



Arion Bank

Investor Presentation

March 2024



**Operating in
an attractive
market**

**With a unique
position**

**And a track
record of
delivering**



Opportunities for growth in a dynamic business climate

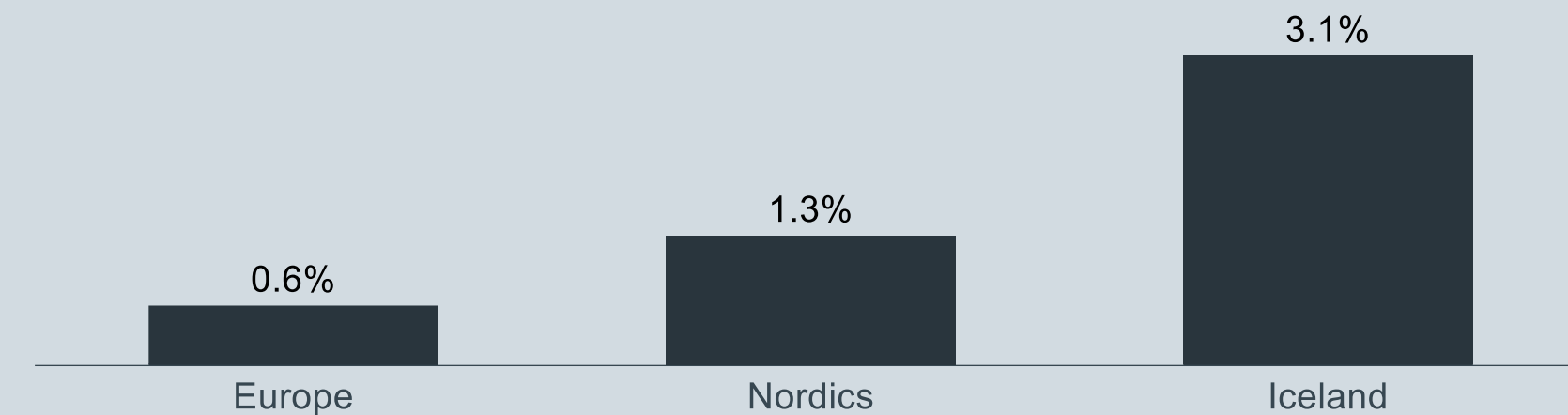
- Operating in an attractive market
With a unique position
And a track record of delivering

Dynamic business climate

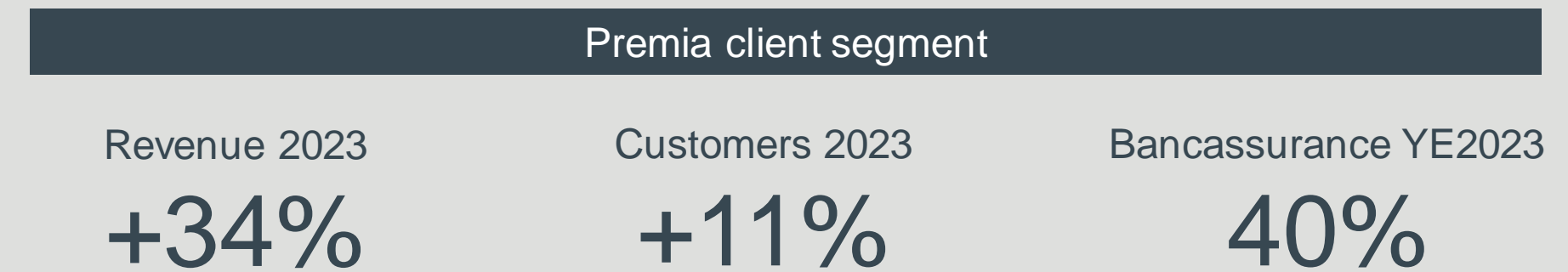
- Iceland is among the top 15 most educated countries in the world
- Strong culture of innovation and economic engagement
- Top 3 on the Human Development Index
- 3rd in digital sales to customers in Europe
- Over 95% of people use digital IDs, among the highest in Europe
- 4th in digital public services and 1st in eDocuments in Europe

Opportunities for growth

Record growth of the Icelandic population in 2022, growing by 3.1%



We are positioning ourselves to capitalize on substantial growth opportunities within our target client segments



Arctic region presents significant long-term opportunities

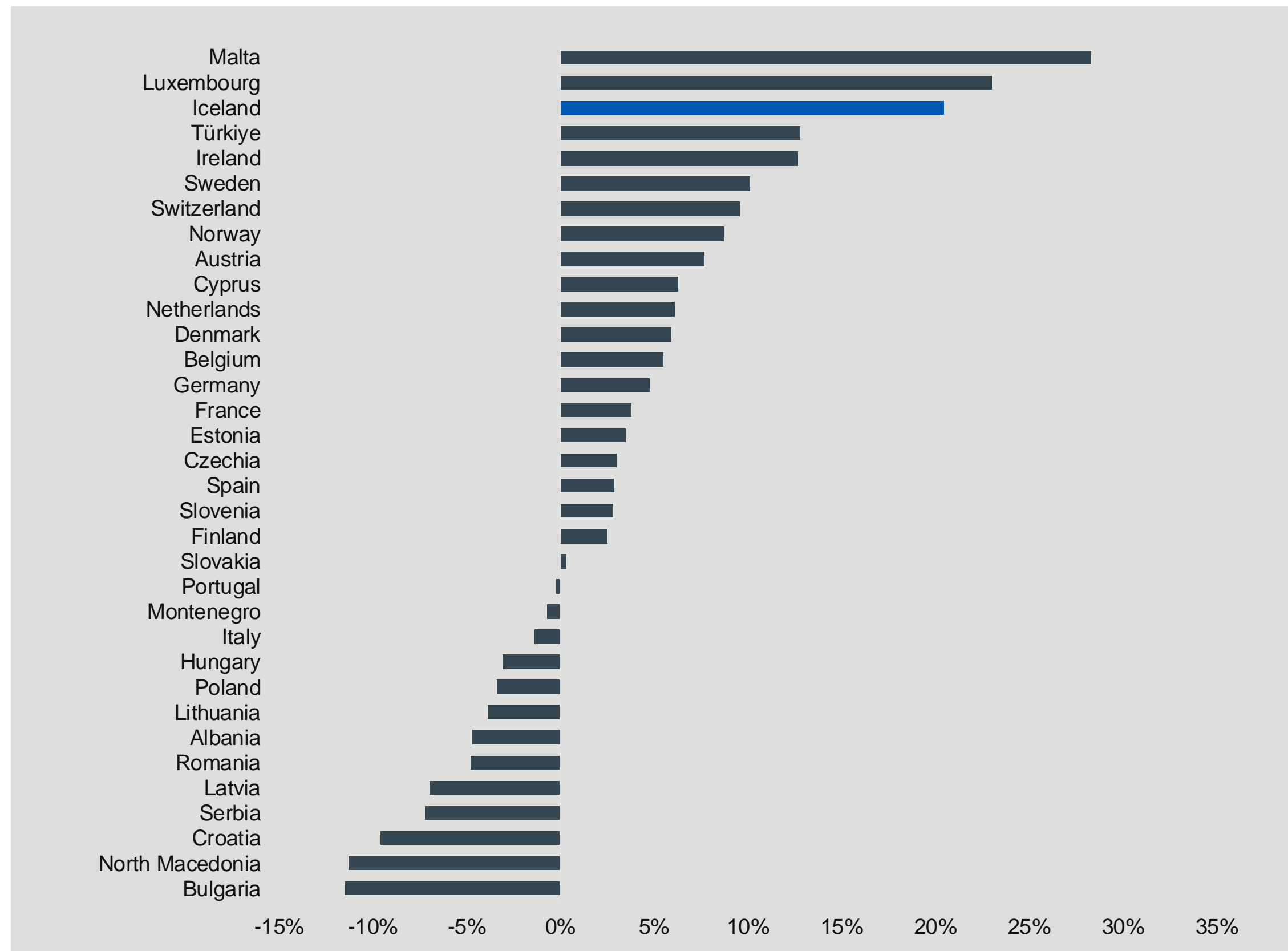


Track record of solid economic growth

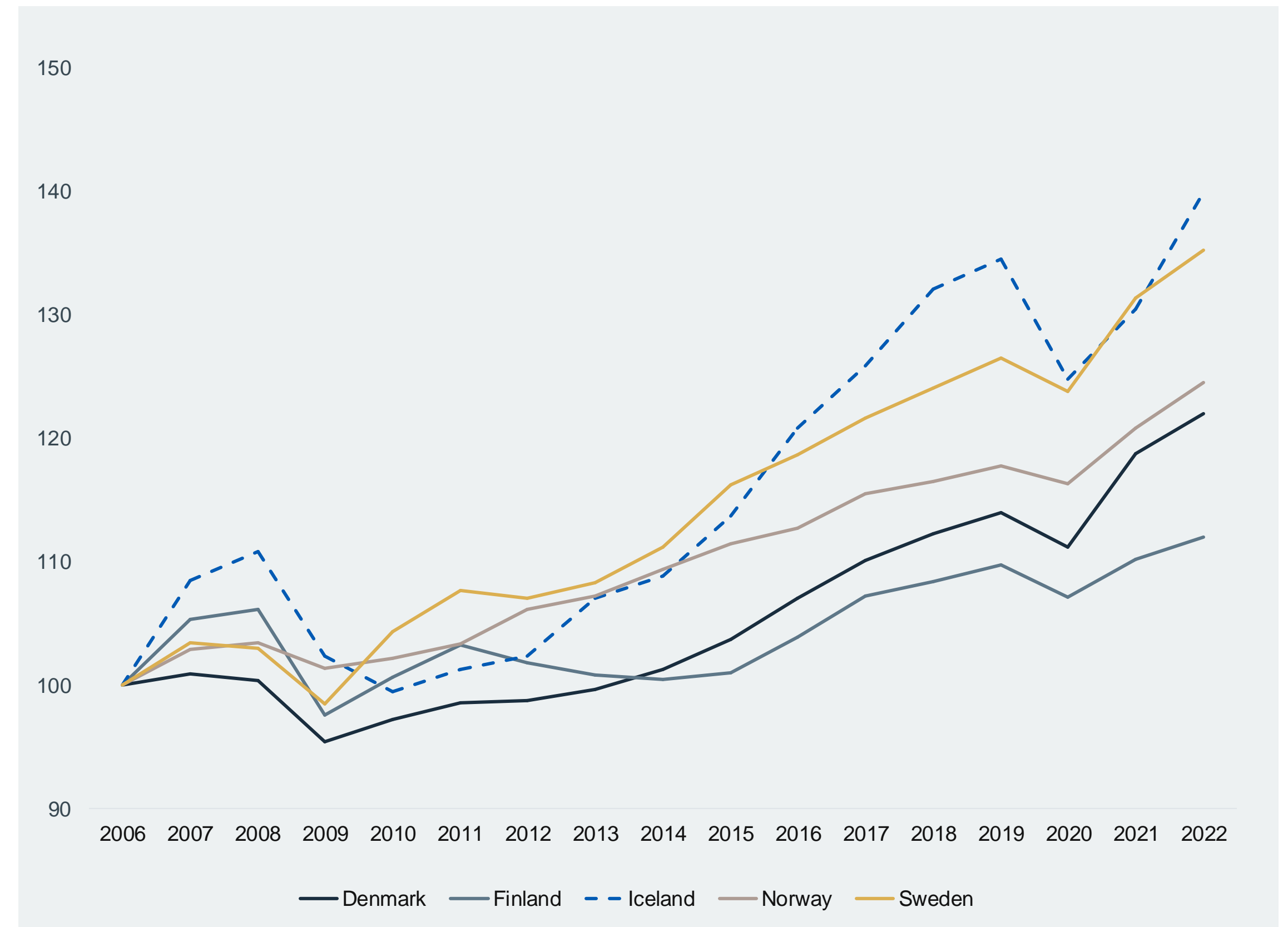
- Operating in an attractive market
- With a unique position
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Iceland's thriving economy attracts an international workforce which has led to one of the highest rates of population growth in Europe contributing to robust and consistent economic growth

Population growth 2013-2023



Real GDP – Index (Jan 2006 = 100)



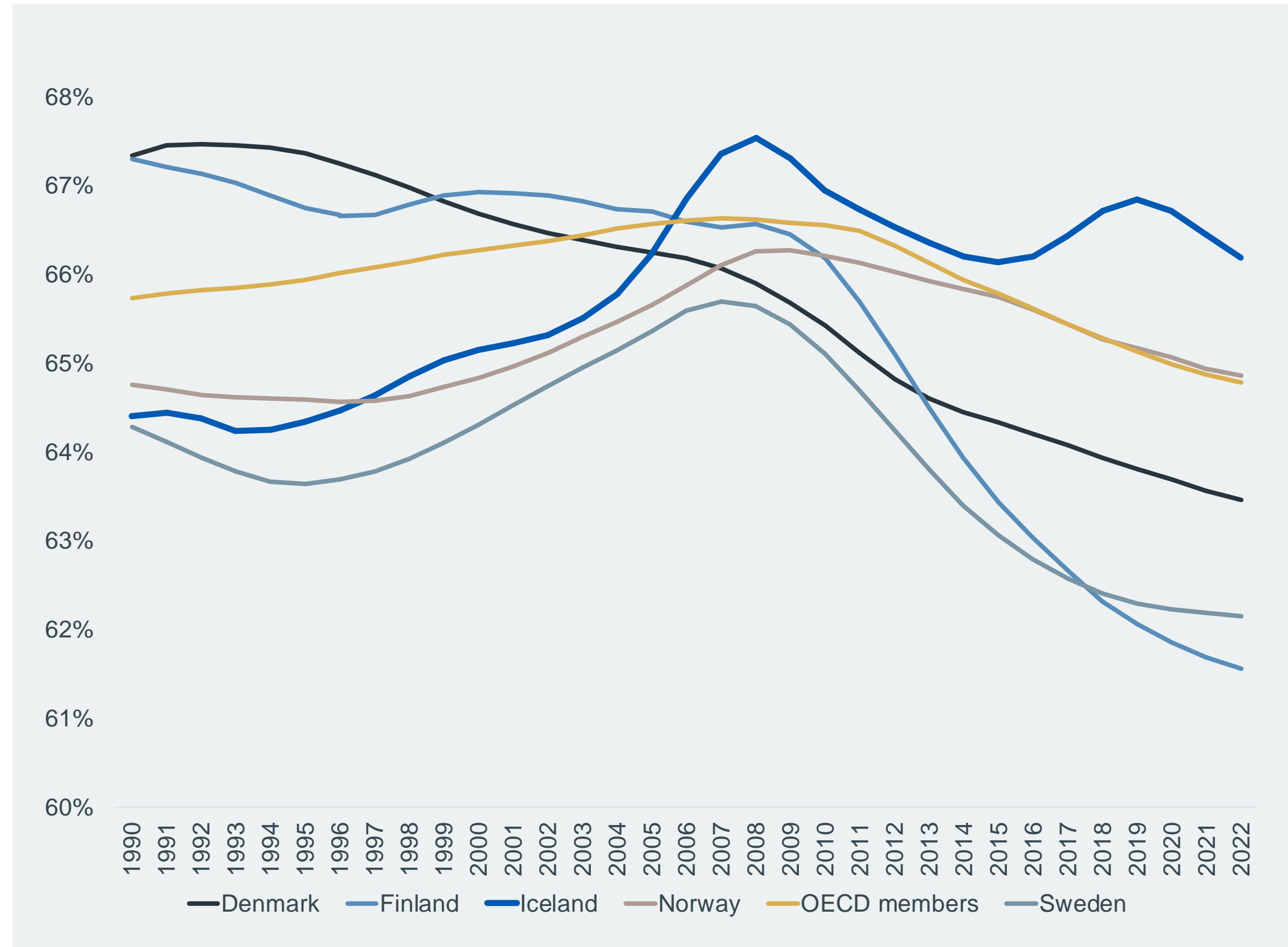
Favorable demographics foster growth

- Operating in an attractive market
- With a unique position
- And a track record of delivering

