

Arion Bank AGM 2022



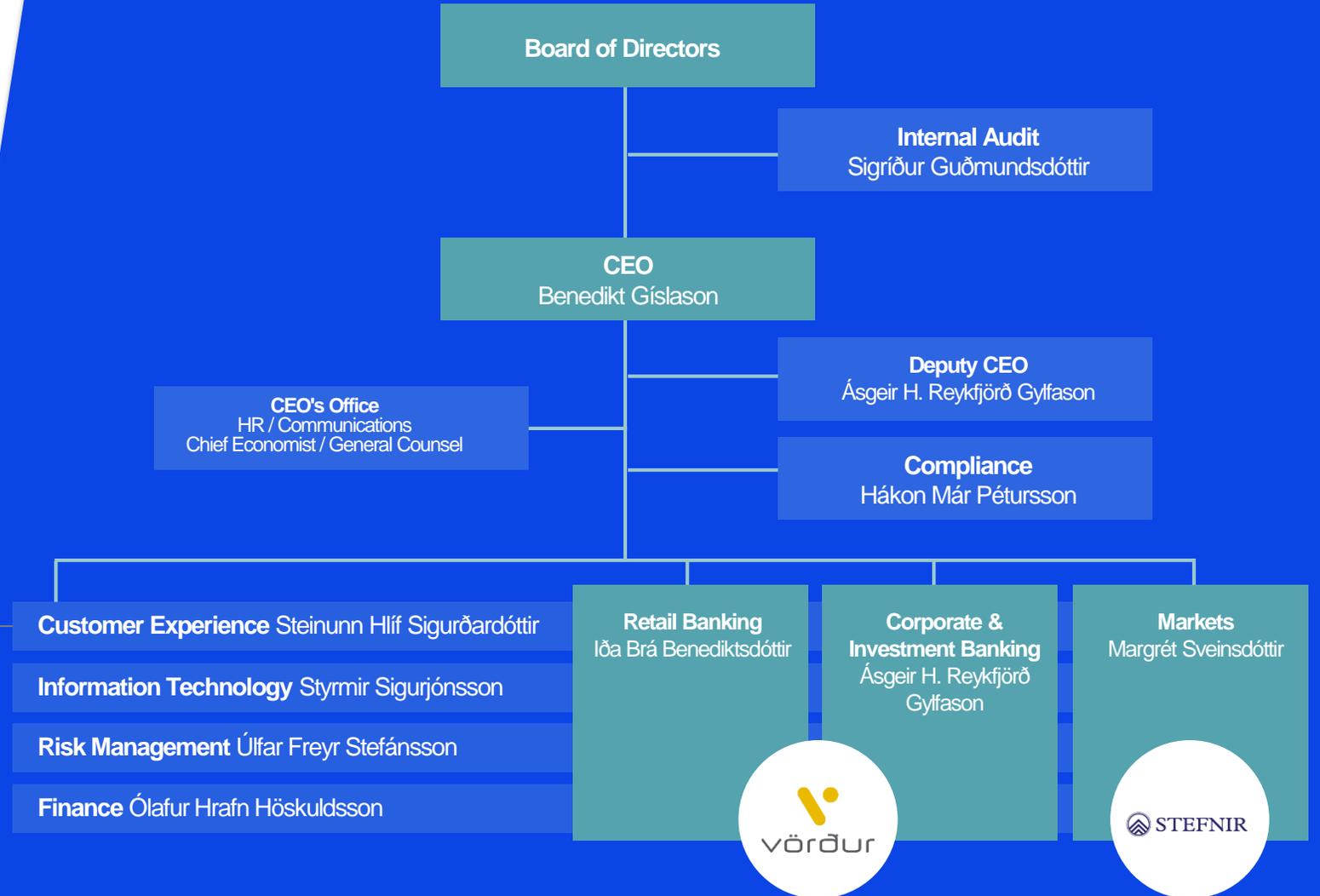
Benedikt Gislason - CEO

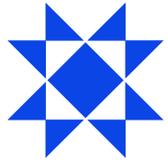


Arion Bank a customer centric organization

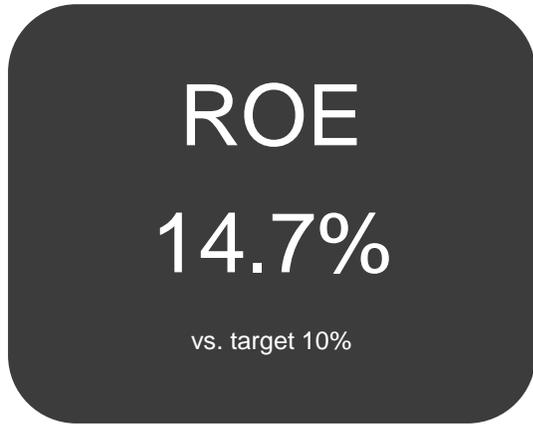
- Incorporates Vörður into both Retail banking and CIB
- Emphasizes the customer experience in all areas of the Bank
- Centralizes shared services to increase cost efficiency and effectiveness

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

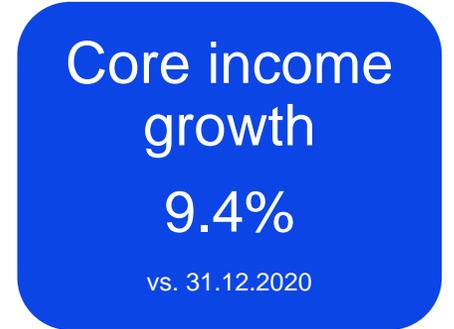




Key results for the year

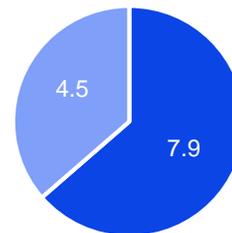


All business units exceeding
Group target ROE



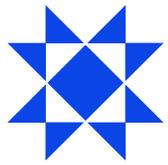
Arion Bank's (parent company) total tax footprint in 2021 amounted to **ISK 12.4 billion** which equals around 1.6% of the government's total tax income and social contributions in 2021¹

Tax footprint 2021



■ Paid by Arion Bank ■ Collected by Arion Bank





Key milestones of the year



Delivering value to our customers

Strong partner to our customers in Corporate & Investment banking and Capital Markets



Expansion of lending activity in Arctic region outside Iceland in energy and seafood sector



Assets managed on behalf of our customers (AuM) increased by 19.5% in 2021



Implementation of bancassurance model to increase product offering and benefit different customer segments



