



Aðalfundur Arion banka 2023

Arion Bank AGM 2023

CEO Benedikt Gíslason

Competition in the Icelandic financial market is increasing

- Arion Bank and Vörður face increasing competition for customers
- Our competition is both Icelandic and foreign, both large and small companies, and some operate in a different regulatory environment than the Bank
- We applaud new entrants and look forward to learning from them and working with them



List of competitors is not exhaustive

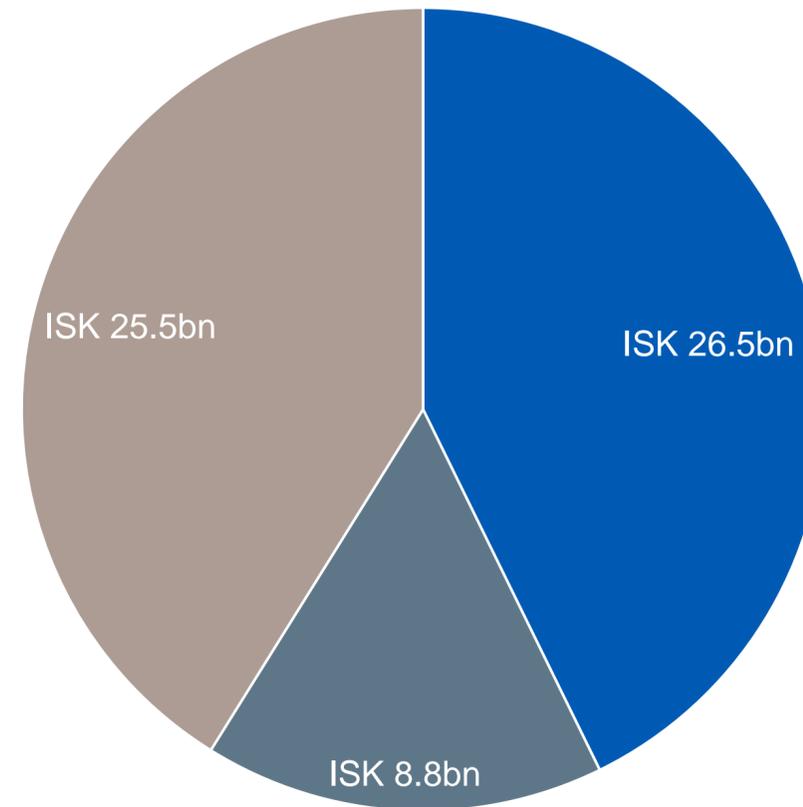
Arion Bank at a glance

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
 - ▶ First to introduce fully digitalized credit assessment for mortgages, car loans in 5 minutes, awarded for the best banking app in Iceland for the last 6 years and offers premium services for affluent clients
 - ▶ 71% of core products sold digitally in 2022
- ▶ Insurance service to retail customers

Operating income 2022 (ISKbn)



Corporate & Investment Banking (including insurance)

- ▶ Corporate banking, advisory and insurance service to corporate customers
- ▶ Partner to large corporates and SMEs in Iceland and internationally
 - ▶ Arctic loan book has more than doubled in the last two years
- ▶ Leader in credit origination, using own balance sheet, private and capital markets, for clients. Significant growth in managed products
- ▶ Advised and managed 75% of public equity offerings in 2022 and preferred advisor in private transactions

Markets and STEFNIR

- ▶ Arion Bank the largest asset manager in the Icelandic market with EUR 8.6bn in assets under management – estimated around 40% of estimated domestic GDP 2022
- ▶ Emphasis on institutional investors and high net worth clients
- ▶ Capital Markets had the highest market share in the domestic market, both in equities and bonds
- ▶ Stefnir 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
- ▶ Enhance overall customer journey through:
 - ▶ Efficient and targeted customer acquisition
 - ▶ Increased customer engagement
 - ▶ Optimized monetization
 - ▶ Loyalty

Insurance VÖRÐUR Insurance premium 2022: ISK 15.6bn

- ▶ Fastest growing insurance company in Iceland - around 18.2% market share
- ▶ Around 65,000 customers
- ▶ Full range of insurance products and services
- ▶ Continued focus on a fully integrated bancassurance model with the Bank
 - ▶ Bancassurance ratio at YE 2022:
 - Individuals 33.7%
 - Corporates 22.9%



Key results in 2022

Strong year for the group

- 13.7% ROE for the year
- Driven by ongoing positive momentum in Core Income which increased for the full year by 17.5%
- Key medium-term targets exceeded for the year
 - A proposed dividend payment of ISK 12.5bn or ISK 8.5 per share. Combined with buybacks equals a total payout ratio of 113% for 2022
 - Updated targets focus on Core income targets which is a more effective management tool
 - Capital target clarified in Q3 with 150-250 bps management buffer on capital regulatory requirements instead of fixed ratio
 - Loan growth target removed in light of external market environment
 - CET1 management buffer of 300bps, still exceeding targets despite shareholder distributions

Key results	Medium term targets		2022	Updated medium term targets
Return on equity	Exceed 13%	✓	13.7%	Unchanged
Operating income / REA	Exceed 7.3%	•	6.7%	>6.7% on Core Income
Insurance premium growth (YoY)	Premium growth (net of reinsurance) to exceed the growth of the domestic market by more than 3% ¹	✓	10.2%	Unchanged
Loan growth	In line with nominal economic growth ²	✓	15.9%	Removed
Cost-to-income ratio	Below 45%	•	47.0%	Below 48% on Core Income
CET1 ratio	150-250 bps management buffer ³	•	300 bps	Unchanged
Dividend payout ratio ⁴	50%	✓	79% Dividend 113% Dividend + buybacks ⁵	Unchanged

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

¹ Premium growth in the domestic insurance market in 9M 2022 was 7.5% from 9M 2021

² Arion Bank forecasts nominal GDP growth of around 15% in 2022. Full year GDP numbers will be disclosed 28 February