With largest generation aged between 25-35, the demographics are deemed to be favorable for the foreseeable future

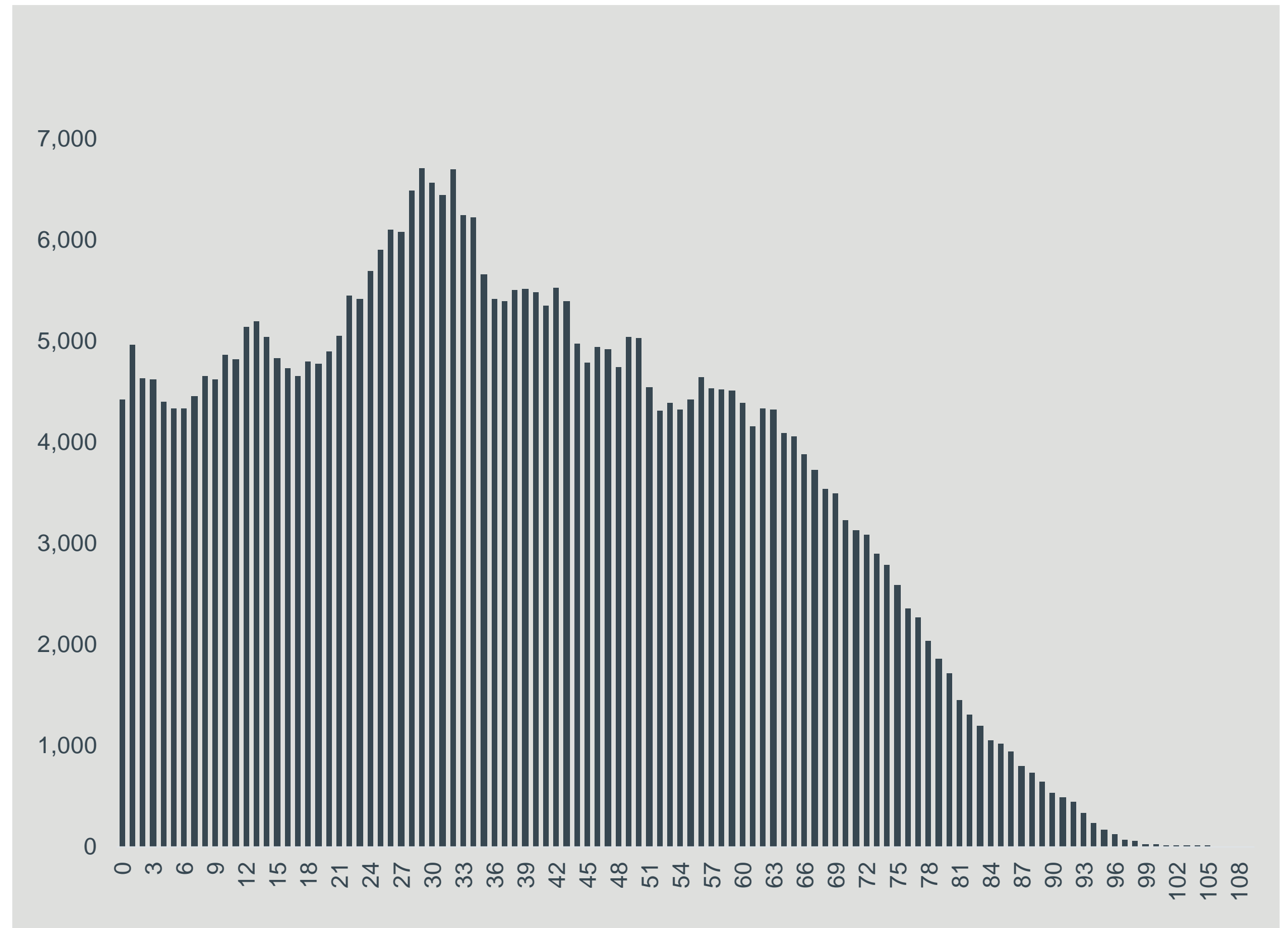
Working age population

Share of total population (%)



Population age distribution

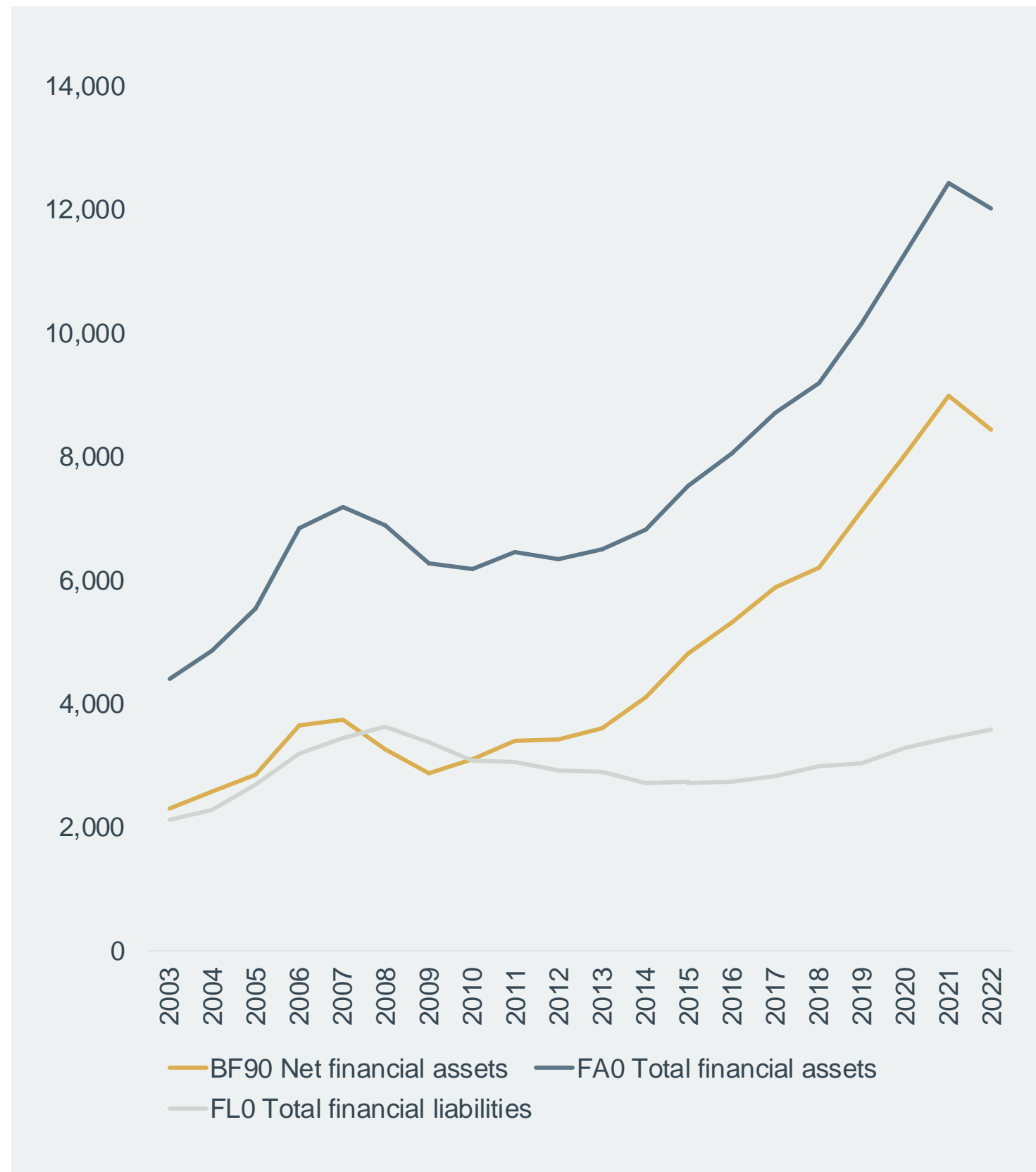
Number of inhabitants by age



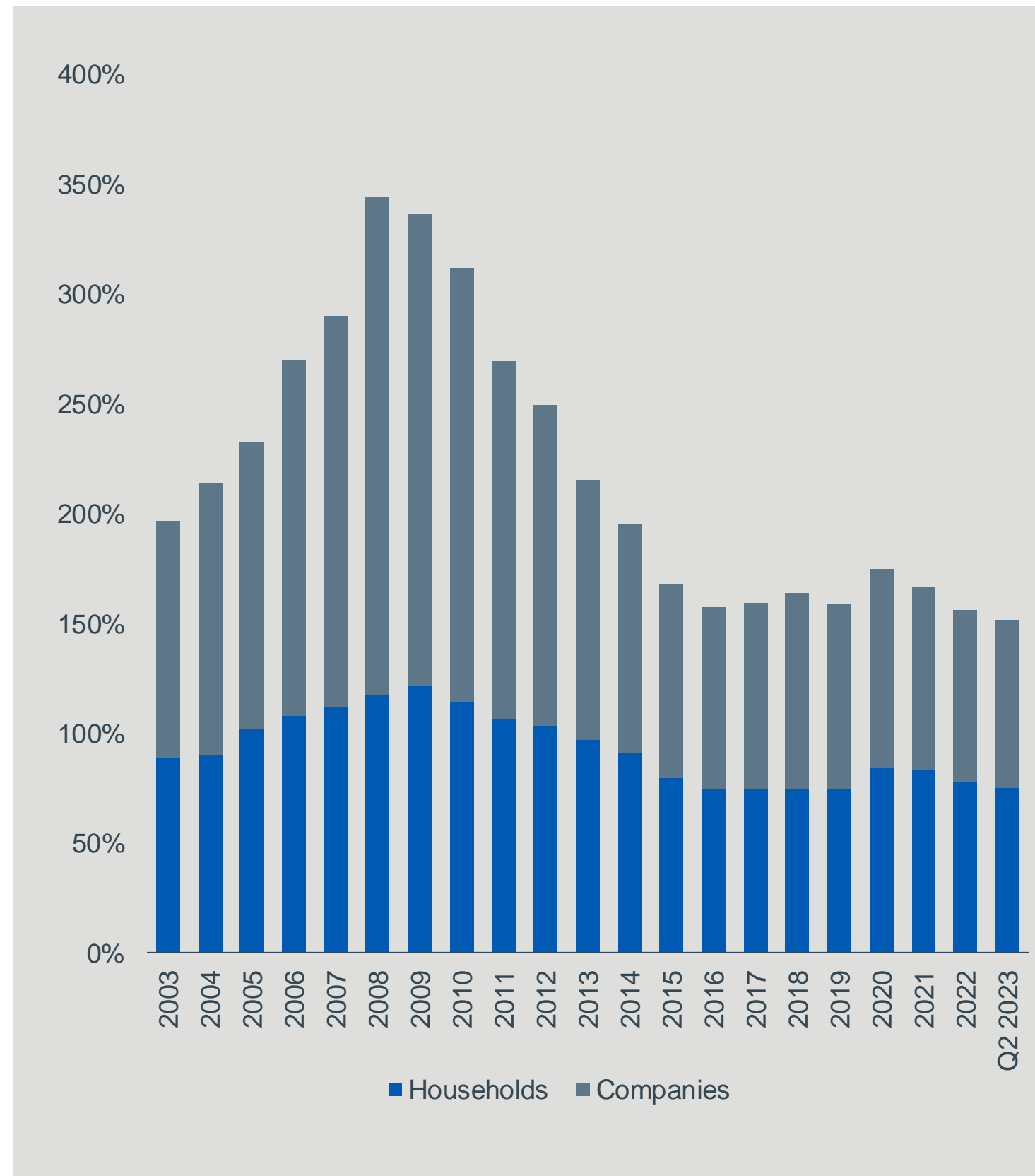
Strong financial standing of private and public sectors provides fertile ground for continued entrepreneurship and innovation

● Operating in an attractive market
 With a unique position
 And a track record of delivering

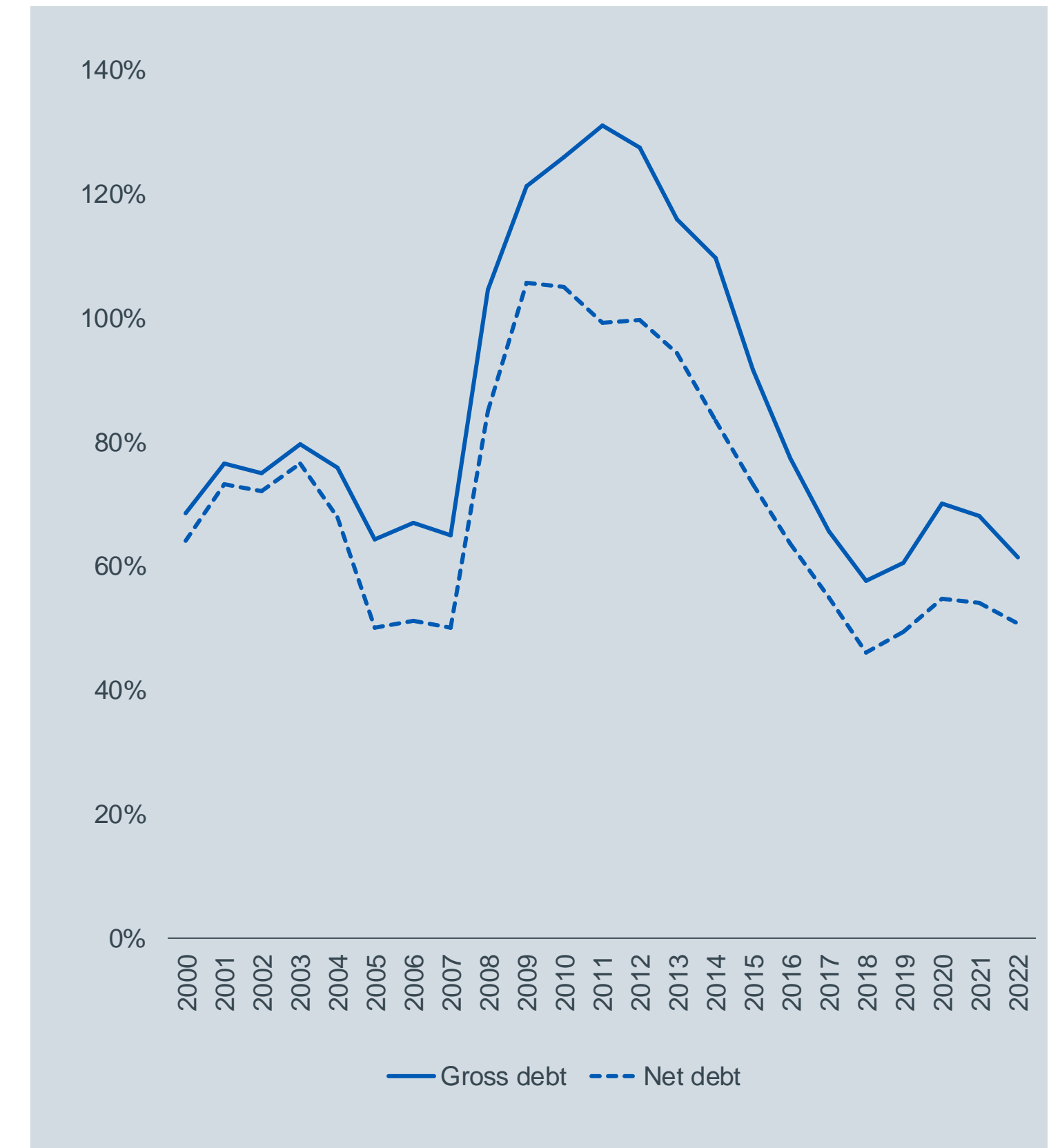
Households' financial assets and liabilities
 ISK bn (Jan 2024 prices)



