



Aðalfundur Arion banka / Arion Bank AGM

Benedikt Gíslason

Bankastjóri / CEO

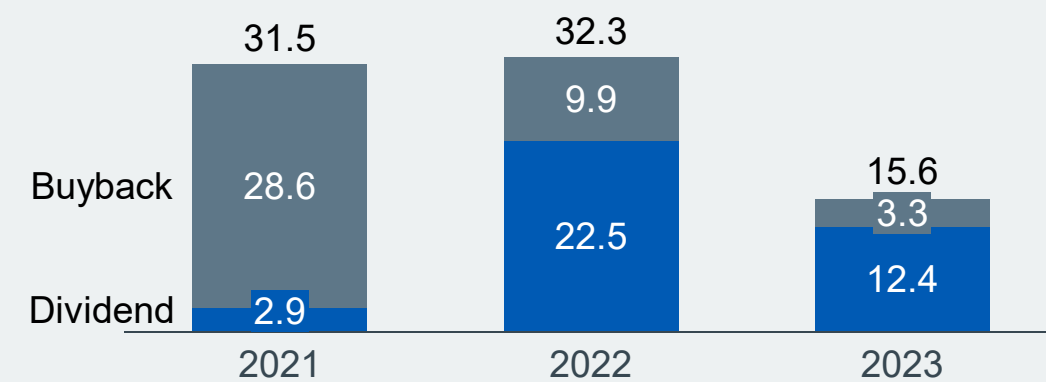
13. mars 2024 / March 13 2024

Creating shareholder value while contributing to public finances and depositors

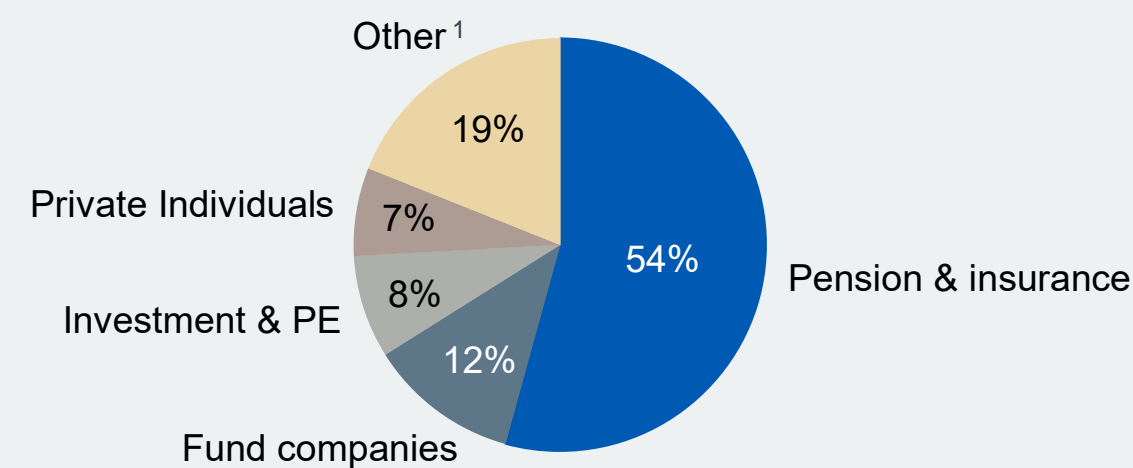
Shareholders

Increasing value to our shareholders through dividends and buybacks

Capital distribution (ISK bn)



Shareholders by owner type

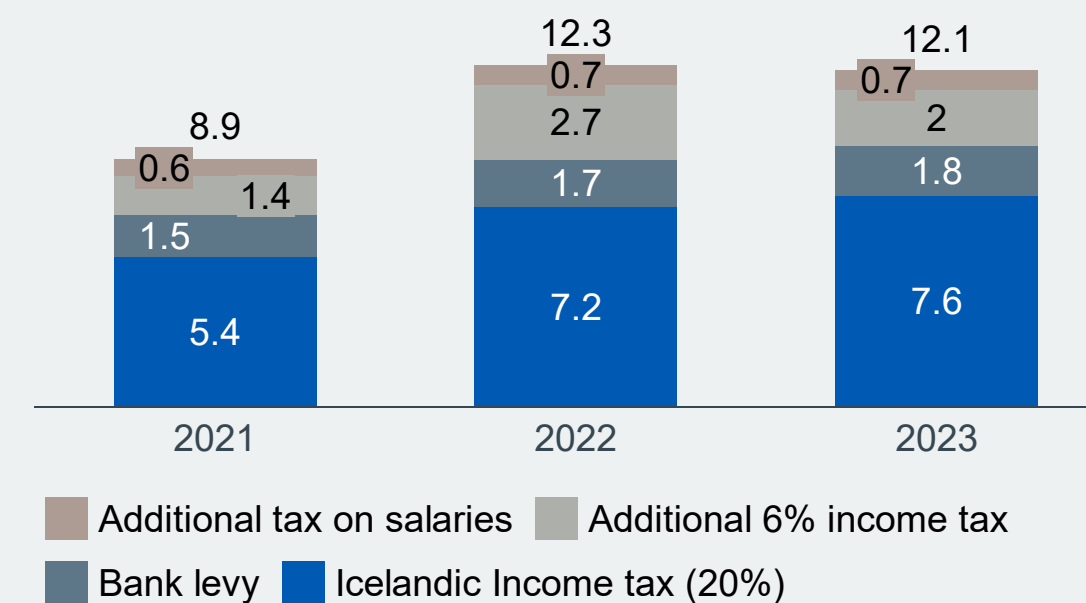


Public finances

Large contributor to public finances with total tax payment of ISK 33.3bn in 2021-2023, thereof ISK 13.1bn in bank specific taxes

- Icelandic income tax ISK 20.2bn
- Additional 6% income tax ISK 6.1bn
- Bank levy ISK 5bn
- Additional tax on salaries ISK 2bn

Tax payments (ISK bn)