³ Approx. 17.3-18.3% based on current capital requirements

⁴ 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

⁵ Net of own shares

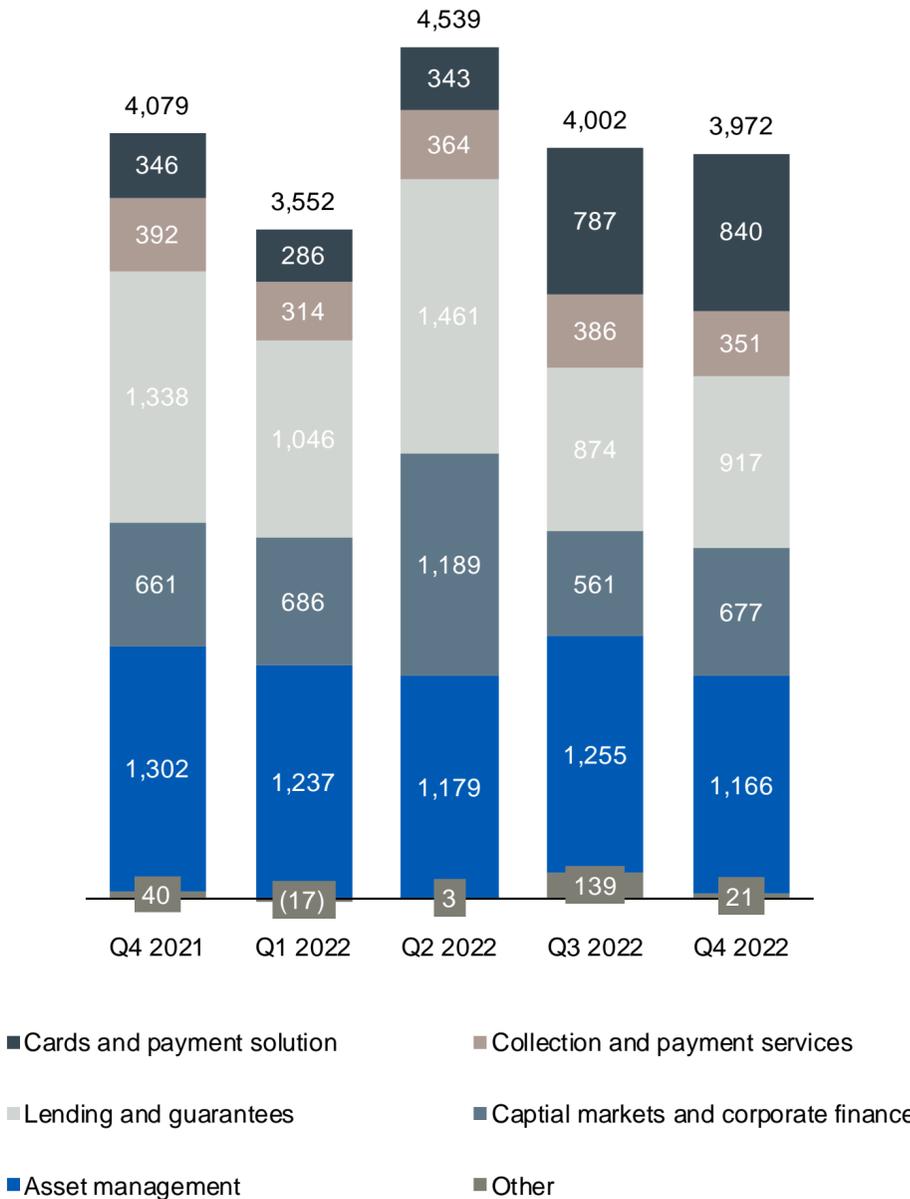


Net fee and commission income

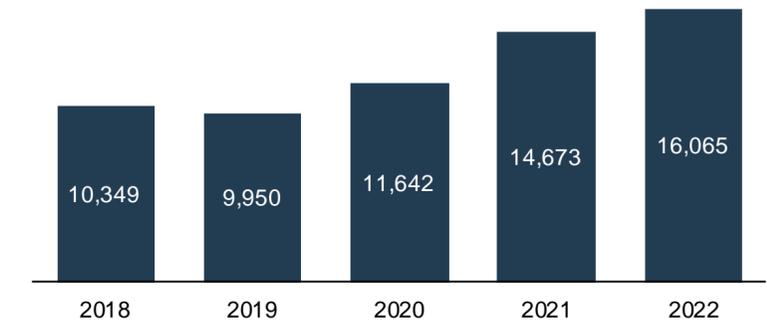
Diversified fee generating operations support continued momentum

- ISK 4bn in fees for the quarter results in ISK 16bn for the year. Highest on record for the group
- Continued strong income from cards and payment solutions, which were partially lost in consolidation prior to sale of Valitor
 - Commission from cards and payment solutions is mainly from the Bank's issuance of credit and debit cards and other card related commission, e.g. yearly fee on cards and transaction fees
- Robust fees in capital markets. The Bank ranks number one both in bond and equity trading in the Icelandic market for 2022
- Income from asset management very strong in a challenging market backdrop
 - AuM colored by challenging markets but mitigated by strong net positive inflow YTD throughout the year

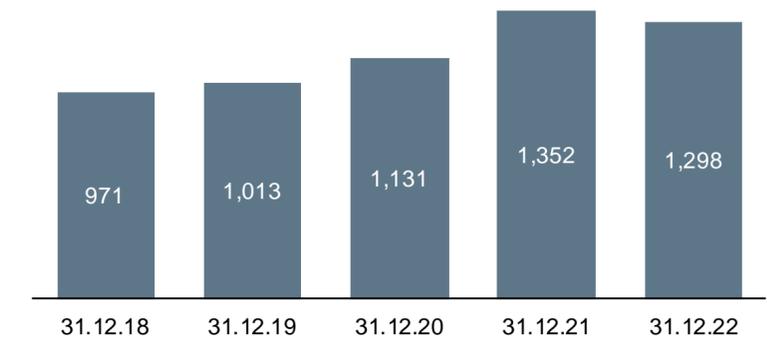
Net fee and commission income (ISK m)



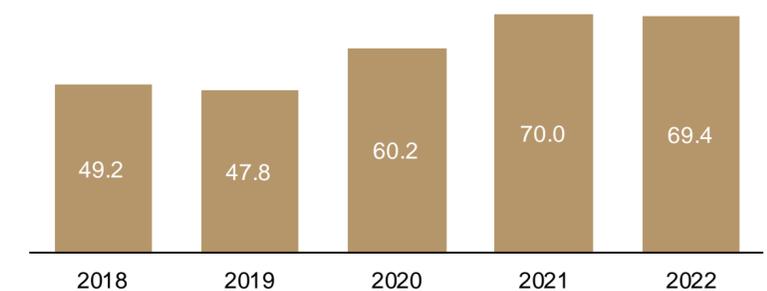
Net fee and commission income (ISK m)



Assets under management (ISK bn)



Net fee and commission income and net insurance income / Operating expenses (%)