Household and non-financial corporate debt
 % of GDP



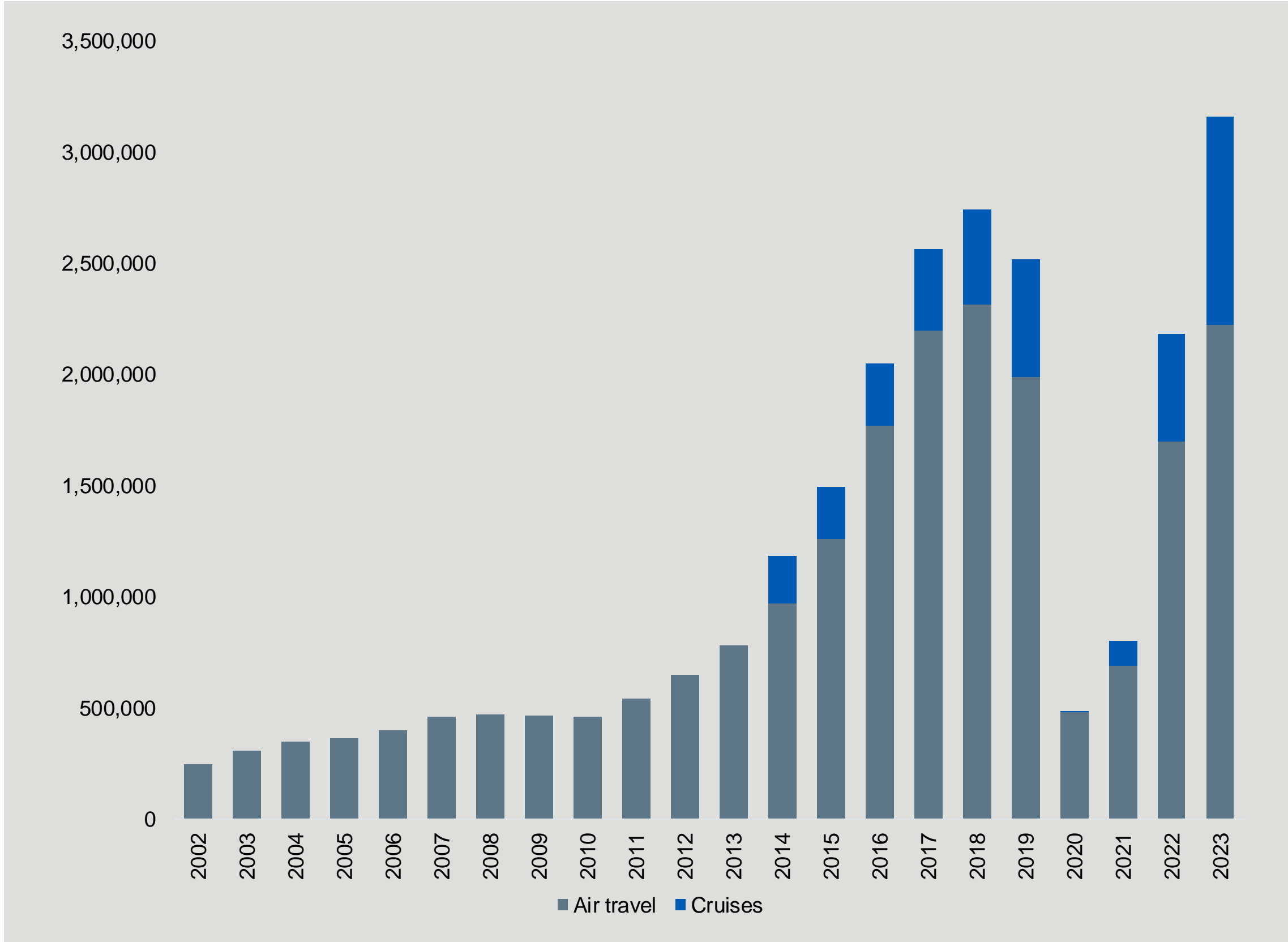
Debt of central government
 % of GDP



Exports remain robust as tourism bounces back, fostering economic vitality

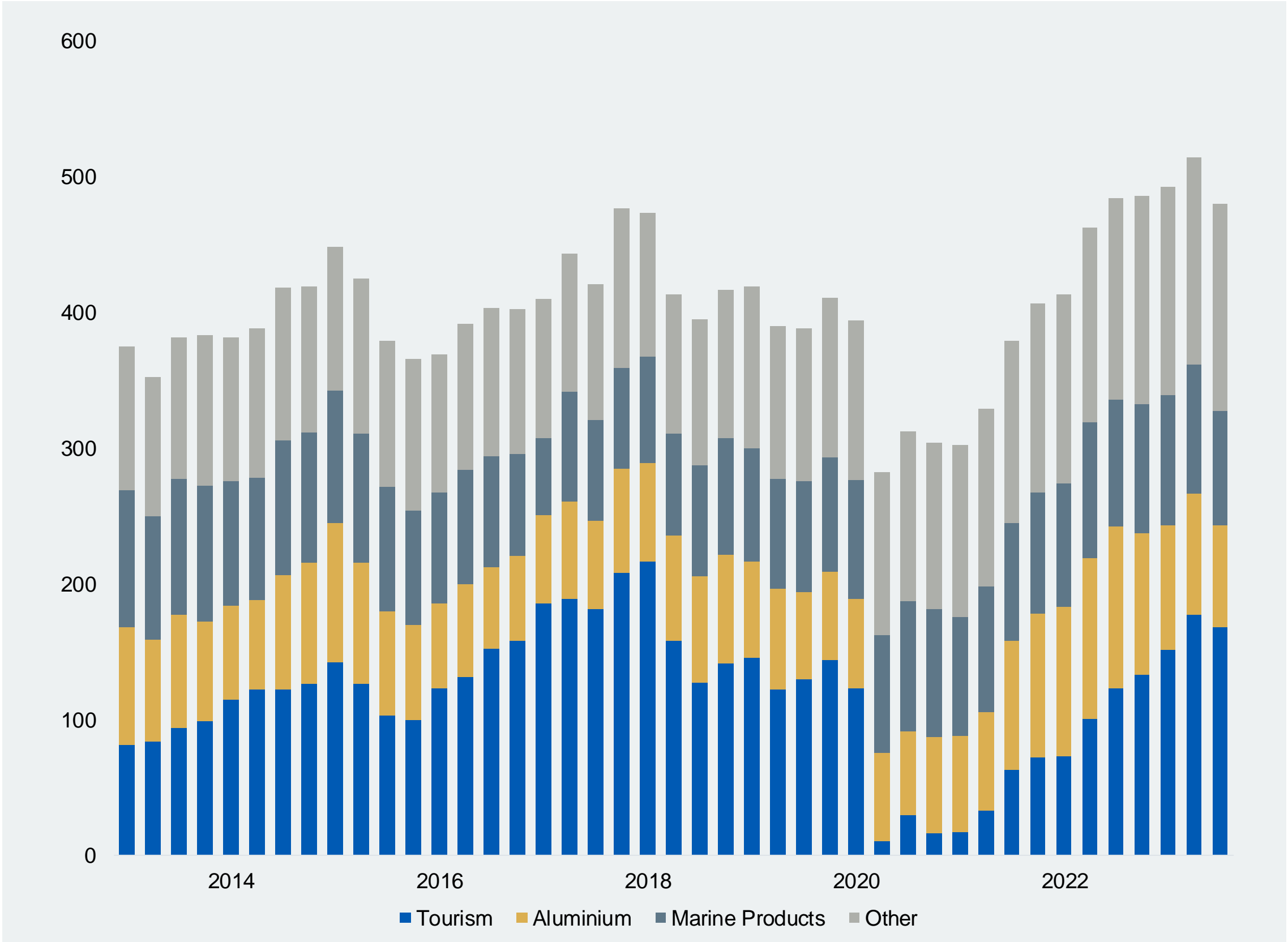
● Operating in an attractive market
 With a unique position
 And a track record of delivering

Number of foreign tourists



Exports

-ISK bn per quarter, seasonally adjusted (Jan 2024 price levels)



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

Operating in an attractive market
 ● With a unique position
 And a track record of delivering

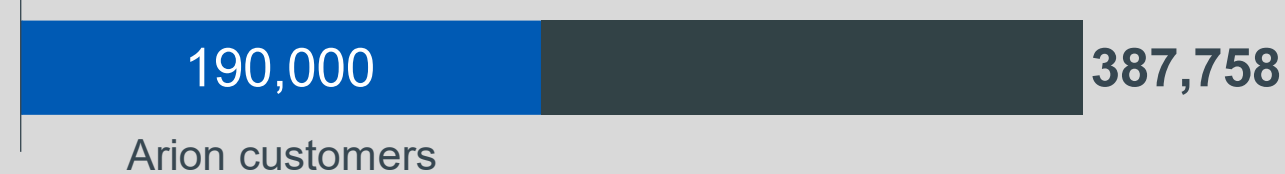


Integrated model with diverse key products in-house, offering strong opportunities for synergies

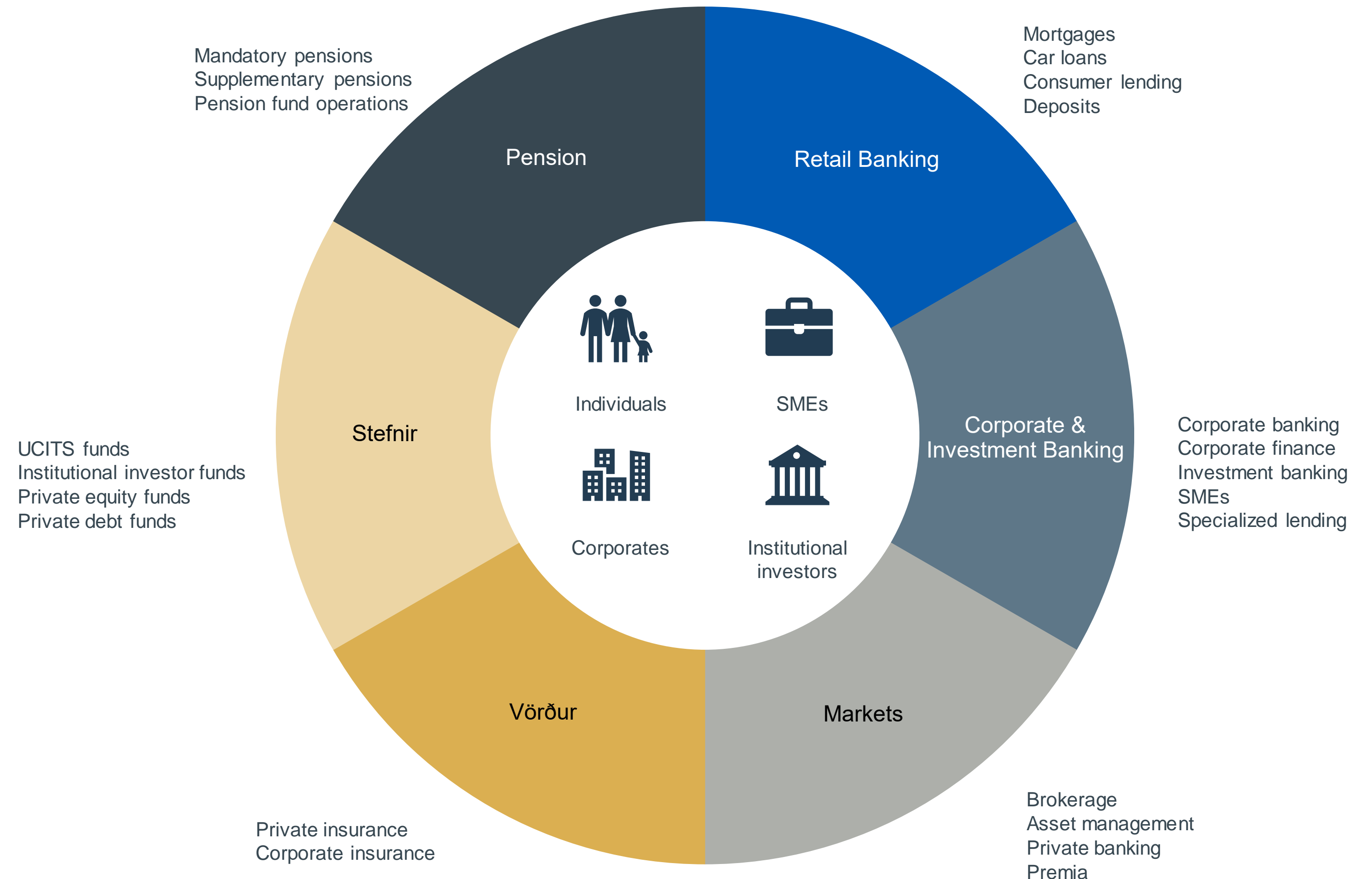
Known for innovation – digital at the core and a customer first focus

