

Arion Bank Capital Markets Day

8.30 Reception and breakfast

9.00 **A smaller but more profitable bank – what next?**

Benedikt Gíslason – CEO

9.15 **From resilience to rebound**

Erna Björg Sverrisdóttir – Chief Economist

9.35 **Key strategic goals improving significantly – momentum onwards**

Ásgeir Reyk fjörd Gylfason – Deputy CEO & MD of Corporate & Investment Banking

9.50 Coffee break

10.00 **Future growth on solid foundations**

Margrét Sveinsdóttir – MD of Markets

10.15 **Efficiency and bancassurance**

Ída Brá Benediktsdóttir – MD of Retail Banking

10.35 **Relevant and convenient customer experience**

Steinunn Hlíf Sigurdardóttir – MD of Customer Experience

10.50 **Key drivers of the Group's financial profile**

Ólafur Hrafn Höskuldsson – CFO

11.10 Q&A

11.30 Event concludes

A smaller but more profitable bank – what next?



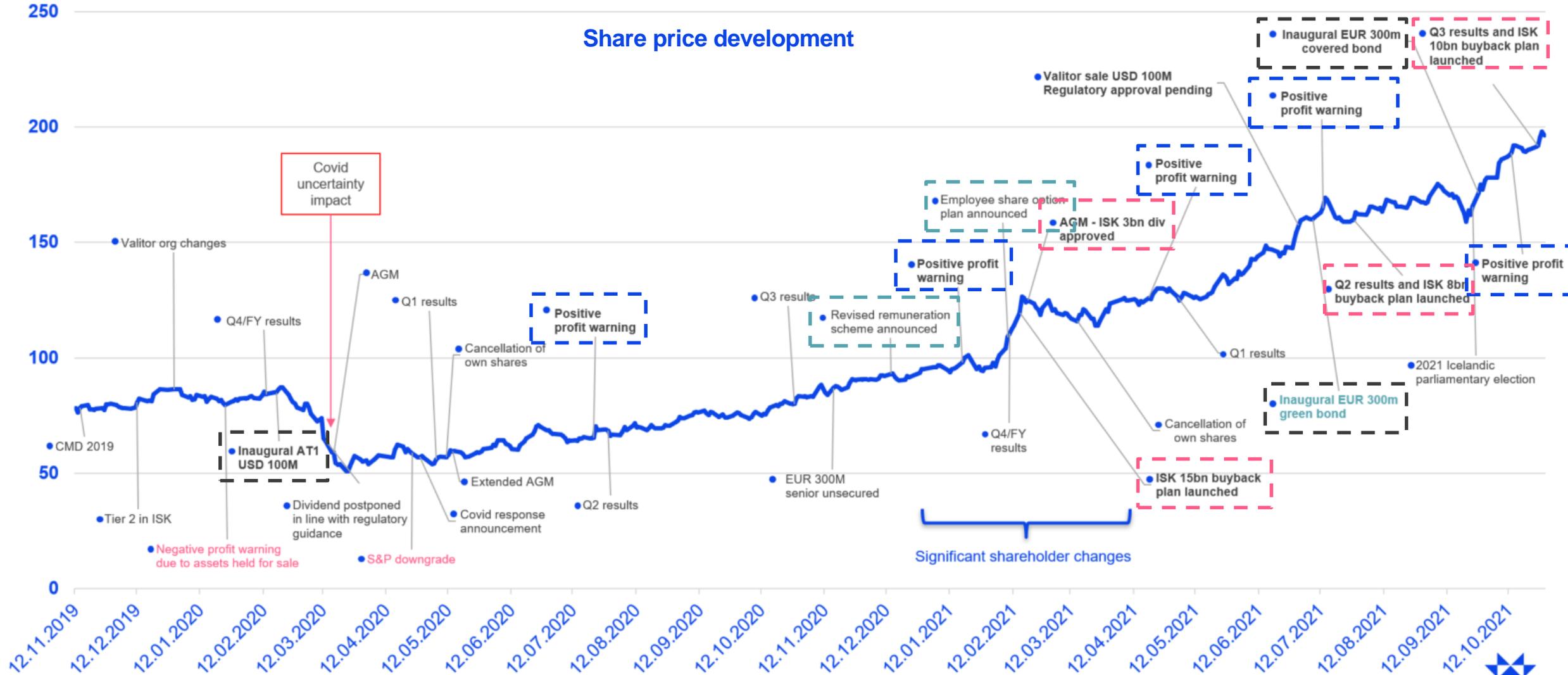
Benedikt Gíslason – CEO



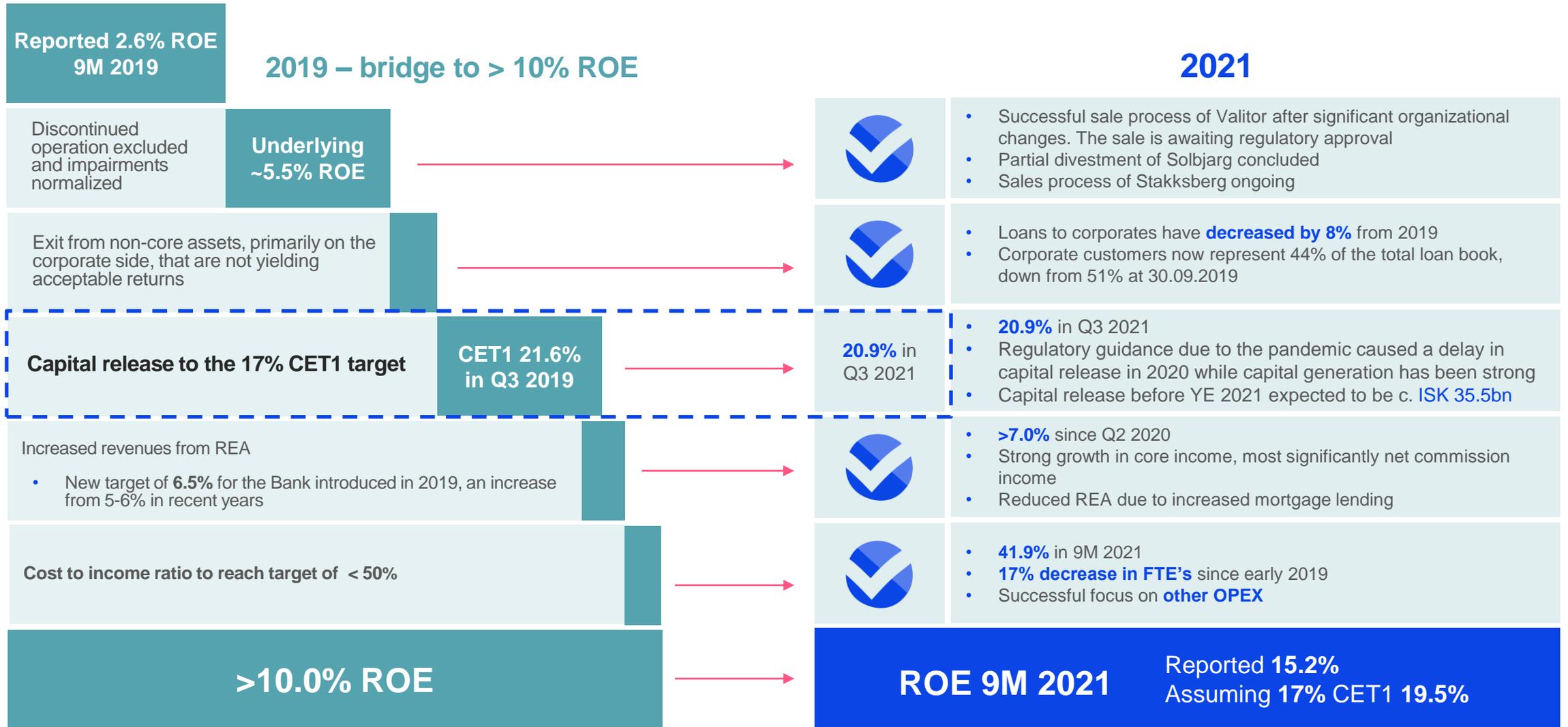
Development since last Capital Markets Day

Key messages two years ago: **a smaller but more profitable Bank** going forward based on 1) release of surplus capital and 2) a diversified and more disciplined capital allocation business model operating in a strong economy

Share price development

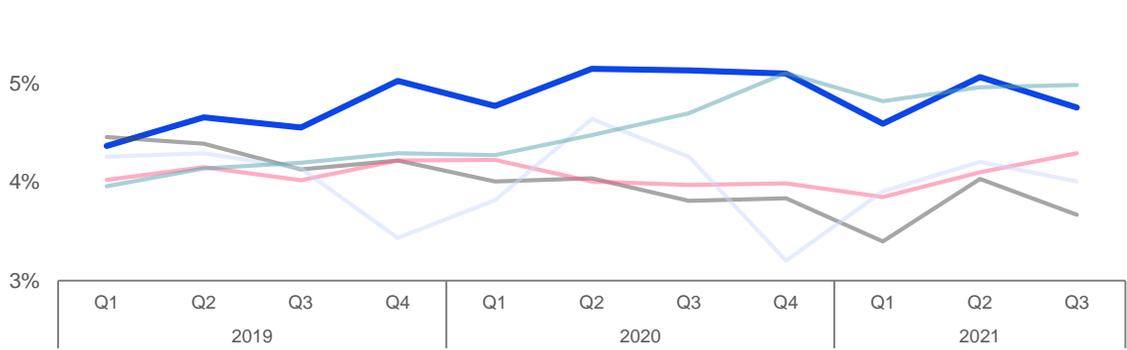


Most strategic ambitions fulfilled or exceeded since last CMD

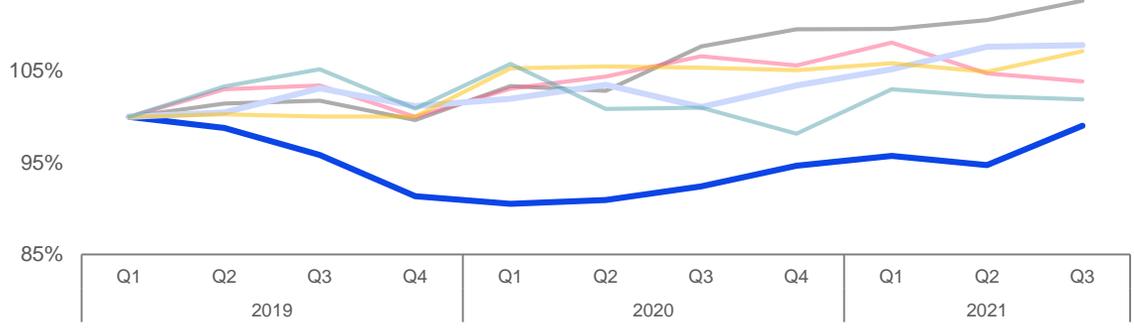


Smaller but more efficient bank

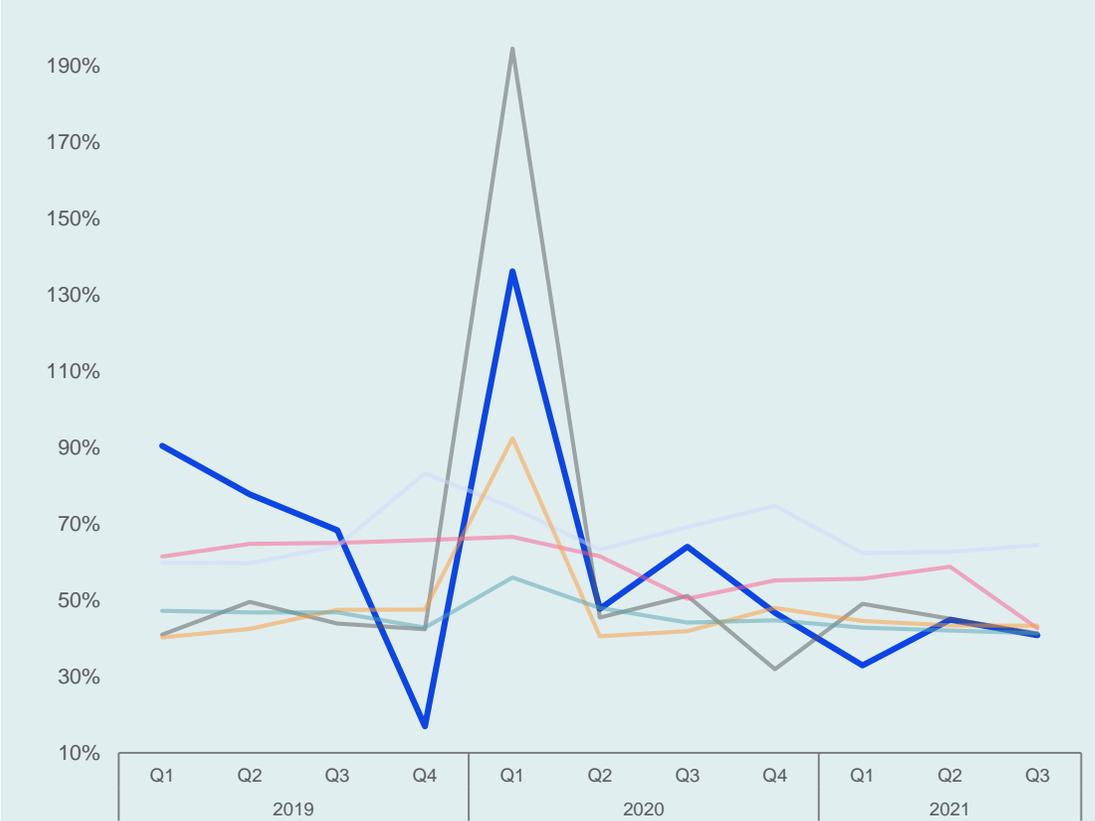
NII / Credit risk



REA - indexed



Cost / income



Arion Bank Landsbankinn Íslandsbanki

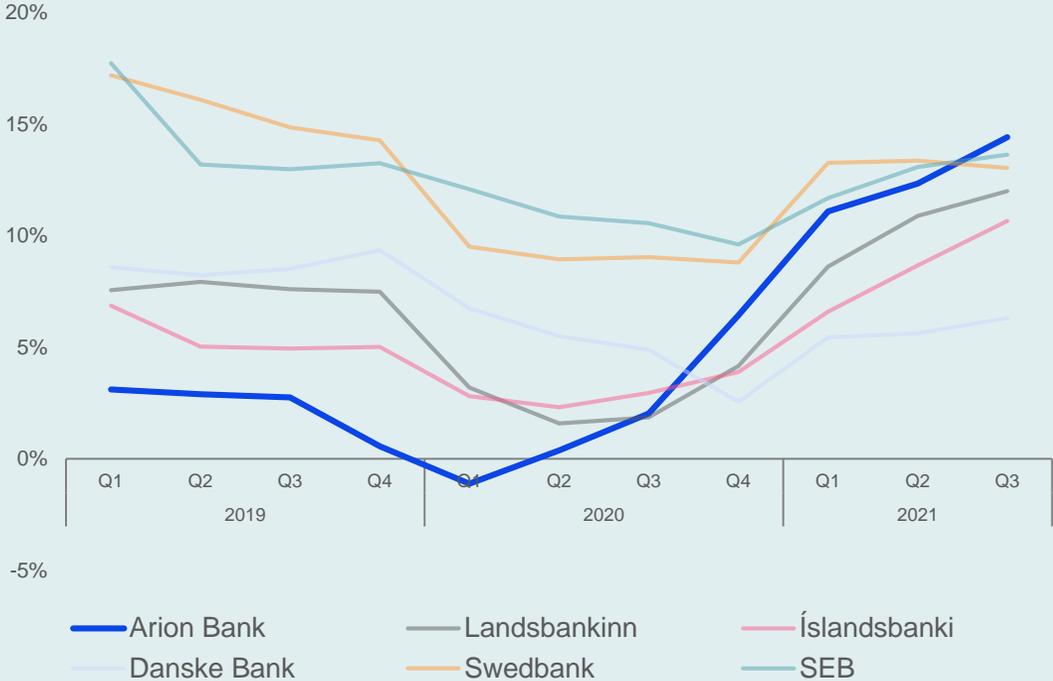
Danske Bank Swedbank SEB

Source: Bloomberg

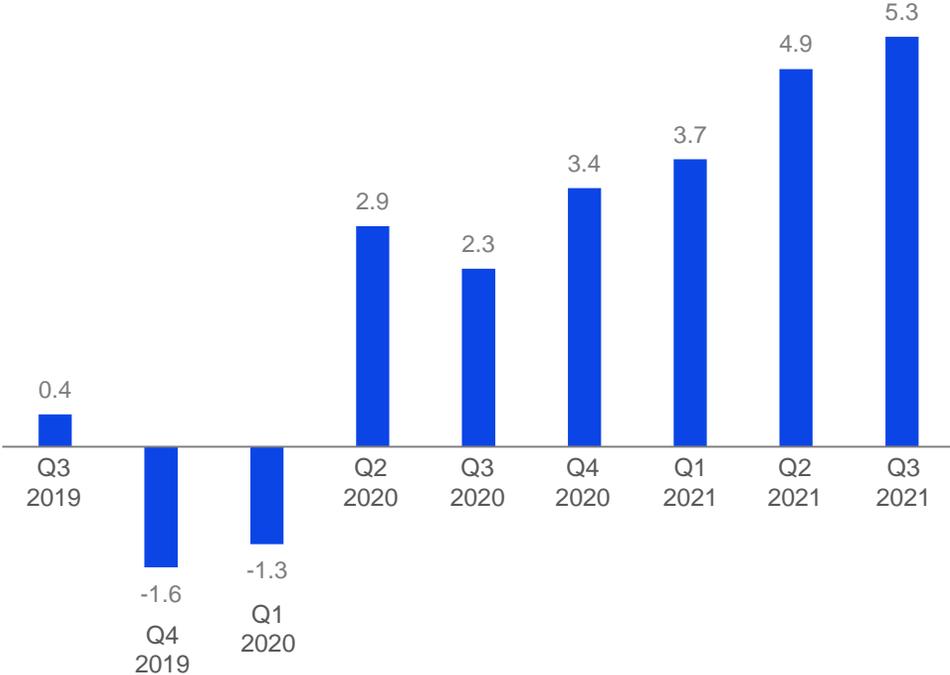


Higher profitability with introduction of better risk-managed “originate and distribute” model

Return on equity



Earnings per outstanding share



Key focus



Financial aggregation, bancassurance and customer journey focus are the key themes for growth for the Group by which we aim to increase our market share in target client segments



Operational efficiency still very much a focus



Sustainability



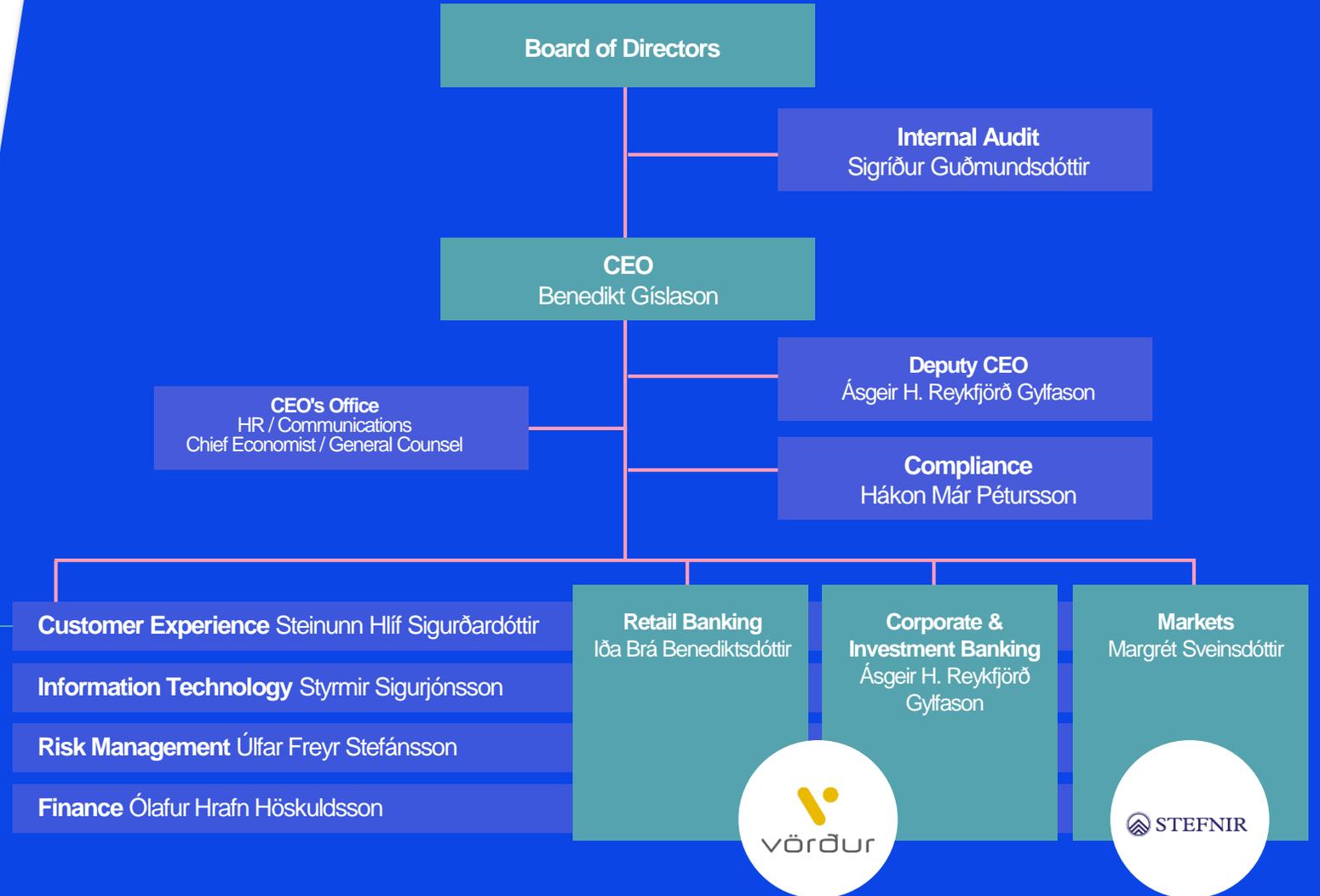
The Arctic region



Arion Bank a customer centric organization

- Incorporates Vörður into both Retail banking and CIB
- Emphasizes the customer experience in all areas of the Bank
- Centralizes shared services to increase cost efficiency and effectiveness

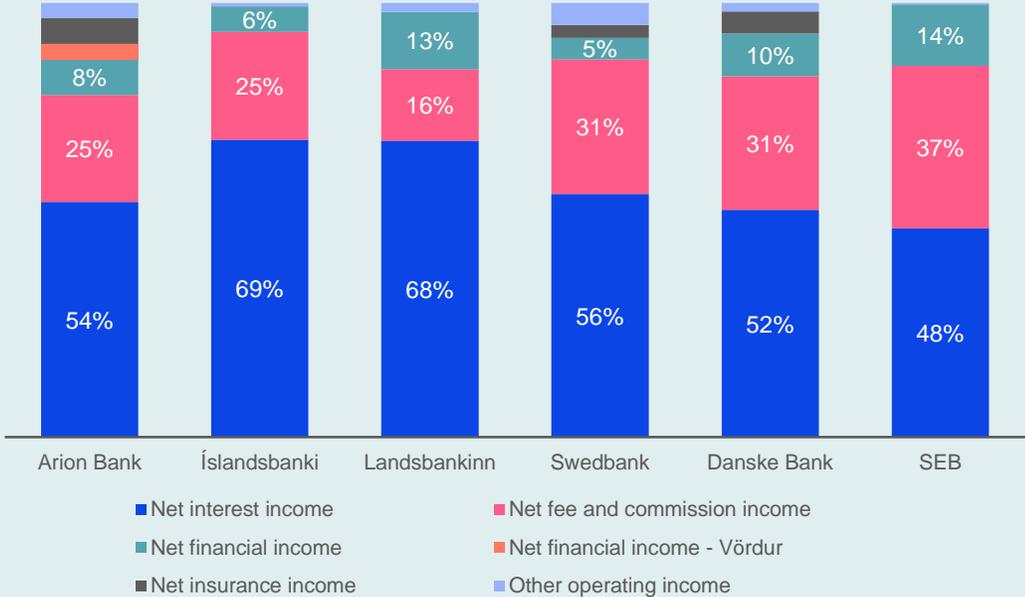
- Convenient and relevant services
- Customer segmentation
- Financial aggregation
- Bancassurance
- IT focus



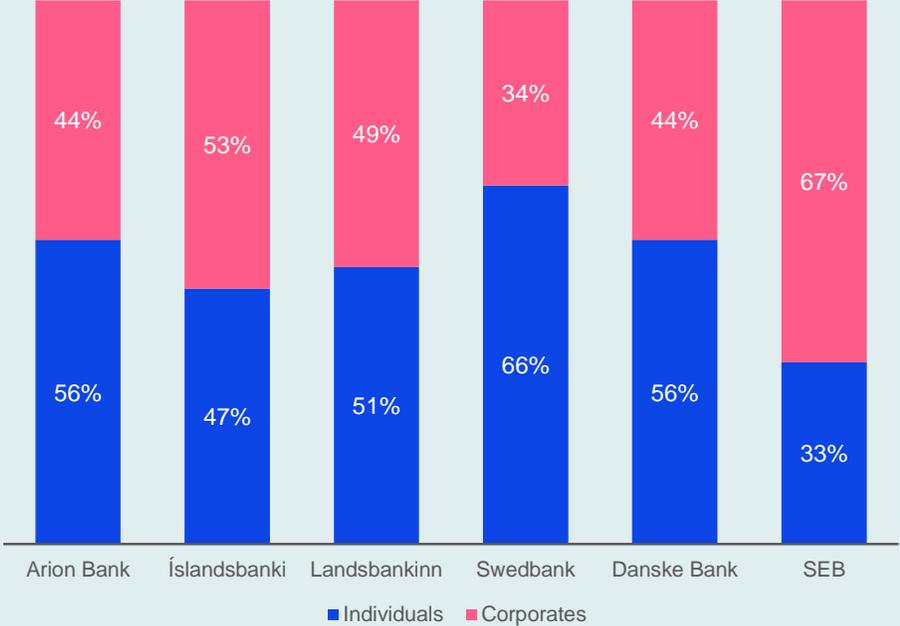
More diversified than peers

Strong transition of the Banks' revenue streams from net interest income on lending to fees

Well diversified income streams – operating income by type 9M 2021 (%)



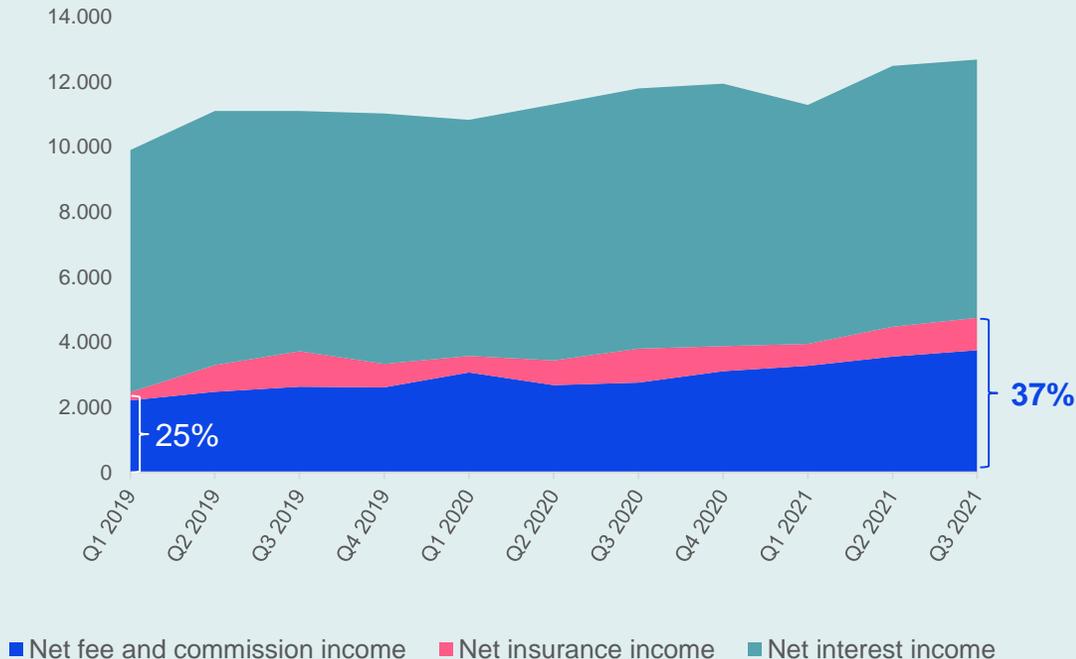
A balanced loan book split between corporates and individuals (%)



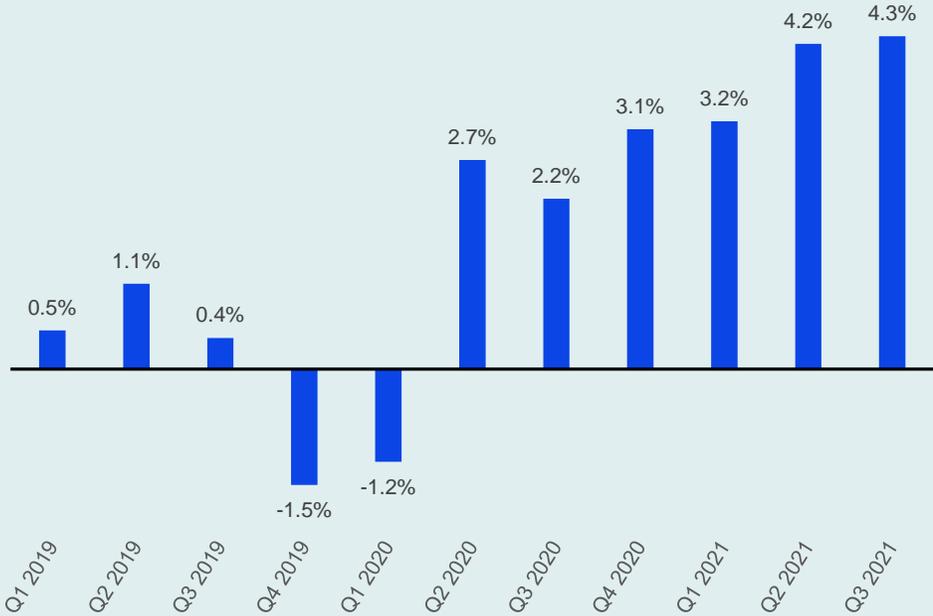
Stable income stream based on diversified income lines

Strength of income streams tested during times of turmoil – good countercyclicality in business model

Core income supported through significant growth in net fee and commission income (ISK millions)



Robust increase in return on risk exposure amount



Arion Bank's sustainability journey

Establishment of a Green Financing Framework is an important milestone in Arion Bank's sustainability journey



Equal salary certification from VR in 2015 and Ministry of Welfare equal pay symbol in 2018

Signatory to **Principles for Responsible Investment (UN PRI)** in 2017 and to **Principles for Responsible Banking (UNPRB)** in 2019



PRINCIPLES FOR RESPONSIBLE BANKING



Principles for Responsible Investment

Set-up of **Green Financing Framework** with SPO from Cicero in 2021 and issuance of inaugural **Green Bond** to finance ongoing ambition to allocate capital in a sustainable way



An updated equality and human rights policy in 2021 with clear objectives

Signatory to the **City Reykjavik and Festa's Declaration on Climate Change** in 2015 and to the **UN Global Compact** in 2016



Introduction of a **new environment and climate policy in 2019**, implementing a clearer focus on the Bank's ambition to finance projects on **sustainable development and green infrastructure**. Specific sector policies will be designed that inform the loan origination process going forward



Kick-off for green product portfolio with a green deposit bank account for retail clients in 2020. The Bank also offers green mortgages and green car financing