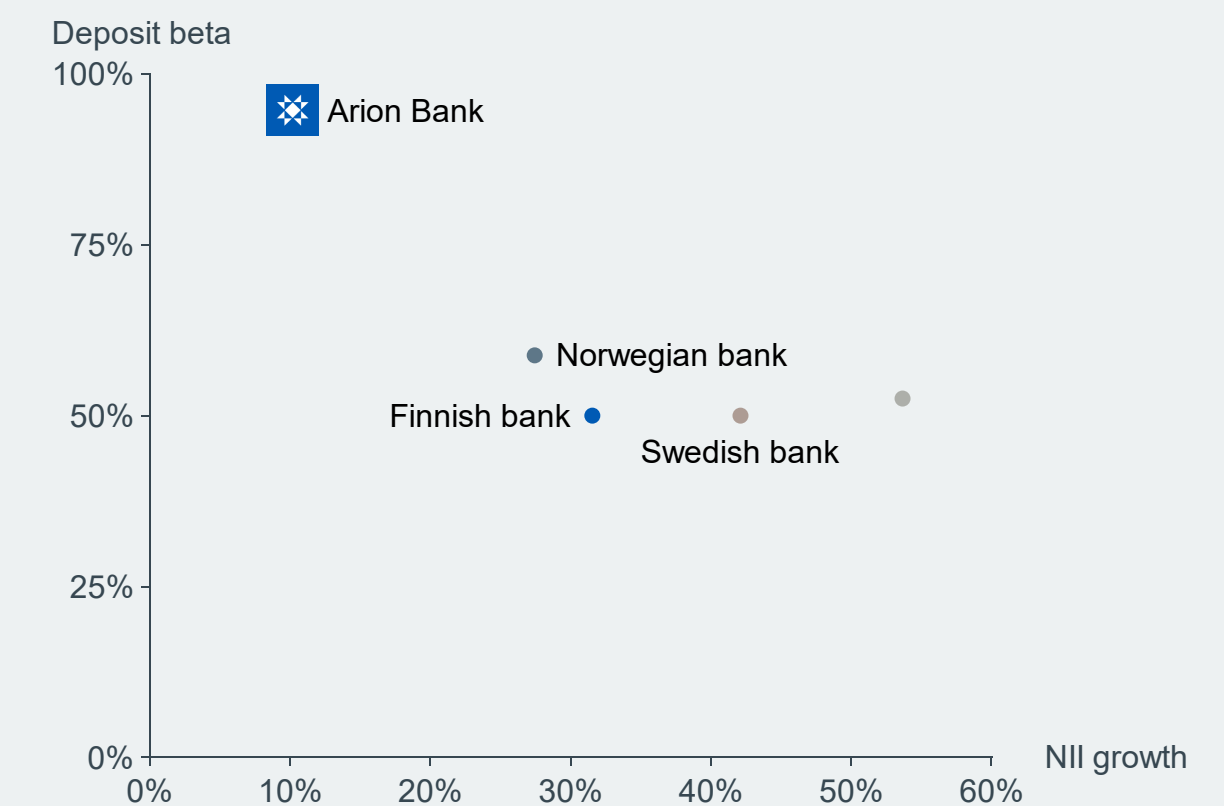


Depositors

The Icelandic market environment has resulted in a higher deposit beta relative to Nordic countries

Icelandic depositors therefore receive substantially larger benefit of rate hikes than their Nordic peers

Deposit beta² vs NII growth 2023



¹Other includes Treasury shares, State & municipal, foundations and other

²Savings account rate / policy rate

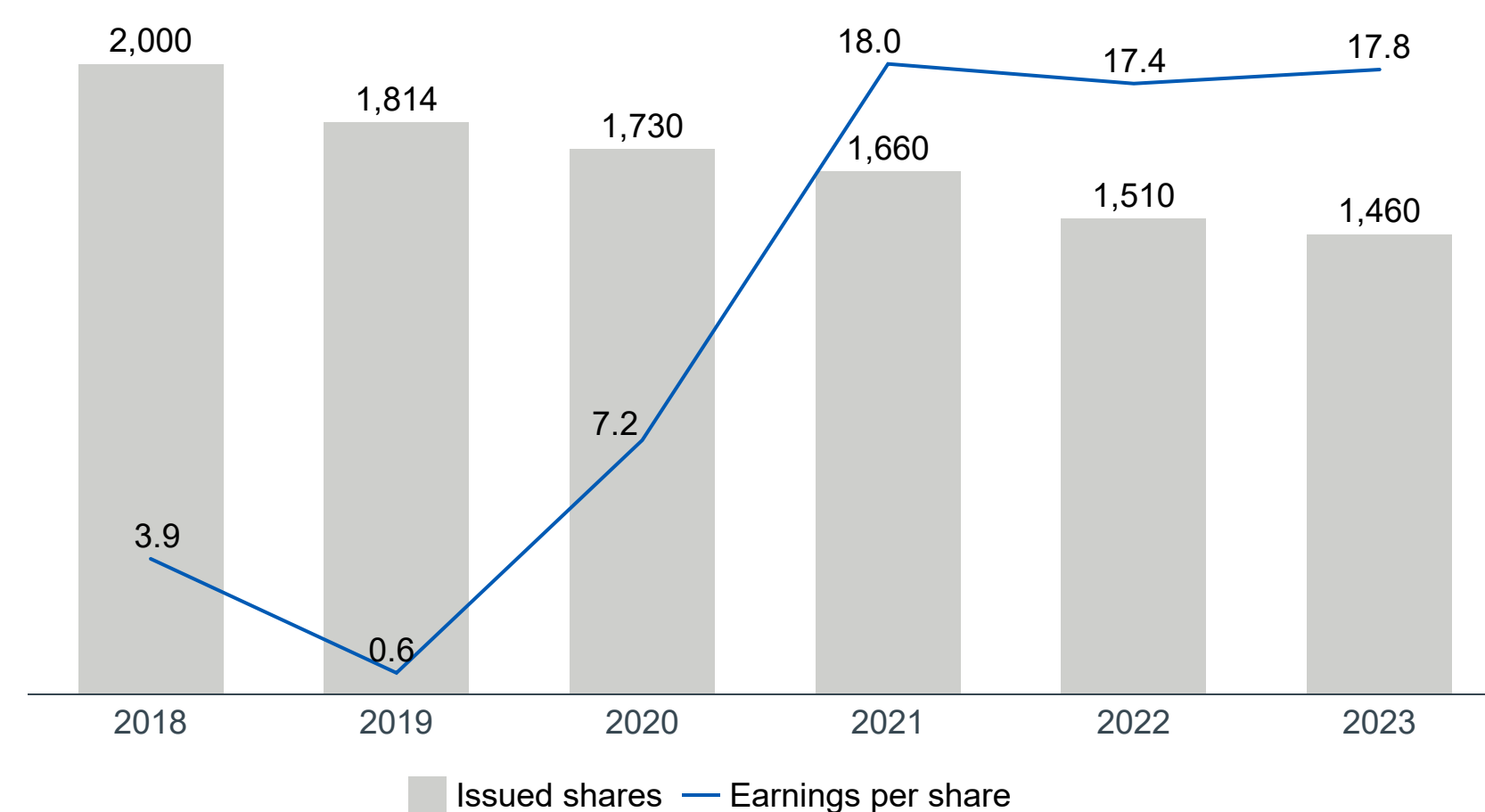


Key results in 2023

Strong results for the year

- 13.6% ROE for the year
- Key medium-term targets exceeded in 2023 and targets updated
- CET1 ratio 480bps above regulatory requirements and 230-330 bps above our targets
- Expected dividend of 50% of net profit for the year or ISK 9 per share
- Robust capital, liquidity and funding position

Earnings per share and number of issued shares



Key results	Medium-term targets		FY 2023	Updated Targets
Return on equity	Exceed 13%	✓	13.6%	Unchanged
Core income ¹ / REA	Exceed 6.7% on core income	✓	7.1%	Exceed 7.2%
Insurance revenue growth (YoY)	Premium growth (net of reinsurance) to exceed the growth of the domestic market by more than 3% ¹	✓	15.0%	Unchanged target but changed wording in line with IFRS 17
Insurance combined ratio of Vörður	Below 95%	•	97%	New target
Total Cost ² -to-core income ratio	Below 48%	✓	44.7%	Below 45%
CET1 ratio above regulatory capital requirements	150-250 bps management buffer ²	•	480 bps	Unchanged
Dividend payout ratio ³	50%	✓	50% of net profit deducted from CET1	Unchanged

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

¹ Core income includes Net interest income, Net fee and commission income and Insurance service result excluding opex from the insurance operation.