Digital service offering continues to strengthen with the trading app solution



A record year in mortgage lending where the mortgage loan book increased by ISK 85bn - up 23.2%

Balance sheet management



Arion Bank's green financing framework issued in July followed by green bond issuances in both EUR and ISK



Successful entry into the Euro Covered Bond market



Sale of Valitor to Rapyd for USD 100mn – subject to regulatory approval



ISK 31.5bn release of capital through buybacks and dividends



Deposits increased by 13.8% from YE 2020. Green deposits up 61% during same period

Operational excellence



New Customer Experience division formed to place customer experience at the heart of all the Bank's services



Arion Bank's equality and human rights policy updated with clear objectives



Arion Bank achieved an outstanding score in Reitun's ESG rating. 90 points out of 100



SOPRA core system went live in April – enhances the Bank's product development capabilities



Performance-based incentive scheme and share option plan aligns employee interests with those of the Bank



The Arion app awarded the best banking app fifth year in a row



Medium-term targets updated in December 2021

- All medium-term targets reached in 2021 except for the CET1 ratio target
- Improved operations and outlook supports revision of targets
 - ROE target increased to exceed 13%
 - Operating income / REA increased to exceed 7.3%
 - New insurance premium growth target introduced
 - Loan growth expected to be in line with nominal economic growth
- Proposed dividend of ISK 15 per share or 79% payout ratio in line with dividend policy
 - 50% of net earnings plus 29% due to capital optimization
- Continued commitment to capital optimization. This will be managed in combination with lending growth and other drivers

	2021 FY	Previous target	New target
<i>Return on equity</i>	14.7%	Exceed 10%	Exceed 13%
<i>Operating income / REA</i>	7.6%	Exceed 6.7%	Exceed 7.3%
<i>Insurance premium growth</i>	12.4%	-	Premium growth (net of reinsurance) to exceed the growth of the domestic market by more than 3 percentage points
<i>Loan growth</i>	13.8%	The loan book will grow in line with economic growth, with growth in mortgage lending expected to outpace corporate lending	In line with nominal economic growth
<i>Cost-to-income ratio</i>	44.4%	Below 45%	Below 45%
<i>CET1 ratio</i>	19.6%	~17%	~17%
<i>Dividend payout ratio*</i>	79%	50%	50%

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

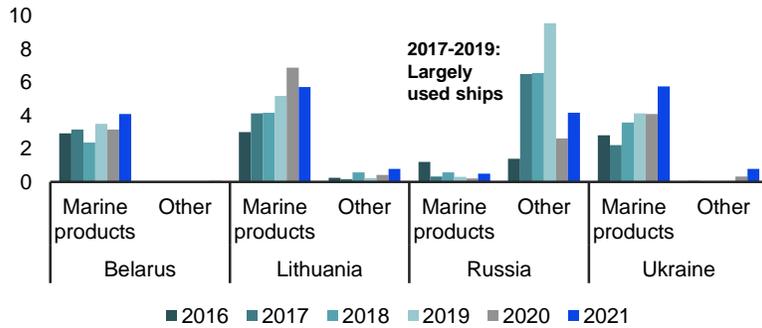
* Pay-out ratio of approximately 50% of net earnings attributable to shareholders through either dividends or buy-back of the Bank's shares or a combination of both. Additional distributions will be considered when Arion Bank's capital levels are above the minimum requirements set by the regulators in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



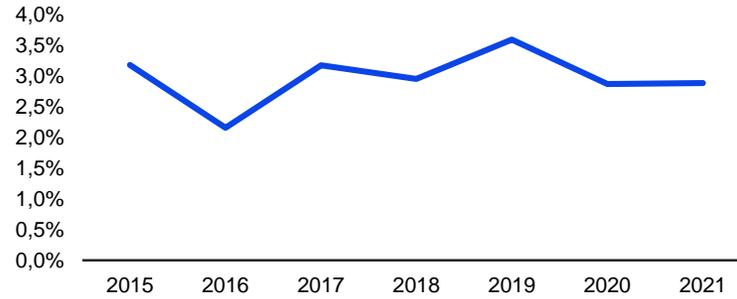
Direct effects of the war limited but somewhat in the seafood industry

Indirect effects are through higher oil and commodity prices, which lead to higher inflation, reduce purchasing power and could affect the tourism industry through higher airfares. Slower economic growth in Europe could also dampen demand for travel to Iceland.

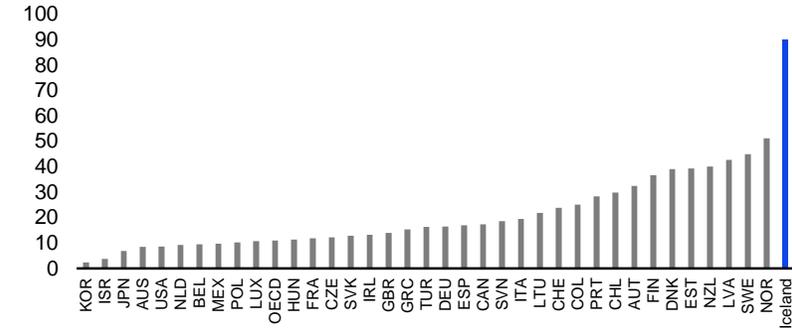
Exports of goods
- bn. ISK



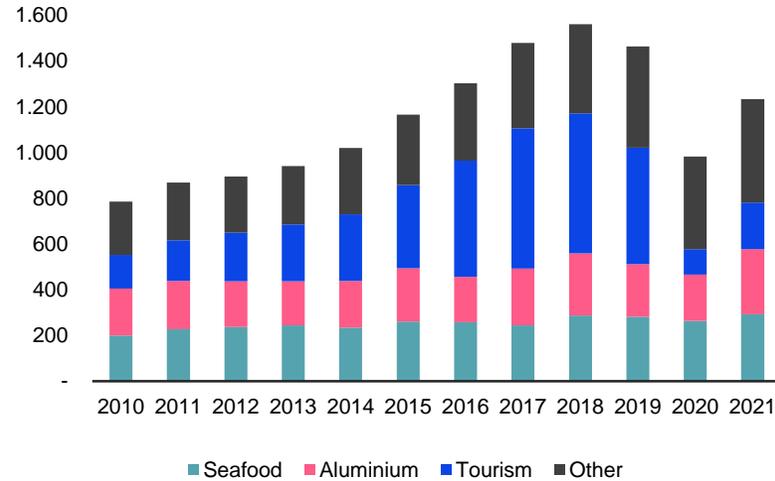
Total share in exports of goods
- Belarus, Lithuania, Russia, Ukraine