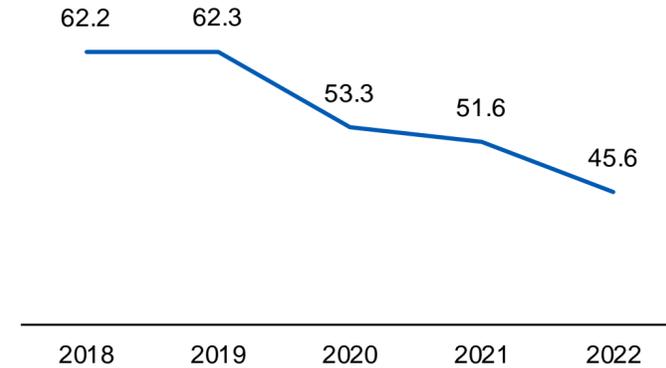


Total operating expense

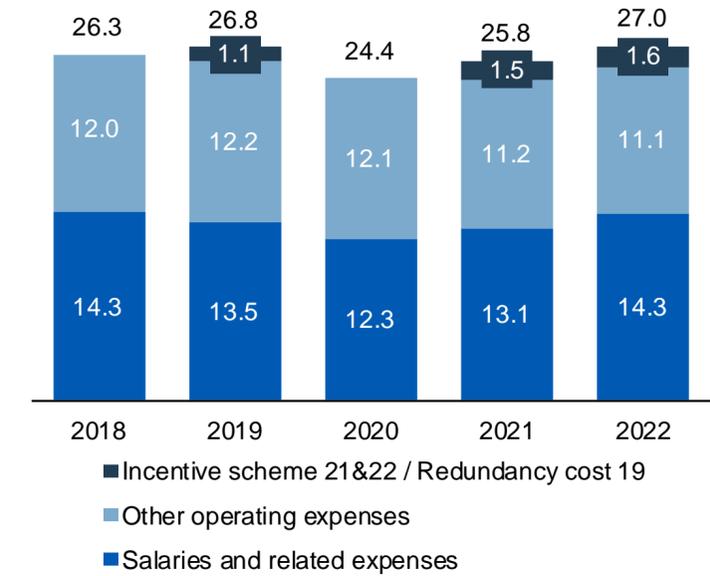
Stable YoY total OPEX despite high inflation

- Ongoing focus on OPEX and efficiency
 - Cost-to income ratio for the year 2022 was 47.0% compared with 44.4% in 2021
- Cost-to-core income ratio and core income per employee on a positive trajectory
 - Core income (NII, NFI and net insurance income) excludes net financial income which causes fluctuations in Cost to income ratio
 - Cost-to-core income for the year 2022 was 45.6% compared with 51.6% in 2021
 - Core income per employee 78m vs 66m in 2021
- Salary expense in Q4 2022 increases YoY, mainly due to increased number of FTE's
- Total estimated cost of incentive scheme is ISK 1.6bn, including salary related expenses, was ISK 1.5bn in Q4 2021
- Other OPEX stable YoY despite high inflation
 - The Group has reduced housing cost significantly in the last two years, by selling real estate and relocating. The total office space used by the Group has reduced by 40% from YE 2020

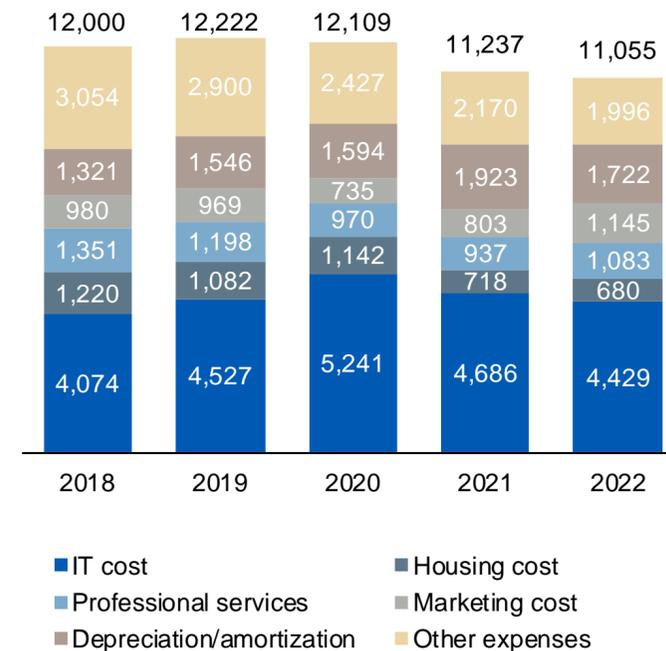
Cost-to-Core income ratio (%)



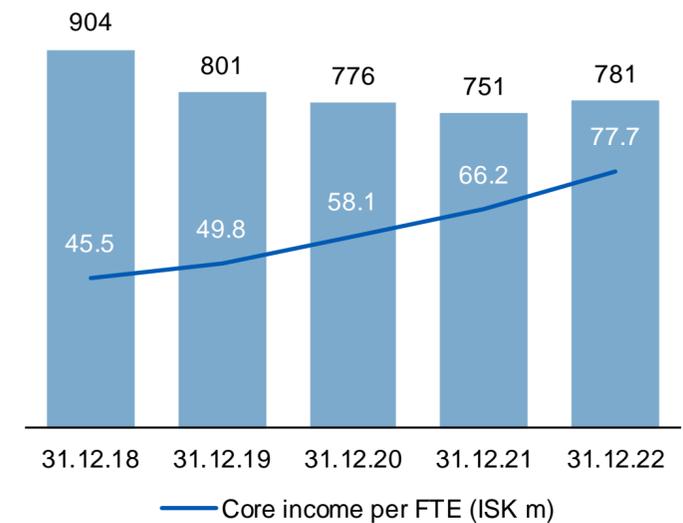
Total operating expenses



Other operating expenses (ISK m)



Core income per FTE



Key milestones of the year

Arion Bank and Vordur joined operations

The operations of Vordur insurance moved to the Bank with the goal of escalating the bancassurance strategy



The sale of Valitor completed



New rating from Moody's and updated rating from S&P



The Markets division delivers strong performance despite challenging markets

- Strong net inflow in assets under management in 2022
- Capital markets had the best market share in Iceland 2022 for both equity and bonds



Digital strategy and bancassurance progressing

- The Arion Bank app voted the best banking app in Iceland for the sixth consecutive year
- Digital registration of title for car loans introduced which greatly shortens the lending process and is now fully digital end to end
- Vordur insurance overview and live price quotes available in the app