² Total cost is the total operating expenses presented in the Income statement plus opex from the insurance operation.

³ Pay-out ratio of approximately 50% of net earnings attributable to shareholders through either dividends or buyback of the Bank's shares or a combination of both. Additional distributions will be considered when Arion Bank's capital levels are above the minimum requirements set by the regulators in addition to the Bank's management buffer.



Key milestones of the year

Markets and Stefnir delivered a solid performance despite a challenging market backdrop

- AuM increased by 6.5% in 2023 and positive net inflow
- Ranked #1 in equities trading in the domestic market and #2 in bond trading
- Introduced real time market data for equities in the app, proxy trading, limit orders and numerous pension related functions

The Bank received strong ESG ratings and targets to be net zero by 2040

Moody's upgraded Arion Bank's issuer rating to A3 and assigned a new covered bond rating of Aa2 which is currently the highest rating by an Icelandic issuer

MOODY'S

Best banking app in Iceland for the 7th consecutive year

According to Maskina 2023

THE BANKER

BANK OF THE YEAR 2023

ICELAND

Positive progress in the development of Blikastadir

As one of the largest undeveloped plot of land in the capital region this development will play a pivotal role in supporting the future housing market

Innovative Retail Banking

- 74% of core products sold digitally in 2023*
- Introduced fixed payments for non-indexed loans
- 70% increase in insurance sales YoY
- Proactive engagement with customers with upcoming interest rate resets of their fixed nominal mortgages

Bancassurance strategy momentum

- Bancassurance ratio for individuals to 34.9% vs. 33.7% at YE 2022
- Bancassurance ratio for corporates to 25.8%. vs 22.9% at YE 2022

Strong activity in Corporate & Investment Banking

Advised on 80% of listings on Nasdaq Iceland and First North Iceland and was further involved in numerous large transactions in 2023

* Core products: Current accounts, savings accounts, credit cards, personal loans, mortgages and investments

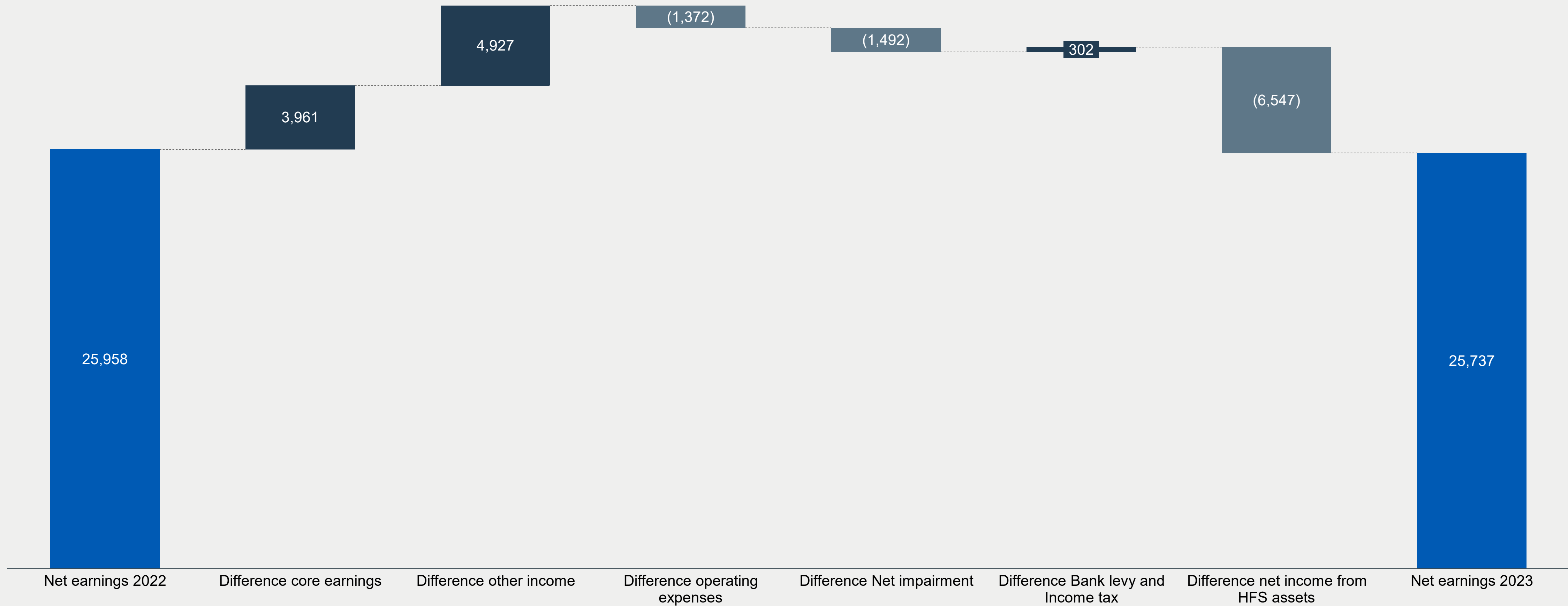
Income statement 2023

- Net profit of ISK 25.7bn resulting in ROE of 13.6%
- Core income** increases 6.8% YoY
- Strong increase in NII YoY, mainly due to increased base rate and 6% growth in loans to customers from year end 2022
- NCI remains stable, despite slowing activity in the economy and in capital markets
- Insurance revenue grew by 15.3% YoY whereas claims increased by 17.7% and opex increased by 14.5%
- Net financial income challenging during the first nine months while recovering during Q4
- Positive result in other income is mainly from revaluation of the investment property Blikastadir in Q2
- Operating expense increased by 5.3% YoY but taking into account opex connected to insurance operation by 6.8% while inflation was 8.9%. One-off items impacted opex especially early in the year.
- Cost of risk for the year calculated at 12bps
- Effective tax rate 27.2% for the year

	2023	2022*	Diff
Net interest income	44,685	40,201	11%
Net commission income	16,389	16,449	(0%)
Insurance service results	152	615	(75%)
Net financial income	1,366	(3,286)	-
Other operating income	1,589	1,314	21%
Operating income	64,181	55,292	16%
Operating expenses	(25,701)	(24,329)	6%
Bank levy	(1,796)	(1,749)	3%
Net impairment	(1,348)	144	-
Net earnings before taxes	35,336	29,359	20%
Income tax expense	(9,595)	(9,944)	(4%)
Net earnings from continuing operations	25,741	19,415	33%
Discontinued operations net of tax	(4)	6,543	-
Net earnings	25,737	25,958	(1%)
Return on equity	13.6%	14.1%	
Core income**	64,270	59,923	7%
Net interest margin	3.1%	3.1%	
Cost-to-core income ratio	44.7%	45.0%	



Net earnings 2022 - 2023



Balance sheet

Robust and relatively simple balance sheet

- Loans to customers increased by 0.8% in Q4 and by 6.3% during the year
- Deposits decreased by 1.7% in Q4 mainly money market deposits but the increase between years was 4.9%, primarily deposits from individuals and corporate customers
- Liquidity position remains strong:
 - Liquidity coverage ratio (LCR) of 192% (117% in ISK)
 - Net stable funding ratio (NSFR) of 119%

