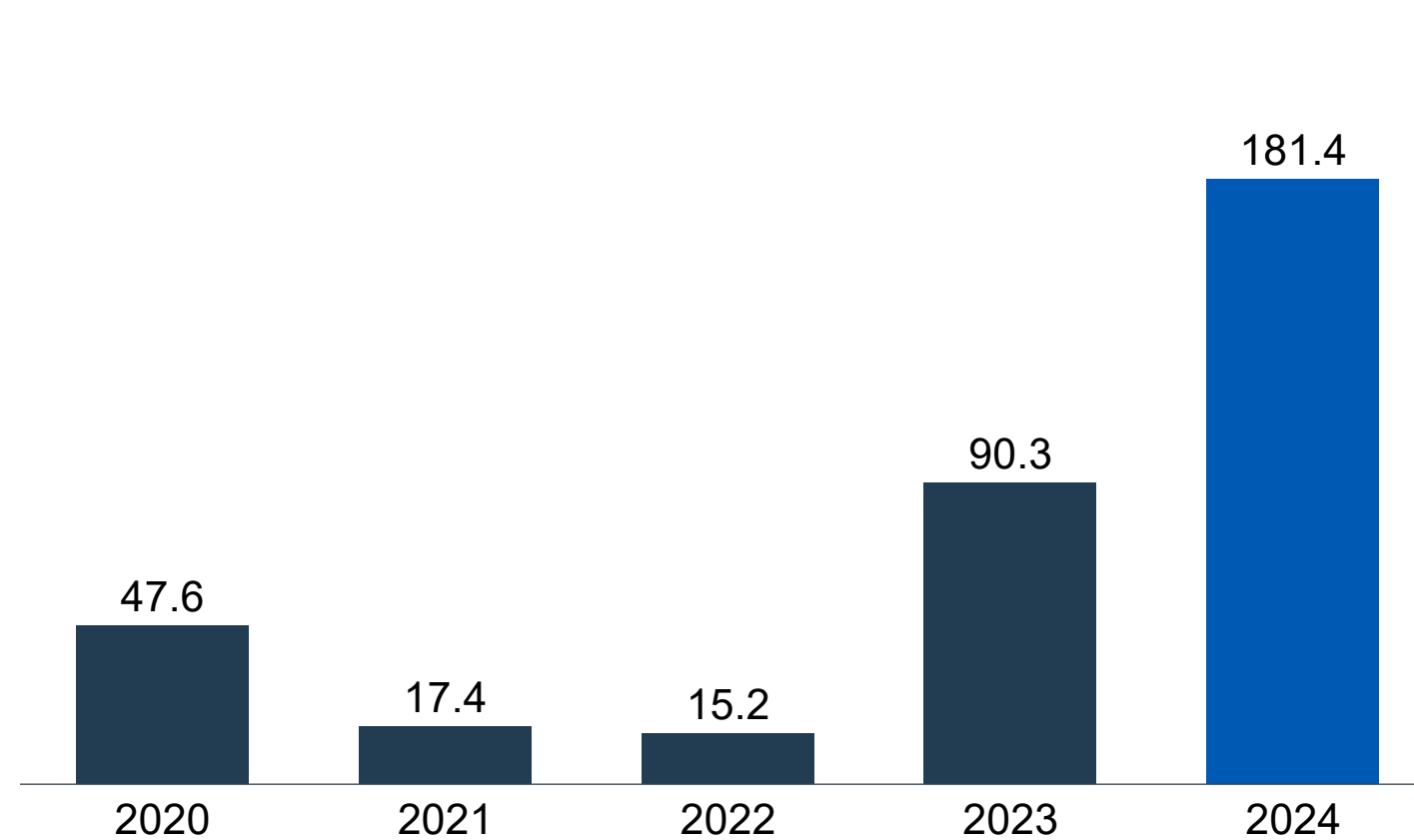
Cost-to-Core income ratio (%)