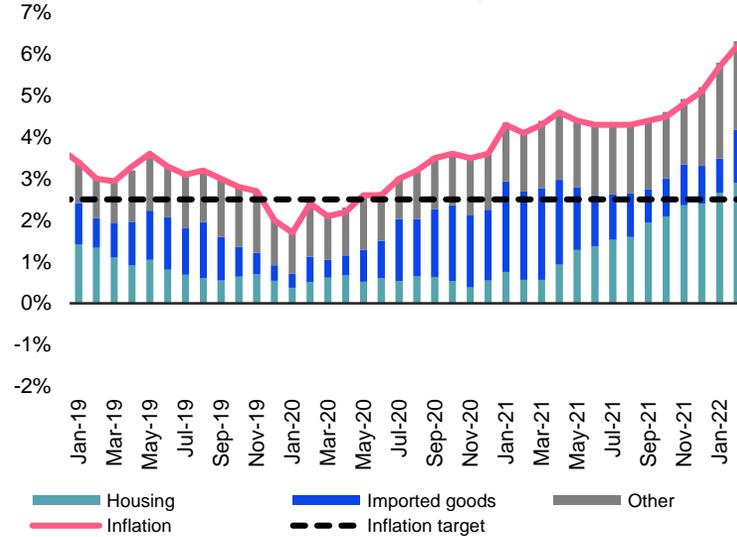
Renewable energy as total % of
primary energy supply 2020



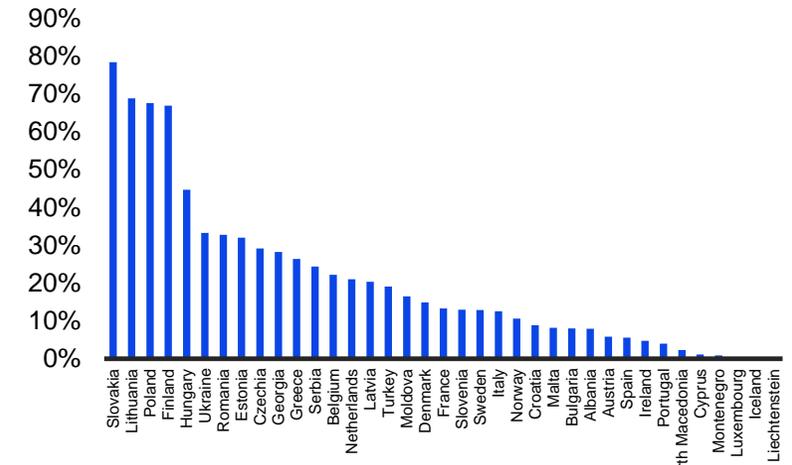
Iceland's total exports
- bn. ISK at 2021 exchange rates



CPI by expenditure groups



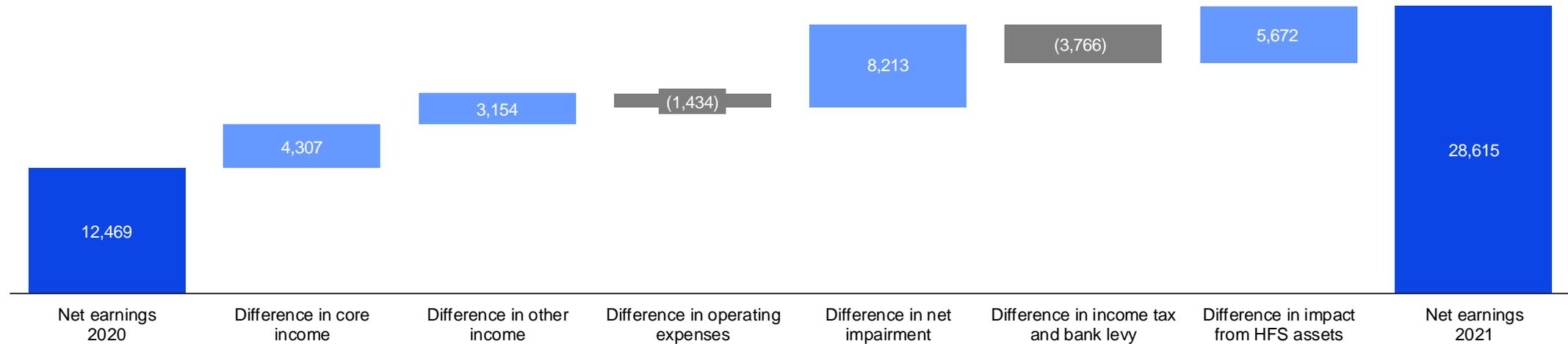
Imports of oil and petroleum from Russia
- as % of total imports of oil and petroleum



Net earnings improve significantly YoY

Core operations improve markedly while other segments also make a substantial contribution

2020 vs 2021

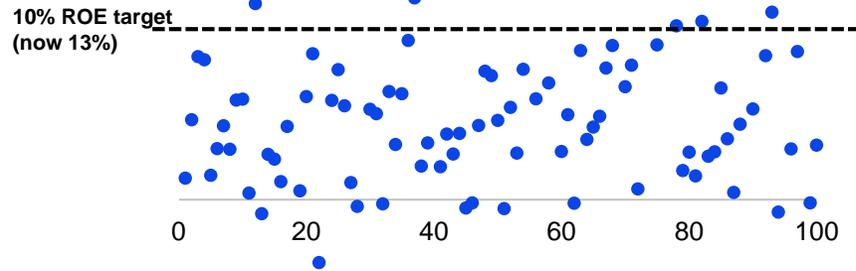


Our mispricing has been addressed

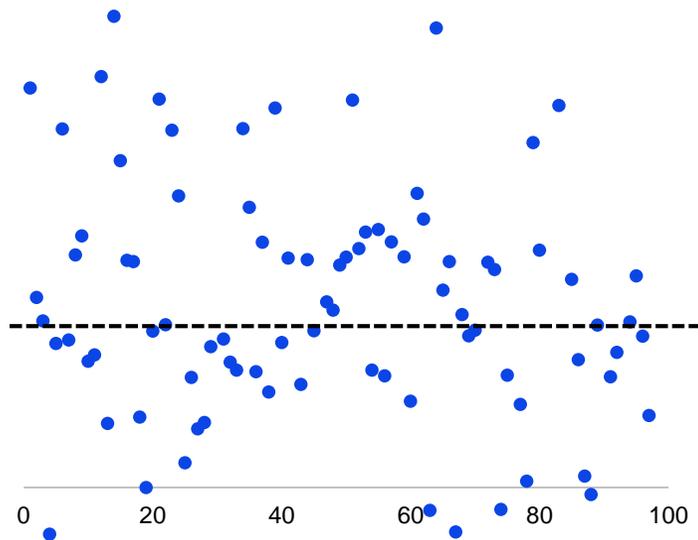
Three years ago, 80% of CB's top 100 exposures returned ROE below our 10% target.