Strong activity in Corporate & Investment Banking with public listing of Alvotech, Nova Telecom and Amaroq Minerals



Blikastaðir development

Landey and the municipality of Mosfellsbær have reached an agreement on building 3,500 to 3,700 homes in the area of Blikastaðir which lies just along the city boundaries of Reykjavik

Solid ESG ratings from Sustainalytics and Reitun



Valitor was sold in 2022 – a great milestone for the Bank

Rapyd | VALITOR

Total proceeds
ISK 14.6bn (USD 112.5m)

Net profit from sale
ISK 5.6bn

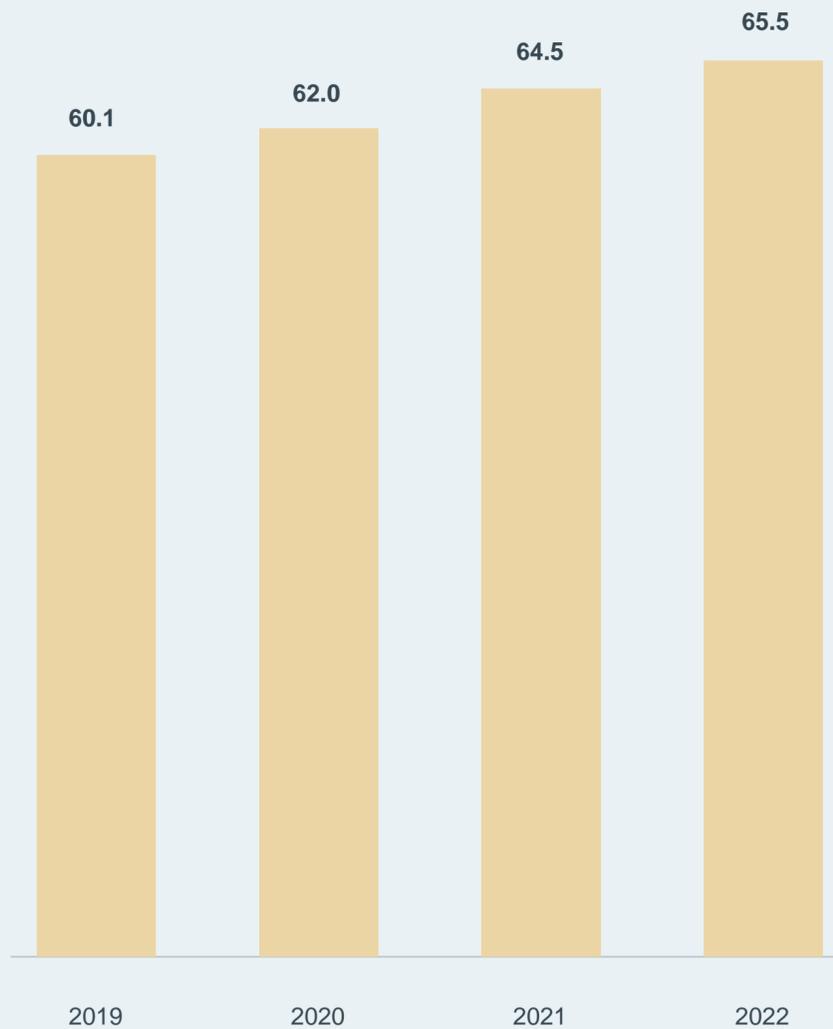
Capital release
ISK 13.8bn



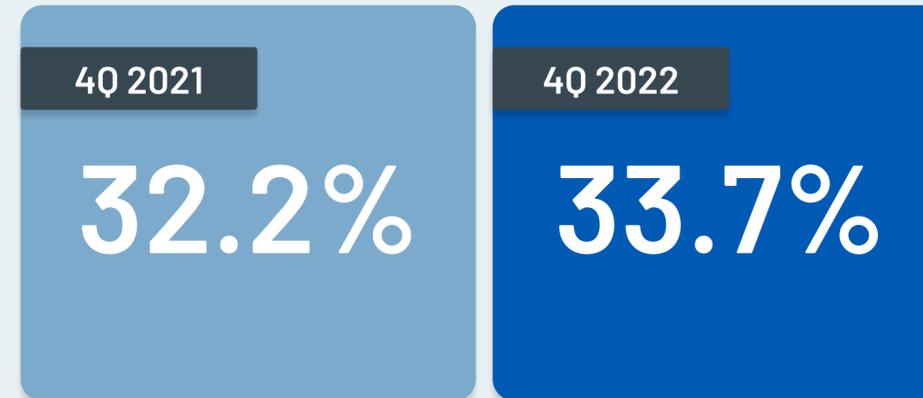
Vordur growing market share, supported by bancassurance momentum



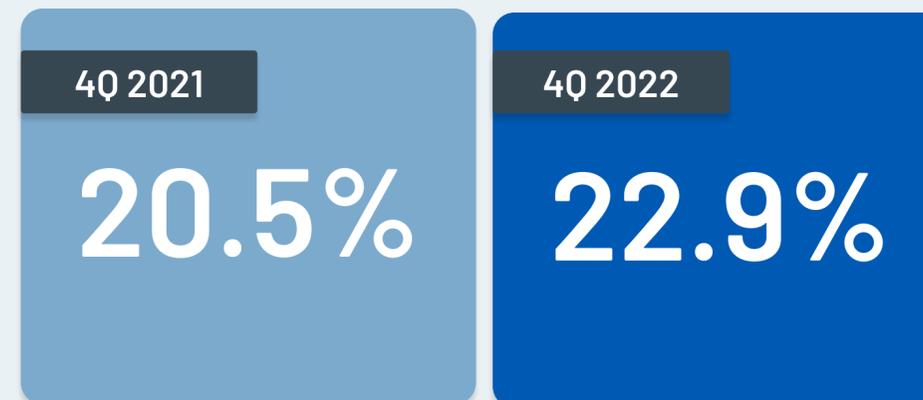
Total number of customers (in thousands)



