



Arion Bank AGM 2021

Benedikt Gíslason - CEO

Diverse set of income streams show importance in a challenging year

Operating income 2020 ISK 20.2 billion

Retail Banking

- Domestic digital leader in retail banking
- Largest private provider of residential mortgages with a loan book of ISK 515bn
- Around one-third market share in Iceland
- Wide range of financial services for both individuals and SMEs

Operating income 2020 ISK 5 billion

Markets



- Largest asset manager in the Icelandic market with ISK 1,131 bn of AuM
- Emphasis on institutional investors and high net worth clients
- Leading capital markets house

Operating income 2020 ISK 13.5 billion

Corporate & Investment Banking

- Corporate banking and advisory
- Partner to large corporates in Iceland and internationally in seafood with a corporate loan book of ISK 308bn
- Leverages own capital and through capital markets for clients
- Advised and managed +60% of IPOs / Public offerings for the last decade

Operating income 2020 ISK 4.9 billion

Insurance



- Largest life insurance company in Iceland
- 4th largest universal insurance company
- Full range of insurance products and services

VALITOR

Payments – Largest card payments company in Iceland (held for sale)

Operating income 2020 ISK 4.8 billion



Revised strategy introduced in 2021

Values

We find solutions

We make a difference

We get things done

We say what we mean

Positioning:

To excel by offering smart and reliable financial solutions which create future value for our customers, shareholders and society as a whole.

Excel at what we do

Offer smart solutions

Create future value

Solution-oriented and performance-driven culture

Outstanding employees in a motivating environment which is innovative, demanding and enjoyable

Work with partners who enhance our business and diversify our product offering

Diverse and value-added services for discerning customers

Service and decisions are based on data and analysis

Digital solutions which make our services more convenient

See things from our customers' perspective and understand their needs and goals

Work responsibly, guided by sustainability

Be there for our customers by providing ingenuity, solutions and financial resources



Remuneration policy important part of strategy implementation

The objective is to attract and retain outstanding employees and support the Bank's long-term goals and healthy operation – and to align the long-term interests of the Bank's owners and employees. **One goal, one team**

In line with the Remuneration Policy approved in the last AGM with 99.6% of votes the Bank took two remuneration initiatives:

Revised employee bonus scheme for 2021



- Fully compliant with the rules of the Financial Supervisory Authority (FSA)
- All employees included and can receive up to 10% of their fixed annual salary – if targets for 2021 are met
- Those employees who have the greatest influence on the Bank's operations are eligible to receive up to 25% bonus in the form of shares in the Bank to be held for three years
- The Bank's ROE in 2021 has to be higher than the weighted average ROE of the Bank's main competitors
- If that key target is not met then no bonus will be paid
- A range of factors are also taken into consideration

A new employee share option plan



- Framework approved at last AGM
- Applies to all employees and the objective is to align the interests of employees with the long-term interests of the Bank.
- Option holders acquire the right to buy shares in Arion Bank for up to ISK 600,000 once a year for five years, starting in February 2022.
- The purchase price is the average traded price in transactions with the company's shares 10 business days before the agreement date, or ISK 95.5 a share.
- A total of 628 employees joined the plan

The sale of warrants was not a part of the Bank's remuneration policy but an opportunity for investors and employees to invest in the Bank



Digital channels played a key role in a pandemic year

Over **42 million** annual interactions with our clients, 99% of which are through digital channels.

Leading to **73%** of sales transactions through digital channels.