Now about 75% of our 100 largest exposures return ROE above 10%

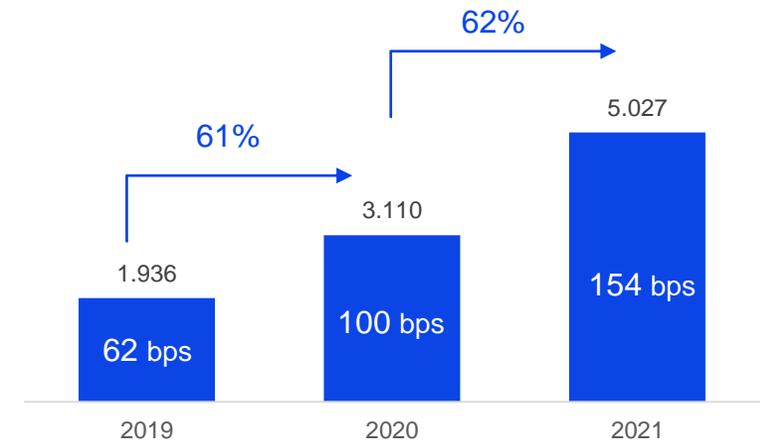
Year-end 2019



Year-end 2021



Commission income and bps of average loan book

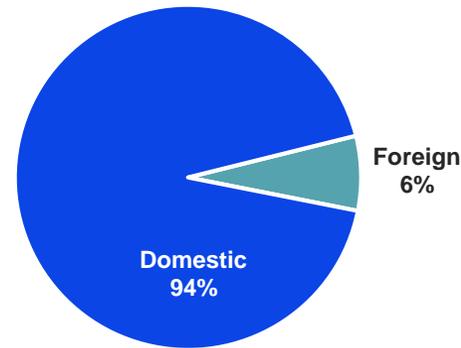


There is strategic thinking behind our geographical diversification

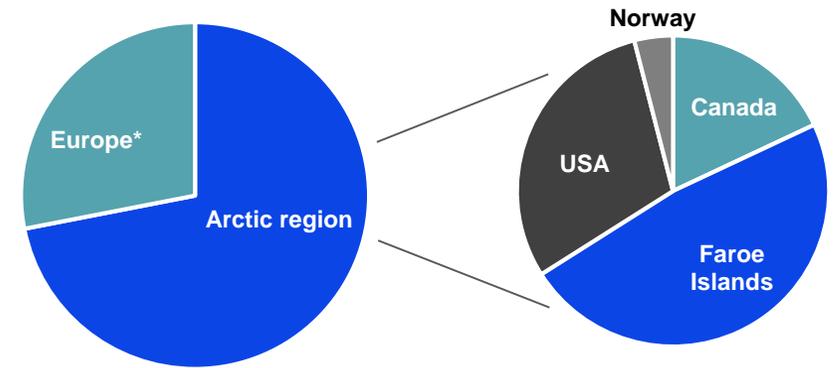
Our strategy implies headroom for growth in foreign lending. But we want to be present where we have in-depth industrial knowledge and in economies that share similarities to ours



Corporate Bank's exposure



Foreign exposure



“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



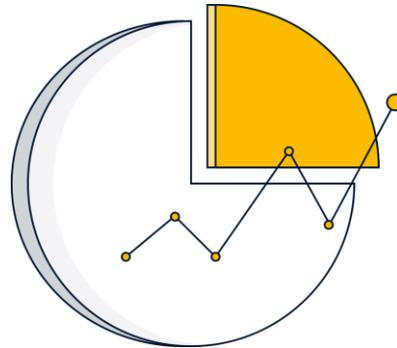
The opportunity for bancassurance is unique

