Arion Bank

Q4 and full year results 2022

Investor presentation 8 February 2023

Key results in Q4 and full year 2022

Strong year for the group

- 10.7% ROE in the quarter and 13.7% for the year
- Driven by ongoing positive momentum in Core Income which increased for the full year by 17.5%
- Key medium-term targets exceeded for the year
  - Market volatility impacts financial income and thus Operating income KPIs
  - Updated targets focus on Core income targets which is a more effective management tool
  - Capital target clarified in Q3 with 150-250 bps management buffer on capital regulatory requirements instead of fixed ratio
  - Loan growth target removed in light of external market environment
  - CET1 management buffer of 300bps, still exceeding targets despite shareholder distributions
  - Capital, funding and liquidity positions robust. Share buyback program ongoing

Key results	Medium term targets	2022		Updated medium term targets
Return on equity	Exceed 13%	✓	13.7%	Unchanged
Operating income / REA	Exceed 7.3%	•	6.7%	**>6.7% on Core Income**
Insurance premium growth (YoY)	Premium growth (net of reinsurance) to exceed the growth of the domestic market by more than 3%[1]	✓	10.2%	Unchanged
Loan growth	In line with nominal economic growth[2]	✓	15.9%	**Removed**
Cost-to-income ratio	Below 45%	•	47.0%	**Below 48% on Core Income**
CET1 ratio	150-250 bps management buffer[3]	•	300 bps	Unchanged
Dividend payout ratio[4]	50%	✓	79% Dividend 113% Dividend + buybacks[5]	Unchanged

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

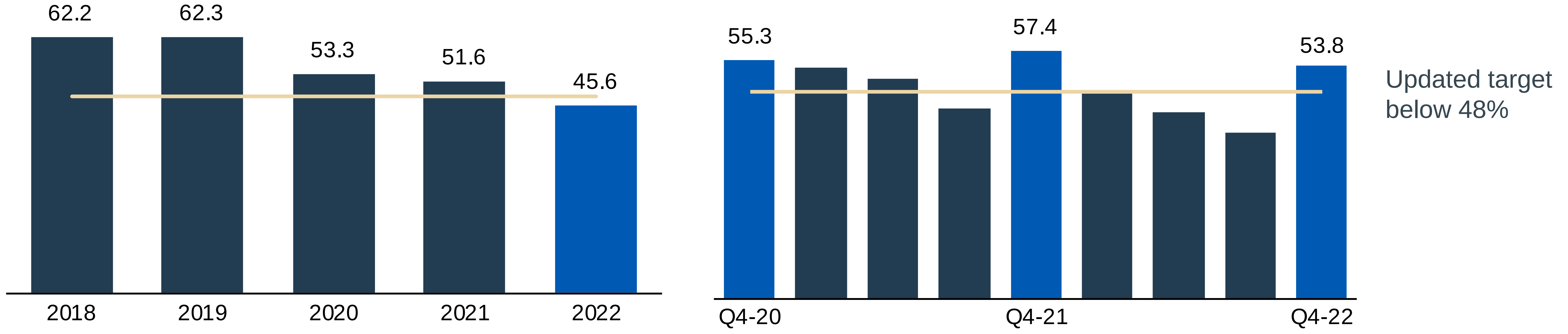
1 Premium growth in the domestic insurance market in 9M 2022 was 7.5% from 9M 2021
2 Arion Bank forecasts nominal GDP growth of around 15% in 2022. Full year GDP numbers will be disclosed 28 February
3 Approx.17.3-18.3% based on current capital requirements
4 Pay-out ratio of approximately 50% of net earnings attributable to shareholders through either dividends or buyback of the Bank's shares or a combination of both. Additional distributions will be considered when Arion Bank's capital levels are above the minimum requirements set by the regulators in addition to the Bank's management buffer
5 Net of own shares

Updated medium term targets

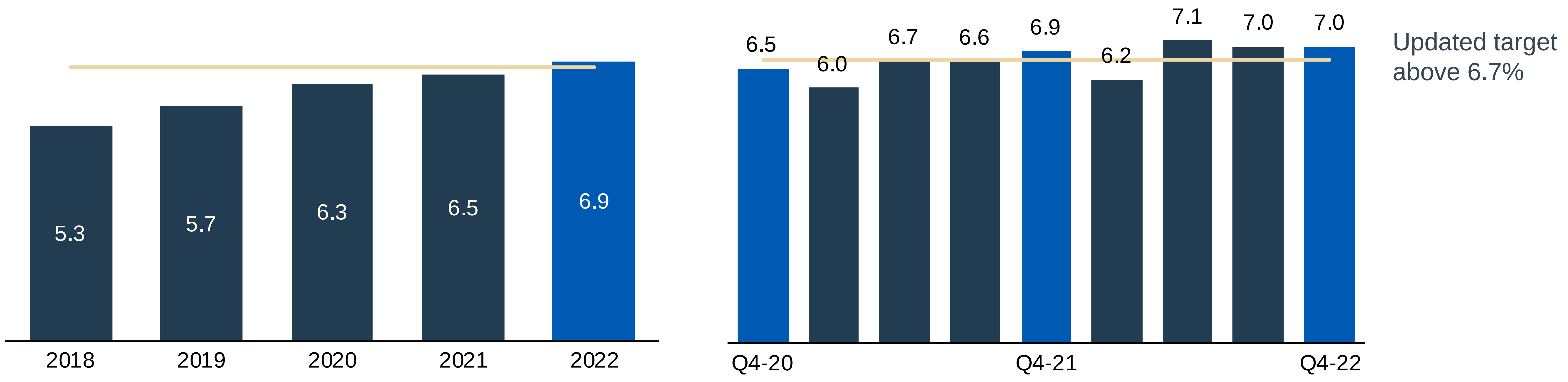
Focus on core income targets

- Changes aimed to enhance the effectiveness of operating income target
- Financial income movements largely driven by market volatility
- New ratios focus on managing core operating income over cost and REA
  - Cost to Core income below 48%
  - Core income / Risk exposure amount (REA) above 6.7%
- Target of loan growth in line with nominal GDP growth also removed to retain agility in current external operating environment

Cost to Core income ratio (%)



Core income / REA (%)



Key milestones of the year

FYRIRMYNDARFYRIRTÆKI
Í STJÓRNARHÁTTUM

Arion Bank and Vordur joined operations

The operations of Vordur insurance moved to the Bank with the goal of escalating the bancassurance strategy

The sale of Valitor completed

New rating from Moody's and updated rating from S&P

The Markets division delivers strong performance despite challenging markets

- Strong net inflow in assets under management in 2022
- Capital markets had the best market share in Iceland 2022 for both equity and bonds

The Banker
Bank of the Year 2022
ICELAND

Digital strategy and bancassurance progressing

- The Arion Bank app voted the best banking app in Iceland for the sixth consecutive year
- Digital registration of title for car loans introduced which greatly shortens the lending process and is now fully digital end to end
- Vordur insurance overview and live price quotes available in the app

Strong activity in Corporate & Investment Banking with public listing of Alvotech, Nova Telecom and Amaroq Minerals

Blikastaðir development

Landey and the municipality of Mosfellsbær have reached an agreement on building 3,500 to 3,700 homes in the area of Blikastaðir which lies just along the city boundaries of Reykjavik

Solid ESG ratings from Sustainalytics and Reitun

Arion Bank at a glance

Diversified financial institution in Iceland with strong market position

Retail Banking
(including insurance)

Operating income 2022: ISK 26.5bn
Total assets 2022: ISK 667bn
Allocated equity: ISK 59.7bn

- Comprehensive financial services to individuals
- Around one-third market share in Iceland
- Large provider of residential mortgages in Iceland
- Domestic digital leader in retail banking with focus on customer experience
  - First to introduce fully digitalized credit assessment for mortgages, car loans in 5 minutes, awarded for the best banking app in Iceland for the last 6 years and offers premium services for affluent clients
  - 71% of core products sold digitally in 2022
- Insurance service to retail customers

Corporate & Investment Banking
(including insurance)

Operating income 2022: ISK 25.5bn
Total assets 2022: ISK 458bn
Allocated equity: ISK 77.2 bn

- Corporate banking, advisory and insurance service to corporate customers
- Partner to large corporates and SMEs in Iceland and internationally in the Arctic region
  - Arctic loan book has more than doubled in the last two years
- Leader in credit origination, using own balance sheet, private and capital markets, for clients. Significant growth in managed products
- Advised and managed 75% of public equity offerings in 2022 and preferred advisor in private transactions

Markets and STEFNIR

Operating income 2022: ISK 10.0bn
Assets under management: ISK 1,299bn
Allocated equity: 8.9bn

- Arion Bank the largest asset manager in the Icelandic market with EUR 8.6bn in assets under management – estimated around 40% of estimated domestic GDP 2022
- Emphasis on institutional investors and high net worth clients
- Capital Markets had the highest market share in the domestic market, both in equities and bonds
- Stefnir Funds is among largest fund management companies in Iceland with a variety of domestic and international assets under management

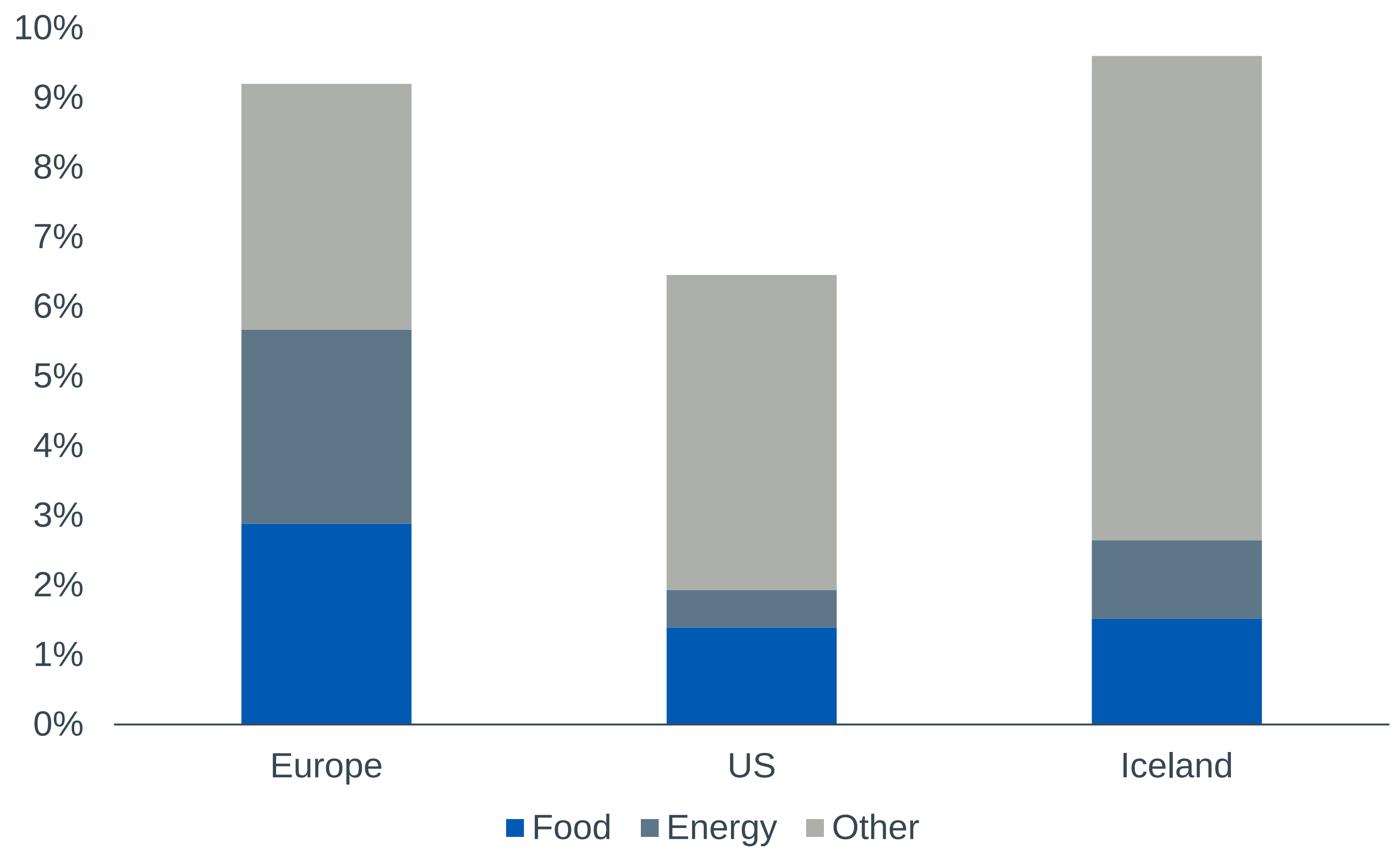
Insurance vörður

Insurance premium 2022: ISK 15.6bn
11% growth from 2021

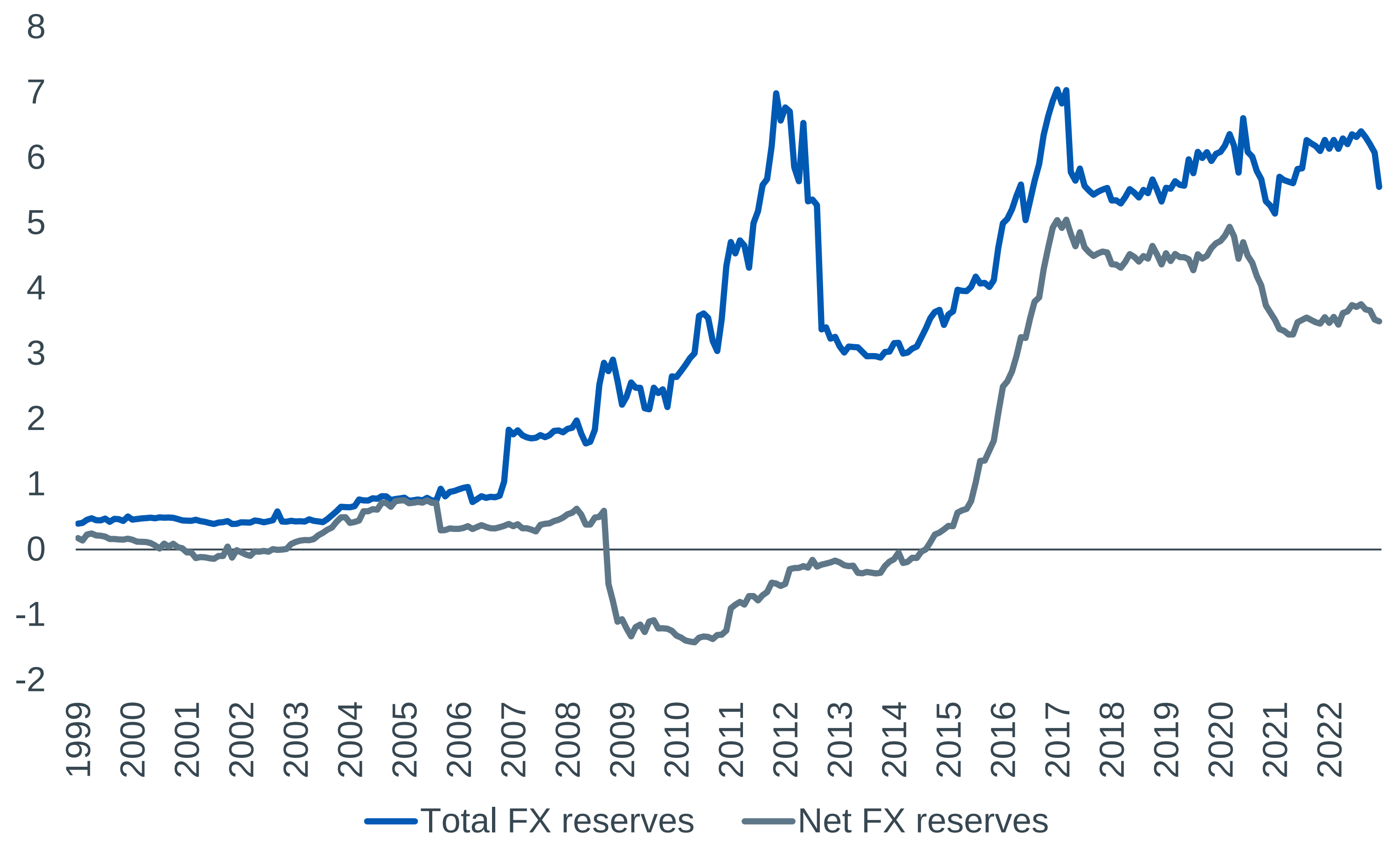
- Fastest growing insurance company in Iceland - around 18.2% market share
- Around 65,000 customers
- Full range of insurance products and services
- Continued focus on a fully integrated bancassurance model with the Bank
  - Bancassurance ratio at YE 2022:
    Individuals 33.7%
    Corporates 22.9%

Key reasons for Iceland's resilience in turbulent markets

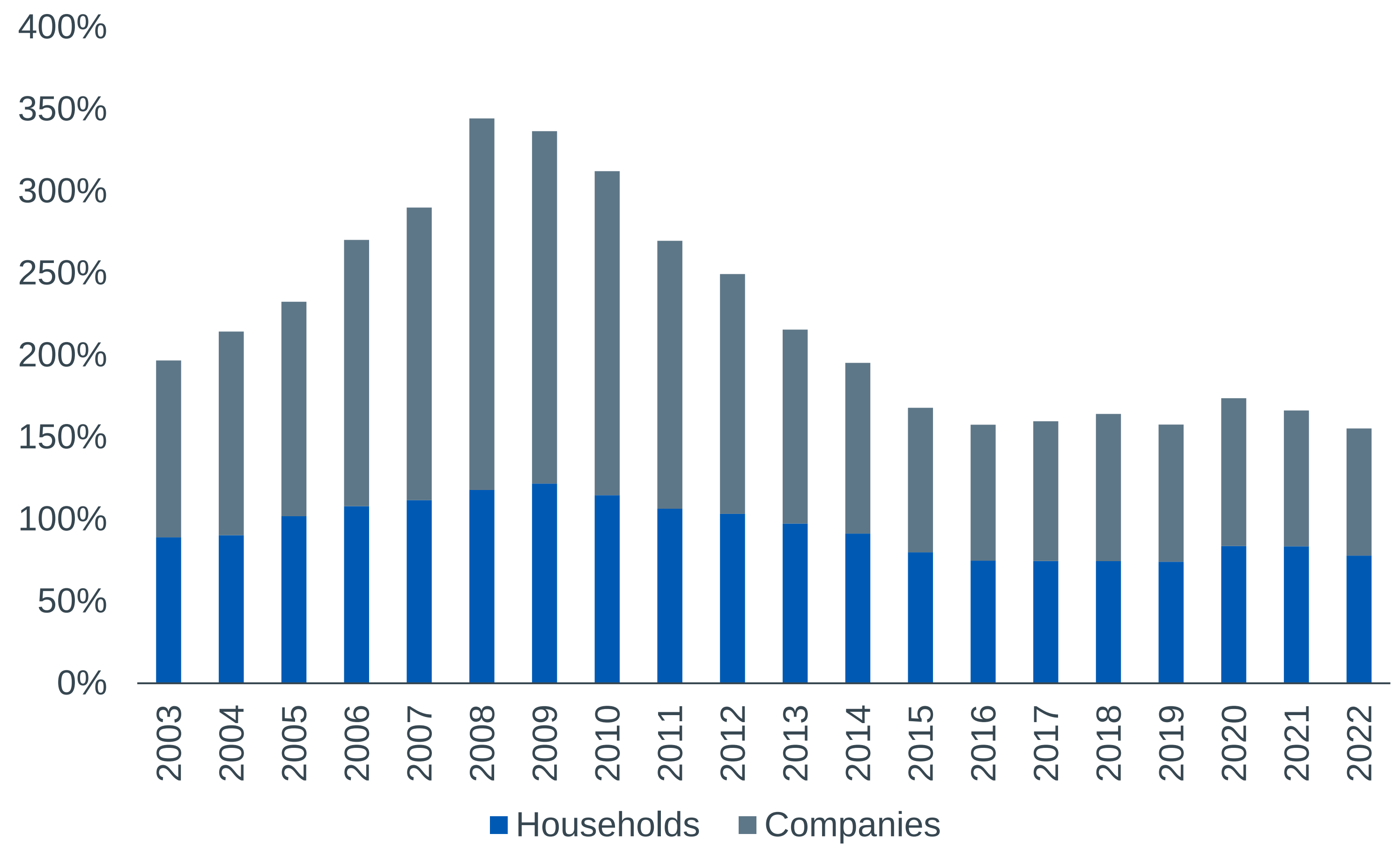
Contribution to annual inflation rate
- December



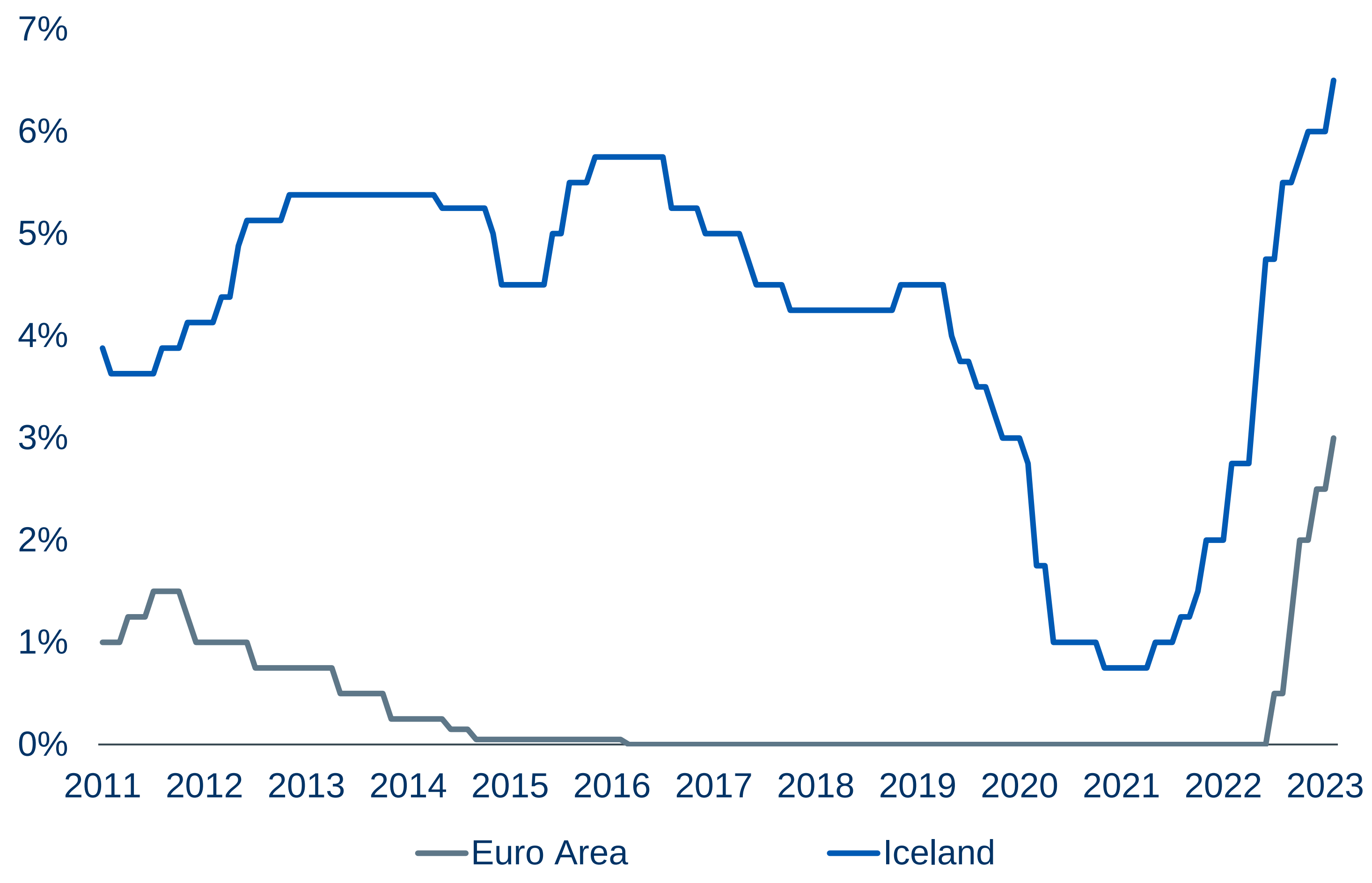
CBI's FX reserves
- bn. EUR



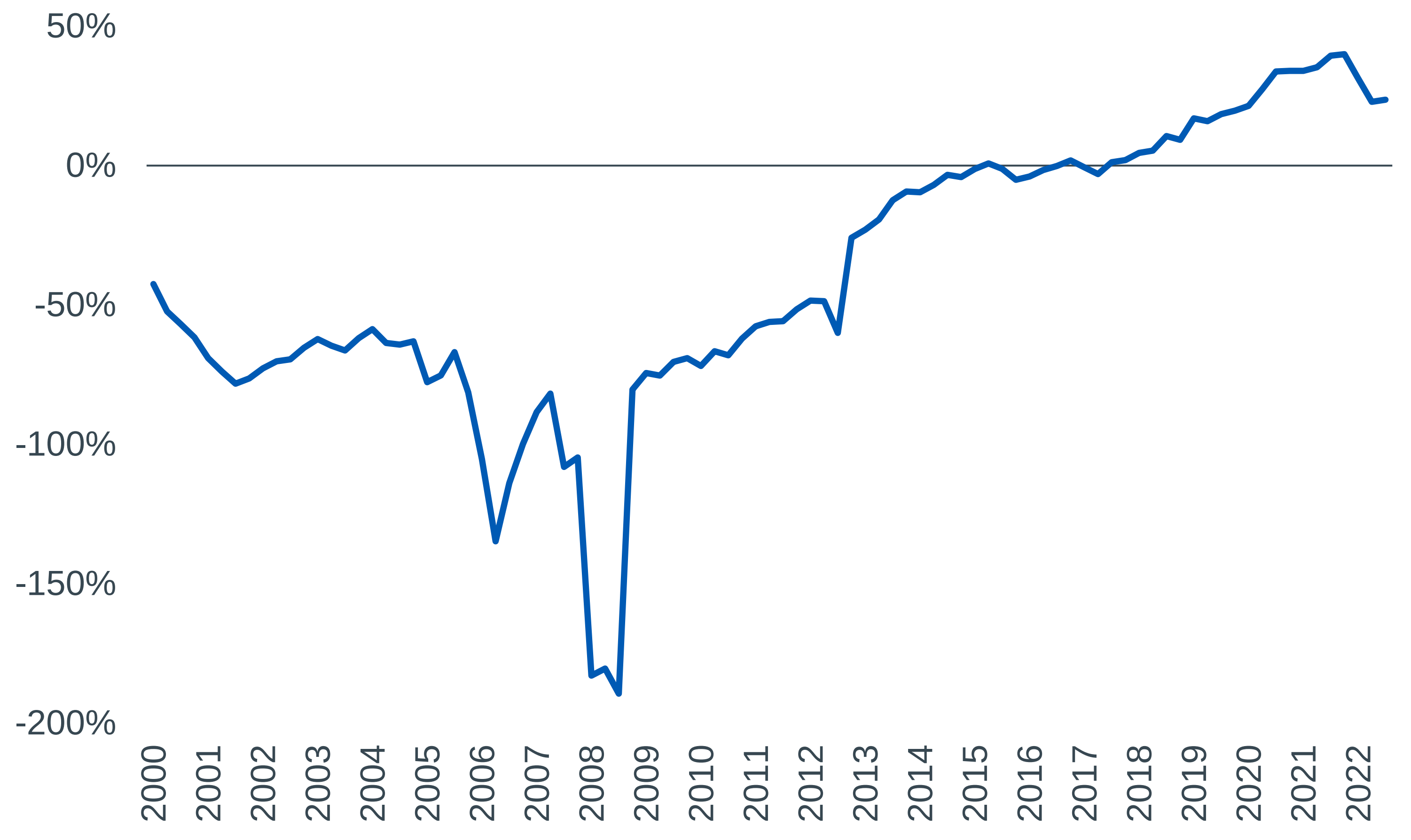
Household and non-financial corporate debt
- % of GDP



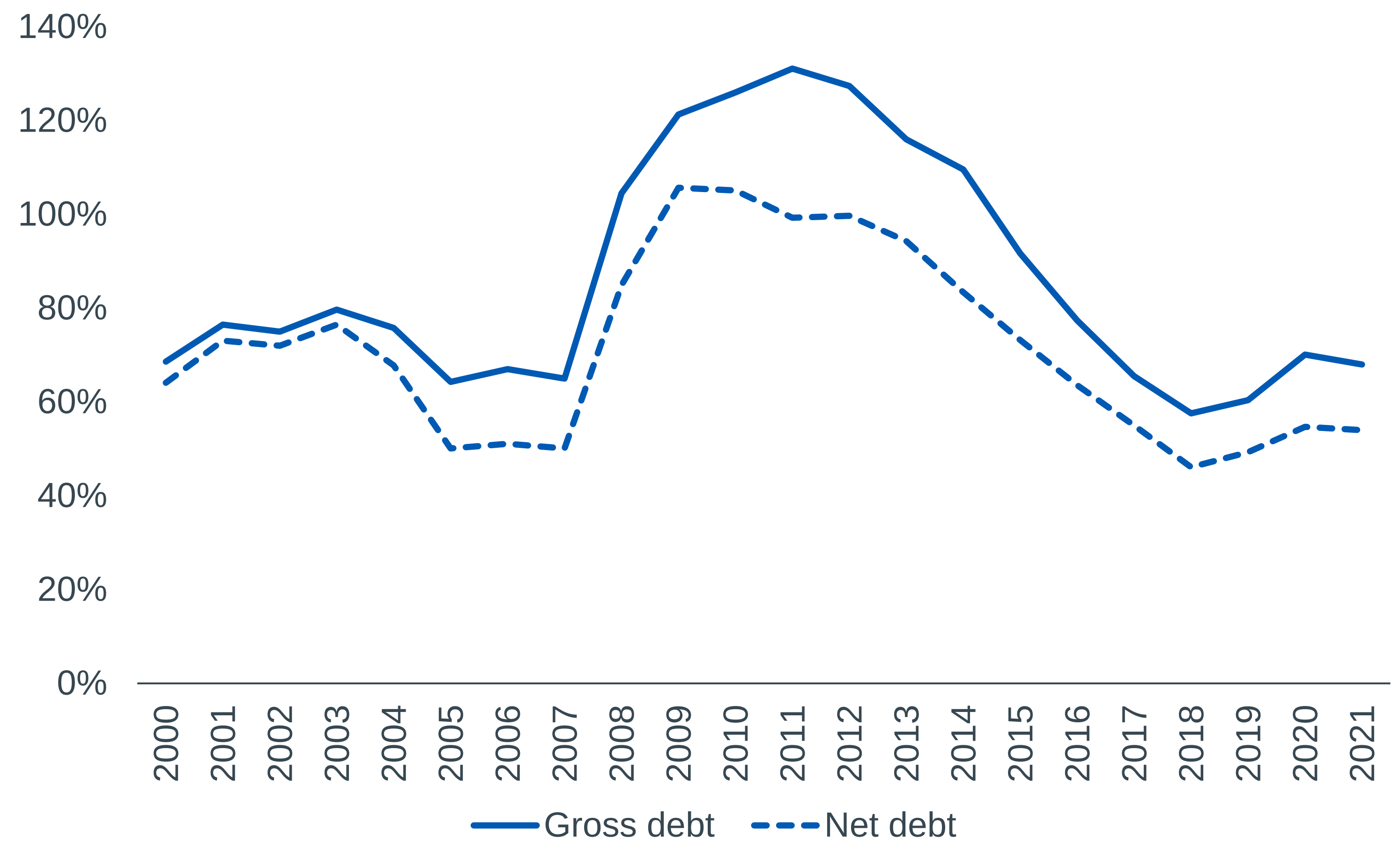
Key interest rates



Net international investment position
- % of GDP



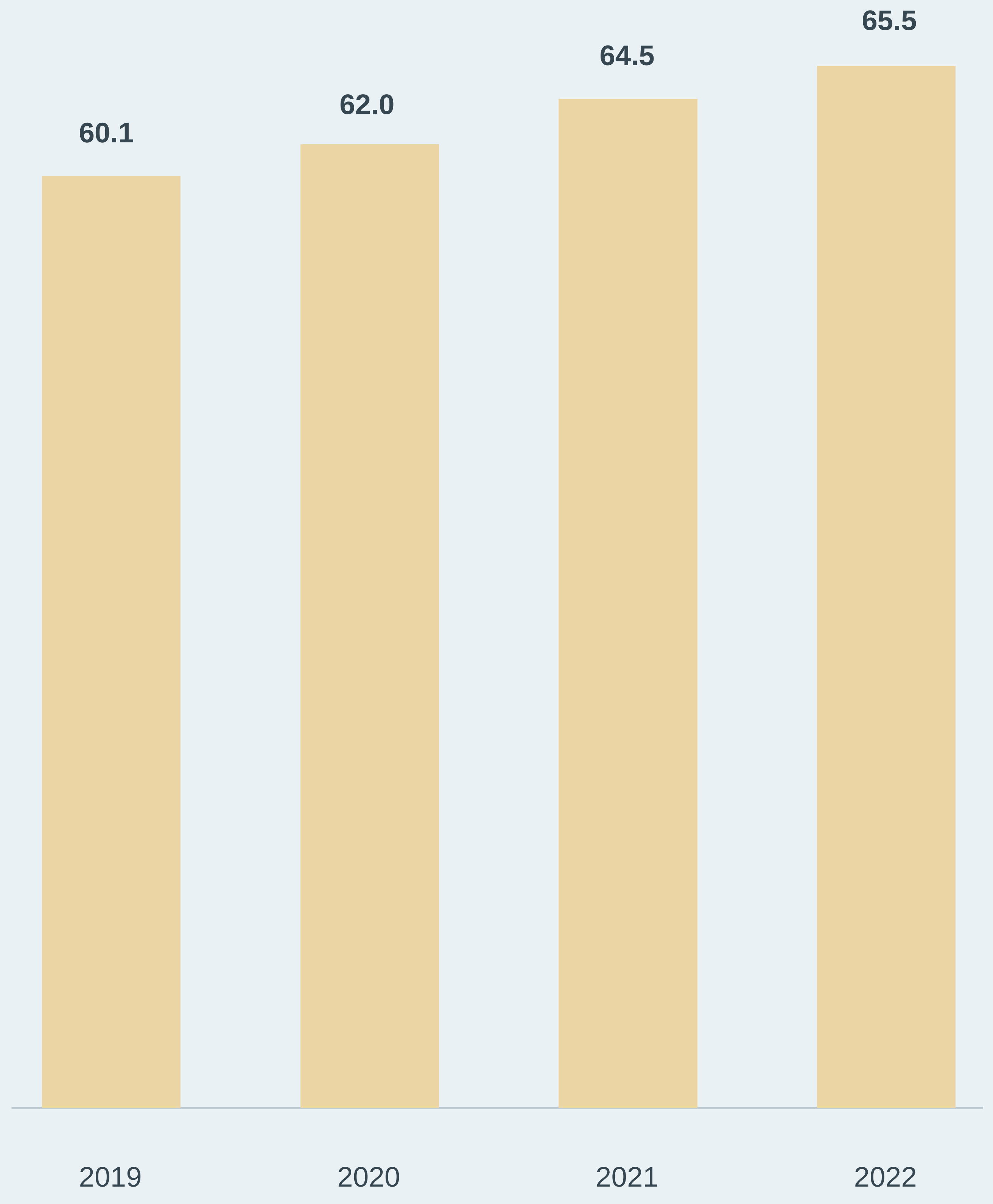
Debt of central government
- % of GDP



Sources: Eurostat, BLS, Statistics Iceland, Central Bank of Iceland, ECB, BoE, Federal Reserve, Arion Bank

Vordur growing market share, supported by bancassurance momentum

Total number of customers (in thousands)



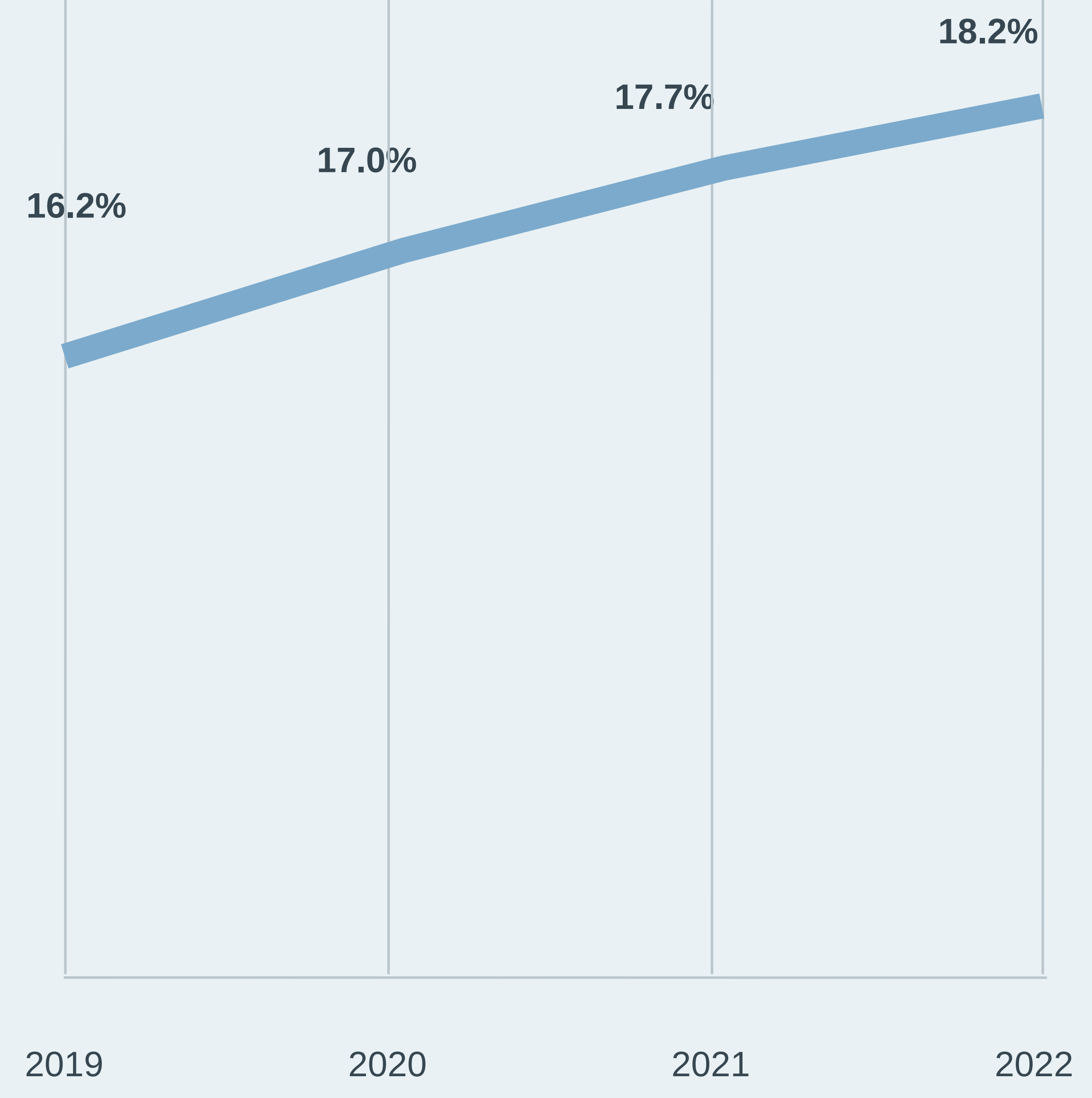
Bancassurance ratio* - individuals

4Q 2021	4Q 2022
32.2%	33.7%

Bancassurance ratio* - corporates and SMEs

4Q 2021	4Q 2022
20.5%	22.9%

Market share (premiums earned)



*Arion Bank's bancassurance ratio is based on the number of bank customers who pay for insurance with Vordur and the total number of bank customers who pay for insurance from any insurer

Source: Market share is based on quarterly financial statements from Vordur, Vis, Sjova and TM
Arion Bank

The Bank received strong ESG ratings and the green asset pool grew by 16% in 2022

The Bank will continue to focus on sustainability in its operations and measure its impact. We aim to raise the ratio of green lending to 20% of the Bank's total loan portfolio by 2030 in line with our green financing framework.