Digital Interactions



Video conferencing

7,000



Loyalty app logins

800,000



arionbanki.is

9,100,000



Online Banking logins

5,700,000



App logins

26,000,000

Traditional Interactions



Telephone calls

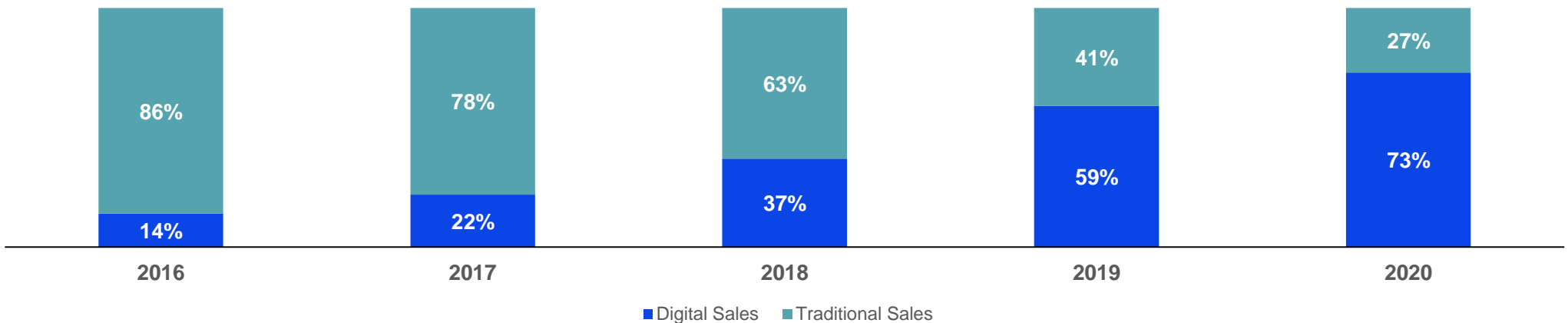
300,000



Branch visits

294,000

Digital vs. Traditional Sales



Responsible banking that creates value for the future

The Bank is a founding signatory to the Principles for Responsible Banking

Gender equality



- First bank in Iceland to gain the **equal pay symbol** from the Ministry of Welfare. Equal pay imbalance is now down to 1%
- **UN Women and UN Global Compact** Women's Empowerment Principles

Corporate governance



FYRIRMYNDARFYRIRTEKI
Í STJÓRNARHÁTTUM

- Arion Bank has been recognized as a company which has achieved excellence in corporate governance following a formal assessment based on **guidelines on corporate governance issued by the Icelandic Chamber of Commerce**

Recent international and domestic commitments



- Arion Bank is a **founding signatory** to the **Principles for Responsible Banking (PRB)**
- In September 2020 Arion Bank signed a **declaration of intent on investment for a sustainable recovery, post Covid-19**

Outstanding results in ESG ratings



- In September 2020 Arion Bank achieved outstanding results in Reitun's ESG rating (Icelandic ratings company), **scoring 86 points out of a possible 100** and placing it in category A3
- Approximately 30 Icelandic issuers have been rated by Reitun and the average score is 60 points



Increased focus on green products

Our customers' green deposits fund the Bank's green car financing and other environmentally friendly projects funded by Arion Bank and prevented greenhouse gas emissions in 2020 equivalent to annual emissions from 10,000 vehicles powered by fossil fuels

Green deposits



- **First bank in Iceland** to offer Green Deposits
- The accounts are based on **a green framework** which is intended to support the UN Sustainable Development Goals number 7,9,11 and 13
- The reaction from customers has exceeded our expectations and due to its popularity we have expanded the green deposit framework.

Green Mortgages



- Our customers now **pay zero loan origination fees** on mortgages when investing in residential property which has been **environmentally certified** by one of the following:
 - Swan Ecolabel
 - BREEAM - Very Good
 - LEED Gold

Green car financing



- Customers do not pay any arrangement fees for financing vehicles which run **entirely on electricity or other 100% renewables**
- There is a **50% discount** on arrangement fees on loans for hybrid vehicles which emit less than 99g/km in carbon dioxide equivalents
- Green car financing was around **20%** of all car financing in the first nine months of 2020