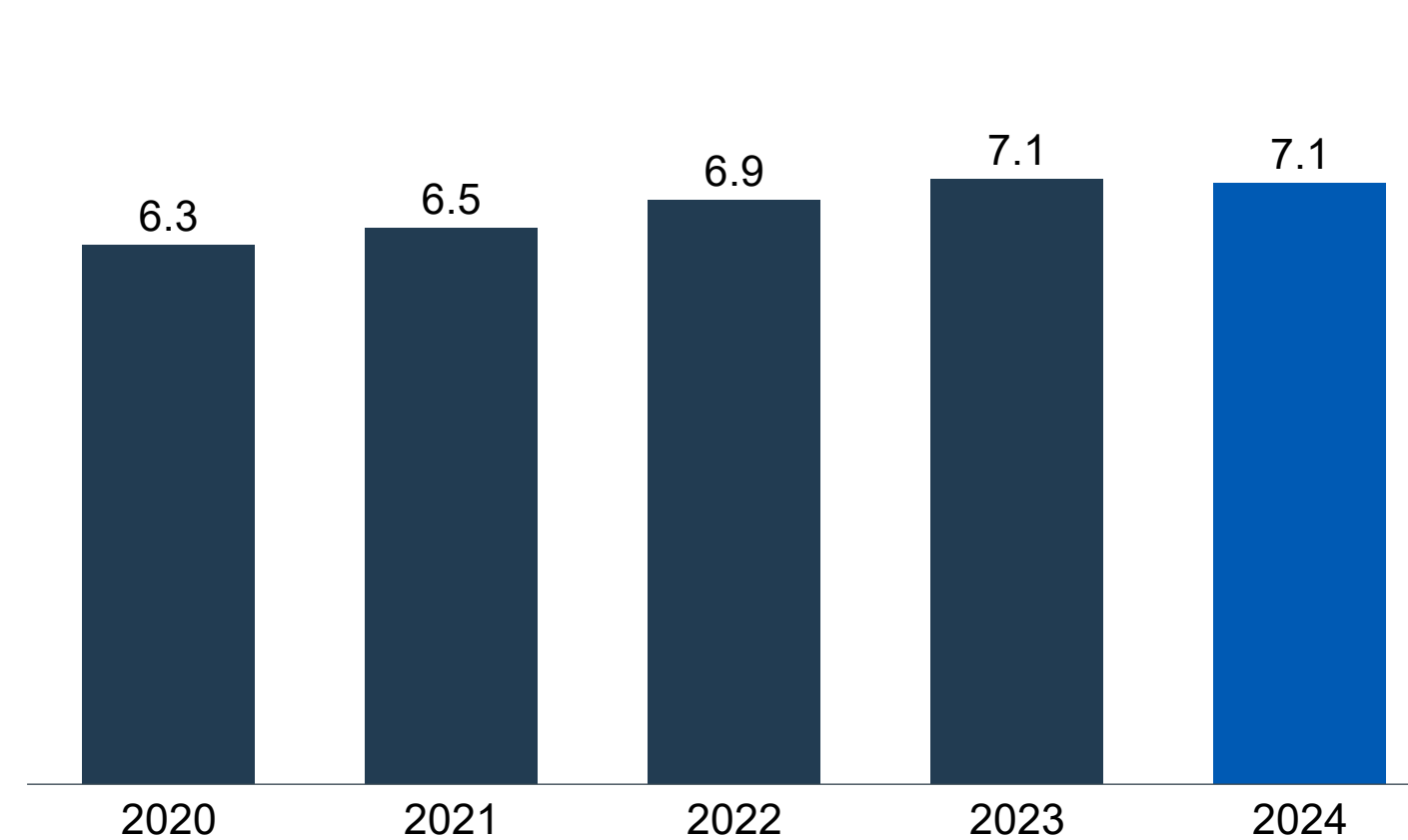
Net interest margin (%)