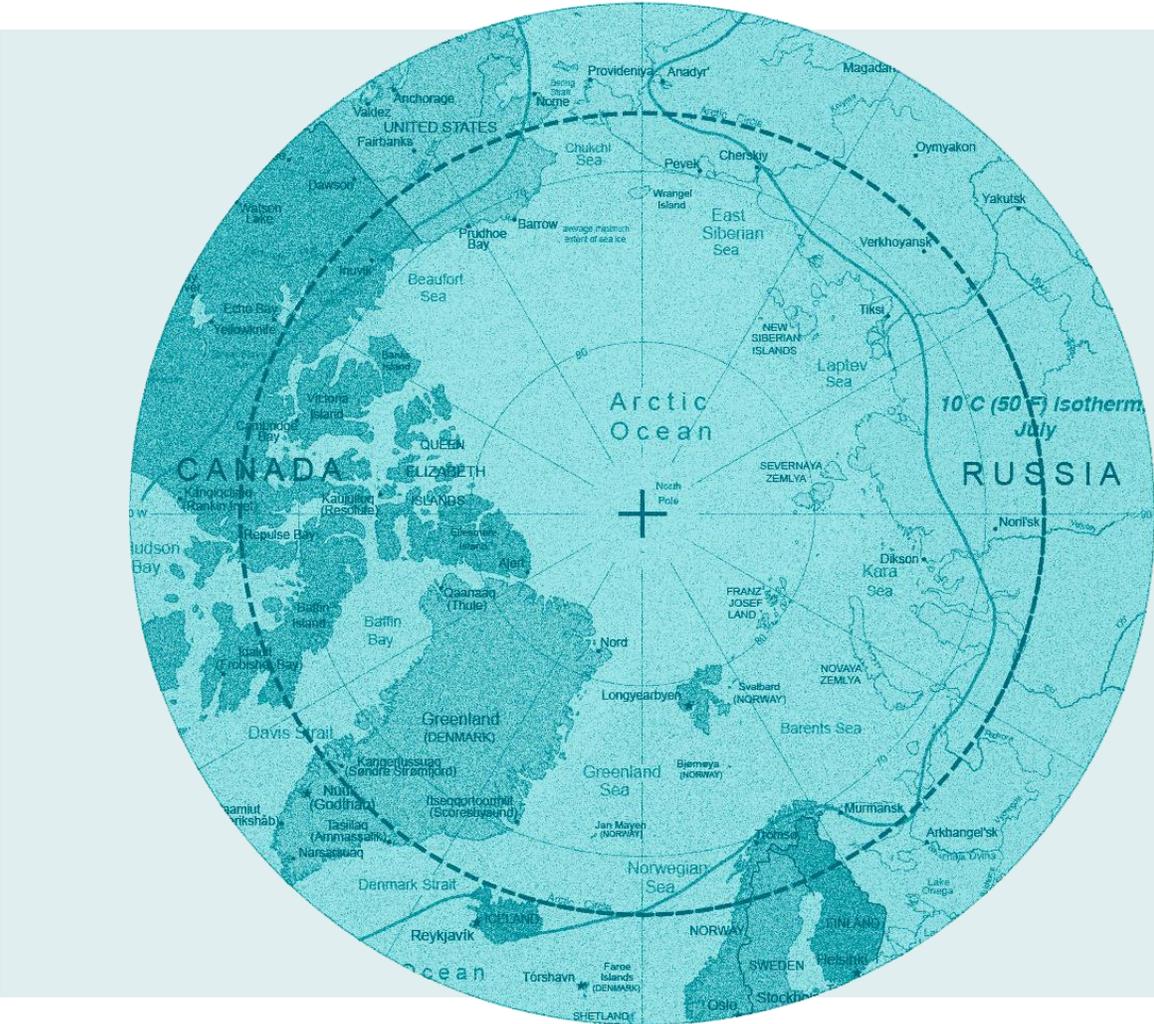
By the end of 2022, Arion Bank will have measured the **carbon footprint of the balance sheet** and set targets for carbon reduction in alignment with the Paris Climate Agreement



Partnership for Carbon Accounting Finance



The Arctic presents substantial and growing opportunities



Relatively small population in the region but with significant impact globally



One third of rare earth metals and materials in the world



10% of total aluminum production



12% of fish caught in the world are in the North Atlantic Ocean

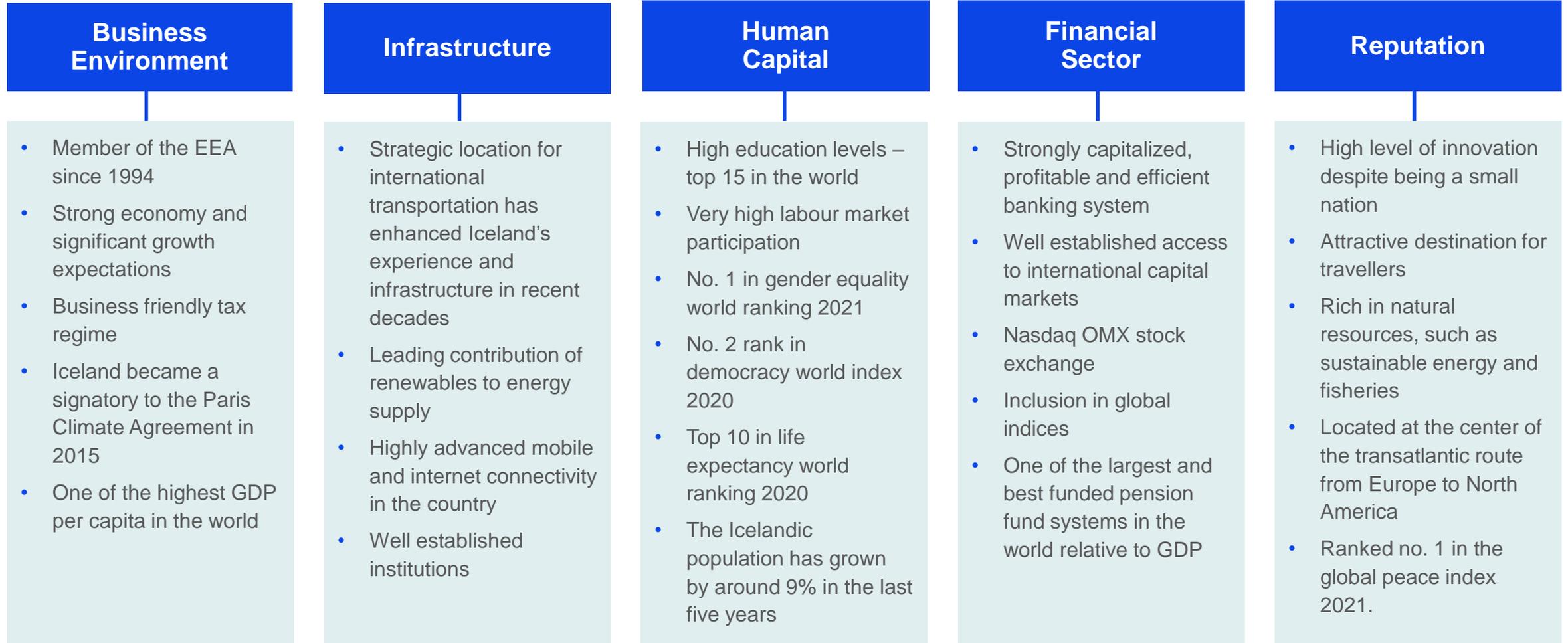


40% of farmed salmon and related species



Iceland is uniquely positioned to become the financial hub in the Arctic

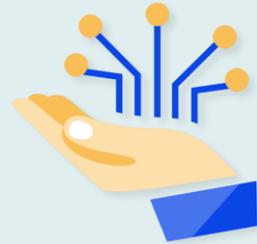
Areas of competitiveness



Going forward



Market share in target client segments



Financial aggregation and customer experience



Operational Efficiency



Sustainability



The Arctic region



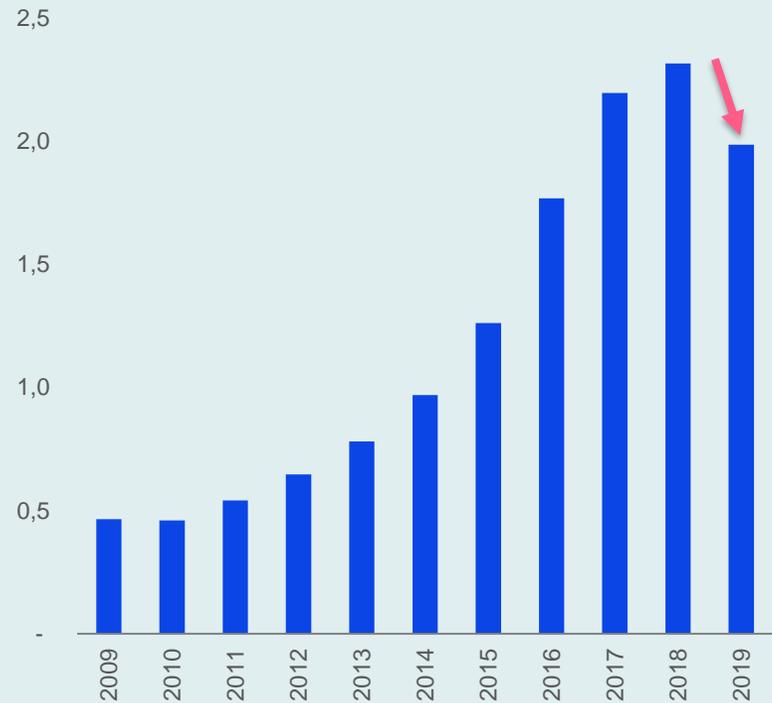
From resilience to rebound

Erna Björg Sverrisdóttir - Chief Economist



Tourism in 2019

Tourist arrivals via Keflavik International Airport
- millions



35% of export revenues



8% direct contribution to GDP

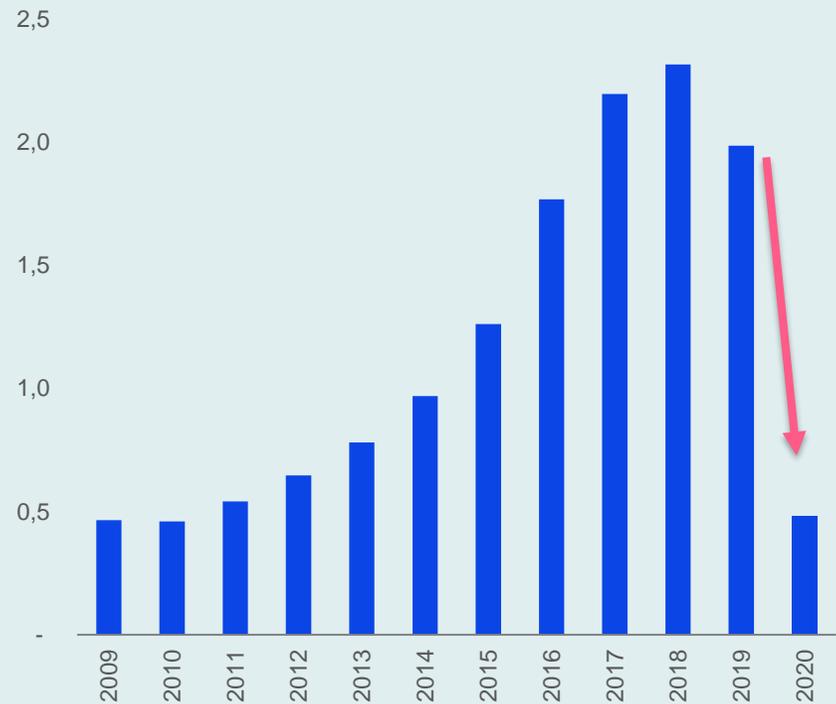


14% of the labor force



2020: The perfect storm

Tourist arrivals via Keflavik International Airport
- millions



~~35%~~ of export revenues

11%



~~8%~~ direct contribution to GDP

4%



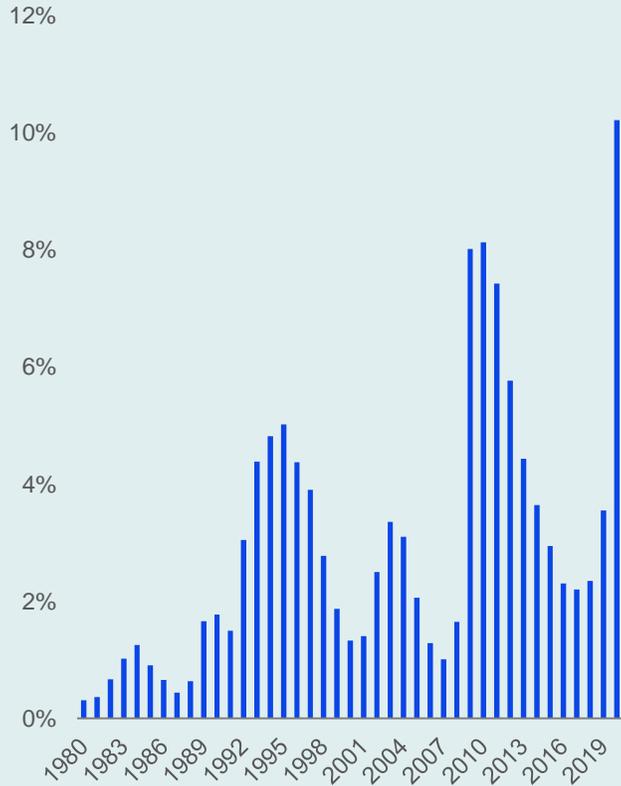
~~14%~~ of the labor force

7%

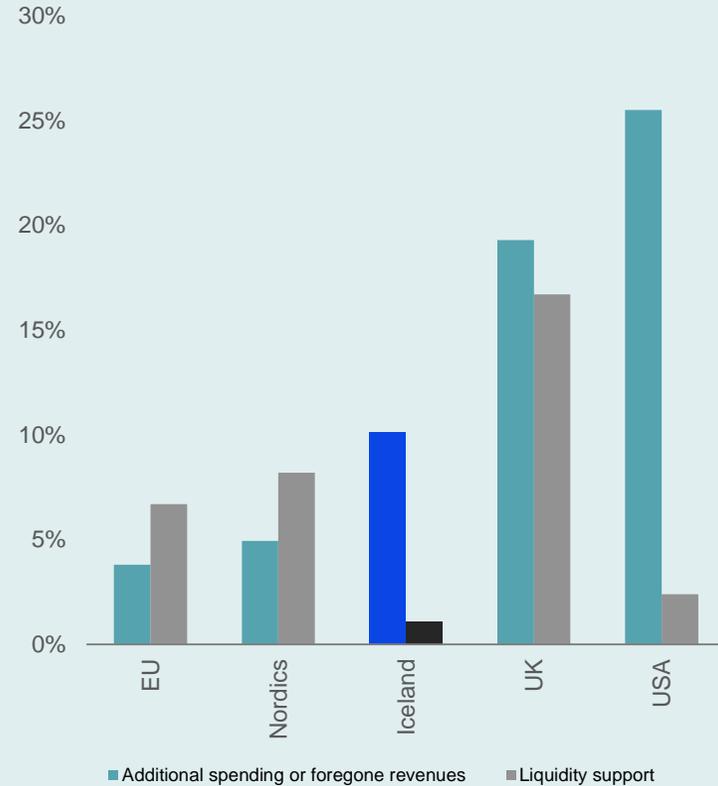


Making a strange year (2020) even stranger, the Icelandic way

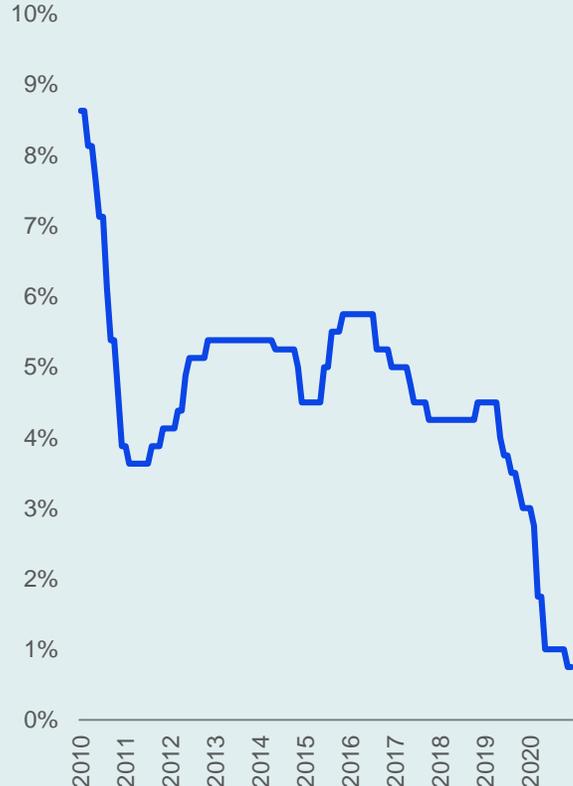
Registered unemployment rate – partial benefits included



Fiscal measures in response to COVID-19 - % of GDP

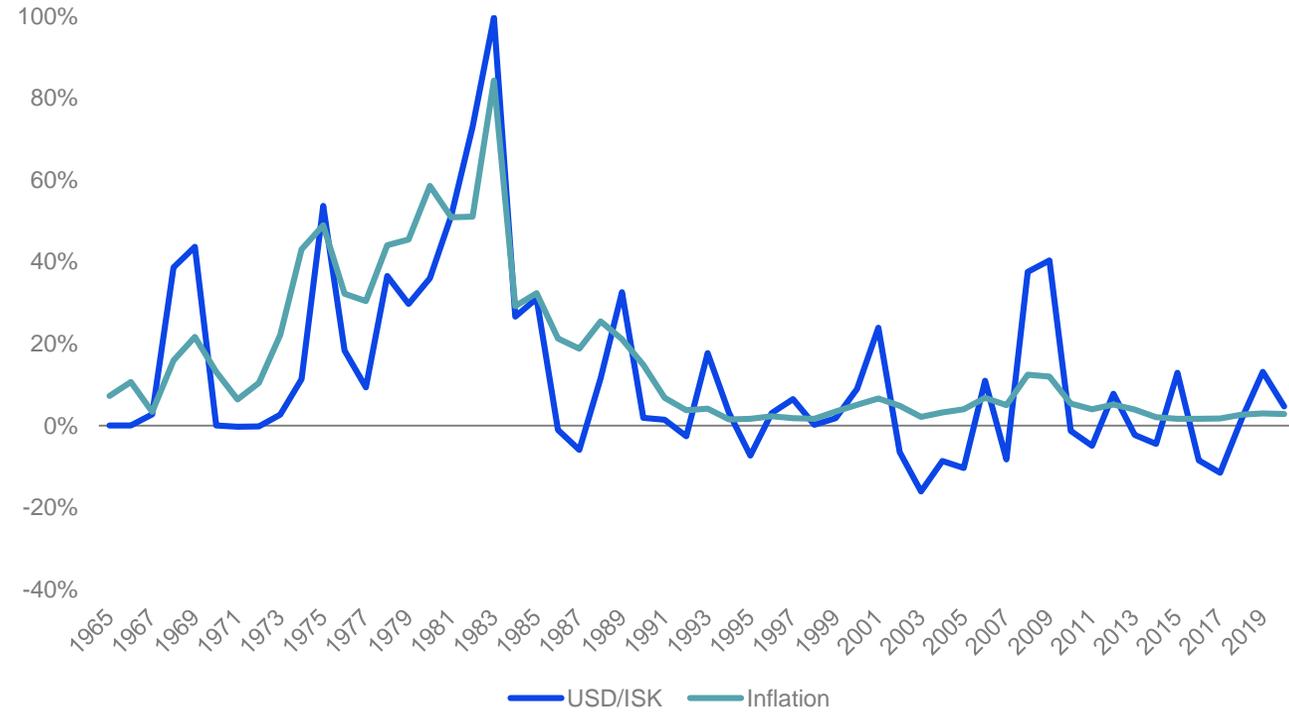


CBI's key interest rates

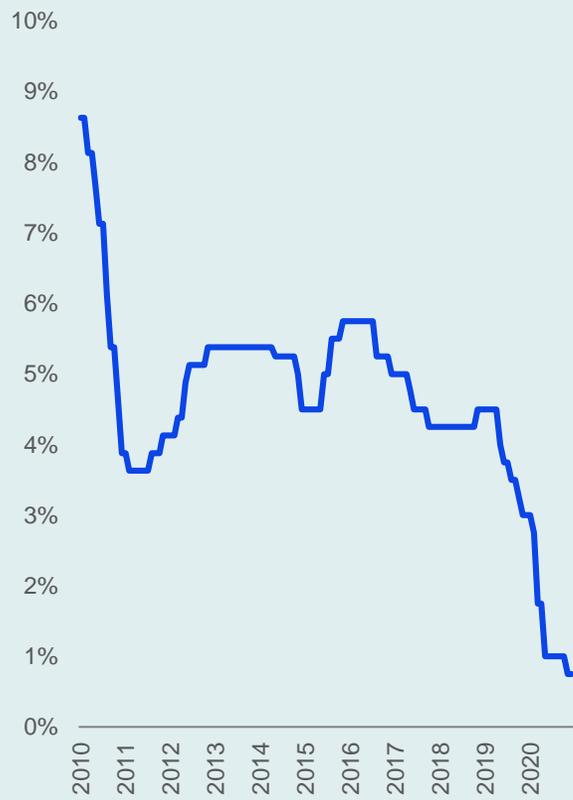


Making a strange year (2020) even stranger, the Icelandic way

USD/ISK and inflation – YoY % change and inflation



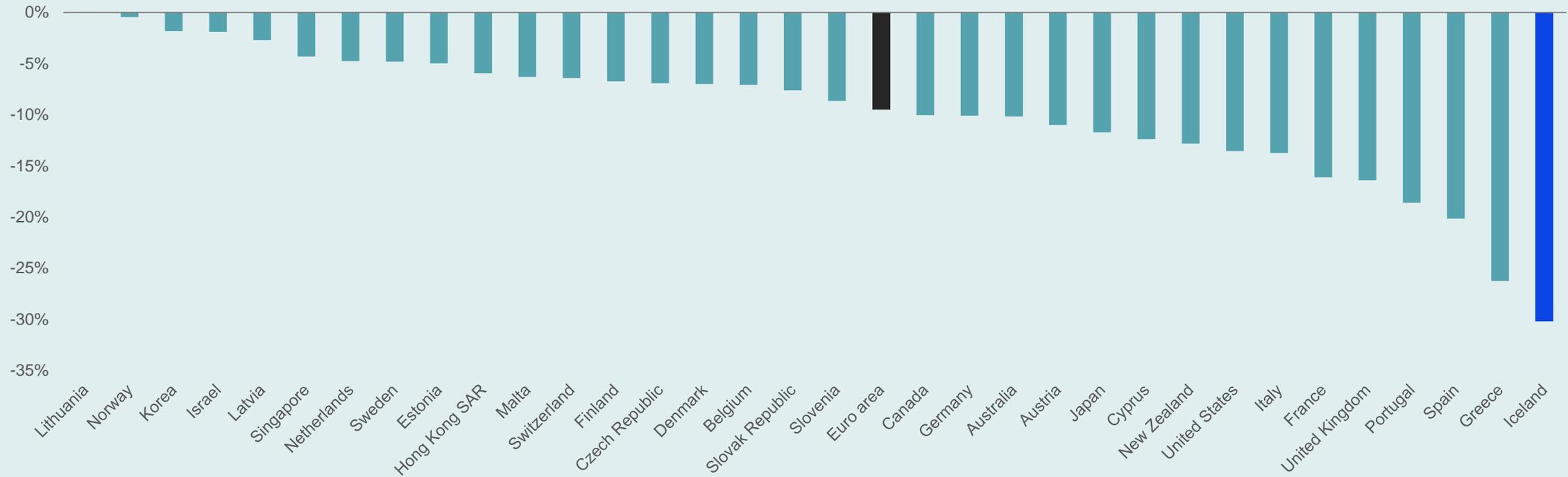
CBI's key interest rates



Iceland, the tourist destination

Massive 30% drop in total exports, but still in line with expectations

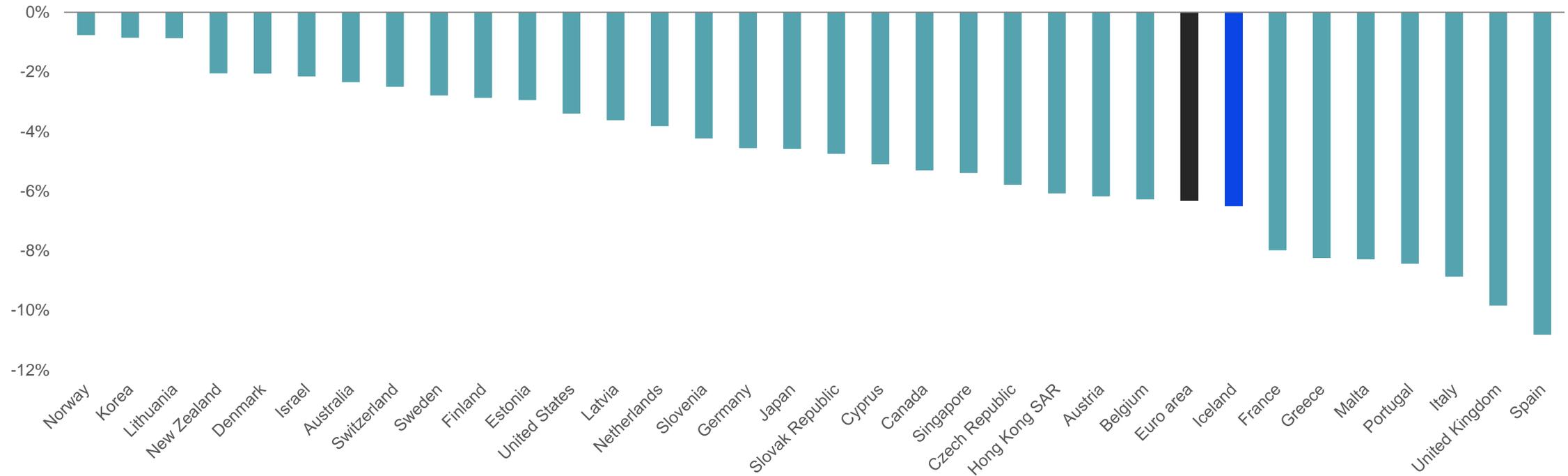
Exports of goods and services in 2020 - YoY % change



Iceland, the consumer society

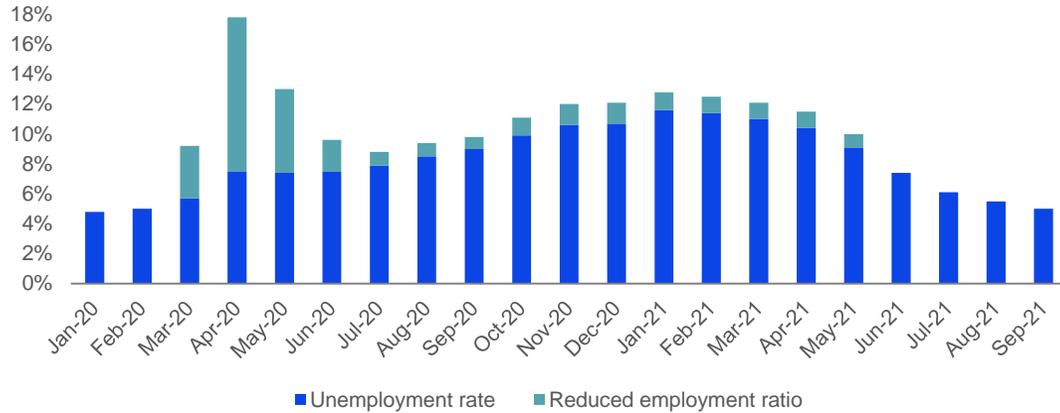
Exceeding expectations

GDP in 2020 – YoY % change

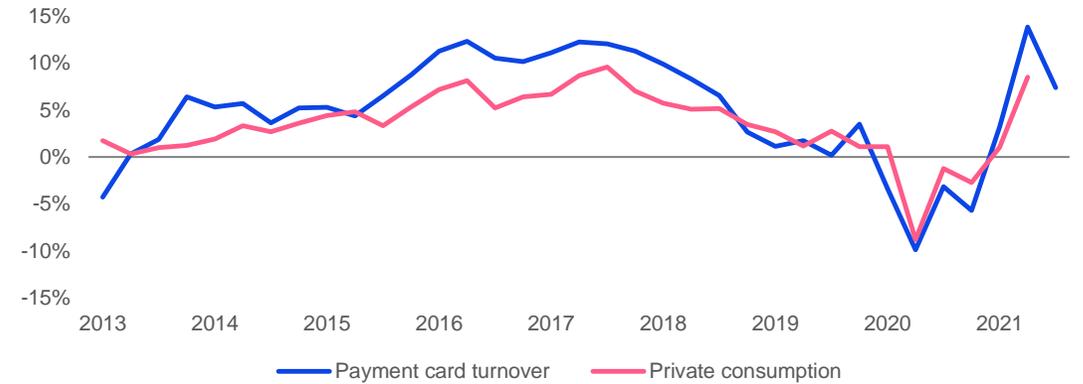


How quickly the tides turn

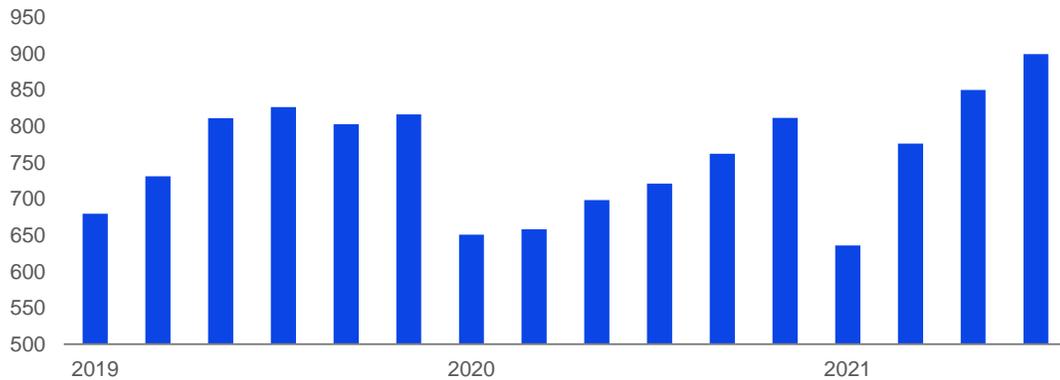
Registered unemployment



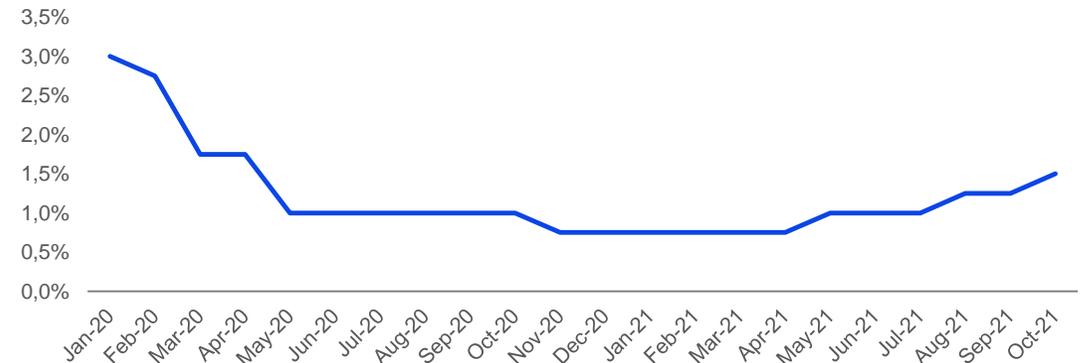
Payment card turnover and private consumption – YoY % change