Financial highlights of 2020

Improvement in core operations

ROE

6.5%

Up 5.9 percentage points YoY

Cost / Income

48.1%

OPEX down 7.9% YoY
Core income up 6.3% YoY

Loan Growth

6.3%

Mortgage lending up 21.9% YoY

Operating income / REA

7.0%

Up 0.6% YoY

Impairments

71 bp

Largely due to loan provisions relating to Covid

CET 1

22.3%

Up 1.1 percentage points YoY



Income statement 2020

Continuous improvement in core operations

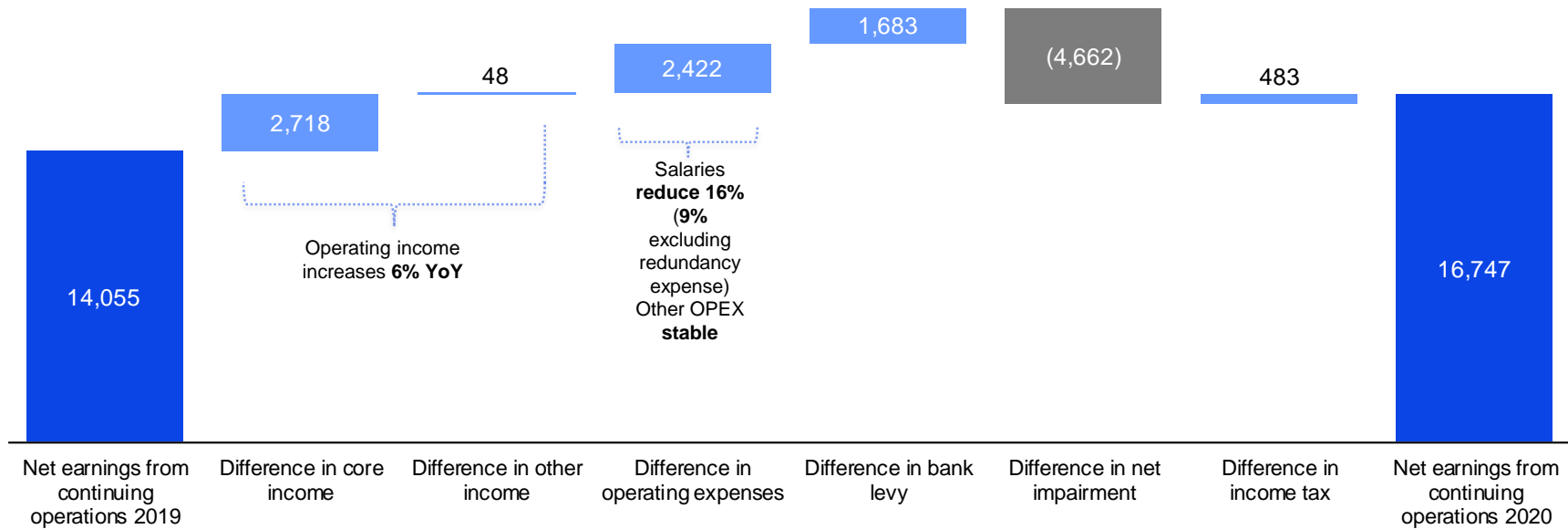
- Core income; NII, NCI and Net insurance income, increases 6.3% YoY
 - Focus on earnings in corporate lending and diversified funding with deposits as prime source results in higher NIM
 - NCI increased mainly due to capital volatility in the loan book
- OPEX is down 5.2% YoY, excluding redundancy expense of ISK 1,079 million in Q3 2019, in line with revised strategy
- The bank levy has been lowered from 0.376% to 0.145%. The bank levy is still high in international comparison
- Increase in net impairment YoY is mainly due to assumptions in IFRS 9 models in due to the Covid-19 pandemic
 - Impairments were 71 bps during the year, mainly during the first three quarters
- Effect of discontinued operations still high but down from a very difficult last year

	2020	2019	Diff	Diff%
Net interest income	31,158	30,317	841	3%
Net commission income	11,642	9,950	1,692	17%
Net insurance income	3,071	2,886	185	6%
Net financial income	2,745	3,212	(467)	(15%)
Share of profit of associates	0	756	(756)	-
Other operating income	2,148	877	1,271	145%
Operating income	50,764	47,998	2,766	6%
Salaries and related expenses	(12,332)	(14,641)	2,309	(16%)
Other operating expenses	(12,109)	(12,222)	113	(1%)
Operating expenses	(24,441)	(26,863)	2,422	(9%)
Bank levy	(1,301)	(2,984)	1,683	(56%)
Net impairment	(5,044)	(382)	(4,662)	-
Net earnings before income tax	19,978	17,769	2,209	12%
Income tax expense	(3,231)	(3,714)	483	(13%)
Net earnings from continuing operations	16,747	14,055	2,692	19%
Discontinued operations, net of tax	(4,278)	(12,955)	8,677	(67%)
Net earnings	12,469	1,100	11,369	1,034%