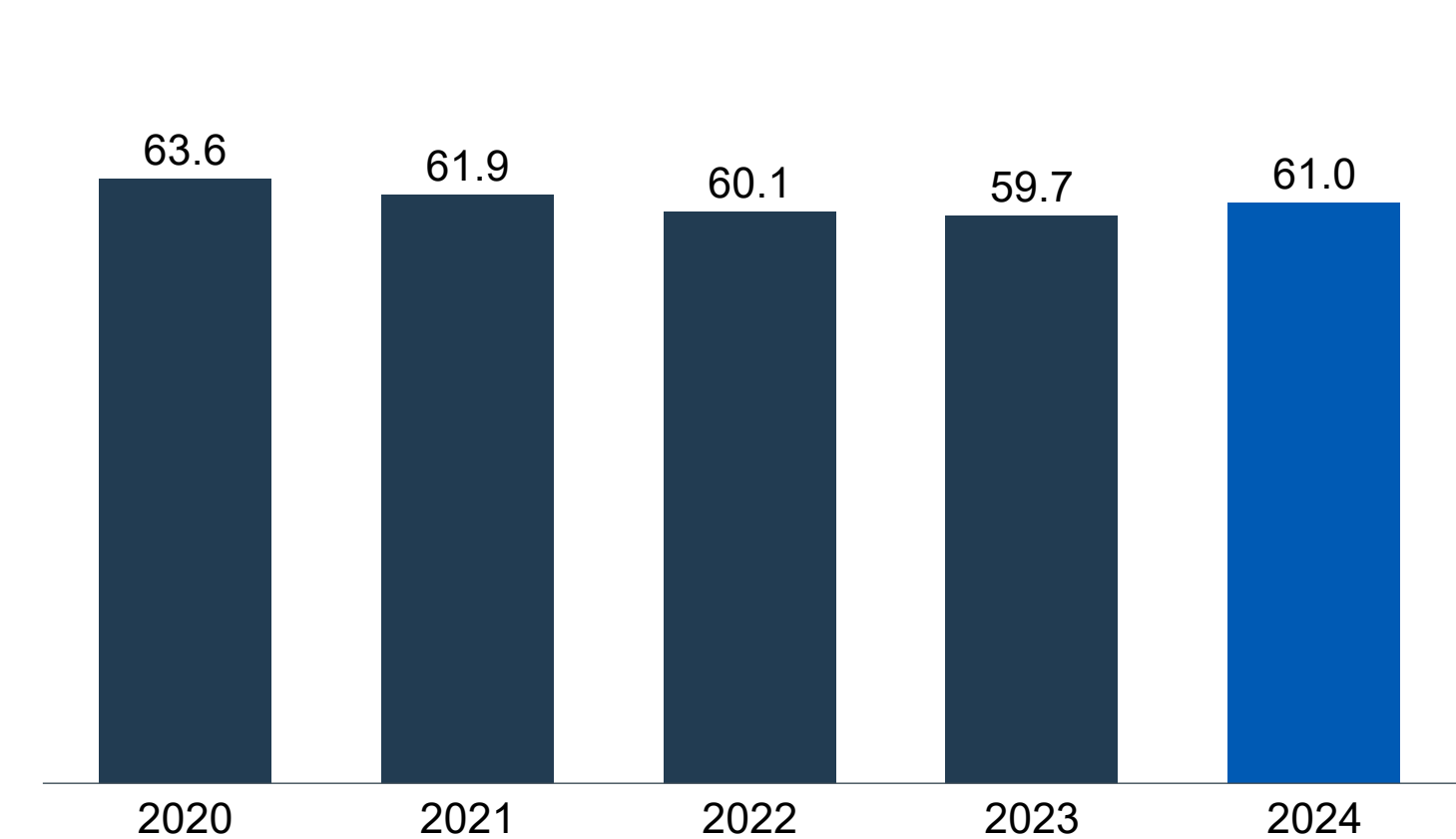
CPI imbalance (ISK bn)



Core operating income / REA (%)



Risk exposure amount / Total assets (%)



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