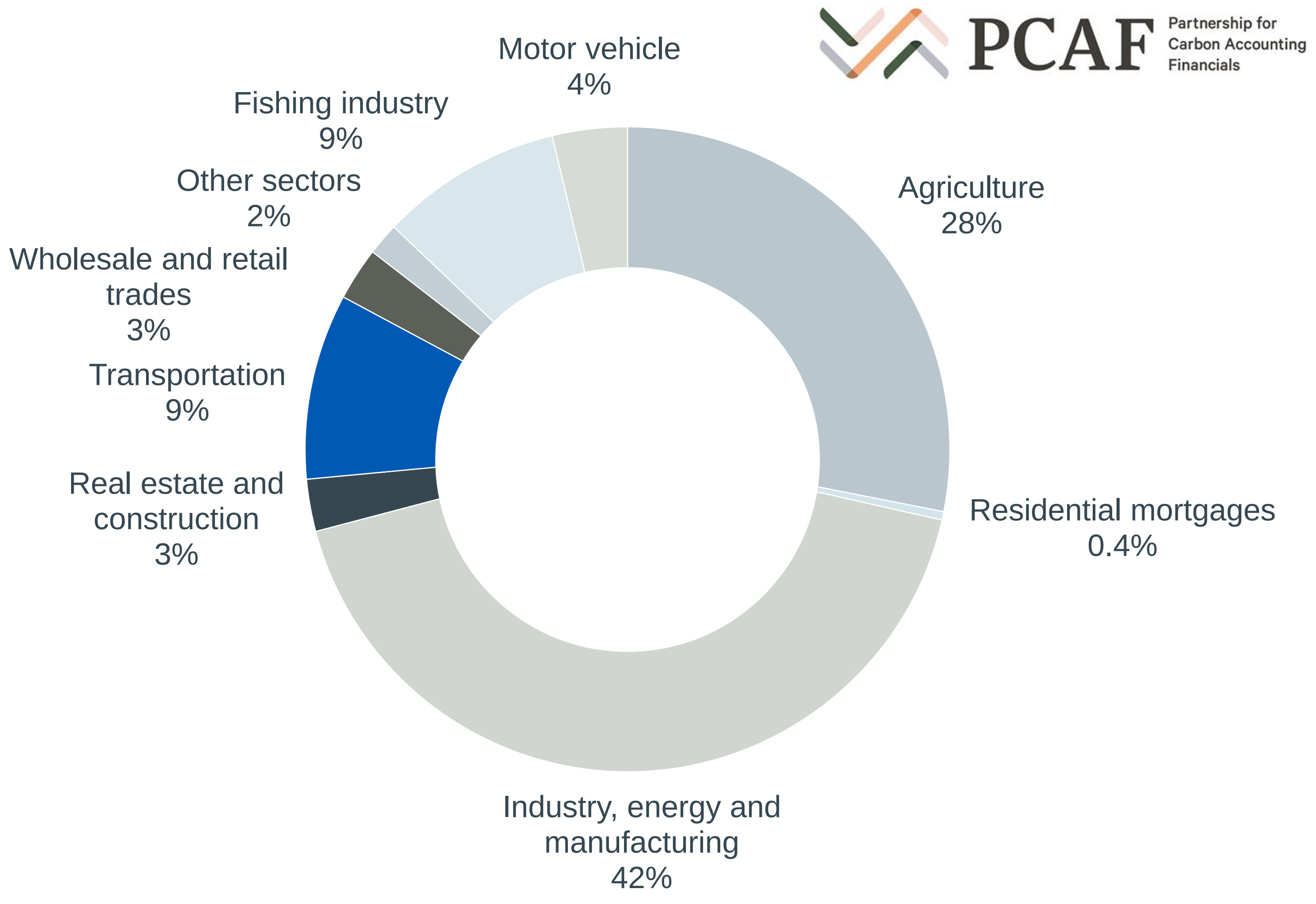
MORNINGSTAR | SUSTAINALYTICS
ESG INDUSTRY TOP RATED 2023

Sustainalytics places Arion Bank in the top 6th percentile of banks (around 1,000 banks globally) and the top 4th percentile of regional banks (around 400 banks). On a scale of 0-100, Arion Bank received 12 points, with fewer points signifying lower risk which places the Bank in the low-risk category.

Reitun

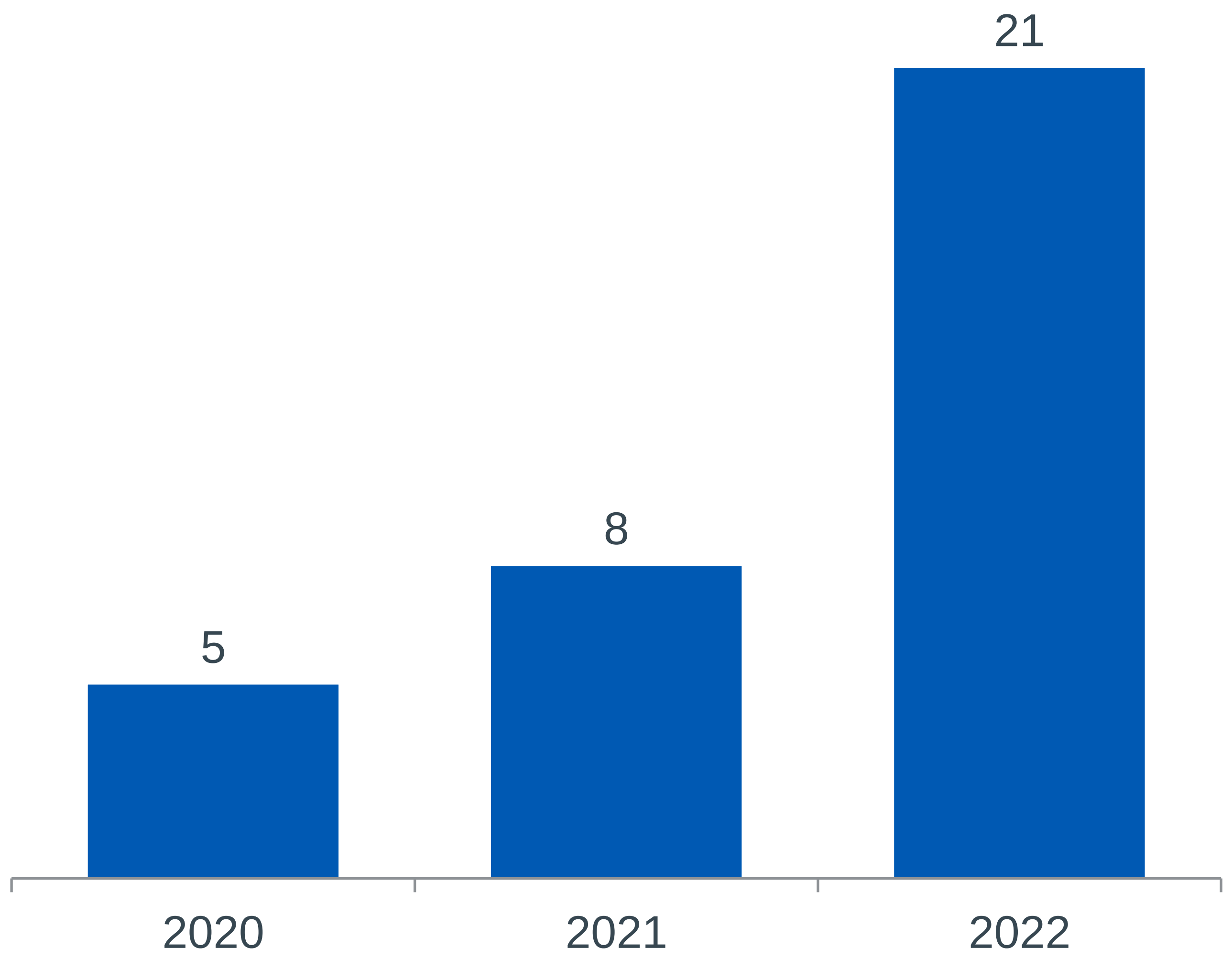
Arion Bank has achieved the score "outstanding" in Reitun's ESG rating, scoring 90 out of 100 possible points and placing it in category A3. The rating is based on the Bank's performance in environmental, social and governance (ESG) issues in its operations. This is the third year in row the Bank has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

Arion Bank's emissions from loan portfolio in 2021

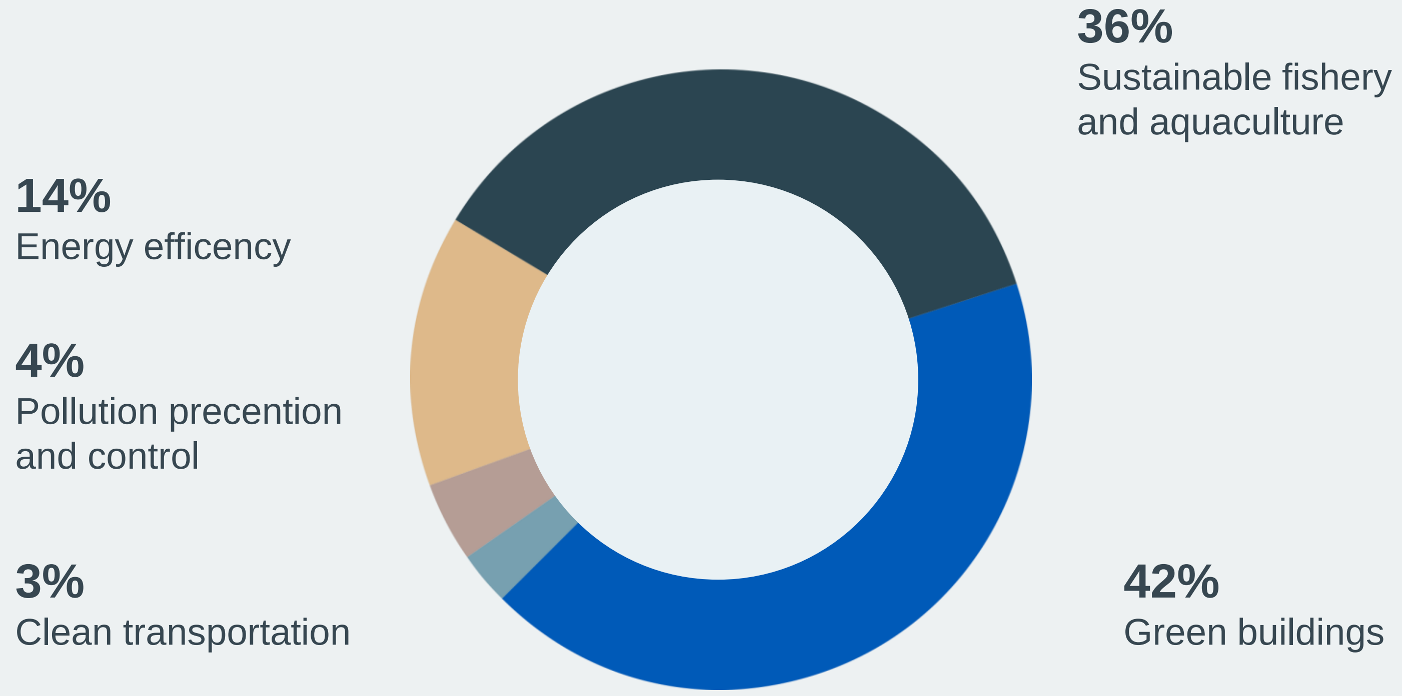


The Bank's total financed emissions in 2021 was 279.4ktCO_2e
92.5% of total loan portfolio has been measured

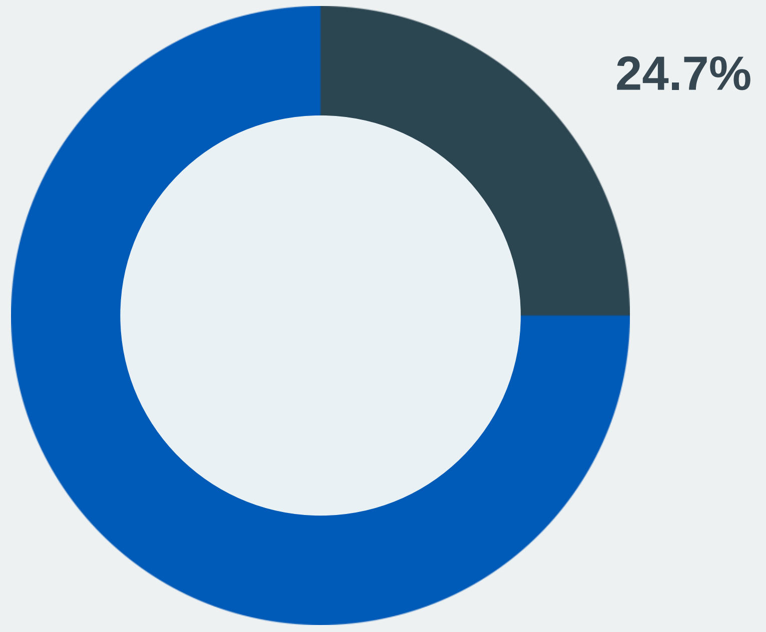
Green deposits (ISK bn)



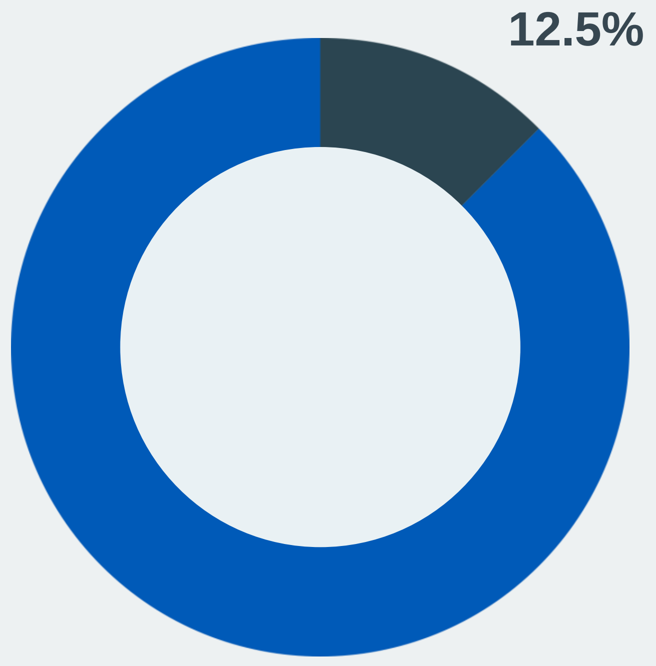
Diversified pool of eligible green assets (total ISK 151bn) at YE 2022



Green bonds represent 24.7% of borrowings



Green assets represent 12.5% of the Bank's loan book



Arctic activity increased both on the lending and advisory side

- The Arctic loan book grew by 62% in 2022
  - 48% CAGR since 2019

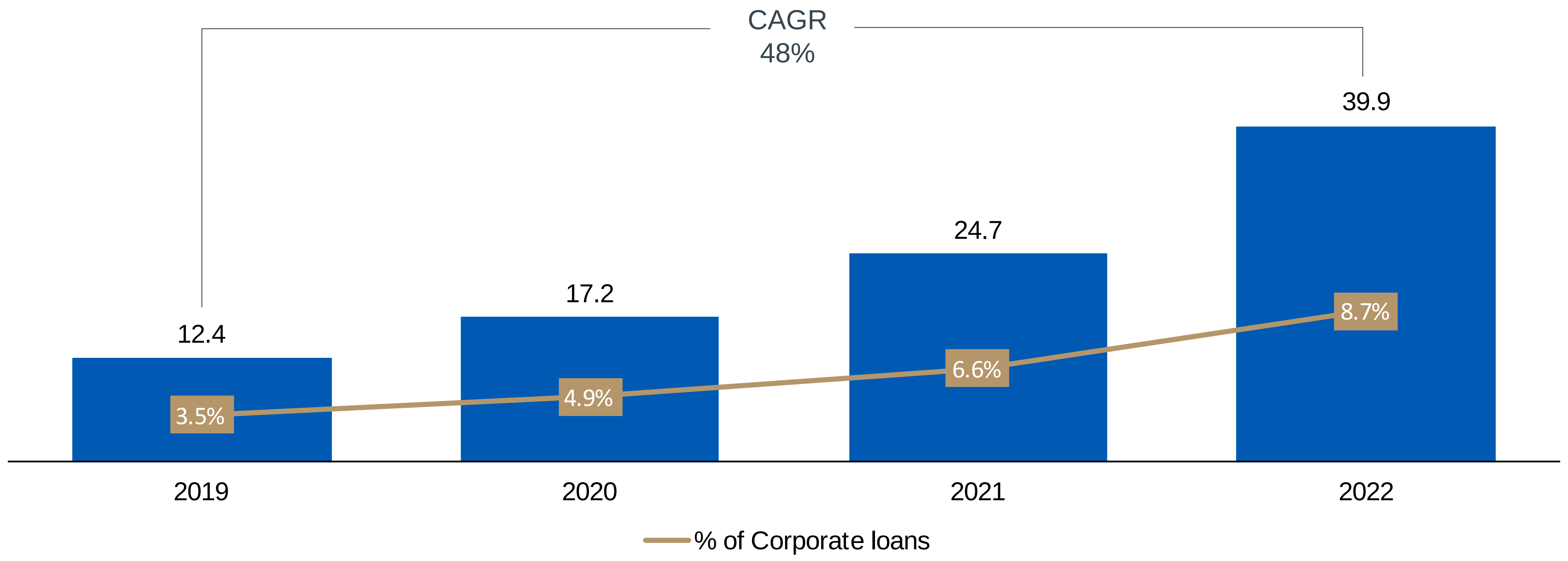
- First listing on Nasdaq Iceland relating to a company in Greenland – Amaroq Minerals

Amaroq Minerals

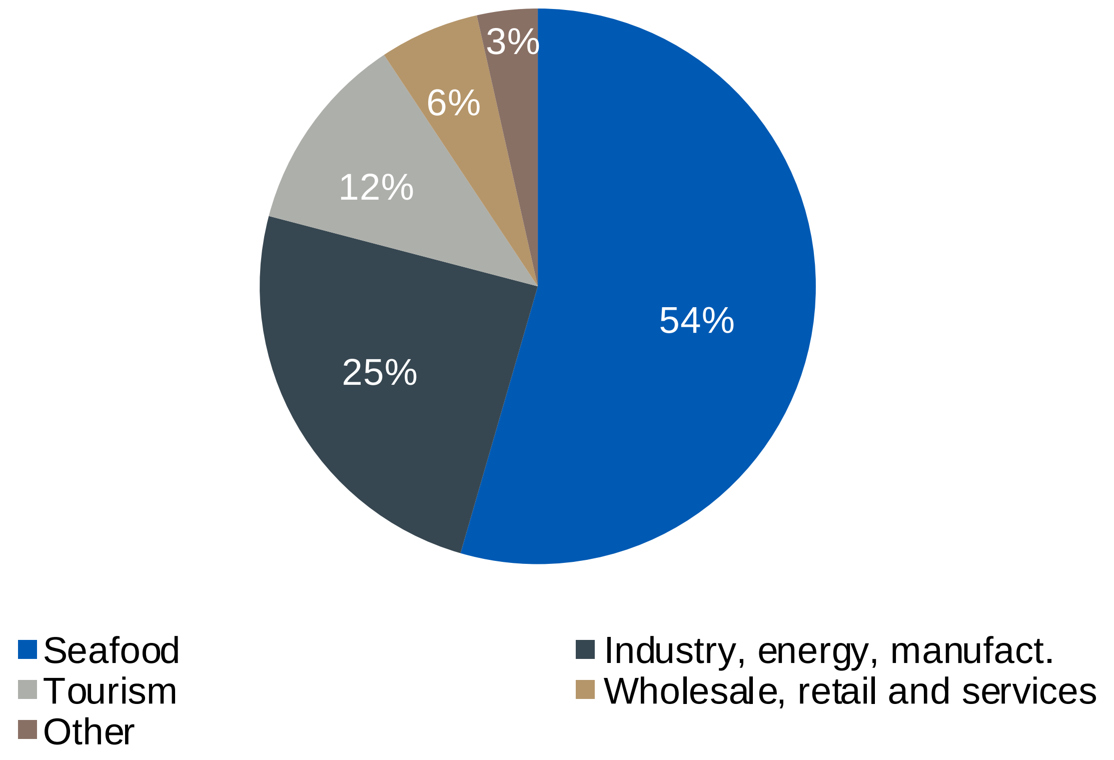
- Arctic Investment Partners (AIP) formed
  - Arctic Circle
  - Arion Bank
  - Guggenheim Partners
  - PT Capital

"The formation of the AIP working group is a signal to the world of the tremendous opportunities for responsible investment in and development of the Arctic," Chairman Grimsson said. "I am delighted by the group's formation, which comprises world-class investors and established friends of the Arctic."

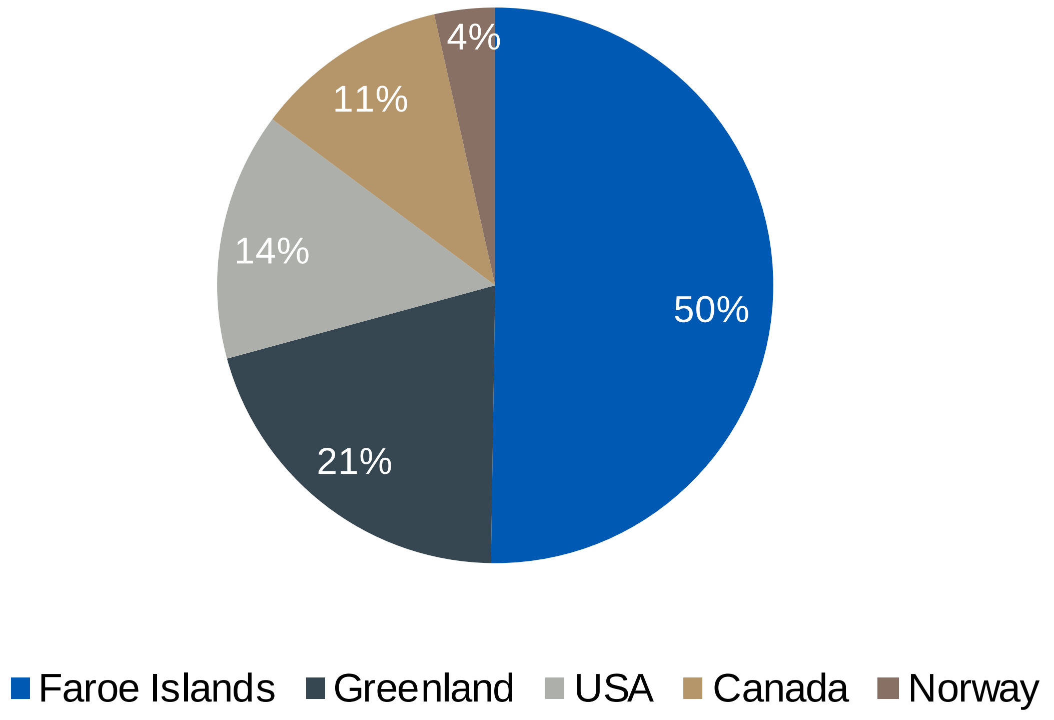
Arctic loan book (ISK bn.)



Arctic sector spilt (%)



Arctic geographic spilt (%)



The Bank's development assets consolidated in subsidiary Landey

Landey is a property and land development company which, since it was founded in 2009, has been involved in the ownership of various properties and development projects

Blikastaðaland (Book value ISK 5.1bn)

One of the largest undeveloped plots of land in the capital city area

- Covering approximately 90 hectares
- The area lies in Mosfellsbær, just along the city boundaries of Reykjavik and is very scenic, with mountains and coastlines and with good connections to a planned transportation network
- Landey and Mosfellsbær have reached an agreement on building 3,500 to 3,700 homes in the area, a mix of single-family and multi-family residences

Arnarland (Book value ISK 1.5bn)

A unique location in the middle of the capital city region

- 9 hectares area located in Garðabær
- A new health community will be built, focusing on quality of life, nature and services designed to improve health.
- The project is 51% owned by Landey

Helguvík / Stakksberg (Book value ISK 1.2bn)

Industrial plot with significant development potential

- 11 hectares plot in Reykjanesbær
- The vicinity to an international airport and a deep-water harbour offers up great potential for development
- The aim is to develop the area over the next few years in good cooperation with local community and stakeholders

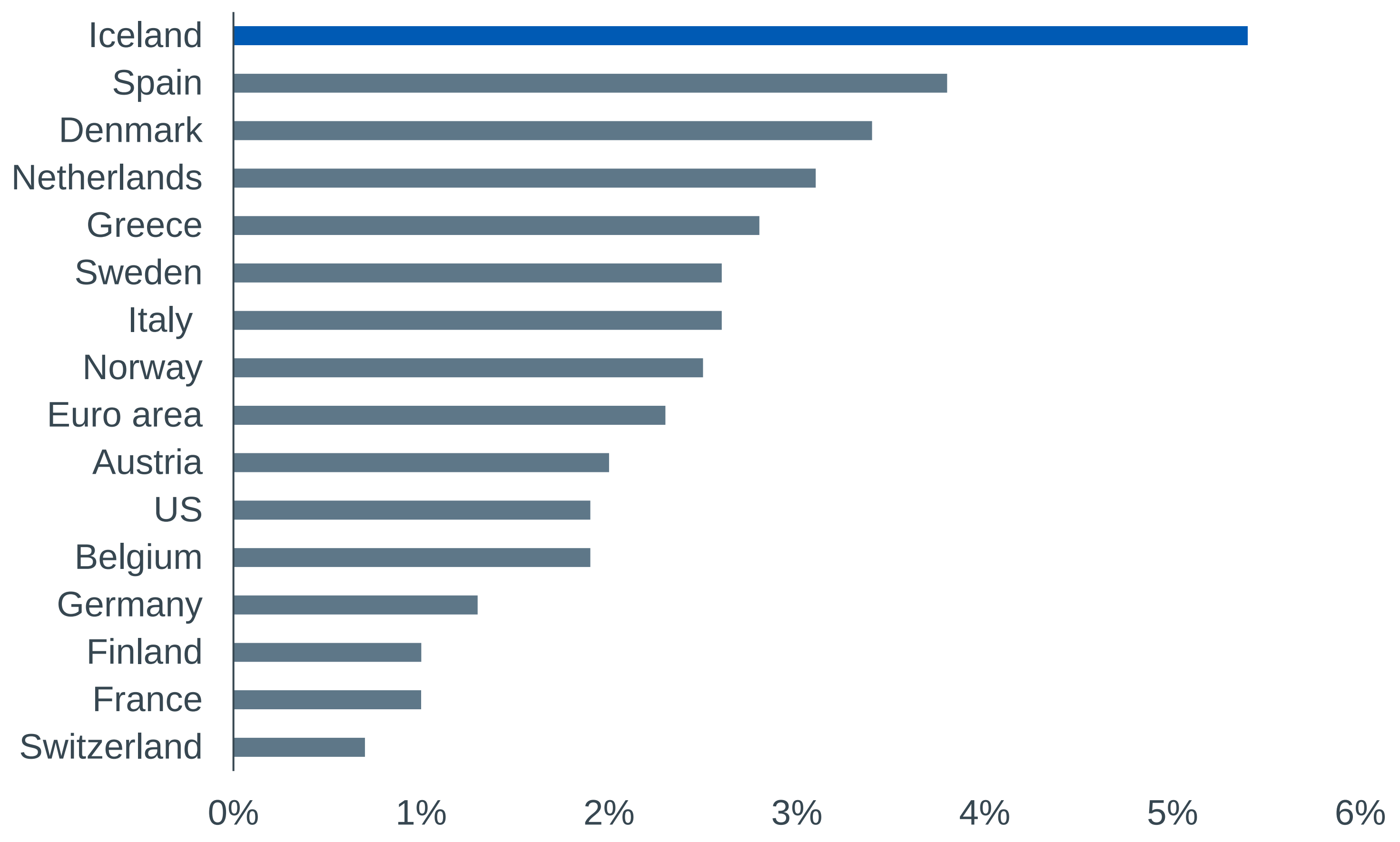
LANDEY

Macroeconomic environment

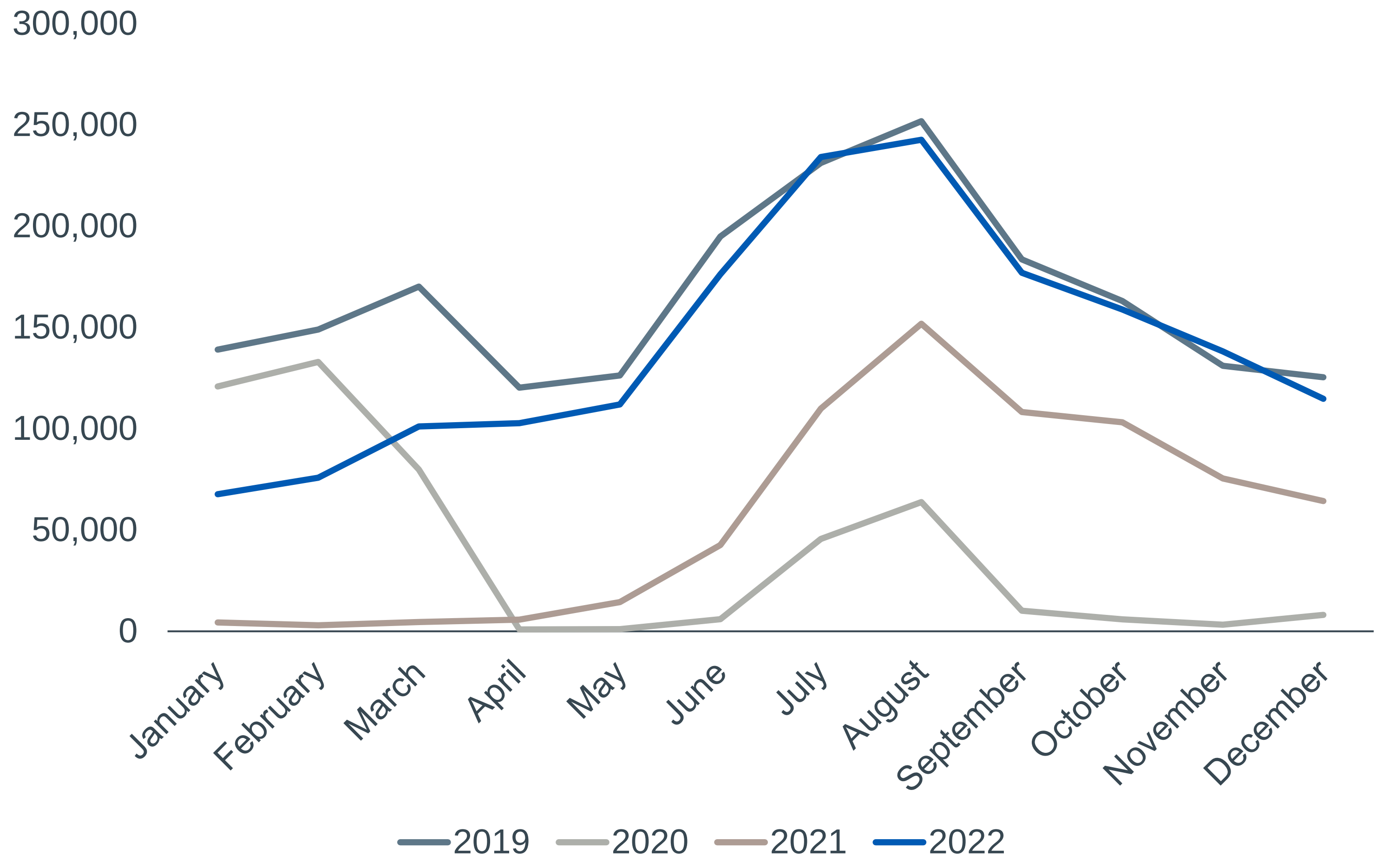
Successfully navigating through choppy waters

GDP increased by 7.3% YoY in Q3, a result that was well above analysts’ expectations. Growth was driven by exports, namely increased growth in tourism, and record-breaking private consumption. With tourism regaining its former strength, the current account turned to a surplus in Q3, despite robust economic activity as reflected in a significant trade deficit

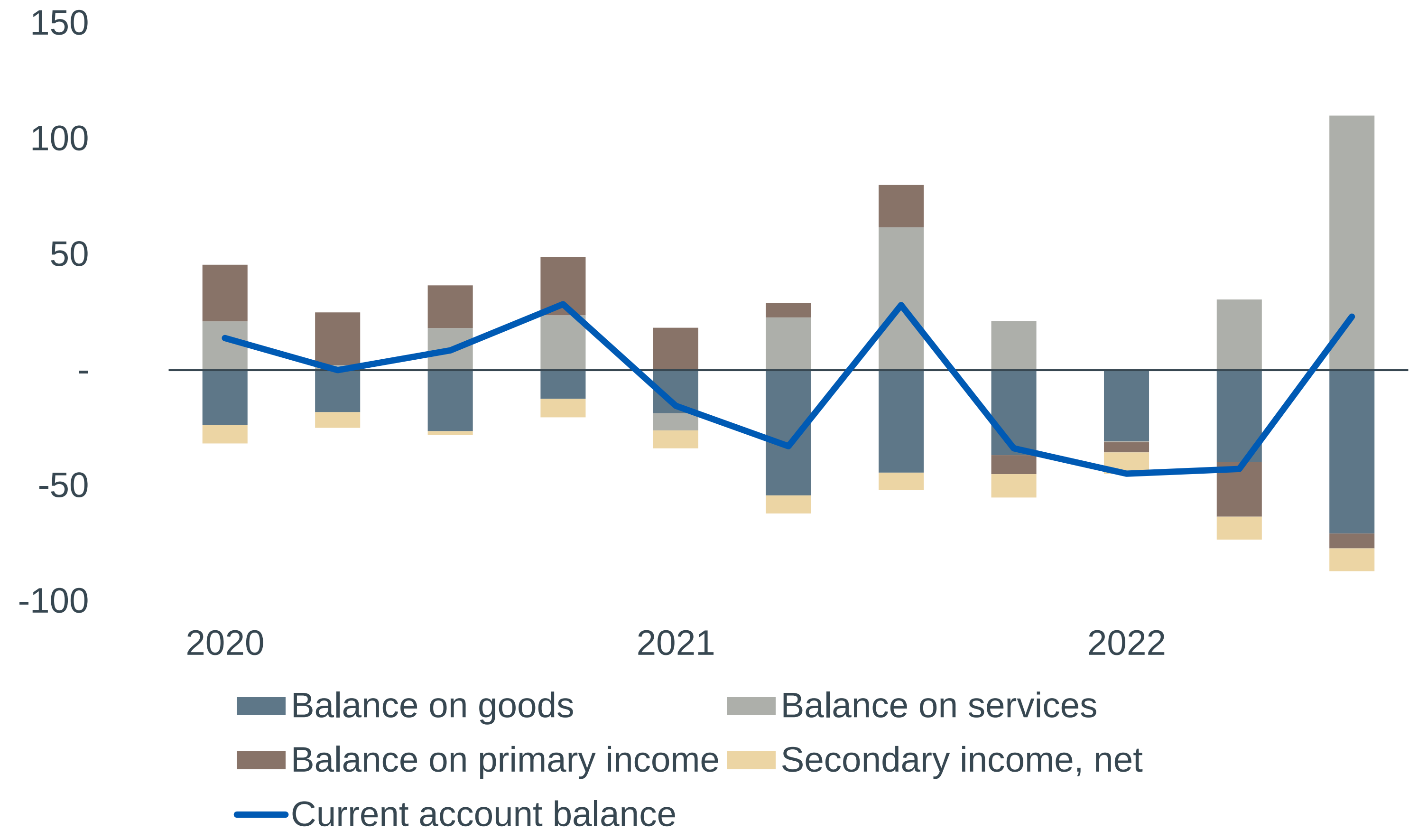
GDP growth in Q3 2022
- YoY %-change, seasonally adjusted



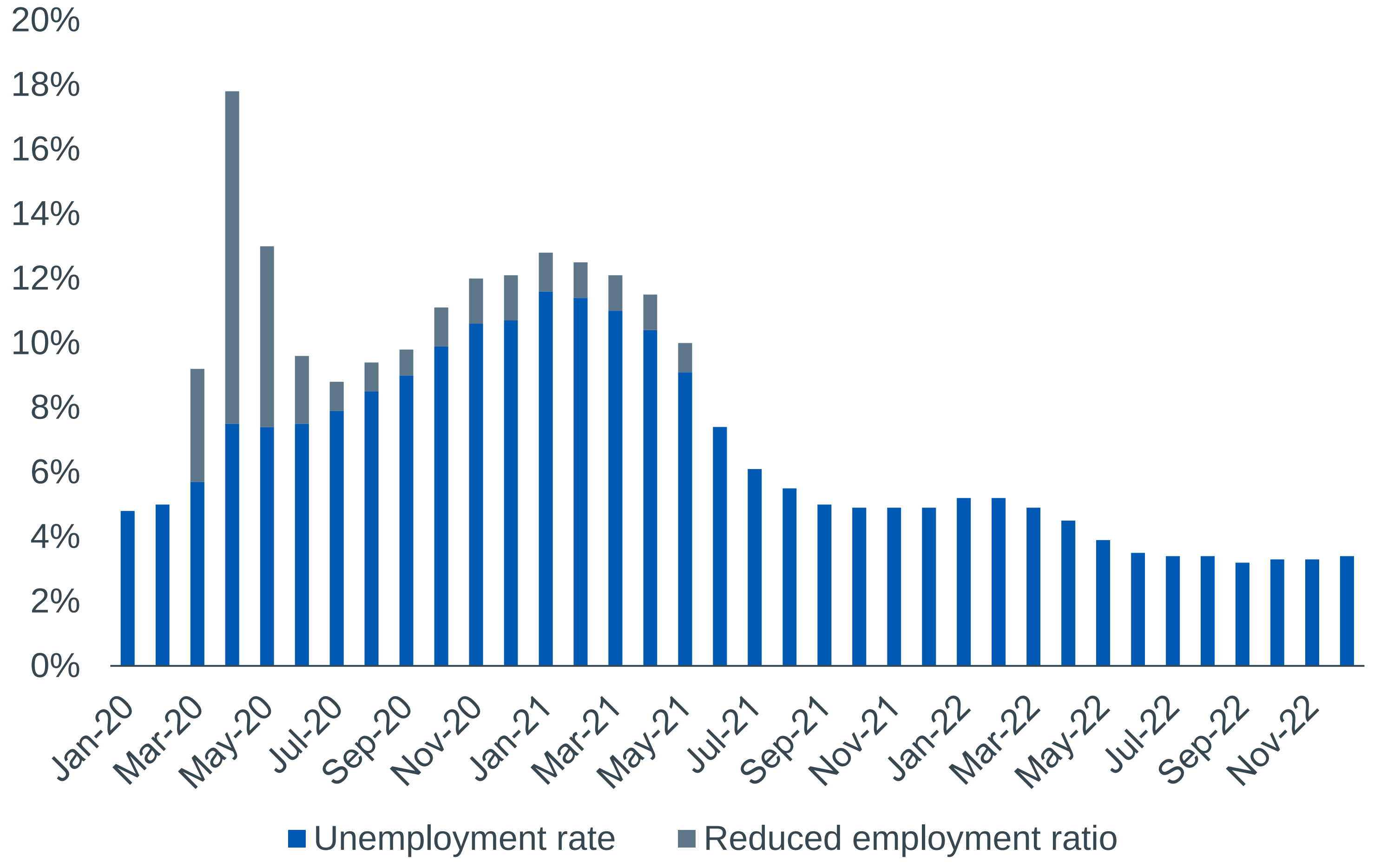
Tourist arrivals via Keflavík International Airport



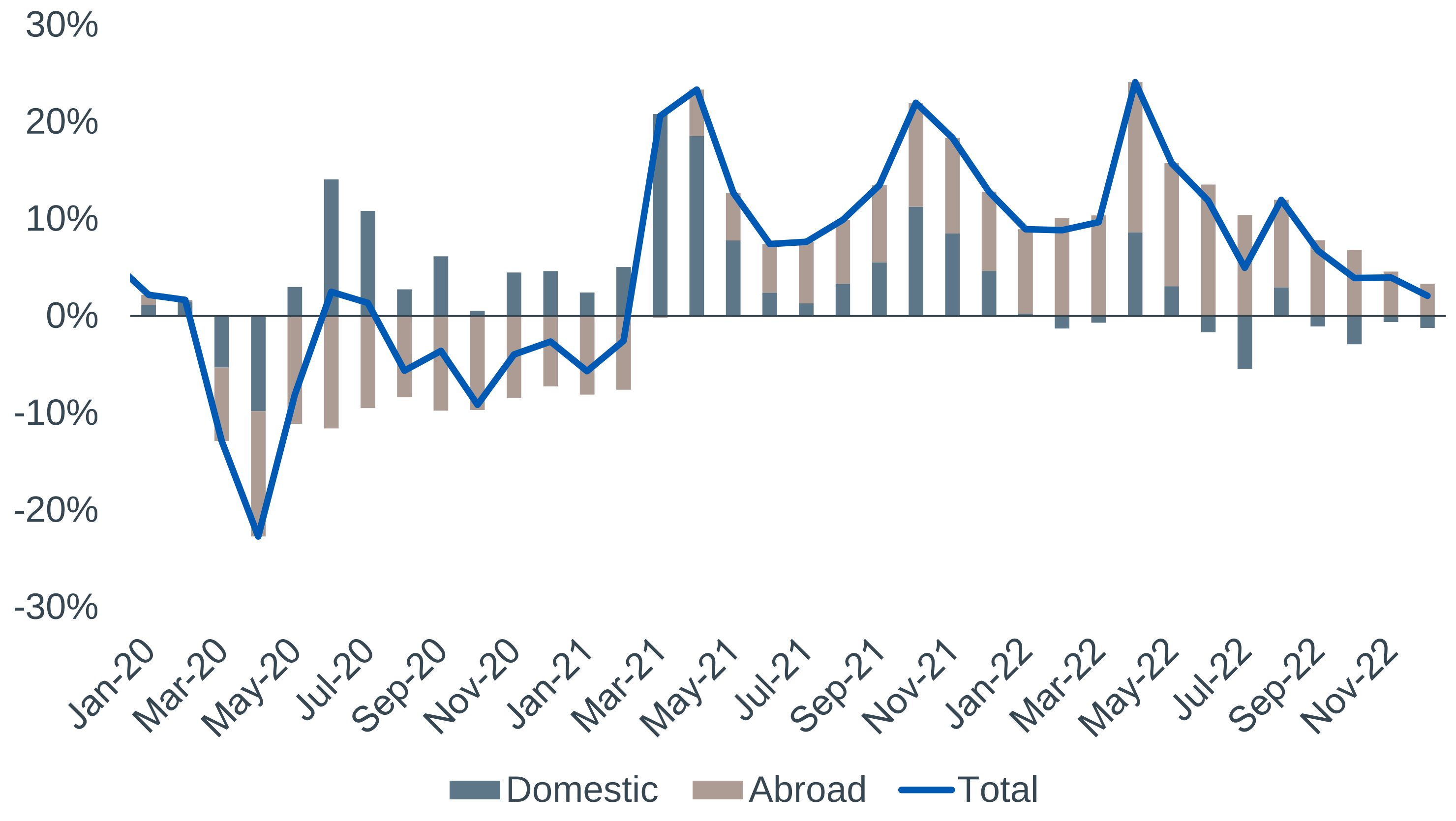
Current account balance
- bn. ISK at constant exchange rate