Total turnover excluding the pharmaceutical industry – bn. ISK, nominal

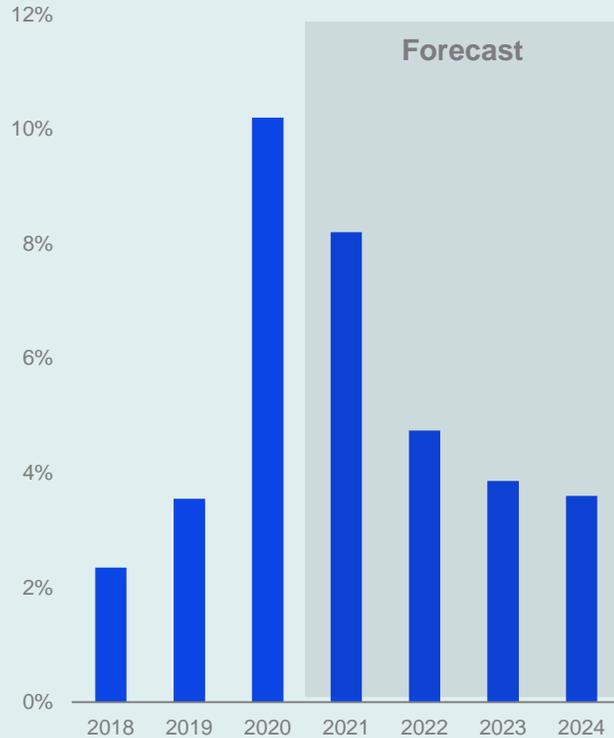


CBI's key interest rates

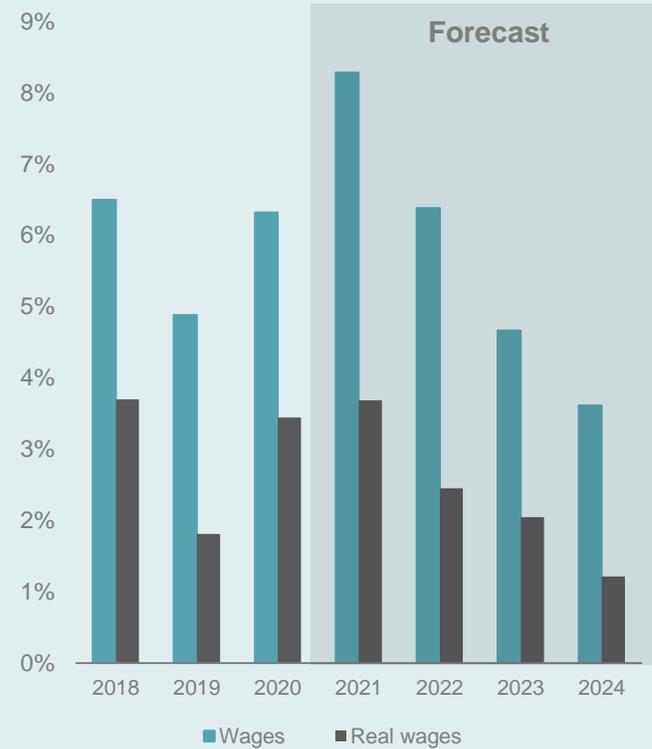


The stage is set for a strong domestic demand

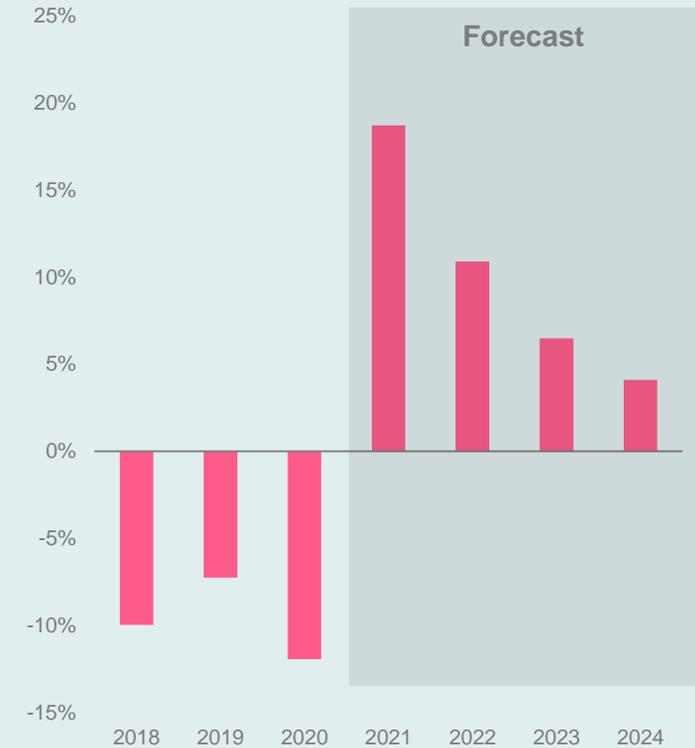
Unemployment rate



The wage index – YoY %-change

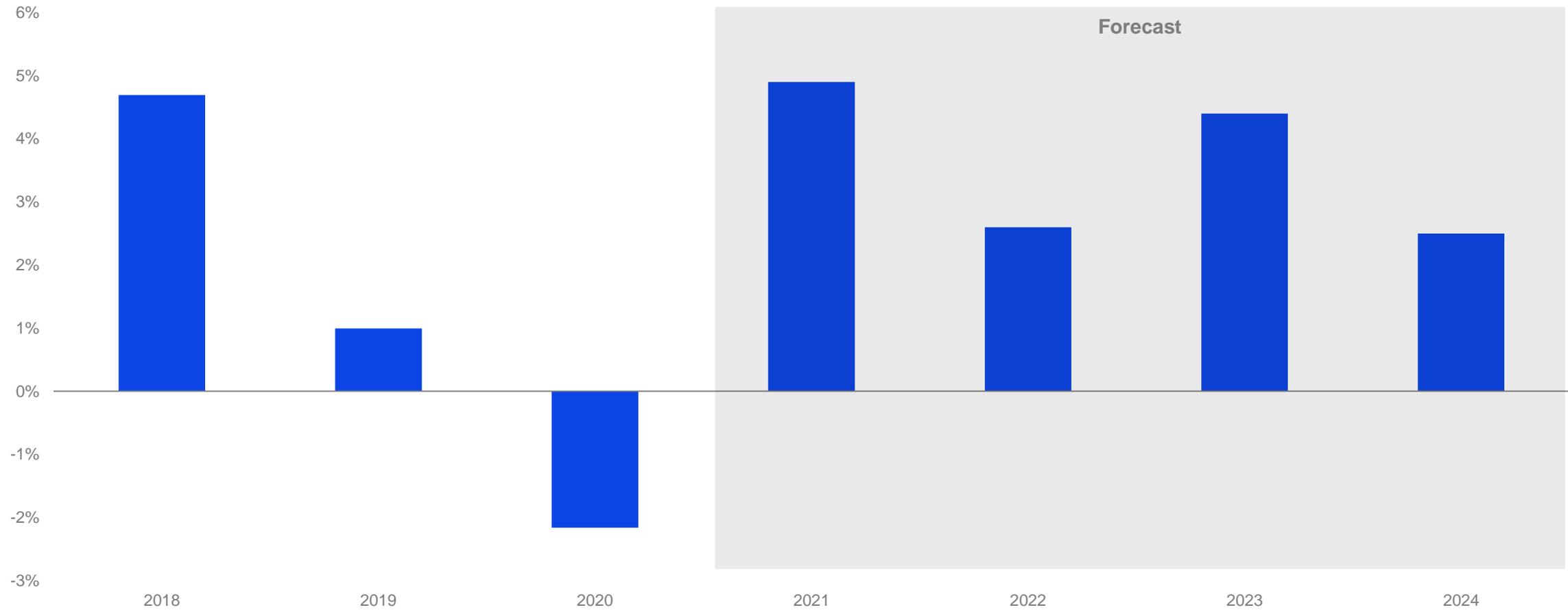


Regular business investment – YoY %-change



The stage is set for a strong domestic demand

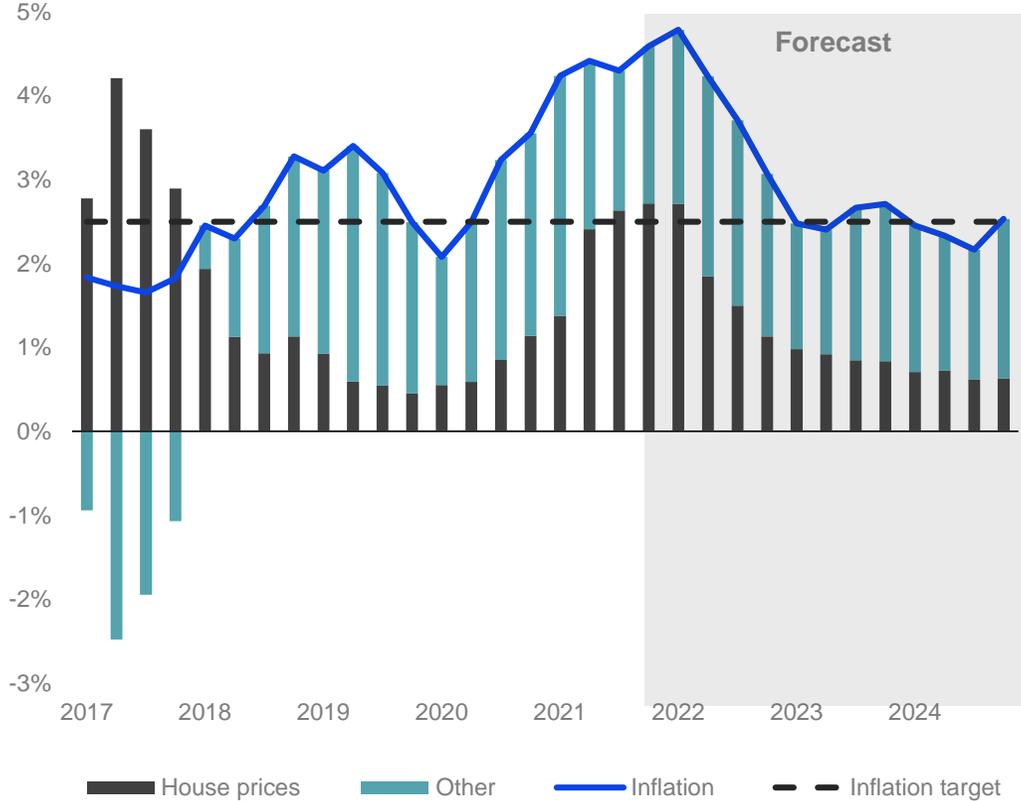
Domestic demand – YoY %-change



Housing prices driving inflation

Prompting the CBI to raise rates

Inflation – contribution of underlying components



CBI's key interest rates

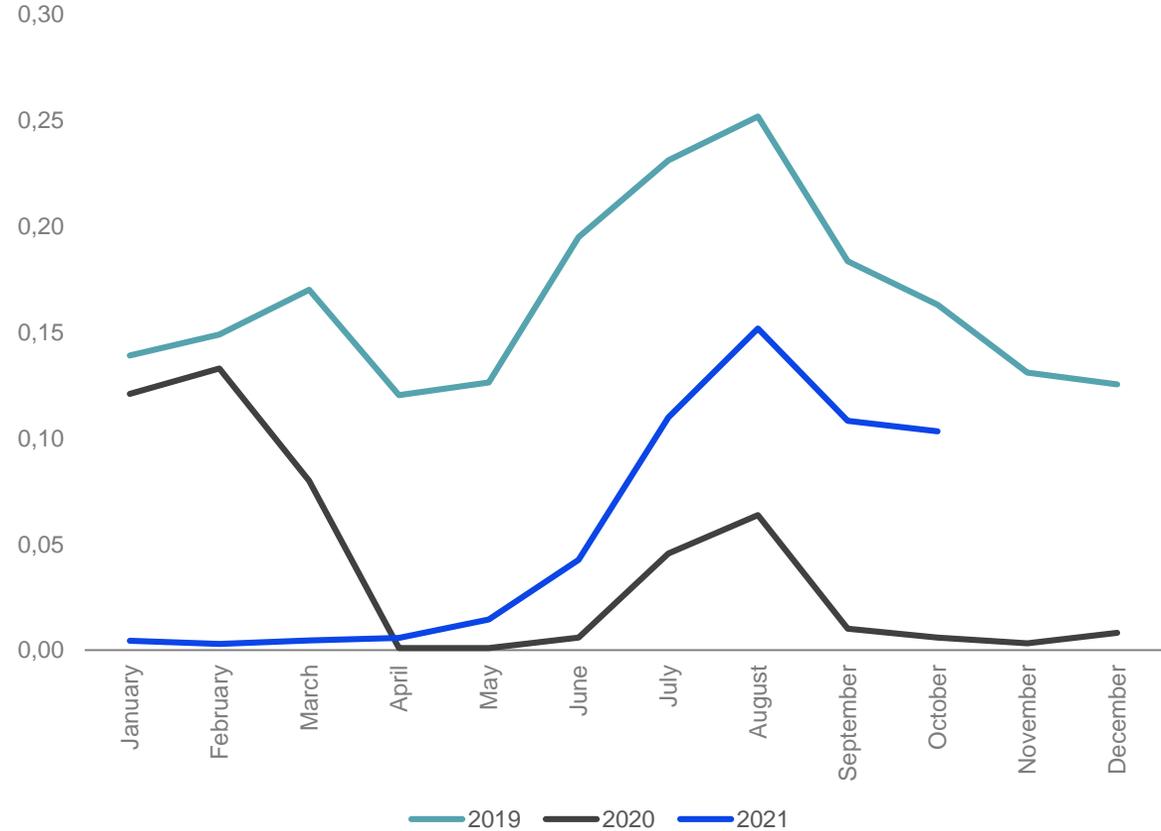


Rome wasn't built in a day

The level of uncertainty is large, depending on the path the pandemic takes and political responses

Tourist arrivals via Keflavik International Airport

- millions

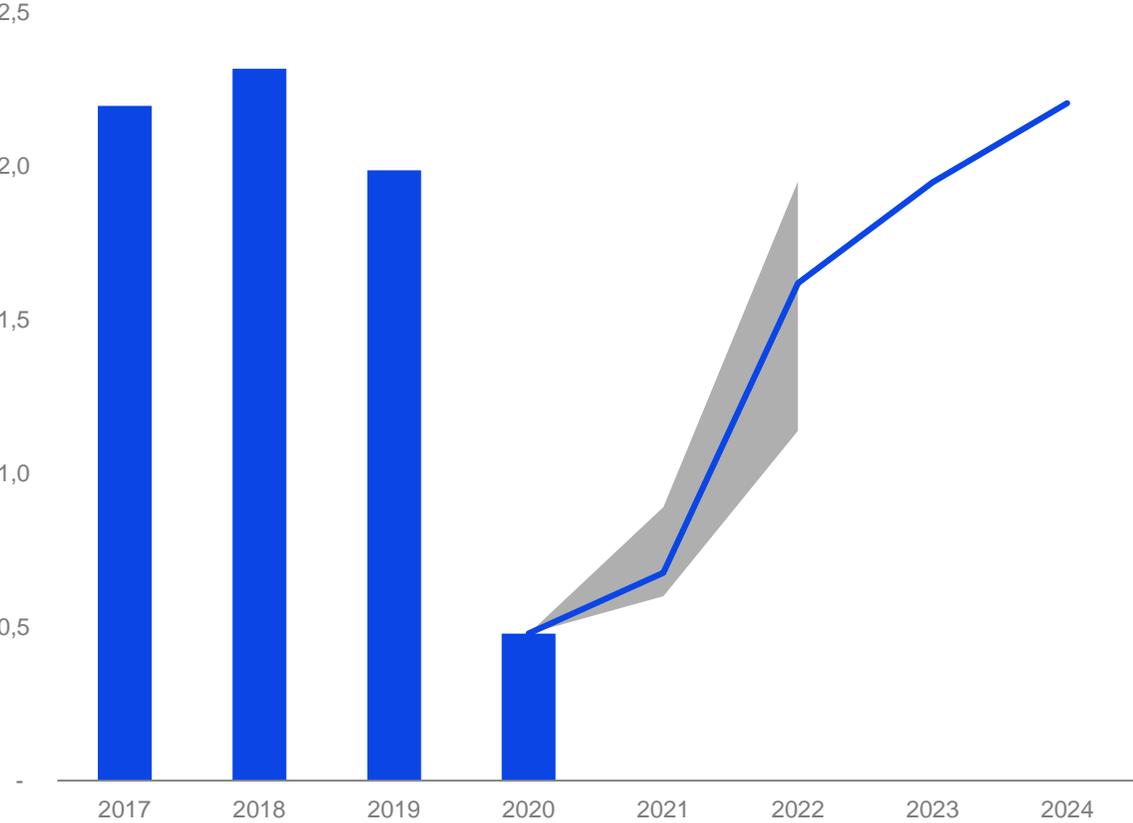


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Tourist arrivals via Keflavik International Airport

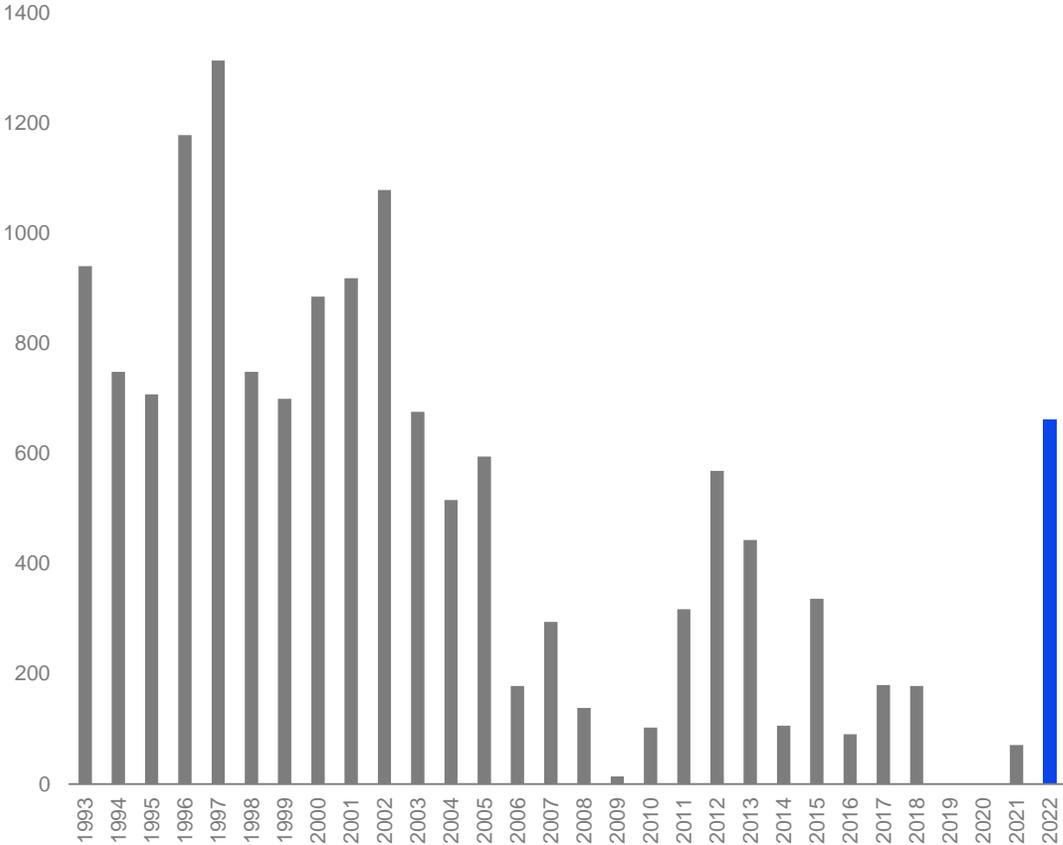
- millions



Back with a bang



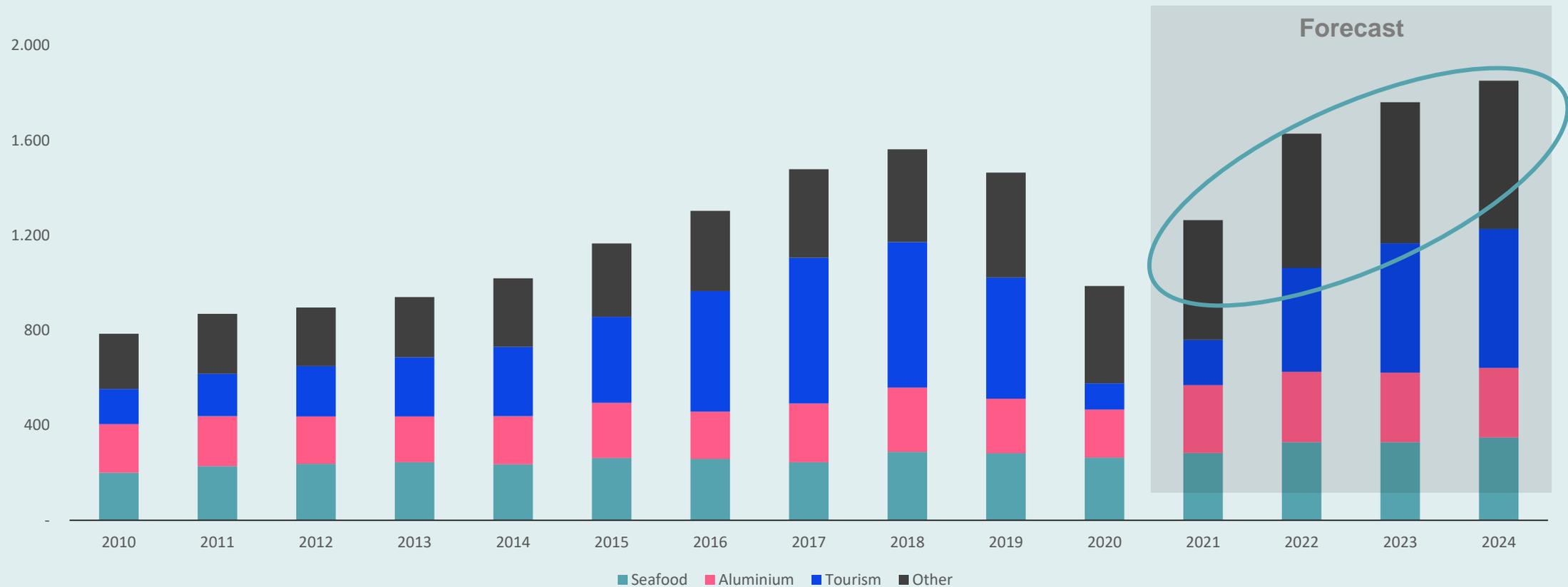
Capelin catch – thousand tonnes



The often forgotten fourth pillar

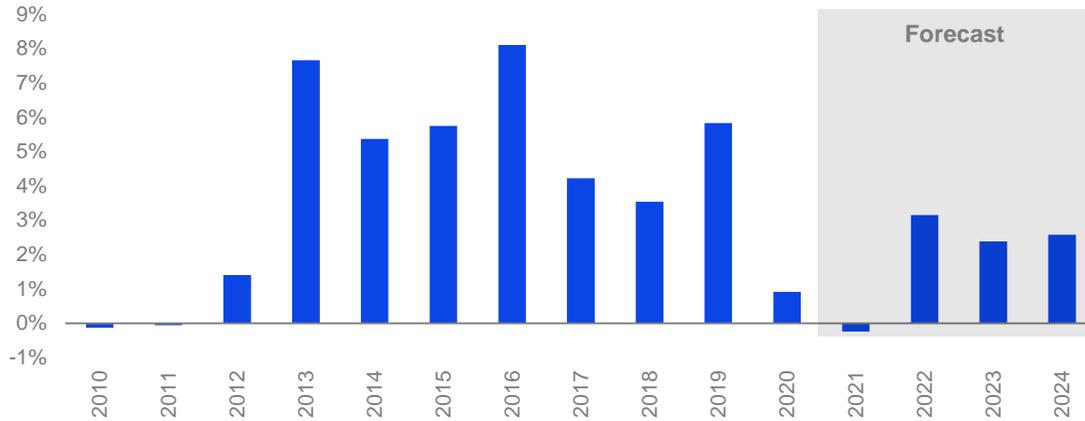
One third of exports are “other exports”

Exports – bn. ISK at constant exchange rate (2021)*

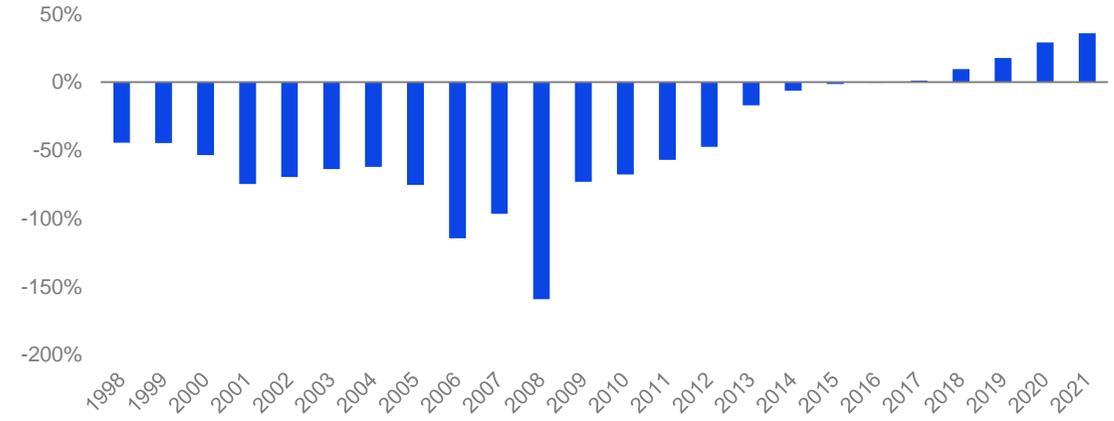


The króna support system

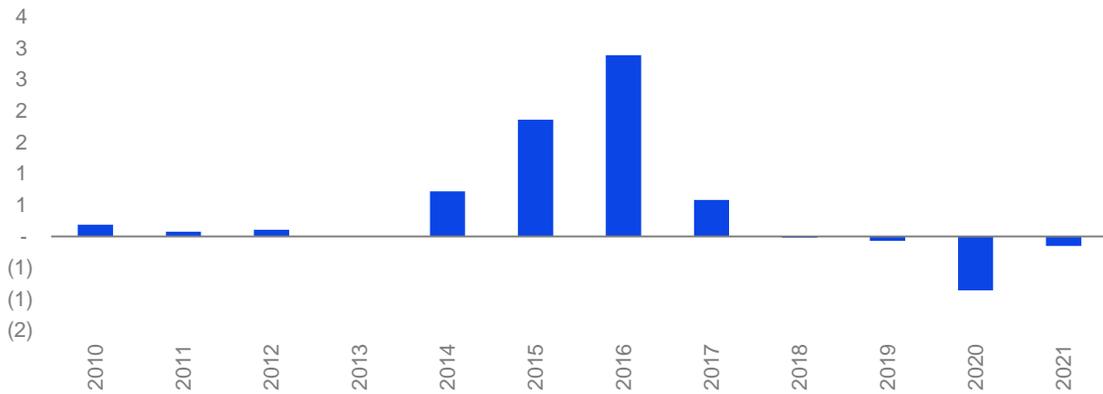
Current account - % of GDP



Net IIP* - % of GDP



CBI's net FX purchase – bn. EUR



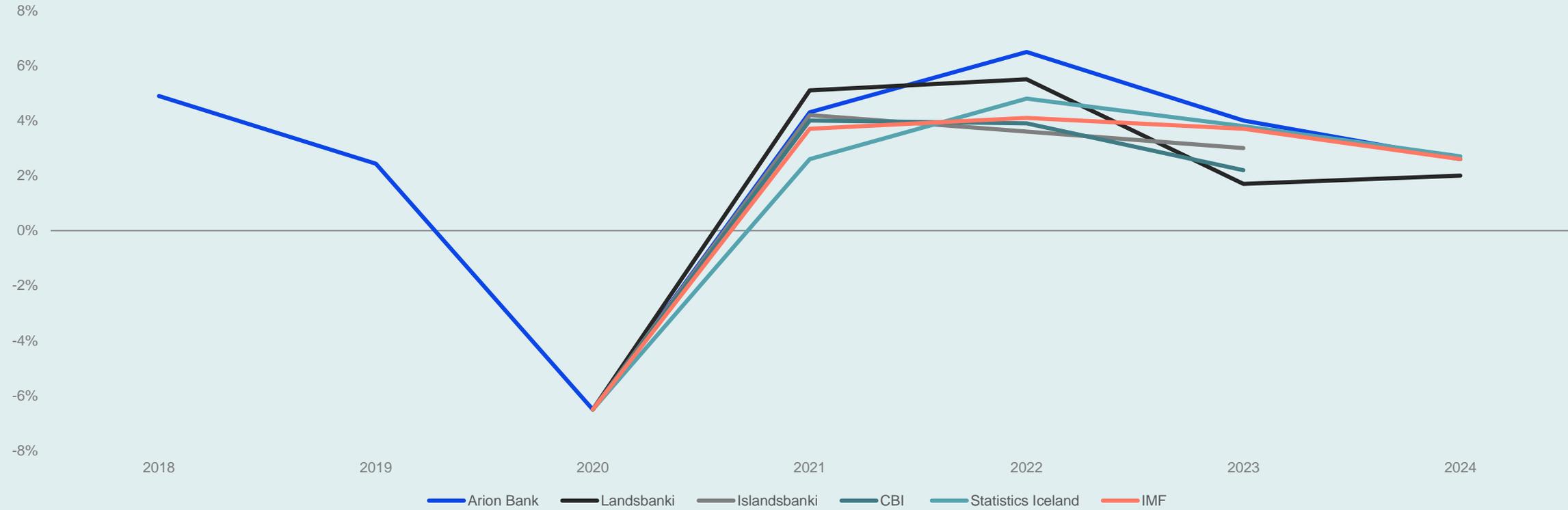
CBI's net FX reserves – bn. EUR



Different versions of the same story

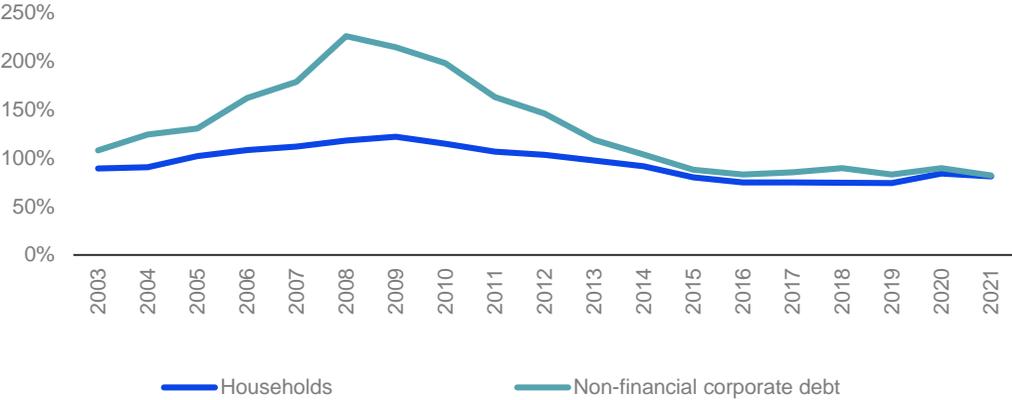
In the current economic climate forecasts change often, resulting in wide gap between forecasts, but the big picture remains the same

GDP growth

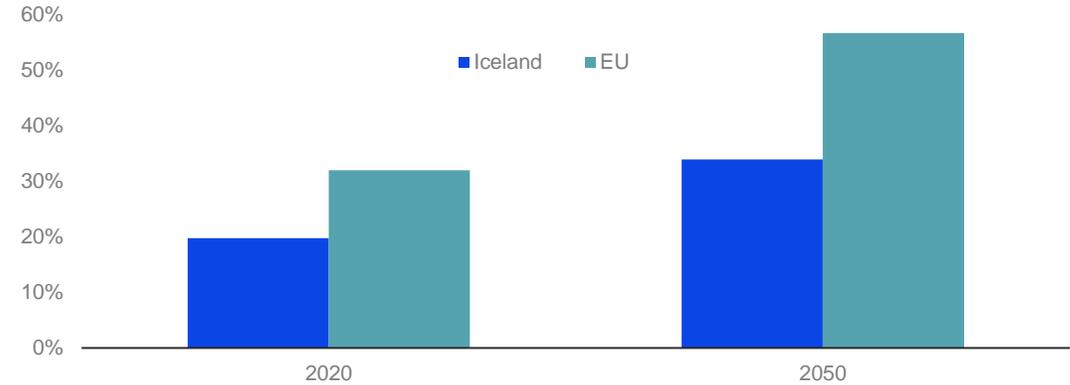


Small economy, strong foundations

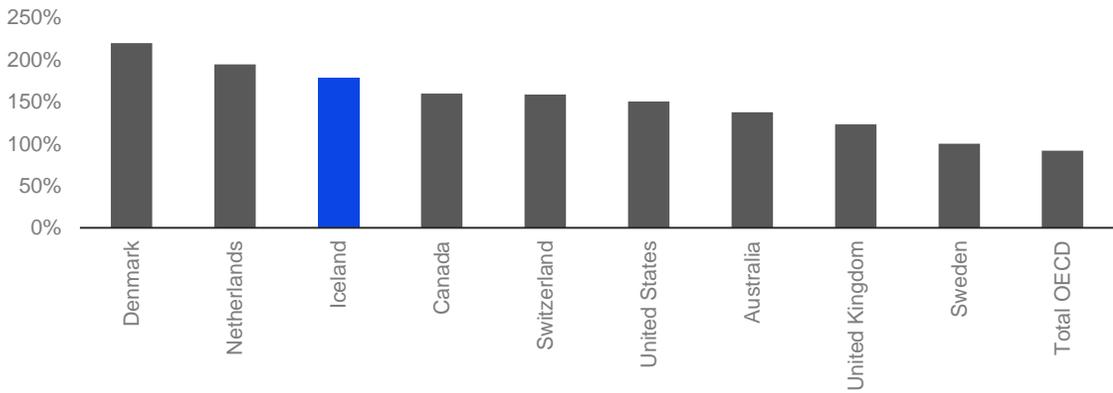
Household and non-financial corporate debt - % of GDP



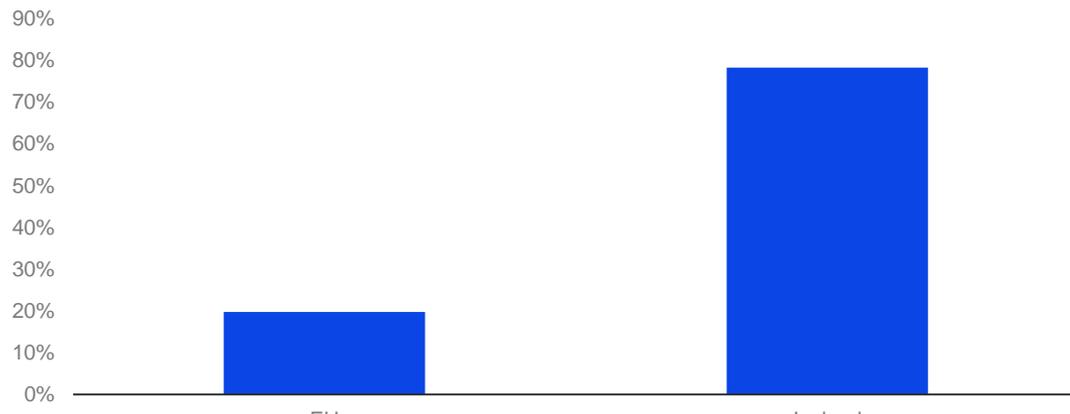
Old-age dependency ratio

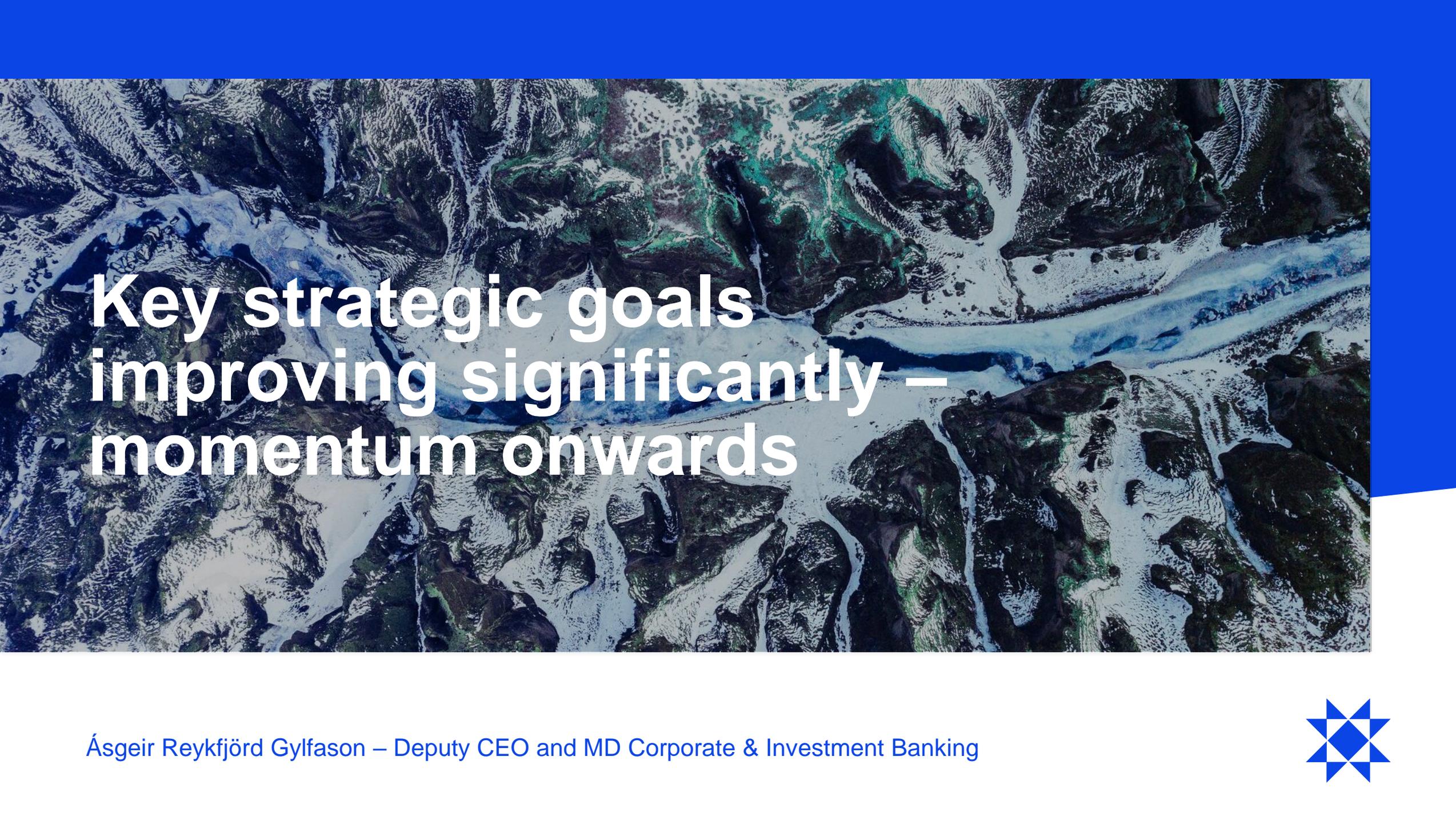


Total assets in retirement savings plans in 2019 (or latest available) - % of GDP



Share of energy from renewable sources - % of gross final energy consumption



An aerial photograph of a river delta, likely the Amazon, showing a complex network of water channels and sediment deposits. The image is overlaid with a semi-transparent blue filter. The text is centered in the left half of the image.