Net earnings from continuing operations improve significantly YoY

Positive developments both in core income items and operating expenses

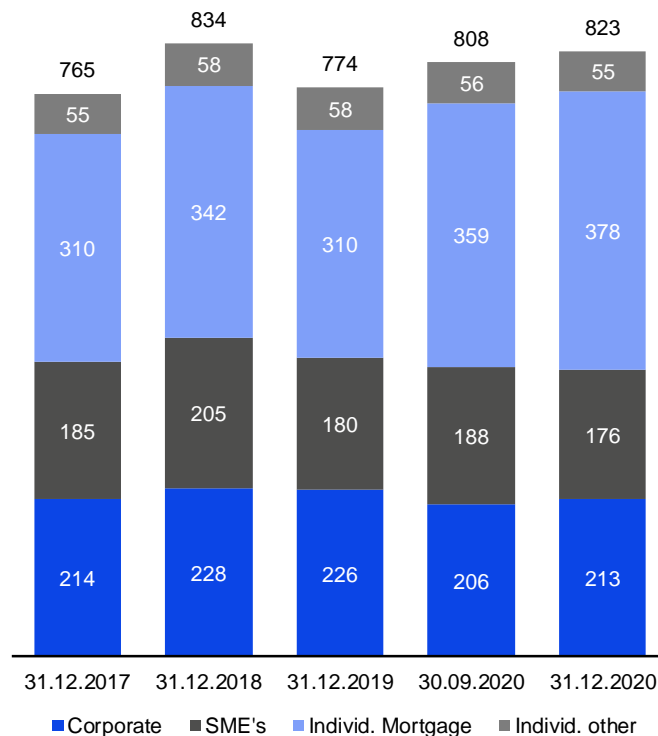


Loans to customers

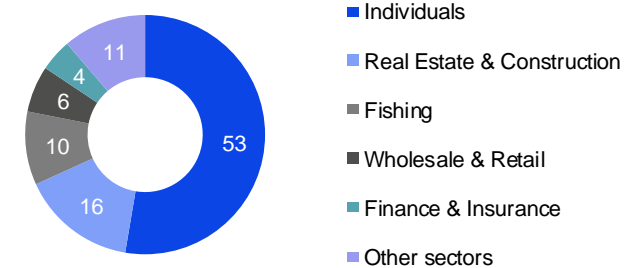
Low risk and capital light retail mortgages 46% of the loan book

- Loans to individuals increased by 17.6% during the year due to strong mortgage lending which increased by 21.8%. Mortgage lending increased by 5.4% during Q4
 - NIM in the front book is slightly lower than in the back book
- The corporate loan book is slightly reduced and partially held up by lower ISK
- Calculated cost of risk was 71 bps of loans to customers during 2020
 - Of which 24.2 bps (34% of net impairment) is due to changes in economic scenarios in IFRS 9 models
 - 24.2 bps (34% of net impairment) is due to specific impairment (Stage 3)
 - 16.2 bps (23% of net impairment) is due to tourism exposure in credit risk
 - 6.4 bps. (9% of net impairments) is due to other exposure in credit risk
- REA from loans to customers is at the same level as YE 2019 while loans to customers have increased 6.3%. Deviation partly due to regulatory changes regarding SME exposures

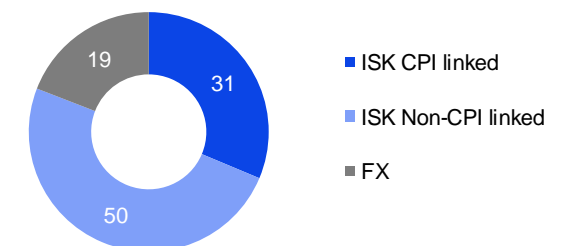
Loans to customers



Loans to customers by sector (%)



Loans to customers by currency (%)