Assets	31.12.2023	30.09.2023	Diff.	31.12.2022	Diff.	31.12.2021	Diff.
Cash & balances with CB	102	80	27%	114	(11%)	69	48%
Loans to credit institutions	29	51	(44%)	46	(37%)	30	(5%)
Loans to customers	1,153	1,143	1%	1,085	6%	936	23%
Financial assets	206	221	(7%)	193	6%	226	(9%)
Other assets	36	45	(19%)	28	30%	49	(27%)
Total Assets	1,526	1,541	(1%)	1,466	4%	1,311	16%

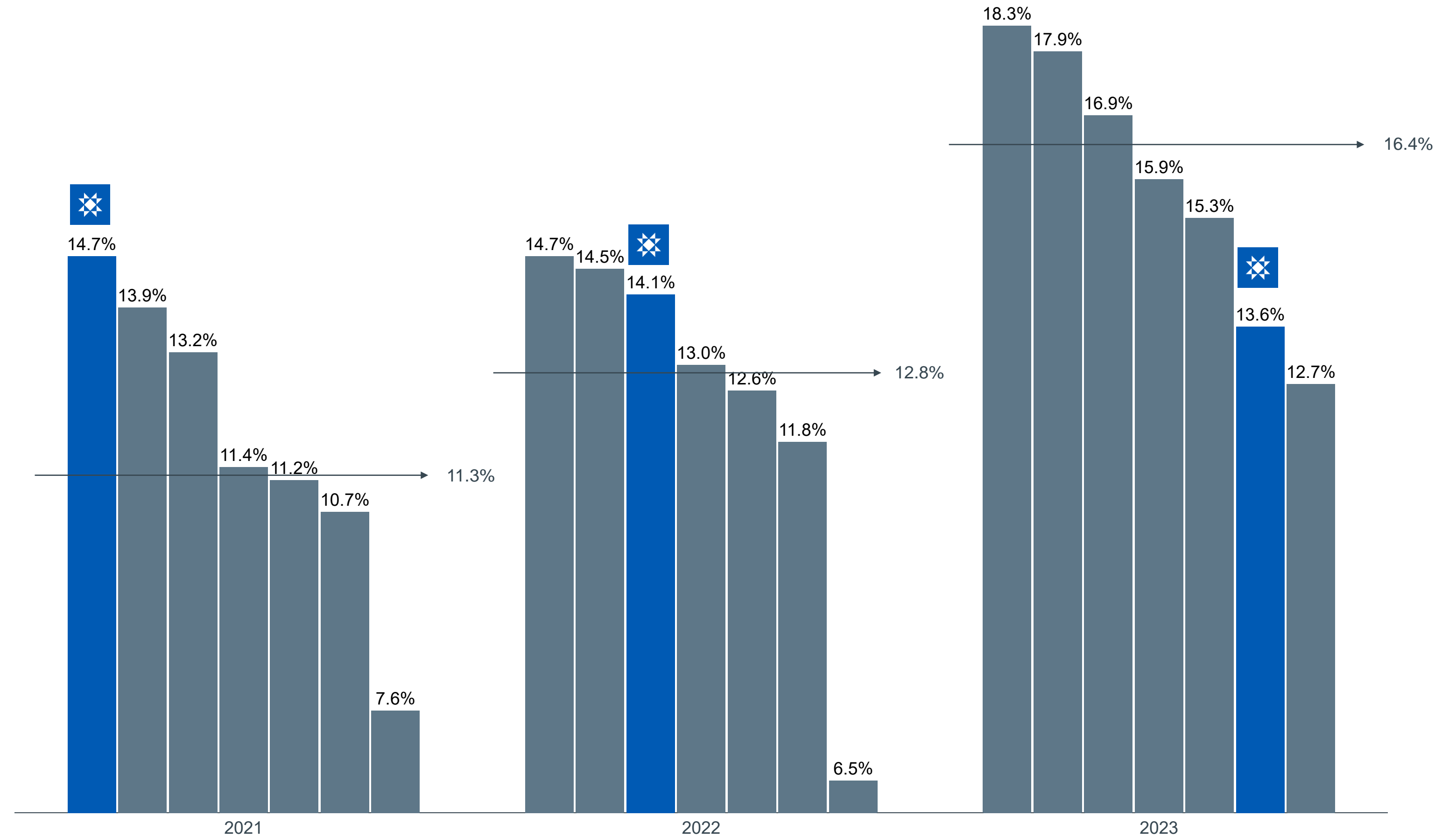
Liabilities and Equity

Due to credit institutions & CB	3	13	(79%)	12	(76%)	5	(45%)
Deposits from customers	793	806	(2%)	755	5%	655	21%
Other liabilities	69	74	(6%)	71	(2%)	65	7%
Borrowings	420	408	3%	393	7%	357	18%
Subordinated liabilities	41	47	(12%)	47	(13%)	35	18%
Total Liabilities	1,326	1,348	(2%)	1,278	4%	1,117	19%
Equity	199	193	4%	188	6%	194	3%
Total Liabilities and Equity	1,526	1,541	(1%)	1,466	4%	1,311	16%



Return on equity compared with Nordic peers

- Arion Bank had the highest ROE in 2021 of our Nordic comparisons but is second lowest in 2023
- Our Nordic peers improved their ROE significantly, with the median of 11.3% in 2019 increasing to 16.4% in 2023
- The greatest factor in the increase in ROE is the increase in NII