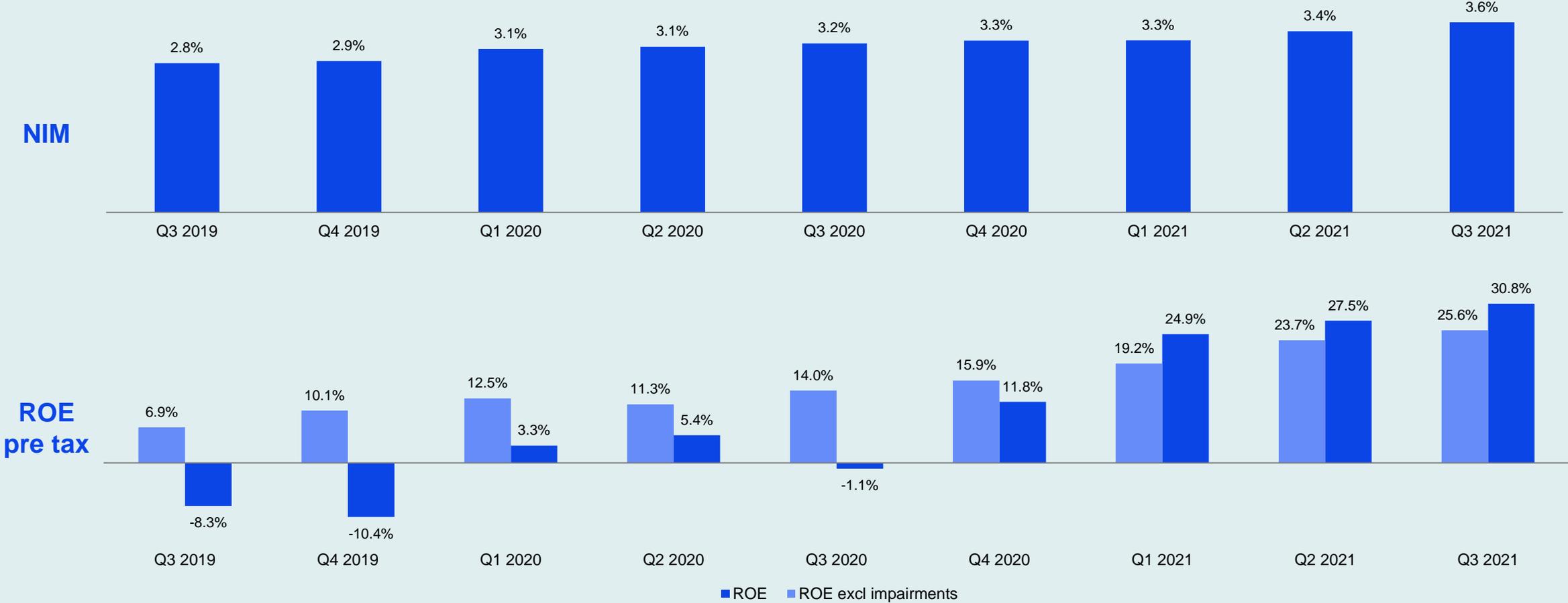
**Key strategic goals
improving significantly –
momentum onwards**

Ásgeir Reykfiörd Gylfason – Deputy CEO and MD Corporate & Investment Banking



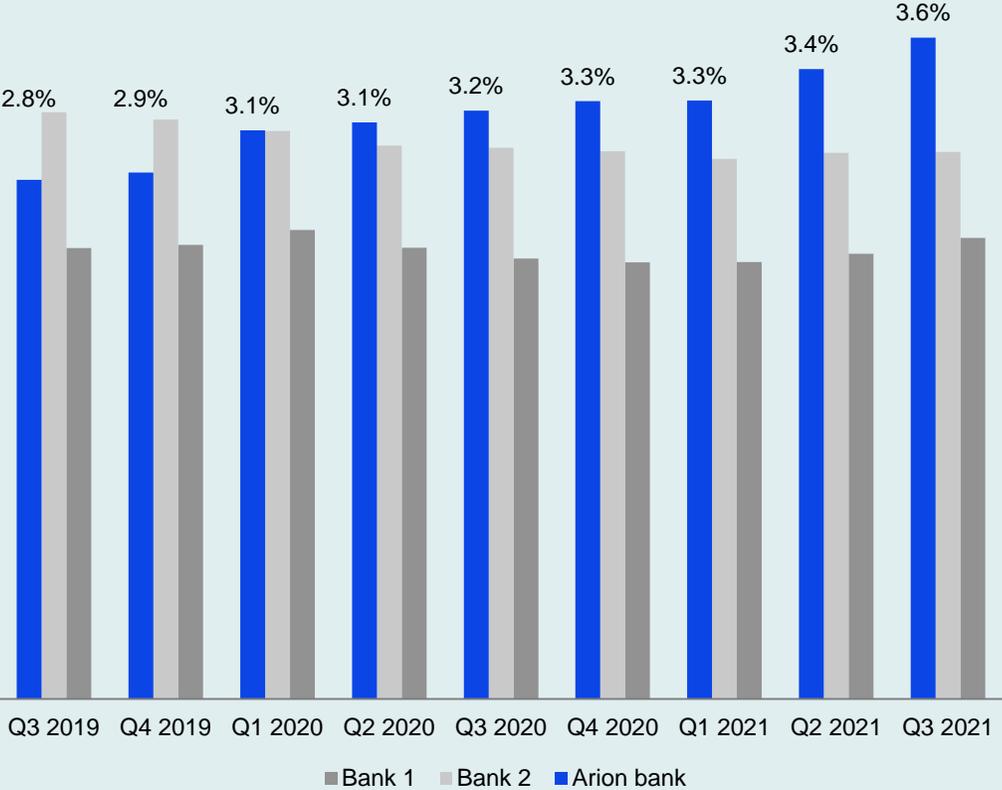
Arion Bank has come a long way since structural changes were made in 2019

Corporate and Investment Banking's NIM and ROE

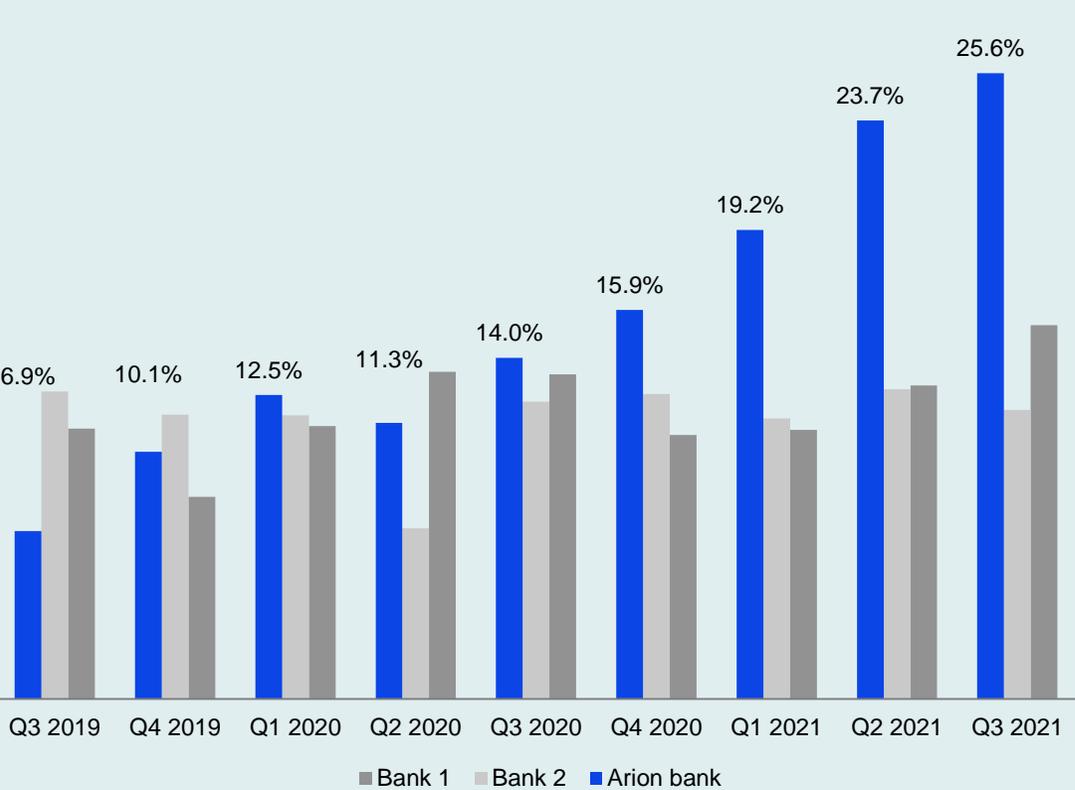


While Arion Bank has shown clear signs of improvement, other domestic banks have held their operational course

CIB's NIM

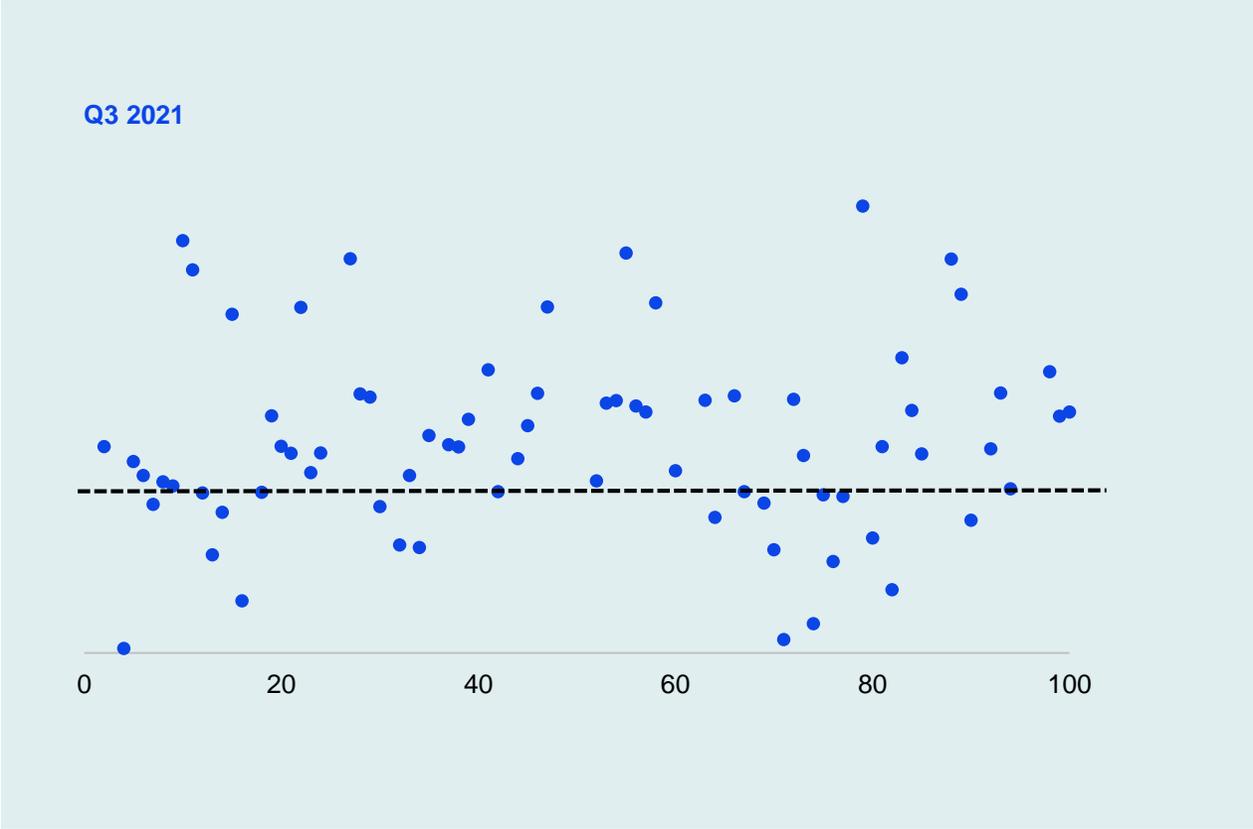
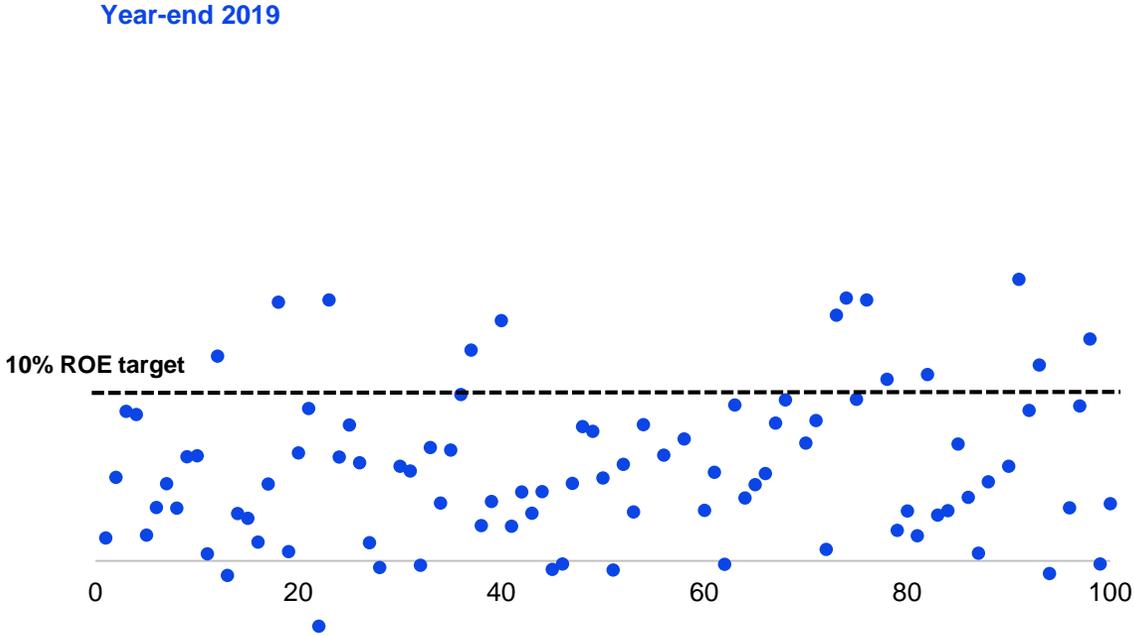


CIB's ROE pre tax and excluding impairments



Our mispricing has been addressed

Two years ago, 80% of CB's top 100 exposures returned ROE below our 10% target.
Now, 80% of our 100 largest exposures return ROE above 10%

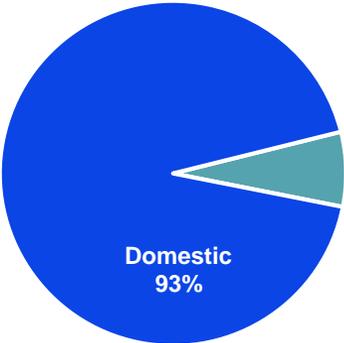


There is strategic thinking behind our geographical diversification

Our strategy implies headroom for growth in foreign lending. But we want to be present where we have in-depth industrial knowledge and in economies that share similarities to ours

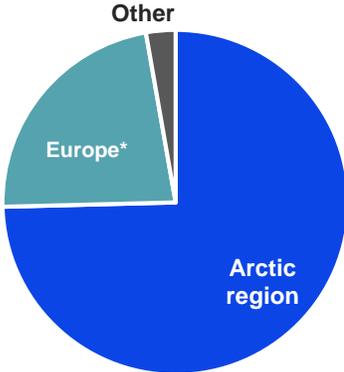


Corporate Bank's exposure

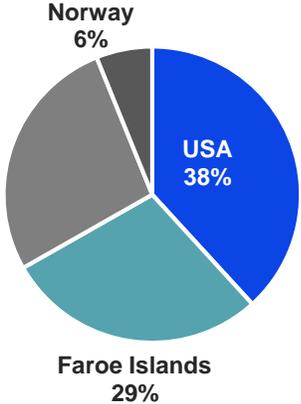


Foreign 7%

Foreign exposure



Canada 27%



“Our assessment reflects that Arion’s portfolio lacks geographic diversification, given its presence in a concentrated market, and it is inherently exposed to the domestic volatile economy.”
- Standard & Poors, October 18th



We focus on increased lending to green projects in line with our green financing framework

Eligible categories under Arion Bank's Green Financing Framework and Nordurál case study

Green buildings



- Commercial real estate with certification (BREEAM 'Excellent' or better; LEED 'Gold' or better; Nordic Swan Ecolabel)
- Residential real estate according to methodology by engineering firm Mannvit (top 15% carbon efficient buildings from a lifecycle perspective)

Sustainable fisheries and aquaculture



- Loans to the fisheries sector, which has a pivotal role for the Icelandic economy
- MSC and ASC certification needed
- Direct financing of fossil fuel equipment / vessels / infrastructure excluded
- Arion Bank to engage with clients on feed policies

Energy efficiency



- Investments aiming at reducing the use of energy for facilities, infrastructure and appliances (reduction >30%; decision on case-by-case basis; only non-fossil fuel-based processes)
- Data centers with PUE < 1.25

Pollution prevention and wastewater management



Renewable Energy



Sustainable forestry and agriculture



Clean transportation



NORÐURÁL

Nordurál case study

Nordurál and Arion Bank signed an agreement in November 2021 on green financing for a new production line in the Nordurál aluminium factory at Grundartangi, Iceland. The new production line is eligible under category 5 (energy efficiency) of the Bank's Green Financing Framework.

The project does not represent additional aluminium production by the company, but rather a change in processes and technology which will result in the use of less electricity. The project strengthens Nordurál's Natur-Al™ labelled products, which have one of the lowest carbon footprints in the world. This is a USD 120 million investment project, or around ISK 16 billion.

Electricity from hydro

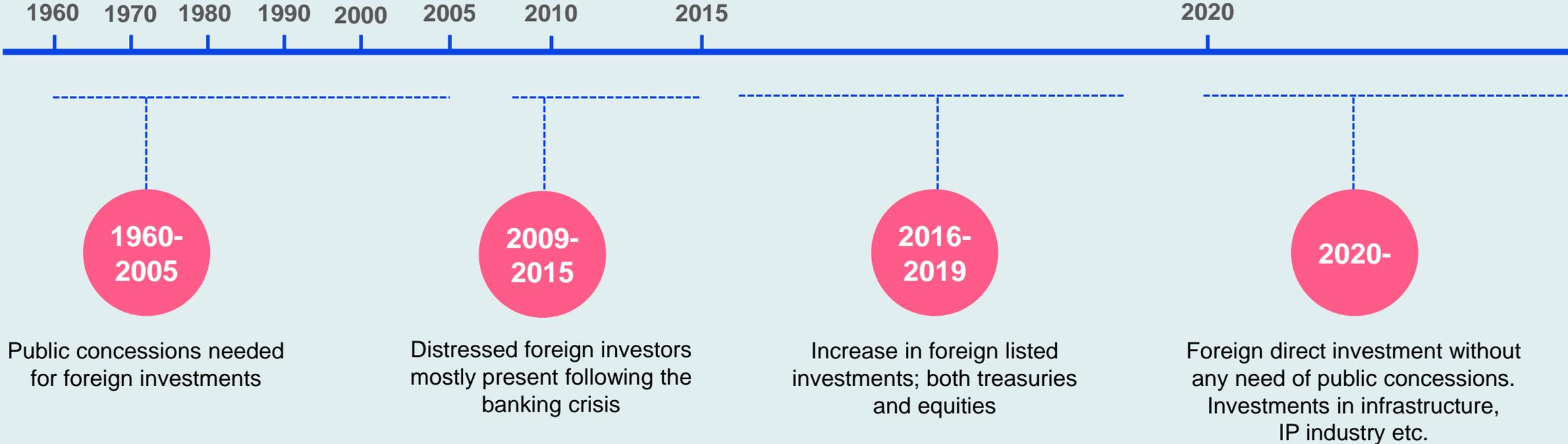
40% less energy consumption

Around 100 jobs created

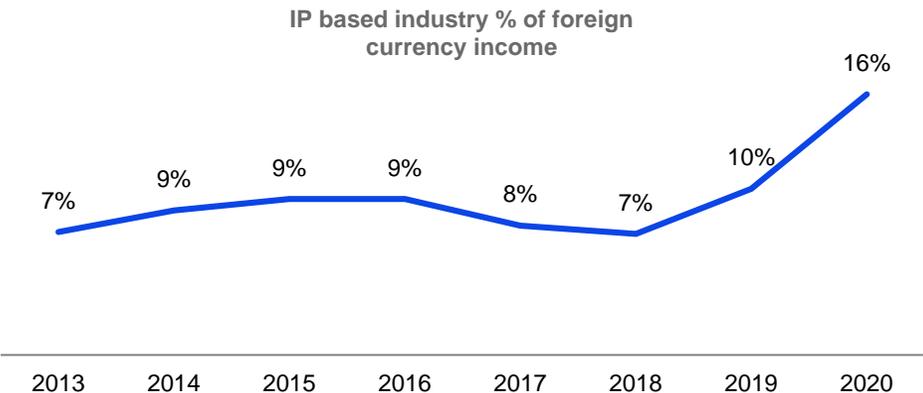
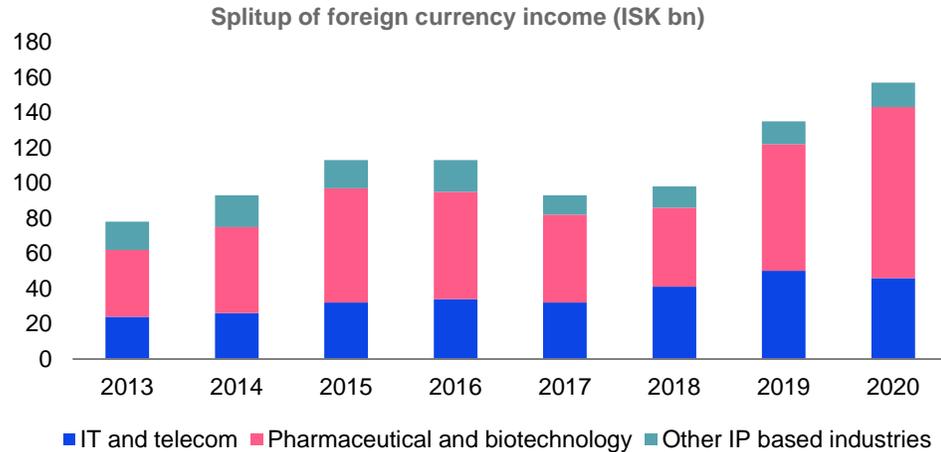


Iceland is developing fast in terms of foreign direct investment

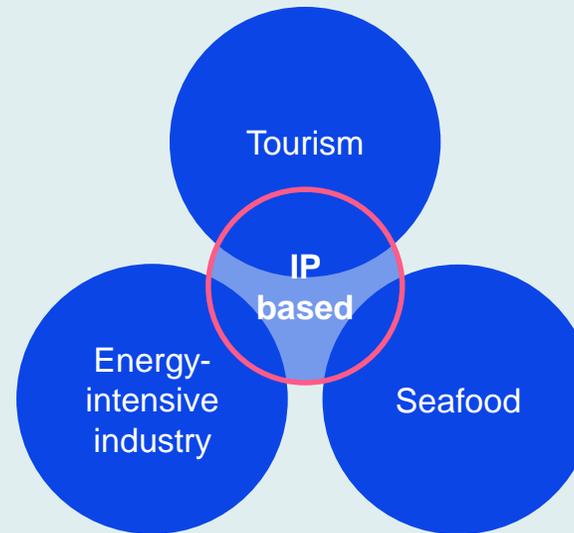
Throughout the years a local partner has always been needed on journeys with foreign investors. Arion Bank is going to be the investors' first choice on such journeys



The emergence of the economy's fourth pillar; IP based industry offers great opportunities – and challenges



The industry serves both as a standalone economic pillar, but also provides key support to other elements of the economy



Lending to IP based companies:

Opportunities:

- Fast growing
- Almost exclusively exporters
- Possibility of a long-term relationship. Everything from initial funding to listing
- Highly attractive for foreign investors

Challenges:

- Lack of traditional collateral
- Risk of loss, especially in early stages of company

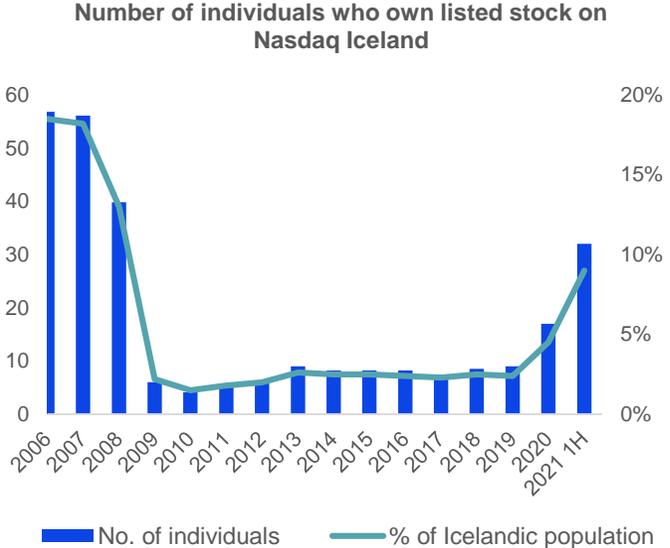
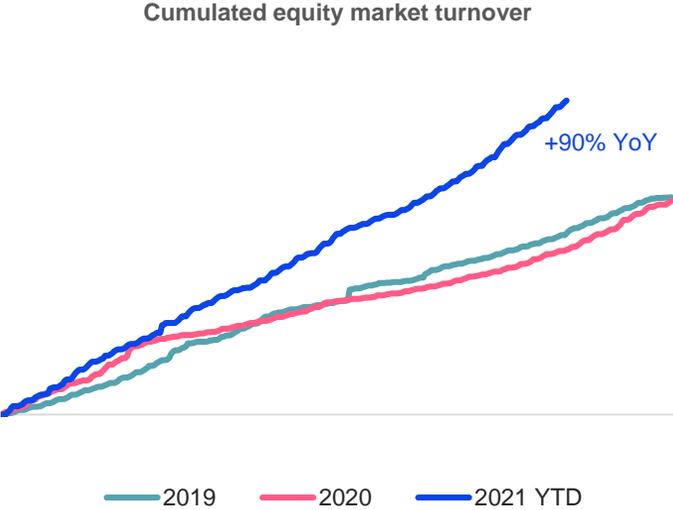
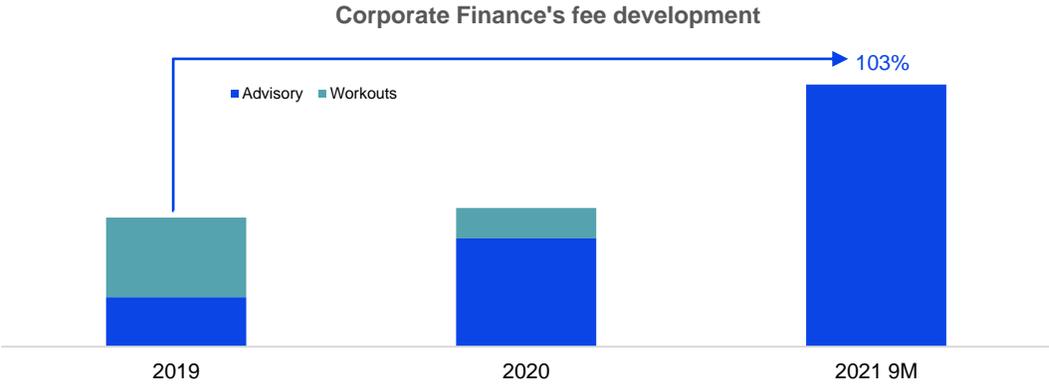


The Icelandic equity market is taking major steps towards more matured market

Arion Bank's Corporate Finance is at the forefront of that development

Arion Bank's Corporate Finance

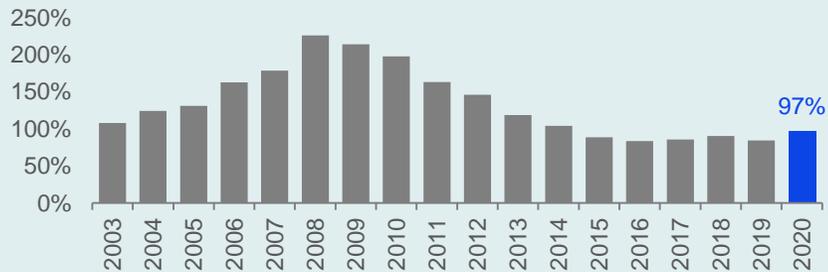
14/24	Advised on more than half of public equity offerings of domestic companies since 2011
3/4	Public offerings in current year, 2021 to date
4/4	Key role in all international listings of Icelandic companies since 2018



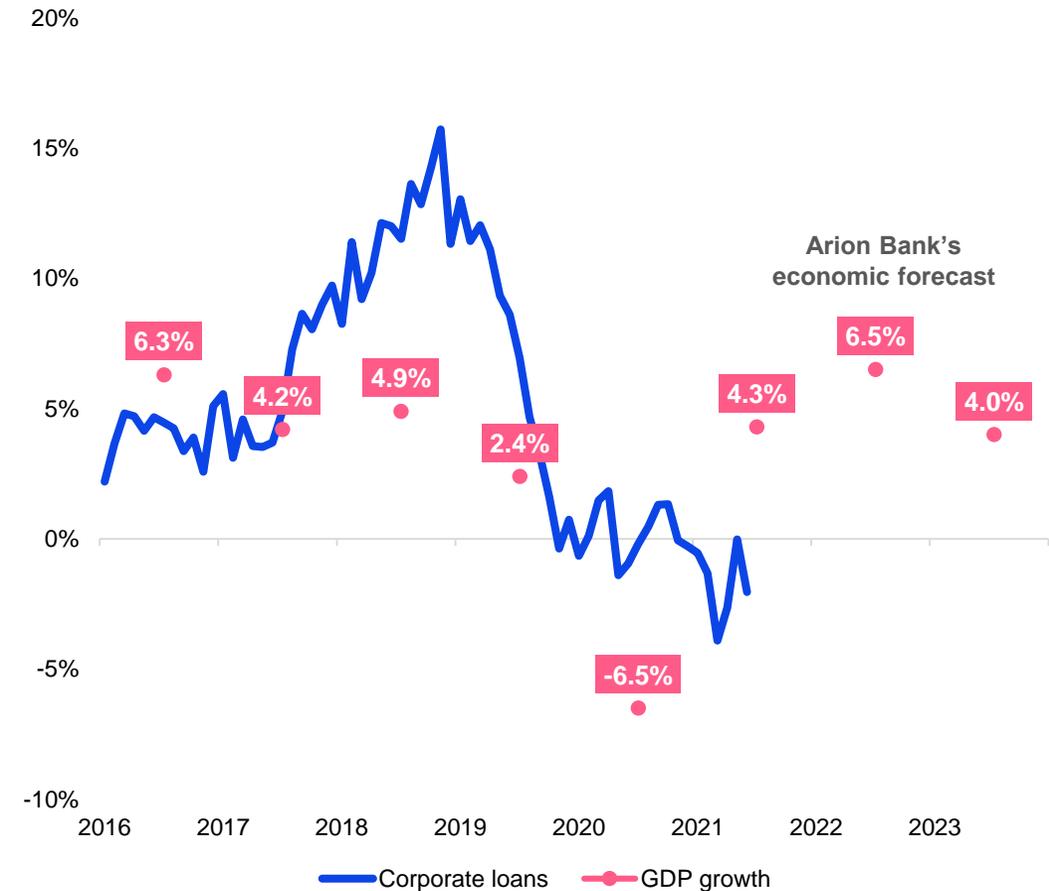
We are fully equipped to participate in a turnaround in corporate activity

- Throughout last upswing in the economy, domestic corporate activity increased significantly, at most 16% YoY.
- With the economic forecast now assuming up to 6.5% increase in GDP, we expect corporate lending to pick up again after two years of stand still.
- Arion Bank is fully equipped to participate in increased corporate activity, through direct lending as well with continued syndication or bond issuance.
- We will, however, use our resources to choose projects wisely and follow our credit strategy – without compromising the profitability we have achieved.