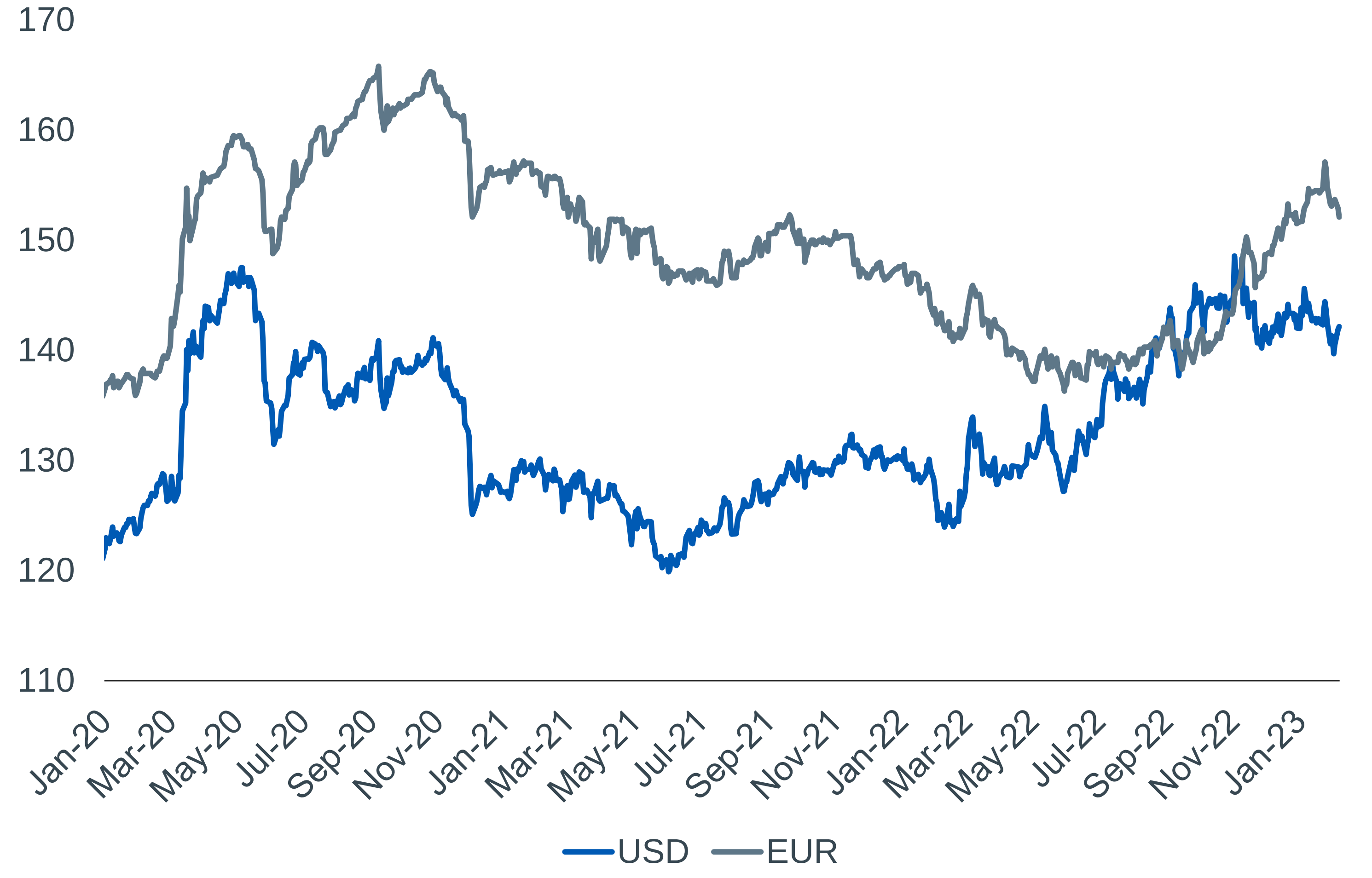
The composition of registered unemployment



Payment card turnover
- YoY growth, growth contributions of underlying components



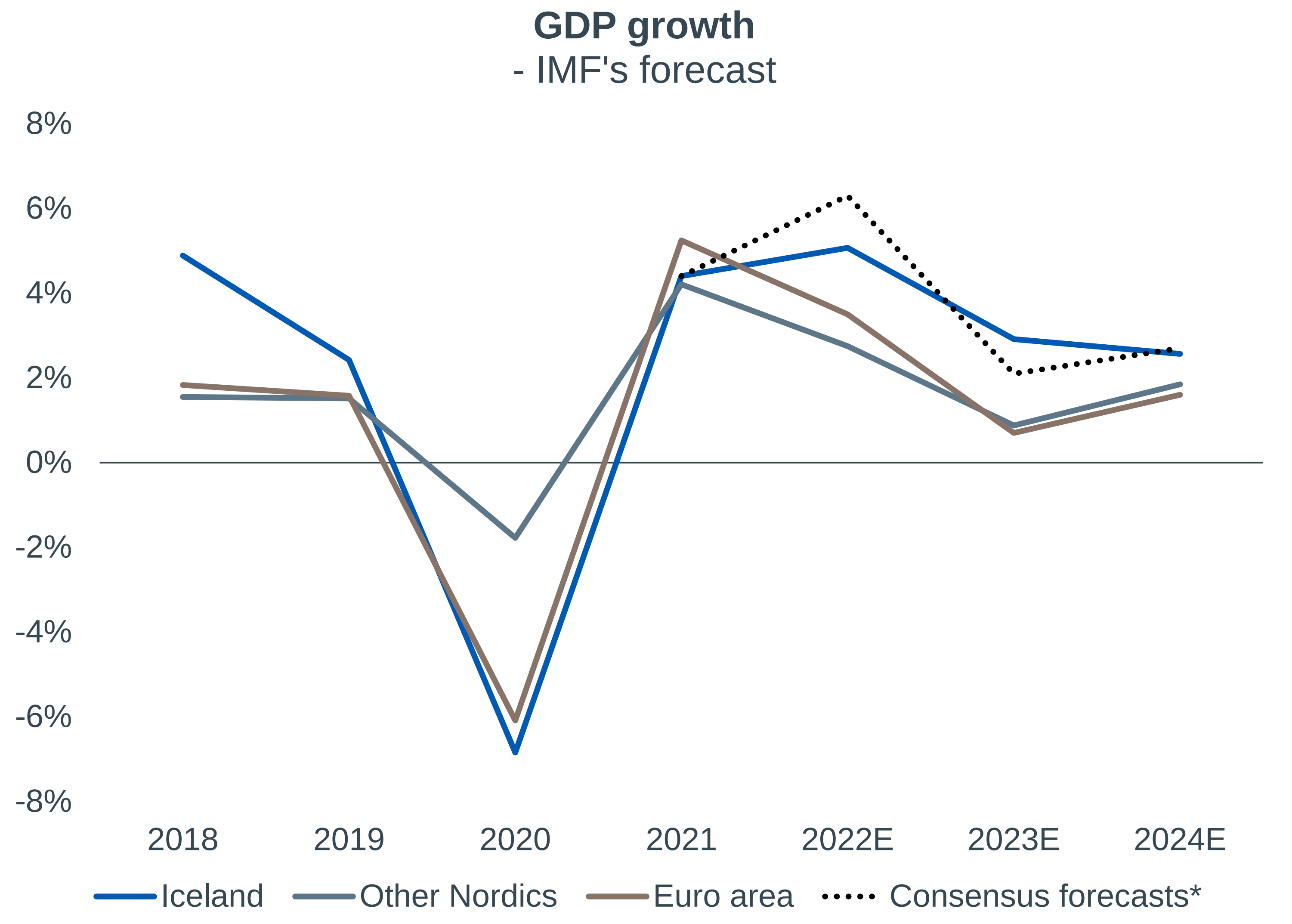
The ISK against major trade currencies

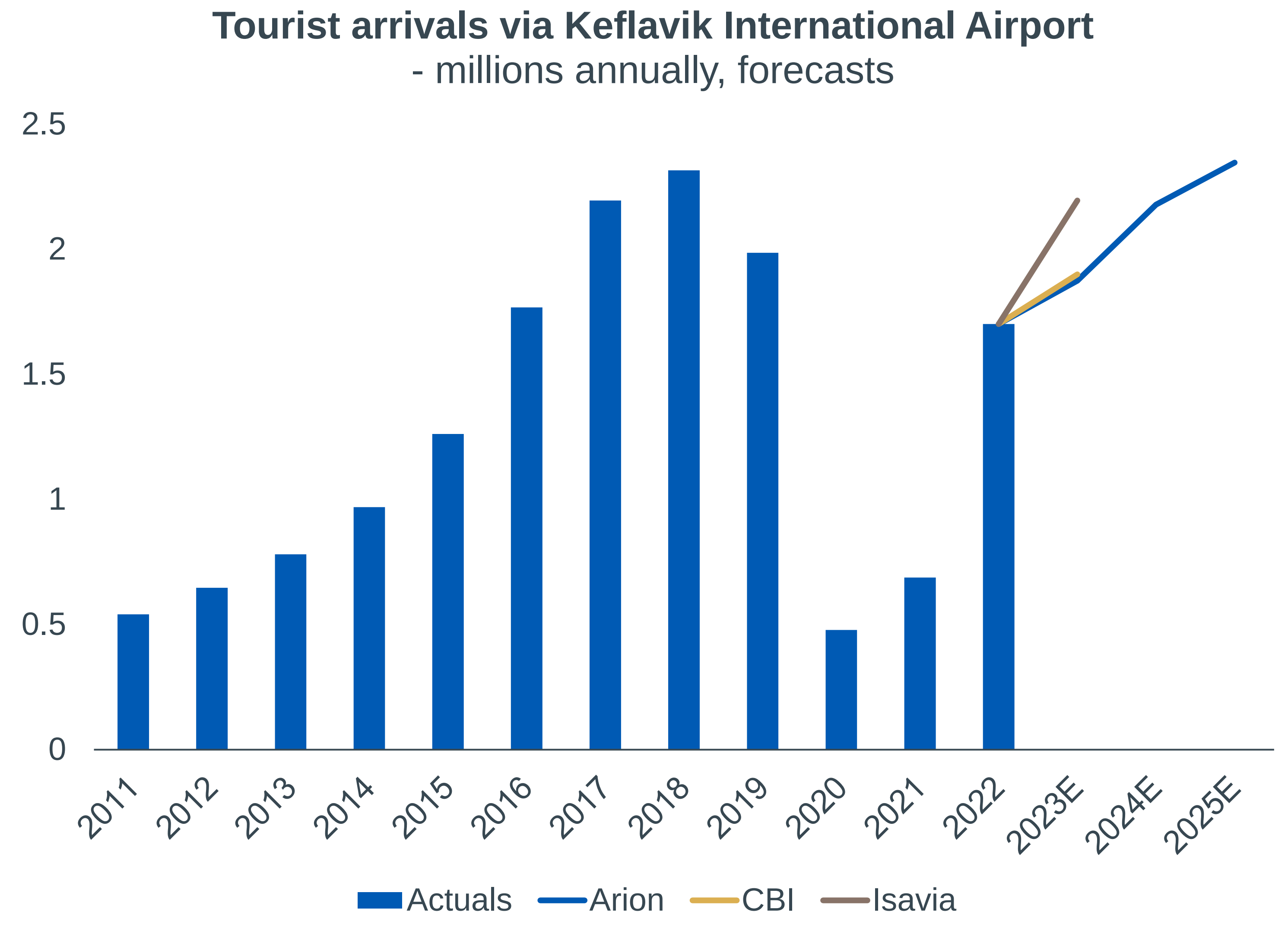


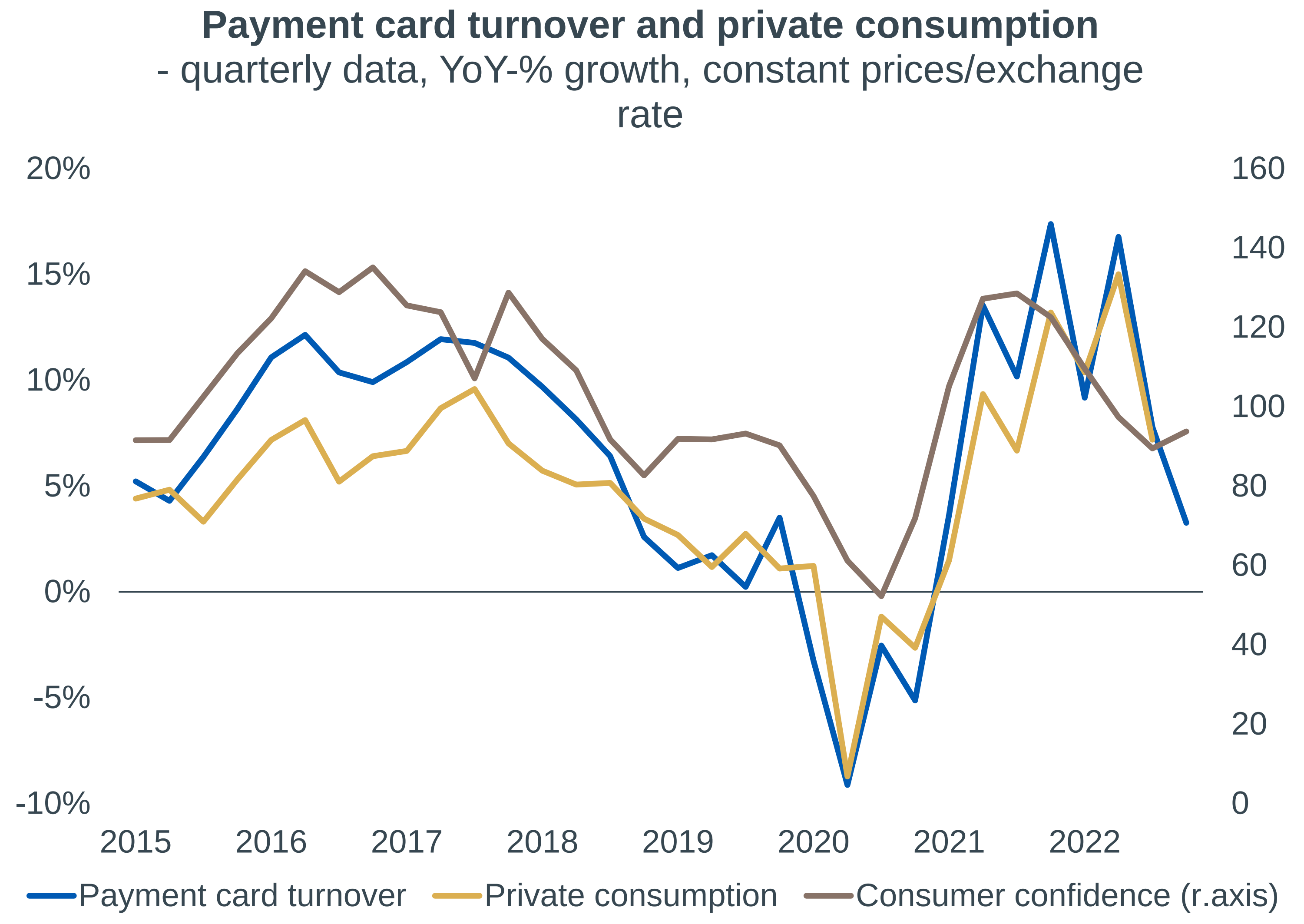
Sources: Eurostat, Statistics Iceland, Central Bank of Iceland, Icelandic Tourist Board, Directorate of Labour, Arion Bank

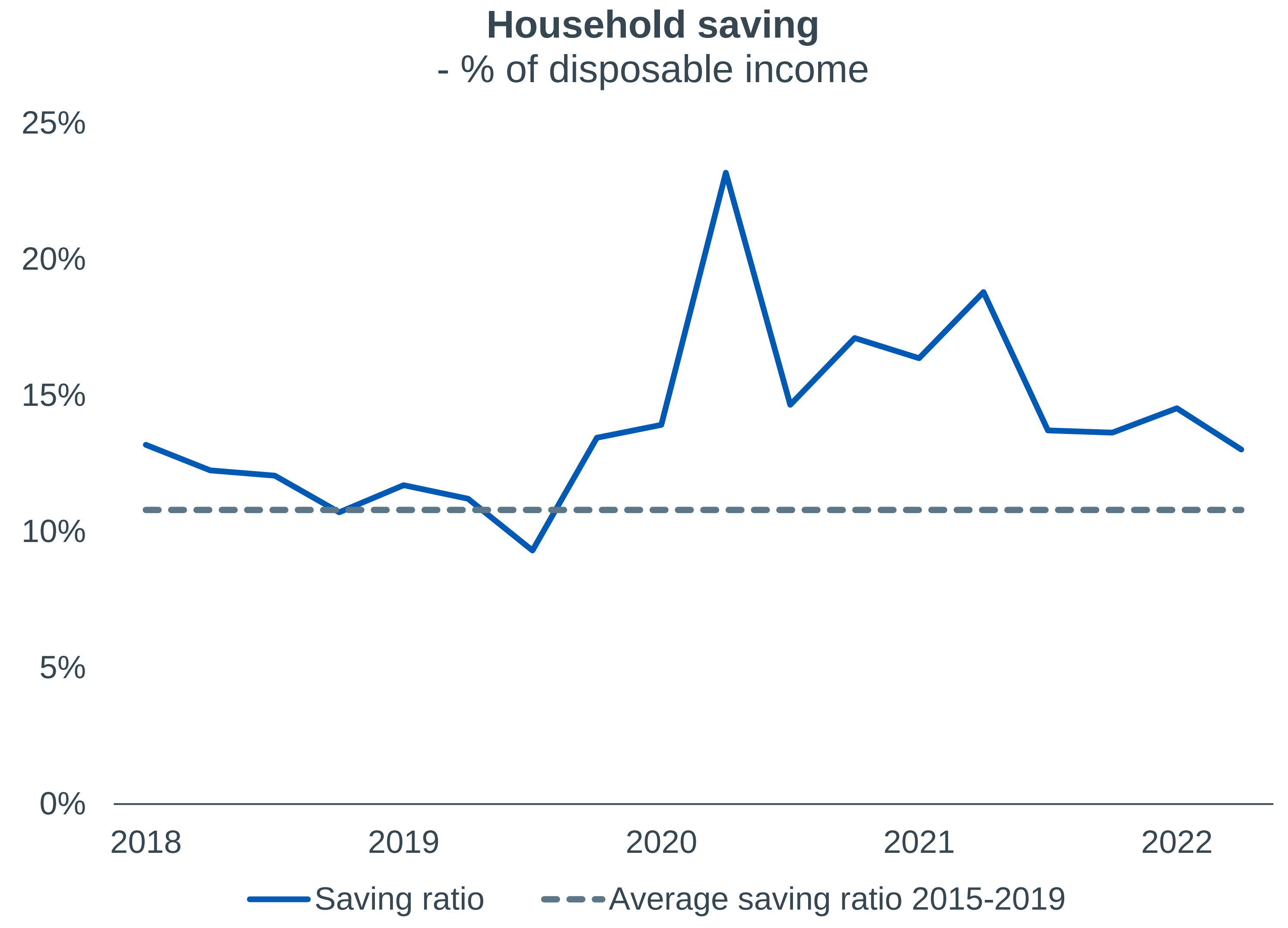
Relatively favorable outlook

- The Icelandic economy is still set for strong growth in 2023, despite the headwinds faced by the global economy
- Growth will be driven by exports, mainly tourism, and household consumption, with the consensus among domestic analysts at 2.1% GDP growth in 2023, followed by 2.7% growth in 2024
- According to preliminary figures, disposable income has grown more strongly than previously estimated, meaning that the savings ratio has remained high, increasing households' resilience
- Tourism has regained its former strength, with tourist arrivals in 2H reaching 98% of 2H 2019. The tourist arrivals forecast for this year range from 10-40% increase YoY









Sources: IMF, Central Bank of Iceland, Statistics Iceland, Icelandic Tourist Board

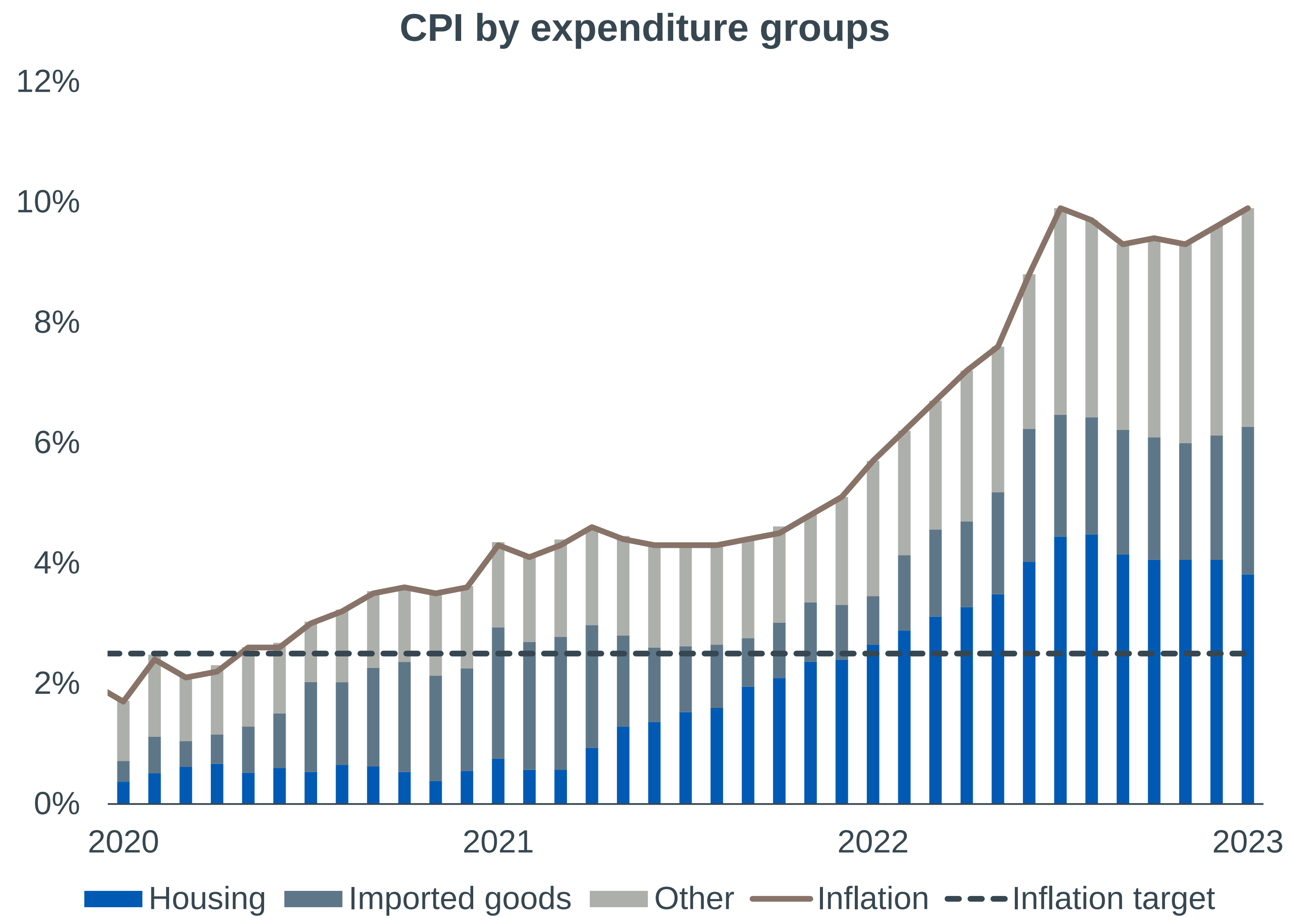
Inflationary pressures persist

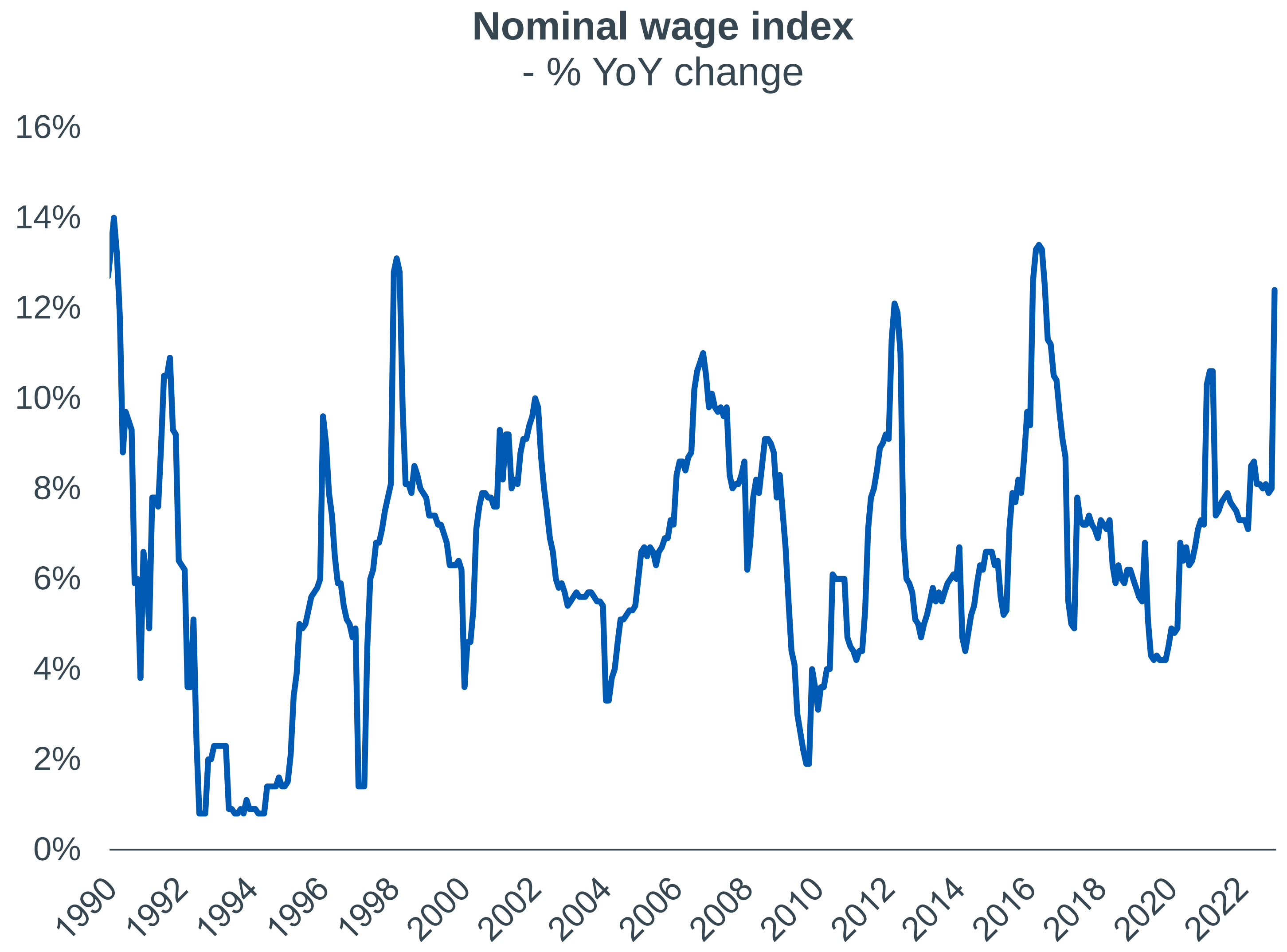
- Despite similar headline inflation, Icelandic households are not faced with the same cost-of-living crisis as their European counterparts, thanks to Iceland's hydro- and geothermal resources

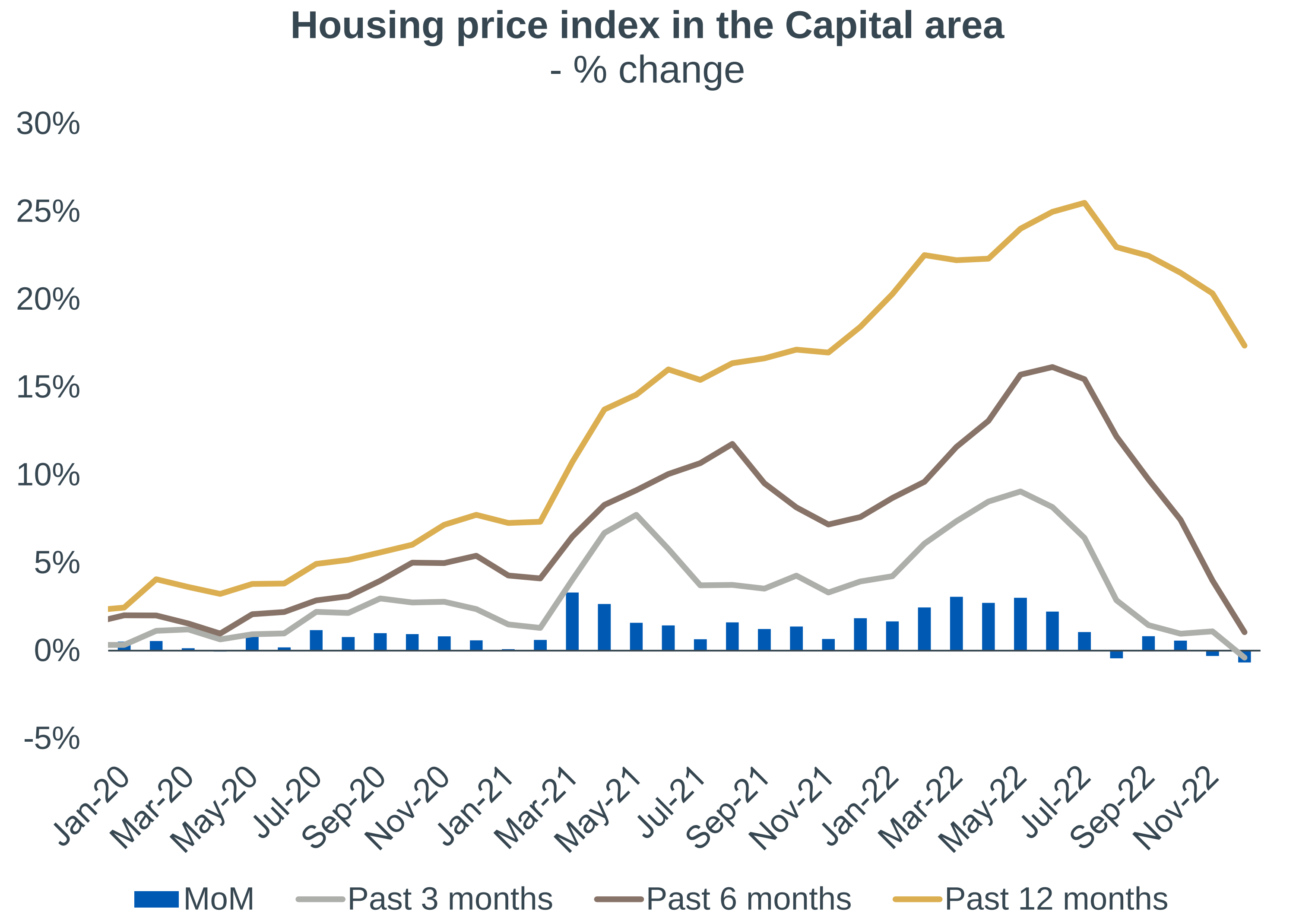
- House prices are currently the main driving force behind inflation, accounting for almost 40% of the 9.9% inflation rate in January

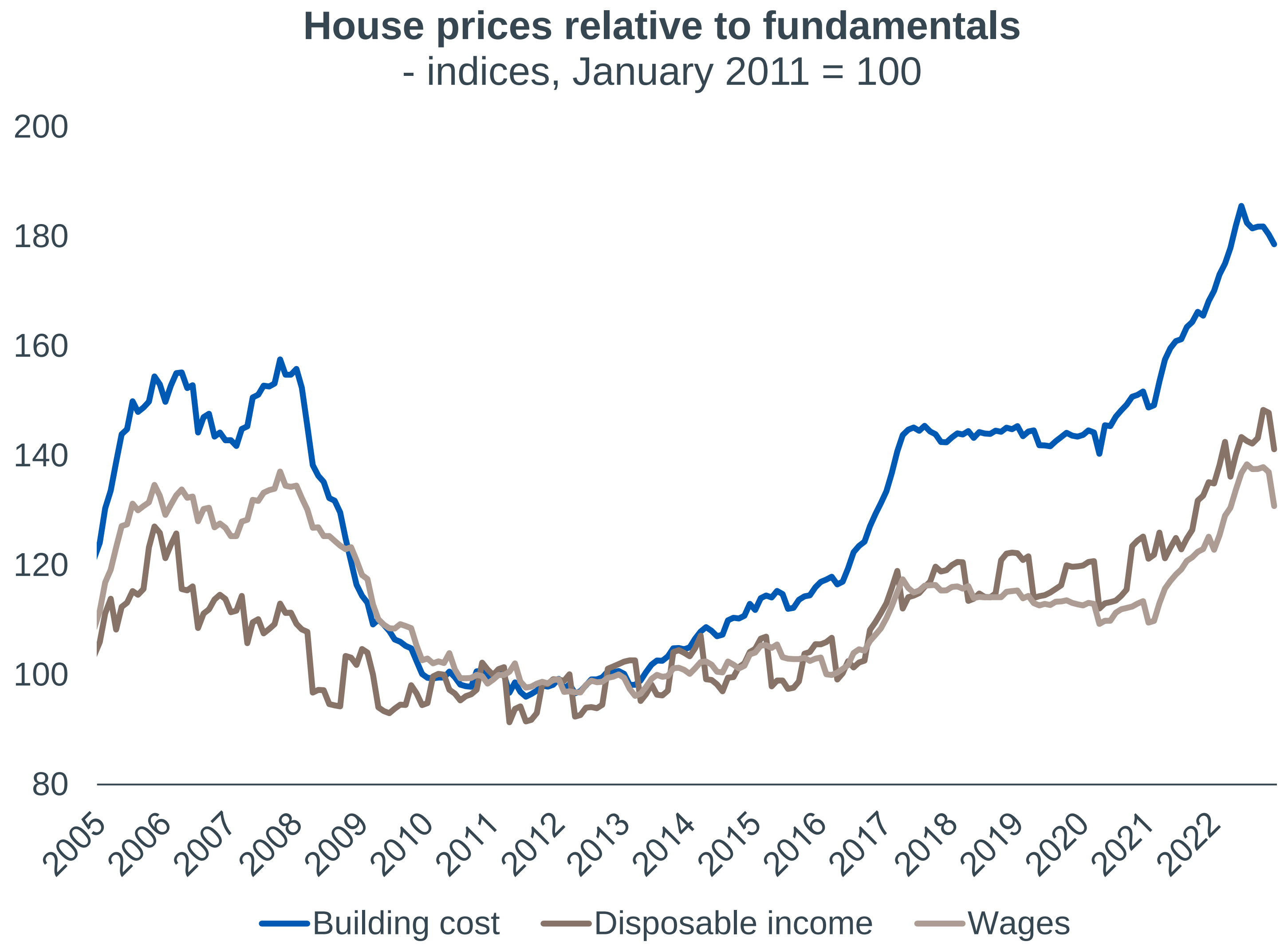
- With the housing market cooling, largely due to the Central Bank's actions, the contribution of housing to inflation has started to fall

- Even though inflation is expected to subside in the coming months, inflationary pressures remain due to the new collective wage agreements signed in December for large part of the private sector









Sources: Statistics Iceland, Central Bank of Iceland, Eurostat, LBS, HMS, Arion Bank

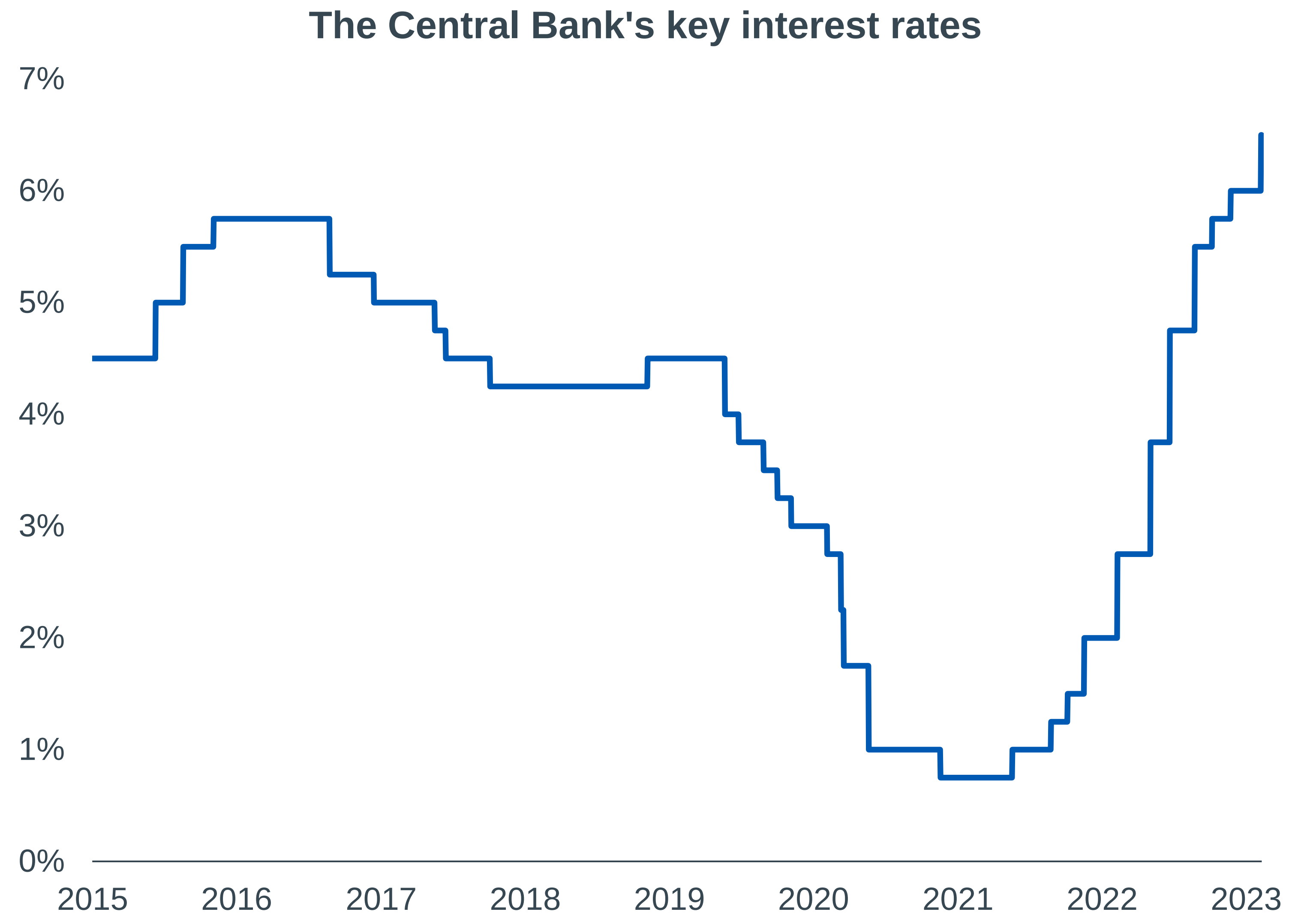
Monetary policy backdrop

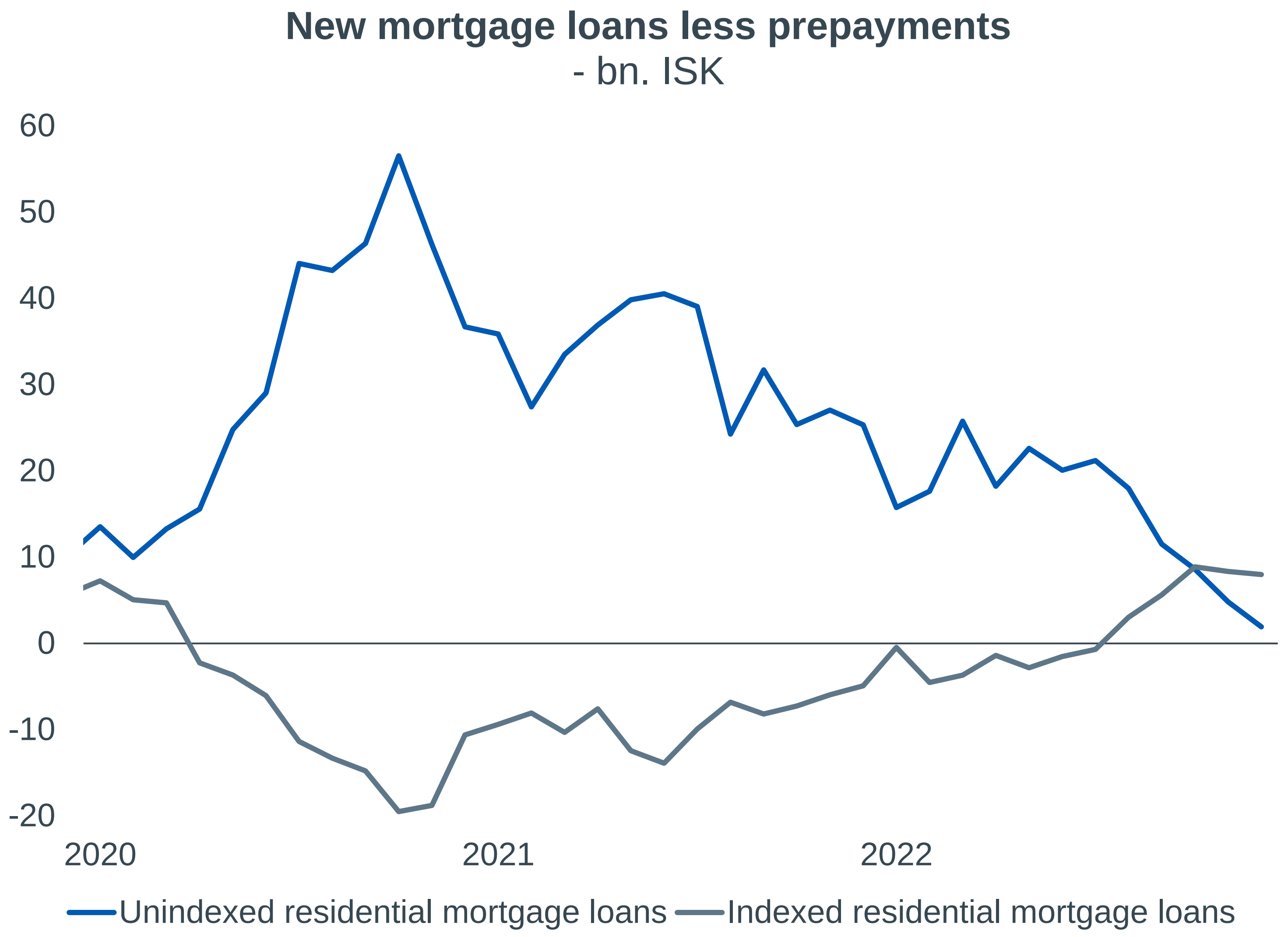
- High inflation, fear over de-anchoring of inflation expectations and robust domestic demand has compelled the Central Bank to raise rates further, by 25 bps in October, November and 50 bps in February