Bancassurance ratios



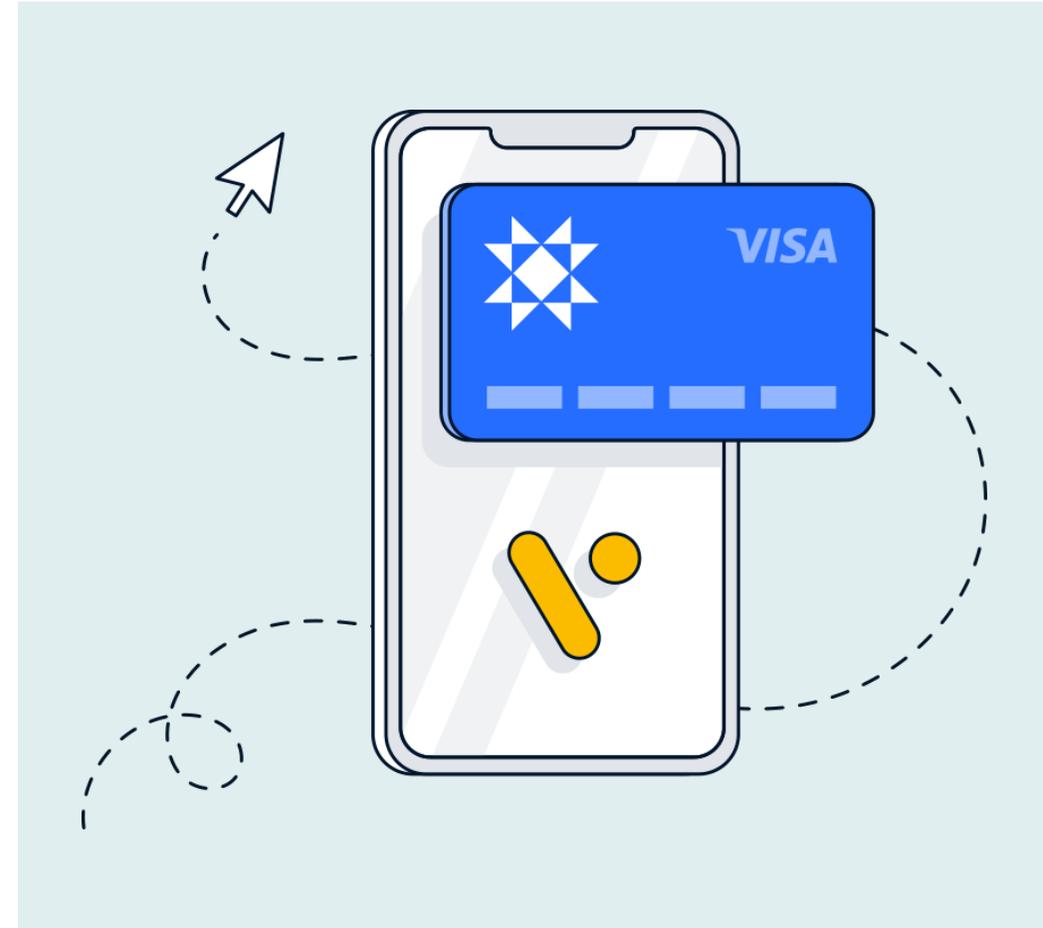
Individuals

32%



Corporates

18%



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



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

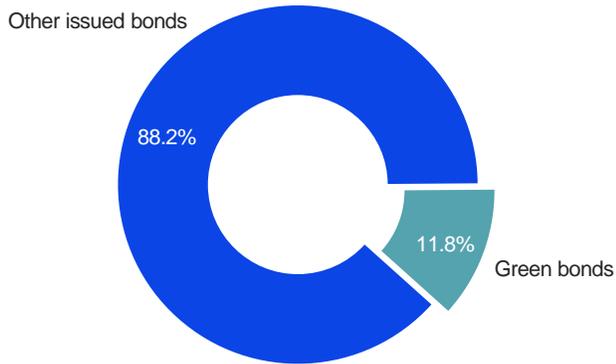
By the end of 2022, Arion Bank will have measured the **carbon footprint of the balance sheet** and set targets for carbon reduction in alignment with the **Paris Climate Agreement**



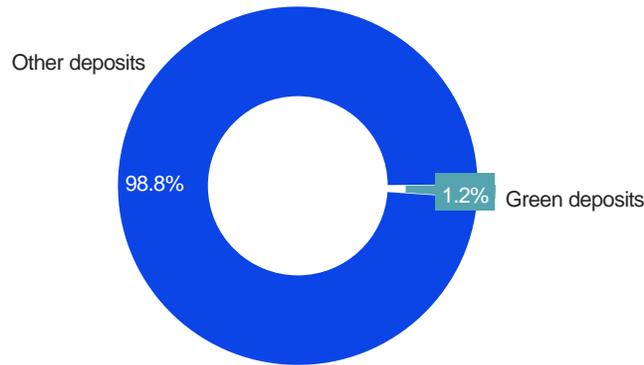
Sustainable banking

Close to 3,000 green projects defined at YE 2021 representing 11.3% of the loan book. The Bank targets 20% by 2030*

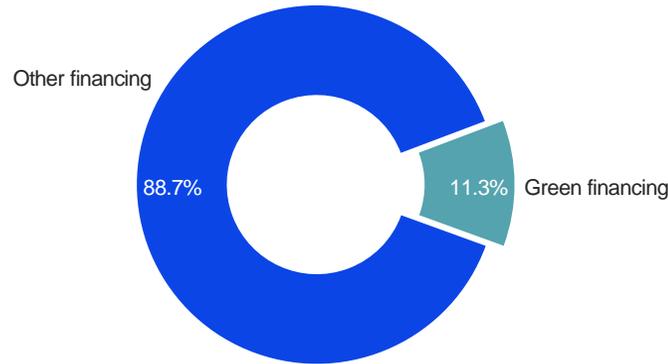
Arion Bank has issued ISK 47.7bn in green bonds, which represents 11.8% of total debt instruments.



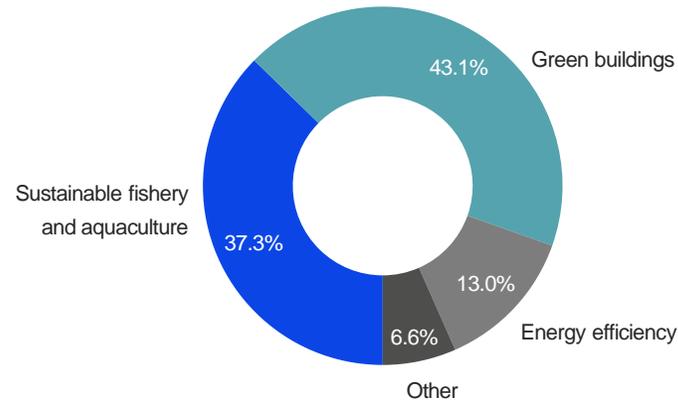
Green deposits launched 2020, showing steady growth



Arion Bank has committed to 2,969 green projects. This represents 11.3% of the Bank's loan book.



Green financing is distributed to numerous project categories



Annual CO₂ emissions avoided

12,680 tCO₂



Clean transportation

785



Sustainable housing

2,162

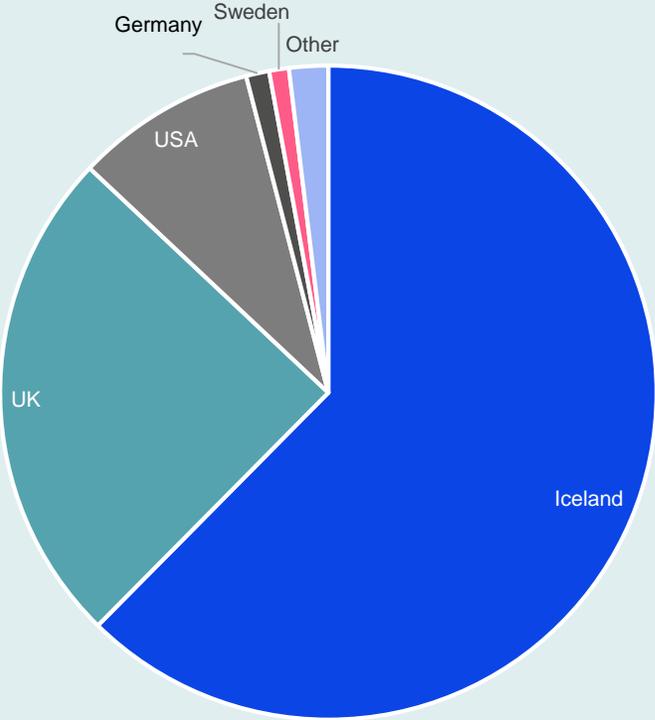
To reach the goals of the Paris Agreement to keep global warming below 2 degrees Celsius (and preferably 1.5 degrees), massive amounts of capital will need to be directed towards projects and initiatives that reduce or eliminate greenhouse gas (GHG) emissions, support the transition from fossil-based fuels and diminish the adverse impact to the environment.