Corporate debt % GDP



Corporate lending (YoY change)



Going forward



We've adjusted all our processes, policies, strategies and pricing models



There is momentum onwards, which offer great opportunities for CIB. Opportunities we will continue to seize



We have shown that we are now well placed to look outwards



The economy is on a whirlwind journey. General turnaround in economic activity, rapid globalization and the emergence of the fourth pillar



In Q3 2019, we looked inwards and embarked on extensive changes in our operations. Since then, our key strategic goals have improved significantly





Coffee break / kaffihlé



A close-up photograph of several young green seedlings with broad leaves growing in a tray. The seedlings are in various stages of growth, with some showing more developed leaves than others. The background is softly blurred, focusing attention on the plants.

Future Growth on Solid Foundations

Margrét Sveinsdóttir - MD of Markets

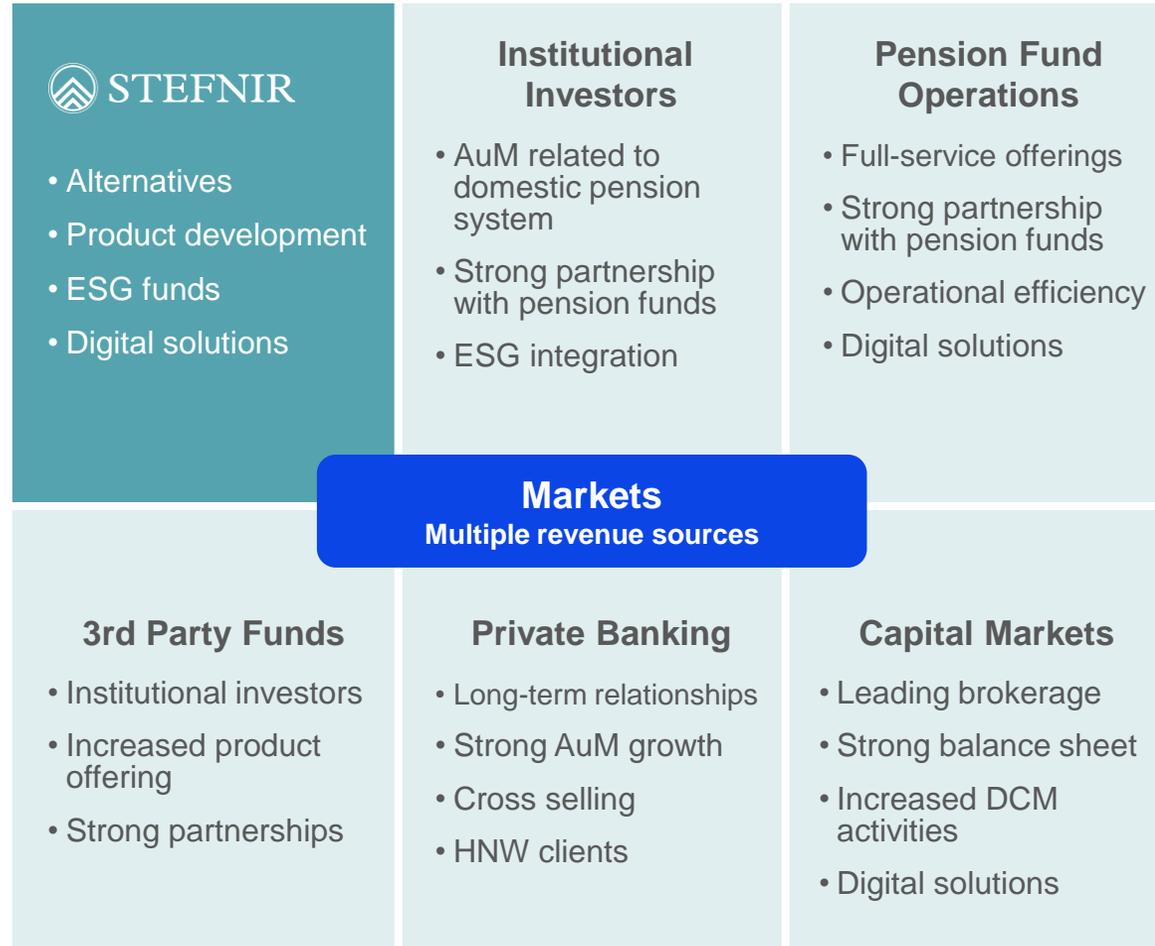


Strong position in every business area

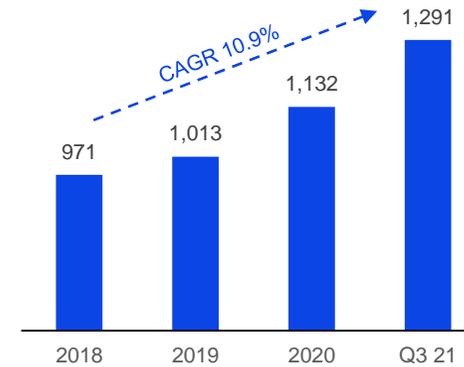
The largest asset manager in Iceland and key player in Capital Markets



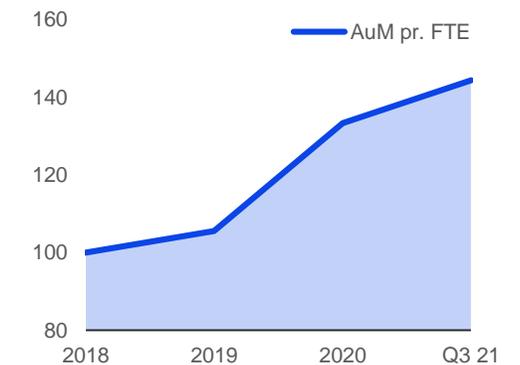
Signatory of:
 Principles for Responsible Investment



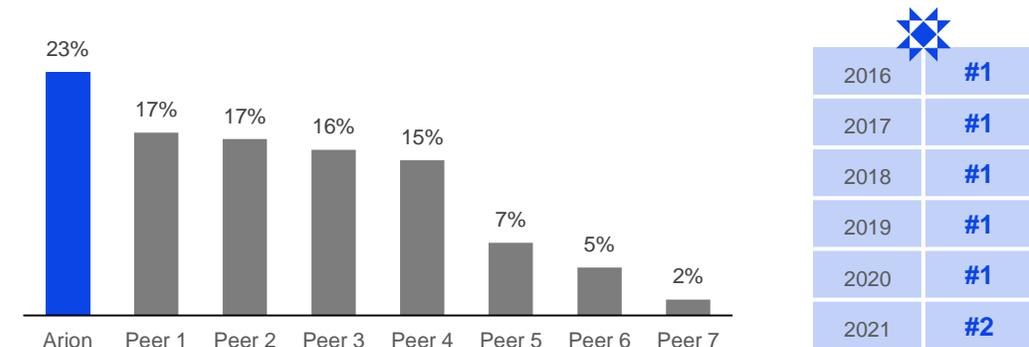
The largest asset manager in Iceland with ISK 1,291 bn. in assets under management (AuM) at Group level - over 40% of Iceland's GDP



Value creation through economics of scale with highly experienced employees
 Index, 2018 = 100



Arion Bank leading equity brokerage in Iceland
 Market share on Nasdaq Iceland 2016-2021¹



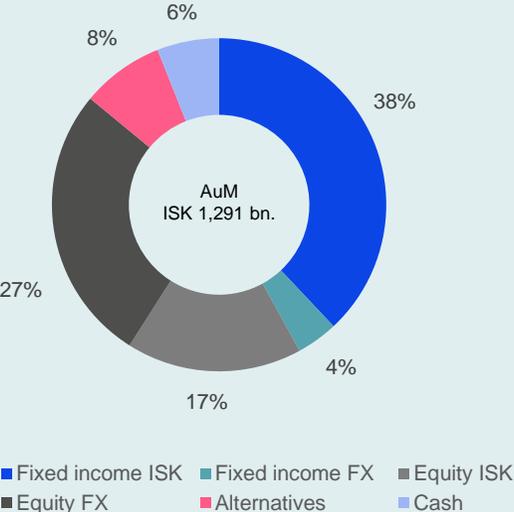
¹ Source: Nasdaq Iceland.



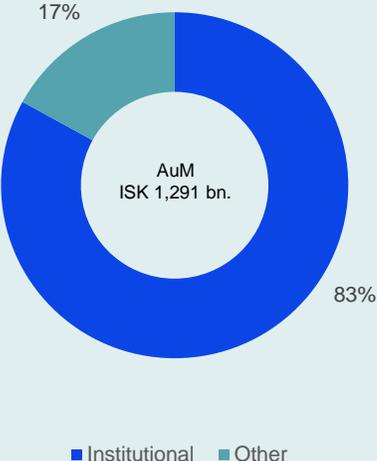
Good operational mix

Historically focused on institutional and HNW investors

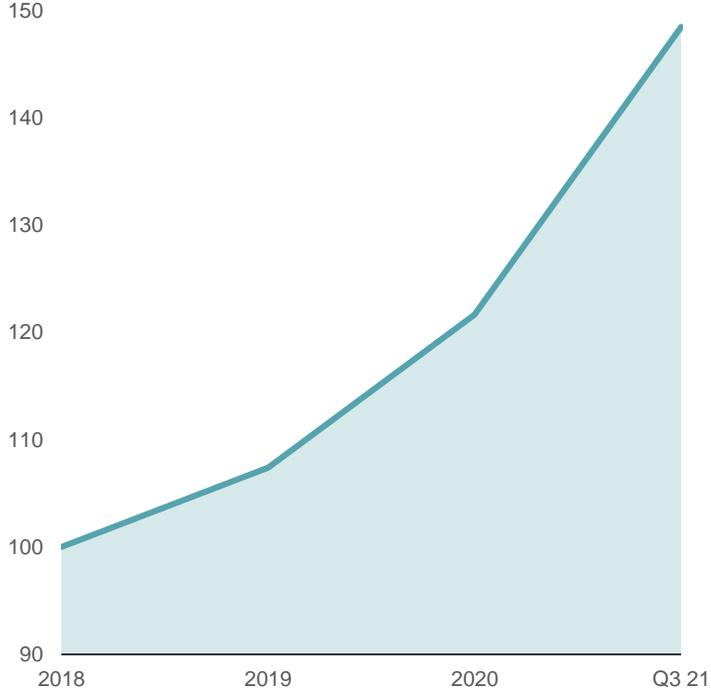
Well diversified asset mix
AuM – Group level, 30.09.2021



Strong institutional investor base
AuM – Group level, 30.09.2021



Impressive growth in Private Banking AuM
Index, 2018 = 100



Strong position in mutual funds by size¹
30.09.2021

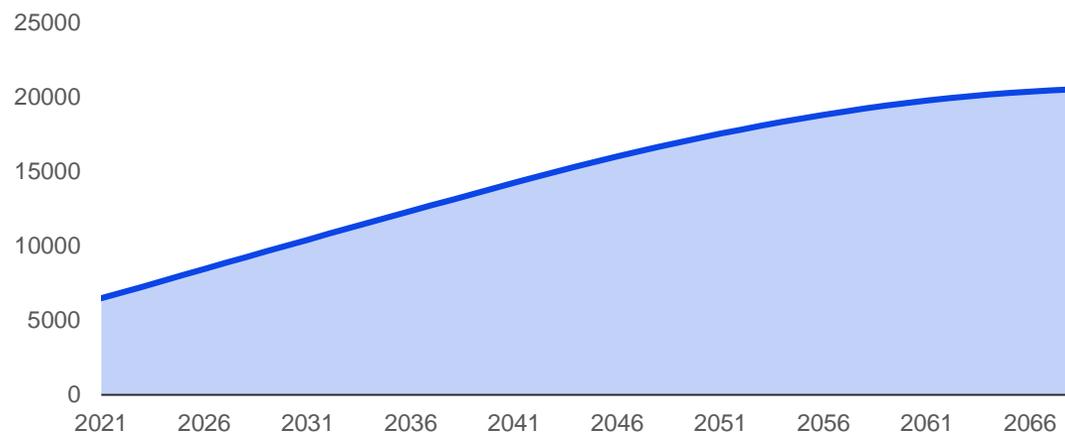


¹ Fund sizes on Keldan.is at end of September 2021.

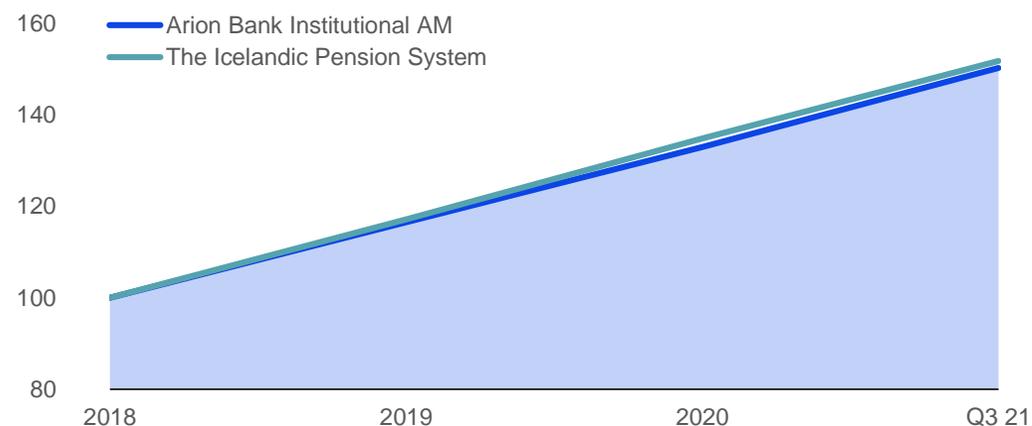


With a strong partnership and full range service offering to pension funds Arion Bank is well positioned to capture future growth

Icelandic pension system's robust growth expected to continue ¹
ISK bn.



Arion Bank Institutional AM growing parallel with the pension system
Net assets². Index, 2018 = 100



- Strong organic growth in pension funds due to favourable demographics.
- Third largest pension system among OECD countries in relative GDP terms (194% of GDP)³
- At year-end 2020 a total of 191,548 people were on the Icelandic labour market
- Arion Bank and Stefmir are well positioned to capture opportunities from growing pension system, both through internal product development as well as through external partners
- Through its 3rd party fund business, Arion Bank has a distribution agreement with four partners, three of which are in the top 10 largest asset management companies in the world⁴

STATE STREET GLOBAL ADVISORS

J.P.Morgan
Asset Management

Fidelity
WORLDWIDE INVESTMENT

MONTANARO

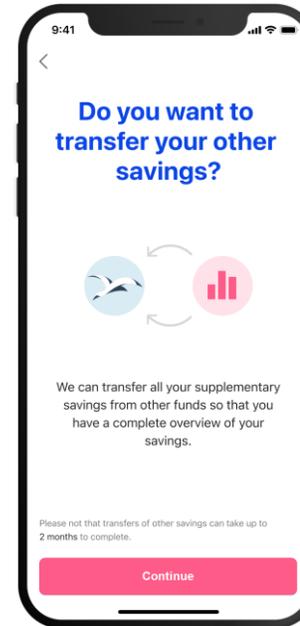
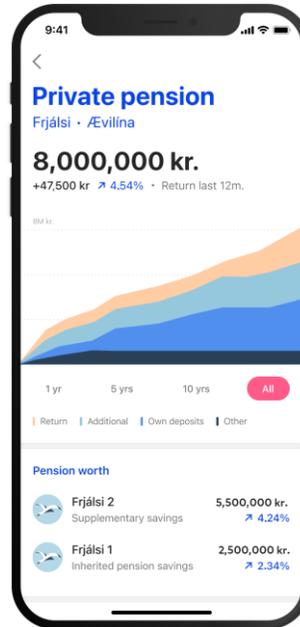
- Arion Bank institutional AM division has been growing parallel with the pension system due to our strong partnerships with pension funds
- A full-service operation for five pension funds is the backbone of the institutional business
- Arion Bank has the largest pension scheme that offers third pillar supplementary pension.
- A year-long partnership with Frjálsi, the 5th largest pension fund in Iceland and the largest pension fund for those that can choose membership



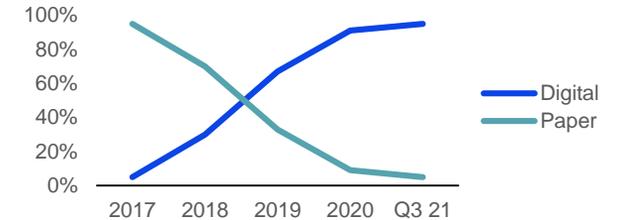
Digital solutions have transformed the customers' experience

Successful launch of pension funds in the Arion App

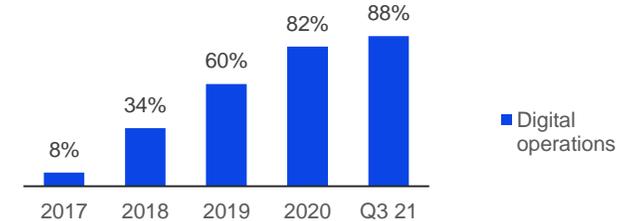
- New agreements to Arion supplementary pension up by **121.5%** since the app's launch^{1,2}
- Alongside digital onboarding through the app, customers can transfer their supplementary pension funds to Arion Bank
- During the eleven-month period since the launch, transfer to Arion Bank increased by **214%**¹
- At the same time transfer from Arion Bank decreased by **22%**¹
- Fully automatic digital end-to-end processes
- An award-winning solution³



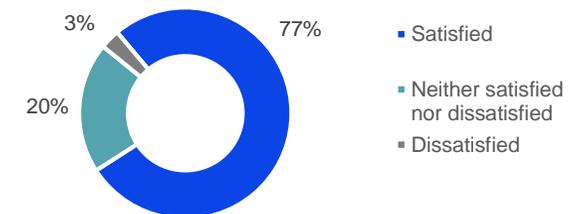
From paper to digital, customer pension onboarding



Were operations can be performed digitally customers are taking advantage of that



Satisfaction among customers with the new pension features in the Arion App³



Digital solutions have transformed the customers' experience

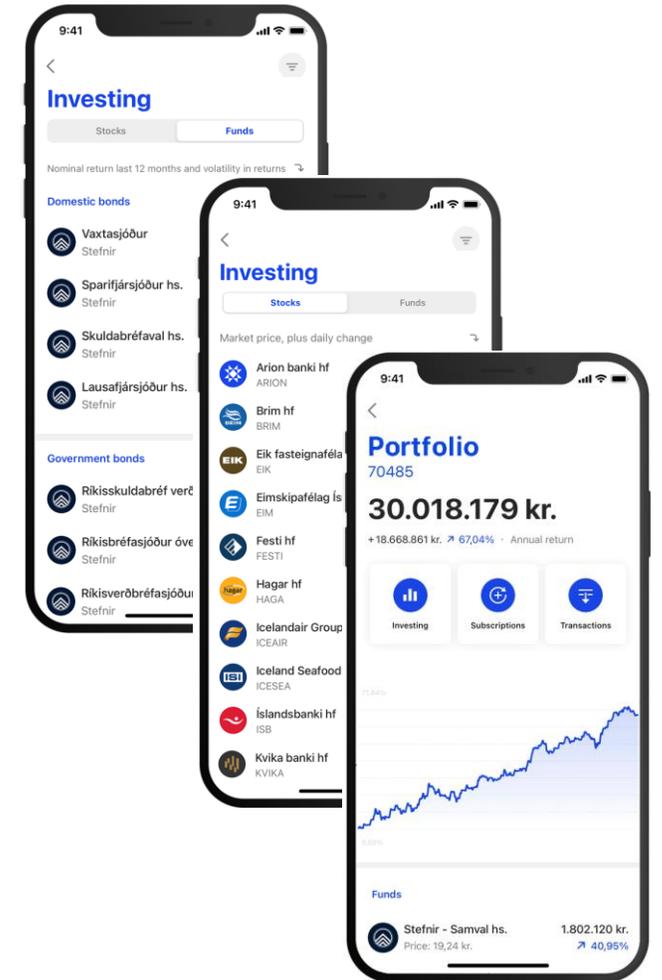
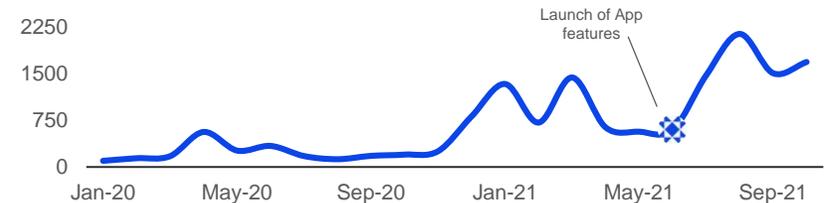
Successful launch of Stefnir funds and equity trading in the Arion App

- The only app in Iceland offering equity trading
- Trading volume in Arion Online Banking and Arion App up by **819%** since the app's launch^{1,2}
- In just three months since launch², the App has captured a third of all trading through digital solutions at Arion Bank
- Arion Bank's digital solutions accounted for **15%** of all equity trades on the stock exchange³
- Convenient wealth creation through automatic monthly investing
- Fully automatic digital end-to-end processes

Massive growth in number of fund investors
Index, YE19 = 100



Equity trading through digital channels represented 15% of total number of equity trades on Nasdaq Iceland in 2021³
Index, Jan'20 = 100



¹ Trading in mutual funds and equities over the period July – September 2021 compared to the same period a year earlier | ² The Securities trading features within the Arion App were launched at the beginning of July 2021
³ Number of equity trades on Nasdaq Iceland over the period January – October 2021



Going forward



Committed to **our leadership** in Asset Management and Capital Markets



Capture **growth** parallel to the pension system with opportunities across asset classes and **ESG strategies**



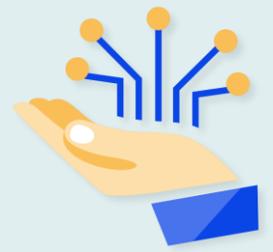
Continue our **partnership approach** and long-term customer relations with our core clients



Promote the **broad product offerings** of Arion Group to fulfill our customers' needs



Leverage on our **successful** digital solutions to **strengthen** our presence among aspiring retail investors



Increasing **operational efficiency** with digital end-to-end processes





Efficiency and bancassurance

Ida Brá Benediktsdóttir – MD Retail Banking



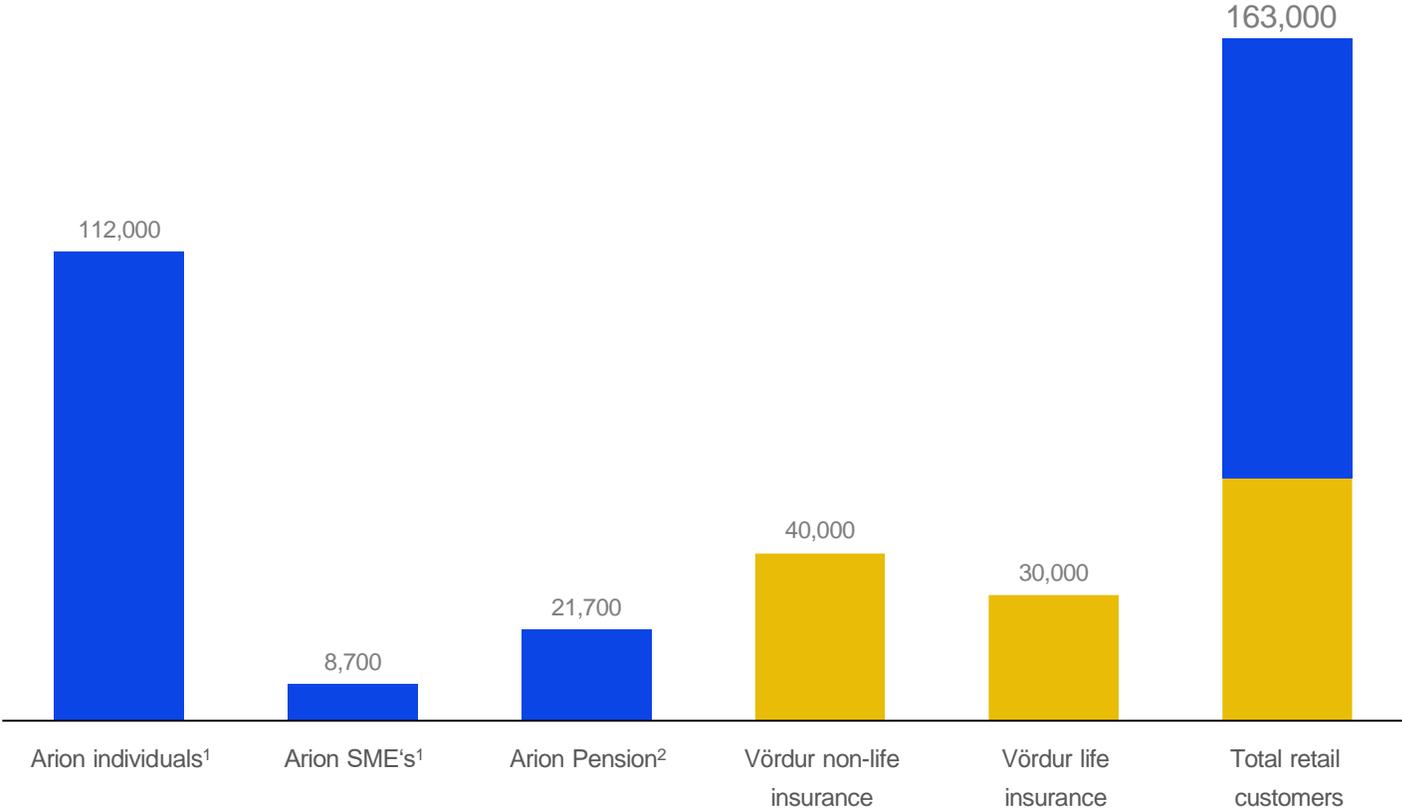
Retail Banking overview

We service a broad range of customers through our banking, pension and insurance services

Loan portfolio



Deposit portfolio



¹ Finalta, McKinsey and Arion Bank's definition of active customers. Arion Bank 2021
² An individual who has paid into Lífeyrisauki/voluntary pension fund for the past three months



Digital excellence in Retail Banking

Digital interactions 2021¹

Website



Arion	Vördur
9,000,000	374,000

Online banking/insurance



Arion	Vördur
5,500,000	117,000

App



Arion	Vördur
28,700,000	0

Traditional interactions 2021¹

Telephone calls



Arion	Vördur
340,000	84,000

Branches



Arion	Vördur
156,000	2,800

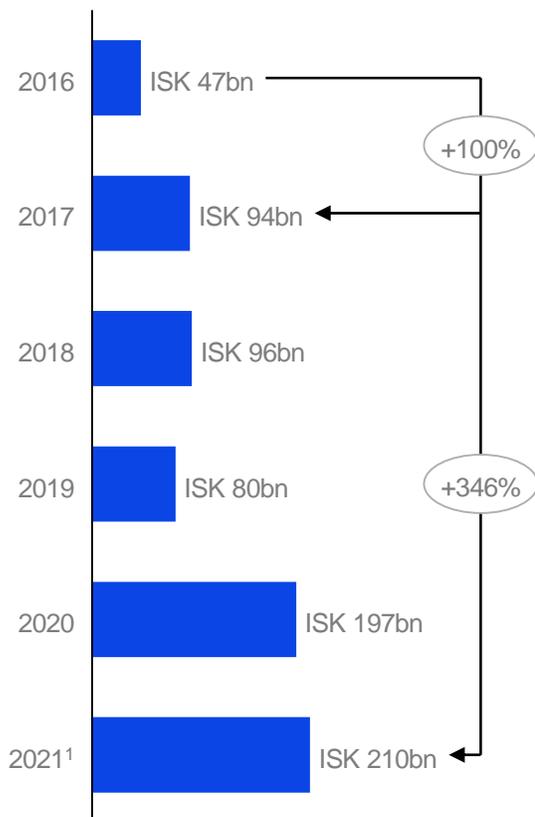
More than **44 million**
interactions annually
99% digital

¹2021 numbers are annualized based on the first ten months calculated to an annual basis

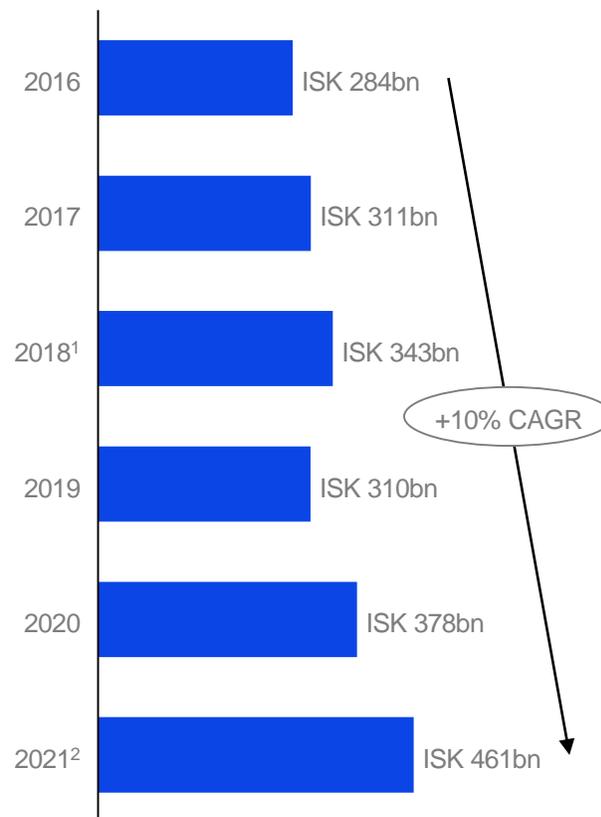


Mortgages are the pillar of Arion Bank's retail banking business

The Bank's new lending has multiplied in just a few years



Strong net growth of the mortgage portfolio



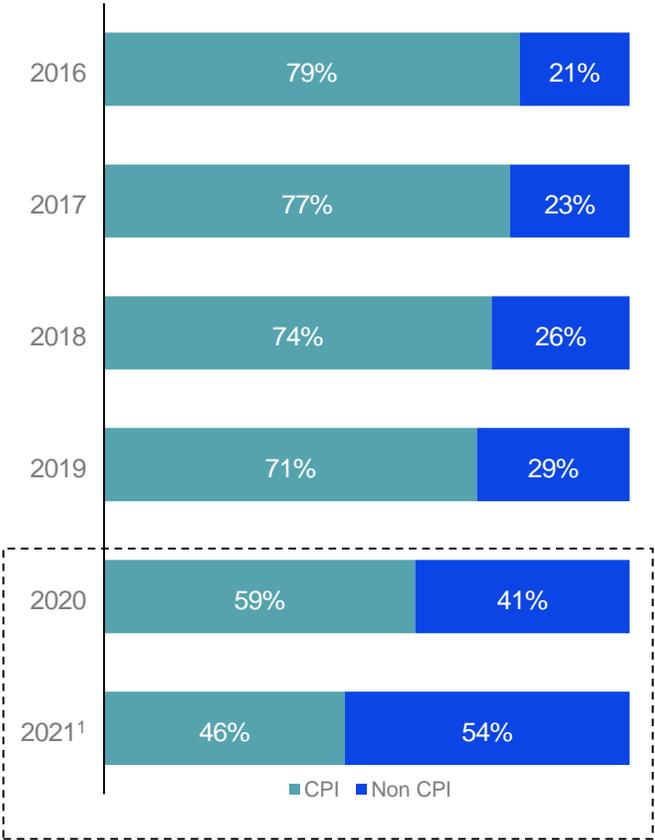
Mortgage portfolio

- Defaults and write-downs on mortgage loans have been minimal
- This is mainly due to low borrowers' LTV ratio which has improved in recent years
- About 70% of the mortgage portfolio is in the Reykjavík area
- The policy is not necessarily to have the highest market share, but to lend in line with financing, focusing on the right target client segments