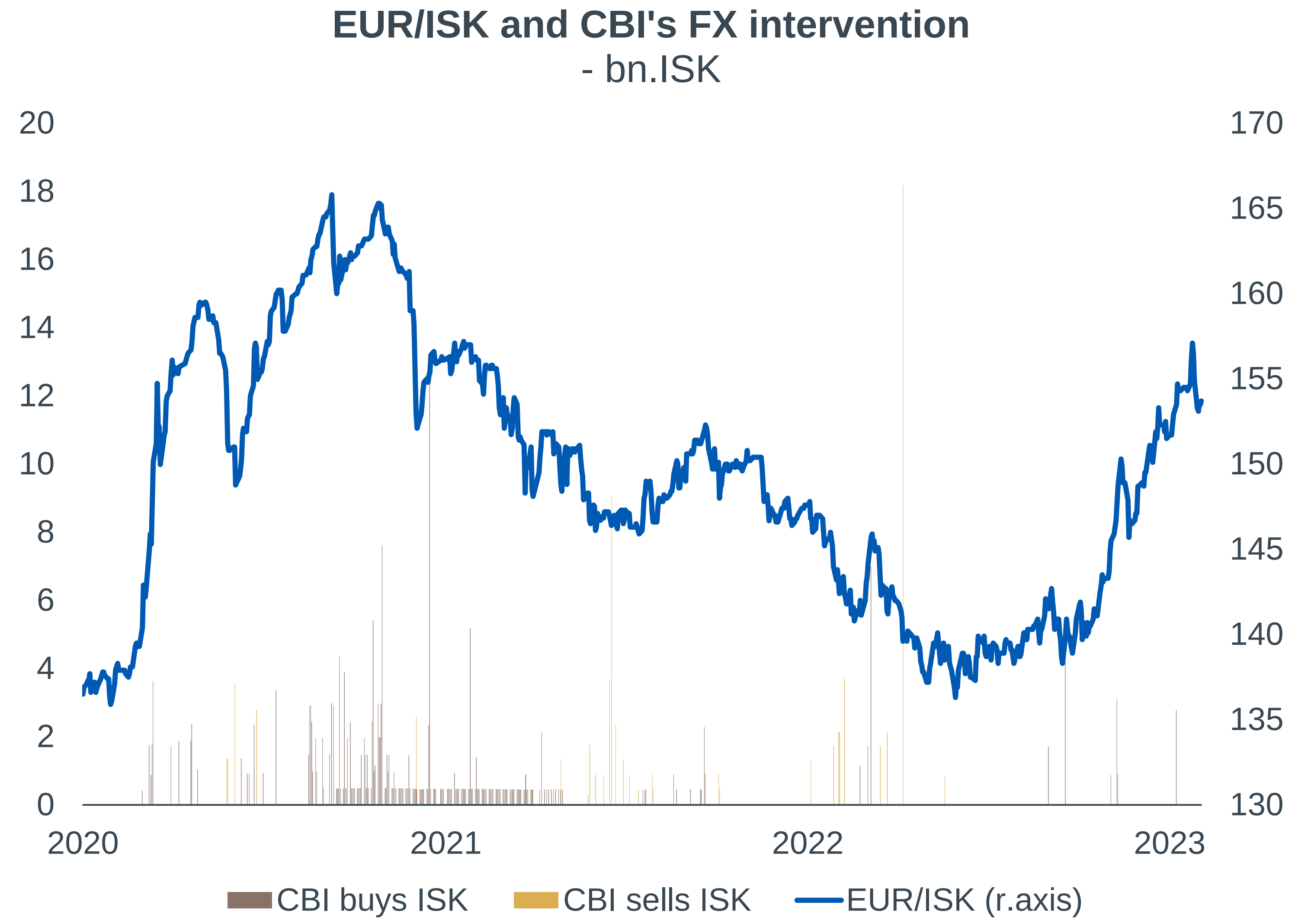
- Households have responded to the rate hikes by increasingly moving to inflation-indexed mortgages, which have lower debt burden at the start of the credit period

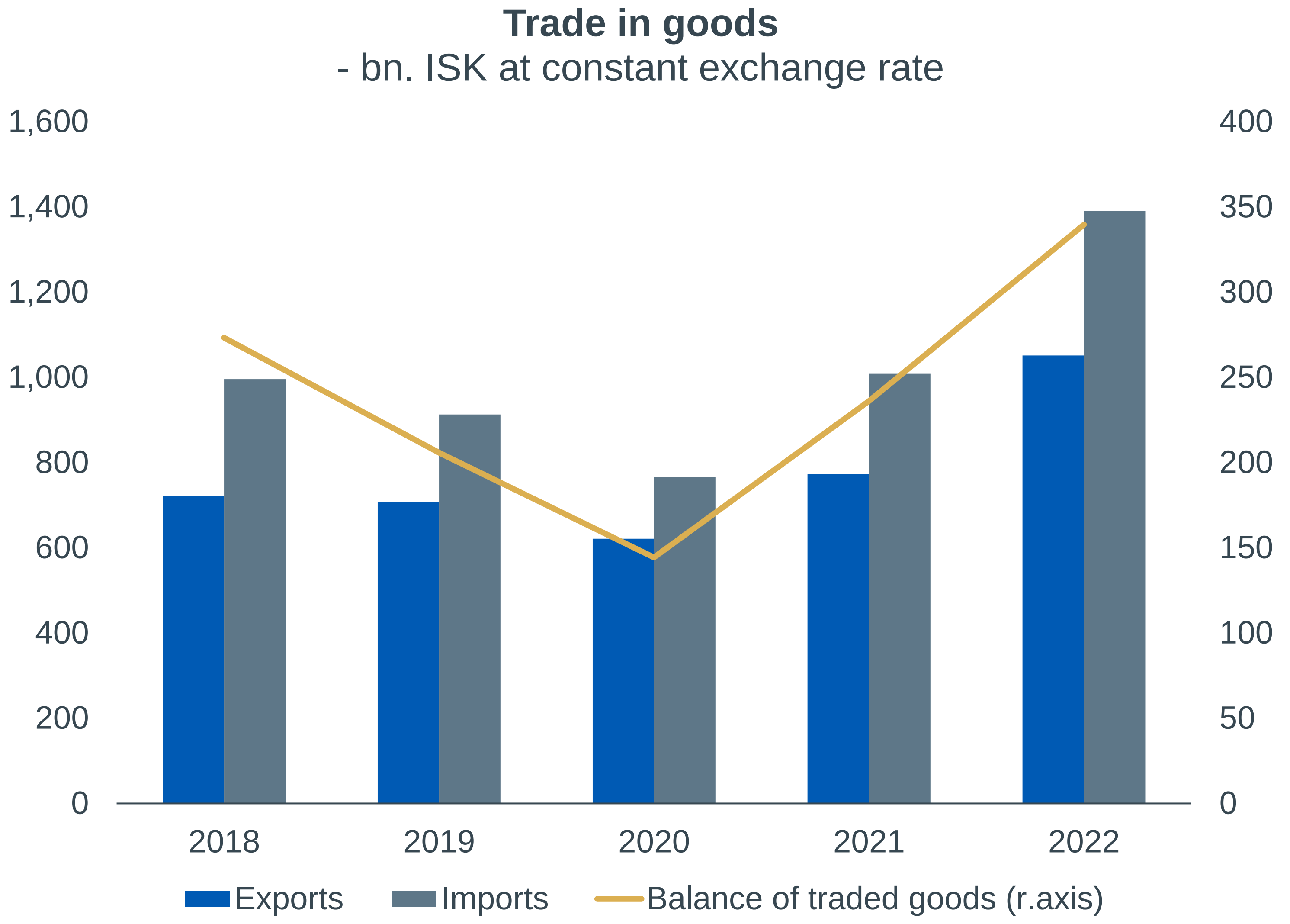
- Despite aggressive rate increases the interest rates differential is not historically large. At the same time, pension funds have increased their foreign investments and growing domestic demand has called for increased imports, putting pressure on the ISK

- The ISK depreciated by 7% against the EUR in Q4, stoking inflation



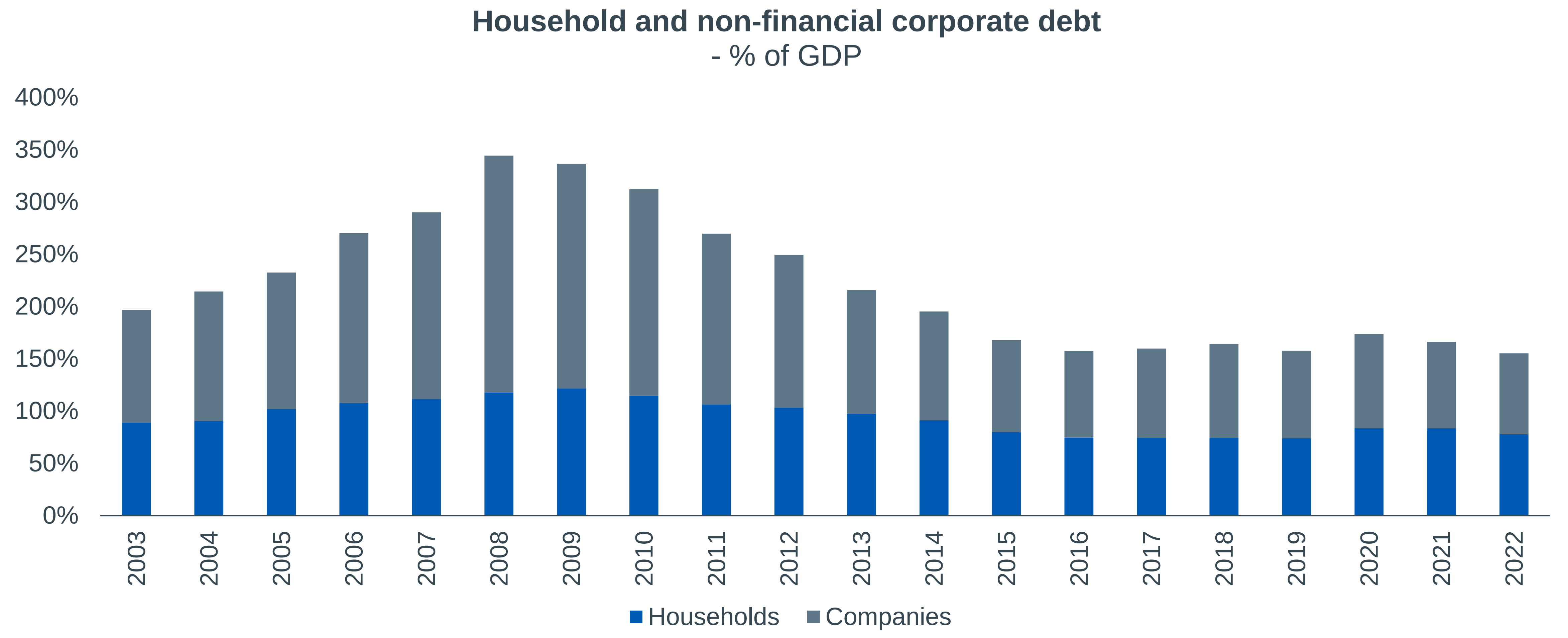


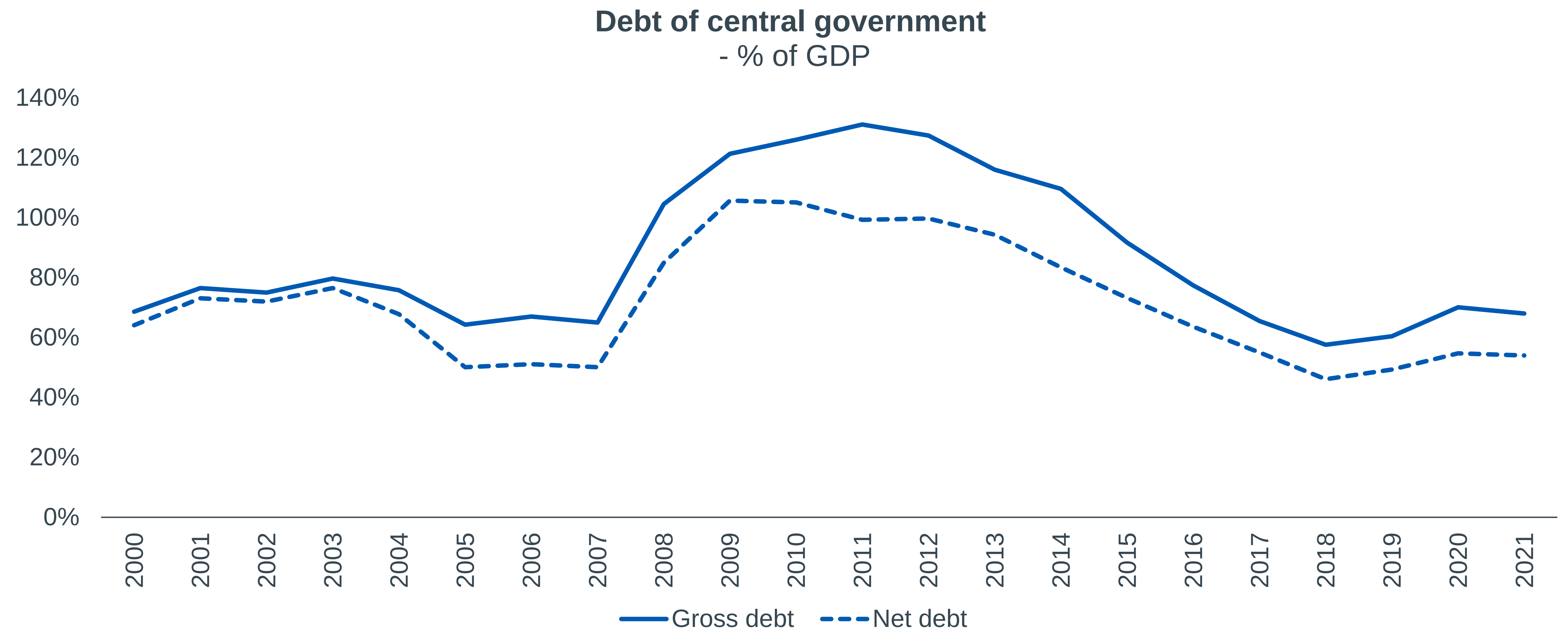


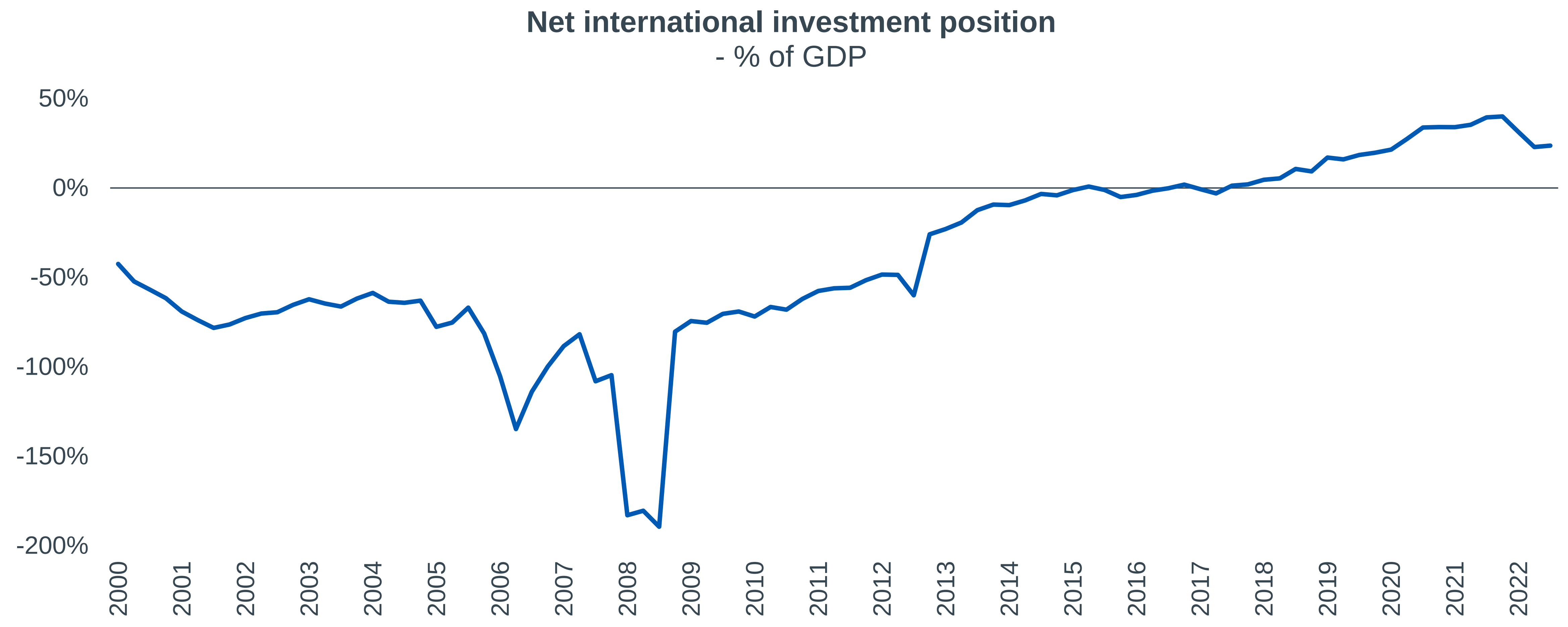


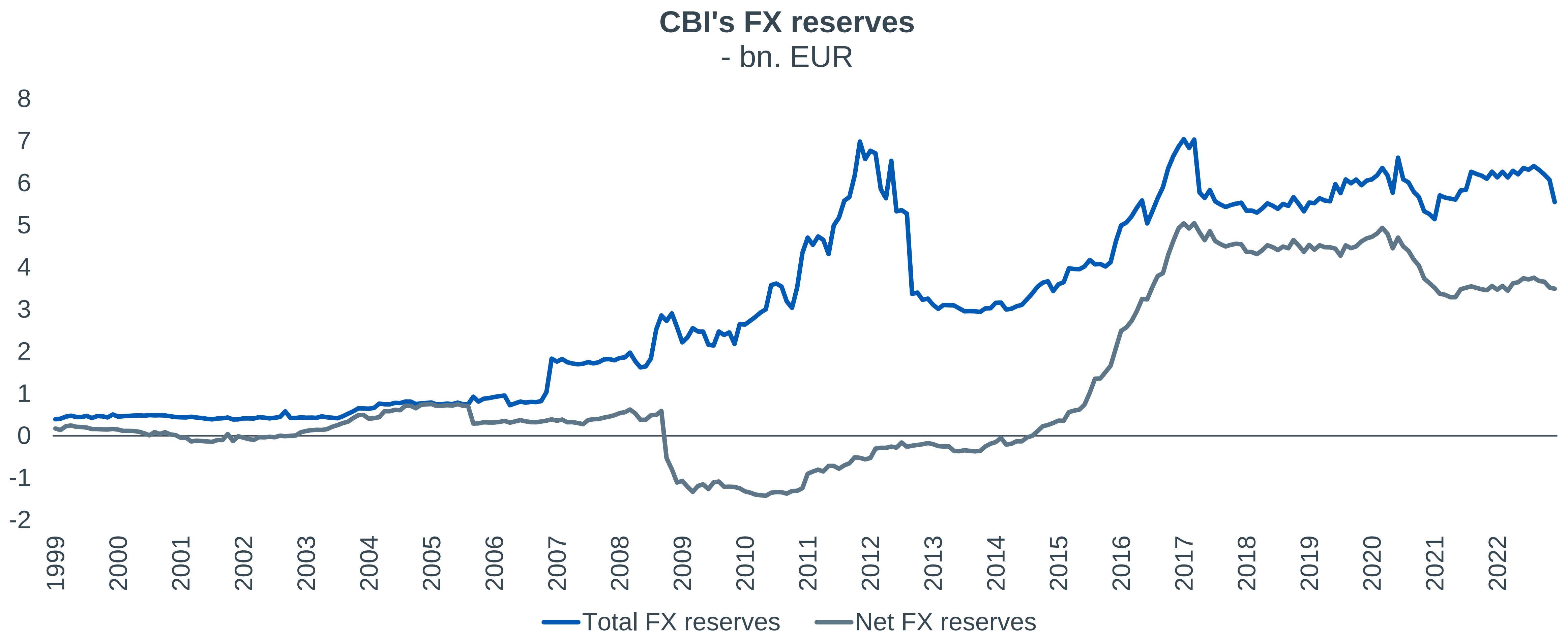
Sources: Central Bank of Iceland, Statistics Iceland, Arion Bank

Well equipped to handle challenging times









 Sources: Central Bank of Iceland, Arion Bank

Financials

Key takeaways in Q4 2022

Profitability
Continued core income momentum

- Solid net profit in the quarter of ISK 5.0bn and ROE of 10.7%, resulting in a ISK 25.4bn profit for the year with an ROE of 13.7%
- Continued positive development in Core Income[1], increasing in Q4 by 11.8% YoY and 17.5% for the full year
- Medium term targets updated with Cost/Income and Income/REA targets now measured by Core income[1] and loan growth target removed in order to retain agility in the current market backdrop

Net interest income
Strong NIM

- Net interest income again increases between quarters while growth is slowing
- Net interest margin at a strong level of 3.1%
- Loan growth in the quarter of 4%, driven by robust corporate lending activity at year-end
- Solid deposit growth continues while competitive pressure increasing

Net commissions
Supported by diversification

- Solid net commissions of ISK 4bn in the quarter resulting in ISK 16bn over the year, which is the highest on record for the group
- Card fees again very strong in the quarter approximately ISK 1bn
- Asset management fees resilient in a challenging market backdrop and our capital markets division continues to rank number one in Iceland in terms of both equity and bond trading

Balance sheet
Robust position

- Balanced maturity profile with all 2023 maturities now pre-financed with successful EUR senior and ISK Tier 2 issues
- Capital position strong with a CET1 ratio of 18.8% or 300bps above regulatory minimum and above 150-250bps management target
- Launching the finalization of the approved ISK 10bn buyback program with around ISK 3bn remaining

[1] Net interest income, net fee and commission income and net insurance income

Income statement Q4 2022

- Net profit of ISK 5bn resulting in ROE of 10.7%
- Core income (NII, NCI and net insurance income) increases 11.8% YoY
- Strong growth in NII YoY, mainly due to increased base rate and 16% growth in the loan book from Q4 2021
- Continuing strong NCI performance across the Bank
- Positive trajectory in insurance operation, with strong growth in premiums but higher claim rate
- Low Net financial income due to difficult market conditions
- Operating expense increased by 5% YoY, significantly below inflation of 9% YoY. Cost of incentive scheme is estimated at ISK 1.6bn in Q4, compared with ISK 1.5bn in Q4 2021
- Positive effect from impairments, mainly from few customers that have strengthened their financials with new capital
- Loss from Discontinued operations, mainly due to revaluation of Stakksberg and expense related to Sólbjarg

	Q4 2022	Q4 2021	Diff	Q3 2022	Diff
Net interest income	10,524	8,768	20%	10,421	1%
Net commission income	3,972	4,079	(3%)	4,002	(1%)
Net insurance income	833	865	(4%)	690	21%
Net financial income	157	1,151	(86%)	(1,332)	-
Share of profit of associates	3	(11)	-	41	-
Other operating income	51	382	(87%)	62	(18%)
Operating income	**15,540**	**15,234**	**2%**	**13,884**	**12%**
Salaries and related expense	(5,373)	(4,893)	10%	(3,100)	73%
Other operating expenses	(2,878)	(2,974)	(3%)	(2,710)	6%
Operating expenses	**(8,251)**	**(7,867)**	**5%**	**(5,810)**	**42%**
Bank levy	(496)	(345)	44%	(444)	12%
Net impairment	411	559	(26%)	42	-
Net earnings before taxes	**7,204**	**7,581**	**(5%)**	**7,672**	**(6%)**
Income tax expense	(1,815)	(1,588)	14%	(2,803)	(35%)
Net earnings from continuing operations	**5,389**	**5,993**	**(10%)**	**4,869**	**11%**
Discontinued operations net of tax	(366)	529	-	(6)	-
Net earnings	**5,023**	**6,522**	**(23%)**	**4,863**	**3%**
Return on equity	10.7%	13.4%		10.5%	

 All amounts in ISK m

Income statement 2022

- Net profit of ISK 25.4bn resulting in ROE of 13.7%
- Core income (NII, NCI and net insurance income) increases 17.5% YoY
- Very strong increase in NII YoY, mainly due to increased base rate and 16% growth in loans to customers from the same period last year
- Continuing strong NCI growth across the Bank
- Weak first and third quarters in net insurance income mainly due to high claim rate but insurance premiums have increased by 10.2% from 2021
- Negative Net financial income mainly due to difficult equity markets
- Operating expense increased by 4% YoY, significantly below inflation
- Positive net impairment mainly due to recovery of tourism dependent borrowers, however offset by increased ECL based on worsening economic forecasts under IFRS9
- Income tax rate unusually high due to unfavorable combination of income
- The profit from sale of Valitor is ISK 5.6bn, the operating results of Valitor and positive outcome from sale of assets at Sólbjarg of ISK 0.3bn is the main contributor to discontinued operations

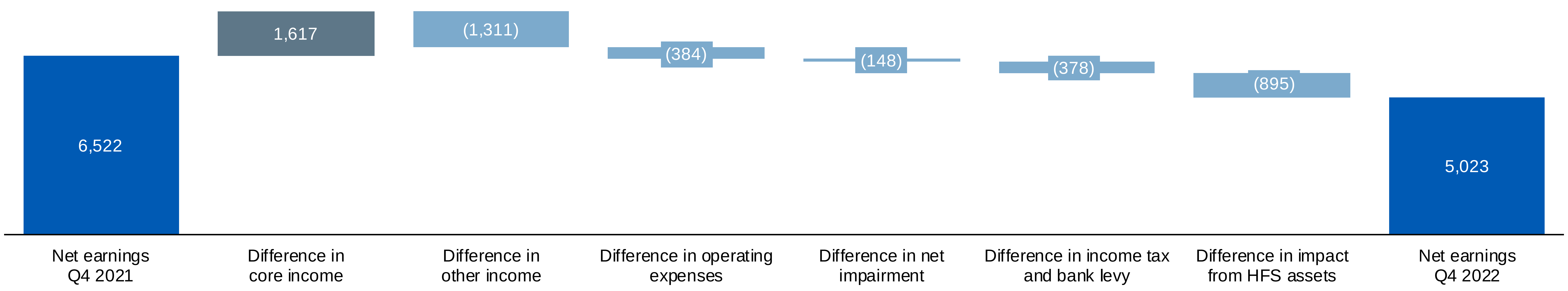
	2022	2021	Diff
Net interest income	40,277	32,063	26%
Net commission income	16,065	14,673	9%
Net insurance income	2,614	3,442	(24%)
Net financial income	(3,095)	6,220	-
Share of profit of associates	270	22	-
Other operating income	1,067	1,805	(41%)
Operating income	**57,198**	**58,224**	**(2%)**
Salaries and related expense	(15,856)	(14,638)	8%
Other operating expenses	(11,055)	(11,237)	(2%)
Operating expenses	**(26,911)**	**(25,875)**	**4%**
Bank levy	(1,749)	(1,516)	15%
Net impairment	144	3,169	-
Net earnings before taxes	**28,682**	**34,002**	**(16%)**
Income tax expense	(9,809)	(6,782)	45%
Net earnings from continuing operations	**18,873**	**27,220**	**(31%)**
Discontinued operations net of tax	6,543	1,394	-
Net earnings	**25,416**	**28,614**	**(11%)**
Return on equity	13.7%	14.7%	

 All amounts in ISK m

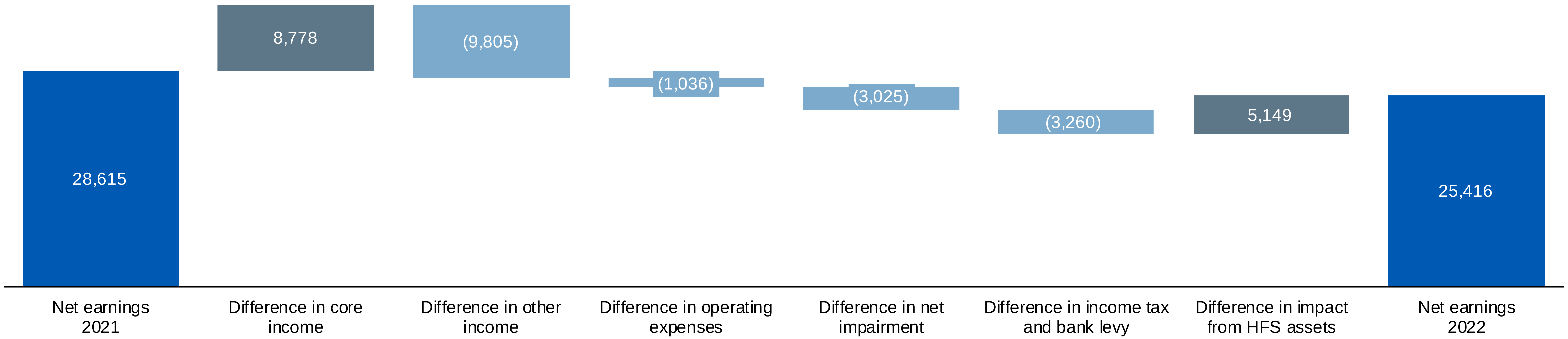
Net earnings bridge

Continued strong development in core income

Q4 2021 vs. Q4 2022



2021 vs. 2022

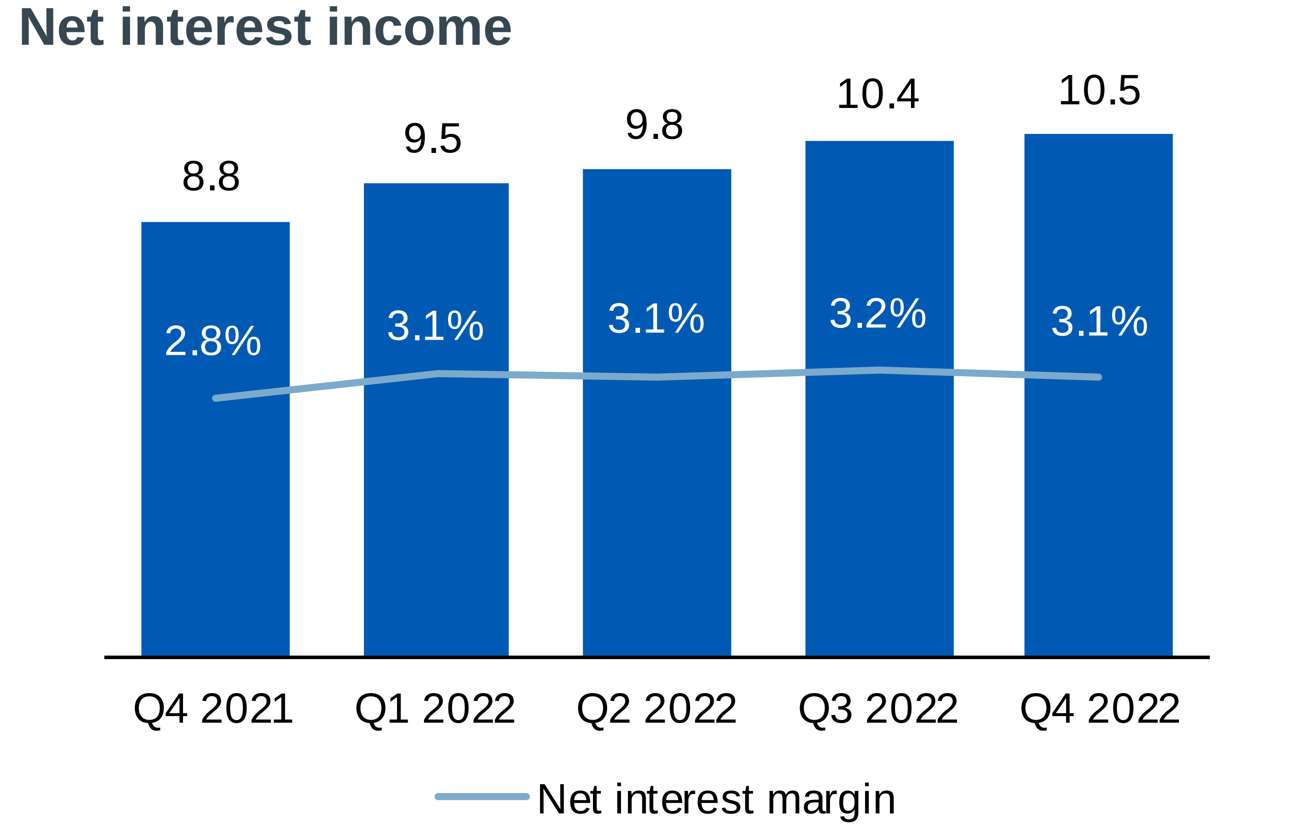


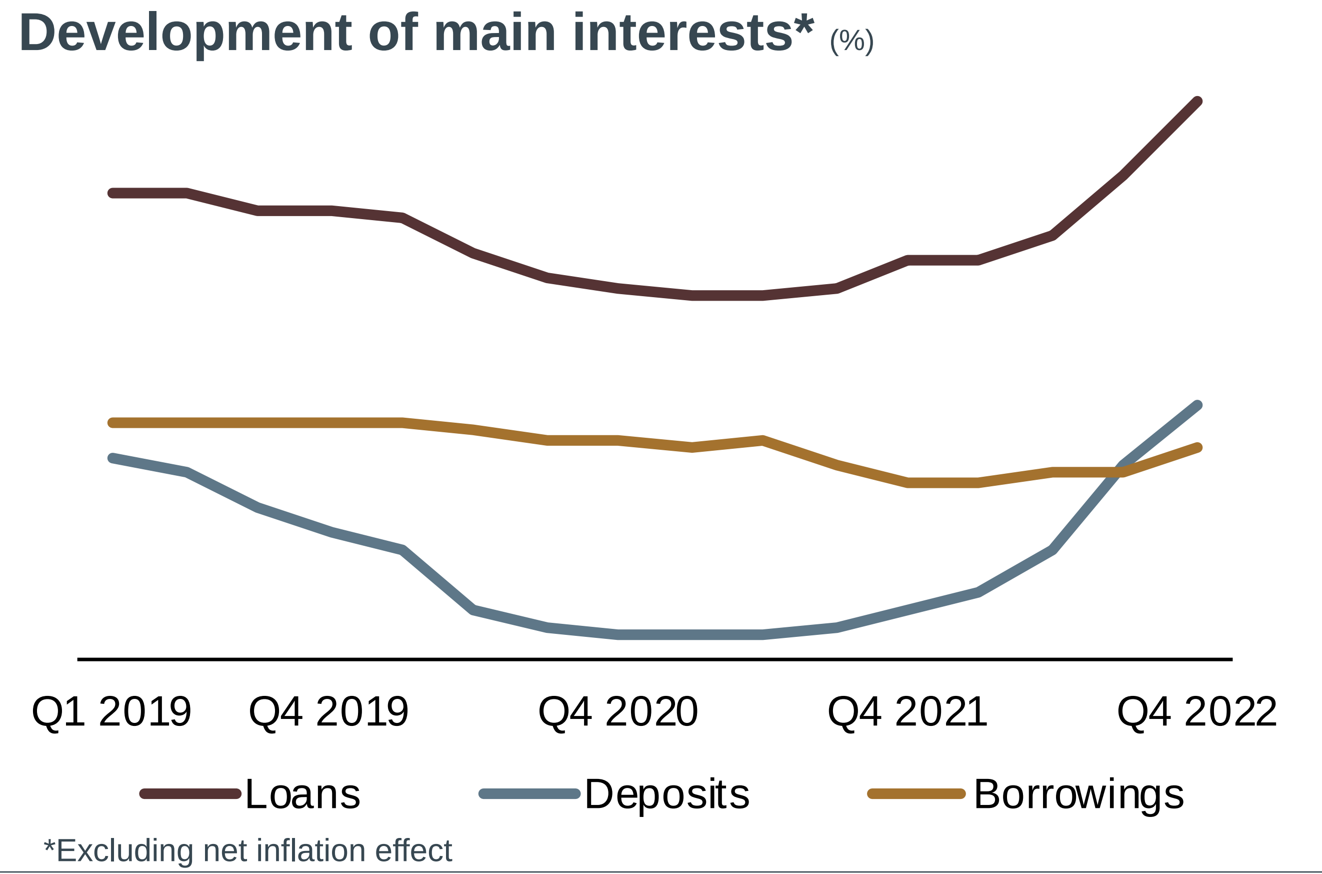
 All amounts in ISK m

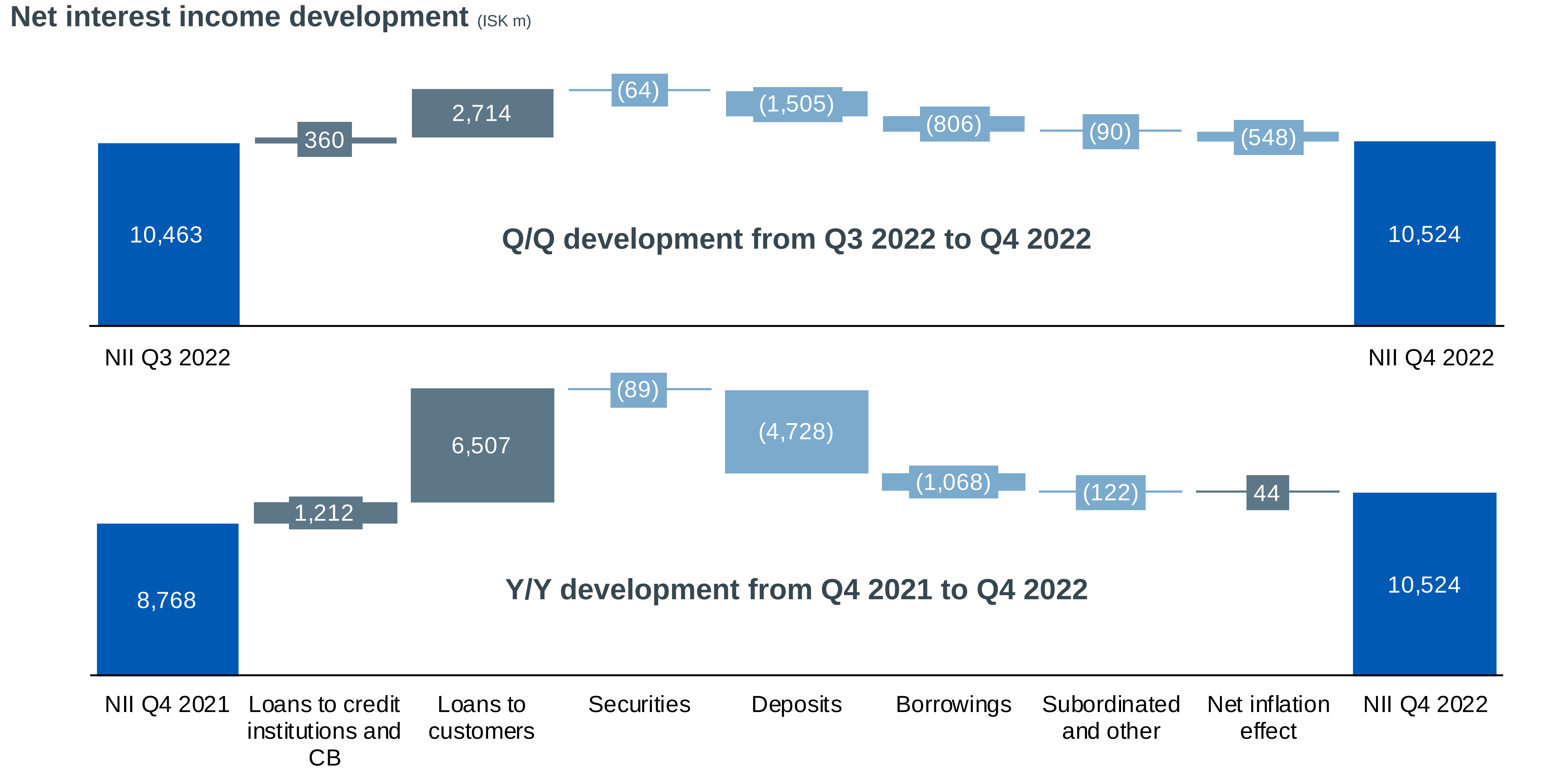
Net interest income

Increase between quarters but rate sensitivity slowing

- Net interest income in Q4 increased by 20% from Q4 2021 and 1% between quarters from Q3 2022
- Policy rate increased from 1.25% at the beginning of Q4 2021 to 6.0% at year-end 2022. During the quarter there was a hike of 50 bps
- Rate sensitivity slowing as interest expense increasing on both deposits and wholesale funding
  - Evolution of cost of wholesale funding has until this quarter had a positive effect on NII but EUR senior issue in September and ISK Tier 2 issue in Q4 increase funding cost
  - Competition increasing for deposits
  - While inflation remains elevated, CPI level was lower in Q4 vs. Q3 which lowers NII by 548m between quarters
- Average interest-bearing assets increased in Q4 by 15% from Q4 2021 and by 4.1% from Q3 2022. Includes prefinancing of 2023 wholesale maturities