Significant changes in the number and composition of shareholders in 2021

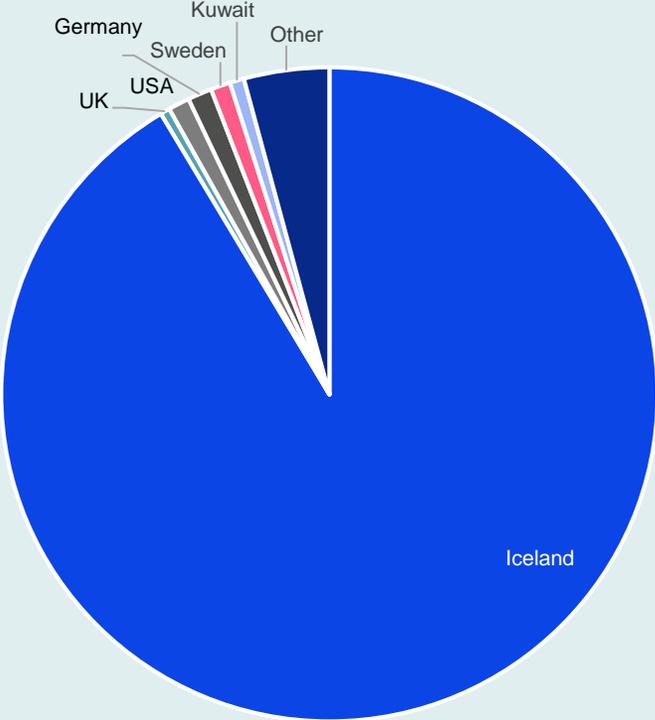
31.12.2020

Number of shareholders = 7.400



31.12.2021

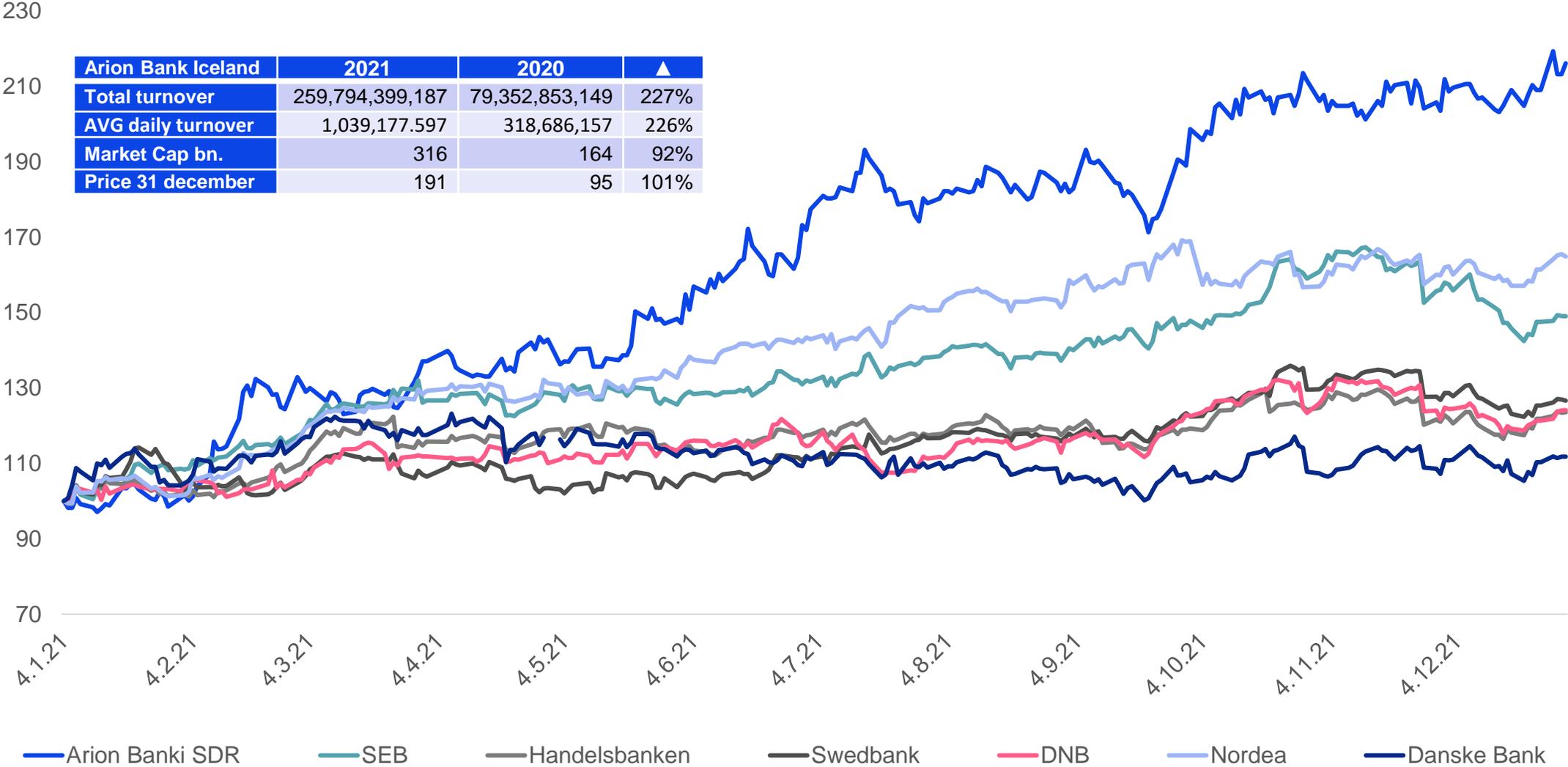
Number of shareholders = 11.300



Arion in Comparison to Large Cap Nordic Peers

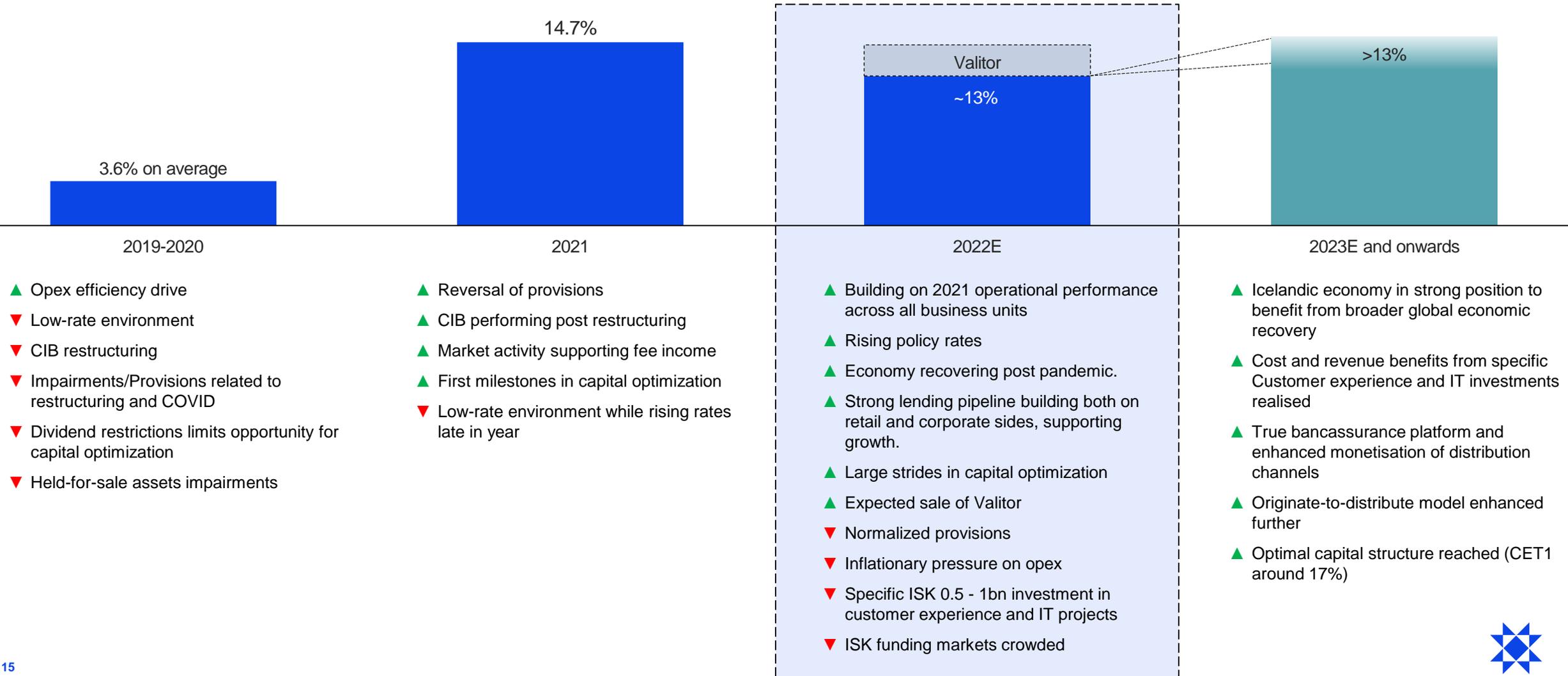
Index 31.12.2020 = 100

Arion Bank Iceland	2021	2020	▲
Total turnover	259,794,399,187	79,352,853,149	227%
AVG daily turnover	1,039,177.597	318,686,157	226%
Market Cap bn.	316	164	92%
Price 31 december	191	95	101%



Positive momentum and constructive outlook supports revised ROE target

Development of ROE



Remuneration policy



Arion Bank's remuneration framework

– One Team, one goal



- Proposal on updated remuneration policy which reflects clearly and transparently various rules of procedure and remuneration framework in place at the Bank.
 - Emphasis on banning unfair discrimination and emphasis on gender equality when determining remuneration
 - Restrictions on entering into severance agreements with top level management
 - **Clearer, more detailed and more transparent framework on establishing bonus scheme**
 - Bonus scheme should support greater long-term value of the Bank for the benefit of all stakeholders
 - Bonus scheme shall permit the Bank to cancel and reclaim bonuses under certain circumstances
 - Bonus scheme shall be published on the Bank's website at any given time
 - **Clearer framework around share option schemes**
 - Objective is to align the long-term interests of the employees and shareholders
 - Share options shall be granted on an equal basis to all permanent employees for a maximum purchase price of ISK 1.5 million a year
 - If the employee exercises their share option, the shares must be paid for in cash