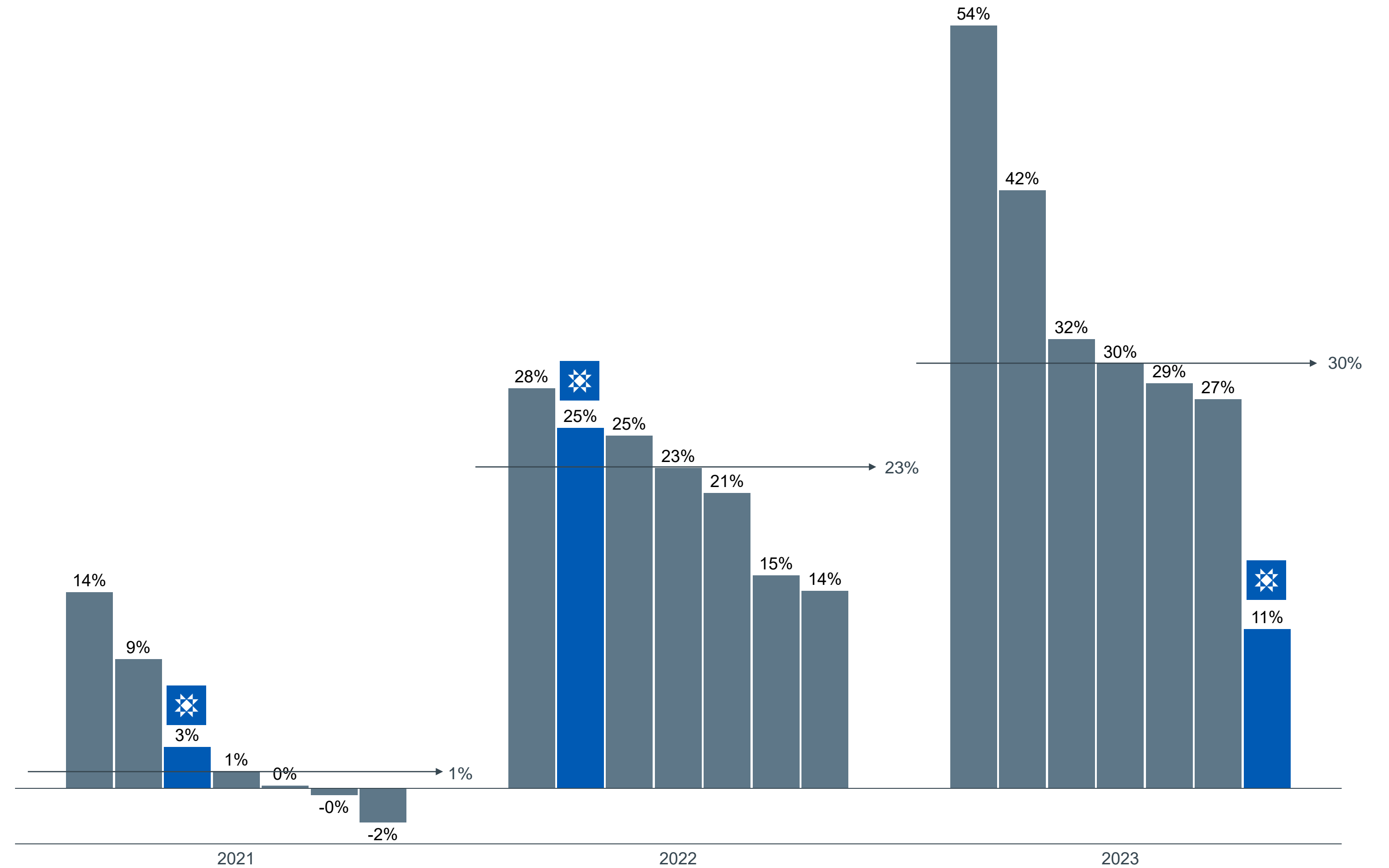
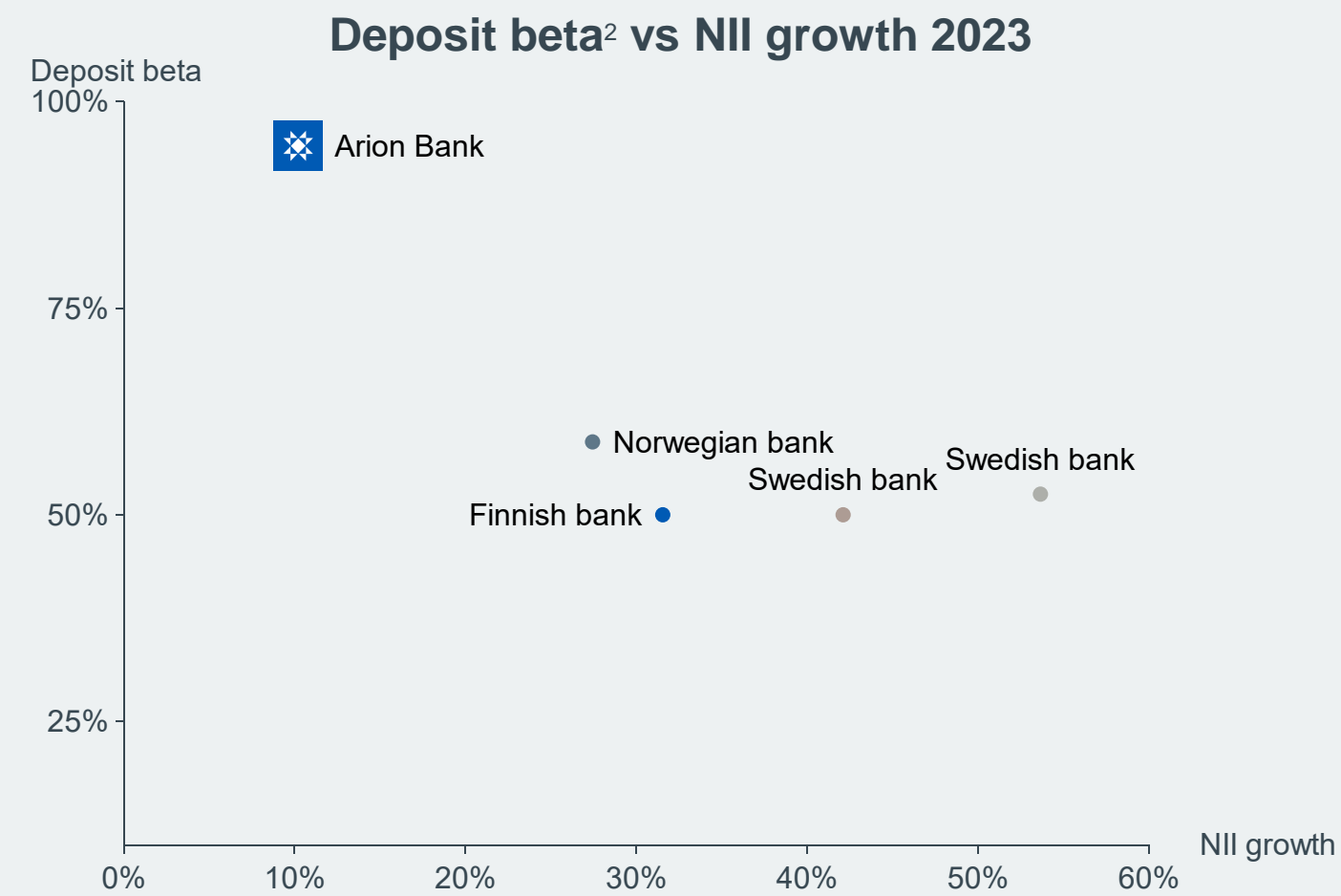


Nordic peers in comparison are Danske bank, DNB, Handelsbanken, Nordea, SEB and Swedbank
 Median lines in chart consist of Nordic peers excluding Arion



Change in net interest income compared with Nordic peers

- NII has been trending upwards for the past three years in the Nordics, but at a much higher rate than at Arion
- Our Nordic peers have a lower deposit beta than Arion Bank, allowing them to reap more of the benefits of higher interest rates