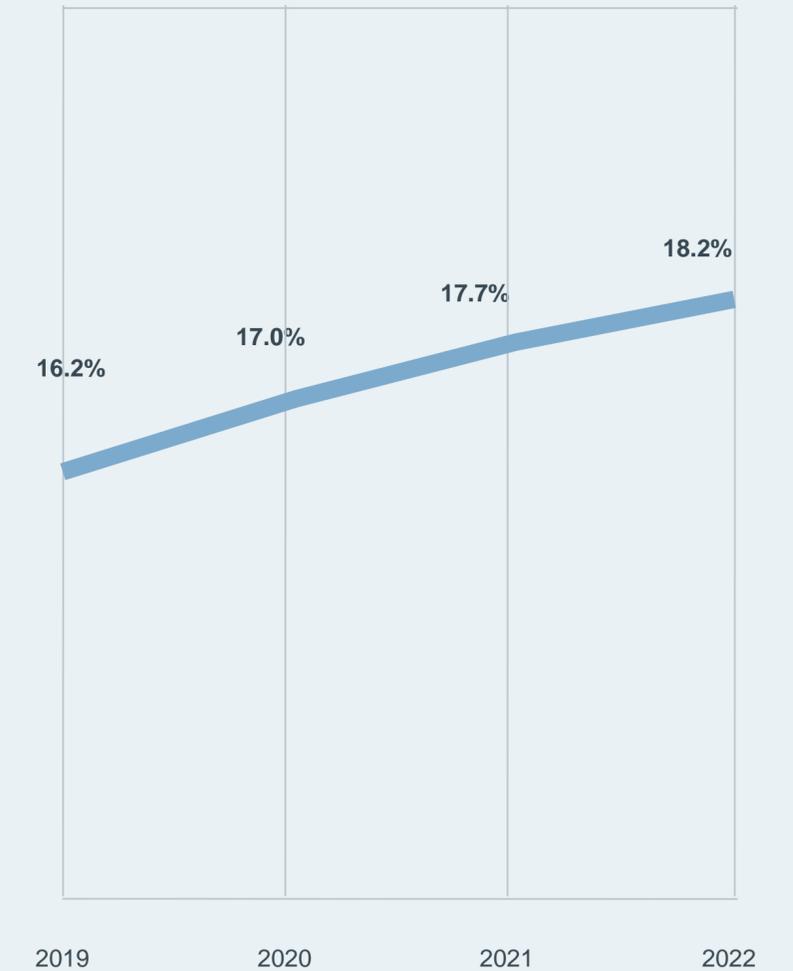
Bancassurance ratio* - individuals



Bancassurance ratio* - corporates and SMEs



Market share (premiums earned)



*Arion Bank's bancassurance ratio is based on the number of bank customers who pay for insurance with Vordur and the total number of bank customers who pay for insurance from any insurer





Opening of new Arctic shipping lanes

The emergence of new possible trans-Arctic shipping lanes, including the Northern Sea Route (NSR) and the Northwest Passage (NWP), would considerably shorten transit times and could bring new opportunities for the Arctic region in terms of strategic resource extraction, regional shipping, fishing and tourism.

Arion Bank has been focusing on the Mid and Western part of the Arctic region for some time. This is an area of relatively small population but with significant impact globally

- Significant share of global rare earth minerals
- Sustainable energy resources
- 10% of total aluminum production
- 12% of fish caught in the world are in the North Atlantic Ocean
- 40% of farmed salmon and related species
- Opportunities to develop further as a tourist destination



Iceland is a strategic hub in the area

Areas of competitiveness

Reputation



- High level of innovation despite being a small nation
- Attractive destination for travelers (eco-tourism)
- Rich in natural resources, such as sustainable energy and fisheries
- Located in the center of the transatlantic route from Europe to North America
- Ranked no. 1 in the global peace index 2021

Human capital



- High education levels – top 15 in the world
- Very high labour market participation
- No. 1 in gender equality world ranking 2021
- No. 2 rank in democracy world index 2020
- Top 10 in life expectancy world ranking 2020
- The Icelandic population has grown by around 9% in the last five years

Infrastructure



- Strategic location for international transportation has enhanced Iceland's experience and infrastructure in the last decades
- Leading contribution of renewables to energy supply
- Highly advanced mobile and internet connectivity in the country
- Well established institutions

Financial sector



- Strongly capitalized, profitable and efficient banking system
- Well established access to international capital markets
- Nasdaq OMX stock exchange
- Inclusion in global indices
- One of the largest and fully funded pension fund systems in the world relative to GDP

Business environment



- Member of the EEA since 1994
- Strong economy and significant growth expectations
- Business friendly tax regime
- Iceland became a signatory to the Paris Climate Agreement in 2015
- One of the highest GDP per capita in the world



The Bank received strong ESG ratings and the green asset pool grew by 16% in 2022

The Bank will continue to focus on sustainability in its operations and measure its impact. We aim to raise the ratio of green lending to 20% of the Bank's total loan portfolio by 2030 in line with our green financing framework.

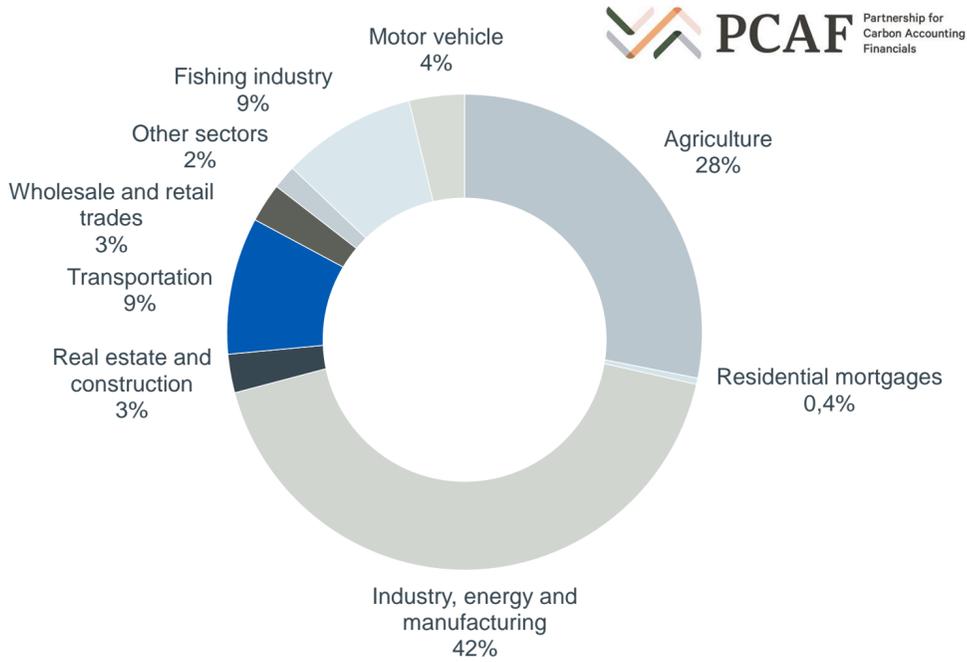


Sustainalytics places Arion Bank in the top 6th percentile of banks (around 1,000 banks globally) and the top 4th percentile of regional banks (around 400 banks). On a scale of 0-100, Arion Bank received 12 points, with fewer points signifying lower risk which places the Bank in the low-risk category.