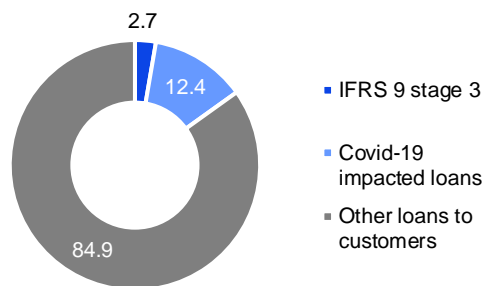


Asset quality and Covid-19 impact

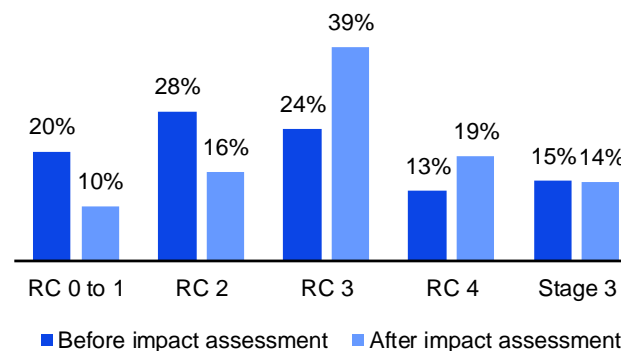
IFRS 9 impairments are forward looking but management overlay is necessary

- IFRS 9 models do not fully capture Covid-19 impact so management overlay on certain customers is necessary (Covid-19 impacted loans):
 - Tourism
 - Customers with payment moratoria in Q4
 - Recipients of loans through government sponsored loan schemes
- Book value of Covid-19 impacted loans is ISK 102 billion or 12% of total loan book
 - Thereof ISK 86 billion secured by real estate
 - Tourism loans with carrying amount of ISK 73 billion
- Credit ratings of Covid-19 impacted loans was downgraded based on assessment into four impact groups
- Use of payment moratoria is stabilizing on the individual side but increasing on the corporate side, as support measures are expiring

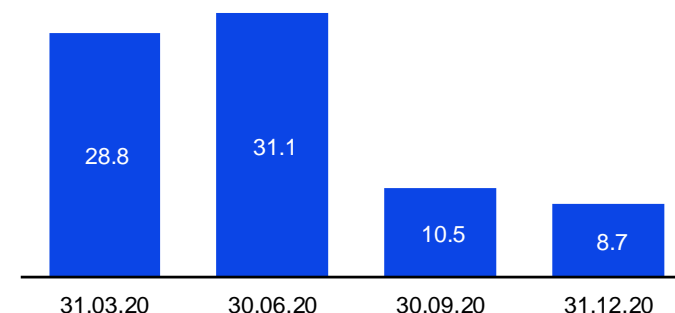
Breakdown of loans to customers (% of gross carrying amount)



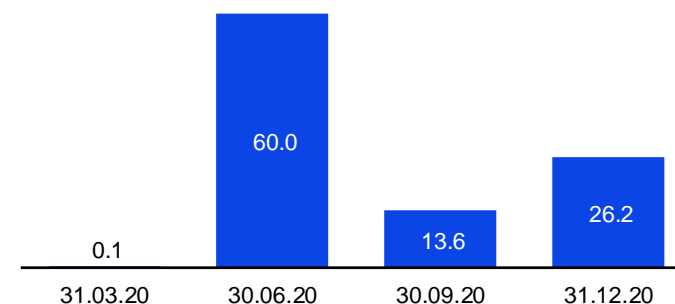
Risk classes (credit ratings) in Covid-19 impacted loans were downgraded based on impact assessment (% of gross carrying amount)



Loans to individuals with Covid-19 related payment moratoria (ISK billion)



Loans to corporates with Covid-19 related payment moratoria (ISK billion)