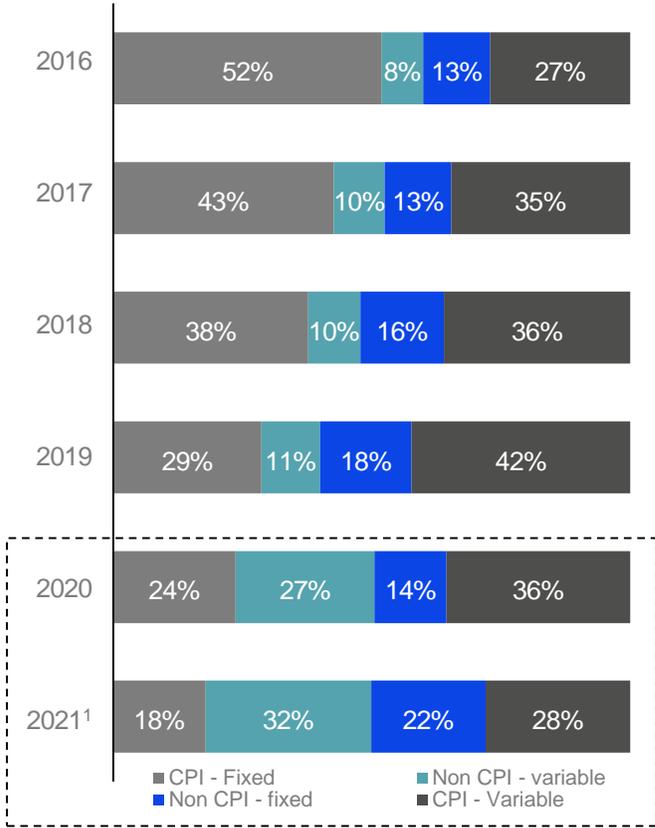


Composition of the Mortgage Portfolio has changed rapidly

From 79% CPI linked to 46% in five years



Type of interest



Product development focusing on flexibility

Arion has focused on flexible mortgages, e.g.:

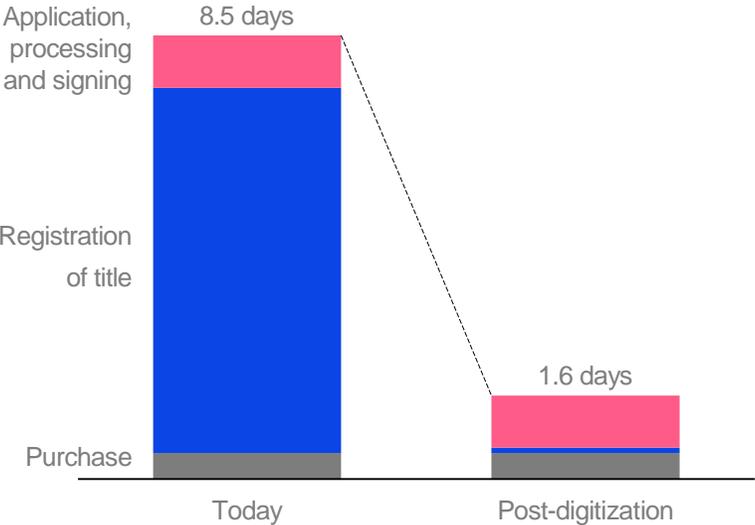
- Reduced repayments for customers on parental leave
- Summer vacations from repayments
- Additional loan with pension funds
- Loans for individuals with FX income
- Green mortgages
- Buy to let
- Higher loan to value for first-time buyers



Great opportunities in the digitization of the government's part of the lending process

Registration of title

Today the most time consuming part of the lending process is registering the loan documents at the District Commissioners. This process is being digitized by the government and will greatly shorten the lending process



Digital bonds

Arion Bank expects to save 20% of employees' time related to mortgages with the introduction of digital bonds

This will enhance service, convenience for customers and greatly improve the customer journey, reducing all signing-related activities:



Calling to book a signing meeting: **10 minutes savings**



Signing: **30 minutes savings**



Commuting to signing meeting: **60 minutes savings**



Digital solution led to massive cost reduction in car loans and greater customer experience



Arion Bank has increased its market share in car loans significantly in recent years



Since 2016, the car loan portfolio has doubled in size



Arion Bank has the best digital solution, providing low production costs and a much better customer experience



2021 has been a record year in new lending with ISK 6.8bn in new loans in the first 9 months of the year



Arion Bank has introduced green car loans, which offer discounts on origination fees for electric and hybrid vehicles, about 25% of new car loans



Increased operational efficiency has resulted in a larger portfolio with much lower overheads

New car loans annually

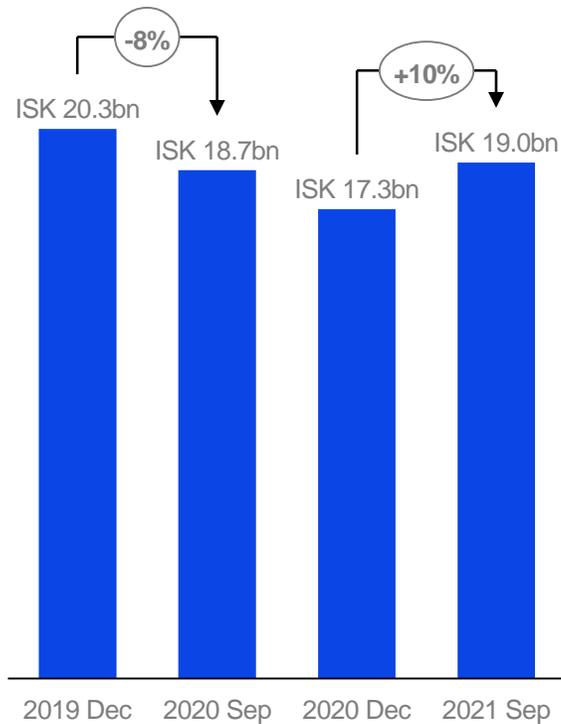


Car loans portfolio

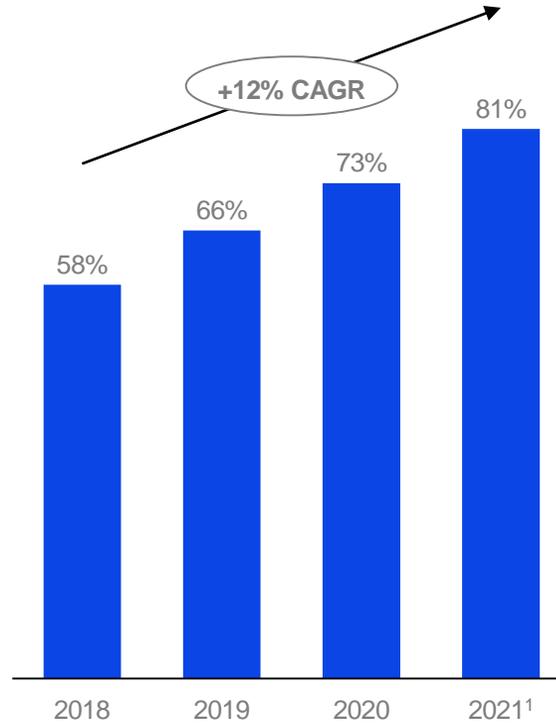


Consumer finance increases after Covid decrease

Consumer finance has increased by 10% this year, mostly due to increased private consumption



This year more than 80% of all approved consumer loans have been automatically accepted



Consumer finance

- An automated credit algorithm was introduced in 2016, based on our data and completely straight through processes
- The credit algorithm has processed more than five million loan applications
- Historically, there are lower defaults on automatic lending than manual lending
- The processes are constantly being reviewed and our goal is that more than 90% of new credit will be approved automatically
- Increased co-operation with third parties

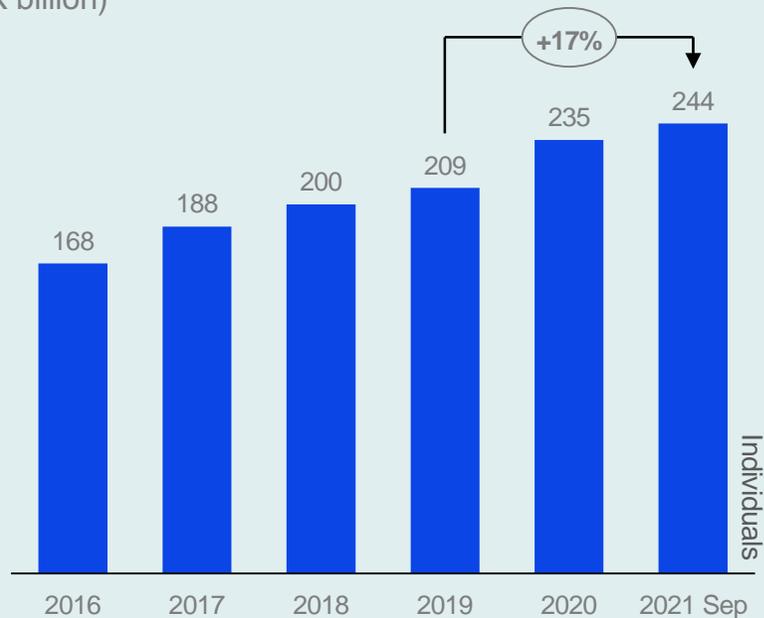


Arion Bank's deposit base has strengthened in recent years and recently launched Green Deposits have been successful

Deposits increased in Covid economy

While customers have remained at home, their savings in deposits have increased substantially despite increased investments in securities, real estate and cars

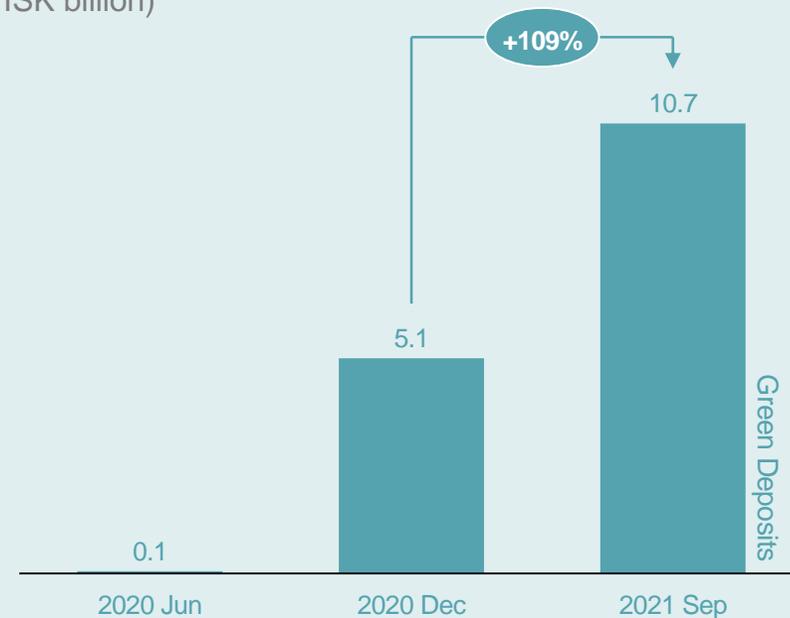
(in ISK billion)



New Green Deposits were introduced in June 2020

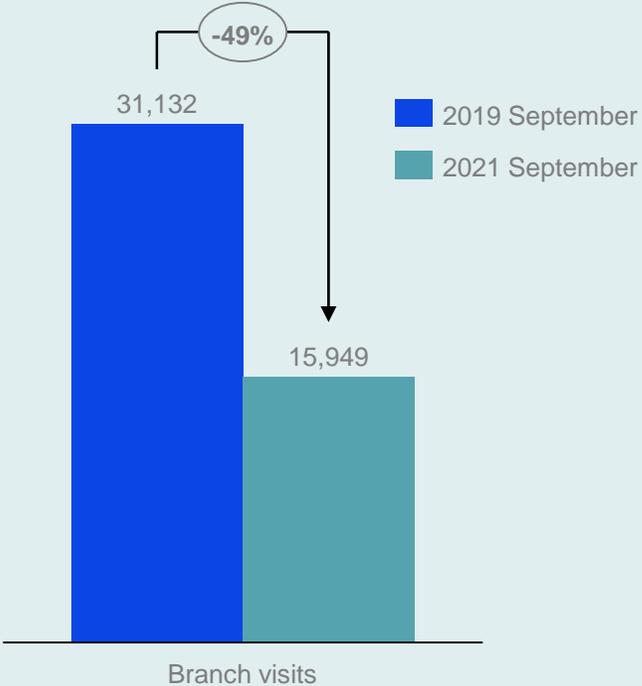
Green accounts are for people who want to contribute towards a greener future. The accounts support UN Sustainable Development Goals

(in ISK billion)

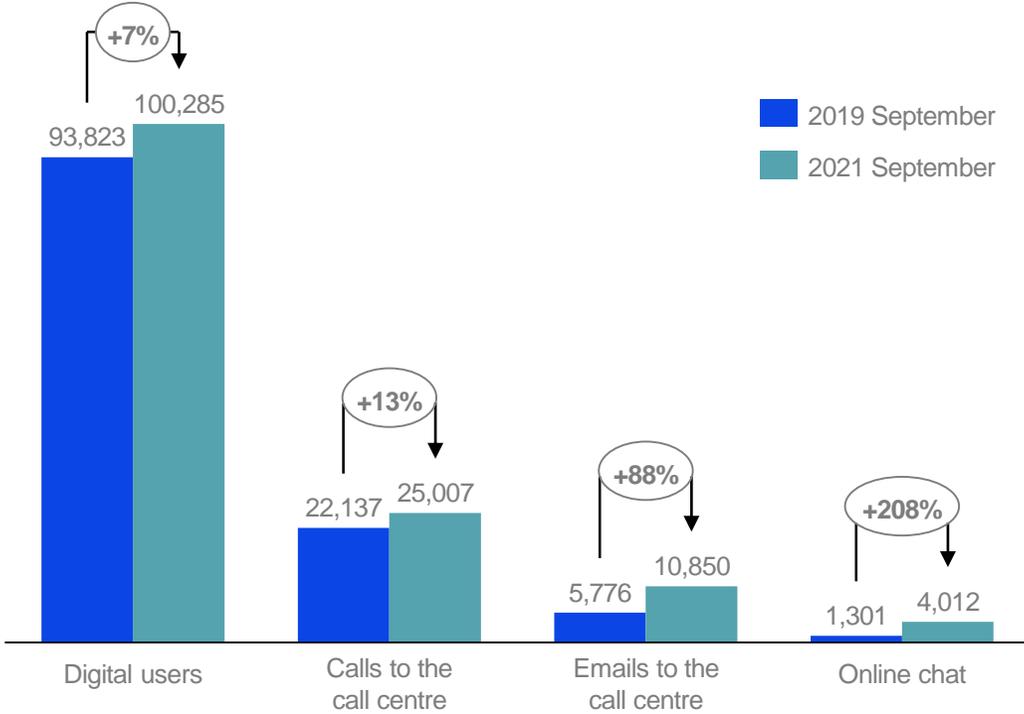


Digital services are changing customer behavior, with Covid expediting the development sharply

Branch visits have decreased dramatically in recent years...

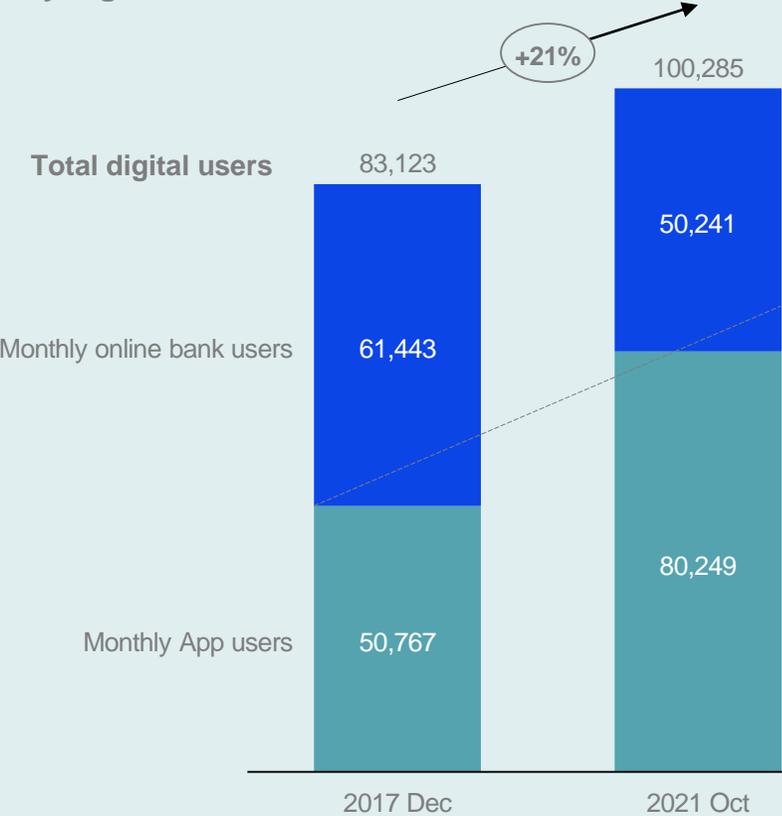


...while usage of digital and online services have increased constantly

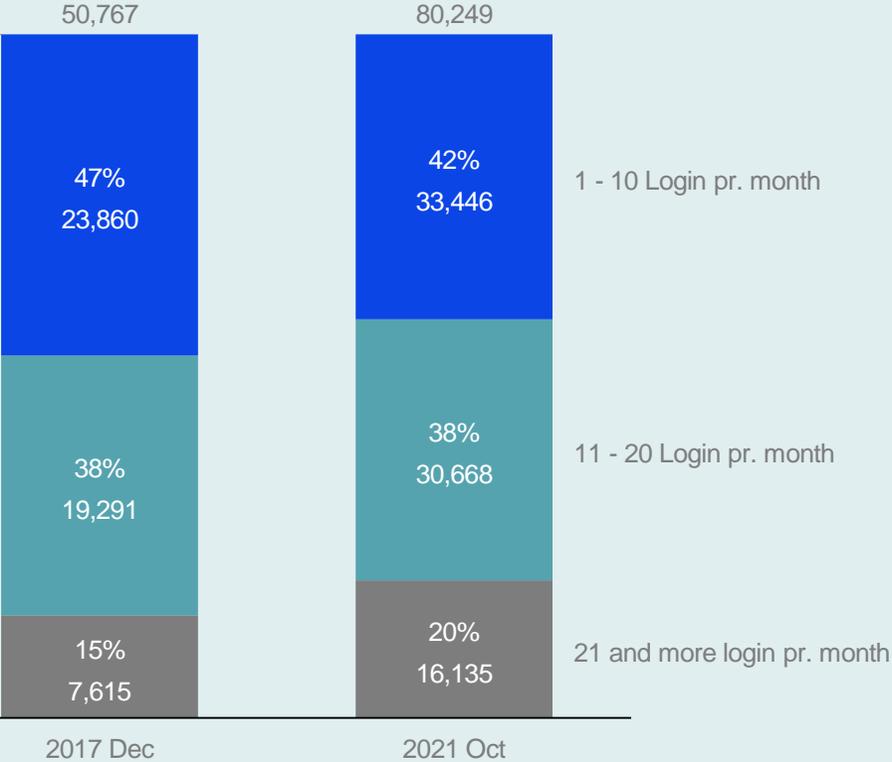


Digital users have increased by 21% since 2017

Monthly digital users



Monthly App users App engagement increases significantly



Significant improvement in operating efficiency mostly because of Arion Bank's digital journey



Strong emphasis on digital solutions has led to increased use of the Bank's self-service channels



This approach has created opportunities to reduce the number of branches and FTEs which represent the main operating expense in the division



Due to more automation FTEs are down by 153 in Q3 2021 compared with year-end 2017

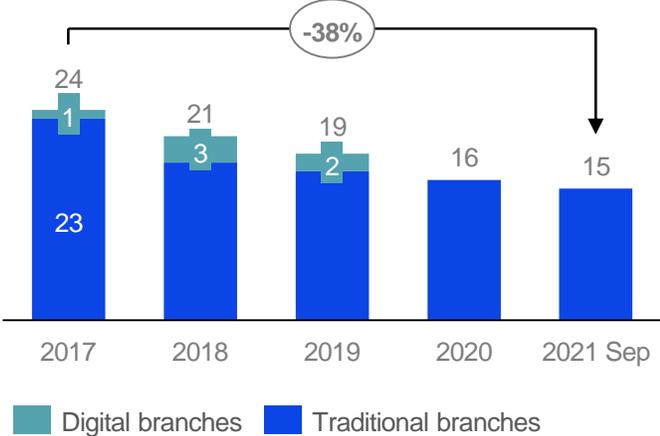


Results in a lower cost to income ratio

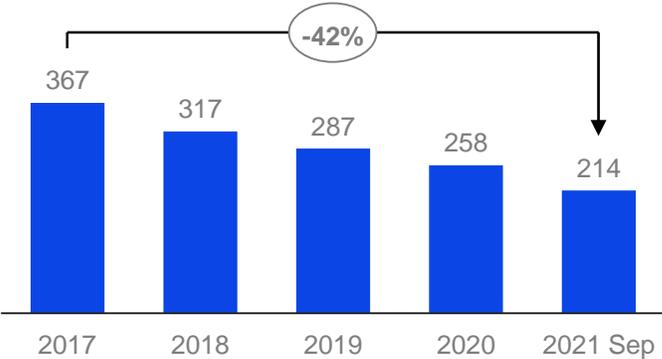


Total branch space has decreased by 61% since 2017

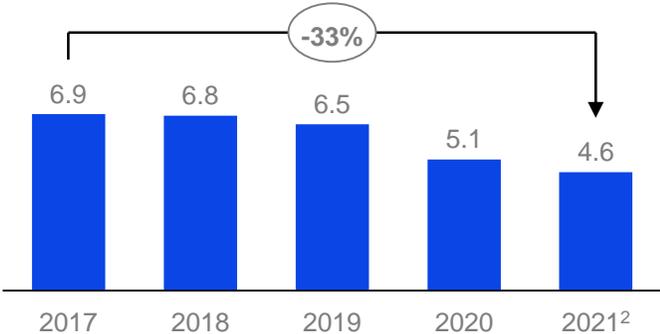
Number of branches



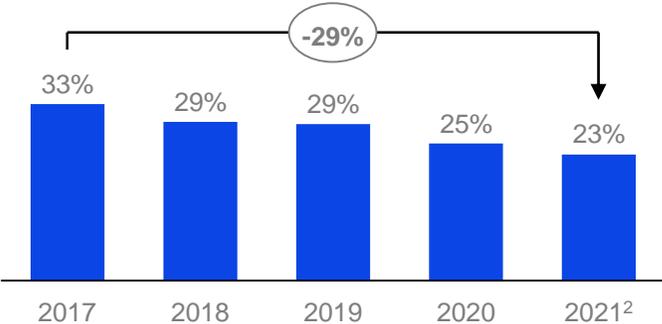
FTEs in Retail Banking



Direct expenses in Retail Banking¹ (in ISK billion)



Direct expenses to income¹



¹ Without allocated expense, bank levy and net impairment. Without reversal of expense with Depositors' and Investors' Guarantee Fund of ISK 1.8 bn in 2017
² Direct expense and operating income are for the first nine months of 2021 and calculated to an annual basis



Arion Premía

Arion Premía is a service tailored to a target segment of high net worth individuals

With Arion Premía, the goal is to strengthen the Bank's market share within this valuable segment

*Digital service supported by personal service
By invitation only*

Through Arion Premía, the Bank aims to improve the customer experience and loyalty by offering first class service and best available rates on premium products, leading to an increased market share and possible cross-sales

Vördur insurance

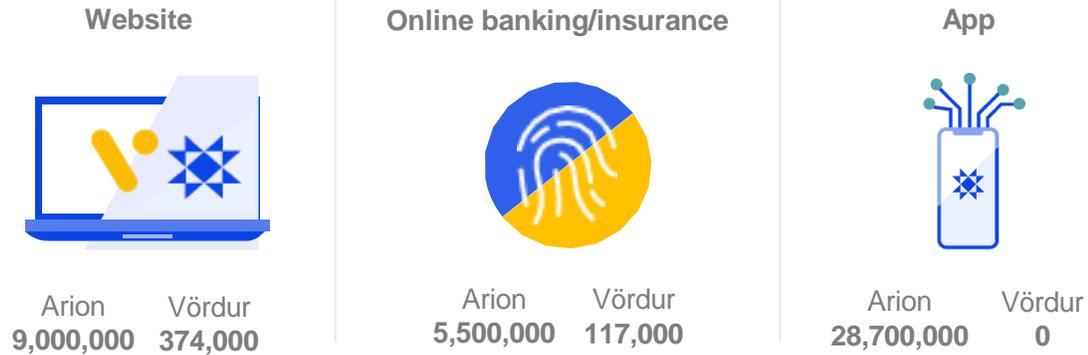
A success story



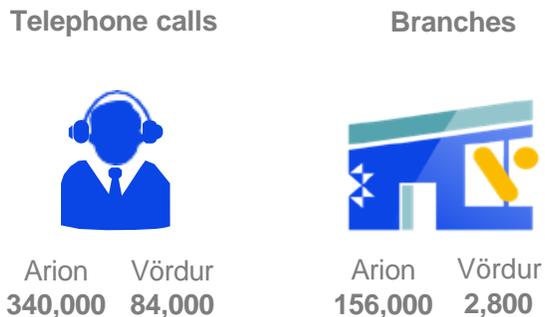
Strong distribution network and increased opportunities to cross-sell

More than 44 million annual interactions with Arion Bank and Vördur clients

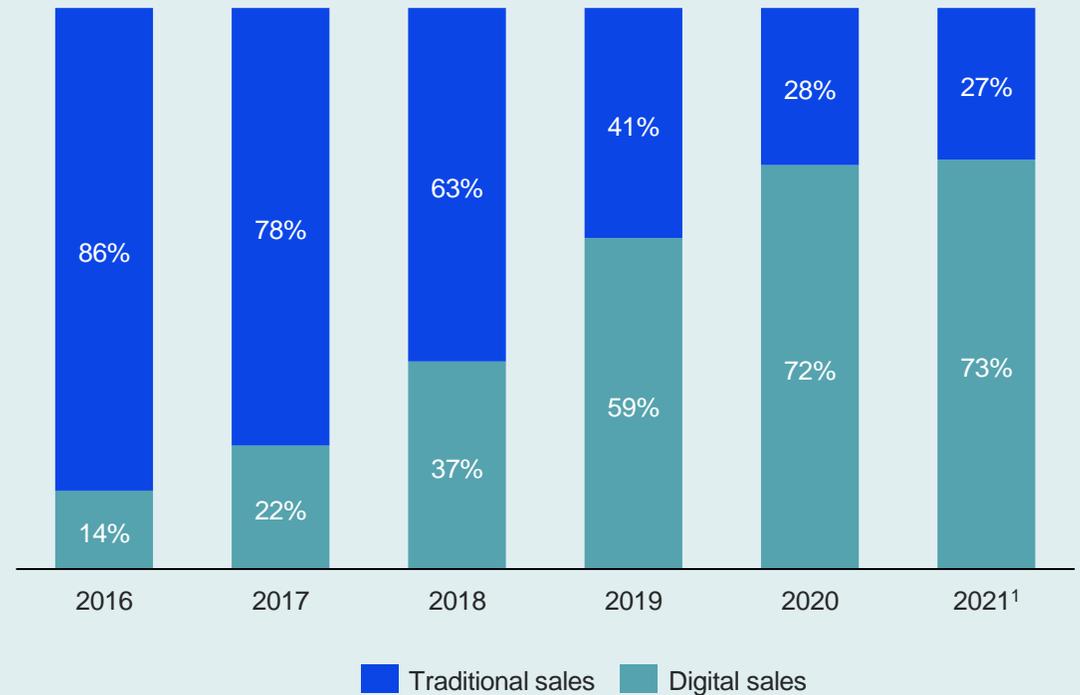
Digital interactions 2021¹



Traditional interactions 2021¹



Strong growth in Digital Core Product Sales



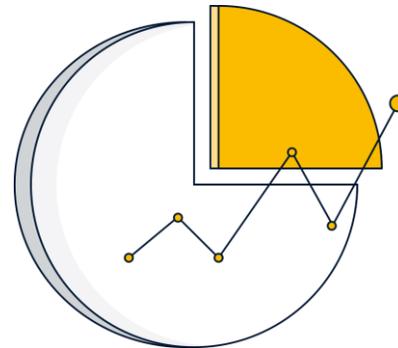
The opportunity for bancassurance is unique

Bancassurance ratios



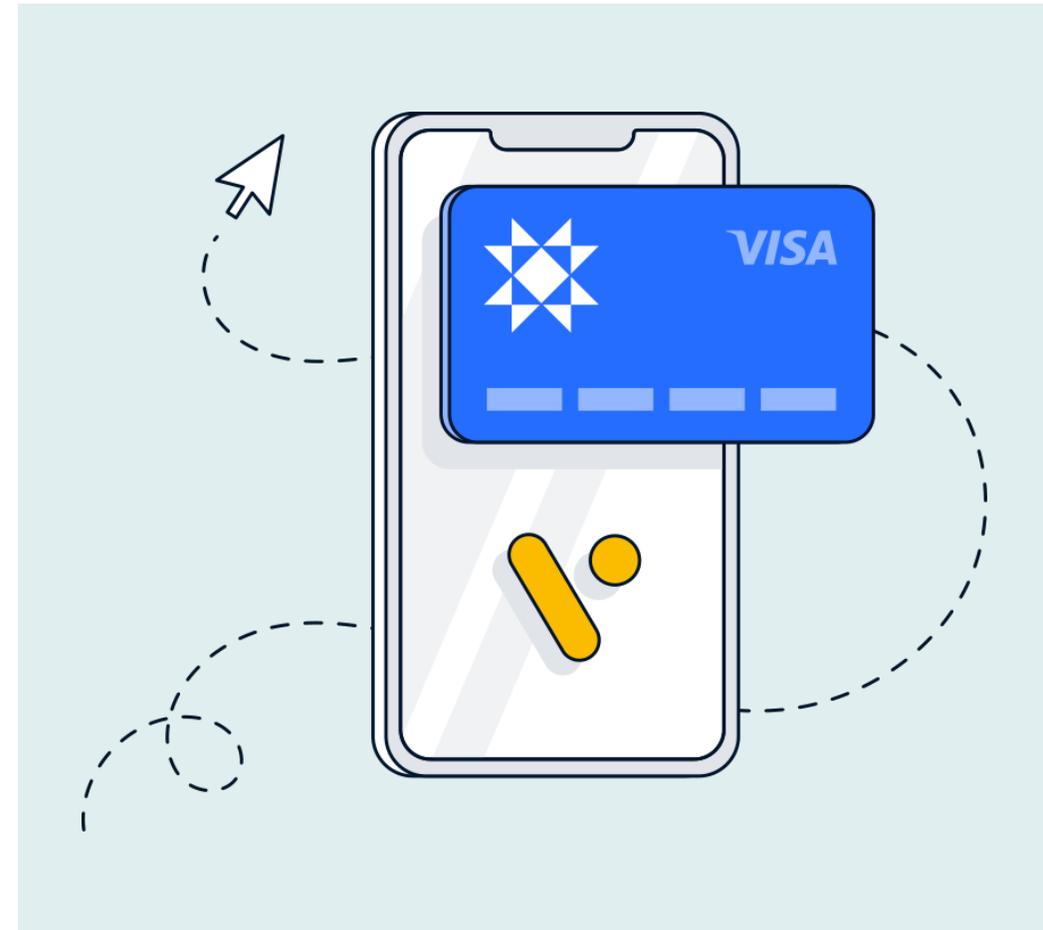
Individuals

32%



Corporates

18%



How do we get there?



One-stop shopping with a broad range of financial and insurance products under a strong brand

- Extension of the existing relationship with their bank
- Lower acquisition costs
- Loyalty program



Increased cost efficiency to enable competitive advantage and drive profitable growth

- Shared offices and services
- Reduced distribution cost compared with the agency channel
- Utilization of Group infrastructure and capabilities to optimize customer journey



Going forward



Achieve Customer Journey Optimization by integrating into broader customer journeys and develop the Bancassurance model to **maintain our leadership** status as the best digital bank in Iceland



Continue to develop digitization and automation in banking and insurance to achieve even **more efficiency** on our road towards operational excellence



Increased co-operation with third party to source and implement solutions for our customers and further develop **new revenue streams** and engagement with customer to strengthen our goal of becoming a financial aggregator



Increased market share in target **client segments**



Relevant and convenient customer experience

Steinunn Hlíf Sigurdardóttir - MD Customer Experience



Customer experience is about bringing value to the customer and the business

Customer experience

Customer needs



Value



Personal



Simplicity



Convenience



Business goals



Growth



Customer loyalty



Efficiency & effectiveness



Why focus on customer experience?

Huge investment in recent years in digital services in the banking sector but often lacking sufficient focus on overall needs and expectations of customers

“This year’s survey reveals a dramatic shift in priorities. Five years ago, as banking costs soared due to new regulatory requirements worldwide, banks were focused on cutting costs and boosting margins to maintain shareholders’ return-on-equity.

Today, customer experience and digital marketing are top priorities for executives”

The Economist July 2021 global bank survey

“Financial institutions that invest in the customer experience in banking have **higher rates of recommendation, greater wallet share, and are more likely to up-sell or cross-sell products** and services to existing customers.”

McKinsey and Co.