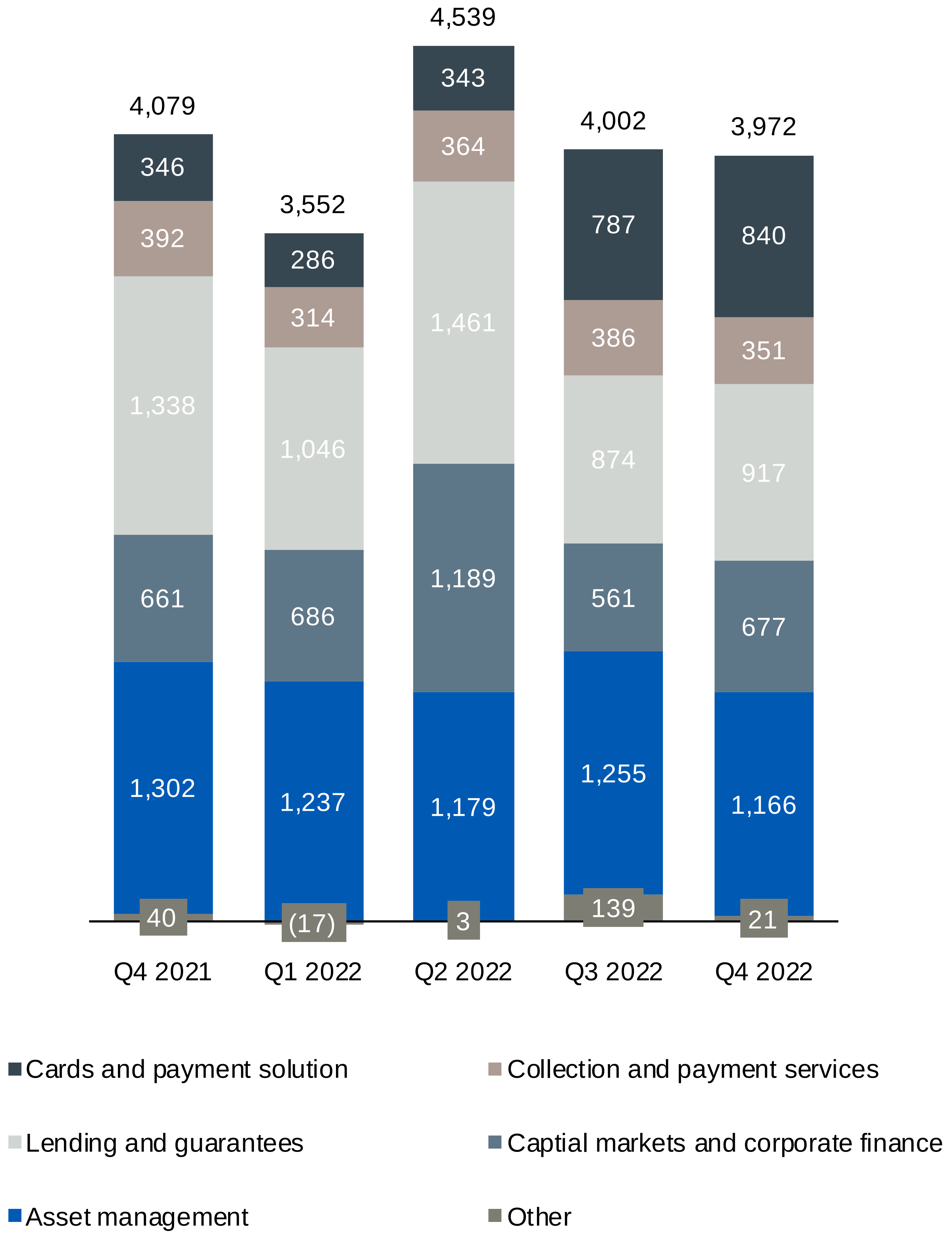


Net fee and commission income

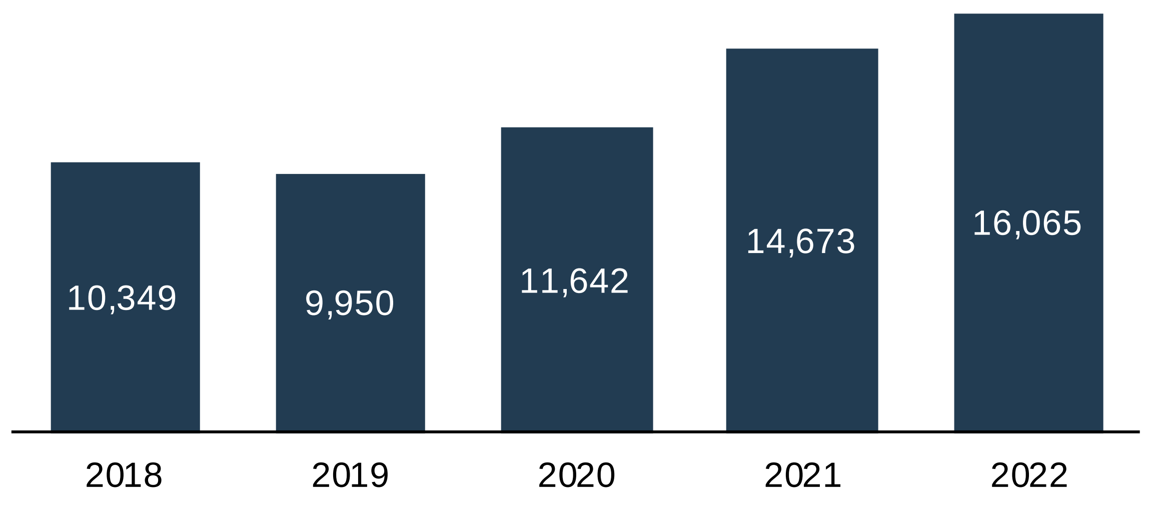
Diversified fee generating operations support continued momentum

- ISK 4bn in fees for the quarter results in ISK 16bn for the year. Highest on record for the group
- Continued strong income from cards and payment solutions, which were partially lost in consolidation prior to sale of Valitor
  - Commission from cards and payment solutions is mainly from the Bank's issuance of credit and debit cards and other card related commission, e.g. yearly fee on cards and transaction fees
- Robust fees in capital markets. The Bank ranks number one both in bond and equity trading in the Icelandic market for 2022
- Income from asset management very strong in a challenging market backdrop
  - AuM colored by challenging markets but mitigated by strong net positive inflow YTD throughout the year

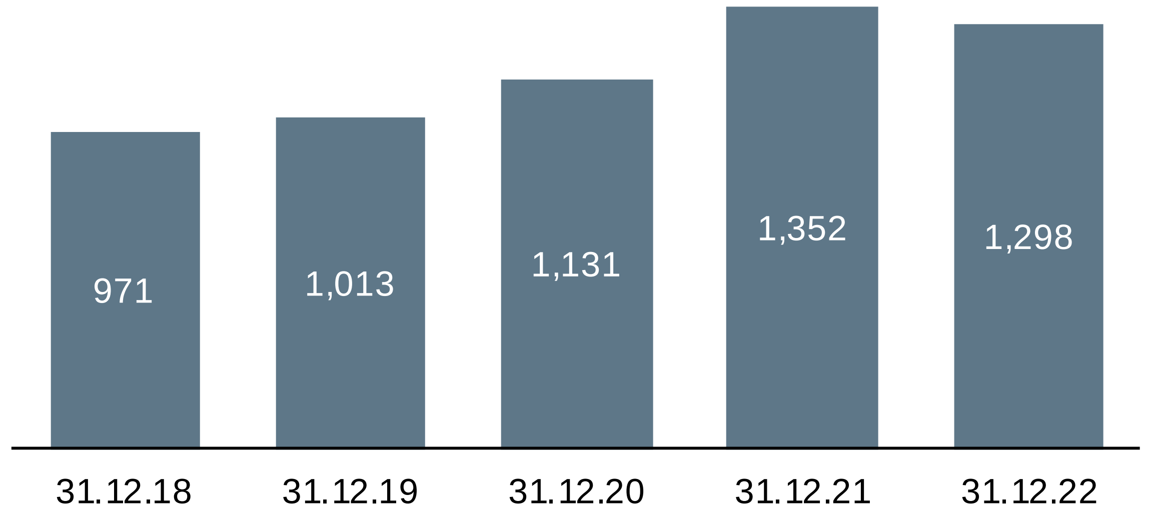
Net fee and commission income (ISK m)



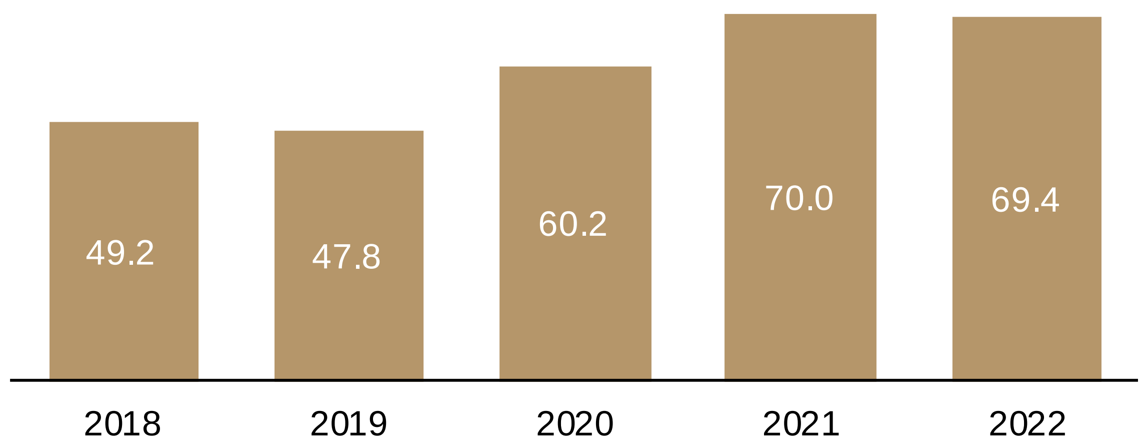
Net fee and commission income (ISK m)



Assets under management (ISK bn)



Net fee and commission income and net insurance income / Operating expenses (%)

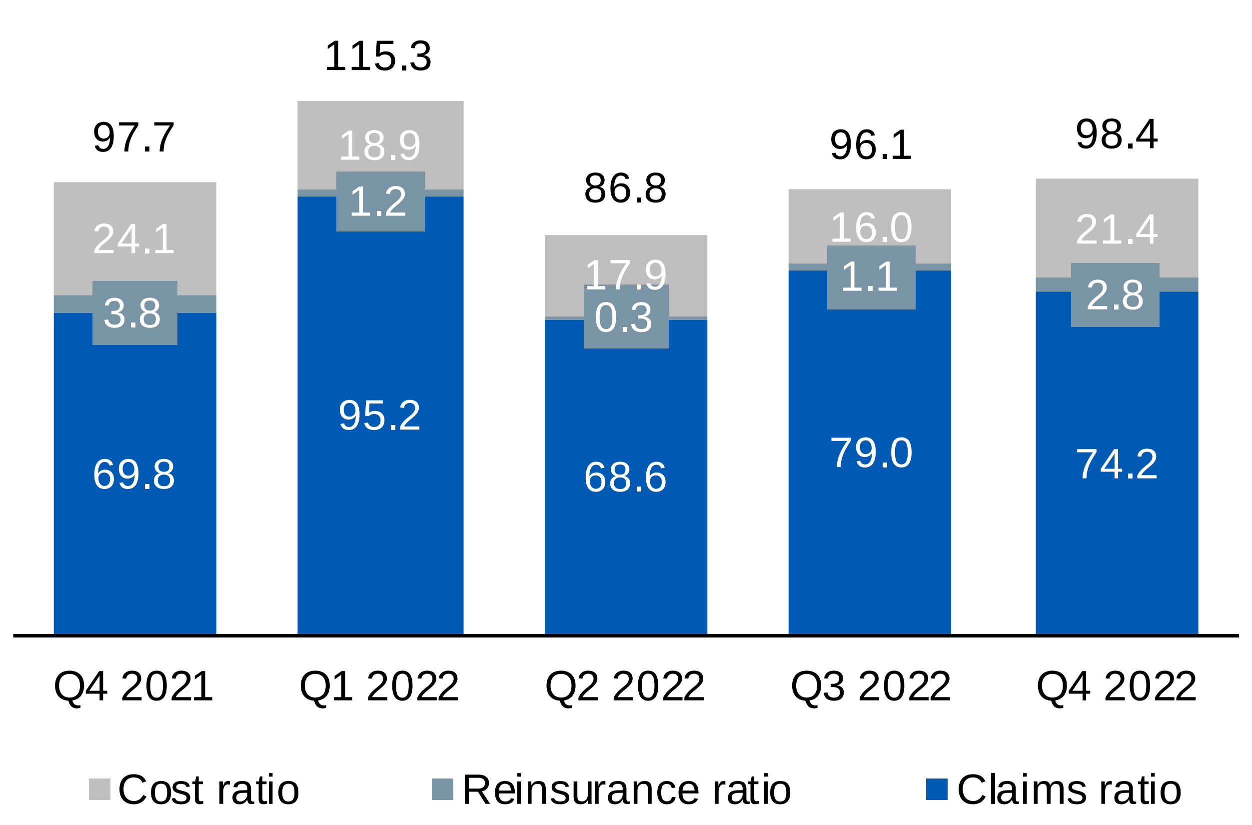


Net insurance income

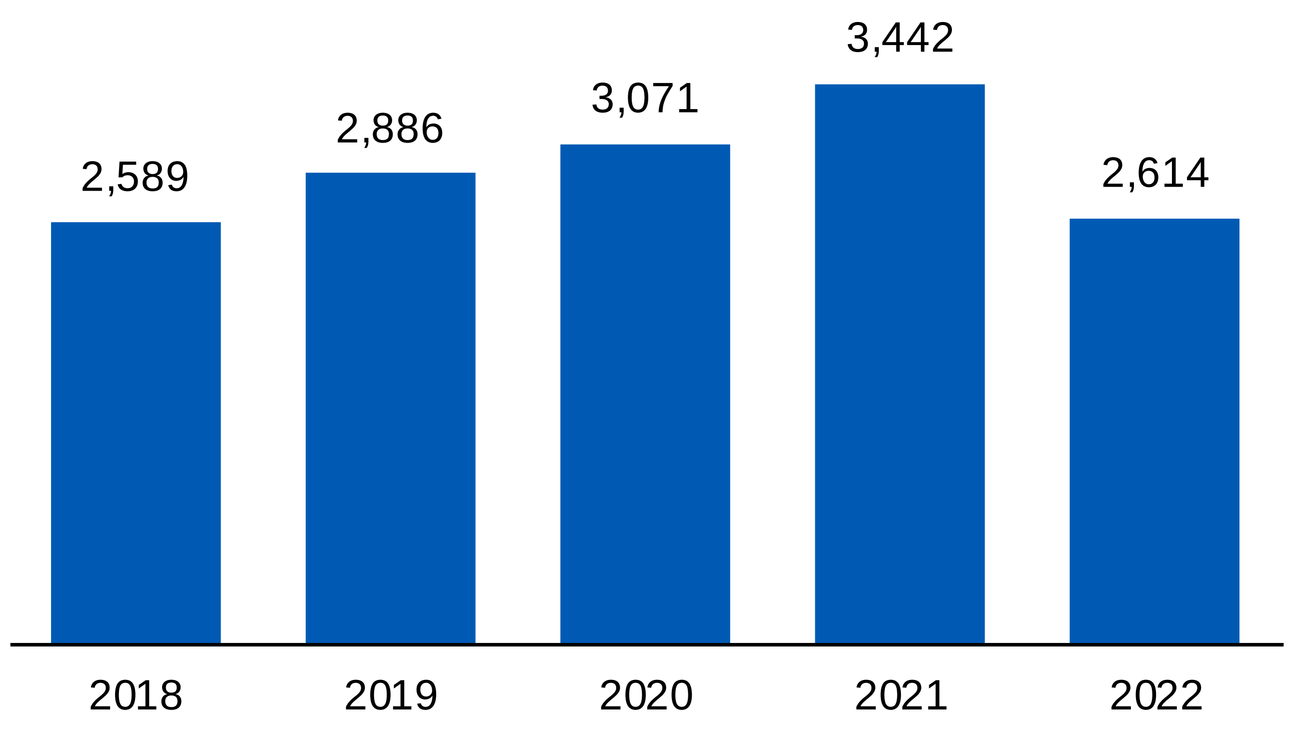
Record year in terms of premiums but increasing claims in post-COVID environment

- Vördur saw 11% growth in gross premiums in 2022, including considerable growth in corporate customers
- Combined ratio was 99.2% in 2022 compared to 93.2% in 2021
- Q1 and Q3 had unusually high claims, while Q4 saw some improvement
  - Claims due to travelling are still unusually high
  - Comprehensive motor insurance is seeing higher average claims, due to higher price and longer waiting times for spare parts and more expensive repairs for especially electric and hybrid vehicles
  - ISK 180m one-off increase in technical provisions for unreported life insurance claims
  - Vördur had a large single claim in the year
- Vördur and Arion Bank integration continues
  - Corporate sales have increased considerably following the transition of the corporate insurance team to Arion Bank's Corporate and Investment Banking division
  - Cyber Monday offering, where Arion Bank customers could purchase insurance products in the Arion app with a loyalty discount
  - Insurance products are now visible in the Arion app

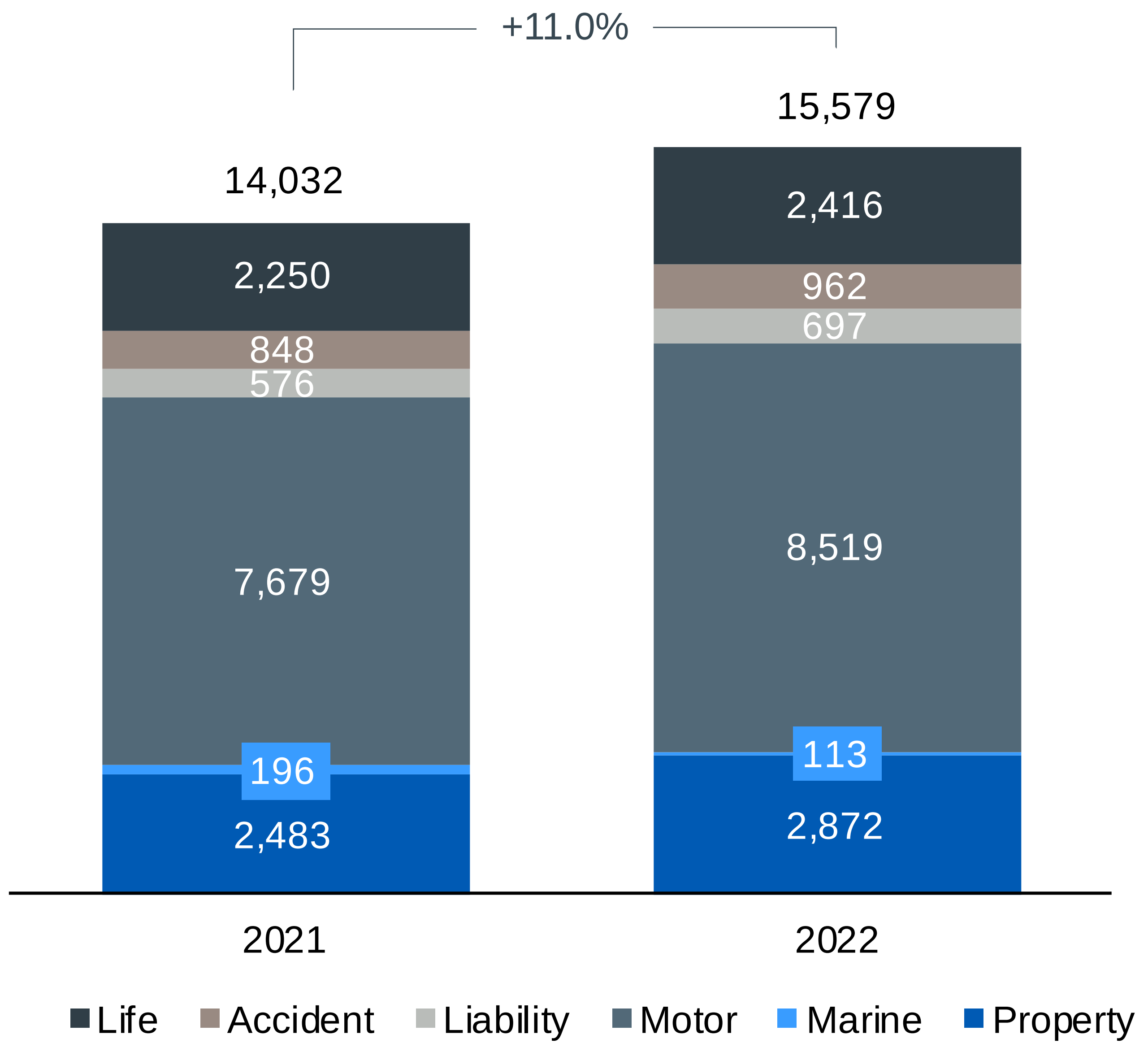
Combined ratio (%)



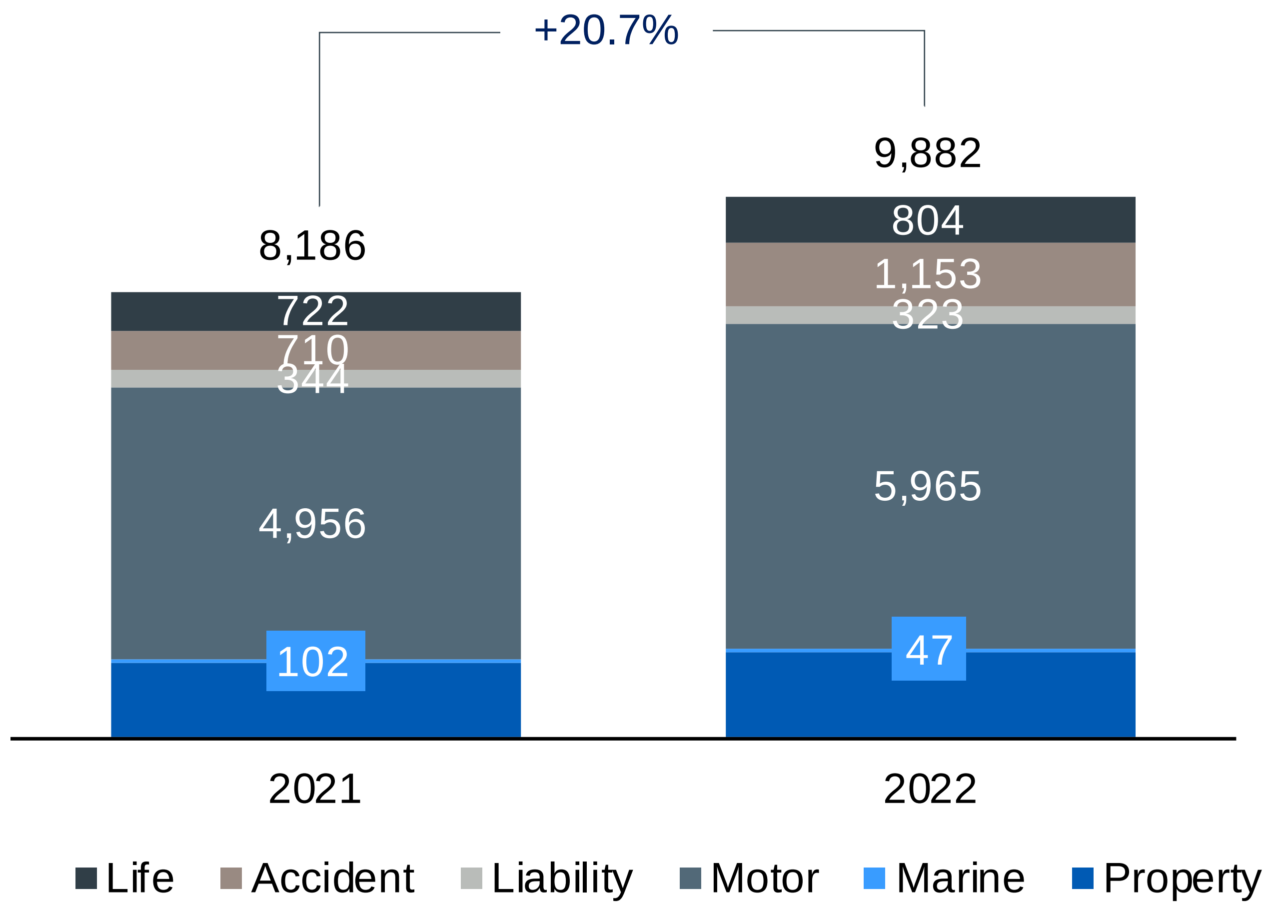
Net insurance income



Premiums written



Claims paid



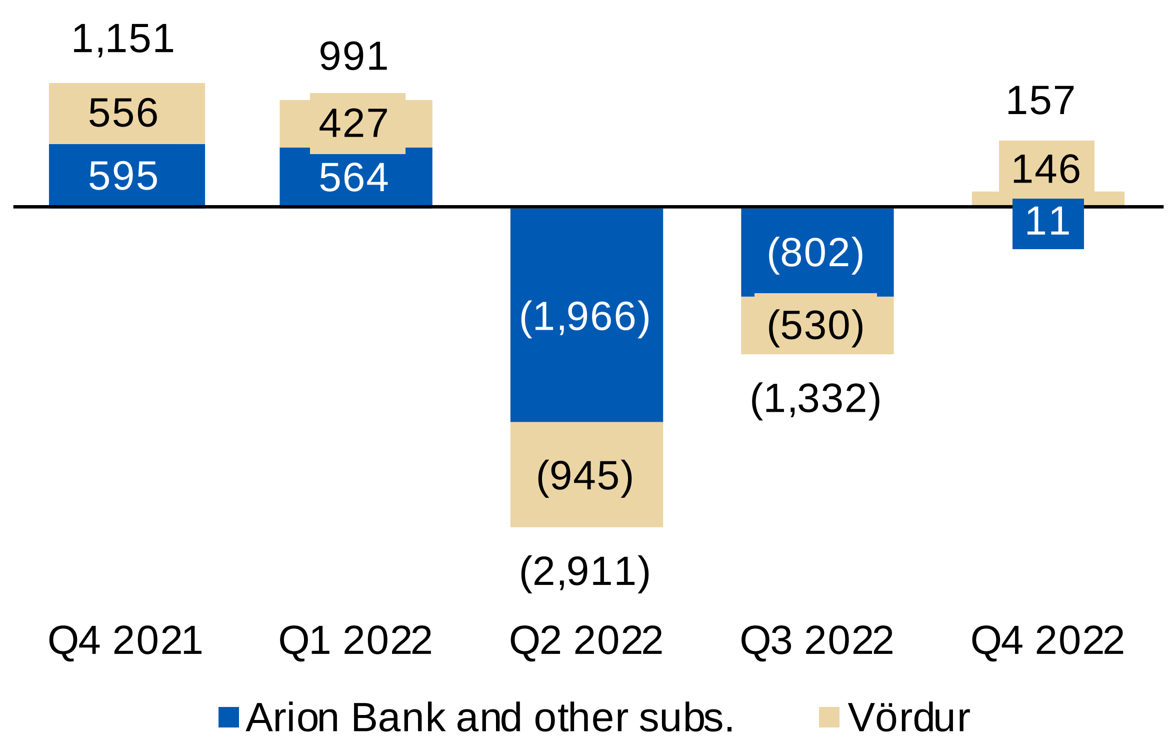
 All amounts in ISK m

Net financial income

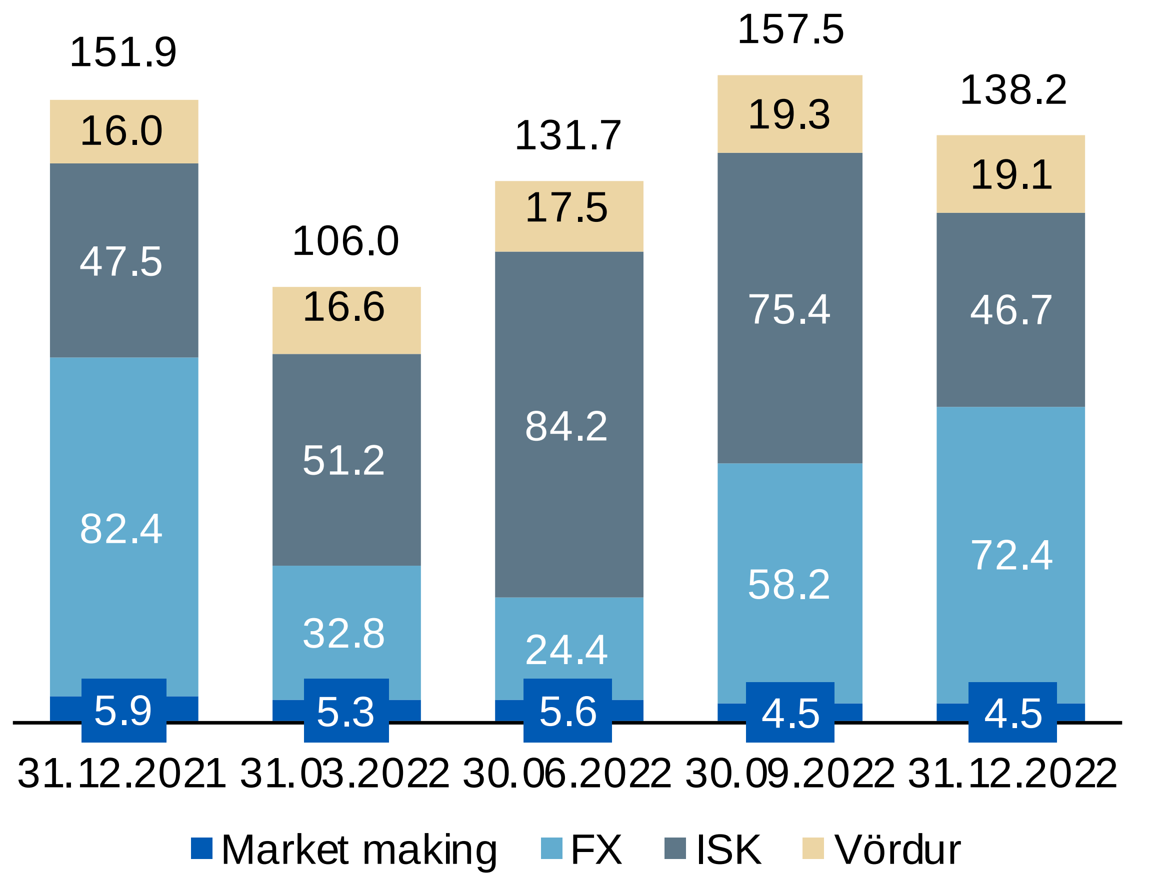
Challenging market conditions

- Low net financial income in Q4 in an ongoing volatile market backdrop
- Loss on bonds includes approx. ISK 180m loss from marking down holdings in HFF bonds
- Total investment portfolio of Vördur is ISK 26.6bn; ISK 19.1bn of bonds and ISK 7.4bn in equity instruments, yielding a profit of ISK 146m in the quarter
- Equity holdings in the market making business vary between quarters and decreased by ISK 1.4bn during Q4
- Active reduction of unlisted equity holdings over the last year

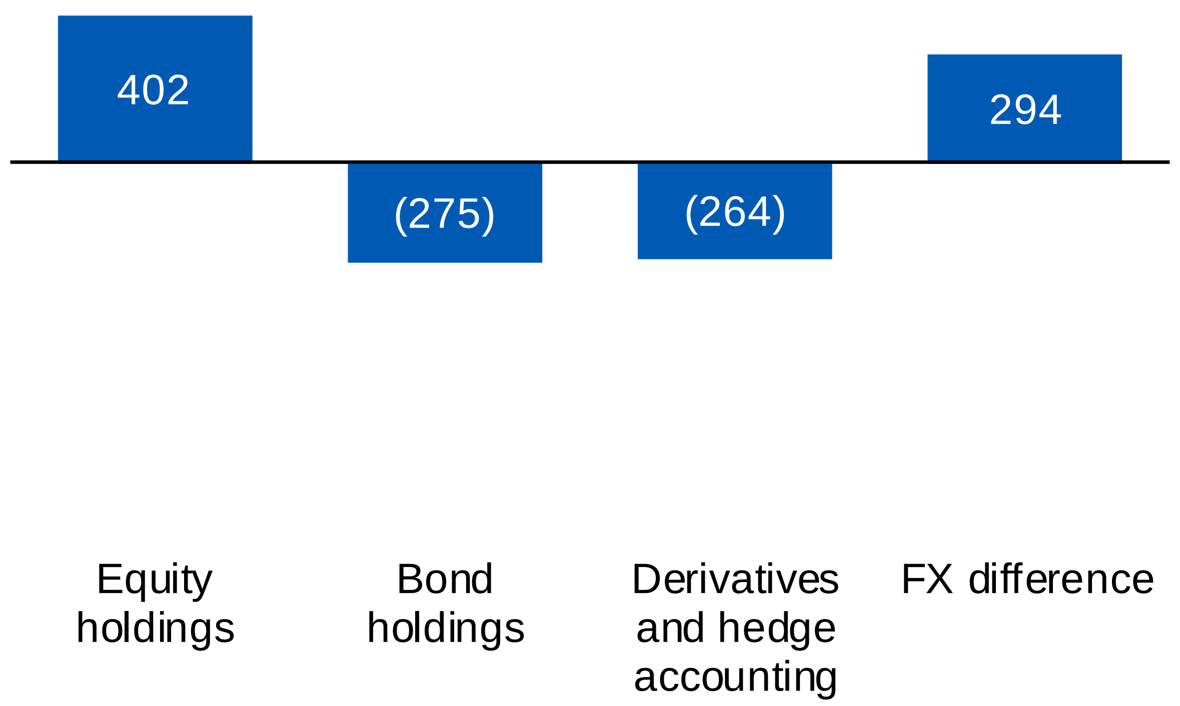
Net financial income (ISK m)



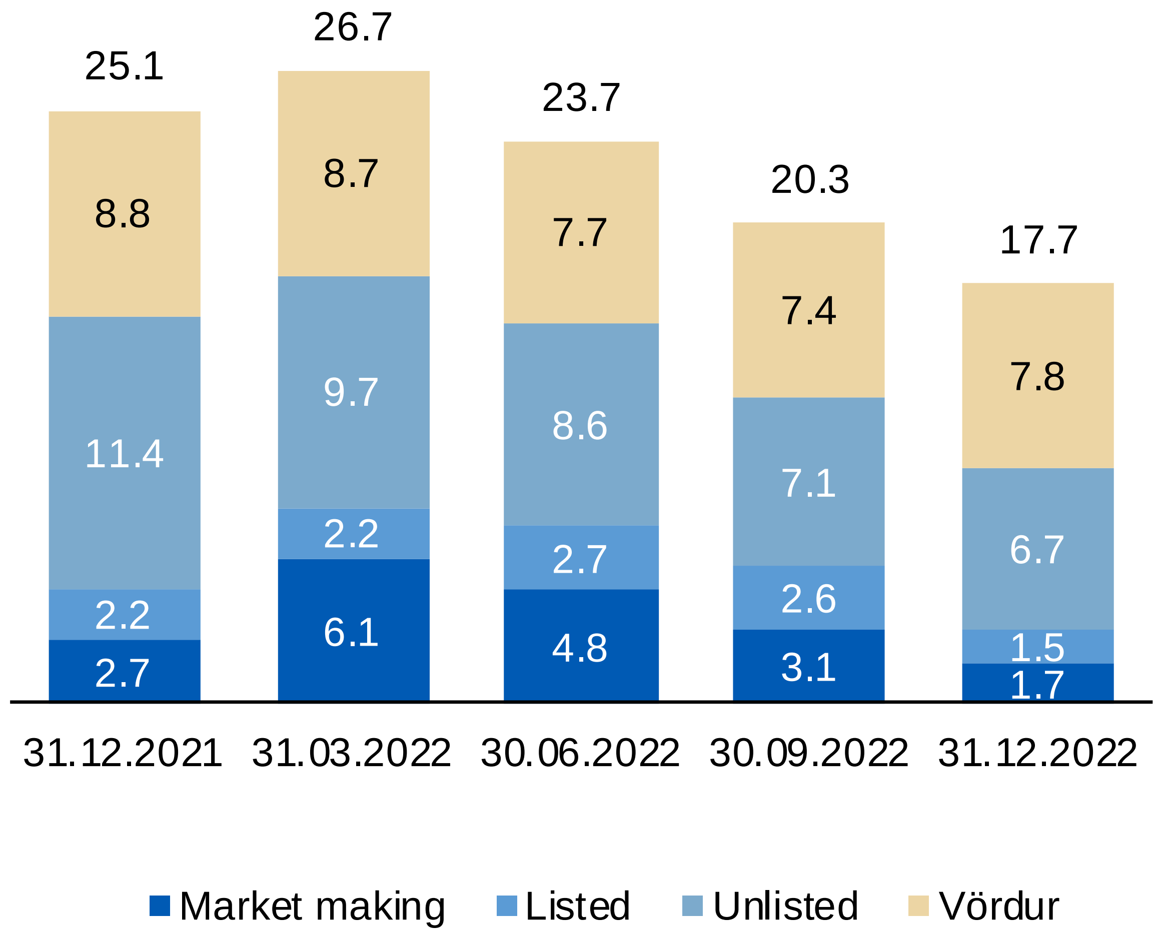
Bond holdings



Net financial income by type Q4 2022 (ISK m)



Equity holdings

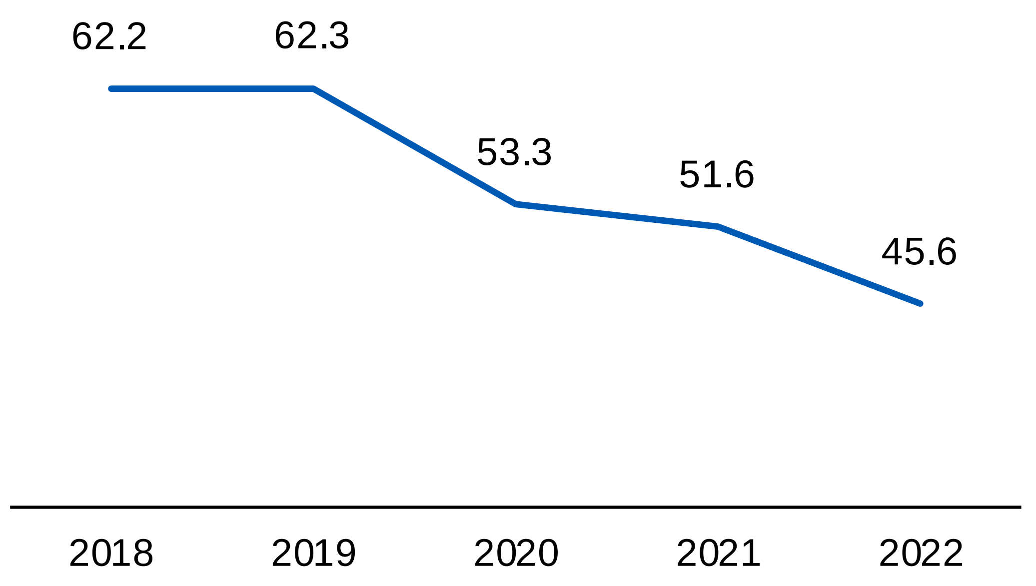


Total operating expense

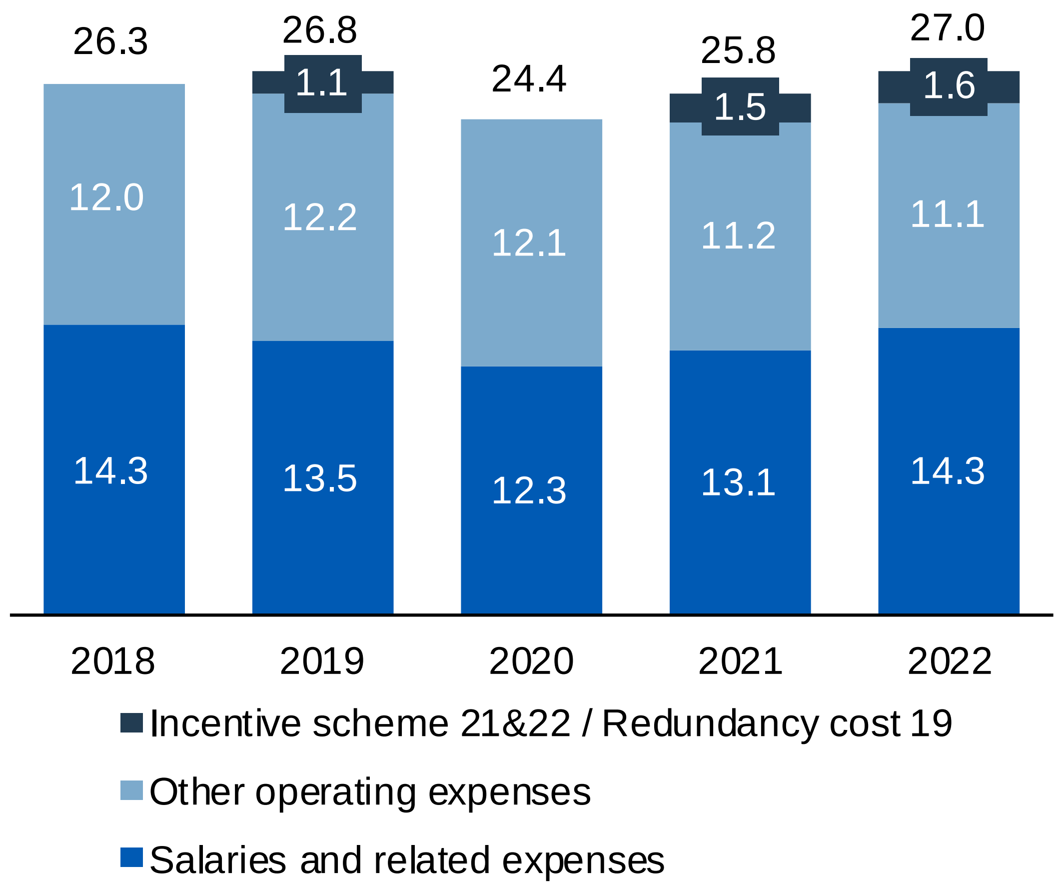
Stable YoY total OPEX despite high inflation

- Ongoing focus on OPEX and efficiency
  - Cost-to income ratio for the year 2022 was 47.0% compared with 44.4% in 2021
- Cost-to-core income ratio and core income per employee on a positive trajectory
  - Core income (NII, NFI and net insurance income) excludes net financial income which causes fluctuations in Cost to income ratio
  - Cost-to-core income for the year 2022 was 45.6% compared with 51.6% in 2021
  - Core income per employee 78m vs 66m in 2021
- Salary expense in Q4 2022 increases YoY, mainly due to increased number of FTE's
- Total estimated cost of incentive scheme is ISK 1.6bn, including salary related expenses, was ISK 1.5bn in Q4 2021
- Other OPEX stable YoY despite high inflation
  - The Group has reduced housing cost significantly in the last two years, by selling real estate and relocating. The total office space used by the Group has reduced by 40% from YE 2020