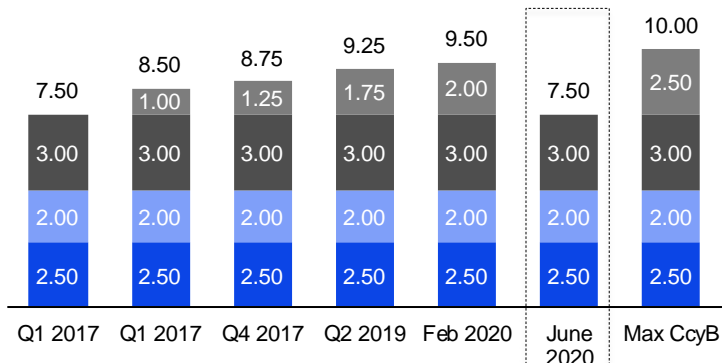


Capital adequacy

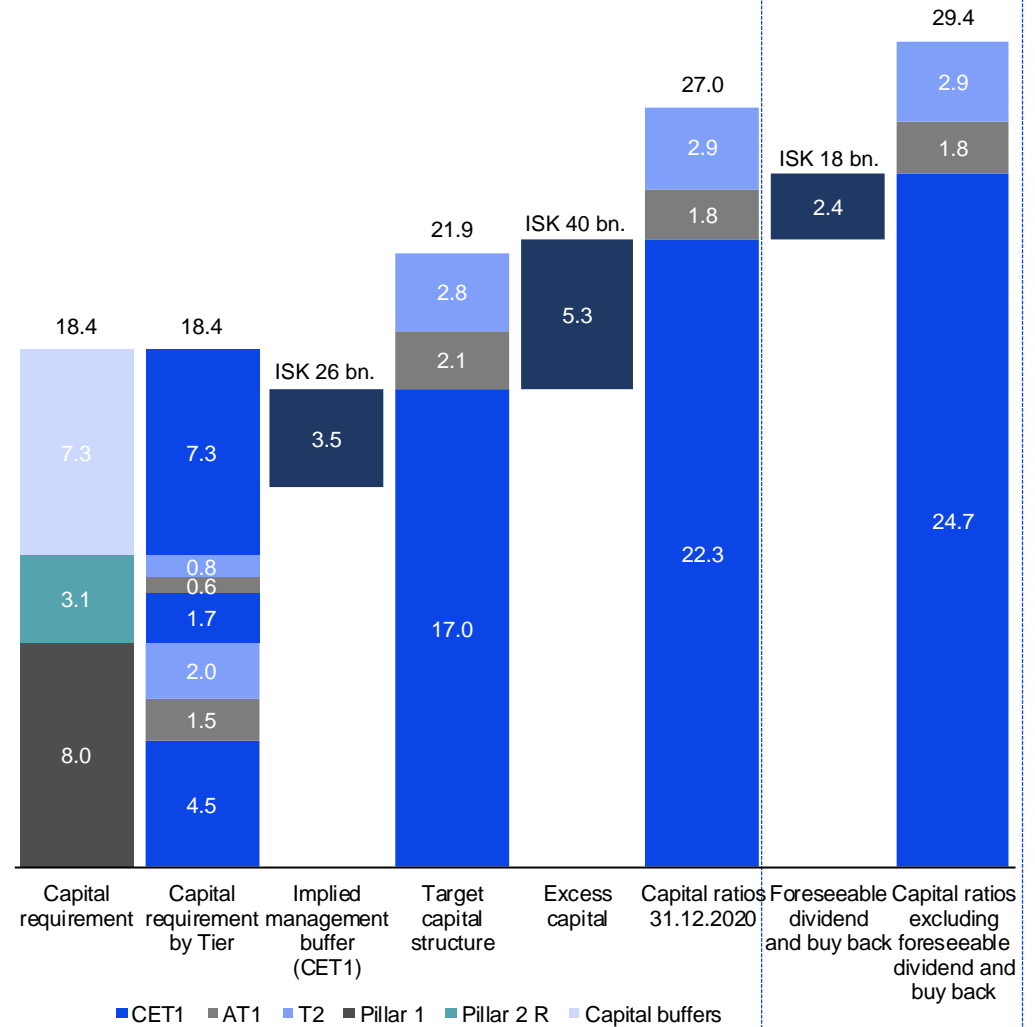
Exceptionally strong capital position which needs to be moved to normal levels

- Total capital ratio of 27.0% and CET1 ratio of 22.3%
- Total foreseeable dividend and buy-back of own shares of ISK 18.0 billion included in the capital ratios
- ISK 1.9 billion added back to CET1 capital through IFRS9 transitional arrangements which were ratified into Icelandic law on 4 May 2020
- Target CET1 ratio remains unchanged at 17%
 - Implied 3.5% CET1 management buffer (ISK 26 billion) which is the difference between the target CET1 ratio and regulatory CET1 requirement
 - CET1 capital of ISK 40 billion in excess of target capital structure, in addition to the foreseeable equity reduction
- The solvency ratio of Vördur insurance was 151% at 31.12.2020

Development of capital buffers (%)



Own funds and capital requirements (%)



Improved performance and outlook reflected in updated medium-term financial targets



Return on Equity

Exceed **10%**



Revenues / REAs

Exceed **6.7%** - was 6.5%



Cost to Income Ratio

Reduce to **45%** - was 50%



Loan growth

The loan book will **grow in line with economic growth**, with growth in mortgage lending expected to outpace corporate lending