**Modern marketing is
data, analytics and automation**



Data driven culture

More convenient and relevant service

Emphasis

Target clients

Goals & approach

Develop satisfaction and loyalty within a profitable and growing target segment

Personalized service

Power internal and external growth by leveraging personalized products and services aligned with customer needs

Digital platforms

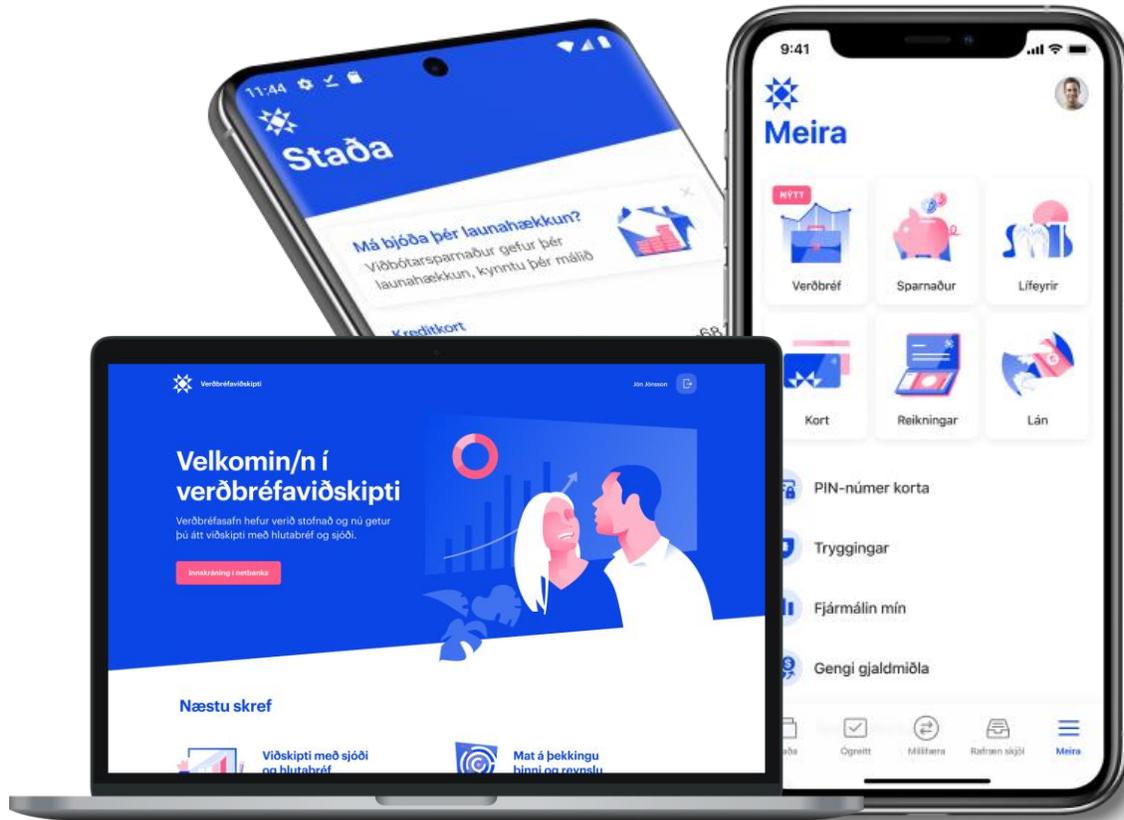
Leverage services delivery and digital investments to ensure differentiation and long term profitability

Financial aggregation

Utilize our extensive product offering throughout the bank as a recruitment vehicle and value for our clients



Personalized recommendations through different platforms



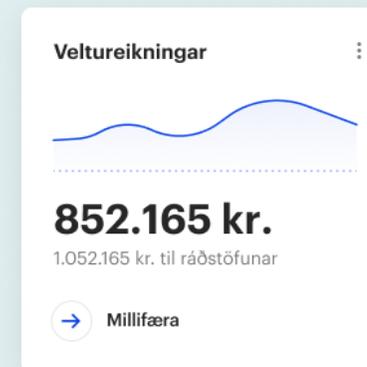
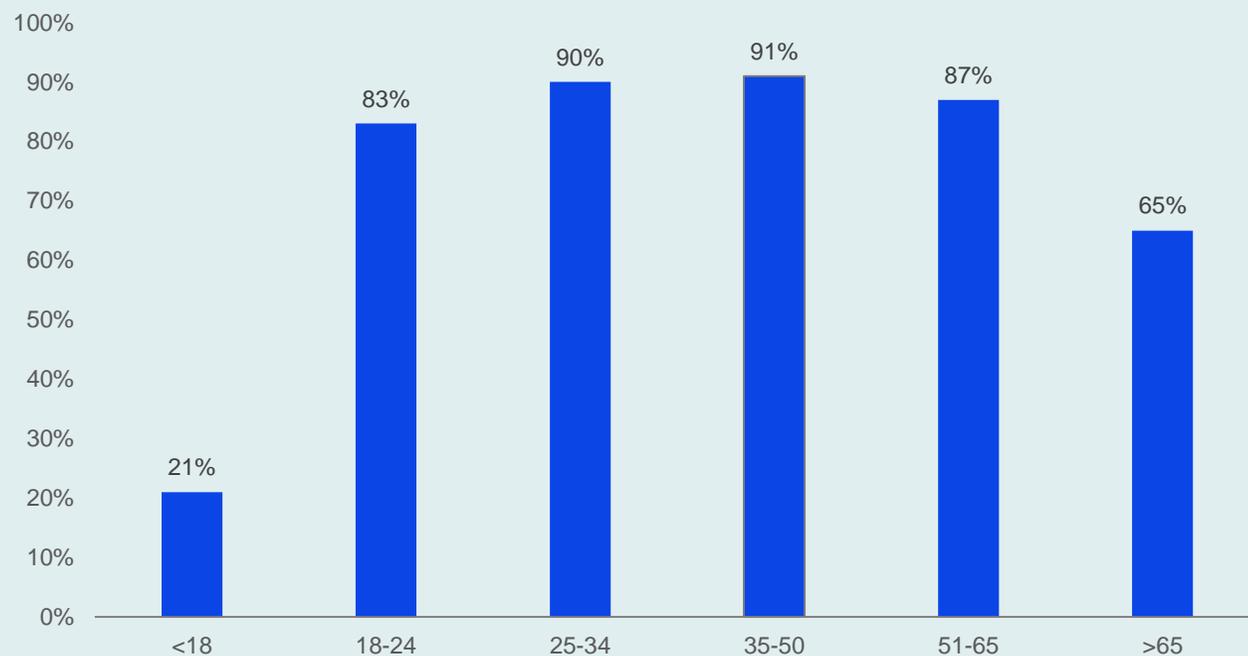
Recent developments

- Mobile App top banners
General messages to the customer base or tailored communication to a specific audience
- Smart product banners
Cross-platform banners showing relevant products to customers in need
- Assistant recommendations
Rós suggests appropriate products and actions for each customer



Convenience for all age groups

90-day digital activity by age



A screenshot of a mobile banking app interface showing a list of accounts under the heading 'Reikningar'. Each account entry includes an icon, the account name, the account number, and the current balance.

Account Name	Account Number	Balance
Debetkort	0370-26-78910	284.157 kr.
Sparireikningur	0370-22-12345	321.043 kr.
Vaxtasproti	0515-22-78910	685.127 kr.

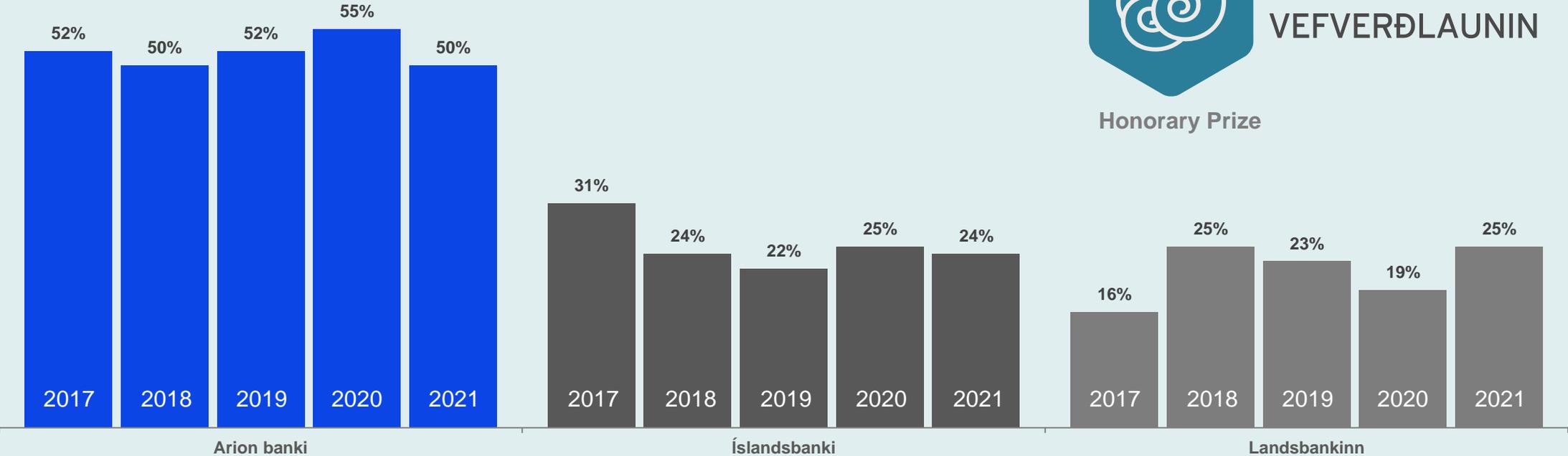
A promotional banner for insurance services. It features an icon of a truck and a person, and text in Icelandic: 'Fáðu tilboð í þínar tryggingar' (Get offers for your insurance). Below the main text, it says: 'Það er einfalt og fljótlegt að fá tilboð í tryggingar þínar í netbankanum, þér að kostnaðarlausu.' (It is simple and fast to get offers for your insurance in the netbank, free of charge.)



We are industry leaders in banking innovation

Our app is consistently chosen the best mobile banking solution

Which bank has the best mobile solution:



Dramatic increase in digital sales

Core banking products



Digital sales continue to increase steadily. Digital sales per 1,000 active customers has increased by 436% between 2016-2020



The results show Arion Bank is now one of the digital leaders among the world's banks

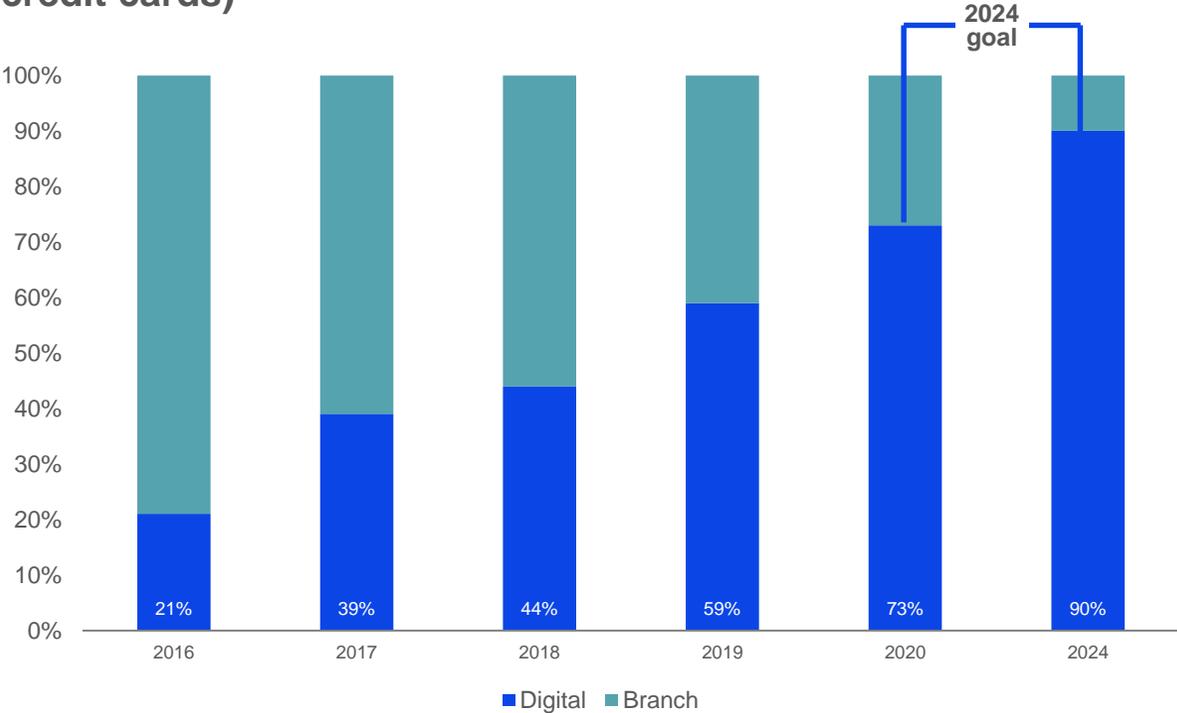


Digital sales ratio is 73% for credit cards, current accounts and savings accounts



Please note that mortgages are not included in the figure although 65% of mortgages are granted through an electronic process and 94% of customers use a digital credit assesment

Online sales as % of total (savings accounts, current accounts & credit cards)¹



¹Calculated as the number of products sold through digital distribution channels per 1,000 active customers. The figures are comparative figures from the research firm Finalta (McKinsey), which conducts standardized research annually in this field worldwide.



A new-world marketer driven by purpose & consumer centricity

Our ambition for communication

New-world marketing

- Tailoring individual experiences
- Harnessing the power of data
- Earning a place in broader culture and society

The opportunity for Arion

- Be a partner to each customer
- Use data to humanize financial services
- Be a champion for positive progress in Iceland



Going forward



Convenient

90% of onboarding processes of standardized products are available through digital channels and processed straight through back office



Relevant

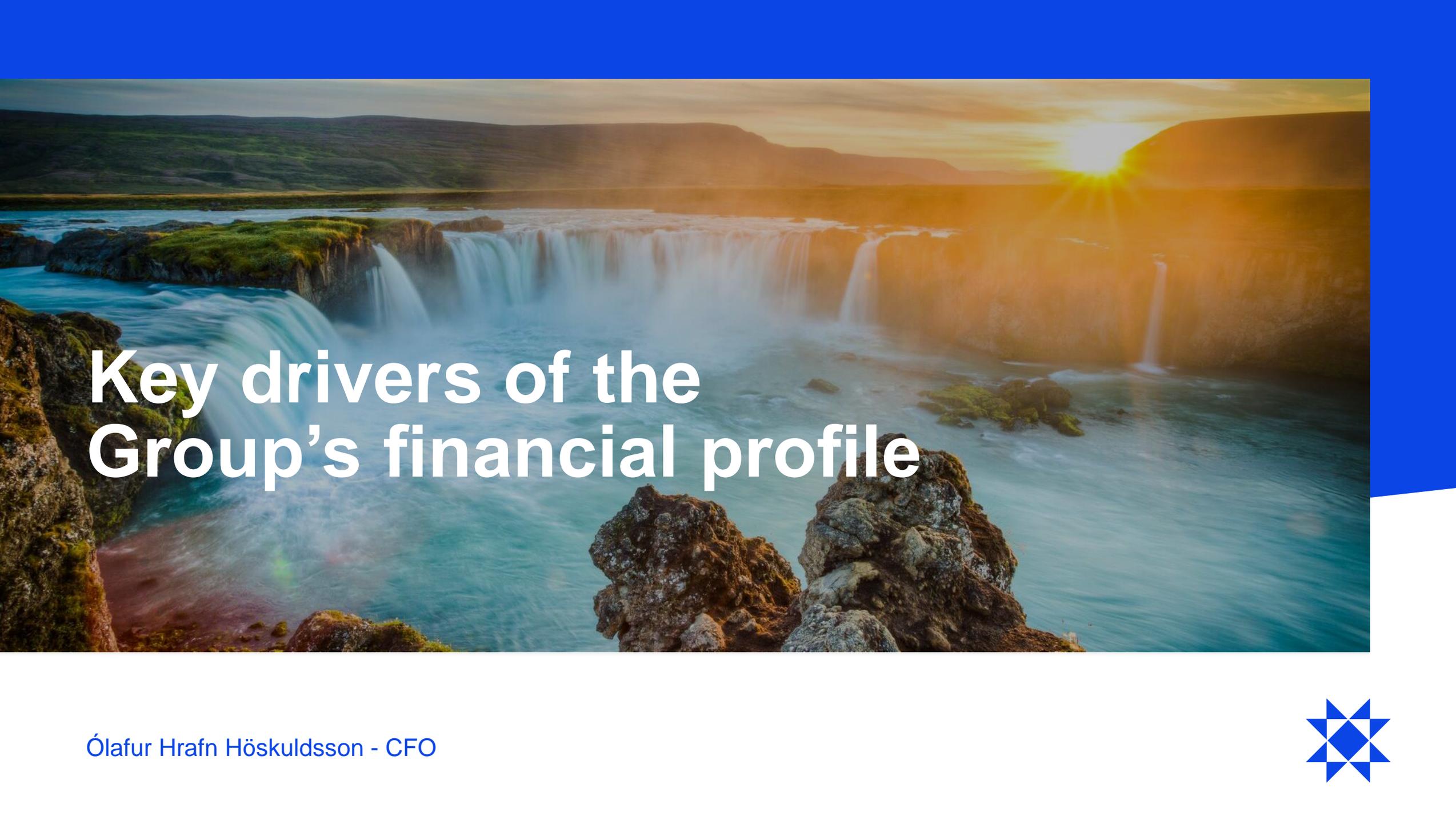
Arion has fully automated personalized recommendation system in place to drive recommendation for Retail and SME's



Key metrics

- NPS
- CSAT
- POC surveys
- Loyalty





Key drivers of the Group's financial profile

Ólafur Hrafn Höskuldsson - CFO



Tying this all together

Robust financial position reflective of a focused strategy and allows for ambitious capital optimization plan into next year

1

- ✓ **Strong earnings momentum**
- ✓ **Has allowed for significant capital release in 2021**

- Net earnings 9M 2021 up ISK 15.4bn YoY
- ROE 9M 2021 of 15.2%
- ROE 9M 2021 of all business units >10%
- All business units show improvements from 2019
- Capital release 9M 2021 of ISK 25.5bn with additional ISK 10bn anticipated for the rest of the year. Highest among European peers in terms of % of REA

2

- ✓ **Evolution of the composition of income reflective of strategy**
- ✓ **A strong base from which to build on in coming years through strategic direction**

- Operating income / REA approx. 7.6% in 9M 2021 significantly up from previous years
- Fee and commissions are up 24% YoY
- Net insurance income is up 12% YoY
- Holistic financial aggregation and customer journey strategy supports operating income going forward both in terms of NIM as well as fee and commission and insurance income

3

- ✓ **Simplification of balance sheet**
- ✓ **More efficient opex structure**
- ✓ **Improving economic outlook**

- Lower risk balance sheet (normalized cost-of-risk impact)
- Disposal of non-core assets has progressed well
- Cost to income ratio was 41.9% in 9M 2021 compared with 48.1% in 12M 2020 with positive trend in all major cost items
- Moratorium assets have decreased to 0.57% in Q3 2021 from 11.5% in Q2 2020
- NIM supported by rising rate environment and more diverse funding options

4

- ✓ **Strong operating momentum along with a robust capital and funding position**
- ✓ **Allows for an ambitious target for capital release into 2022**

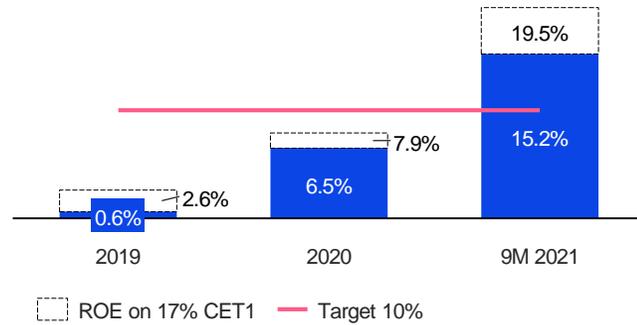
- Loans to deposits ratio was 140% in 30.9.2021 down from 179% at YE 2018
- A strong 38% deposits increase since 2019 supports funding profile
- Overall funding cost supported by EUR covered bond issuance
- Robust funding position allows for ambitious capital release
- ISK 50-60bn of surplus capital (subject to completion of sale of Valitor) with ambitious capital optimization planned into 2022



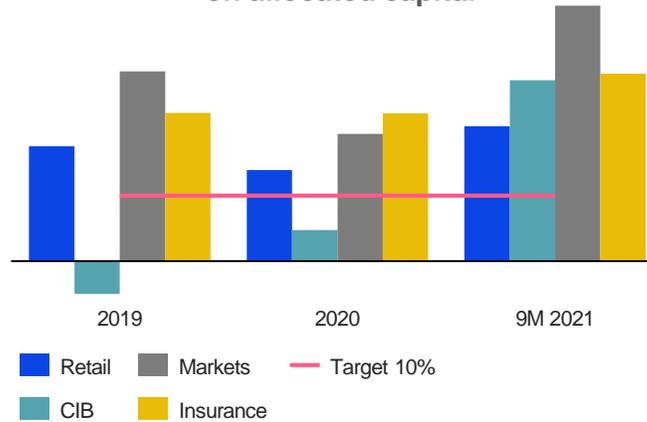
1 Operational targets exceeded and momentum in capital optimization

Financial KPIs demonstrate key trends

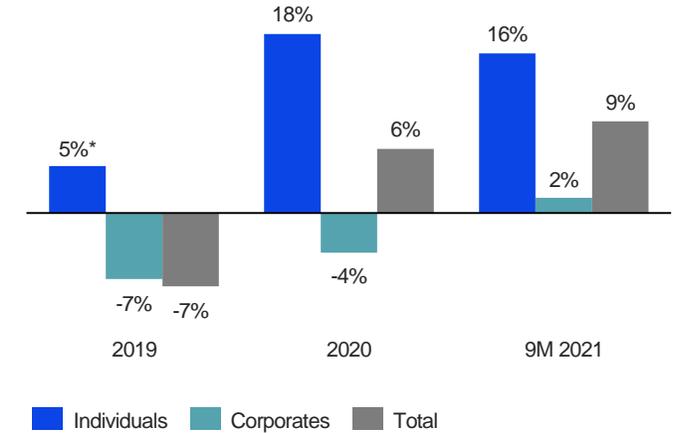
Momentum in return on equity



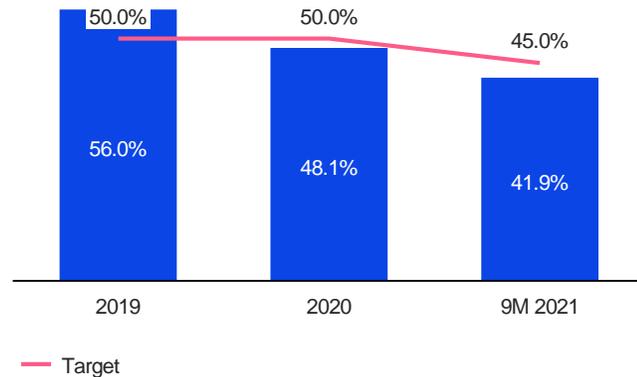
Business units all exceeding required return on allocated capital



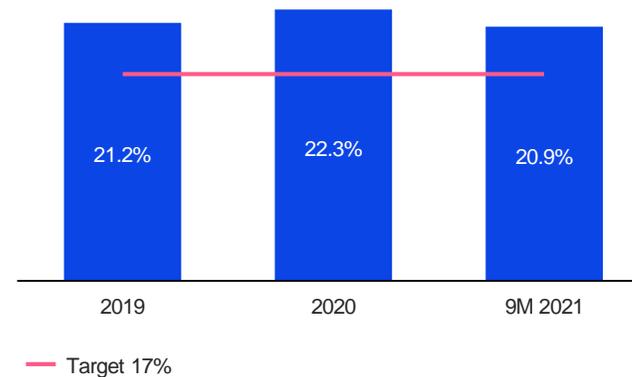
Loan growth has been driven by mortgages



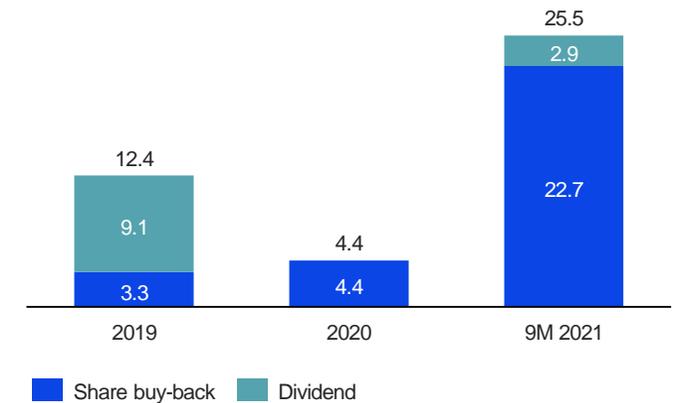
Cost to income ratio has decreased dramatically



Milestone in capital optimization



Significant capital release in 2021 (in ISK billion)



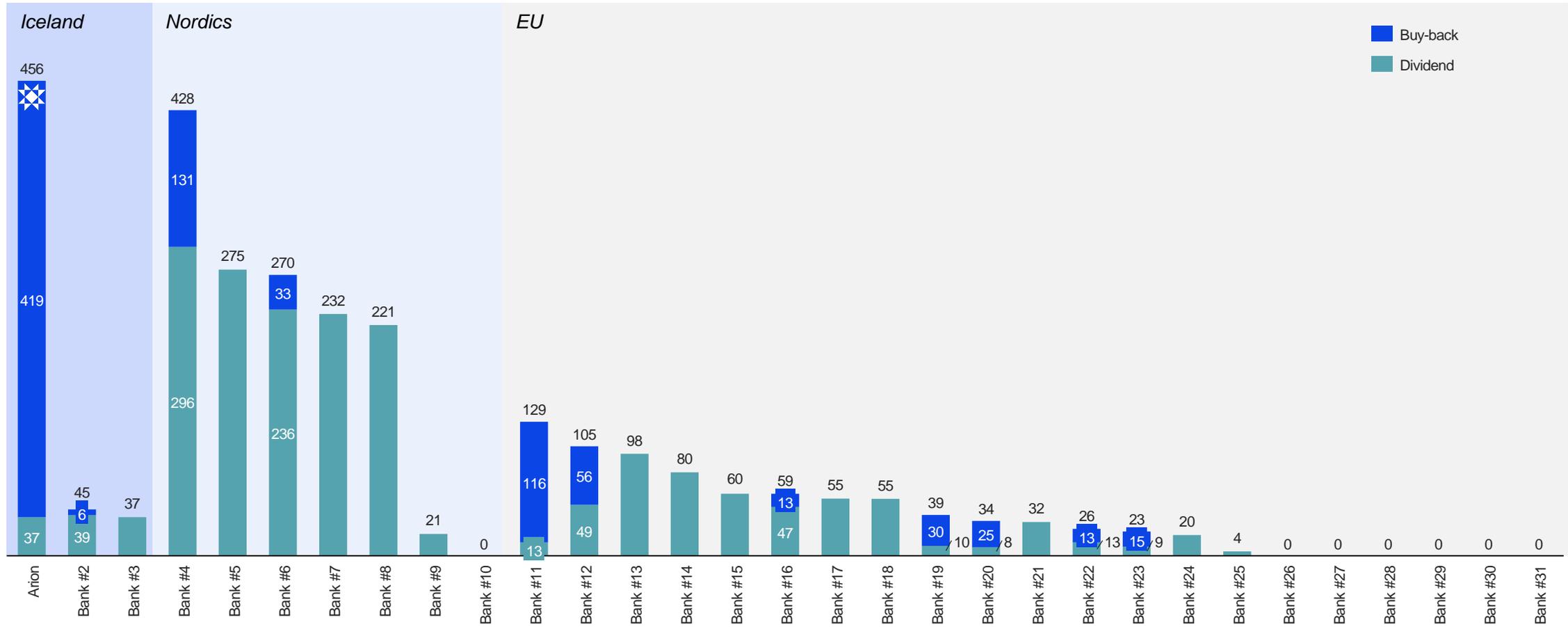
*Adjusted for sale of ISK 48bn mortgage portfolio in Q4 2019



1 Demonstrated commitment to return surplus capital

Leader in distribution to shareholders in Iceland

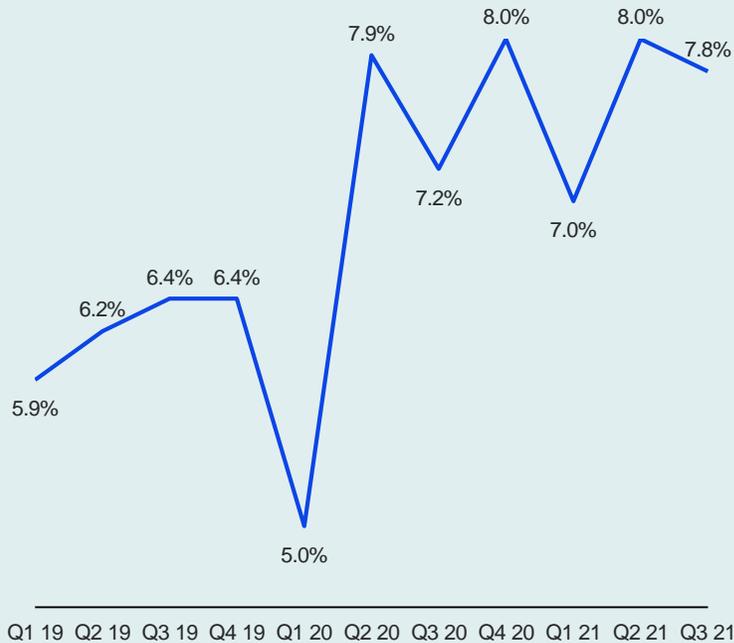
Communicated and actual capital release to shareholders in 2021 as percentage of Risk Exposure Amount (in bps)



2 Composition of income reflective of strategic direction

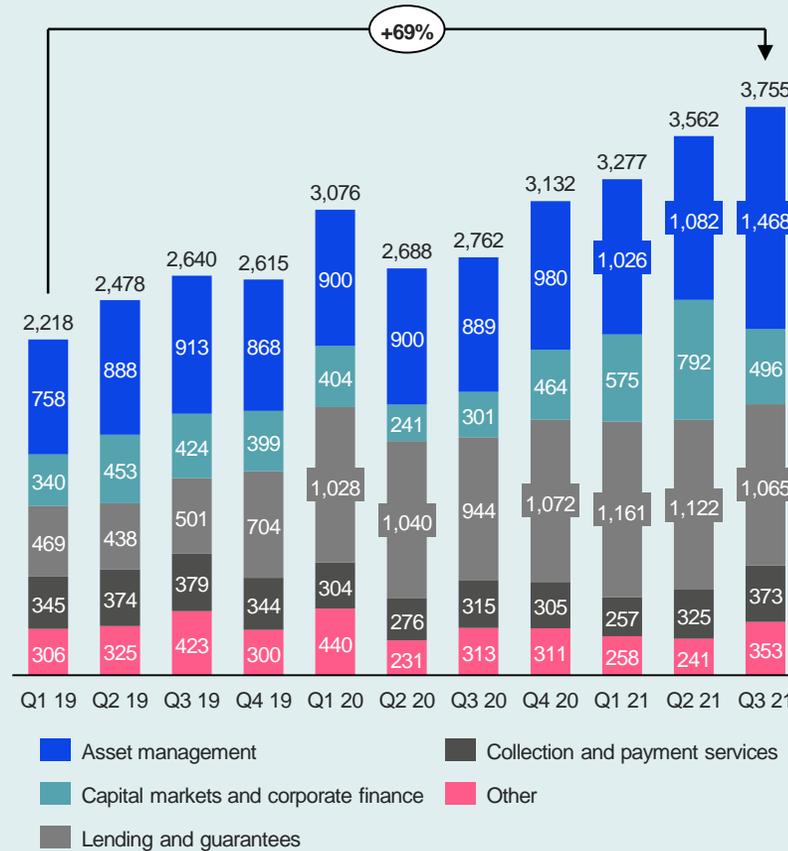
Operating income / REA a key KPI with commissions and insurance income a continued growth area

Significant increase in operating income generated on risk exposure amount (REA)



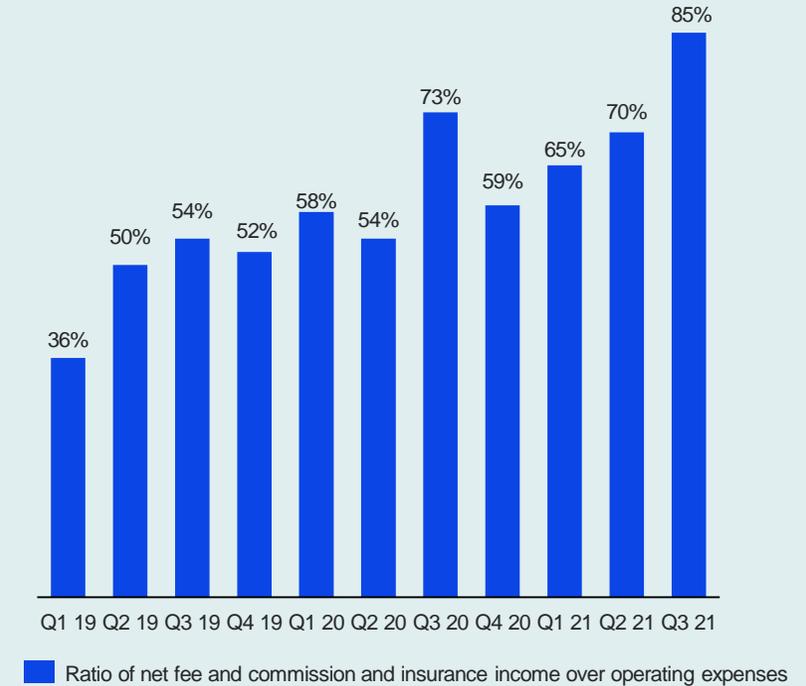
— Operating income / REA

Net fee and commission income have become a larger part of the Bank's operating income (in ISK million)



+69%

Net fee and commission and insurance income for 9M 2021 73% of operating expenses of the Group, up from 47% in 9M 2019