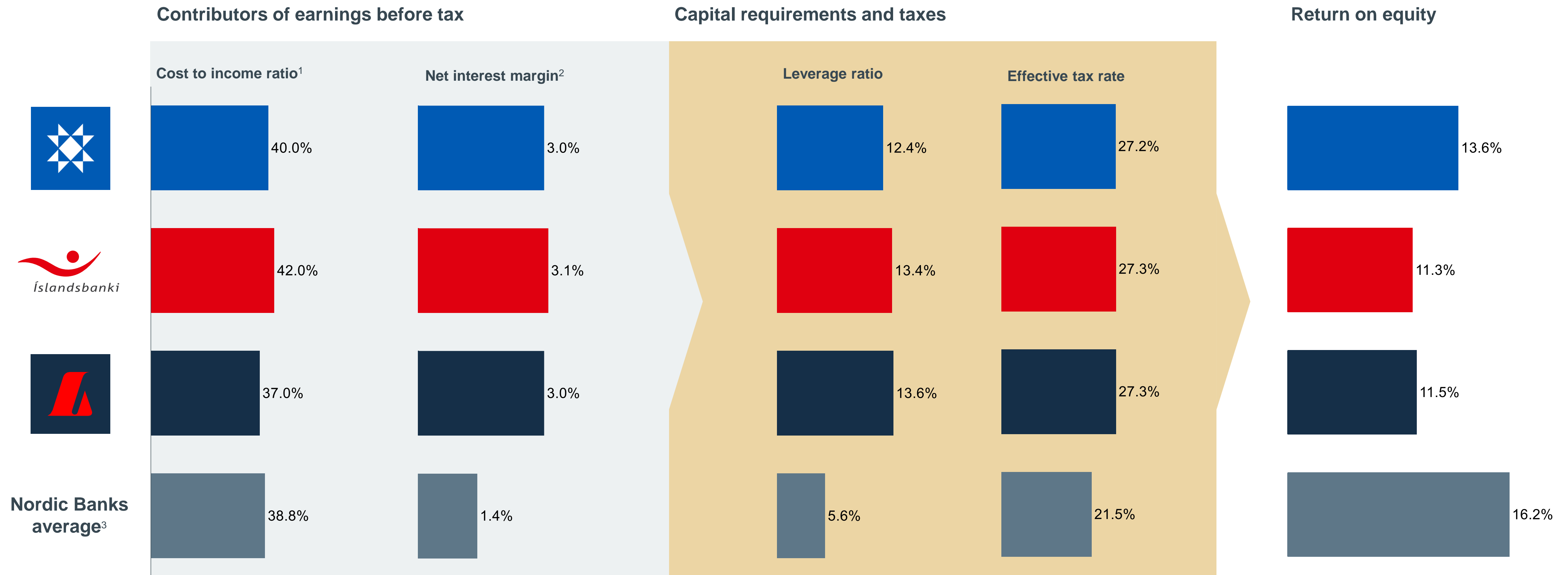


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Median lines in chart consist of Nordic peers excluding Arion



Higher net interest margin in Iceland is governed by much higher capital requirements and tax

Comparison of key metrics: Icelandic vs Nordic Banks FY 2023



¹ Calculated as Operating expense (excluding one-offs) / Operating income

² Calculated as Net interest income / Total assets

³ Average of Nordea, Danske bank, Handelsbanken, DNB, SEB and Swedbank

Source: Annual financial statements and Bloomberg



Arion is positioned in the most attractive customer segments with a strong and diversified product offering

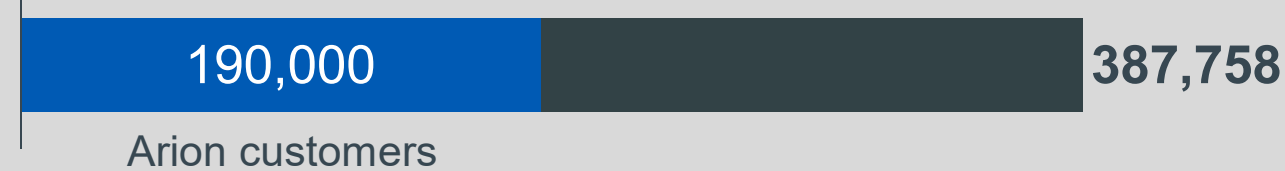


Integrated model with diverse key products in-house, offering strong opportunities for synergies

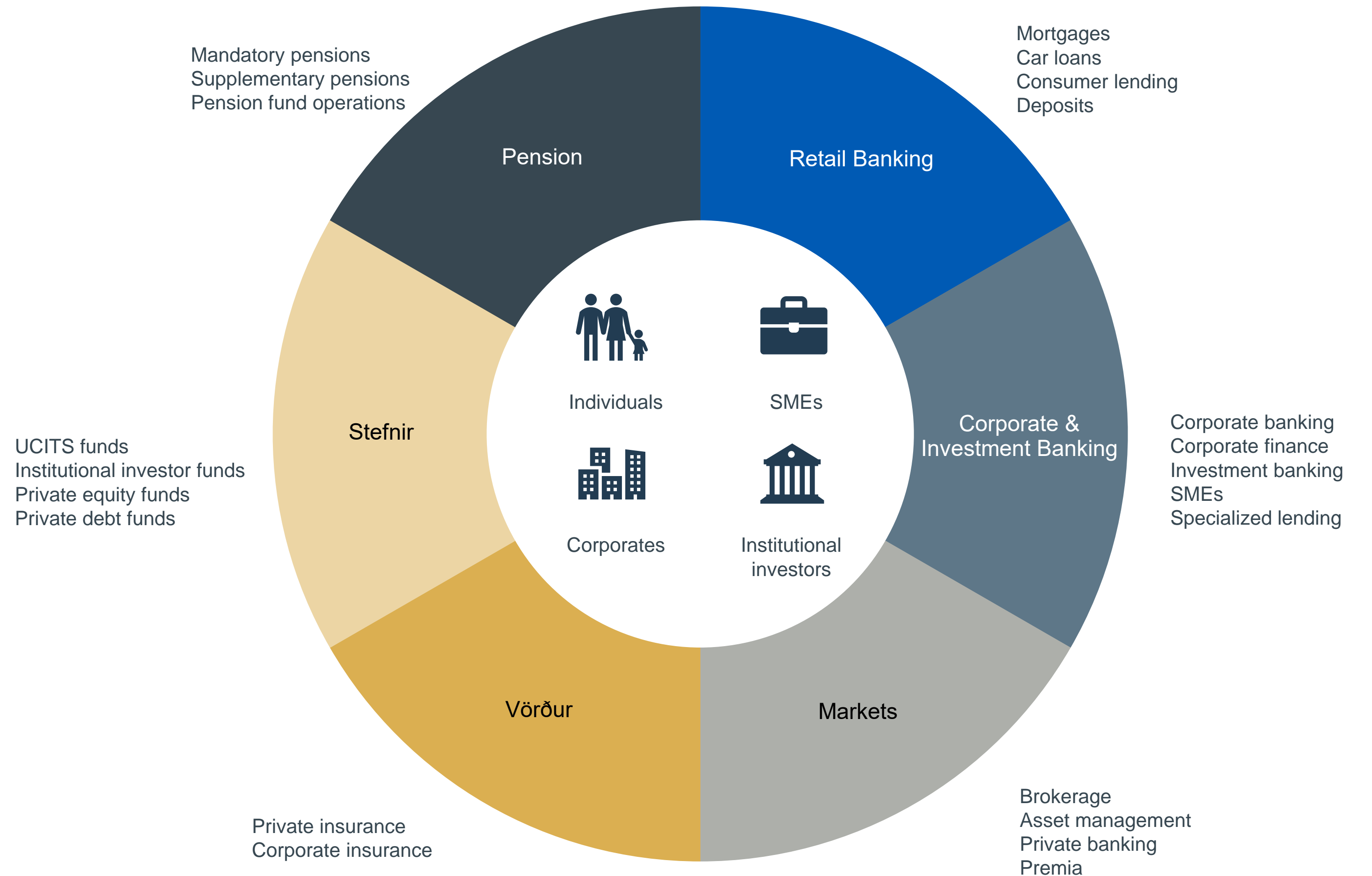
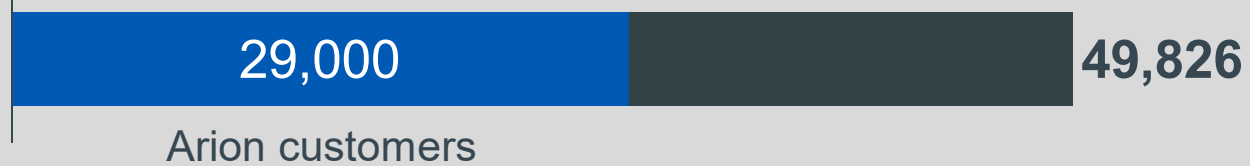
Known for innovation – digital at the core and a customer first focus