CET 1 Ratio (Subject to regulatory requirements)

Reduce to **17%**



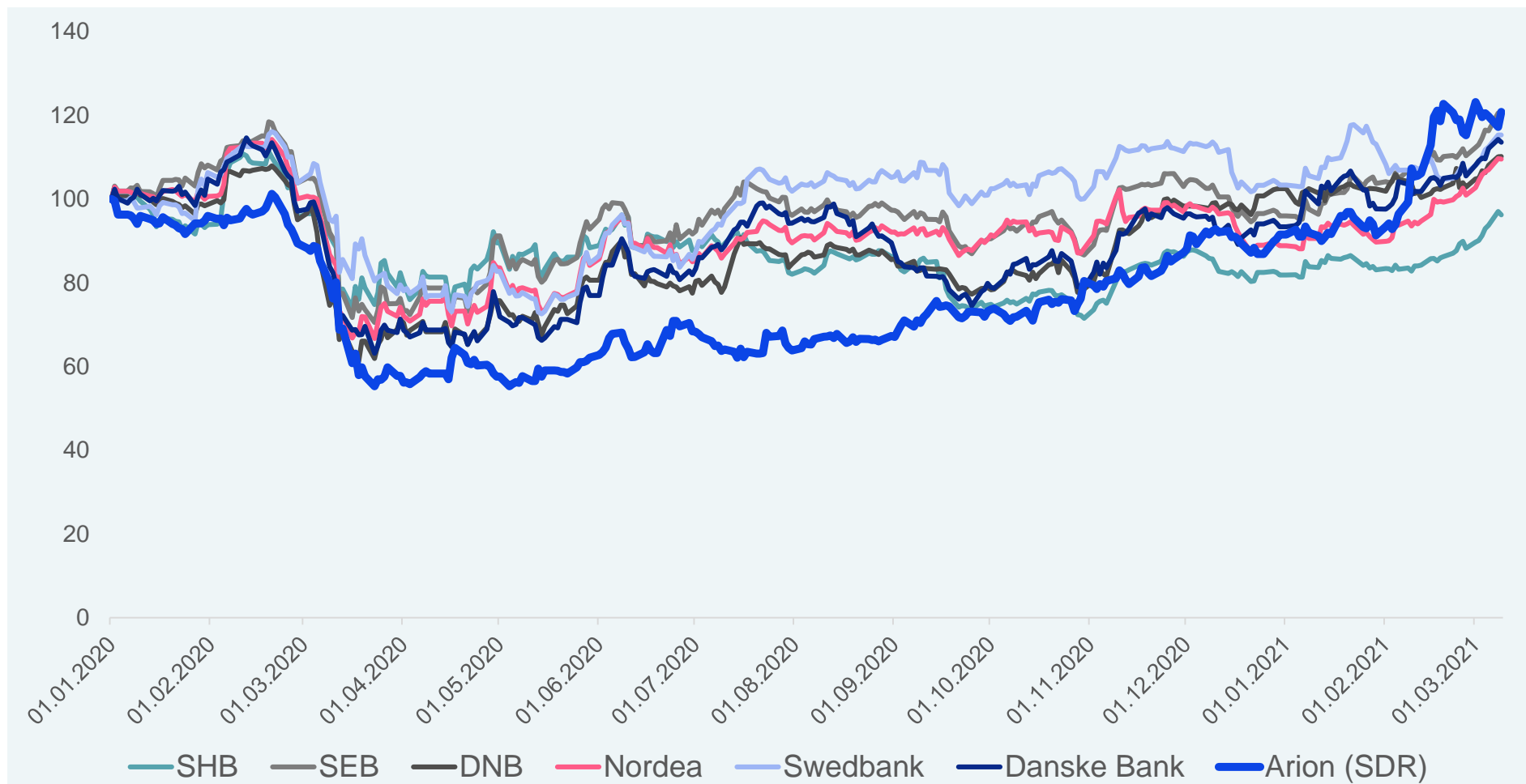
Dividend Policy / Share buy-back

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



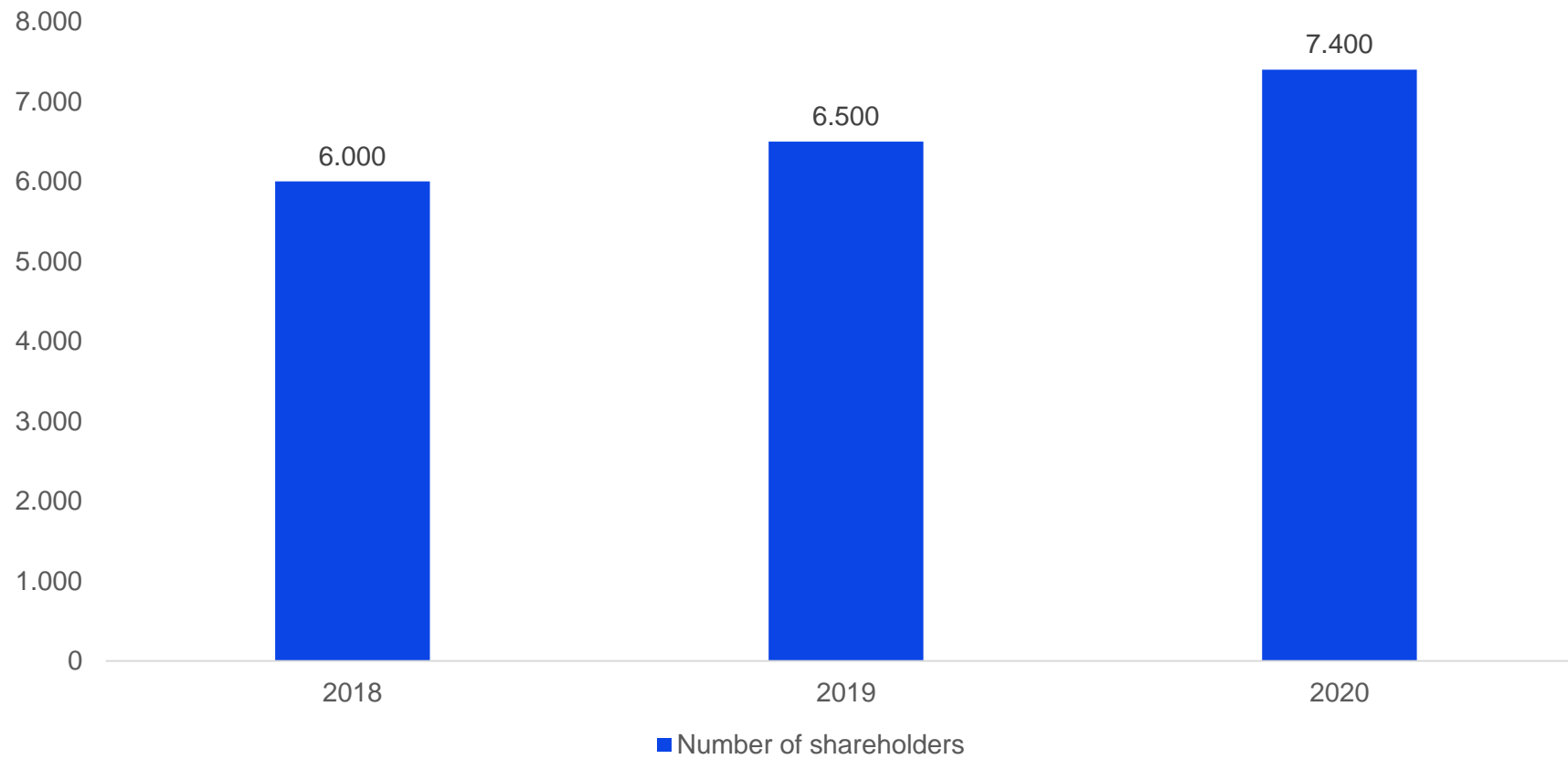
Strong share price performance relative to Nordic banks

Indexed from 100 on 1 January 2020



Number of shareholders increased by around 14% in 2020

Number of shareholders in Sweden ca. 4,300 (57%)



Key takeaways



On track with operational improvements with support from advanced digital channels and diverse income streams



Revising and tightening financial targets



ESG an integral part of the Bank's operations

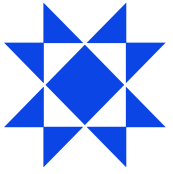


Significant balance sheet strength with capital release potential



Revised strategy with focus on performance culture:
One team, one goal





Thank you!