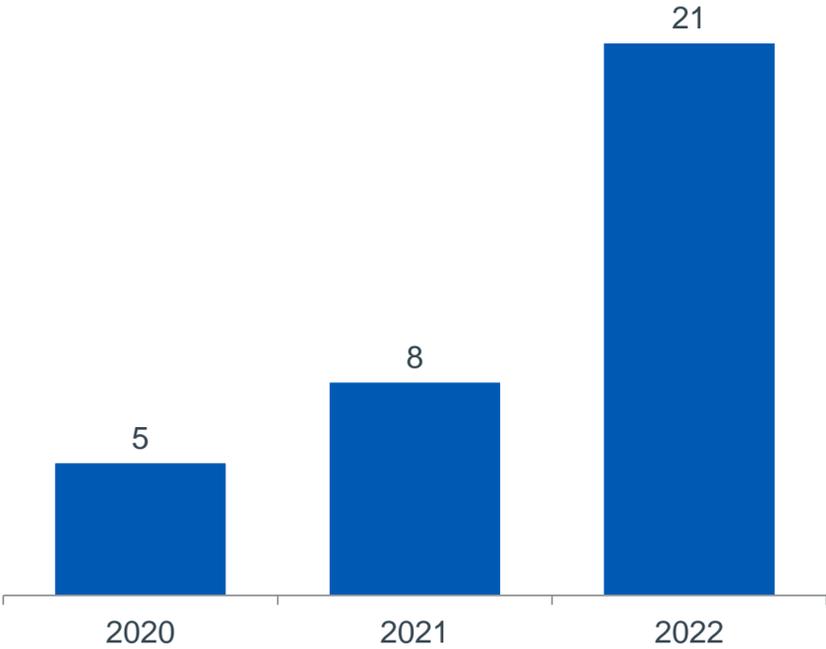
Arion Bank has achieved the score "outstanding" in Reitun's ESG rating, scoring 90 out of 100 possible points and placing it in category A3. The rating is based on the Bank's performance in environmental, social and governance (ESG) issues in its operations. This is the third year in row the Bank has achieved this score.

Arion Bank's emissions from loan portfolio in 2021

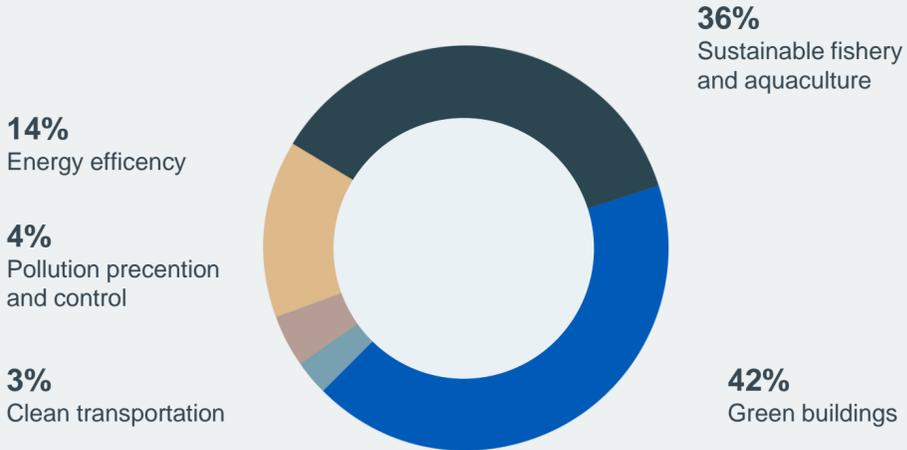


The Bank's total financed emissions in 2021 was 279.4ktCO₂e
92.5% of total loan portfolio has been measured

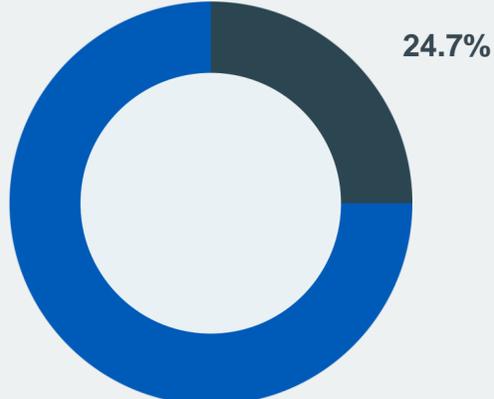
Green deposits (ISK bn)



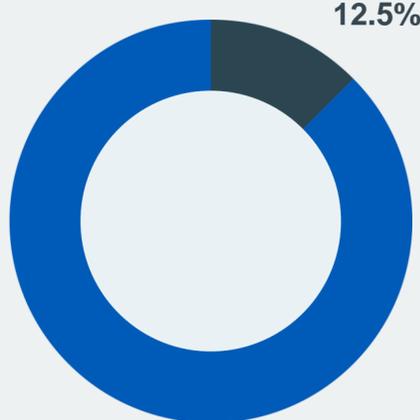
Diversified pool of eligible green assets (total ISK 151bn) at YE 2022



Green bonds represent 24.7% of borrowings



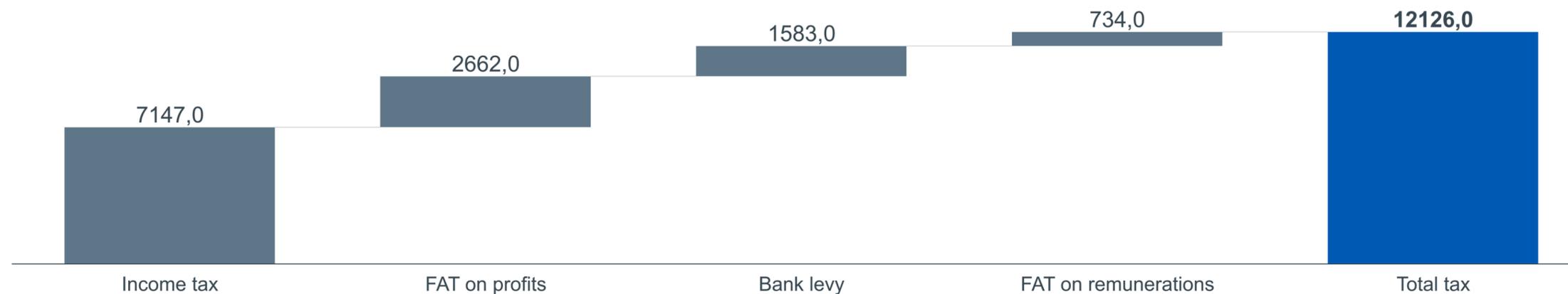
Green assets represent 12.5% of the Bank's loan book