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

Servicing half of the Icelandic population



and over half of Icelandic corporations

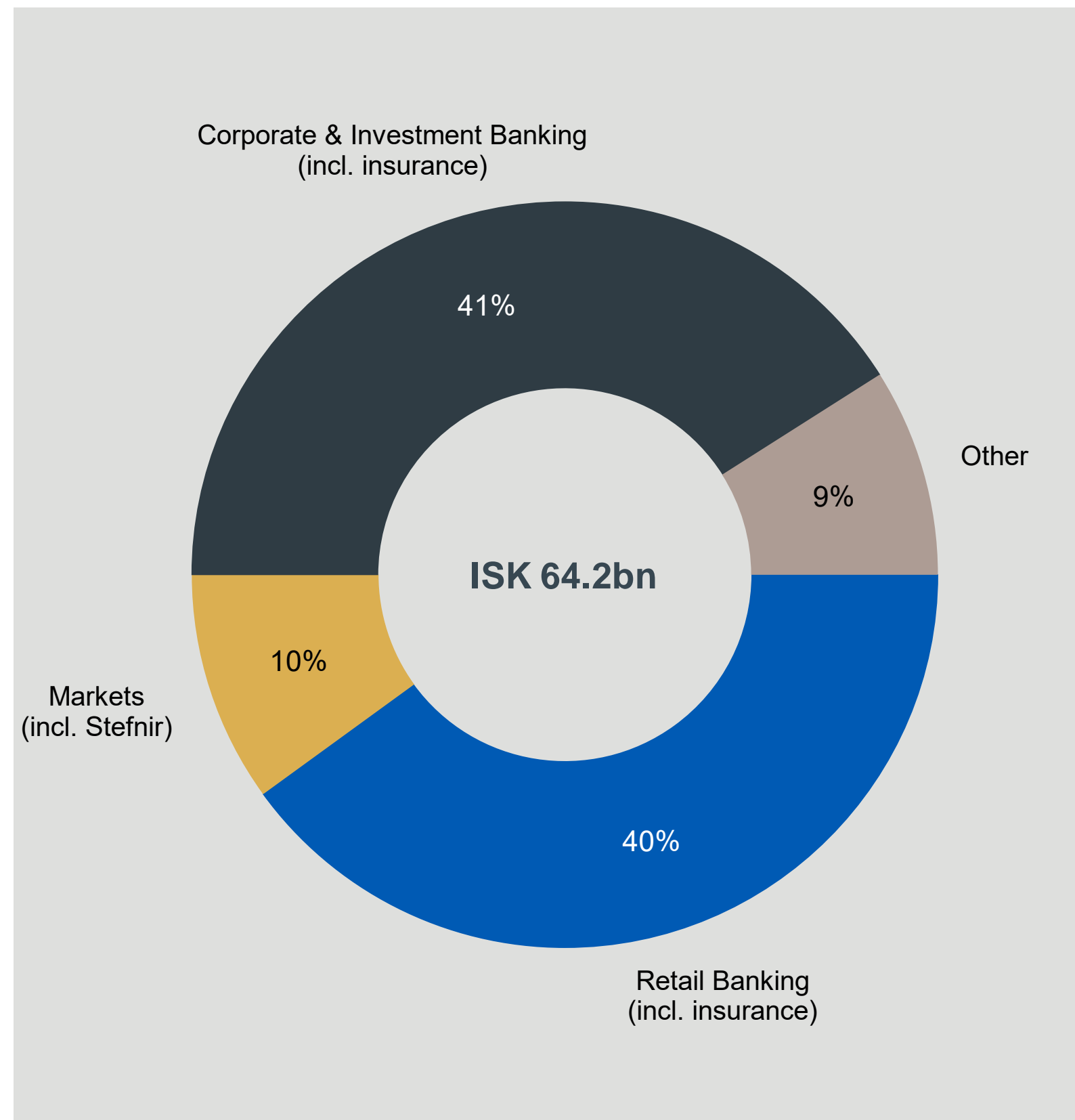


Strong financial and risk profile

- Operating in an attractive market
- With a unique position
- And a track record of delivering

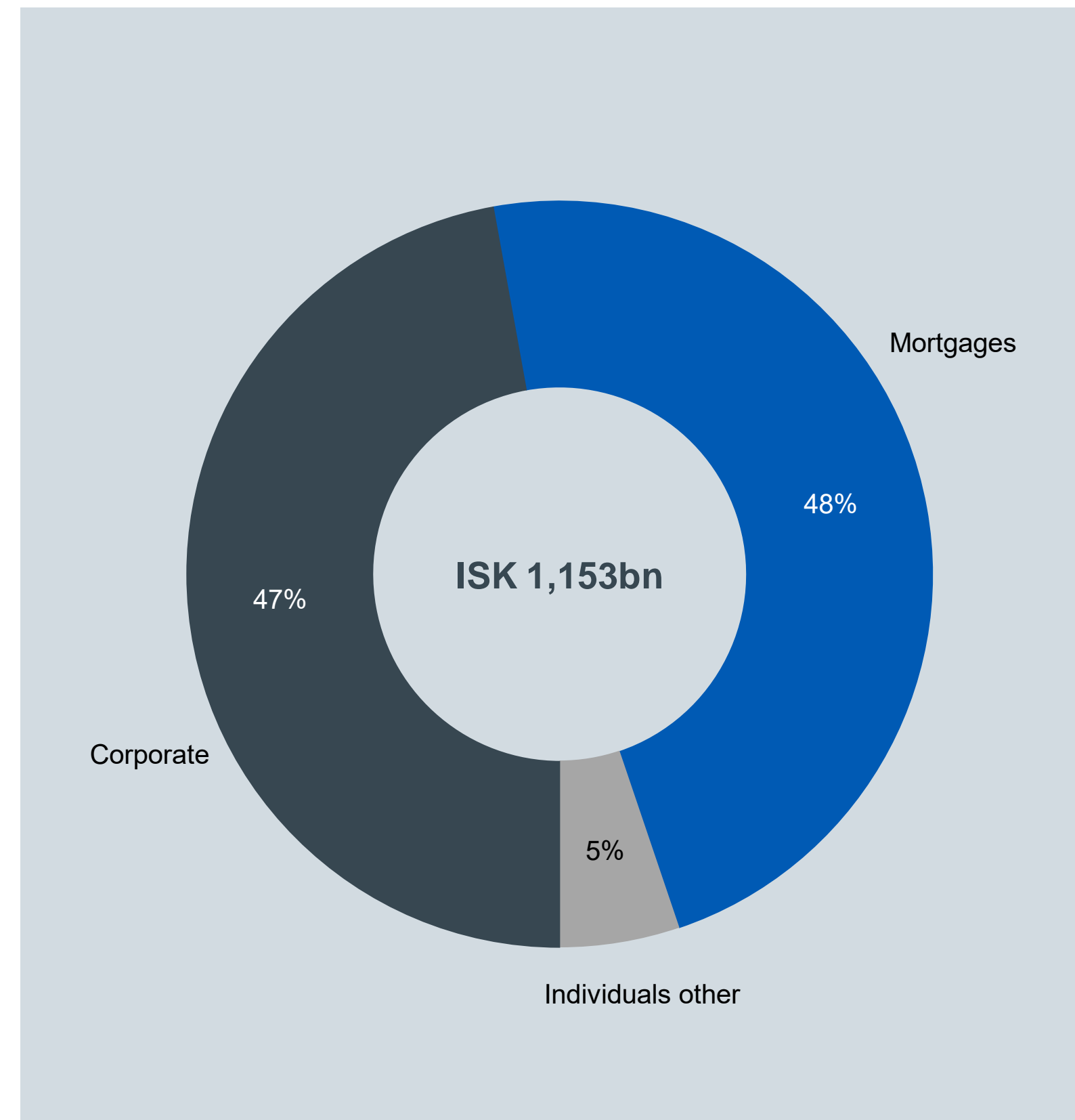
Diverse income mix

Operating income 2023



Diverse loan book

Loans to customers YE 2023



CET1
19.7%

Leverage ratio
12.4%

LCR
192%

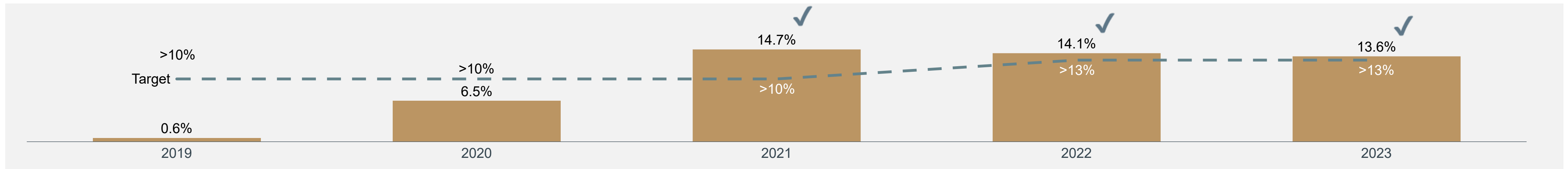
Problem loans
1.7%



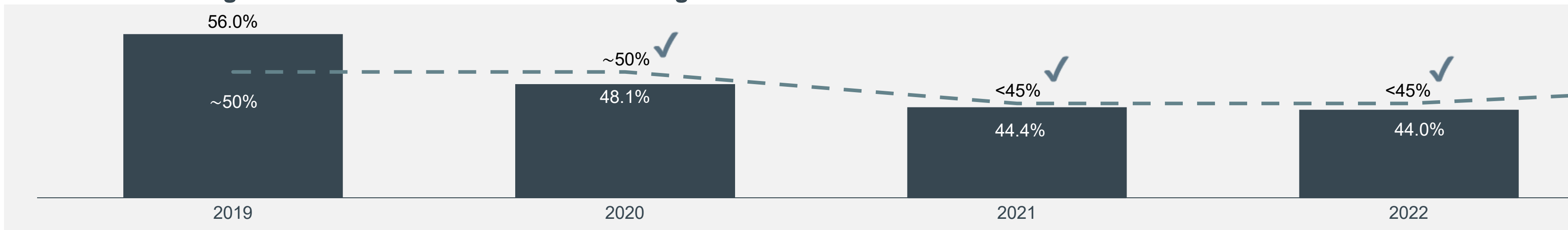
Focused strategic direction has enabled us to significantly exceed our medium-term targets

Operating in an attractive market
With a unique position
● And a track record of delivering

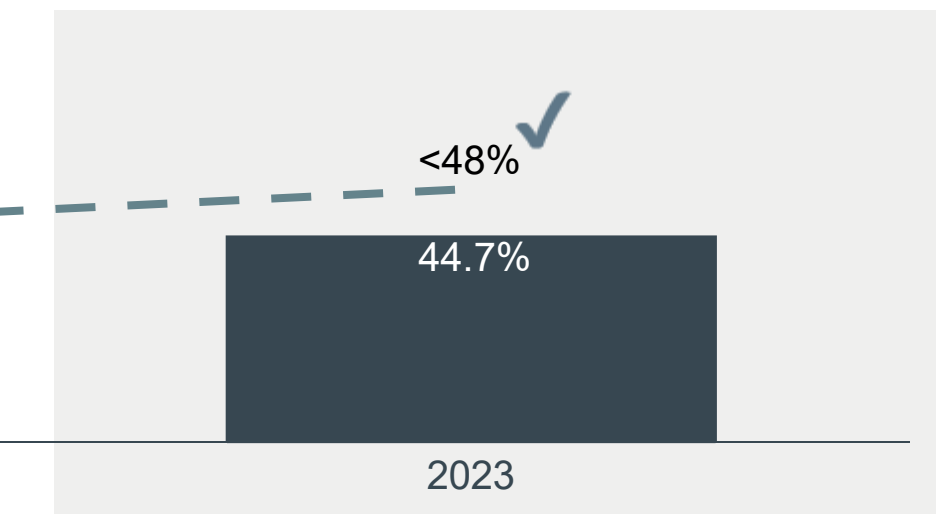
ROE target of >10% reached in 2021 – revised target of >13% reached in 2022 and 2023



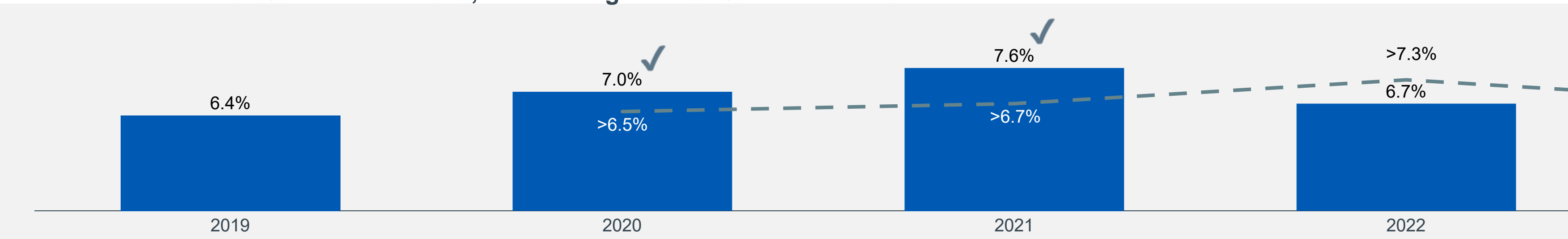
Cost to income target of 50% reached in 2020 – revised target of <45% reached in 2021 and 2022



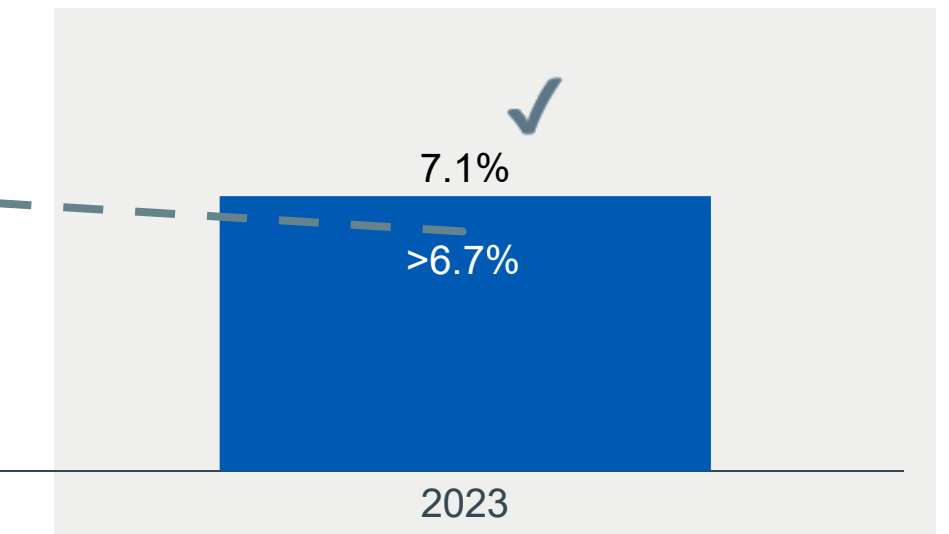
Target revised to cost to core income of <48% and reached in 2023



Income to REA of >6.5% reached in 2020, revised target of >6.7% reached in 2021



Target revised to core income to REA of >6.7% and reached in 2023



2019 strategic focus areas remain the guiding light

Capital Markets Day 2019

2019-2023

Next steps....