■ Ratio of net fee and commission and insurance income over operating expenses

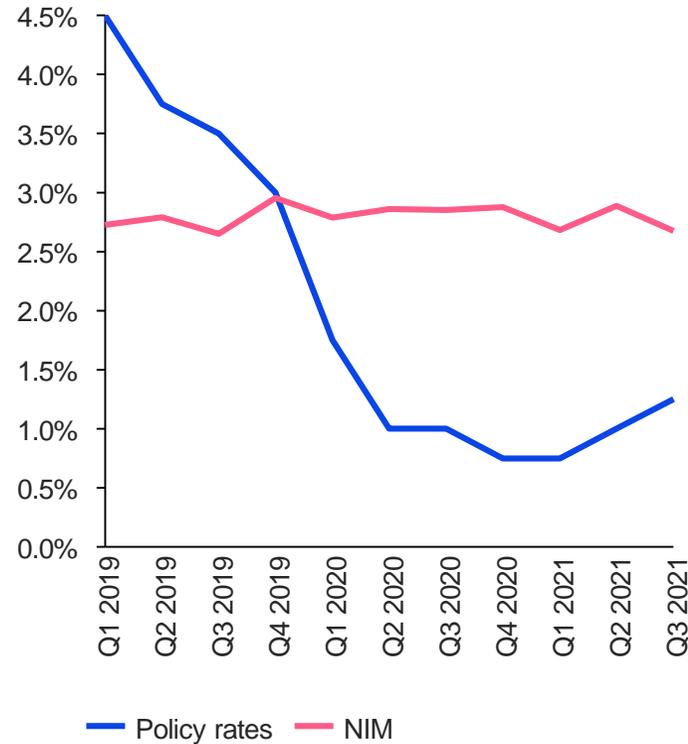


2 Defensive NIM management through rate decrease

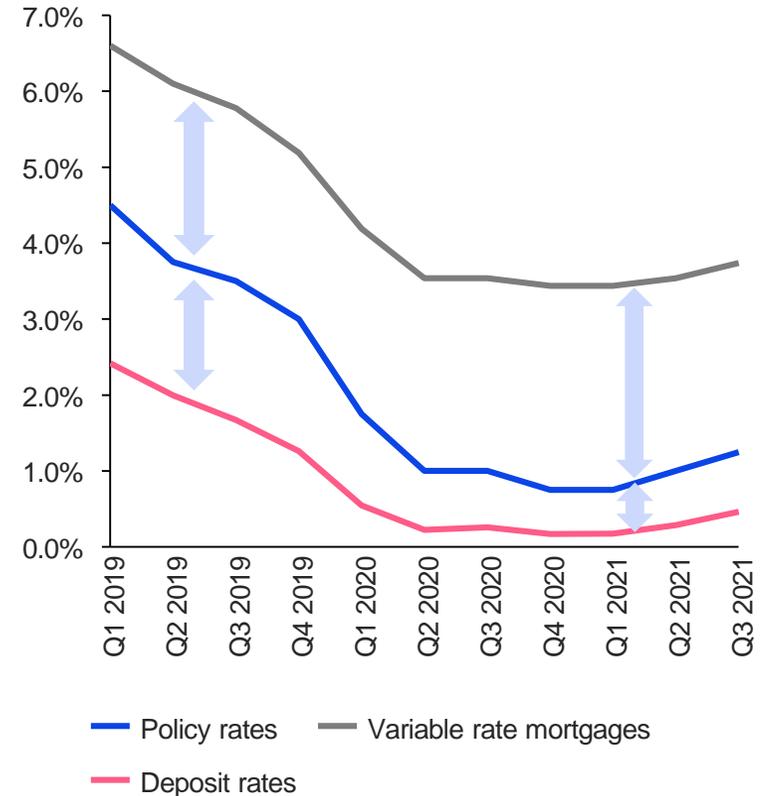
Projected rate increases combined with strategic efforts expected to be positive drivers going forward

- We expect that sensitivity to interest rate hikes can be ISK 200-350m per 25bps policy rate increase. This is, however, affected by numerous factors including competitive environment
- The Bank has been able to defend the NIM position through significant rate cuts. This has been done both through the asset side of the balance sheet with selective lending growth and through funding as deposit rate cuts bottomed at zero and payment of unfavorable borrowings
- Impact of inflation is more limited than before as the CPI imbalance has decreased to ISK 18bn

Arion Bank has navigated a dramatic policy rate decrease with a stable net interest margin



Deposit margins have been compressed by lowering of the Central Bank's policy rate and 0% effective floor. Arion Bank has actively managed the NIM through the asset side of the balance sheet



3 Important milestones in simplifying the balance sheet

Strong momentum in sale of held-for-sale and other assets since 2019 with limited impact on current operations and balance sheet

Held-for-sale assets

VALITOR

- Significant restructuring of the business and new sales process launched
- In July 2021, an SPA was signed for the sale of the business (subject to ICA approval)

Bravo Tours

- Subsidiaries Terra Nova Sól, Heimsferdir (subject to ICA approval) and Bravo Tours 1998 have been sold
- Pending a positive approval from the ICA, the only asset remaining will be a 27% stake in the merged operations of Heimsferdir and Ferdaskrifstofa Íslands

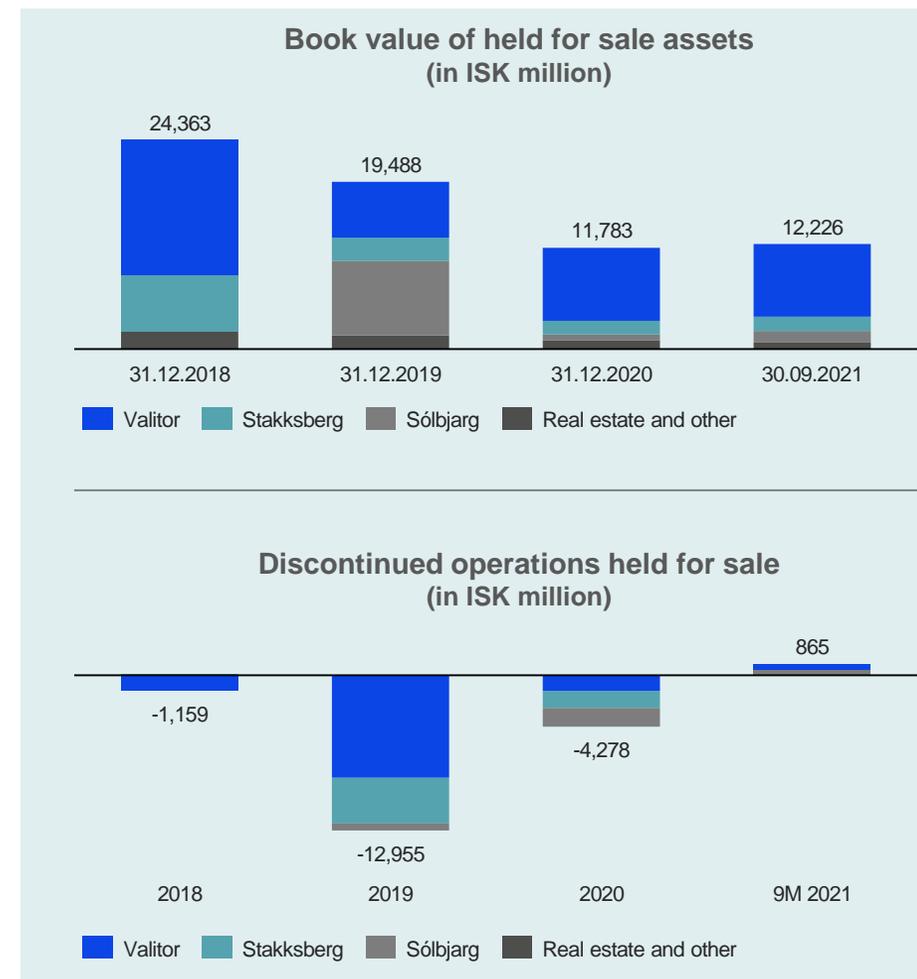
Stakksberg

- Plans for amendments to the plant in the final stages of approval
- Significant recent improvement in market dynamics have resulted in strong interest for the asset. Ongoing dialog with interested parties

Investment properties

LANDEY

- Since 2019 Gróttubýggd in Seltjarnanes sold and JV formed with leading health care company for development of Arnarland in Gardabær
- Remaining assets; Blikastadaland (95ha) and a 51% stake in Arnarland (9ha)

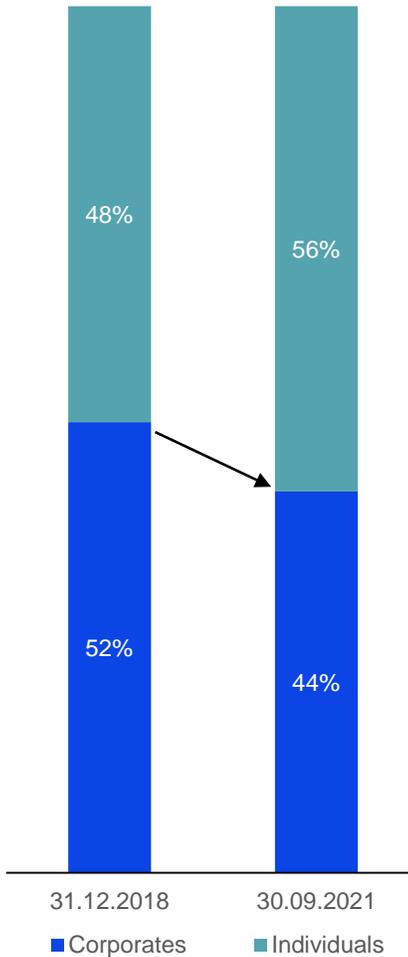


3 Risk profile of balance sheet improving and economic outlook constructive

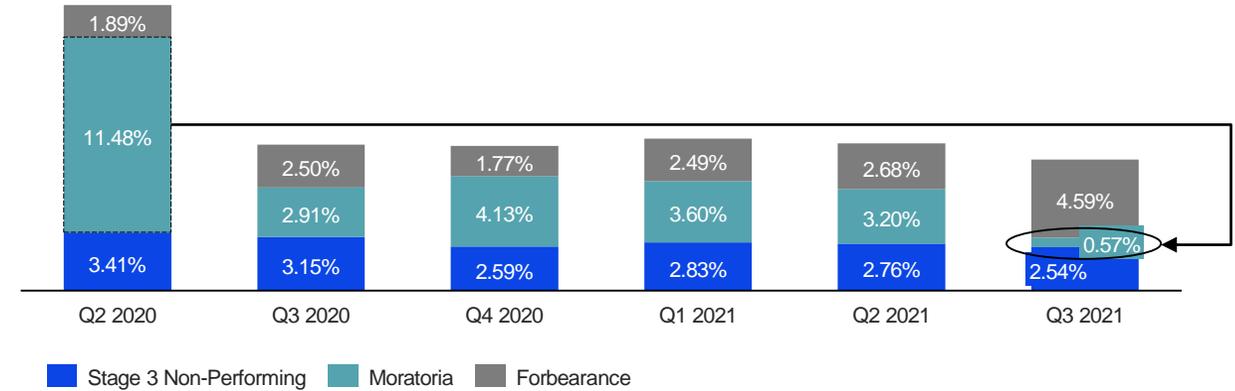
Increased portion of mortgages in total loan book reducing normalized Cost of Risk and moratorium assets now mostly performing

- The change in composition of the loan portfolio, with increased weight in mortgages where the expected loss is smaller contributes to decrease in Cost of Risk through the cycle
- In the medium term the expected credit loss ratios are likely to continue to approach their long-term average, around 4bp for mortgages to individuals and around 35bp for corporates. Total expected credit loss is therefore expected to approach c. 20bp based on current loan book composition
- Covid related moratoria mostly expired in Q3 2021. Generally, moratoria were followed by restructuring of loans and forbearance measures. These are now mostly performing assets
- 84% of loans in default or subject to moratoria or forbearance are collateralized by real estates.
- In 2021, about 50% of loans in default or subject to moratoria or forbearance are in the tourism sector.
- Loans with forbearance measures which have been extended have an extension on average around 15 months.

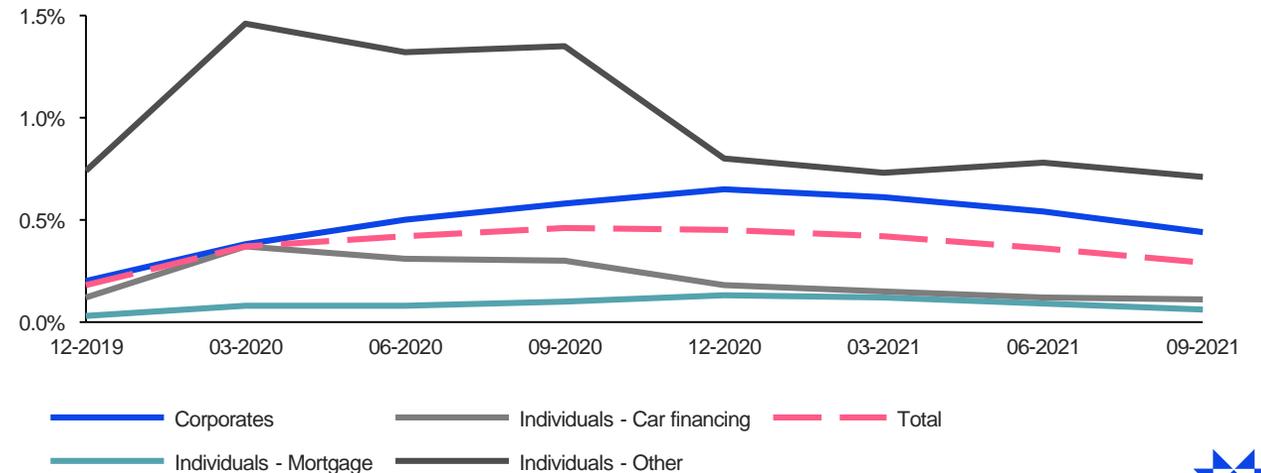
Loan book composition



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



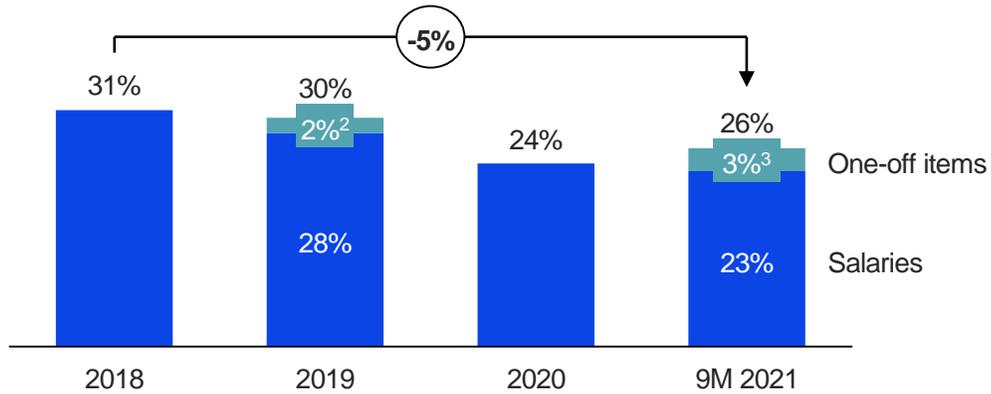
Expected credit loss ratio has been declining
12-month expected credit loss for performing exposures



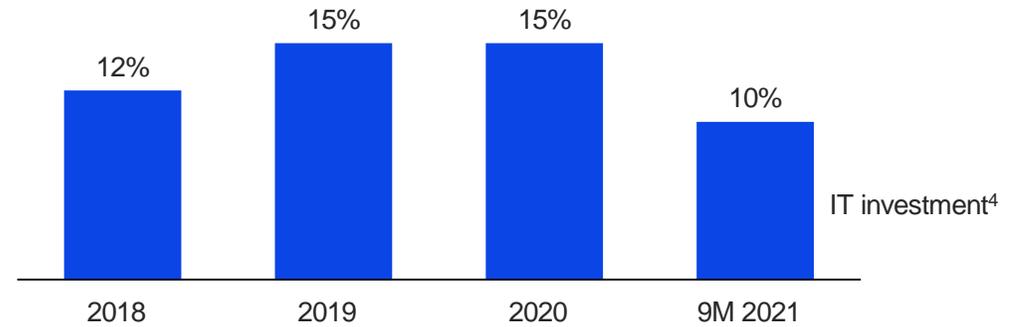
3 Operating expenses have been realigned and the largest cost pillars have been greatly reduced in recent years

Expense items as a percentage of operating income¹

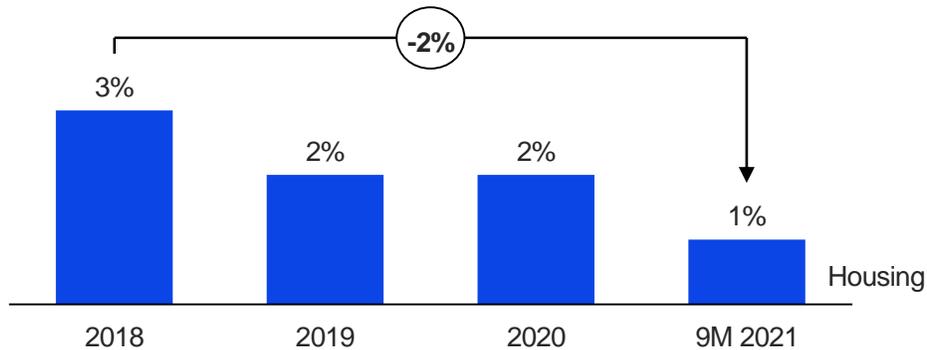
Salaries have decreased as a percentage of operating income. Effective incentive scheme limits fixed salary pressure



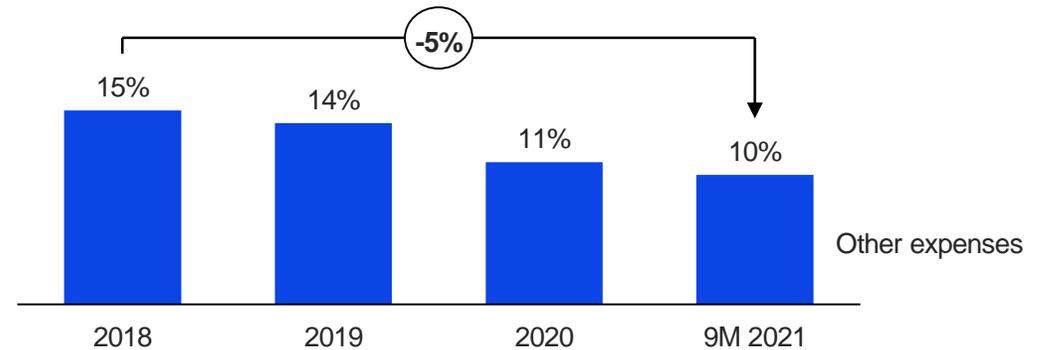
IT investment, including capitalized salaries



Reduction in the Bank's branch network has resulted in significantly lower housing cost



Other expenses have decreased since 2019



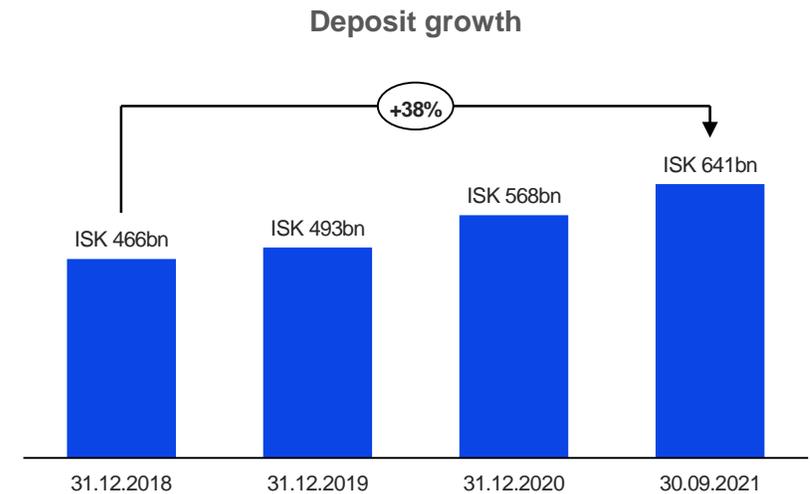
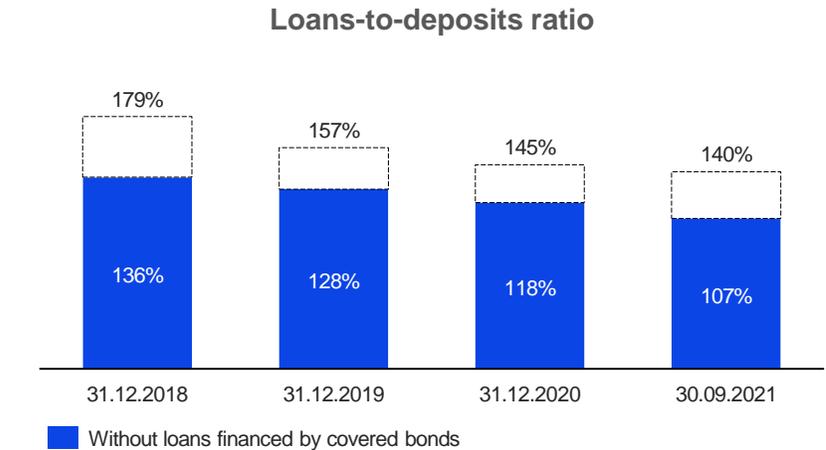
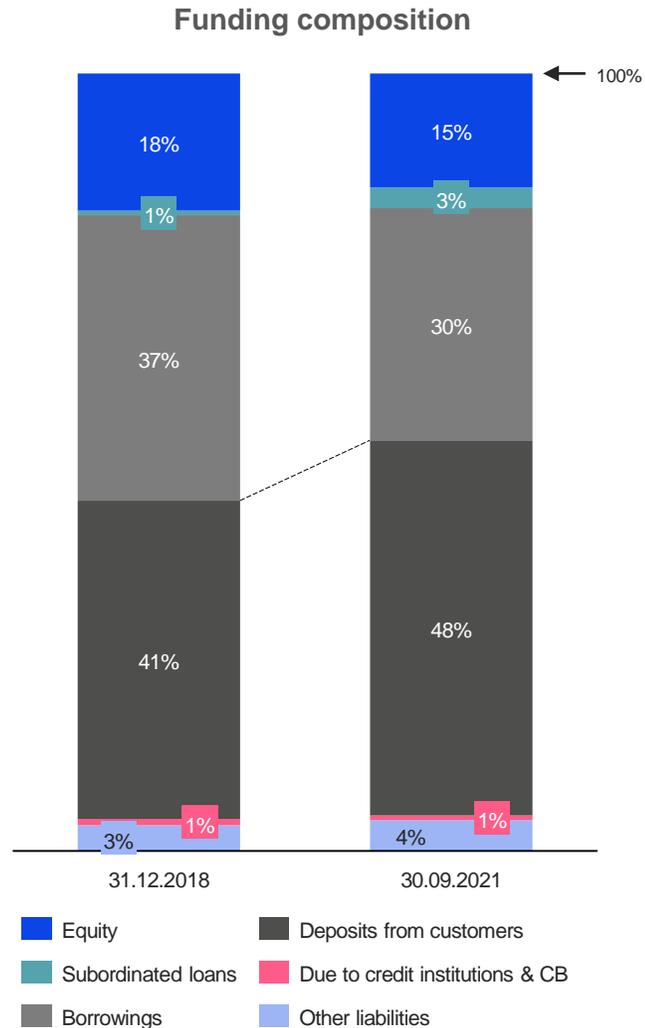
¹ One percentage point of operating income in 9M 2021 is ISK 430m for reference
² One-off redundancy cost of ISK 1.1 billion
³ Including ISK 1.1 billion due to bonus scheme in 9M 2021, not included in published 9M figures. Not approved by Board
⁴ Including capitalized salaries and purchase of software and hardware



4 Funding profile supportive for continued operational trajectory

Significant deposit momentum has supported the funding mix and will to a large extent guide growth capacity going forward

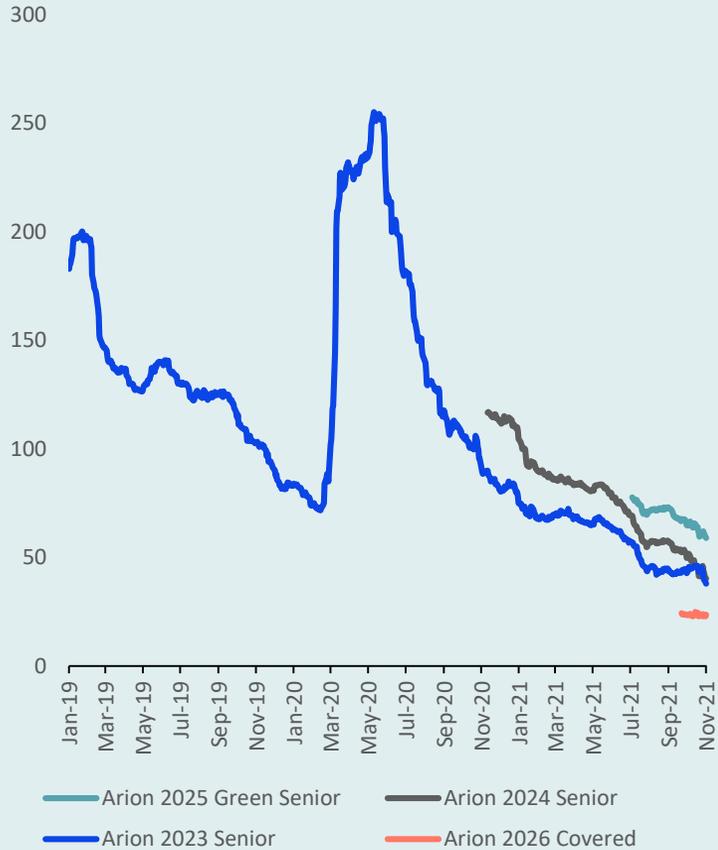
- Significant increase in deposit base from YE 2018
- Strong momentum in deposit inflow in combination with a selective and strategic loan growth has supported a strong decline in loans to deposits ratio
- Deposits growth going forward will be a key driver for loan growth in coming years



4 EUR covered issue a potential important avenue for future funding

Immediate FX funding cost benefit while future role in mortgage financing reliant on re-emergence of swap market

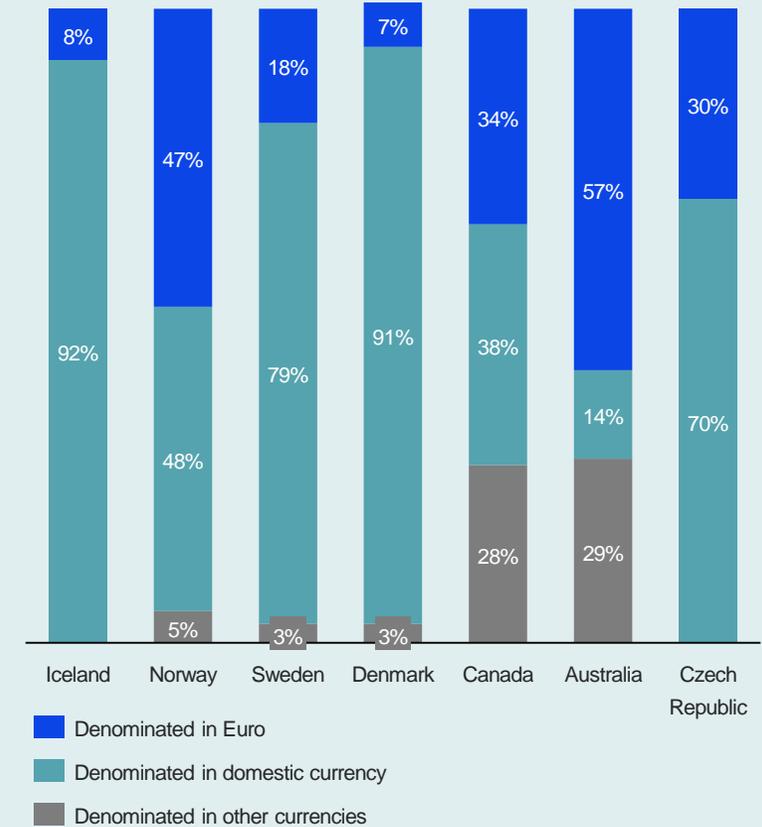
Positive development of wholesale funding costs and inaugural covered bond issue (bps)



Euro Covered Bond issuance from selected non-Euro countries (Euro millions)



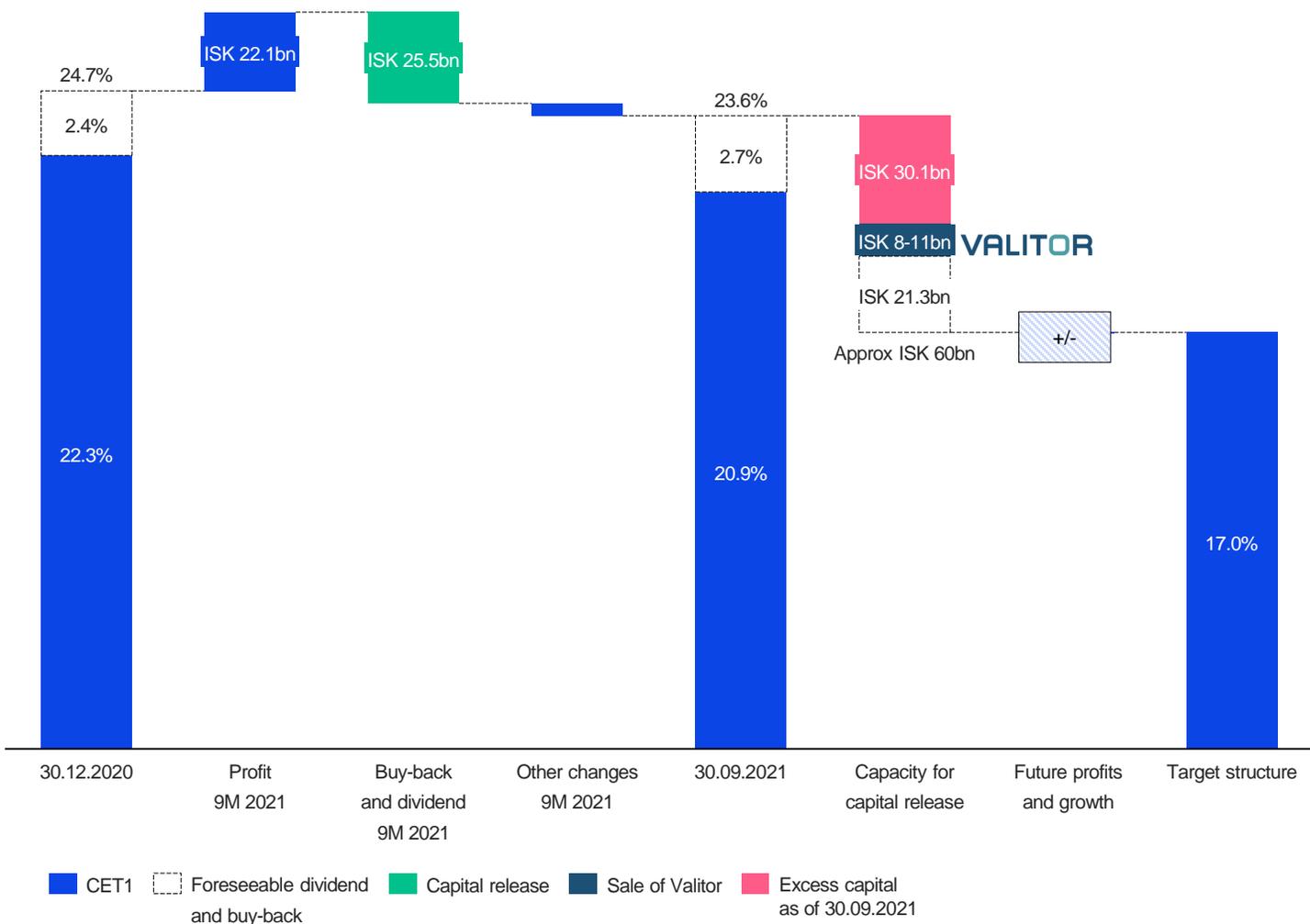
Currency composition of outstanding Covered Bond issuance in selected non-Euro countries



4

Strong operating momentum along with a robust funding position allows for an ambitious target for capital release

Approx. ISK 60bn of surplus capital¹



- In the first 9 months of 2021, the Bank has distributed ISK 25.5bn in dividend and buy-backs
- The Bank has announced ISK 10bn in further buy-back and ISK 11.3bn dividend due to 9M 2021 in line with dividend policy
- Arion Bank has a target CET1 ratio of 17%. This would allow for additional ISK 30.1bn in capital release capacity as of 30.09.2021 and the sale of Valitor will allow for further ISK 8-11bn taking total capacity for capital release to approximately ISK 60bn
- Future profitability and growth over the coming years will then impact this capacity
- Continued commitment towards the 17% CET1 ratio which is deemed to be an appropriate level for the Bank
- This plan is supported by recent experience. The capital impact of the economic downturn resulting from Covid, as measured by the maximum negative net impairment and financial income over the period, was well within the Bank's management buffer (1-2% of REA). The economic effects have however been mitigated to a large degree with various support schemes





Medium term targets and Q&A

Arion banki - Capital Markets Day



Arion Bank's medium-term targets

Capital optimization in combination with continued operational momentum a priority for 2022. Loan growth driven by funding and market dynamics

Medium term targets		9M 2021	2022 priorities
Return on equity	Exceed 10%	15.2%	Retain and accelerate operational momentum. Building on strategic initiatives to generate shareholder returns
Return on equity on optimized CET1		19.5%	
Operating income / REA	Exceed 6.7%	7.6%	
Cost to income ratio	Below 45%	41.9%	
CET1 ratio	~17%	20.9%	Reach optimum CET1 ratio target through continued above-target payout ratio
Dividend/buyback payout ratio ¹	50%	116%	
Loan growth	In line with GDP growth	9%	Profitable loan growth potentially exceeding nominal GDP growth; driven by funding capacity and market dynamics



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