Arion Bank's remuneration framework

– One Team, one goal

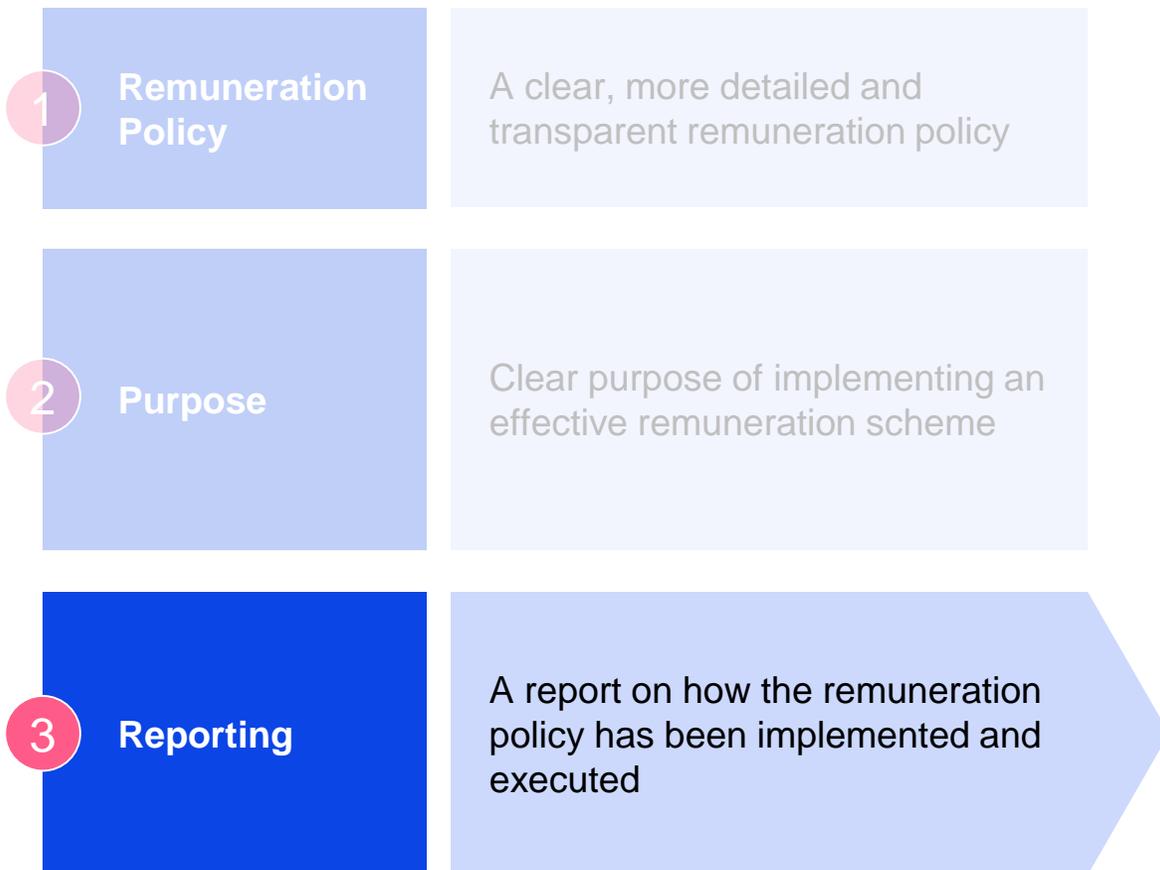


- Increase the Bank's value in the long-term sustainably and for the benefit of all stakeholders
- Enable employees to participate in the Bank's success
- Attract and retain the best employees
- Reduce pressure to increase fixed salaries and enable more flexibility in operating expenses
- Risk management
 - Clear incentive to be outstanding in compliance with internal and external regulations
 - Targets in bonus scheme which align with Bank's risk policy and risk appetite
 - Employees become direct participants in the Bank's risk in the long-term through more share ownership, plus strict rules on the cancellation and reclamation of bonuses



Arion Bank's remuneration framework

– One Team, one goal



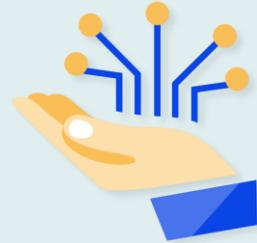
Highlights of 2021

- Average YoY increase in salary at the Bank was 4.7%, while the general wage index rose by 8.3%
- According to Intellecta salary survey, Arion Bank pays competitive salaries but is not a market leader
- The Bank decided to guarantee its employees 80% of salary during parental leave
- **Updated bonus scheme established for operating year 2021**
 - “One team – one goal”: All employees participate in the scheme (except internal control units) and it has the overarching goal of delivering better ROE than competitors
 - Majority of employees can receive up to 10% of their annual salaries in the form of a cash bonus immediately
 - The management and those employees who have the greatest impact on the Bank's costs and revenues can receive up to 25% of their annual salaries as a bonus in the form of shares in the Bank (1/6 of employees)
 - Shares received by employees are subject to a lock-up period of three years
- **Share option scheme was established on the basis of resolution passed at the 2020 AGM:**
 - Considered as fixed remuneration (i.e. the value of the share option)
 - Each employee can buy shares in the Bank up to a maximum of ISK 600,000 (ISK 1.5 million from 2023) once a year for a period of five years
 - A total of 628 employees signed share option agreements with the Bank in February 2021

Going forward



Market share in target client segments



Financial aggregation and customer experience



Operational Efficiency



Sustainability



The Arctic region



Fyrirvari

- Kynning þessi er eingöngu ætluð til upplýsinga og er ekki ætluð sem grundvöllur fyrir ákvörðunum móttakanda. Upplýsingar sem fram koma í þessari kynningu fela ekki í sér loforð eða spá um framtíðina. Bankanum ber ekki skylda til að útvega móttakanda aðgang að frekari upplýsingum en þeim sem fram koma í kynningu þessari, eða til að uppfæra þær upplýsingar sem þar koma fram. Bankanum ber ekki skylda til að leiðrétta upplýsingar, reynist þær rangar.
- Upplýsingar um bankann, dótturfélög og hlutdeildarfélög hafa ekki verið staðfestar. Kynning þessi felur ekki í sér tæmandi upplýsingar um bankann, dótturfélög eða hlutdeildarfélög hans.
- Upplýsingar sem fram koma í kynningu þessari eru byggðar á fyrirliggjandi upplýsingum, áætlunum um væntanlega þróun ytri skilyrða o.fl. Eru upplýsingarnar háðar ýmsum óvissuþáttum og geta þær breyst án fyrirvara.
- Bankinn, þ.m.t. hluthafar, stjórnendur, starfsmenn og ráðgjafar þeirra, taka enga ábyrgð á þeim upplýsingum, forsendum og niðurstöðum sem fram koma í kynningunni eða upplýsingum sem eru veittar í tengslum við hana. Munu framangreindir aðilar ekki gefa yfirlýsingar um að upplýsingarnar, forsendurnar og niðurstöðurnar séu nákvæmar, áreiðanlegar eða fullnægjandi og þeir skulu ekki bera skaðabótaábyrgð á tjóni sem rekja má til þess að þær reynist ónákvæmar, óáreiðanlegar eða ófullnægjandi.
- Þessi kynning inniheldur framtíðarsýn sem endurspeglar núverandi sýn stjórnenda um framtíðina og fjárhagslegan árangur framtíðarinnar. Upplýsingar í kynningunni eru byggðar á gögnum félagsins, sem fyrir liggja, þegar kynningin er birt. Þó Arion banki telji að gefnar væntingar séu raunhæfar er enga vissu hægt að gefa fyrir því að þær gangi eftir. Af þeim sökum getur endanleg niðurstaða orðið umtalsvert frábrugðin umræddum væntingum. Þær forsendur sem mikilvægastar eru og gætu valdið annarri útkomu hjá Arion banka: a) þróun efnahagsumhverfis, b) þróun verðbólgu, vaxta og gjaldmiðla, c) þróun samkeppnisumhverfis og d) breytingar á regluverki og aðrar aðgerðir stjórnvalda. Þessir þættir eru alls ekki tæmandi taldir. Yfirlýsing þessi gefur ekki til kynna að Arion banki hyggist eða hafi breytt sinni framtíðarsýn á neinn hátt, umfram það sem fyrir liggur um breytingar á lögum eða gildandi kauphallarreglum ef og þegar aðstæður koma upp sem kalla á breytingar frá þeim tíma er þessi kynning var birt Arion banki ber ekki í neinum tilvikum ábyrgð á tjóni sem kann að hljóta af notkun upplýsinga í kynningu þessari. Óheimilt er að endurbirta eða dreifa upplýsingum í kynningunni án skriflegs samþykkis Arion banka.
- Kynning þessi er trúnaðarmál og er móttakanda óheimilt að afrita eða dreifa efni hennar nema með skriflegu leyfi Arion banka.
- Með móttöku þessarar kynningar fellst móttakandi á ofangreindan ábyrgðarfyrirvara.