Updated strategic priorities

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

Strong delivery

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

Commitment to return surplus capital

ISK 96.2bn

Dividend / Buy-backs 2019-2023

 Bravo Tours

 LANDEY

 VALITOR

Important milestones in simplifying the balance sheet through divestments

Bancassurance emphasis

 vörður

Strategic refinements to secure long-term success

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



Target client segments



Financial health



Arctic



The Arctic offers significant potential in the long term

- One third of rare earth metals and materials
- ~40% of farmed salmon and related species
- Plenty of sustainable energy resources
- Opportunities to develop further as a tourist destination
- ~10% of total aluminum production
- ~12% of fish caught in the world are in the North Atlantic Ocean

Continued measured and deliberate steps to position ourselves to play a key role in the Arctic region

- Arion is in a unique position to become the financial hub of the Arctic
- Arctic strategy does not significantly impact our near-term business plan, while providing long-term upside potential
- Ongoing process of mapping out and initiating long-term strategy for Arion in the region
- Ongoing loan book growth but next phase of our Arctic strategy will mostly focus on capital light products and services

Key focus sectors

Fishing

Tourism

Shipping

Financial services



Continued focus on sustainability

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



Sustainalytics places Arion Bank in the top 5% of banks (around 1,000 banks globally) and the top 3% of regional banks (around 400 banks). On a scale of 0-100, Arion Bank received 10.5 points, with fewer points signifying lower risk which places the Bank in the low-risk category



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



Within next two years the Bank will work towards getting SBTi to validate its science-based climate targets

Next steps in our sustainability journey

Aim to reduce financed emissions in the sectors which have the most impact in line with net zero target by 2040

Have targets on financed emissions validated by SBTi within two years

Increase percentage of investment by women

A harmonized risk assessment for different sectors and regions with respect to ESG risk and the financial impact on the Bank

Implementing CSRD legislation and report on sustainability according to ESRS standards

Further engagement with customers regarding sustainability

Work according to Arion Bank’s Sustainability Policy for the Arctic



Operating in an attractive market

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

With a unique position

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

And a track record of delivering

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

Medium term targets*

>13% Return on equity

>7.2% Core income over REA

<45% Cost to core income

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

<95% Insurance combined ratio of Vörður

50% Dividend payout ratio

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

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

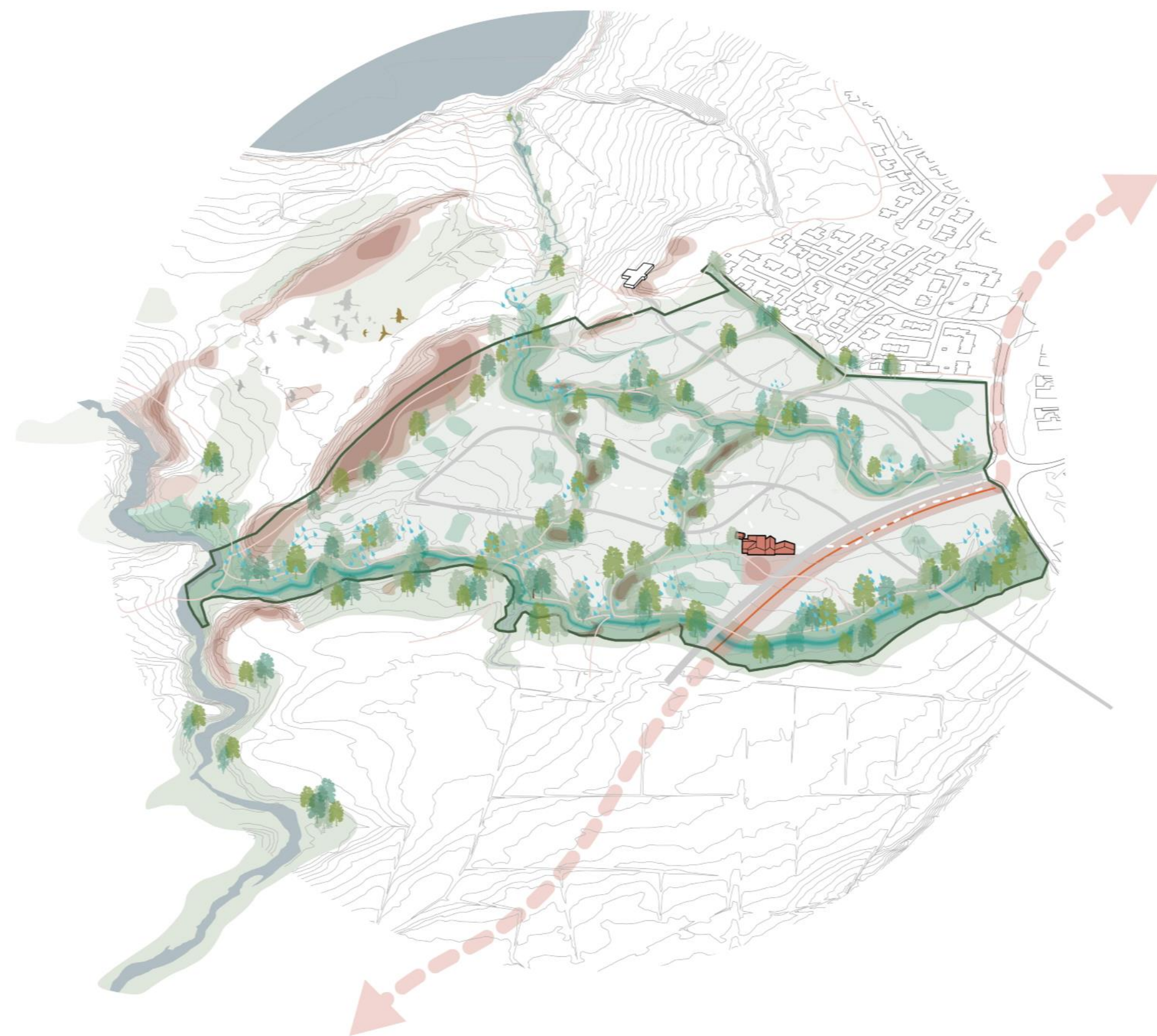




Appendix

Blikastadir is a part of Landey portfolio and is one of the Bank's non-strategic assets

(Book value ISK 6.7bn)



1. Blikastaðir - 1st phase

Local planning in progress

This first phase area is expected to be approximately 30-35 ha. with around 1,200 units, divided between family housing and apartments. A new school will also be constructed in this phase.

Our role

Arion's development role is to focus on coordination and to ensure leading standards throughout the process. A mix of local and internationally renowned design teams work closely with the municipality.

The municipality of Mosfellsbær promotes the importance of nature and a healthy lifestyle in the community. The aim of the design team is to ensure those values through a “nature-based design” approach, while pursuing BREEAM Communities certification.

Next steps

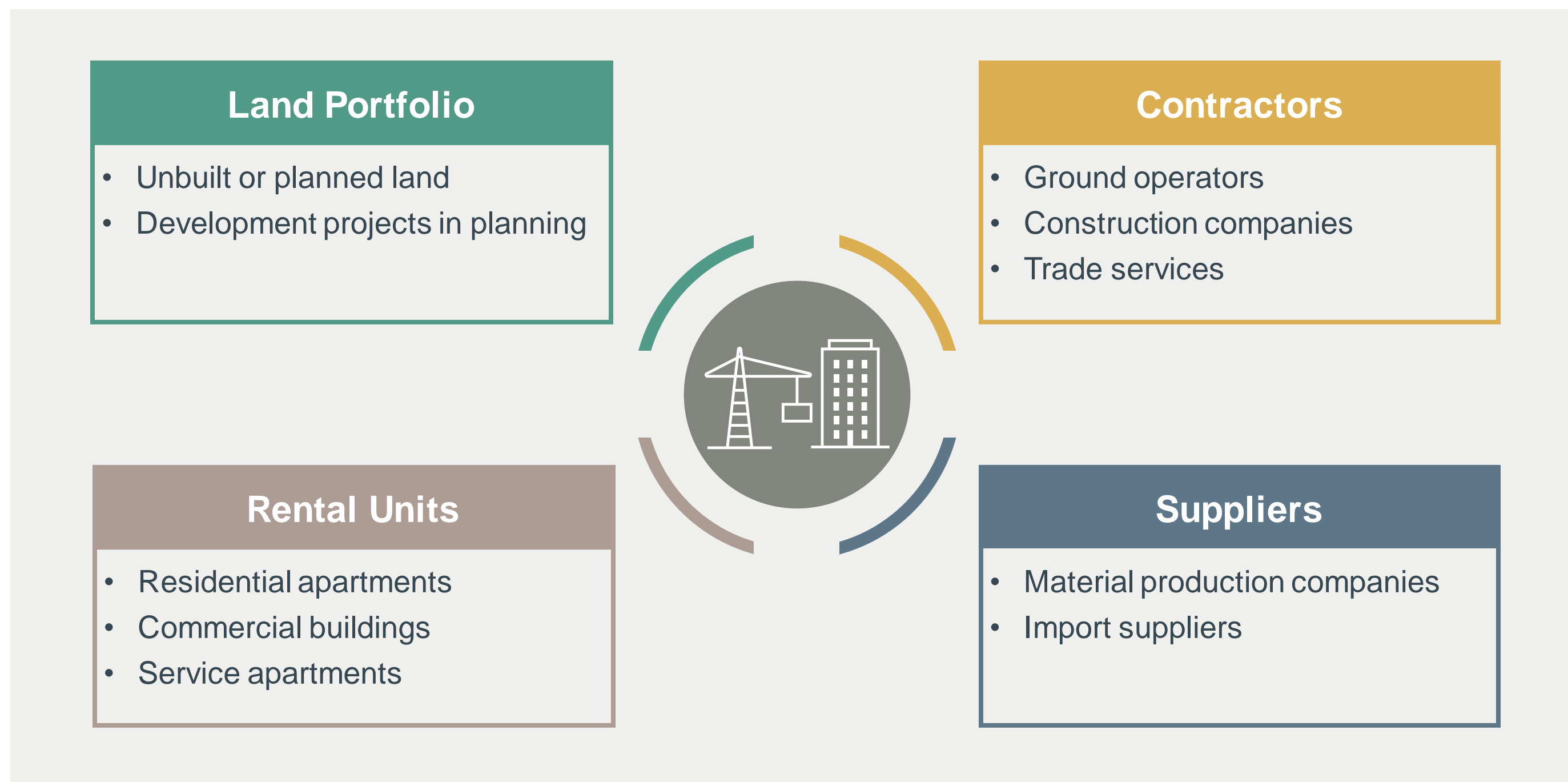
Local plan for this first part of the land is expected to be finalized and approved in the second half of 2025. We are now in the process of exploring multiple options regarding future ownership of the land.



A new approach to our development assets

A combination of local market expertise and deep sector know-how creating a real estate “one-stop-shop”

- Arion Bank is exploring the option of creating a new local real estate company focusing on development, construction and aftermarket leasing
- This includes a potential listing



Robust real estate company

A strong real estate and development company that covers the entire real estate process from start to finish

Unique consolidation domestically

Development and construction operations combined with rental company

Social commitment

Contribution to housing development in harmony with evolving social needs, with significant involvement from pension funds and municipalities

Listing on Nasdaq Iceland

Listing on the stock market a possible scenario, offering more flexibility and maximizing the value for Arion shareholders

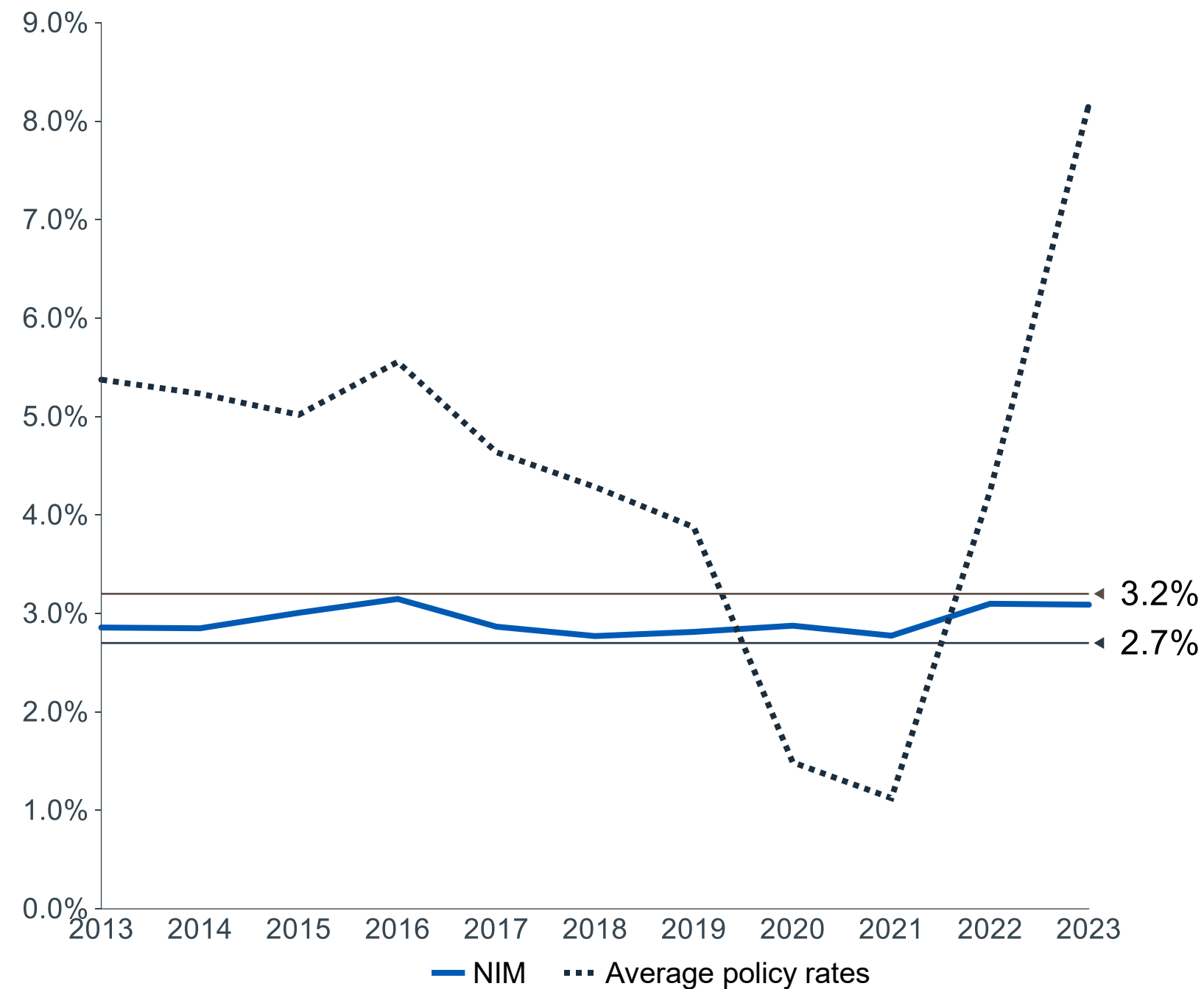


Net interest margin

Stability through the cycle and near-term tailwind

Evolution of NIM

- Stability in net interest margin through the cycle around 3% area



Near-term NIM outlook

- Repricing of the fixed rate mortgages will be a material tailwind (c. ISK 150bn of loans that currently have a negative NIM)
- High deposit beta in Iceland has been a headwind during the rate hiking cycle but can support the NIM as rates come down
- Strategy focused on ROE and not on absolute growth. Net loan book growth in general however expected to broadly follow economic growth
- In general, expected reduction in policy rates are an initial headwind
- Capital optimization plans will increase percentage of funding with interest bearing liabilities while enhancing ROE