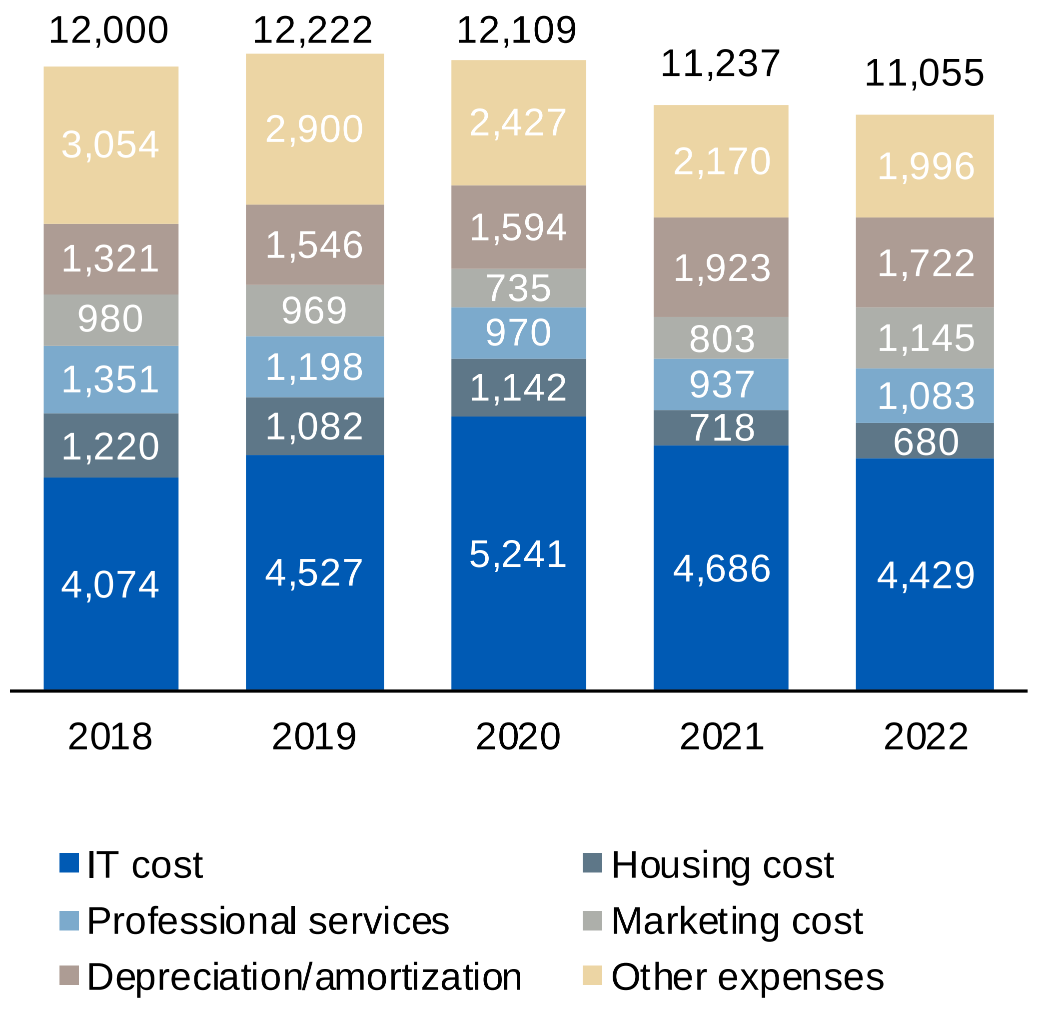
Cost-to-Core income ratio (%)



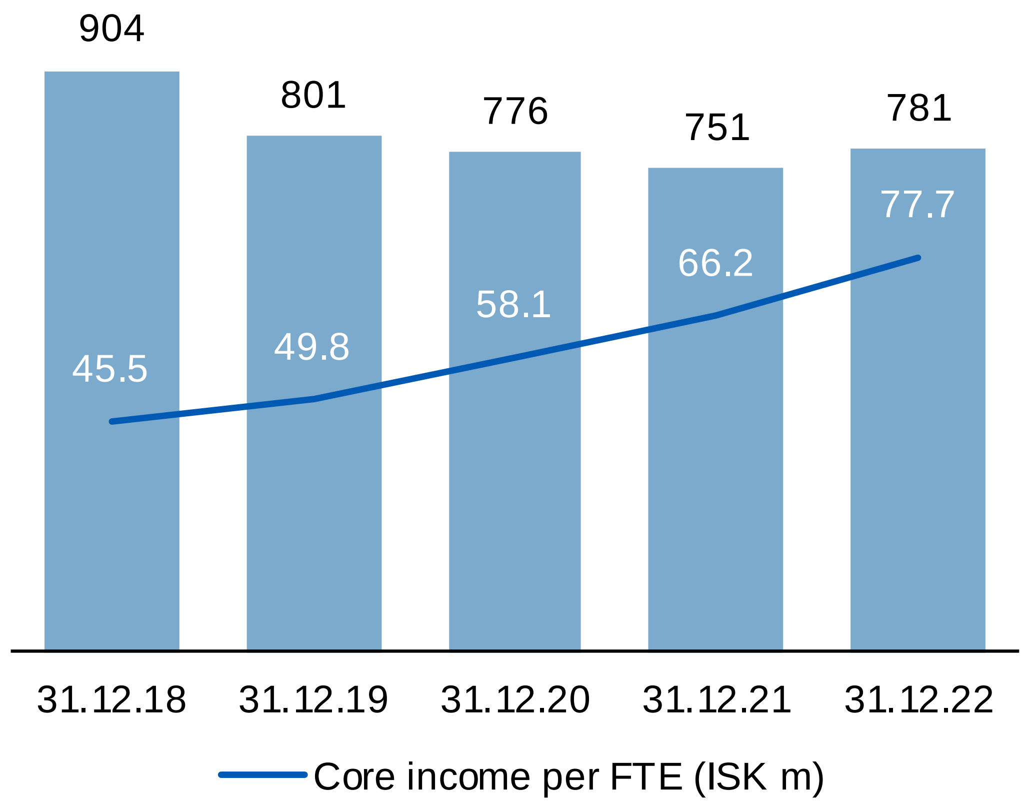
Total operating expenses



Other operating expenses (ISK m)



Core income per FTE



Balance sheet

Continued growth in deposits supports lending growth

- Loan growth supported by ongoing positive momentum in deposits
  - Loans to customers increased by 4% in Q4 and 16% during 2022
  - Deposits increased by 2% in Q4 and 15% during 2022
- Liquidity position remains strong:
  - Liquidity coverage ratio (LCR) of 158% (115% in ISK)
  - Net stable funding ratio (NSFR) of 119%
- Balance sheet further simplified with elimination of HFS lines with sale of Valitor and transfer of assets from Stakksberg to Landey

Assets	31.12.2022	30.09.2022	Diff.	31.12.2021	Diff.
Cash & balances with CB	114	68	67%	69	65%
Loans to credit institutions	46	53	(14%)	30	50%
Loans to customers	1,085	1,045	4%	936	16%
Financial assets	193	223	(13%)	226	(14%)
Assets and disposal groups held for sale	-	2	(100%)	16	(100%)
Other assets	32	37	(12%)	37	(12%)
Total Assets	**1,470**	**1,428**	3%	**1,314**	12%
Liabilities and Equity					
Due to credit institutions & CB	12	5	129%	5	134%
Deposits from customers	755	740	2%	655	15%
Liabilities associated with disposal groups held for sale	-	-	-	17	(100%)
Other liabilities	74	86	(14%)	50	48%
Borrowings	393	377	4%	357	10%
Subordinated liabilities	47	34	39%	35	35%
Total Liabilities	**1,281**	**1,242**	3%	**1,119**	14%
Equity	188	186	1%	195	(3%)
Total Liabilities and Equity	**1,470**	**1,428**	3%	**1,314**	12%

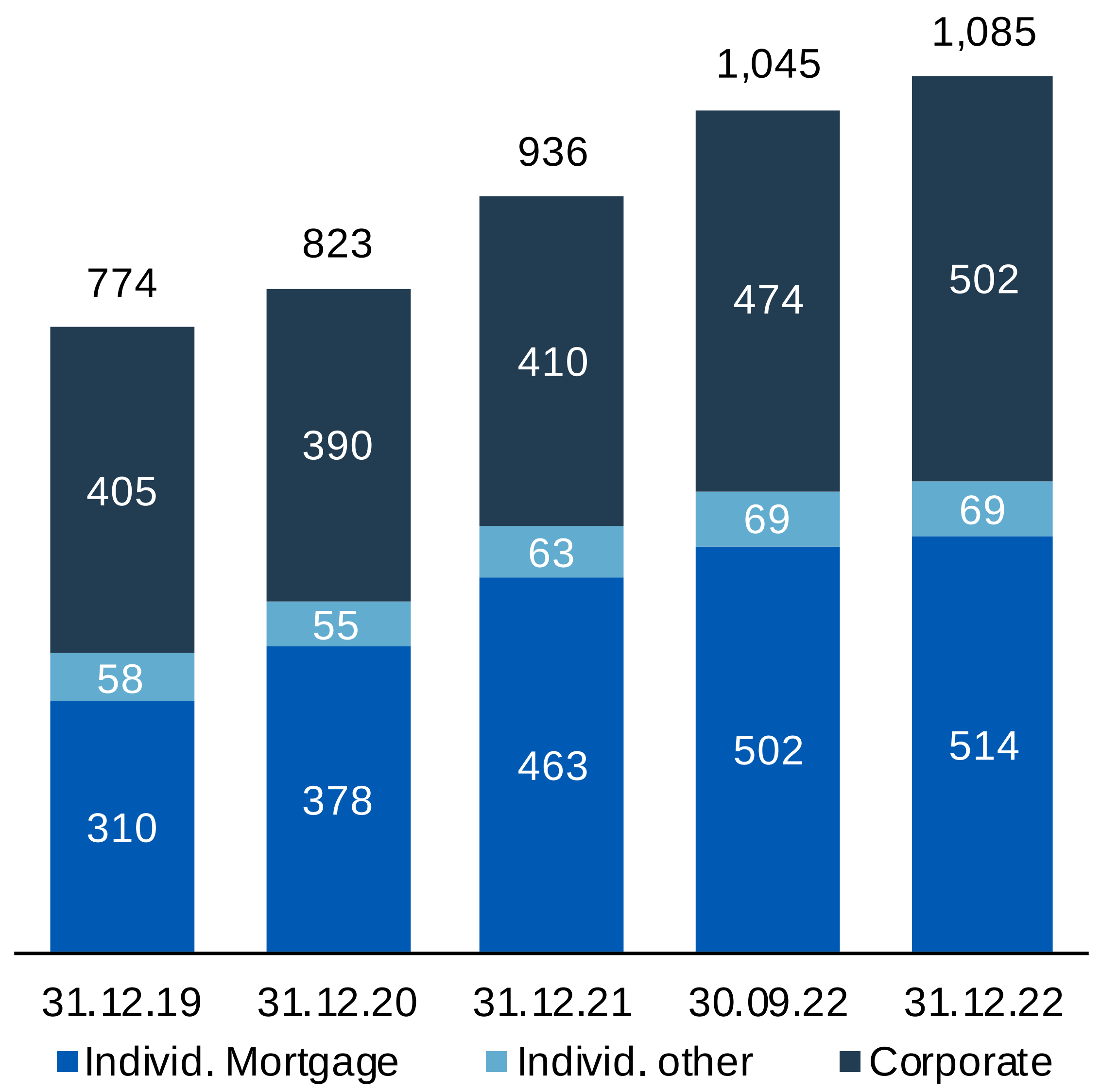
 All amounts in ISK bn

Loans to customers

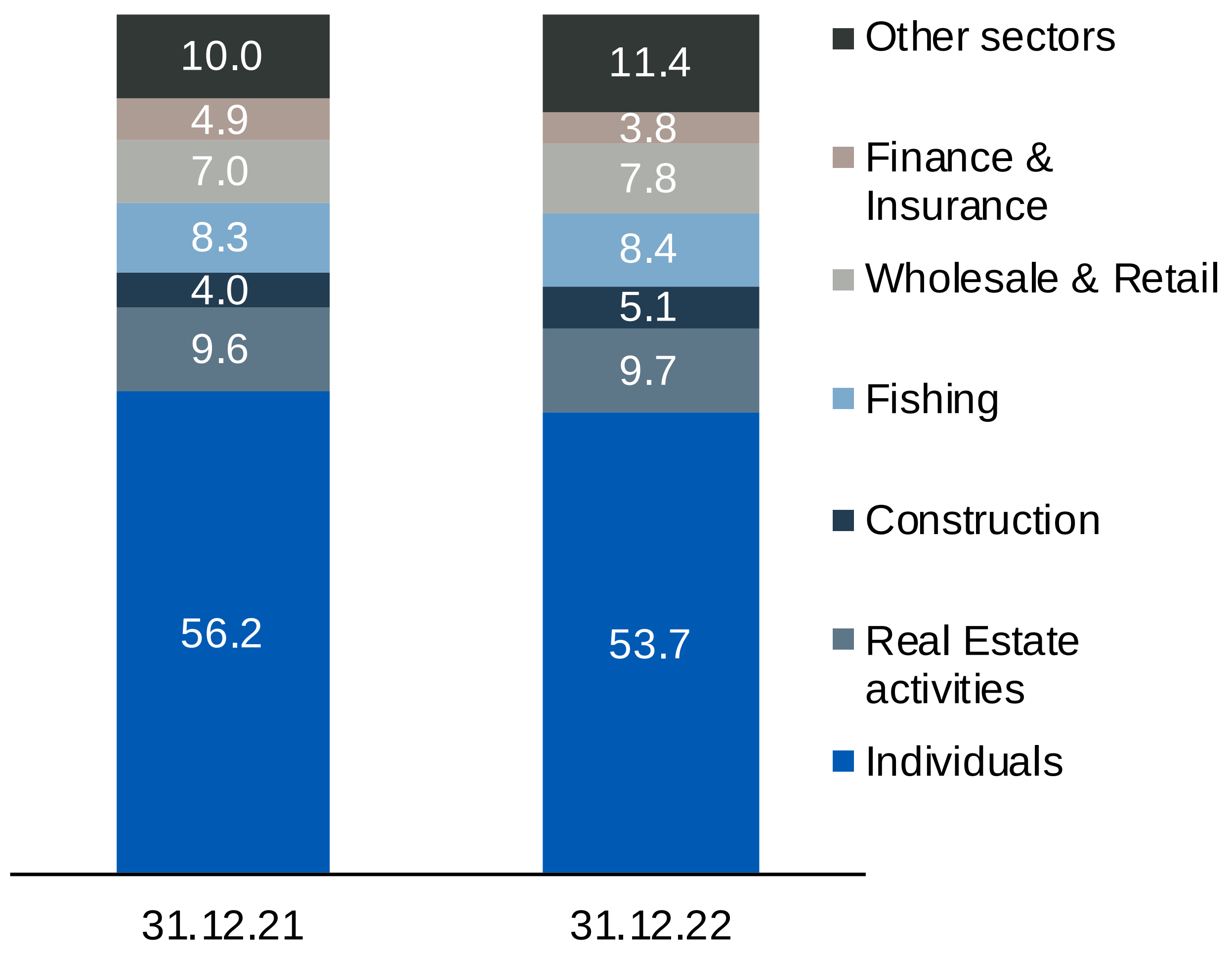
Robust growth in corporates but slowing for individuals

- Loans to customers increased by ISK 40bn or 3.8% during the quarter
  - Thereof approx. ISK 8.5bn increase due to weaker ISK and approx. ISK 2.5bn due to inflation
  - Loans to corporates 6.1% and loans to individuals 1.9%
  - Increase during the year was 15.9%; to corporates 22.6% and to individuals 10.6%
- Continued CIB strategy of capital velocity
  - The Bank has sold corporate loans for ISK 22bn to institutional investors in 2022 in addition to ISK 30bn in 2021
- The diversification of the corporate loan book continues to be good and in line with the Bank's credit strategy
- There are two large exposures at year-end 2022, compared with three at the end of Q3 2022

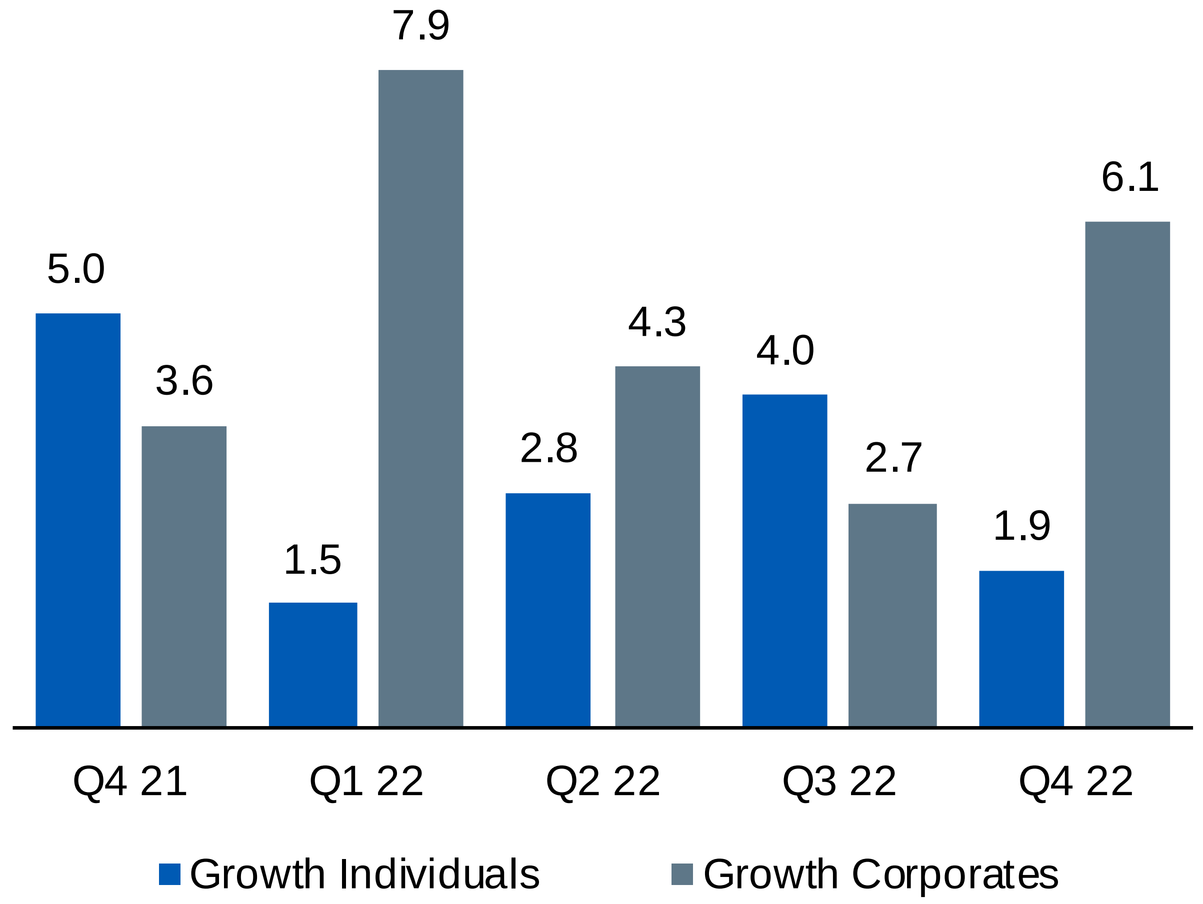
Loans to customers



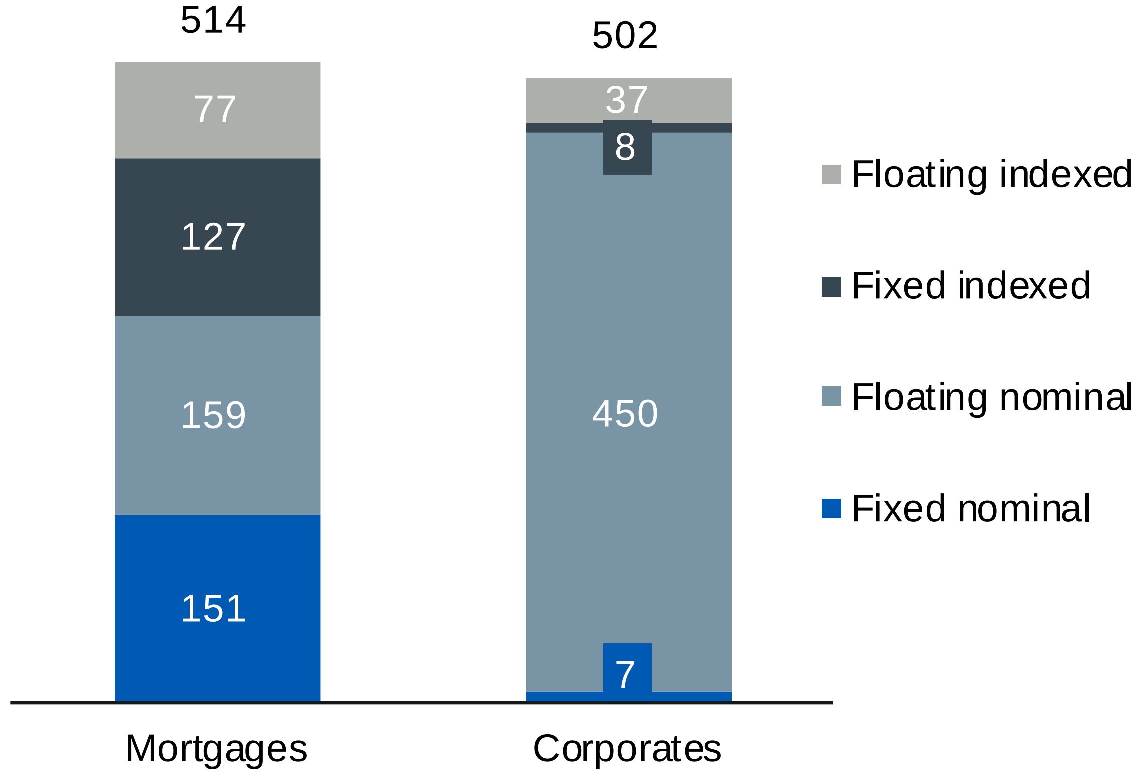
Loans to customers by sector (%)



Loan growth (%)



Loans to customers by interest rate type at year end



 All amounts in ISK bn

Residential mortgages

Low default rates and comfortable LTV levels, while rising costs for borrowers is met with tighter criteria for credit approvals

Proactive management both through macroprudential measures and bank´s internal credit approval criteria

Macroprudential measures:

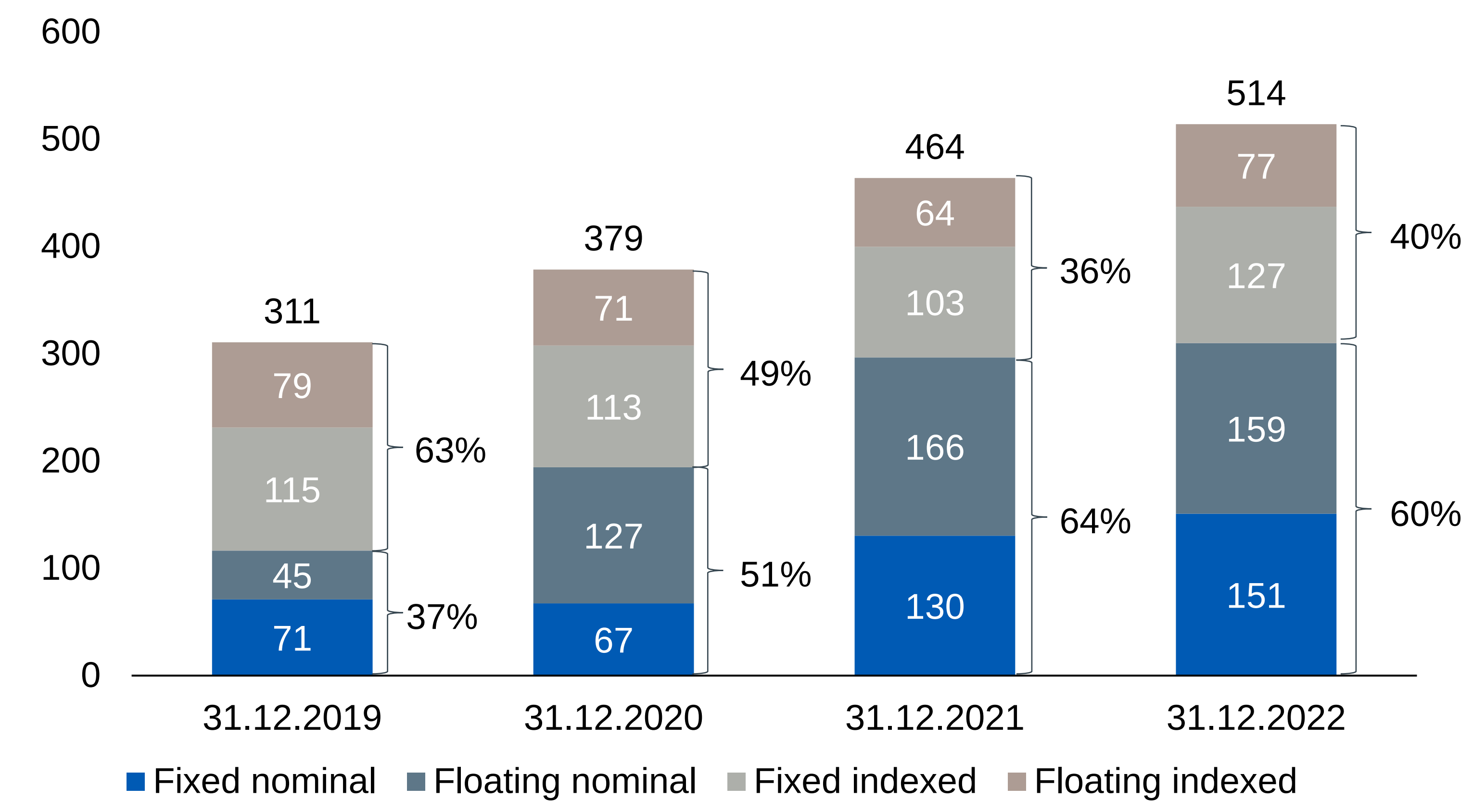
- Loan-to-value capped at 80% (85% for first-time buyers, which was already applied by Arion)
- Debt service-to-income < 35% (40% for first-time buyers). In June 2022, the Central Bank introduced prescribed minimum interest rates for debt-service which primarily affects indexed loans.
- Affects mostly first time buyers and higher loan applications

Furthermore, the Bank has adjusted its criteria for household expenditures in its payment assessment taking into account rising cost of living.

- Payment assessment made stricter in June 2022 and again in January 2023.
- Maturity of new indexed loans now capped at 25 years.
- Energy prices in Iceland are stable as electricity generation and house heating predominantly comes from local renewable energy.

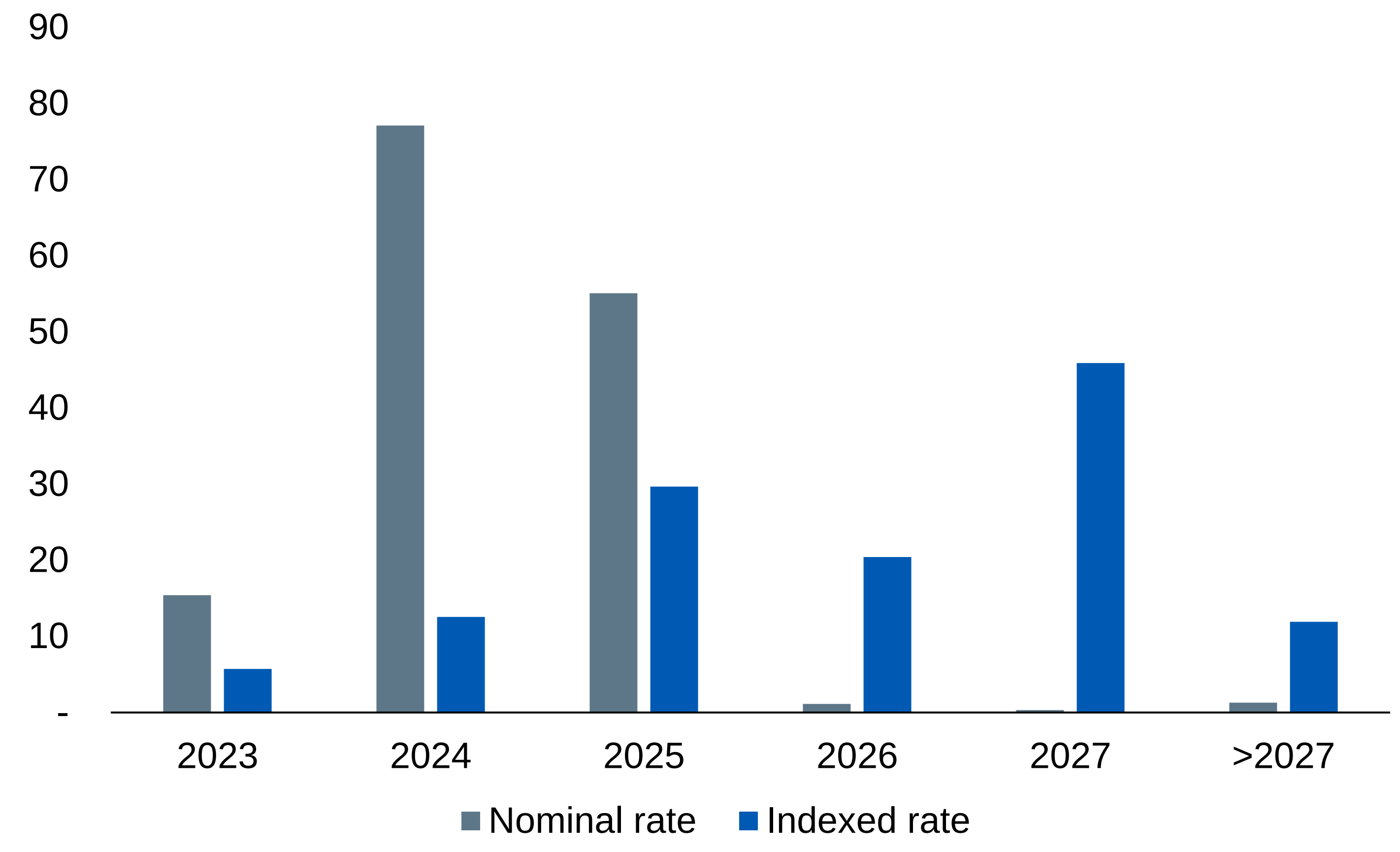
Residential mortgages by interest rate type (ISK bn)

Nominal rate loans are 60% of the mortgage portfolio at end of 2022. Demand for indexed loans is picking up again



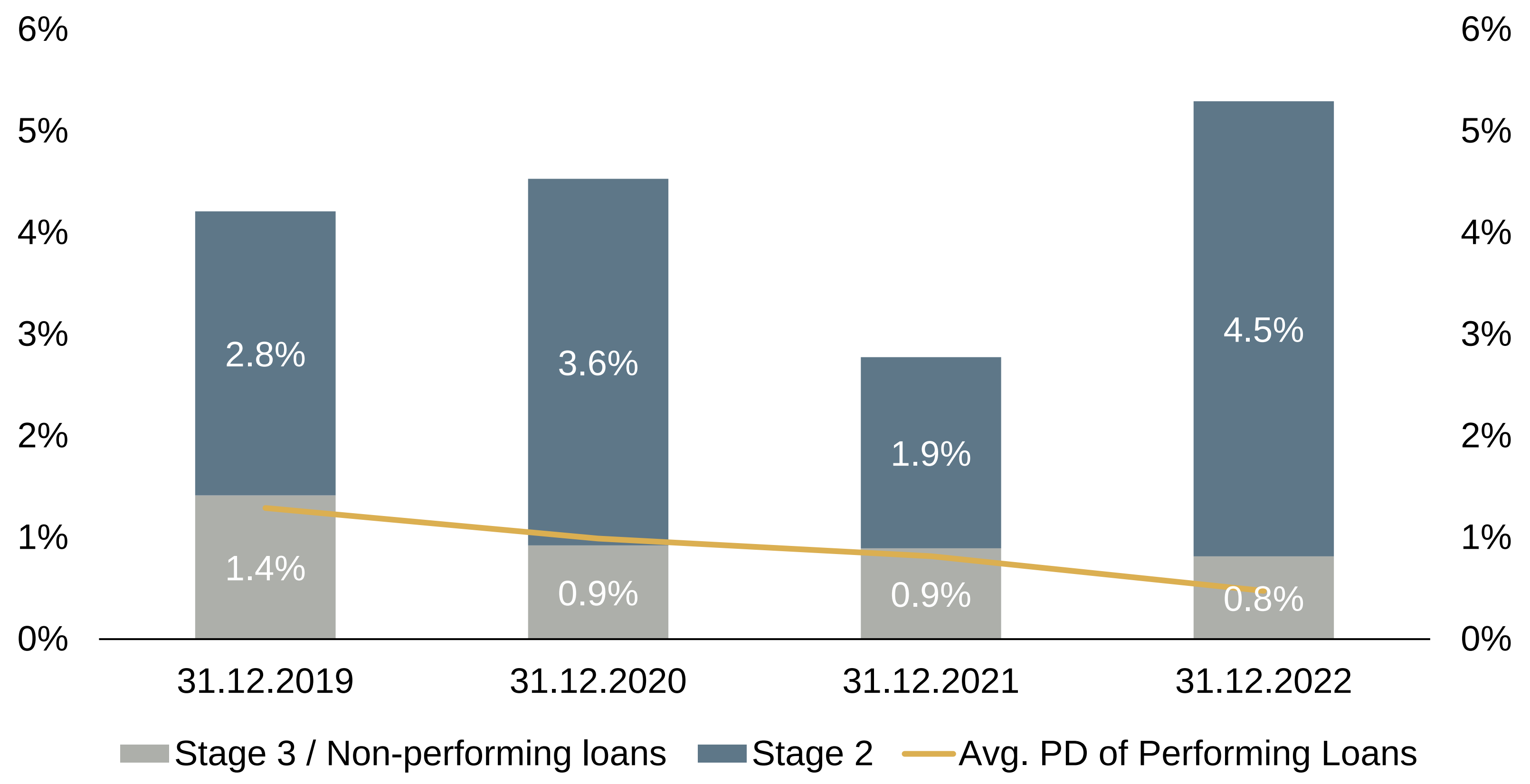
Interest rate reset profile for fixed rate mortgages (ISK bn)

The bulk of fixed nominal rate loans are reset in 2024 and 2025



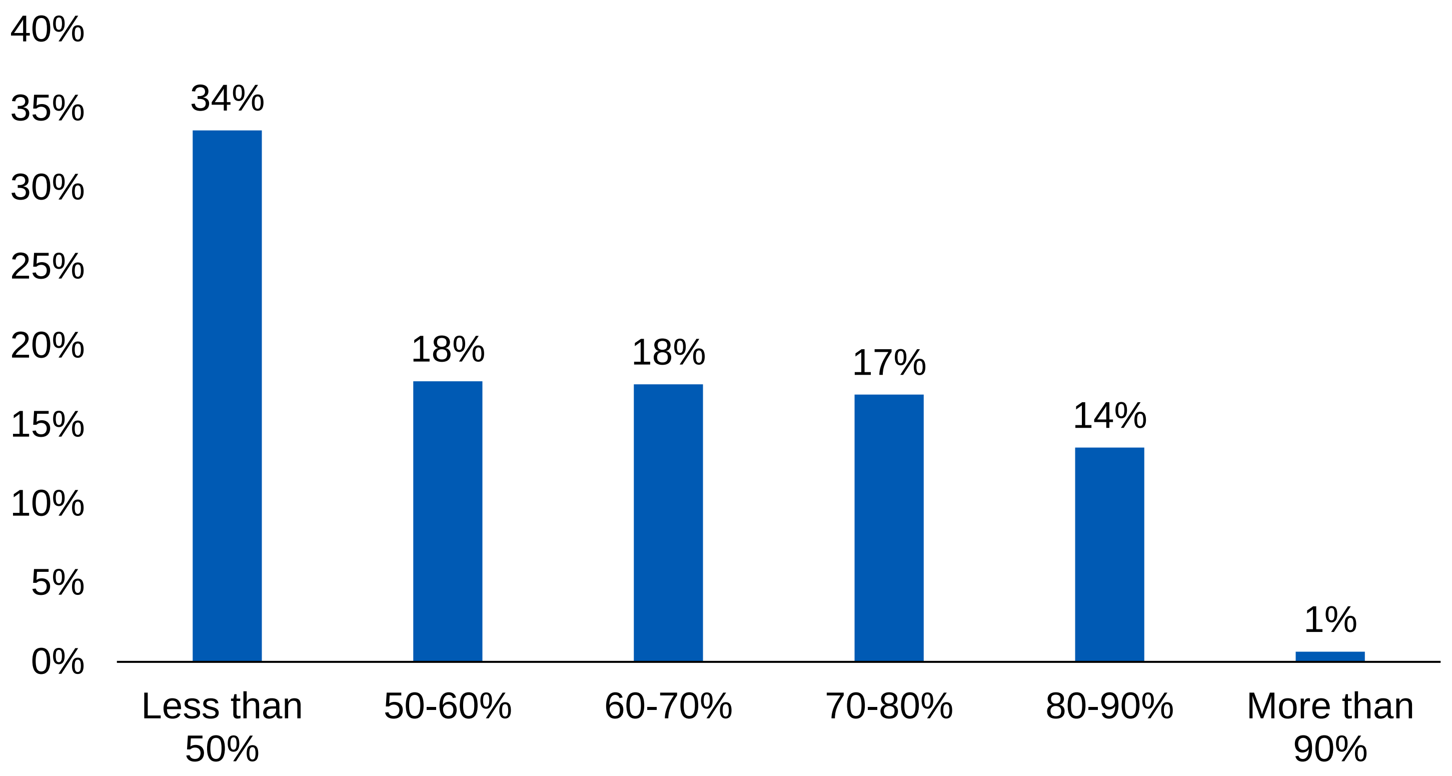
Stage allocation and probability of default

Non-performing loans are 0.8% of the loan book.
Stage 2 increase at YE 2022 due to worsening economic outlook



Loan to value distribution[1]

Loan-to-value below 80% accounts for 86% of the mortgage portfolio.