Tax breakdown for banks in the Nordics in 2022

	Iceland 	Sweden 	Norway 	Denmark 	Finland 
Corporate tax	20%	20.6%	22%	22% ⁵	20%
FAT – on profits	6% ¹	-	3% ⁴	-	-
FAT – on remunerations	5.5%	-	5% ⁴	15.3% ⁶	-
Bank levy	0.145% ²	0.05% ³	-	-	-

Total tax for Arion Bank in 2022 (ISK m)



1. Financial undertakings pay 6% additional tax on taxable profit exceeding ISK 1 billion.
2. Calculated on total debts excluding tax liabilities, in excess of ISK 50 billion.
3. Risk tax on credit institutions with liabilities over 150bn SEK. Will be increased to 6bps in 2023
4. Financial activities tax, consists of two elements: an increased income tax rate for financial institutions (3 percentage points), and an additional tax for employers in the financial services industry, based on the payroll of the companies (5 percentage points).
5. Will increase for financial institutions to 25.2% in 2023 and 26% in 2024.
6. Applicable if VAT-exempt financial revenue is more than 50% of the total revenue.

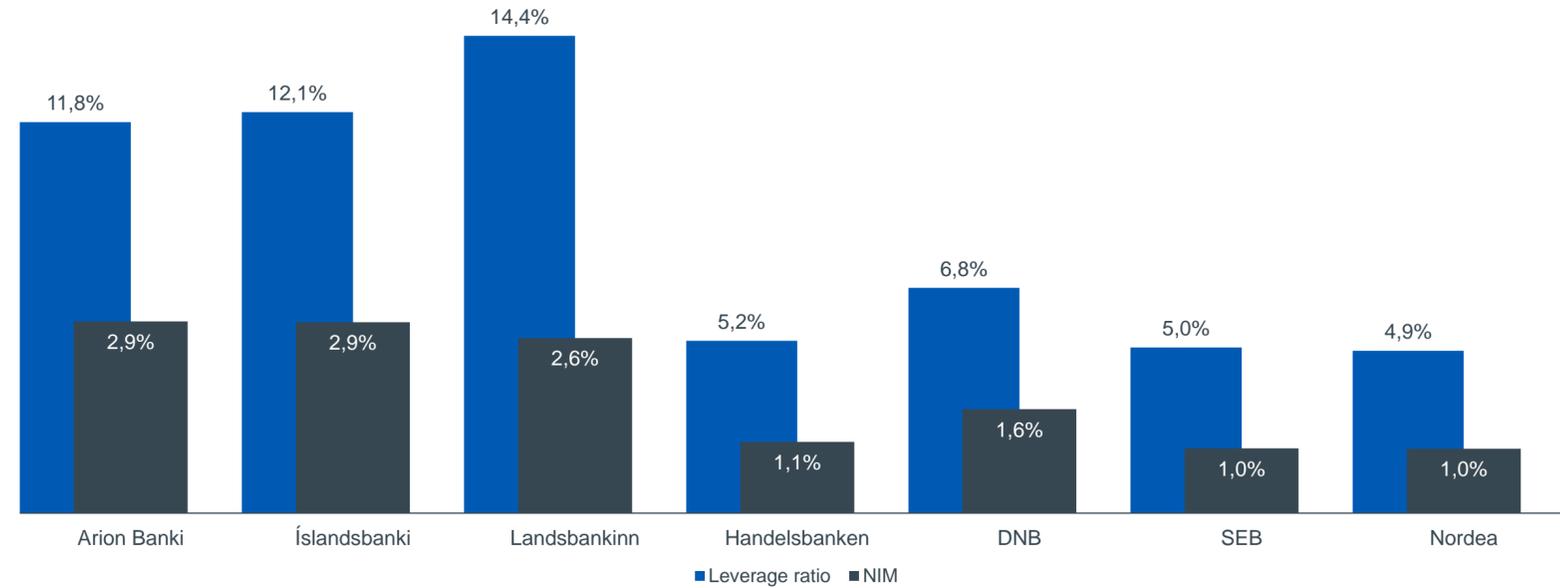


Capital requirements and tax

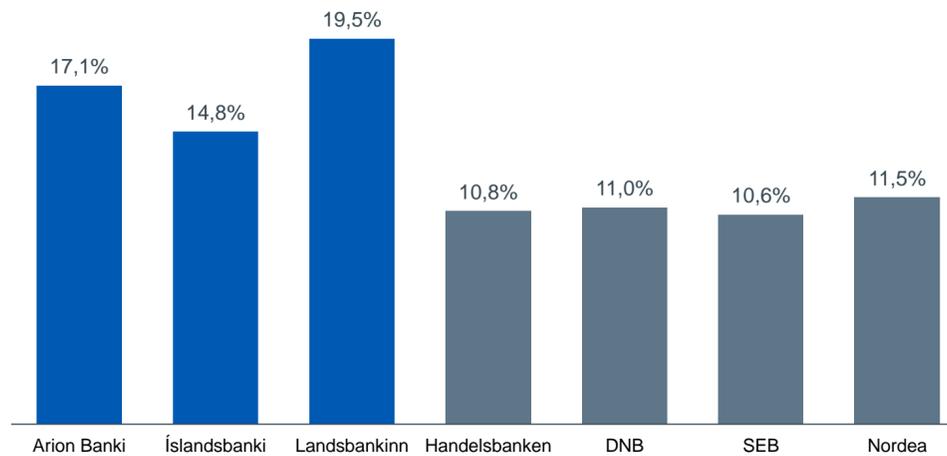
Net interest margins are higher in Iceland largely due to high capital requirements, much higher bank levy and income taxes.