Positive impact Negative impact

Examples of strategic initiatives impacting NIM

- Loyalty projects support customer retention and an enhanced resilience in the NIM and provide growth opportunities in higher margin lending
- Broadening wholesale funding options aims to lower volatility in the funding spreads
- Capital velocity provides more efficient balance sheet management
- Focusing on stable deposits that provide stable loan book funding will support the resilience of the margin through the cycle
- Arctic opportunities create lending opportunities in FX and over time could broaden funding options in FX

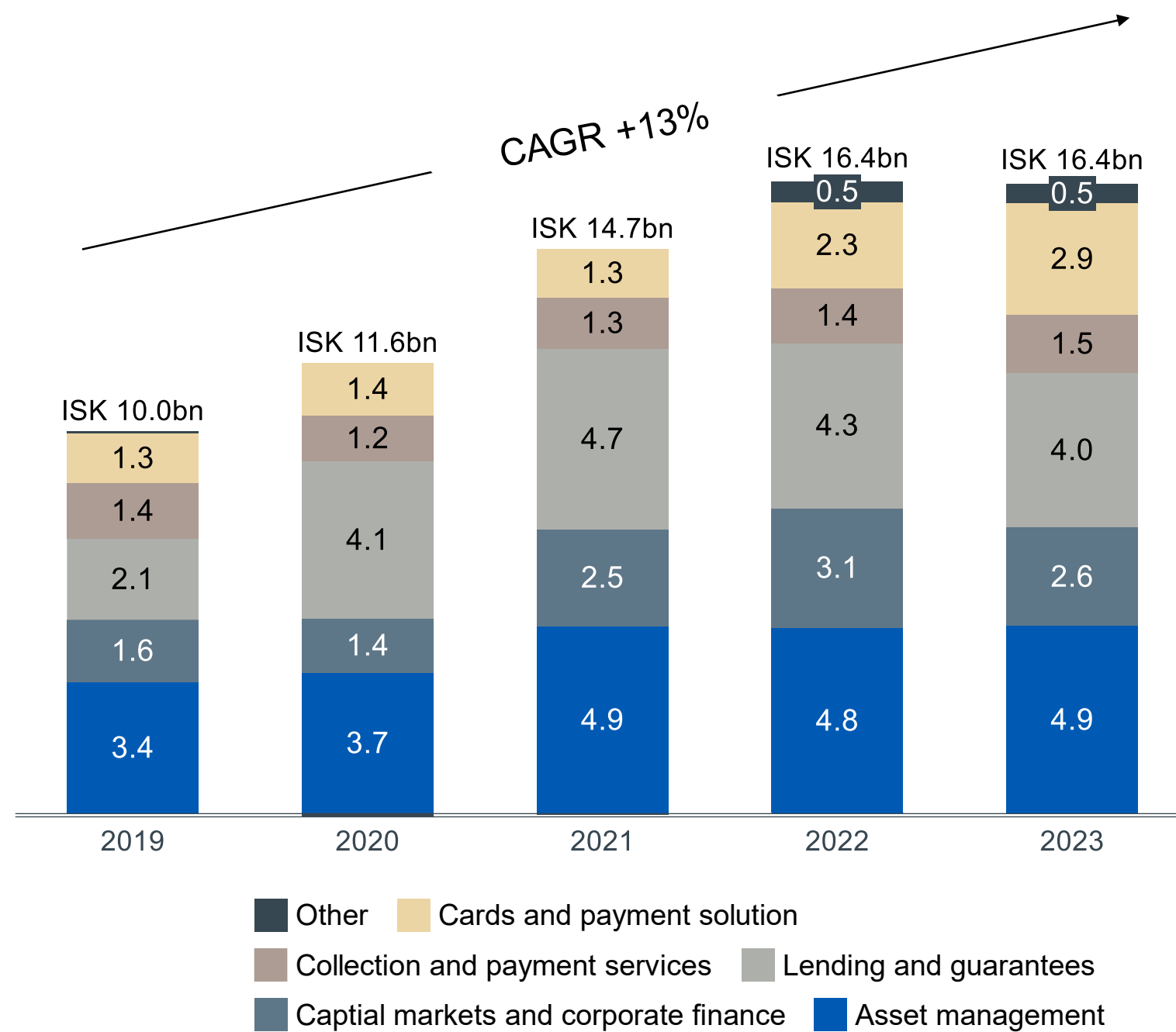


Net fee and commission income

Continued momentum

Evolution of fee and commission income

- Robust growth over past five years with increase of 65% from 2019
- Diverse fee generating businesses support resilience through the cycle



Near-term outlook

- ↓ Slower economic growth outlook is a near term headwind
- ↑ Reduced policy rates should however support capital markets, and deal activity in Markets and CIB
- ↑ Policy rate reduction is also expected to increase lending fees from refinancing activity

Strategic initiatives impacting fee generation

- ↑ Capital velocity enhanced utilization of the balance sheet and supports further opportunities for fee generation
- ↑ Loyalty / Family / Rewards / Premia / Bancassurance projects support customer retention and resilience around fee generation while also supporting growth opportunities in high value client base
- ↑ Arctic opportunities increases the size of market for potential long term fee generation

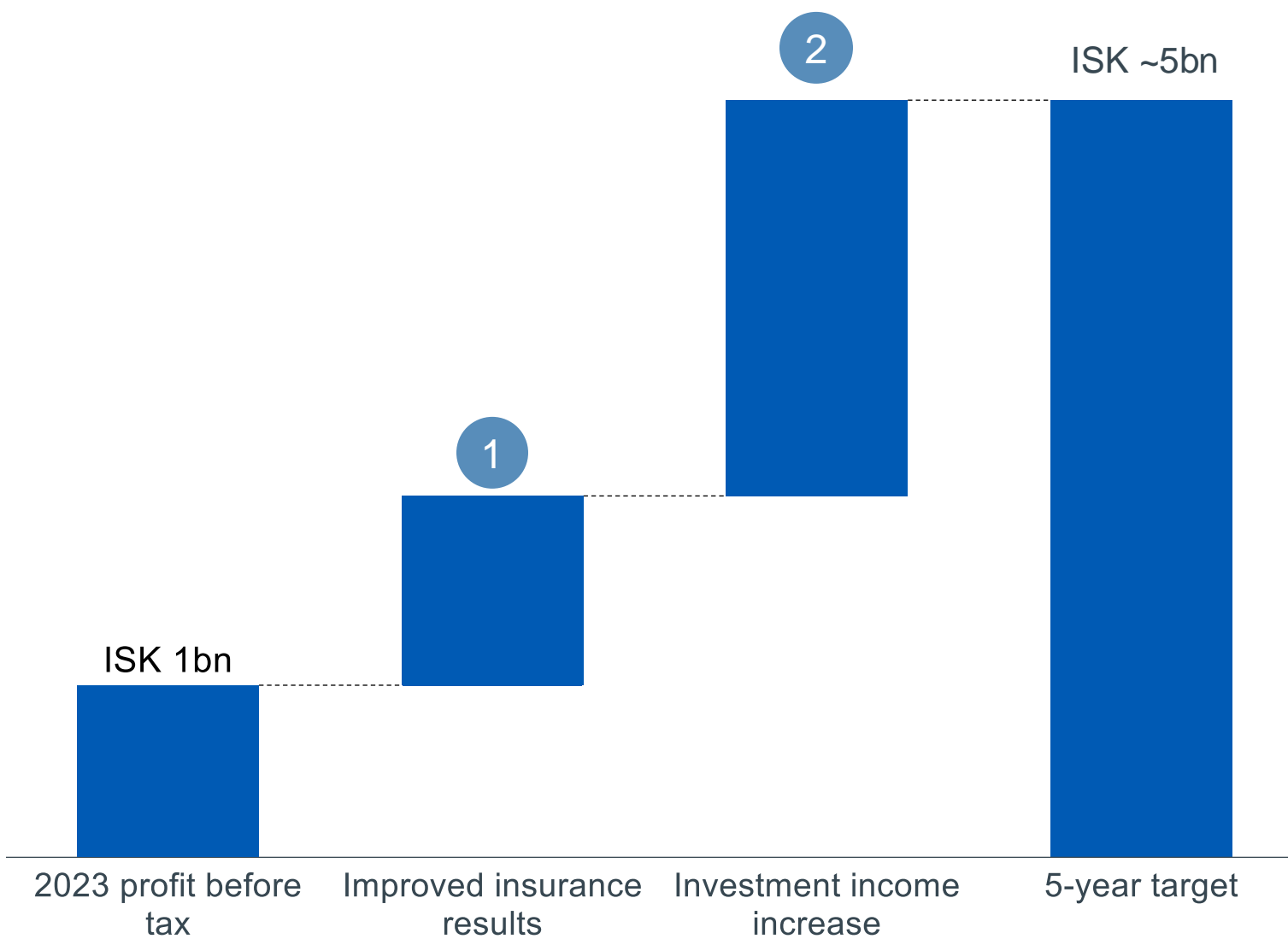
↑ Positive impact ↓ Negative impact



Expected to deliver up to ISK 5bn in pre-tax profit, at a high return on capital employed

The road to enhanced profitability of insurance

- Vörður's combined ratio was 97% in 2023 which is high in a historical perspective. At the same time, return on investments was below normalized expectations
- Vörður's targets should result in annual profit before tax reaching up to ISK 5bn in the next 5 years
- Current Group capital requirements from Vörður's holding is around ISK 7bn



Outlook

- 1 Revenue increasing in line with target and combined ratio to normalize at below 95% is expected to result in ISK ~1bn in improved insurance results
- 2 Normalization of investment income in line with expected policy rate decrease over medium term, combined with growth in investment portfolio, anticipated to trend towards ISK 4bn annually in coming years, compared with ISK 1.4bn in 2023
- ↑ Insurance is also to an extent countercyclical, gaining from lower economic activity

Strategic initiatives impacting net insurance and financial income

- ↑ Bancassurance strategy, including loyalty and rewards system, expected to drive continued growth momentum at a comparably low cost-ratio
- ↑ Risk diversification with increasing corporate business and emphasis on life insurance
- ↑ Bancassurance cooperation around investment in claims prevention initiatives and risk assessment models

↑ Positive impact ↓ Negative impact

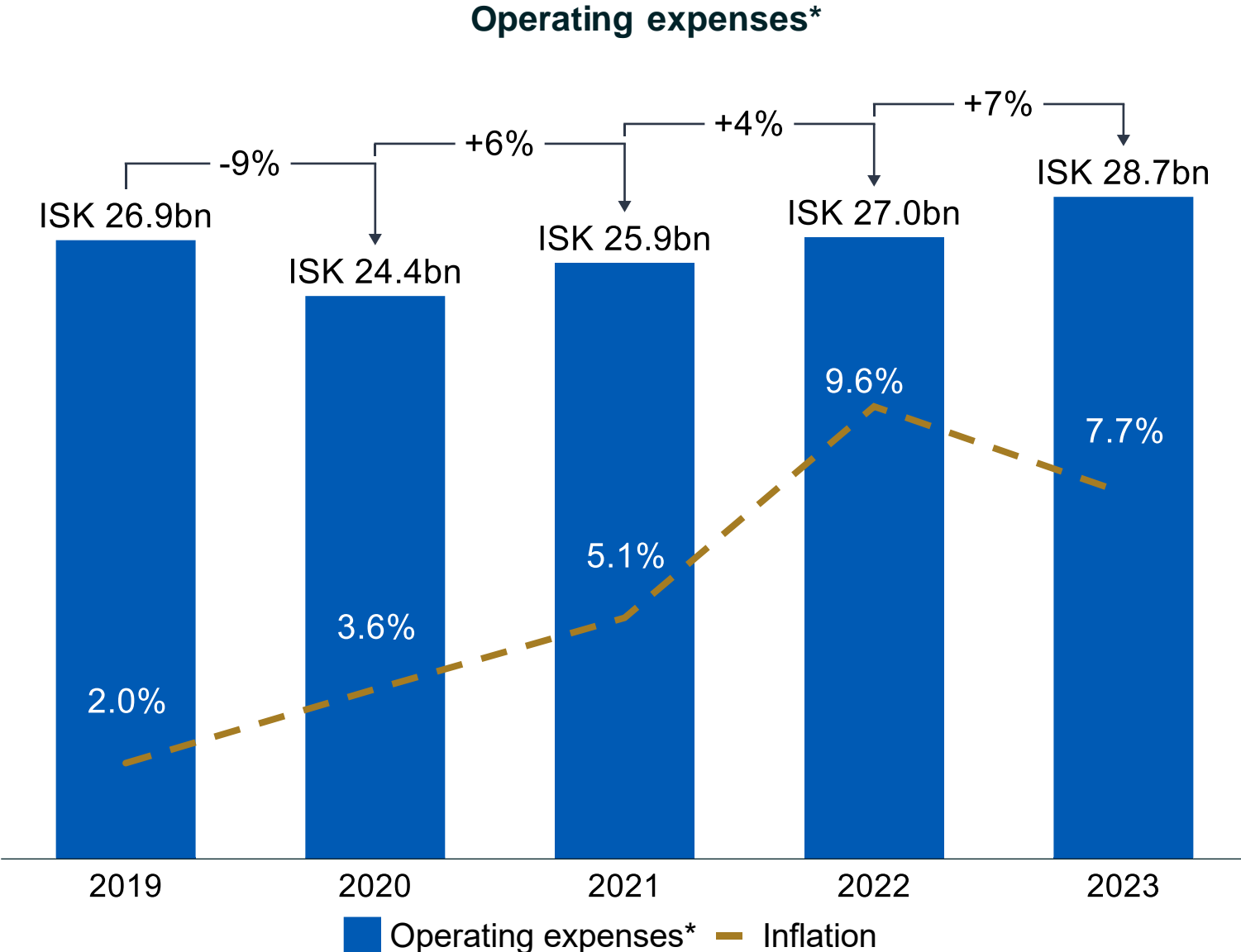


Operating expenses

Ongoing efficiency drive

Evolution of OPEX

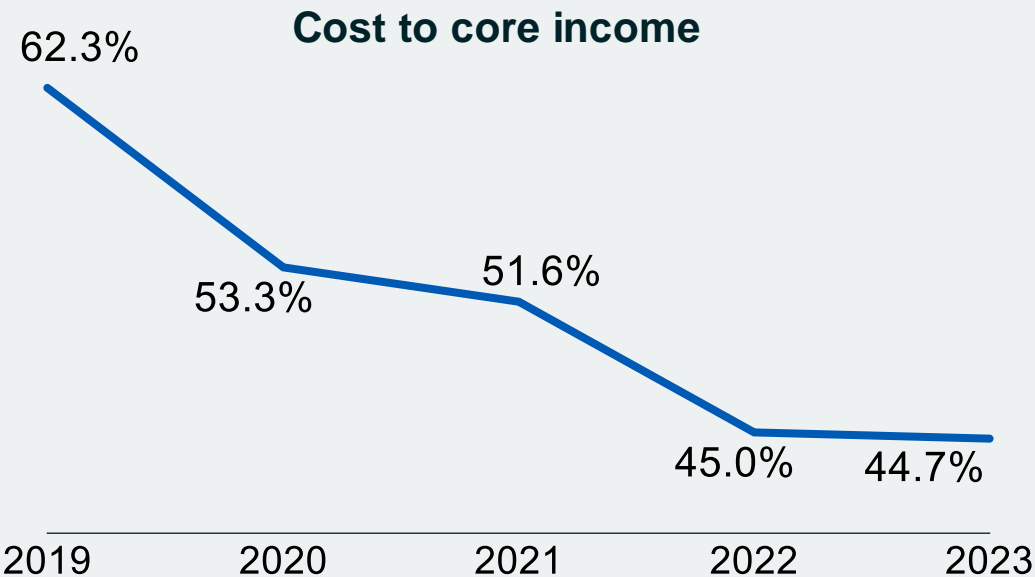
Cost increase in recent years been below inflation and held relatively stable while supporting significant increase in revenues