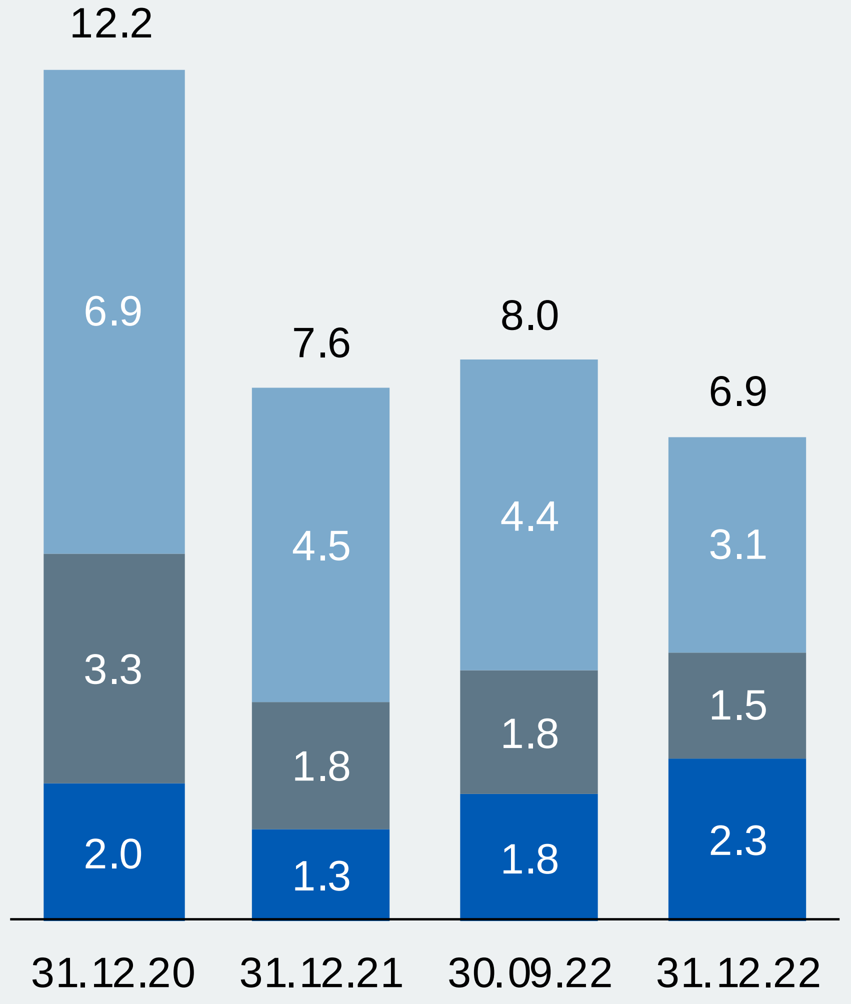


1. Total exposure of a loan is in one bracket

Loss allowance by IFRS 9 stages

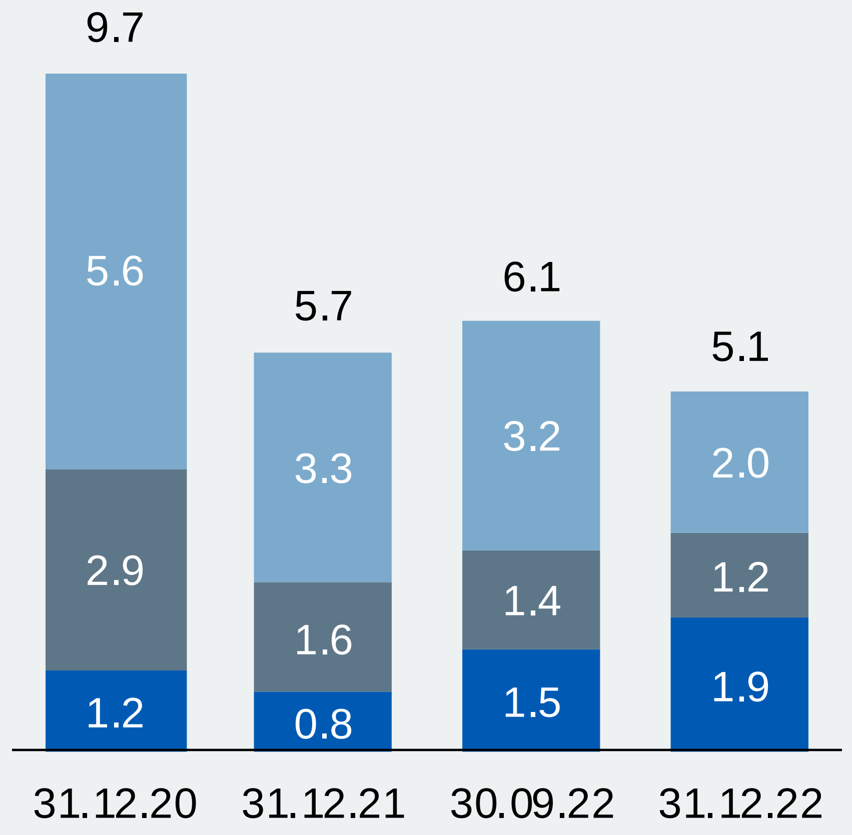
On loans to customers total

Loans to customers are 0.6% provisioned at period end

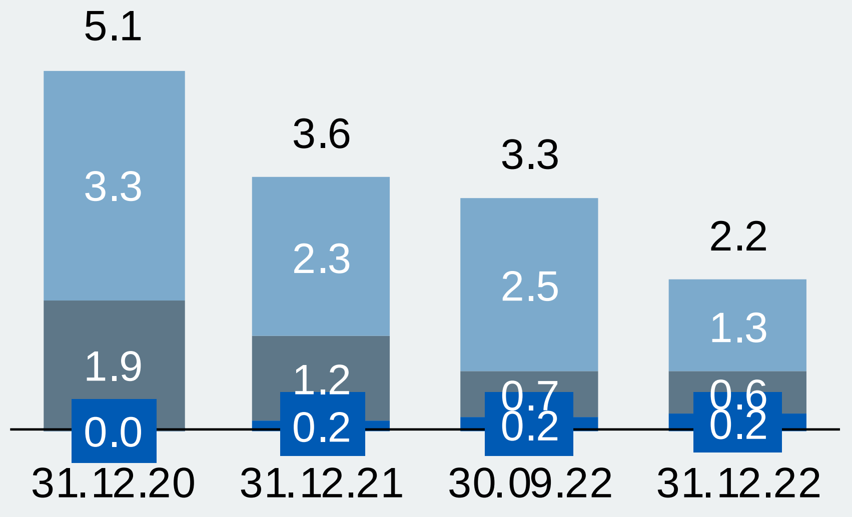


Thereof on loans to corporates

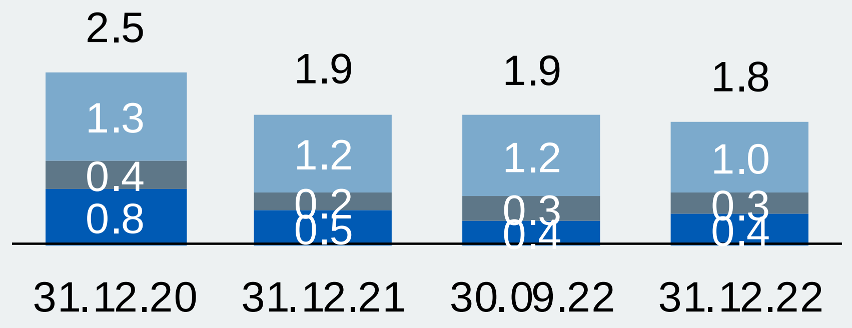
Loans to corporates are 1.0% provisioned at period end



Thereof on tourism exposure



Thereof on loans to individuals



■ Stage 1 ■ Stage 2 ■ Stage 3

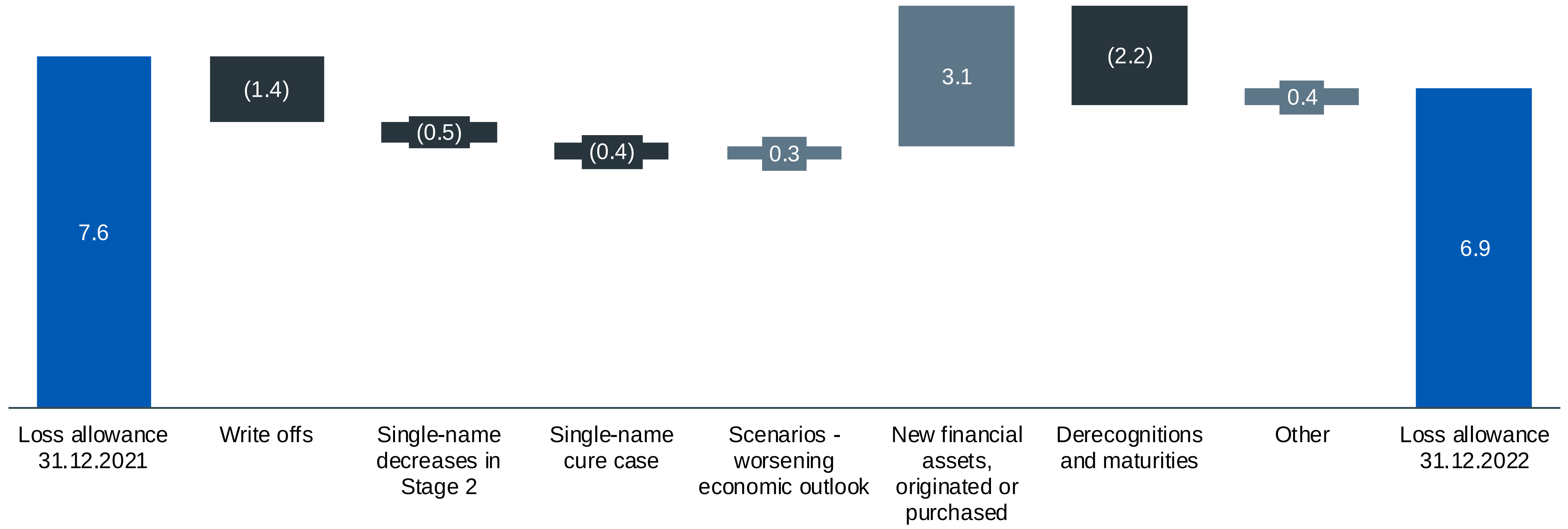
IFRS9 economic scenarios and assumptions

Worsening economic outlook during 2022 is captured in a movement of weights from the optimistic case to the base and pessimistic case. It is also captured by a somewhat more negative view within the pessimistic scenario.

IFRS9 scenario likelihood	YE 2021	YE 2022
Optimistic	20%	10%
Base case	60%	65%
Pessimistic	**20%**	**25%**

Changes to loss allowance on loans to customers in in 2022 *

Considerable net decrease to Stage 3 impairment in Q4 mainly due to a cured problem loan which transfers to Stage 2, and completed workout of problem loan cases, with corresponding write-offs. The single name decrease in Stage 2 and the cure case in the chart below are both problem loans affected by the Covid-19 pandemic.



* Included are FX changes and calculated interests on Stage 3 provision, which are not reflected in Net impairment line in the Income Statement. Off-balance impairments and effect of payments of loans previously written off are excluded from this analysis.

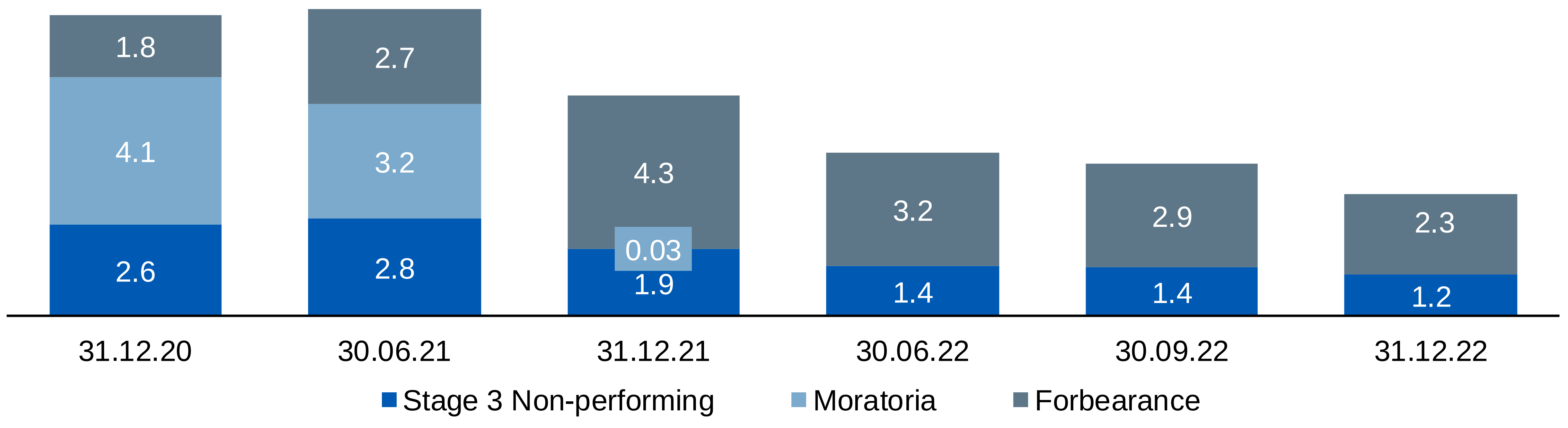
All amounts in ISK bn

Risk profile

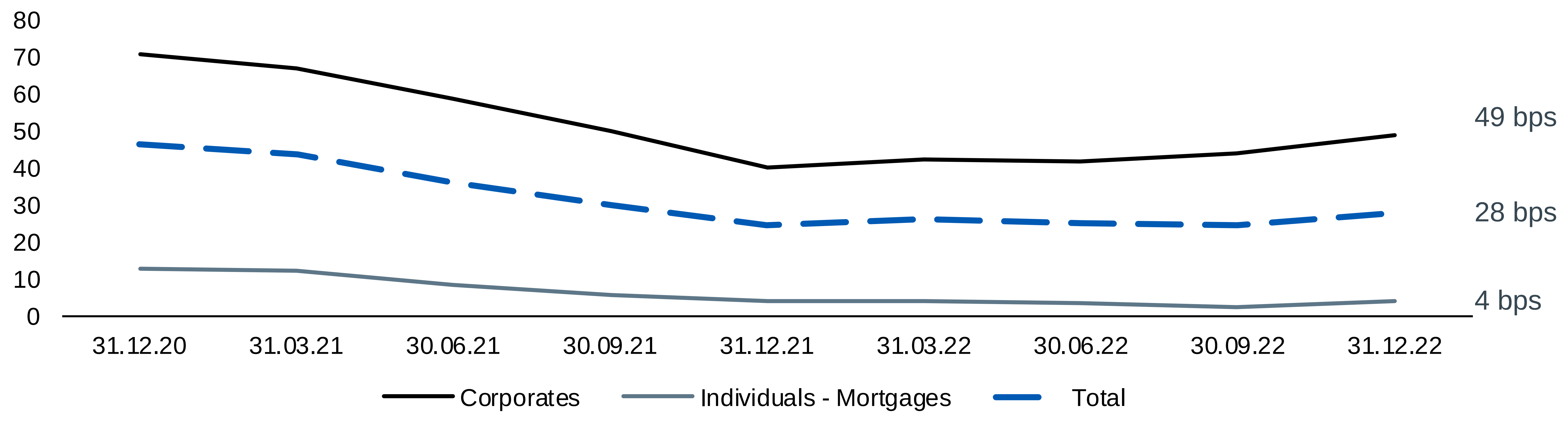
Increased proportion of mortgages over the past couple of years has reduced overall expected losses

- Despite increased provisioning through management's forward looking macro-economic assumptions, risk indicators of credit quality such as past due loans, credit migrations and watchlist exposures continue to show an overall positive development
- The change in composition of the loan portfolio, with increased weight in residential mortgages for which expected loss is lower contributes to decrease in cost of risk through the cycle
- Total expected credit loss is expected to approach between 25-30bps in the long term based on current loan book composition. At the end of the year the expected 12-month credit loss ratio was 28bps
- Loans with moratoria and forbearance measures which are not in Stage 3 continue to decrease as the economy recovers from the effects of Covid-19. At the end of year 2022, they were 2.3% of the total loan to customers
- At the end of the year about 44% of loans in default or subject to moratoria or forbearance are in the tourism sector

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



12-month expected credit loss for performing loans to customers (on balance sheet) (bps)

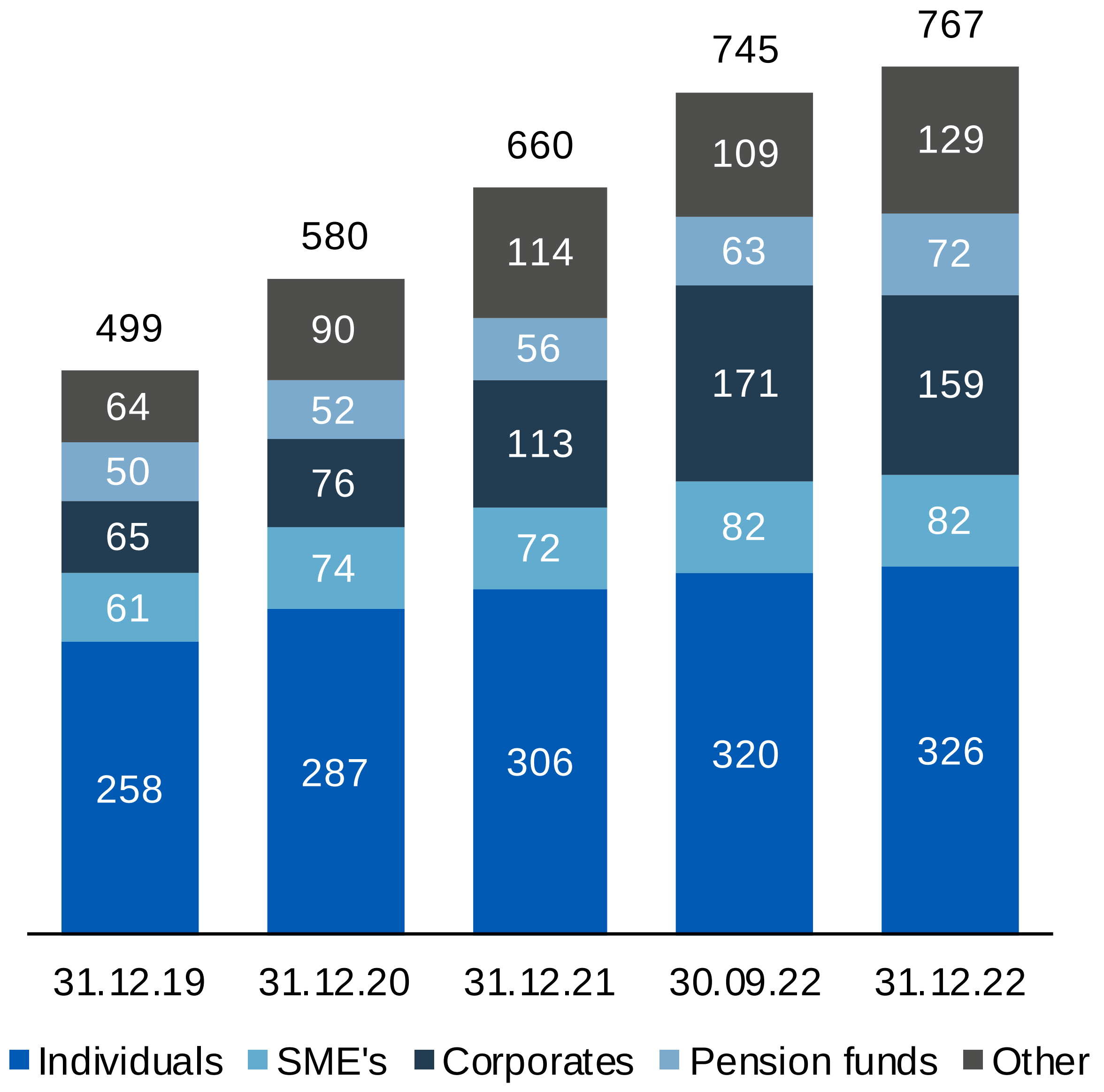


Deposits

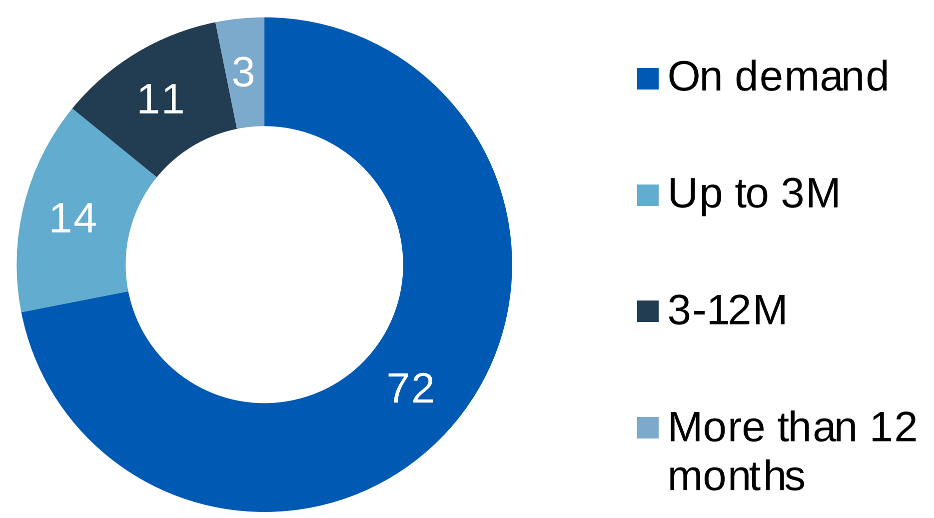
Strong growth over the year

- Deposits represent 60% of the Bank's total liabilities
- Growth in total deposits of 15.2% in 2022 and 15.5% in core deposits
    - Core deposits are defined as deposits from individuals, SME's and corporates
- Loans to deposits ratio of 144% at the end of the year has decreased significantly over the last few years with growth in deposit base
- Higher rates expected to continue to enhance competitive pressure in the deposit market

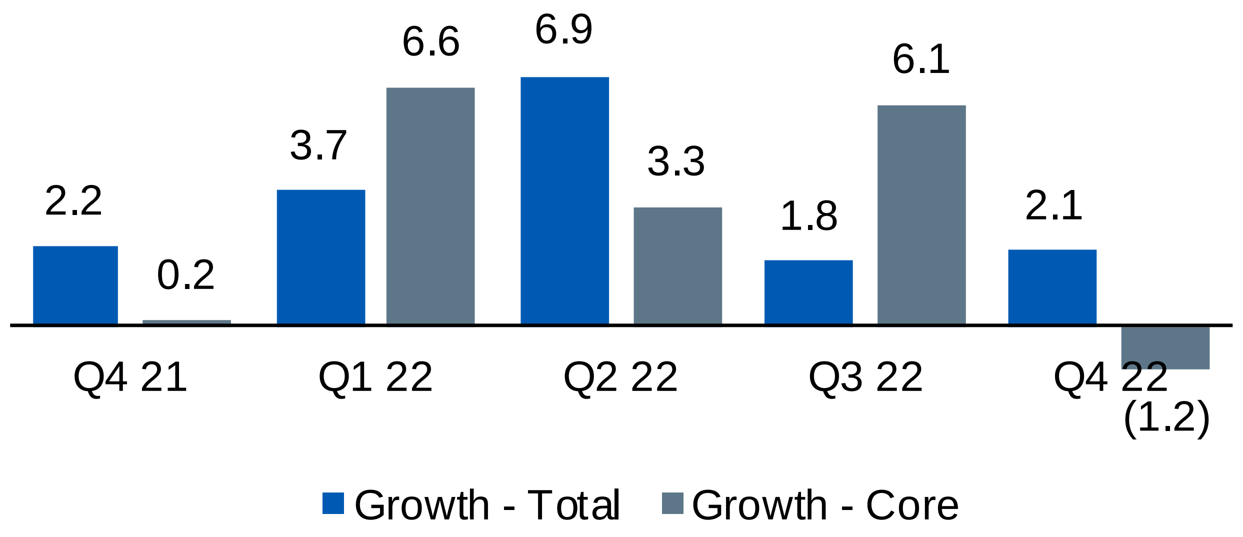
Deposits*



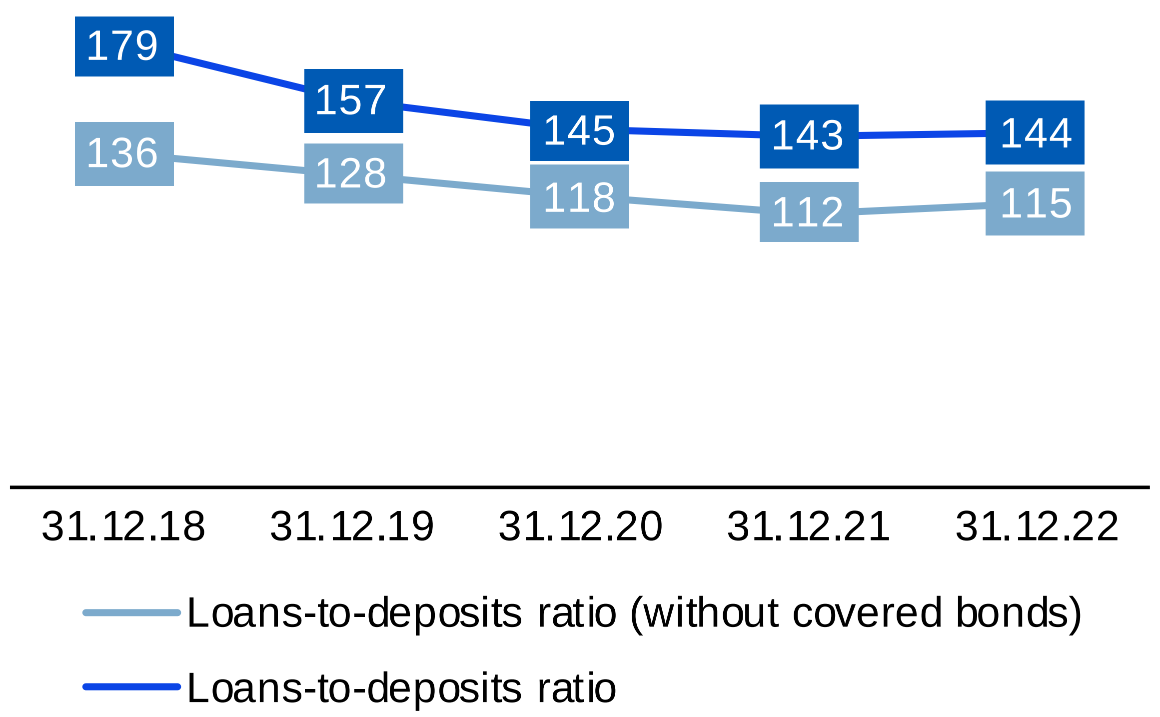
Maturity of deposits (%)



Growth in deposits (%)



Loans to deposits ratio (%)



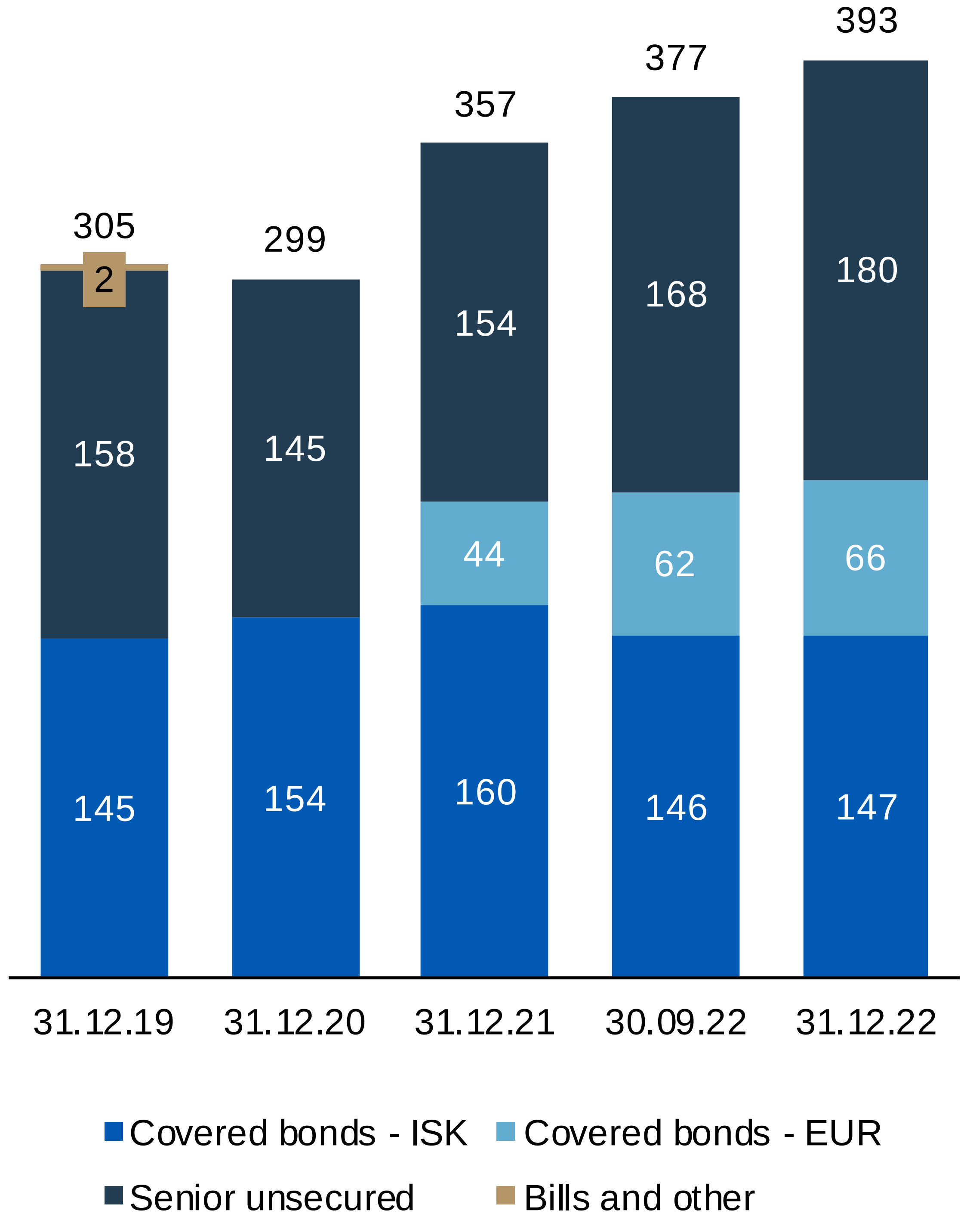
*Includes due to credit institutions and Central Bank

Borrowings

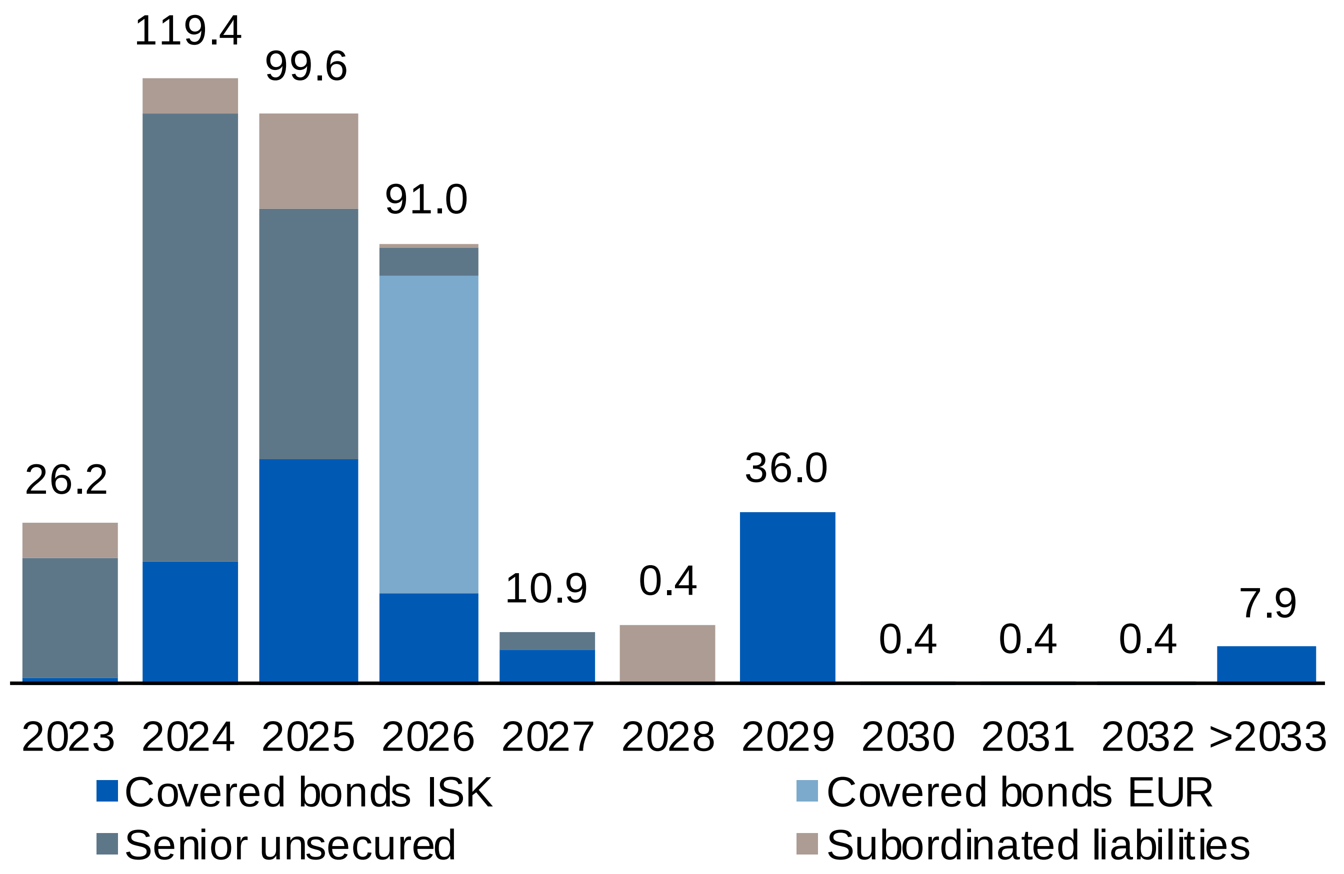
Balanced maturity profile with broad funding options. Positive spread development into 2023.

- Arion Bank issued total of EUR 500 million, NOK 550 million, SEK 230 million and ISK 18.2bn in Senior Preferred and Covered Bond format during the year 2022
- Maturities in 2023 all pre-financed
- Tier 2 issue in December of ISK 12.1bn.
- Additionally, Arion Bank issued EUR 250 million of ECB repo eligible covered bonds in July that are retained on balance sheet. This further broadens funding options and can be utilized especially while markets remain volatile
- Moody´s rating obtained during the year with a A3 deposit and Baa1 issuer rating with positive outlook
- S&P upgraded Covered bonds ratings for Arion Bank from A- to A during the year
- The Bank will continue to regularly issue in the domestic market and opportunistically access the international markets
- Issued green bonds amounted to ISK 97bn or 24.7% of total borrowings

Borrowings by type



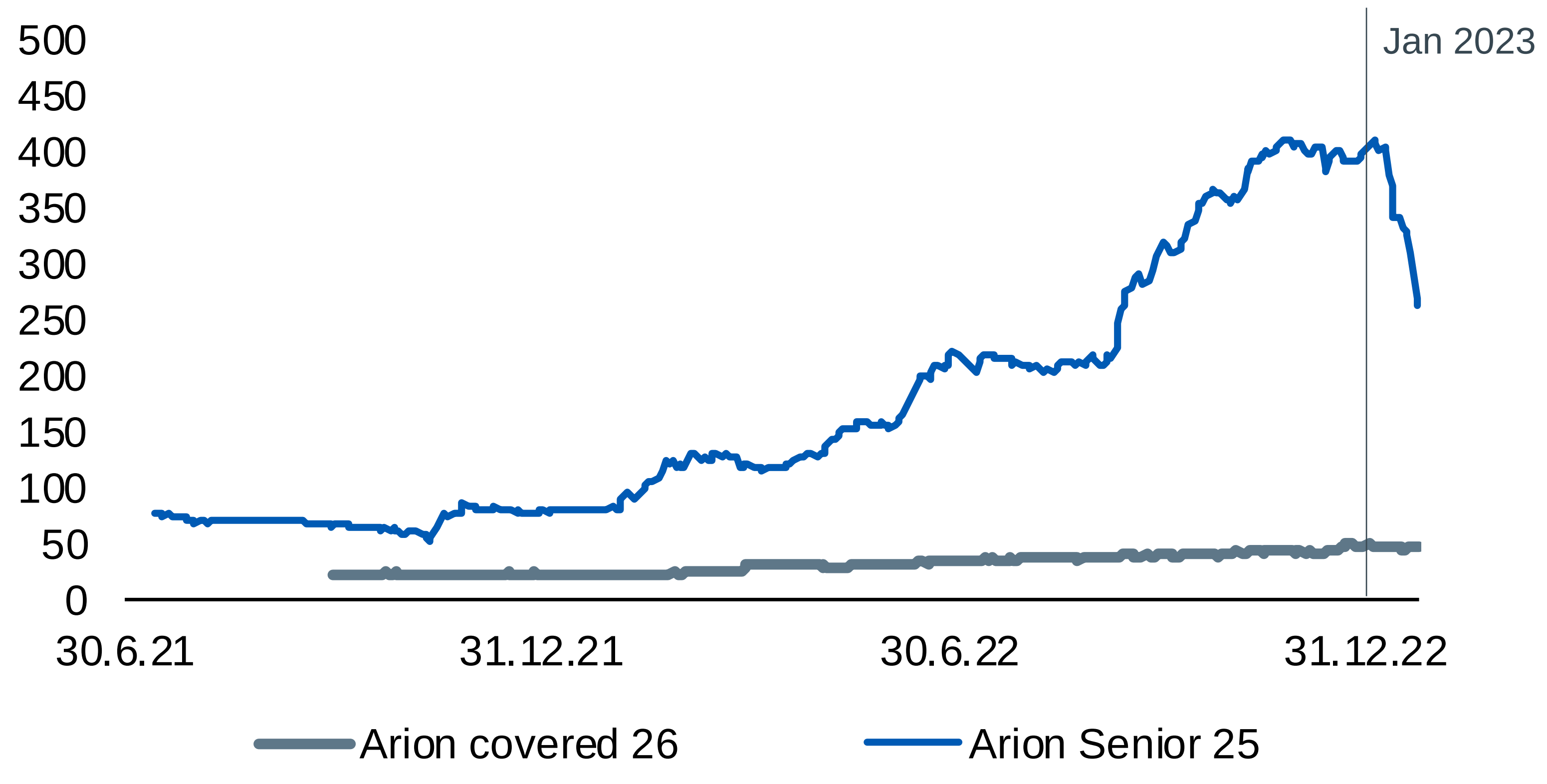
Maturities of borrowings and call dates on subordinated liabilities



Ratings

S&P		
Long term	BBB	A
Covered bond	A	N/A
Short term	A-2	A-1
Outlook	Stable	Stable
Moody's		
Deposits - long term	A3	N/A
Issuer - long term	Baa1	A2
Outlook	Positive	Stable

Development of EUR funding spreads (bps)



Source: Bloomberg

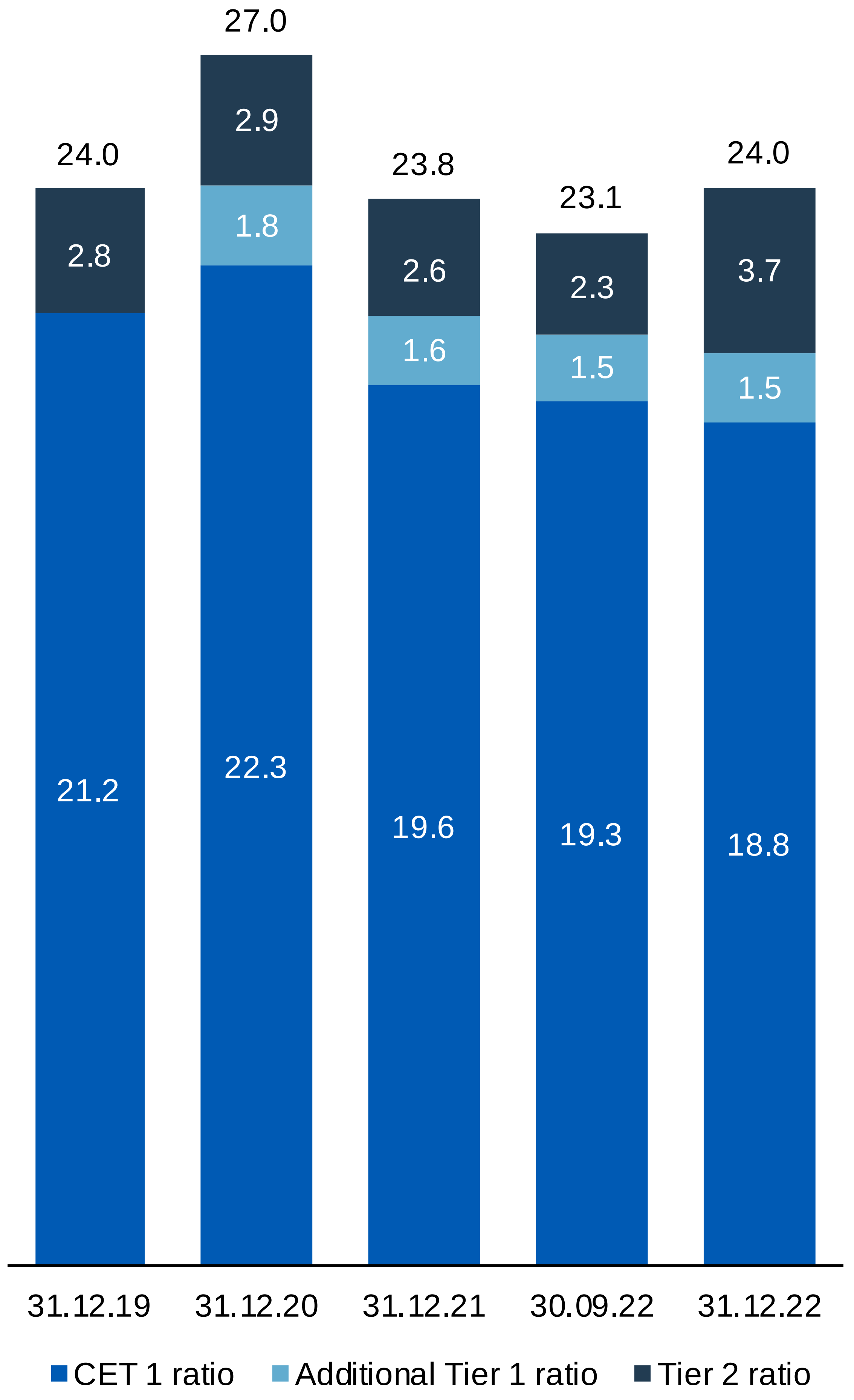
33 All amounts in ISK bn

Own funds

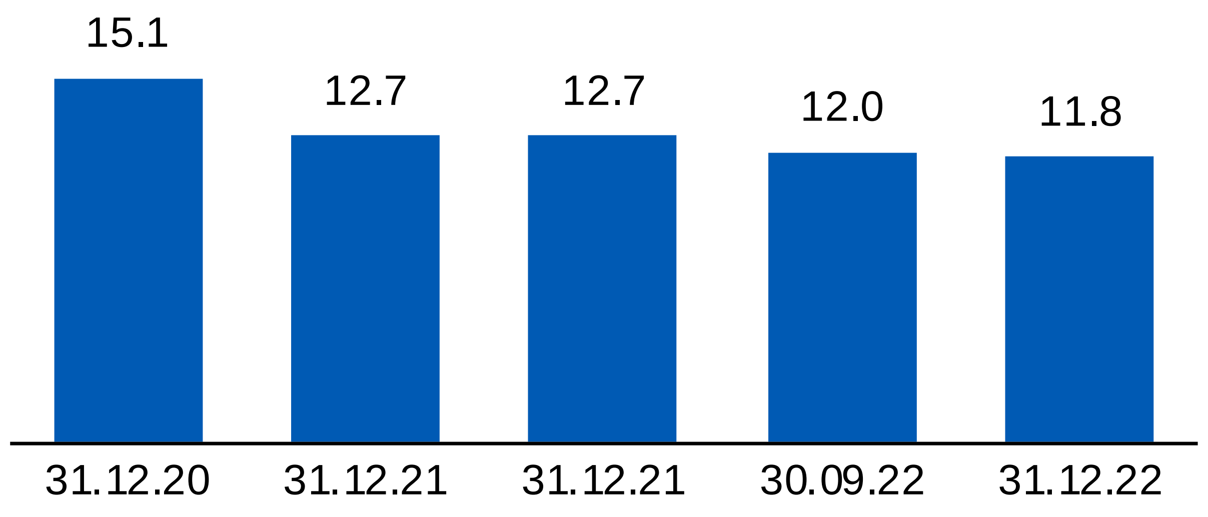
Strong capital ratios while capital optimization continues

- Capital position stable between quarters despite balance sheet growth and share buybacks
- REA increased by 1.7% in Q4 (8.7% during the year). REA density is reduced as a result of reduction in equity positions among other items
- Leverage ratio of 11.8% significantly above international competitors despite release of total ISK 63.9bn capital from beginning of 2021