- Bank levy and income tax expenses are much higher in Iceland compared to Scandinavian competitors.
 - Bank levy in Sweden is for example 5bps vs. 14.5bps in Iceland
- Higher tax obligations put pressure on banks net interest margins and revenue generation.
- To improve households' and companies' interest rates, authorities need to look for ways to decrease special bank taxes and thus reduce pressure on net interest margins. This is especially important as capital requirements for Icelandic Banks are already much higher than for our Nordic peers.

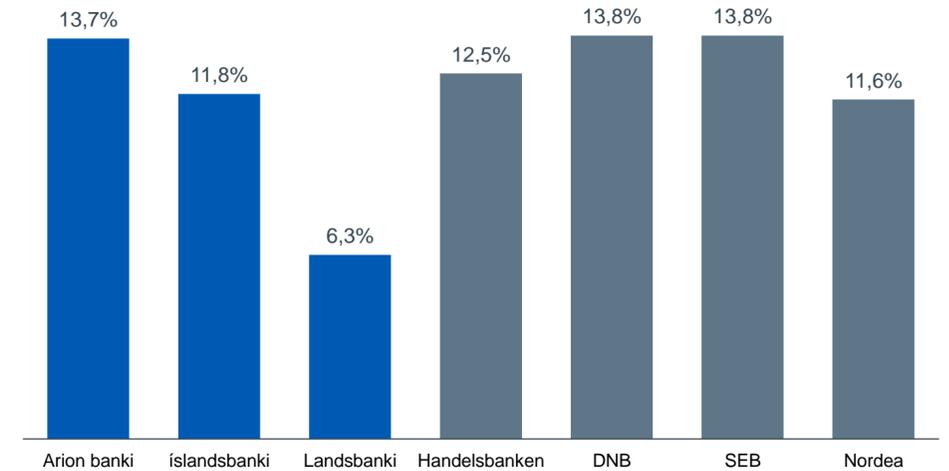
Leverage ratio & Net interest margin (% of all assets) 2022



Total tax¹ / Total operating income



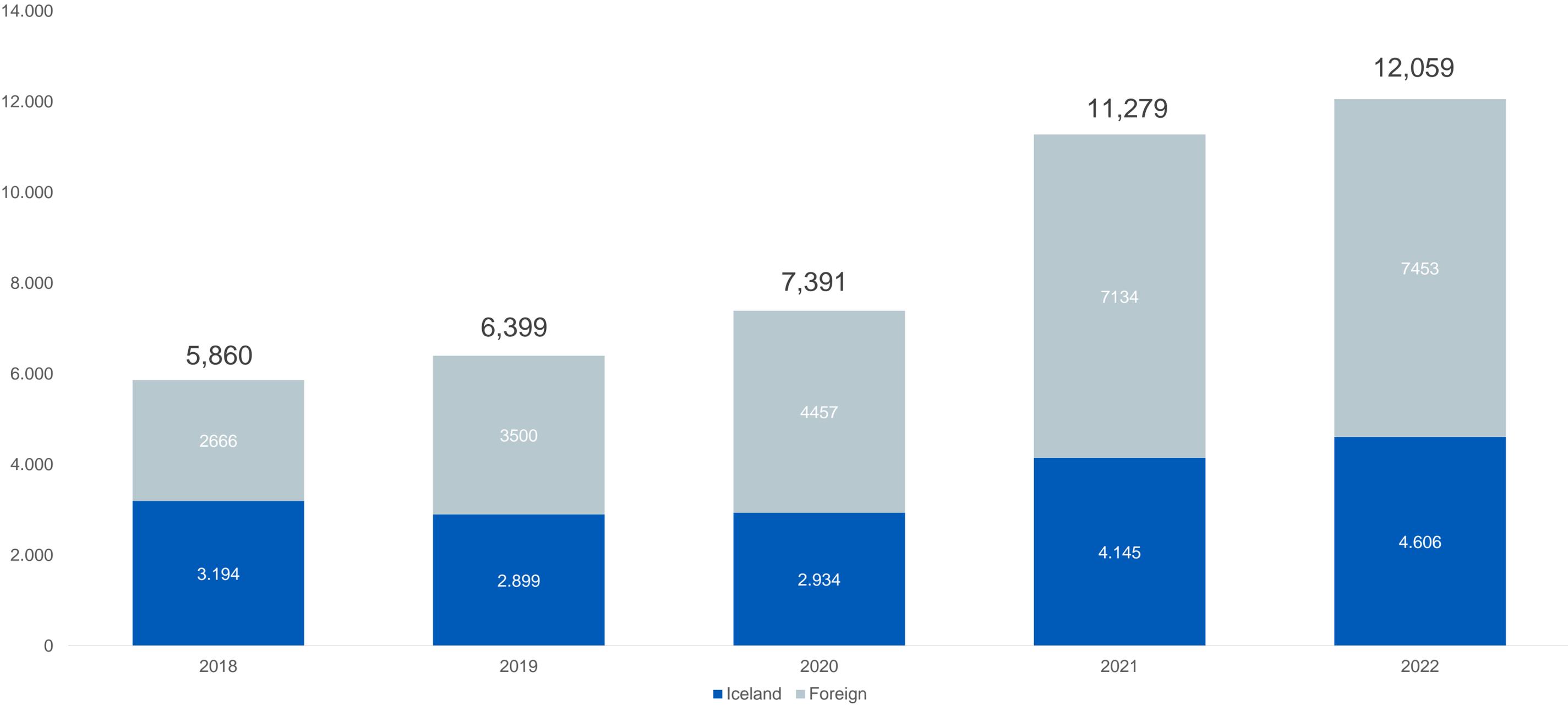
Return on equity



1. Excluding financial activity tax on remunerations. Source: annual accounts Arion Bank, Íslandsbanki, Landsbankinn, Handelsbanken, DNB, SEB, Nordea



Number of shareholders increased by around 6.8% in 2022



Going forward

Building on a strong year and robust foundations



2022 was another strong year for the group. Underlying operations are robust with numerous, diversified pillars of business supporting each other through the cycle



The robust foundations of a sound balance sheet and strong capital, liquidity and funding positions remain valuable in the current market environment



The Icelandic economy is in a relatively strong position and there is a good opportunity to stabilize the economy smoothly



Ongoing volatility can be expected in the funding markets, but the Bank is in a good position to navigate this. It is positive that we are seeing international funding spreads tightening again



It is important in the current environment to retain agility both in terms of growth opportunities and funding options



Updated medium term targets reflect a targeted continuation of the strong operational momentum while focusing the effectiveness of KPIs and enhancing agility around growth opportunities



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