Top corporate and institutional bank in Iceland with a clear focus on capital efficient operations

Servicing half of the Icelandic population



and over half of Icelandic corporations



2019 strategic focus areas remain the guiding light

Capital Markets Day 2019

2019-2023

Next steps....

Updated strategic priorities

- Increased operational efficiency through key cost initiatives
- Increased revenues from RWAs through capital velocity and capital light revenue growth
- Focus on capital optimization
- Exit from non-core assets

Strong delivery

	2019	2021	2023
ROE	0.6%	14.7%	13.6%
Cost-to-core income	62.3%	51.6%	44.7%
Core Income / REA	5.7%	6.5%	7.1%

Commitment to return surplus capital

ISK 96.2bn

Dividend / Buy-backs 2019-2023

Important milestones in simplifying the balance sheet through divestments

 Bravo Tours

 LANDEY

 VALITOR

Bancassurance emphasis

 vörður

Strategic refinements to secure long-term success

The strategic priorities laid out in 2019 remain the guiding light, with continued emphasis on **operational efficiency, capital velocity and capital optimization**, and we have identified three main focus areas going forward:



Target client segments



Financial health



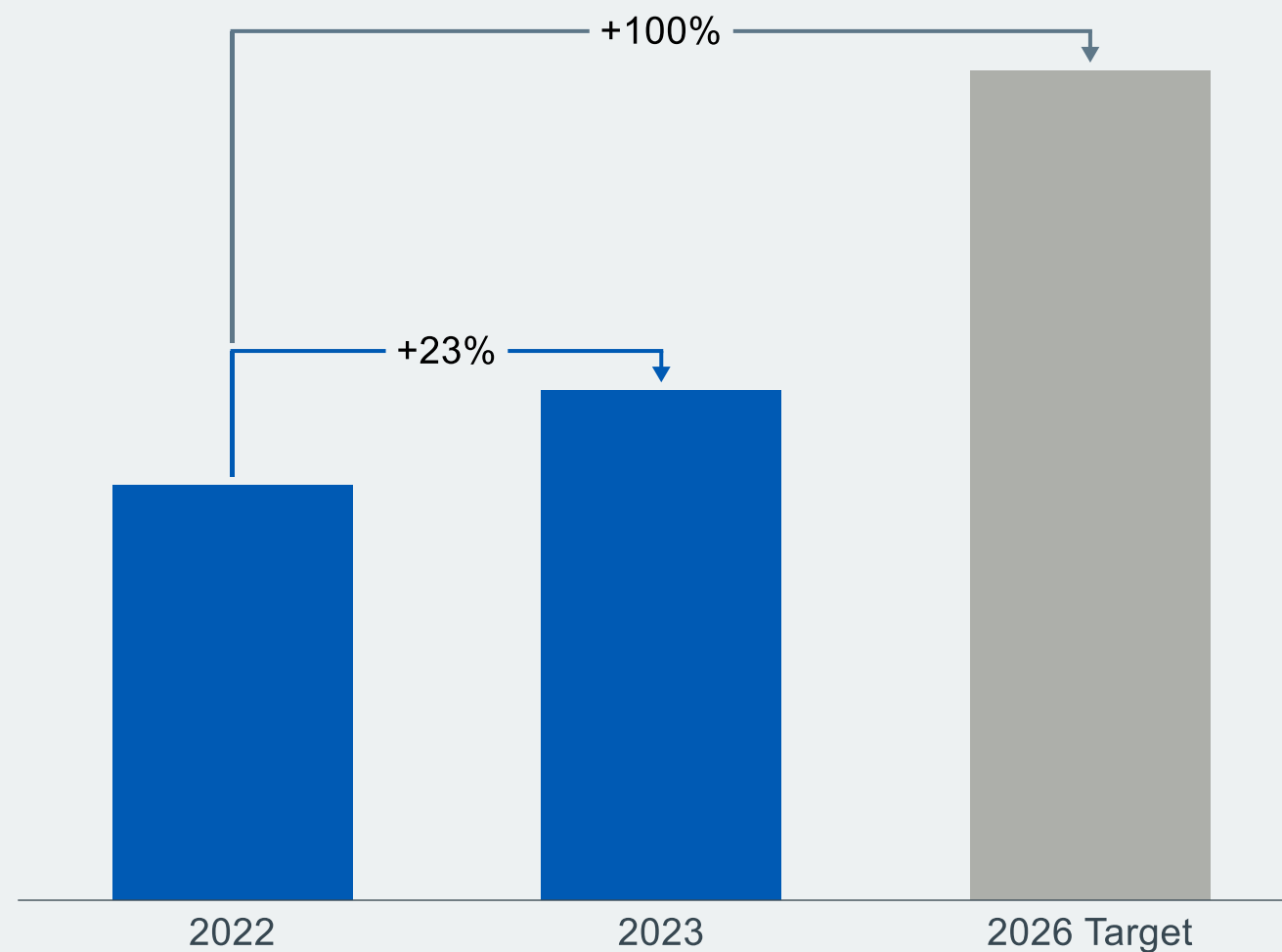
Arctic



Increased investment in and higher productivity of digital development organization