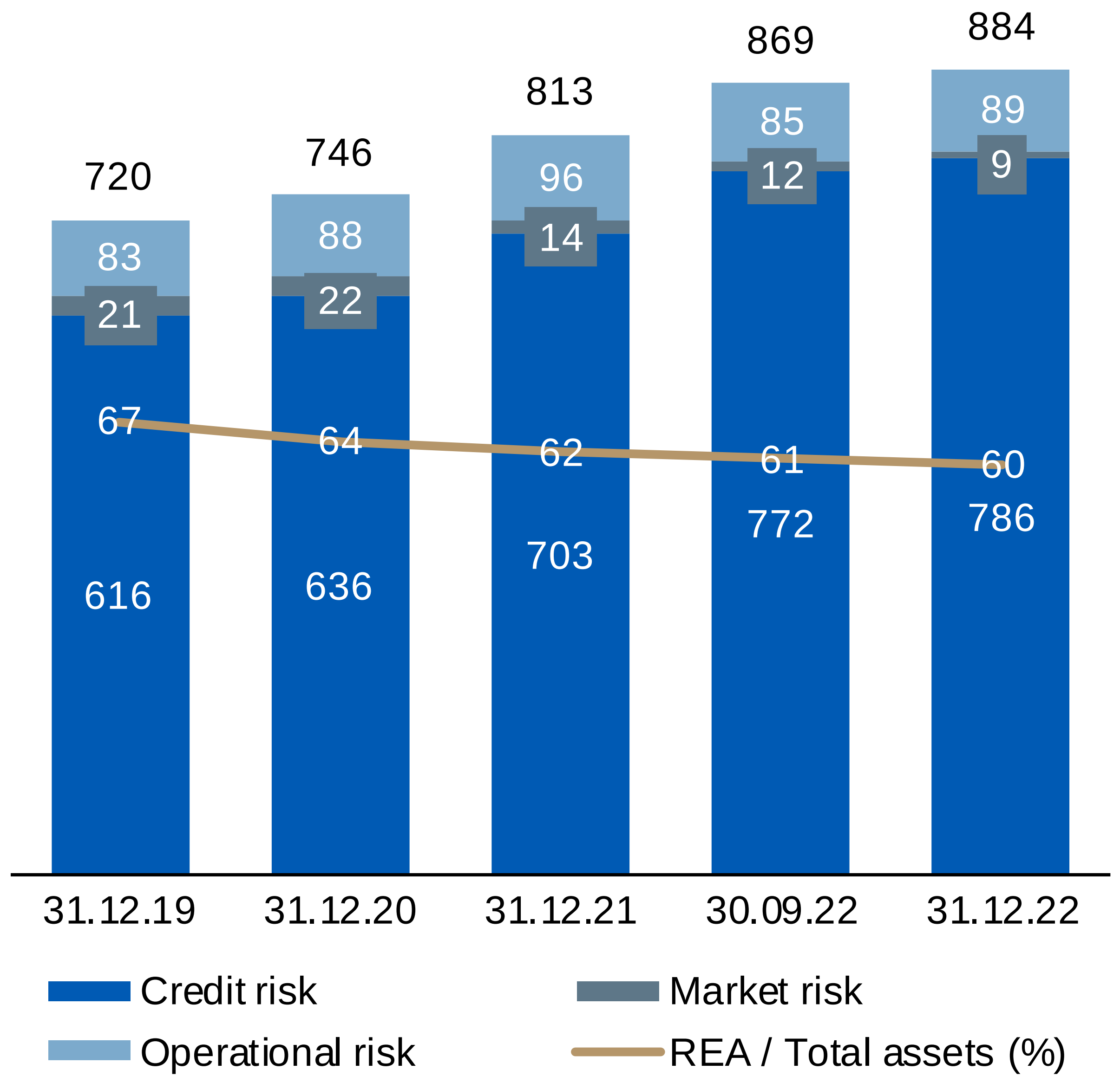
Total capital ratio (%)



Leverage ratio (%)



Risk-weighted exposure amount



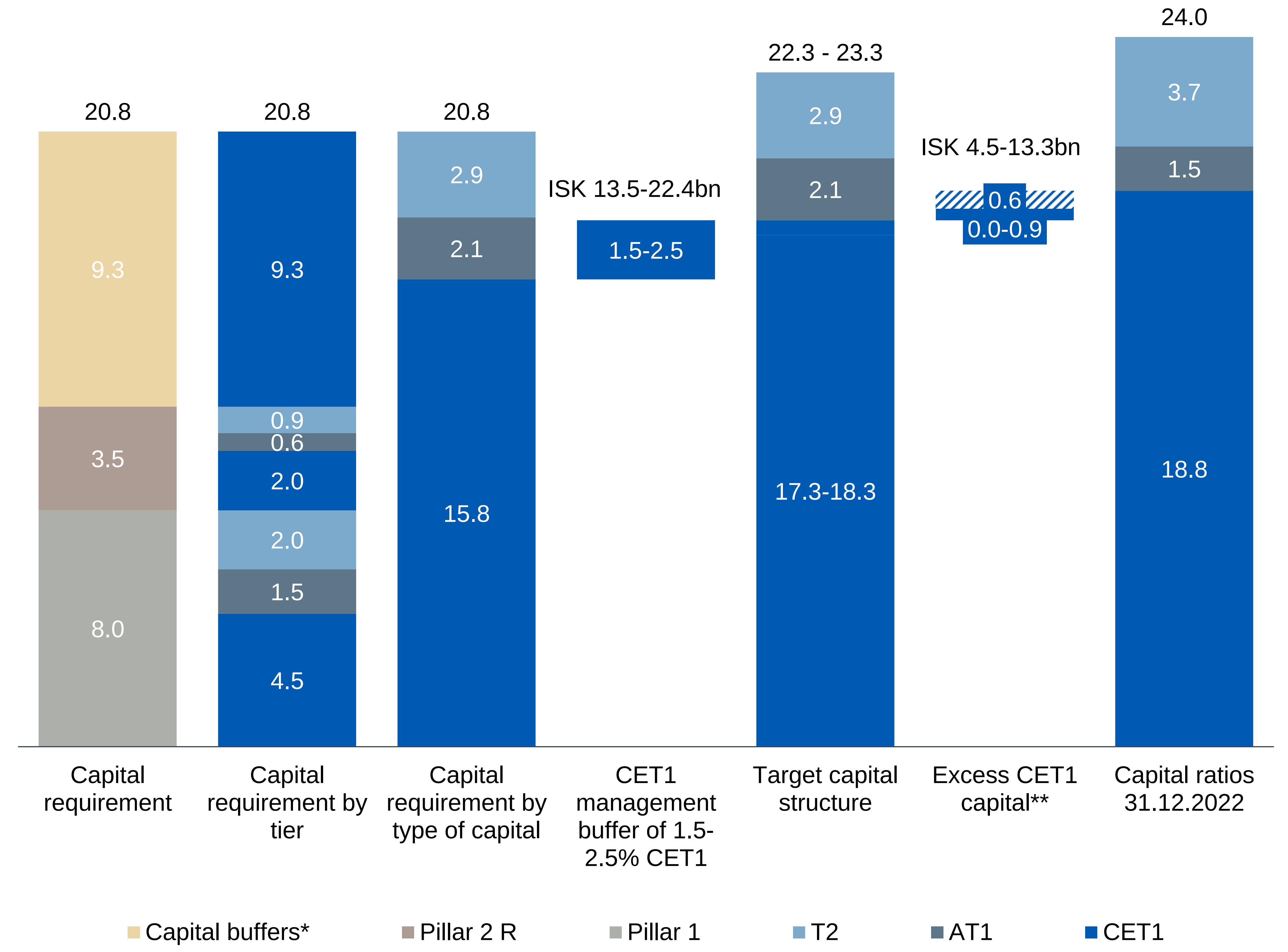
 All amounts in ISK bn

Own funds

The capital ratios continue to be strong while capital optimization efforts are ongoing

- FY profits of ISK 25.4bn and corresponding foreseeable dividends of ISK 12.5bn included in the capital ratios
- Also includes total of ISK 3.5bn in remaining of buyback program announced on 13 December 2022 and buyback program approved on 8 February 2023
- The Pillar 2 requirement is 3.5% as a result of the SREP process based on year-end 2021 financials
- The countercyclical buffer in Iceland rose from 0% to 2% as of 29 September 2022 based on a decision of The Financial Stability Committee from a year earlier
- The management buffer on CET1 is 1.5-2.5%
  - CET1 capital of ISK 4.5 - ISK 13.3bn in excess of target capital structure, however since currently the Bank does not make the optimal use of the AT1 capital item, CET1 capital of ISK 5.6bn is used to make up that shortfall
- The Bank issued ISK 12.1bn in Tier 2 bonds on 15 December 2022, eliminating the shortfall in Tier 2 usage
- The solvency ratio of Vördur insurance is 145.4%

Own funds and capital requirements (%)



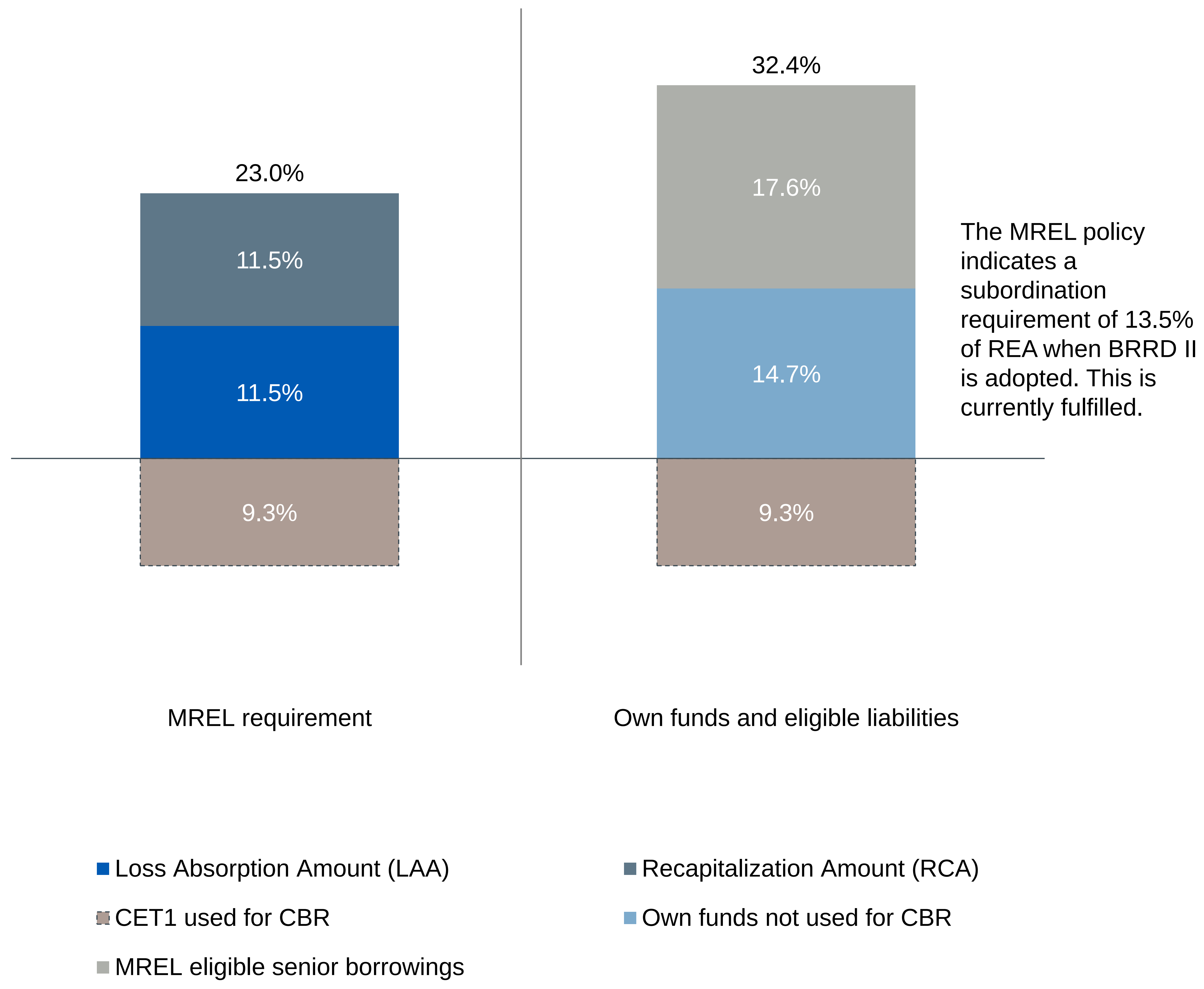
* Capital buffers include the increase in the countercyclical buffer in Iceland to 2%, which took effect on 29 September 2022
** A portion of the excess CET1 capital must be used to make up for the AT1 shortfall. This portion is shown in a chequered pattern

MREL requirement

The Icelandic Resolution Authority has published its MREL policy

- The BRRD I approach to MREL has been codified in Icelandic law
- Senior unsecured debt is MREL eligible unless it is excluded from the scope of bail-in
- The Icelandic Resolution Authority (IRA) has published its MREL policy
  - Both Loss Absorption Amount (LAA) and Recapitalization Amount (RCA) equal Pillar 1 plus Pillar 2, currently 11.5% of REA
  - No Market Confidence Charge (MCC) because of the high level of combined buffer requirement (CBR), currently 9.3% of REA
  - No subordination requirement
- Iceland is obligated to introduce the BRRD II approach, the legislative process has started but the date of the application of the requirements is uncertain
  - The details of the implementation of the MREL requirement in accordance with BRRD II will be introduced in secondary legislation
- The Senior Non-Preferred (SNP) rank has been introduced into Icelandic law, but the Bank does not see a need to issue SNP debt in the coming year
- Arion Bank has updated the terms of senior unsecured borrowings so that new issuances will be MREL eligible (senior preferred, SP) according to BRRD II
- The graph shows
  - MREL requirement for Arion Bank 23.0% of REA in addition to the CBR
  - Own funds and MREL eligible senior borrowings (>1yr to maturity)

MREL requirement as % of REA*



*According to BRRD I, MREL requirement should be expressed in terms of total liabilities and own funds (TLOF) but % of REA is more relevant for determining the size of the requirement. Actual requirement is 14.7% TLOF which corresponds to 24.1% REA at 30.09.2022

Going forward

Building on a strong year and robust foundations

2022 was another strong year for the group. Underlying operations are robust with numerous, diversified pillars of business supporting each other through the cycle

Ongoing volatility can be expected in the funding markets, but the Bank is in a good position to navigate this. It is positive that we are seeing international funding spreads tightening again

The robust foundations of a sound balance sheet and strong capital, liquidity and funding positions remain valuable in the current market environment

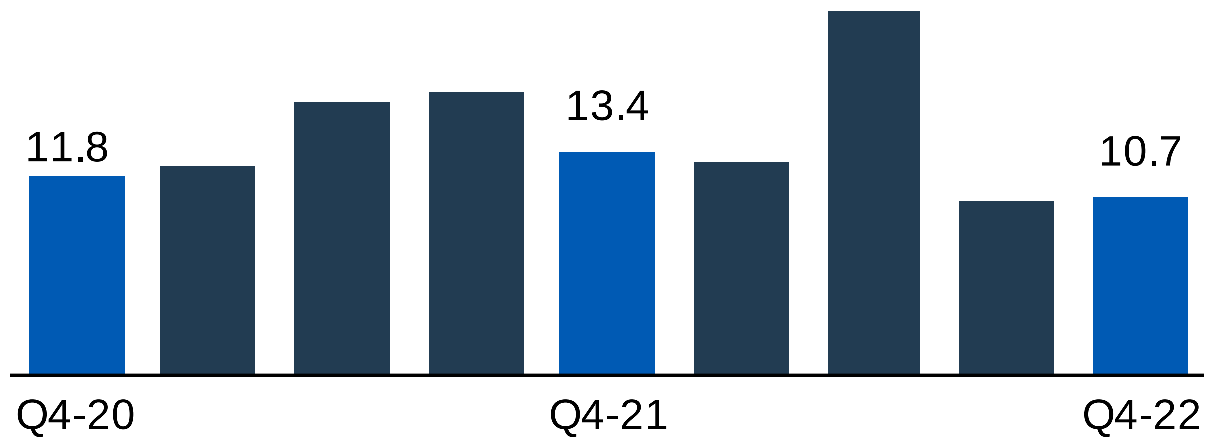
It is important in the current environment to retain agility both in terms of growth opportunities and funding options

The Icelandic economy is in a relatively strong position and there is a good opportunity to stabilize the economy smoothly

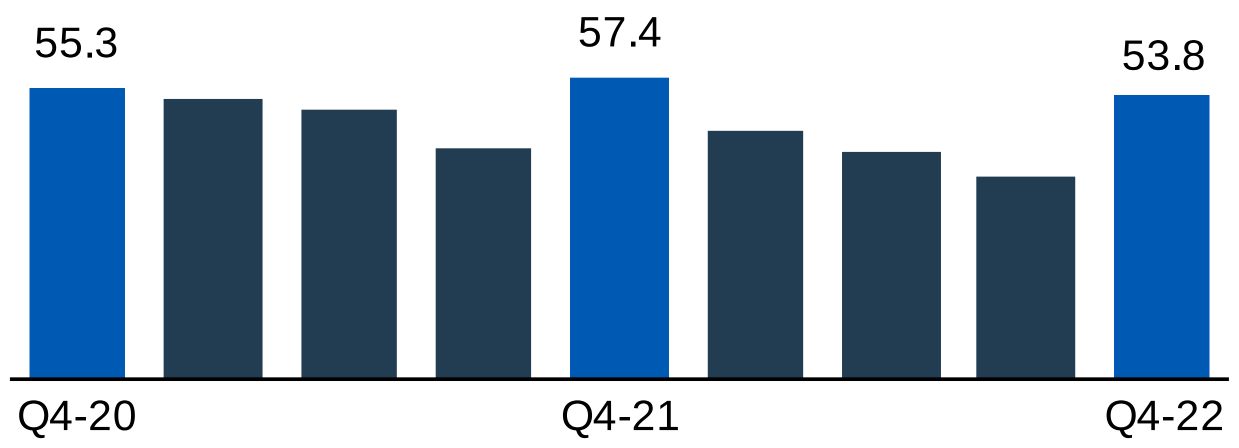
Updated medium term targets reflect a targeted continuation of the strong operational momentum while focusing the effectiveness of KPIs and enhancing agility around growth opportunities

Key financial indicators - quarter

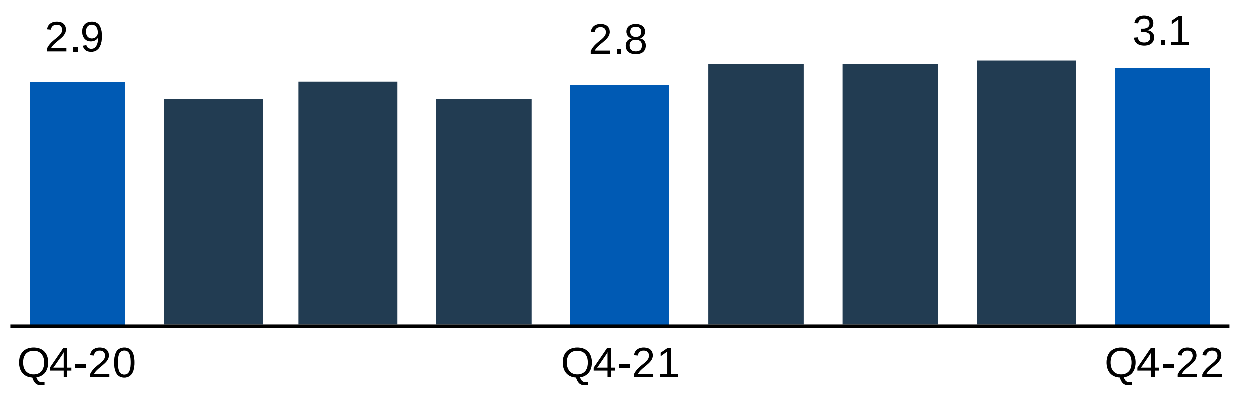
Return on equity (%)



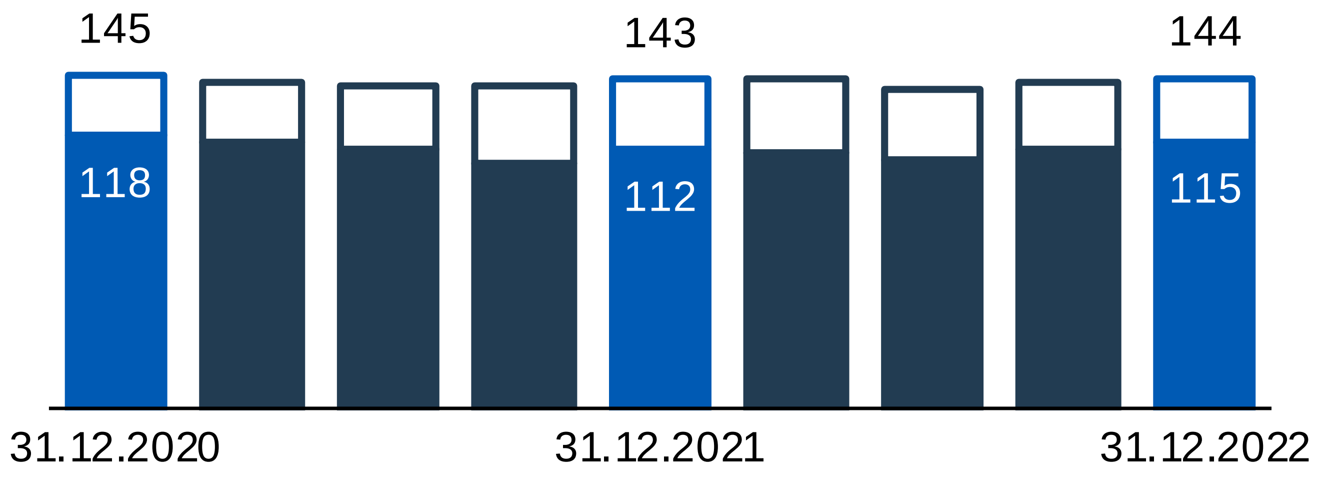
Cost-to-Core income ratio (%)



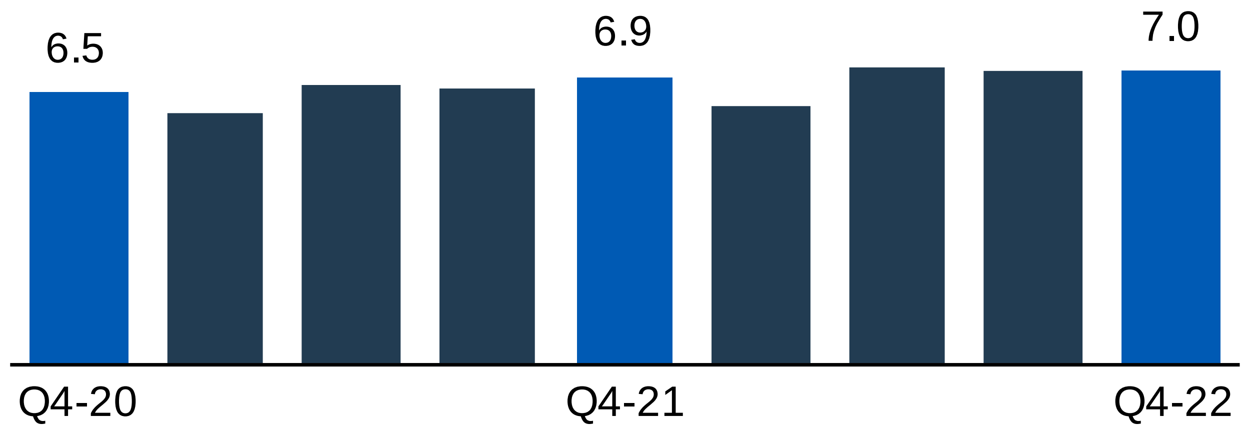
Net interest margin (%)



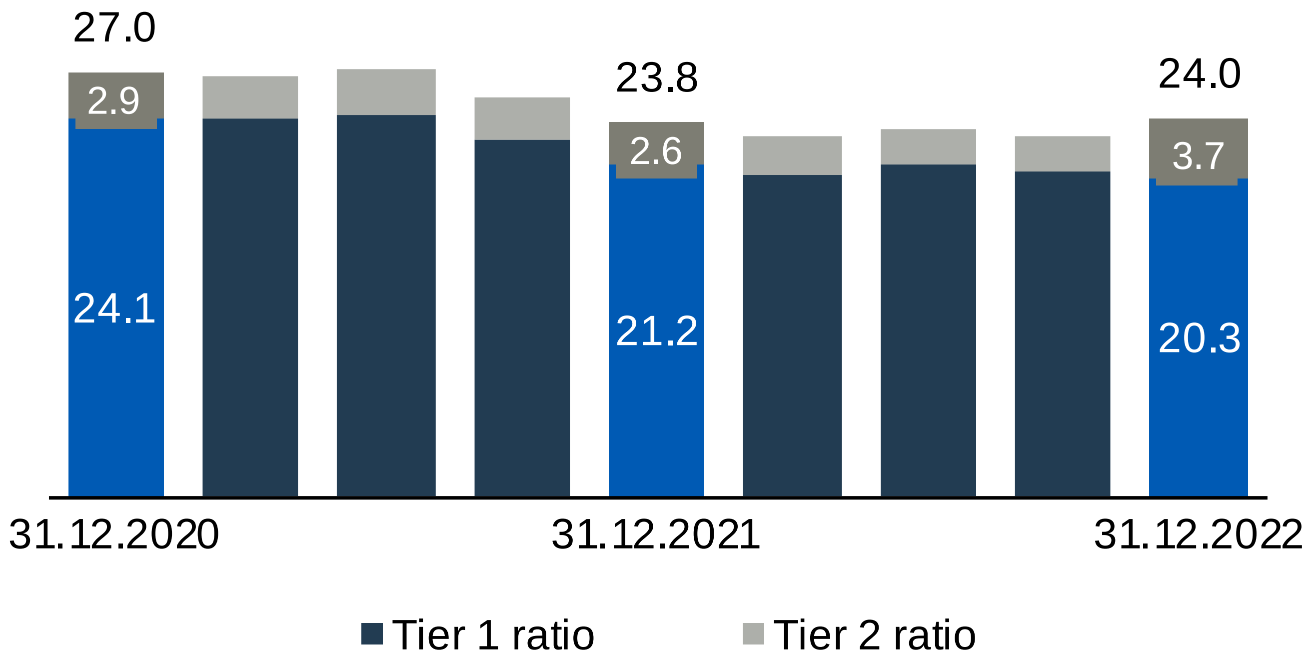
Loans-to-deposits ratio (%)
(without loans financed by covered bonds)



Core operating income / REA (%)

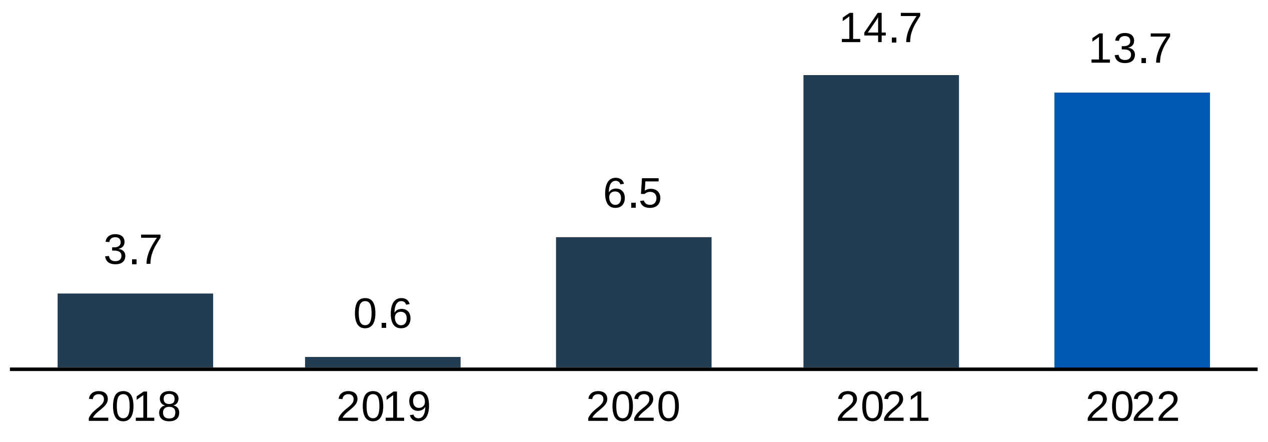


Capital ratio (%)

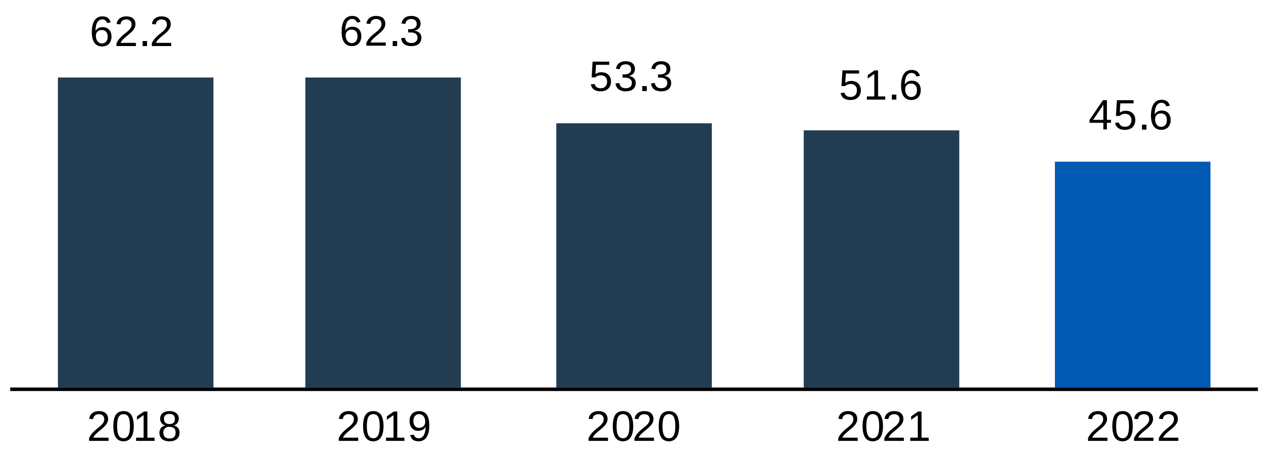


Key financial indicators - annual

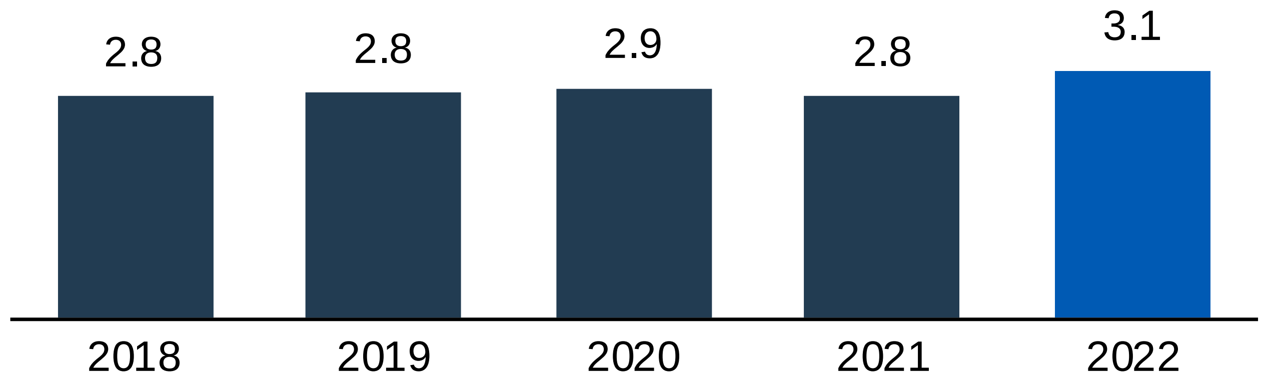
Return on equity (%)



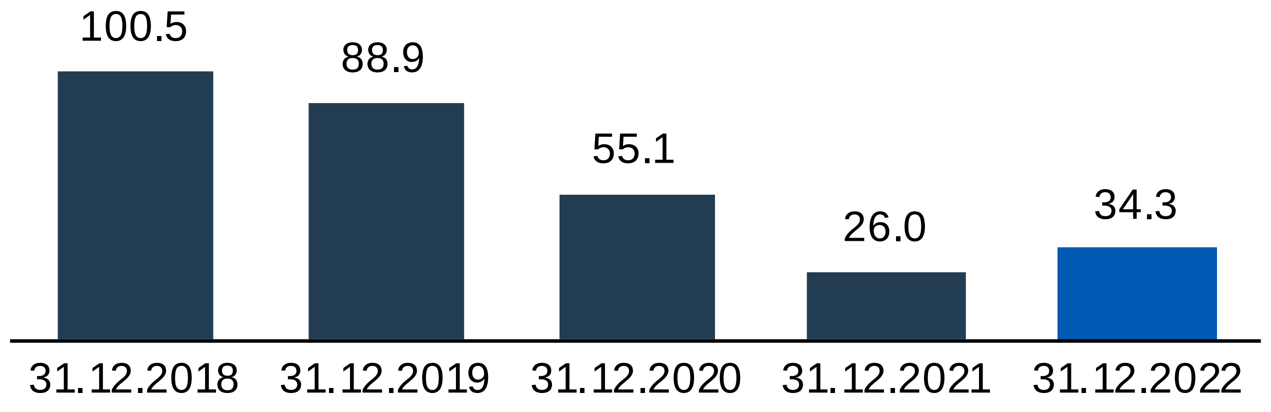
Cost-to-Core income ratio (%)



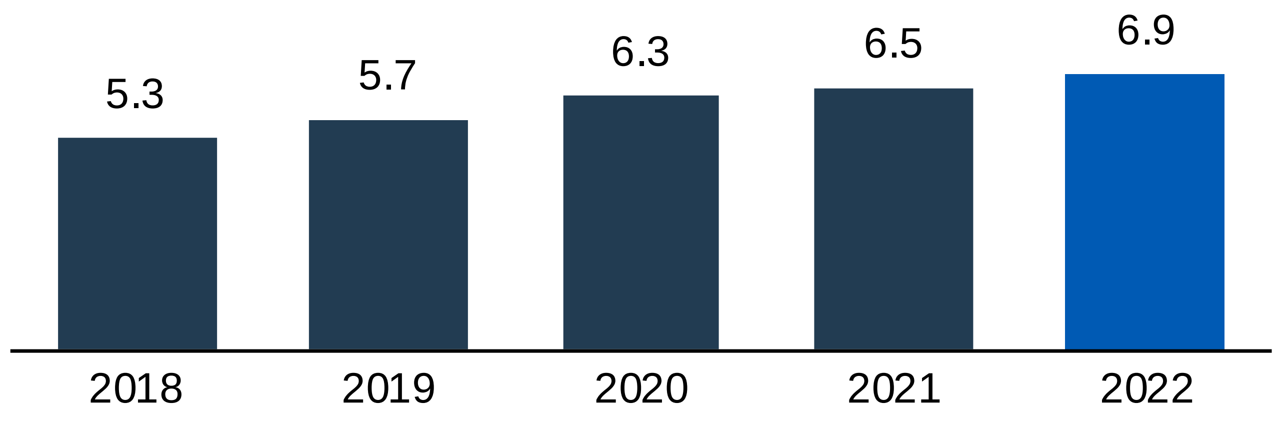
Net interest margin (%)



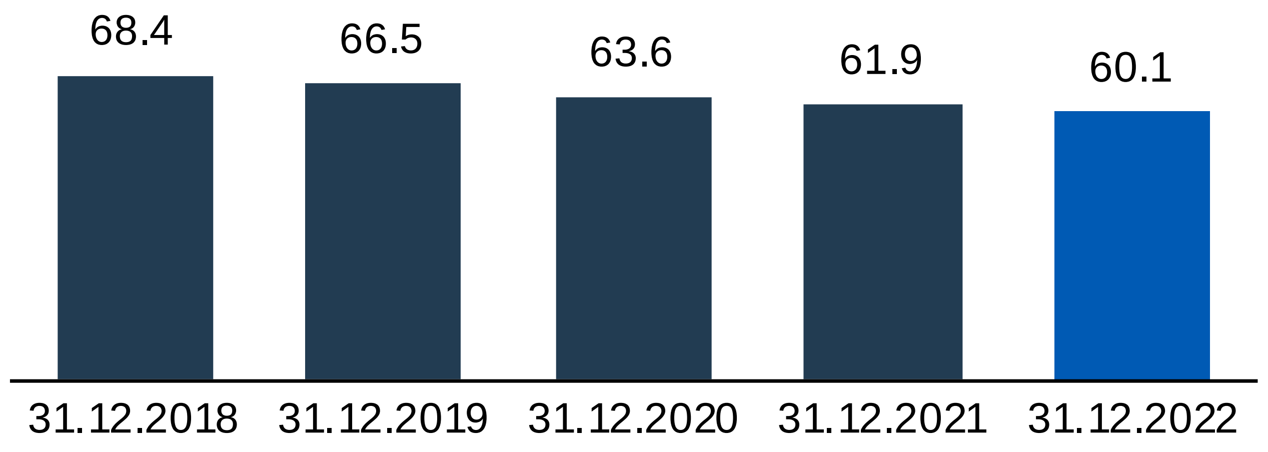
CPI imbalance (ISK bn)



Core operating income / REA (%)



Risk exposure amount / Total assets (%)



Key figures

Operations	2022	2021	2020	2019	2018	Q4 2022	Q3 2022	Q2 2022	Q1 2022	Q4 2021
Net interest income	40,277	32,063	31,158	30,317	29,319	10,524	10,421	9,804	9,528	8,768
Net commission income	16,065	14,673	11,642	9,950	10,349	3,972	4,002	4,539	3,552	4,079
Operating income	57,198	58,225	50,764	47,998	46,169	15,540	13,884	13,260	14,514	15,234
Operating expenses	26,911	25,875	24,441	26,863	26,278	8,251	5,810	6,649	6,201	7,867
Net earnings	25,416	28,615	12,471	1,099	7,776	5,023	4,863	9,712	5,818	6,522
Return on equity	13.7%	14.7%	6.5%	0.6%	3.7%	10.7%	10.5%	21.8%	12.7%	13.4%
Net interest margin	3.1%	2.8%	2.9%	2.8%	2.8%	3.1%	3.2%	3.1%	3.1%	2.8%
Return on assets	1.8%	2.3%	1.1%	0.1%	0.7%	1.4%	1.4%	2.9%	1.8%	2.0%
Cost-to-core income ratio	45.6%	51.6%	53.3%	62.3%	62.2%	53.8%	38.4%	43.1%	47.4%	57.4%
Cost-to-income ratio	47.0%	44.4%	48.1%	56.0%	56.9%	53.1%	41.8%	50.1%	42.7%	51.6%
Cost-to-total assets	1.9%	2.1%	2.1%	2.3%	2.3%	2.3%	1.7%	2.0%	1.9%	2.4%

Balance Sheet	31.12.2022	31.12.2021	31.12.2020	31.12.2019	31.12.2018	31.12.2022	30.09.2022	30.06.2022	31.03.2022	31.12.2021
Total assets	1,469,557	1,313,864	1,172,706	1,081,854	1,164,326	1,469,557	1,427,886	1,383,362	1,341,014	1,313,864
Loans to customers	1,084,757	936,237	822,941	773,955	833,826	1,084,757	1,045,152	1,010,666	976,383	936,237
Mortgages	574,029	504,877	409,641	333,406	365,820	574,029	562,617	536,610	515,760	504,877
Share of stage 3 loans, gross	1.2%	1.9%	2.6%	2.7%	2.6%	1.2%	1.4%	1.4%	1.6%	1.9%
REA/ Total assets	60.1%	61.9%	63.6%	66.5%	68.4%	60.1%	60.8%	117.4%	64.9%	61.9%
CET 1 ratio	18.8%	19.6%	22.3%	21.2%	21.2%	18.8%	19.3%	19.7%	18.6%	19.6%
Leverage ratio	11.8%	12.7%	15.1%	14.1%	14.2%	11.8%	12.0%	12.7%	12.5%	12.7%
Liquidity coverage ratio	158.5%	202.8%	188.5%	188.3%	164.4%	158.5%	189.3%	163.2%	195.4%	202.8%
Loans to deposits ratio	143.6%	142.8%	144.8%	157.0%	178.9%	143.6%	141.2%	139.0%	143.6%	142.8%

 All amounts in ISK m

Disclaimer

- This document has been prepared for information purposes only and should not be relied upon, or form the basis of any action or decision, by any person. Nothing in this document is, nor shall be relied on as, a promise or representation as to the future. In supplying this document, Arion Bank does not undertake any obligation to provide the recipient with access to any additional information or to update this document or to correct any inaccuracies herein which may become apparent.
- The information relating to Arion Bank, its subsidiaries and associates and their respective businesses and assets contained in, or used in preparing, this document has not been verified or audited. Further, this document does not purport to provide a complete description of the matters to which it relates.
- Some information may be based on assumptions or market conditions and may change without notice. Accordingly, no representation or warranty, express or implied, is made as to the fairness, accuracy, completeness or correctness of the information, forecasts, opinions and expectations contained in this document and no reliance should be placed on such information, forecasts, opinions and expectations. To the extent permitted by law, none of Arion Bank or any of their affiliates or advisers, any of their respective directors, officers or employees, or any other person, accepts any liability whatsoever for any loss howsoever arising from any use of this document or its contents or otherwise arising in connection with this document.
- This presentation contains forward-looking statements that reflect management's current views with respect to certain future events and potential financial performance. The information in the presentation is based on company data available at the time of the presentation. Although Arion Bank believes that the expectations reflected in such forward-looking statements are reasonable, no assurance can be given that such expectations will prove to have been correct. Accordingly, results could differ materially from those set out in the forward-looking statements as a result of various factors. The most important factors that may cause such a difference for Arion Bank include but are not limited to: a) the macroeconomic development, b) change in inflation, interest rate and foreign exchange rate levels, c) change in the competitive environment and d) change in the regulatory environment and other government actions. This presentation does not imply that Arion Bank has undertaken to revise any forward-looking statements, beyond what is required by applicable law or applicable stock exchange regulations if and when circumstances arise that will lead to changes after the date when this presentation was made. Arion Bank assumes no responsibility or liability for any reliance on any of the information contained herein. It is prohibited to distribute or publish any information in this presentation without Arion Bank's prior written consent.
- Due to rounding, numbers presented throughout this document may not add up precisely to the totals provided and percentages may not precisely reflect the absolute figures.
- This document should not in any way be regarded or interpreted as investment advice by the Bank
- By accepting this document, you agree to be bound by the foregoing instructions and limitations.