*Including operating expenses from insurance operations in 2023 and 2022 for comparative purposes

Near term OPEX outlook

- ↑ General inflationary pressures expected to continue near term with overall pressure on costs
- ↑ Growth in capital light businesses such as asset management and corporate finance is generally at a relative high Cost/Income while strong in terms of ROE
- ↓ Significant improvement in cost to core income in recent years supported by income increase at relatively stable cost base. Current level targeted to continue over medium term



↓ Positive impact ↑ Negative impact

Examples of strategic initiatives impacting operating expenses

- ↑↓ IT investment commitment supporting ongoing digital leadership. Near term headwind, longer term efficiencies
- ↓ Ongoing efficiency opportunities from synergies across the group and capital velocity, delivering higher income from our infrastructure and distribution channels

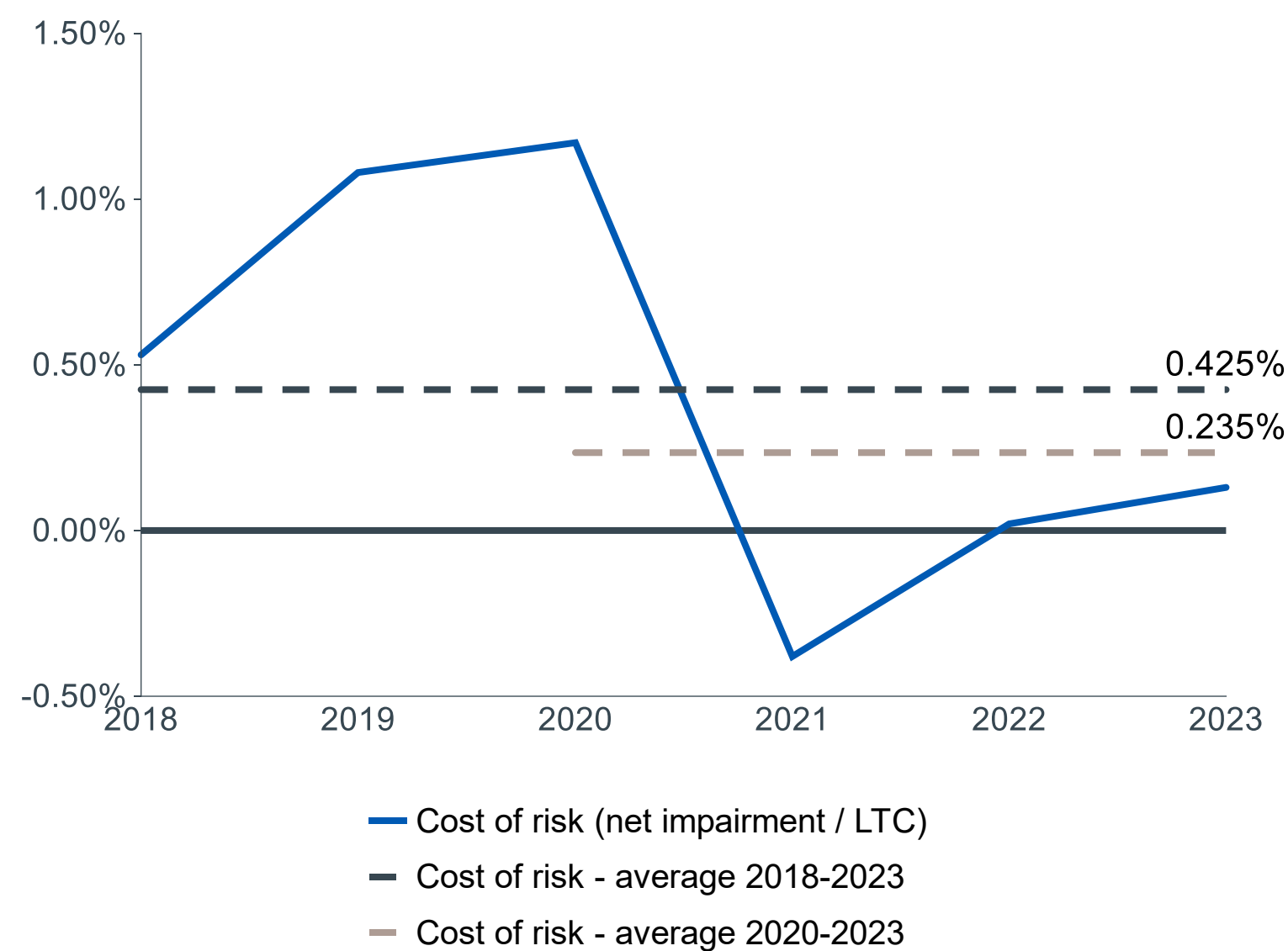


Cost of Risk

Solid position

Evolution of Cost of Risk

- Current expected credit loss levels predict 30bps cost of risk in the near term, impacted by conservative IFRS 9 assumptions that reflect on current economic conditions
- Through-the-cycle cost of risk between 20-25bps given the current portfolio composition and risk profile



Near term Cost of Risk outlook

- ↑ High interest rates are a near term headwind for borrowers
 - ↓ Expected reduction in policy rates and inflation will provide relief
- Impairments in 2024 are likely to be impacted by the seismic events near Grindavík, while exposure is limited. Ongoing evaluation and dialogue with borrowers
- Exposure ISK 8.3bn to corporates and ISK 2.0bn to individuals
 - ISK 6.0bn of corporate exposure is secured by fishing vessels and quotas not impacted by the events
 - The Bank is participating in government actions to assist the people of Grindavík

↓ Positive impact ↑ Negative impact

Strategic initiatives impacting Cost of Risk

- ↓ Close dialogue with borrowers around mitigating options in current rate environment
- ↓ Credit syndication as an important risk management tool, providing feedback from other credit participants
- ↓ Credit models are under continuous development. The models have been successfully applied for years for automatic credit-decisions for individuals and the Bank plans to develop similar solutions for SME lending
- ↓ Data initiative will further strengthen credit risk assessment
- ↓ Rolling out a cyber-security education program for customers. Frauds and cyber attacks



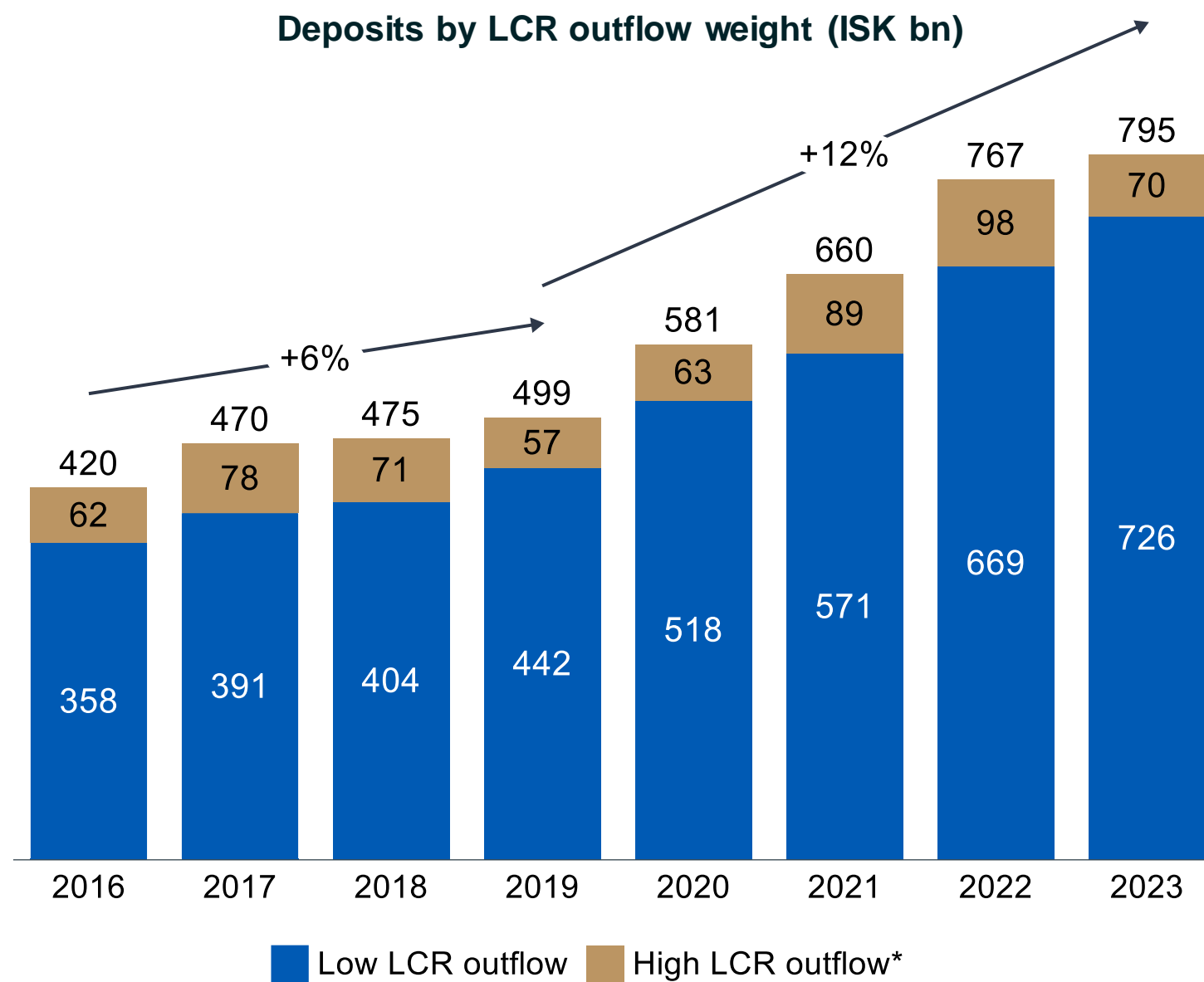
Funding

Enhanced stability and diversity

Deposits

- High growth in deposits in past years during and after COVID expected to slow and approach pre-COVID growth rate
- Continued focus on growth in more stable categories of deposits

Deposits by LCR outflow weight (ISK bn)



*Deposits with LCR outflow weight above 40%

Near-term funding considerations

Covered bonds

- Established domestic investor base and inaugural euro covered bond in 2021 with strong Aa2 Moody's rating received in December
- Continued evaluation of establishing a stronger Icelandic FX swap market which would support a more diversified and attractive funding for Icelandic residential mortgages

Senior preferred

- EUR credit spreads have tightened considerably in recent months
- Regular issuer in the euro market, strong investor base in the Nordics with NOK/SEK public and private placements and focus on growing the domestic market

Senior non-preferred

- With a capital stack managed towards a more optimal structure the need for SNP emerges as MREL subordination requirement becomes effective in 2026

Subordinated

- Medium-term plan to maintain optimum T2 and AT1 levels to support target capital structure

Navigating through multiple capital and funding constraints

Regulatory constraints

- MREL requirements
- MREL- subordination requirement
- Liquidity coverage ratio
- Net stable funding ratio
- Capital requirements

Rating agency constraints

- Different thresholds around composition of funding (wholesale vs deposits)
- Capital thresholds

Management constraints

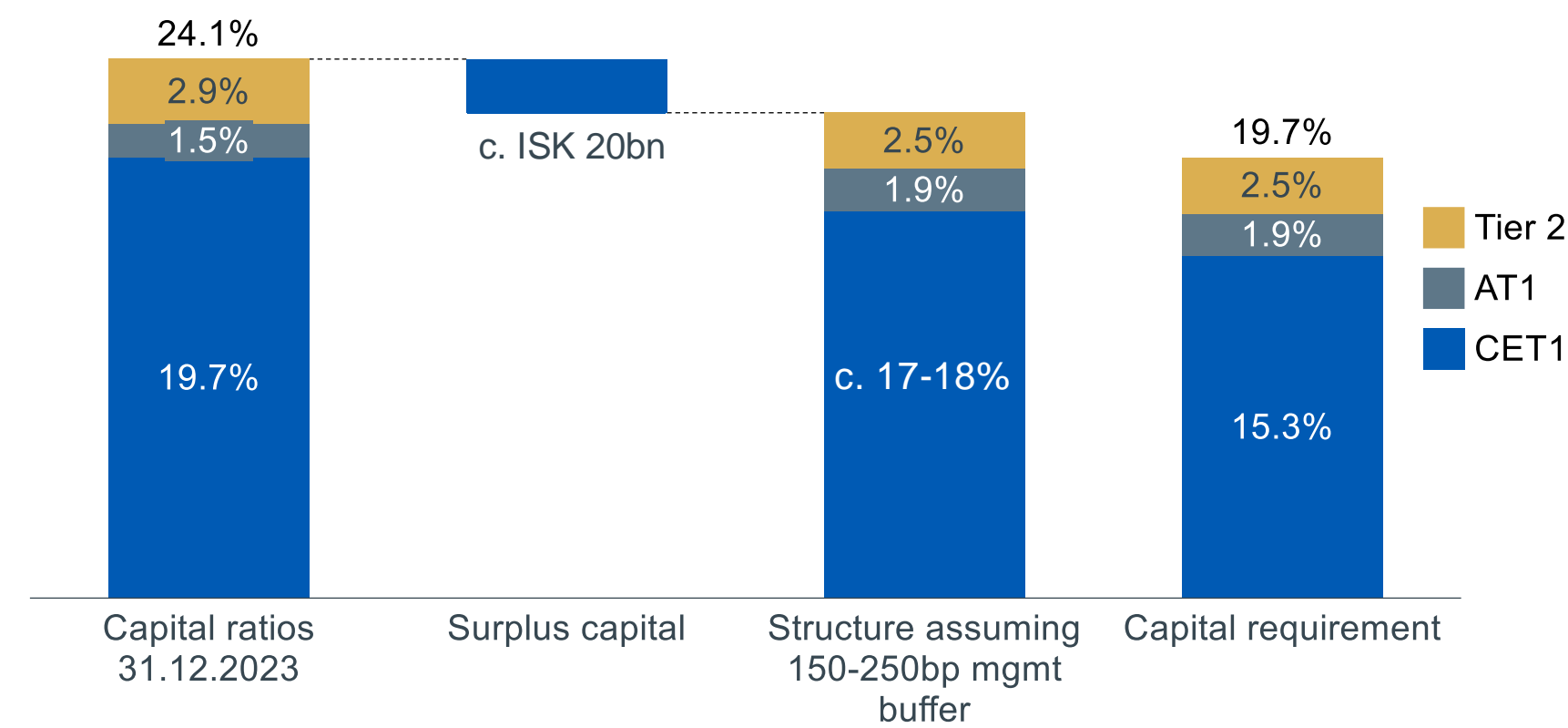
- Asset encumbrance
- Capital and MREL management buffers