Mid '23 Agile@Scale transformation already delivering improved productivity

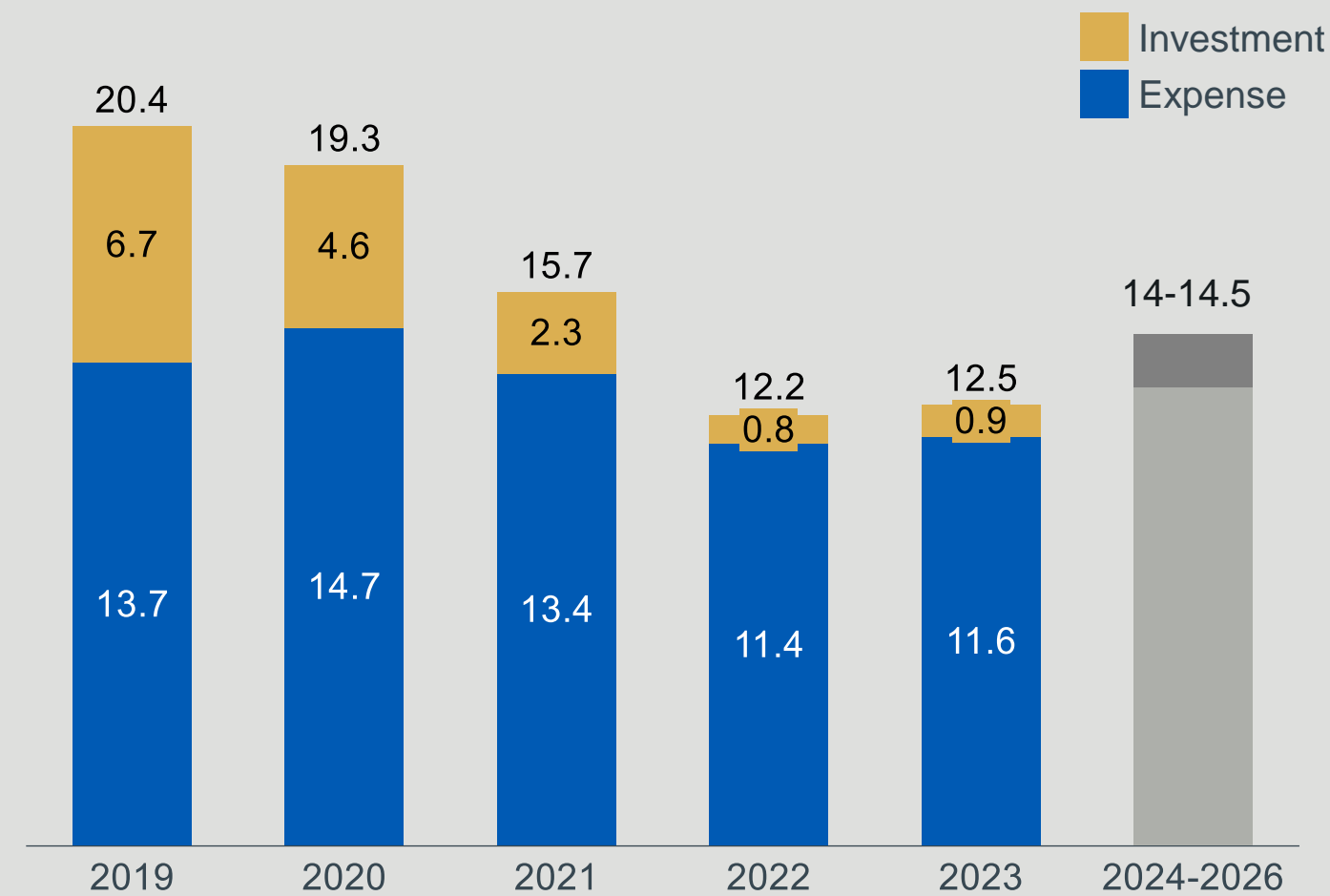
of tech development initiatives delivered



- Arion Way of Working comprised of 13 Core Teams and 3 Centers of Excellence
- ~20% of Arion FTEs actively involved in AwoW
- Target to double AwoW initiative delivery in 2026 vs. 2022 baseline

Continued investment in IT development planned for '24-'26

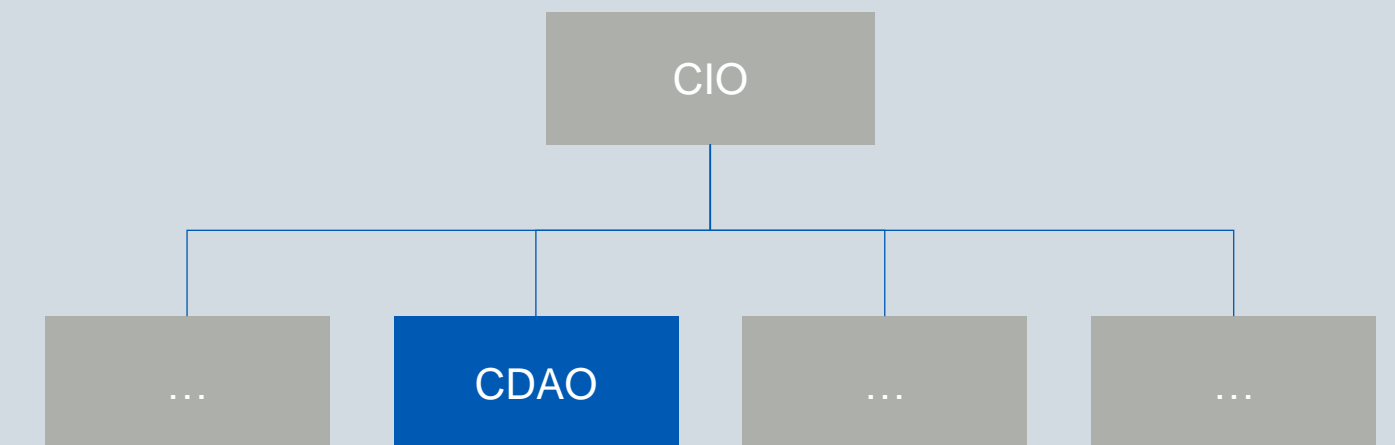
% IT Investment and Expense relative to Core Income



- IT costs relative to core income have decreased after a period of core systems modernization
- 2024-2026 increase in IT development investment targeting Customer Experience and Front-to-Back digitization
- IT development outsourcing expected between 20% and 25%

Acceleration of Data ambitions with new Data organization reporting to CDAO

IT organizational chart



- All data development capabilities centralized under new Chief Data and Analytics Officer
- ~17% of IT FTEs working purely on Data development
- Implementation of next generation data infrastructure started



Key initiatives to drive continued financial momentum

Projects have clear positive impact to financial performance

Strategic projects with clear positive financial impact, around resilience, efficiency and growth opportunities

Resilience

Efficiency

Growth

IT

Investment commitment
Data and AI
Cybersecurity and customer education
AWoW

Markets

Wealth management and Premia
New asset management system
Arctic opportunities

Operations & Culture

Transformation
Cross functional cooperation
Automation of processes
Attraction and retention of top talent

Retail Banking

Rewards / Family
Market segmentation
Bancassurance
Stable deposit strategy
Women invest

Funding and Treasury

Stable deposit strategy
Broadening wholesale funding options
Capital optimization

Risk

Credit models development
Data and AI
cyber-security education

Vörður

Corporate insurance
Life and health
Digital channels
Bancassurance

CIB

Capital velocity and syndication
Bancassurance
Combining SME business from Retail to CIB
Arctic opportunities



Operating in an attractive market

- Robust Icelandic economy with strong foundations for future growth
- Strong long-term potential with Arctic position

With a unique position

- Broad product offering with an integrated banking model
- Product-relationship with half of the Icelandic population
- Strong market share in most attractive customer segments
- Digital leader

And a track record of delivering

- ROE above local competitors for past 4 years
- Delivered on all key targets and strategic priorities outlined in 2019 and 2021 CMD
- Demonstrated commitment to optimize capital position over medium-term

Medium term targets*

>13% Return on equity

>7.2% Core income over REA

<45% Cost to core income

>3% Insurance revenue growth of Vörður in excess of market growth

<95% Insurance combined ratio of Vörður

50% Dividend payout ratio

CET1 ratio of regulatory requirement with additional **150-250bps** buffer

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



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