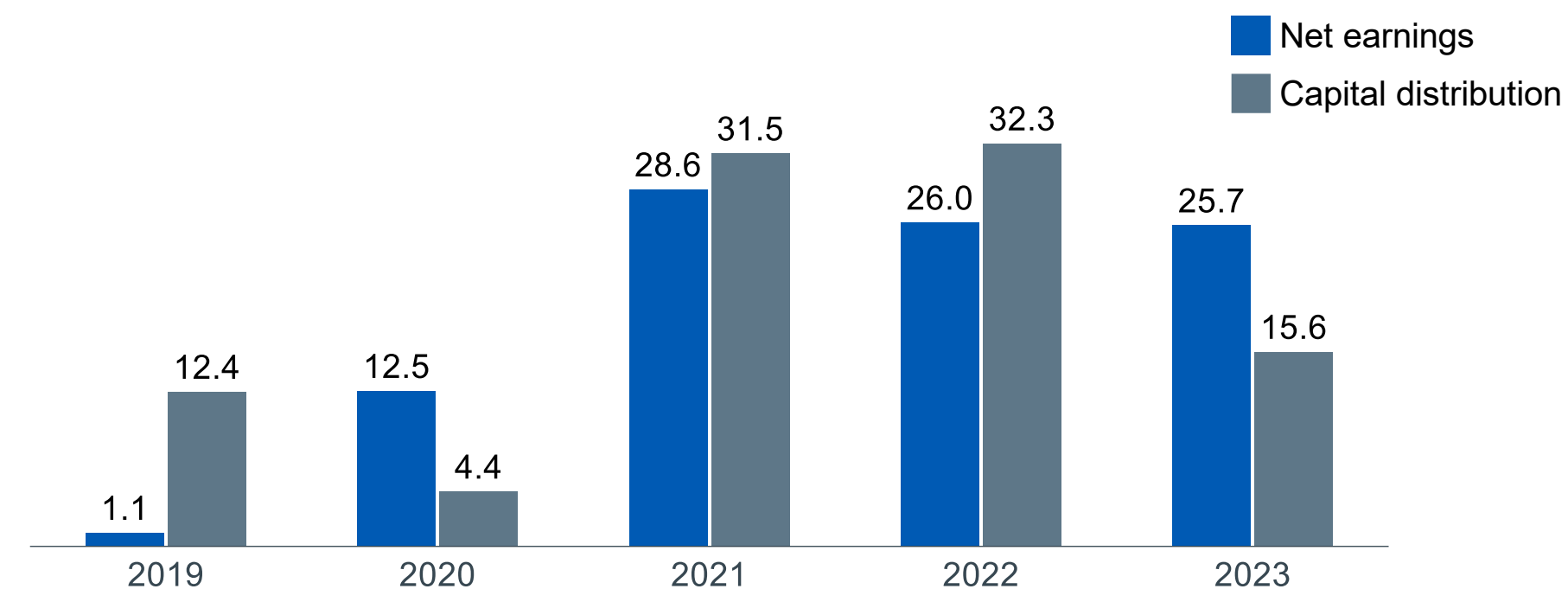
Capital and credit rating

Medium term capital target unchanged

Target capital structure over the medium term



Historical capital distribution to shareholders (ISK bn)



S&P Global

Issuer rating
Covered bond
Outlook

BBB
A+
Stable

- The agency's increasingly constructive view on the economic risks facing Icelandic banks means that the temporary capital constraint could be resolved to converge to management buffer over regulatory requirements
- This is potentially supportive of a one-notch upgrade once S&P concludes its ongoing review

MOODY'S

Issuer rating
Covered bond
Outlook

A3
Aa2
Stable

- Upgraded by one notch in September in recognition of robust financial performance and strong balance sheet fundamentals
- Comfortable headroom to current ratings across key credit metrics, including asset quality and capital
- The agency's constructive view on the Icelandic sovereign is also indirectly supportive of future rating trajectory

Ongoing strategic review on Arion's optimal credit rating coverage

Arion is currently undertaking a review of the appropriate number of credit rating agencies going forward.

This review will consider among other factors:

- Strategic fit given our size and business model
- The issuance plan and quality of market access
- Ensuring that Arion's investors continue to have access to quality and independent credit assessments from highly credible credit global rating agencies

We will communicate the outcome of this review and any potential impact it might have on the Group's capital flexibility and targets in the near term

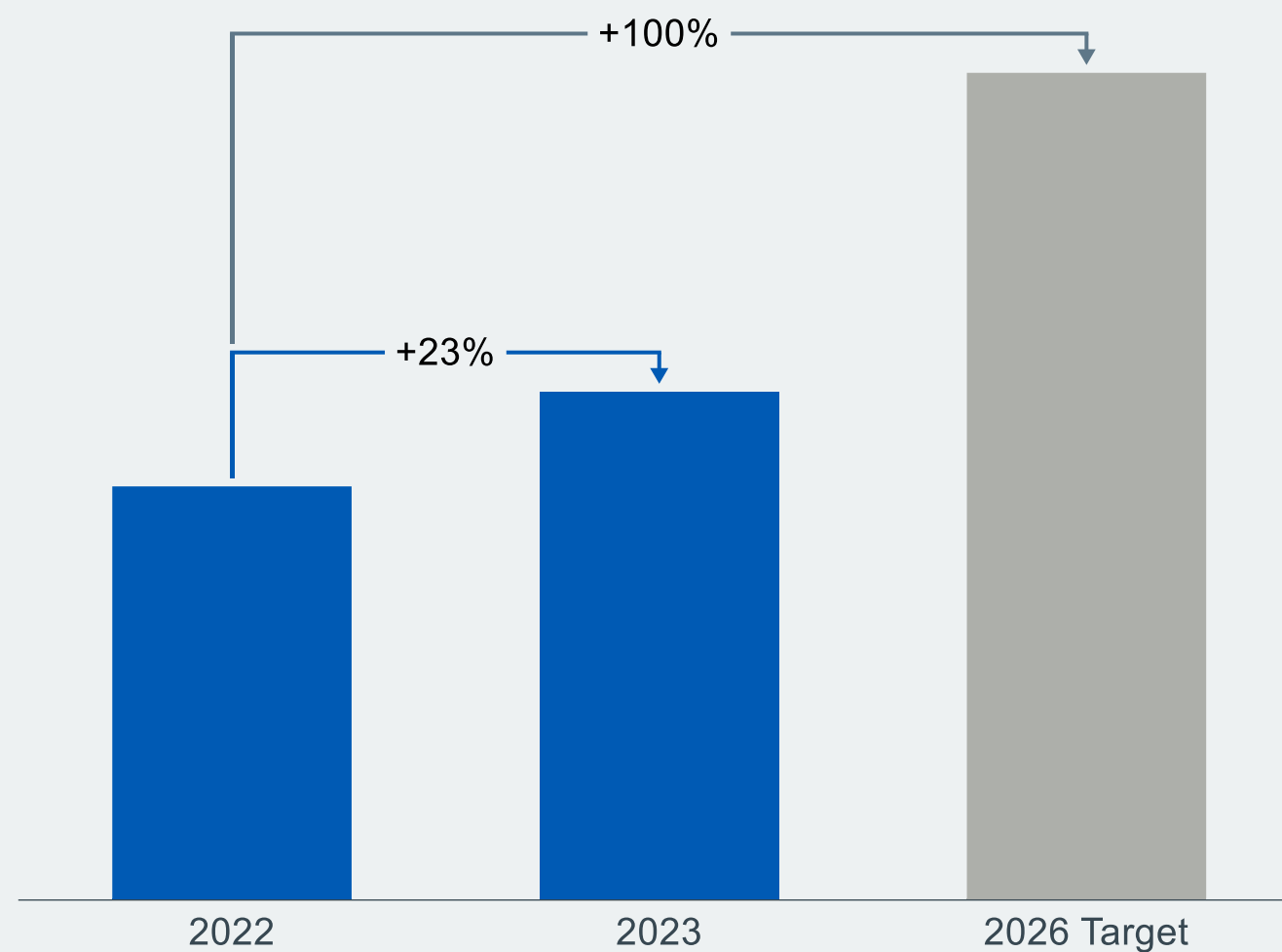
The Bank is committed to maintaining the required capital levels of the current ratings and regulatory thresholds



Increased investment in and higher productivity of digital development organization

Mid '23 Agile@Scale transformation already delivering improved productivity

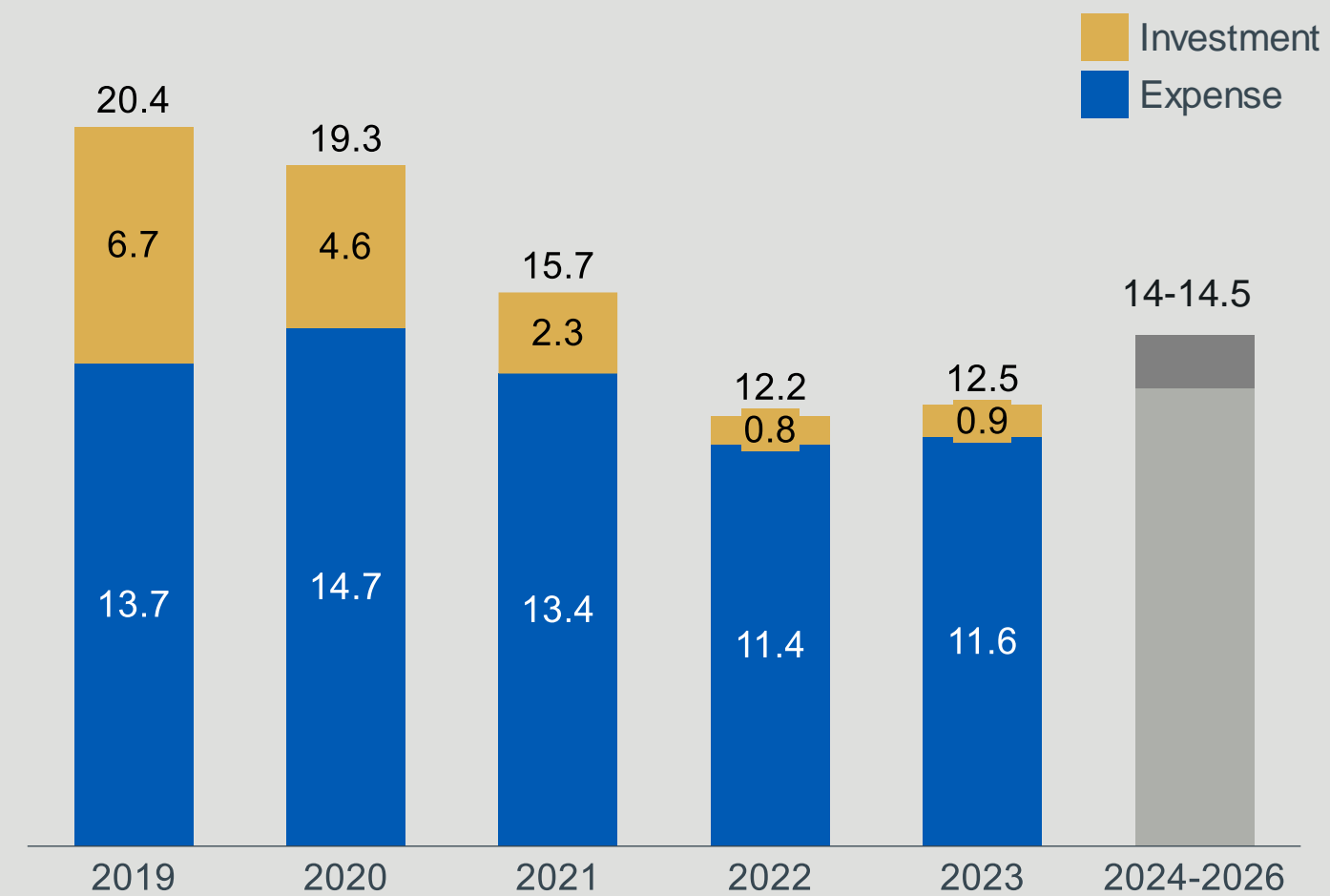
of tech development initiatives delivered



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

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

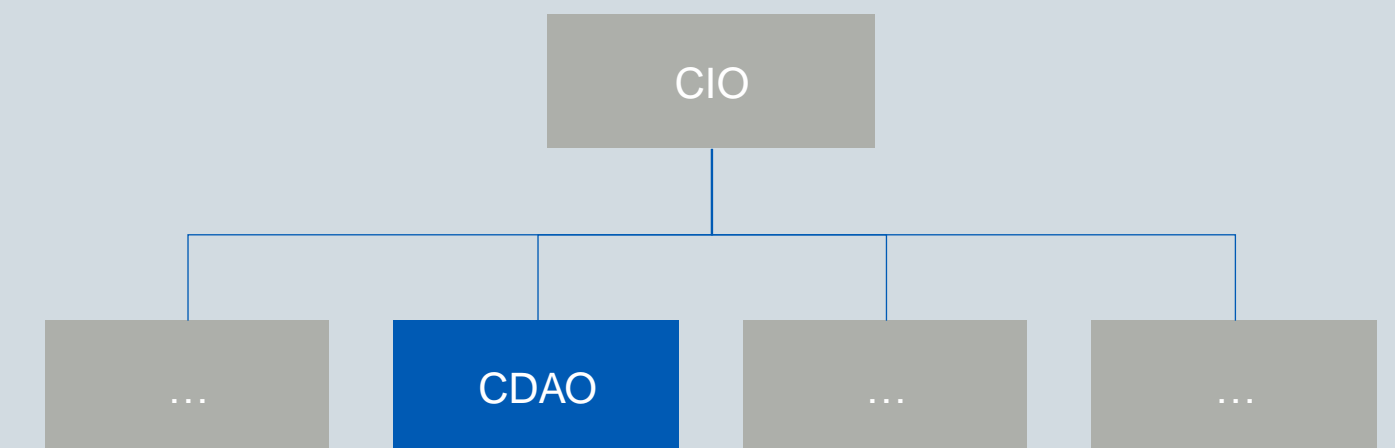
% IT Investment and Expense relative to Core Income



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

Acceleration of Data ambitions with new Data organization reporting to CDAO

IT organizational chart



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



Key initiatives to drive continued financial momentum

Projects outlined in earlier presentations have clear positive impact to financial performance

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

Resilience

Efficiency

Growth

IT

Investment commitment
Data and AI
Cybersecurity and customer education
AWoW

Markets

Wealth management and Premia
New asset management system
Arctic opportunities

Operations & Culture

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

Retail Banking

Rewards / Family
Market segmentation
Bancassurance
Stable deposit strategy
Women invest

Funding and Treasury

Stable deposit strategy
Broadening wholesale funding options
Capital optimization

Risk

Credit models development
Data and AI
cyber-security education

Vörður

Corporate insurance
Life and health
Digital channels
Bancassurance

CIB

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



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