Arion Bank

Q4 and full-year results 2023

Investor presentation

7 February 2024

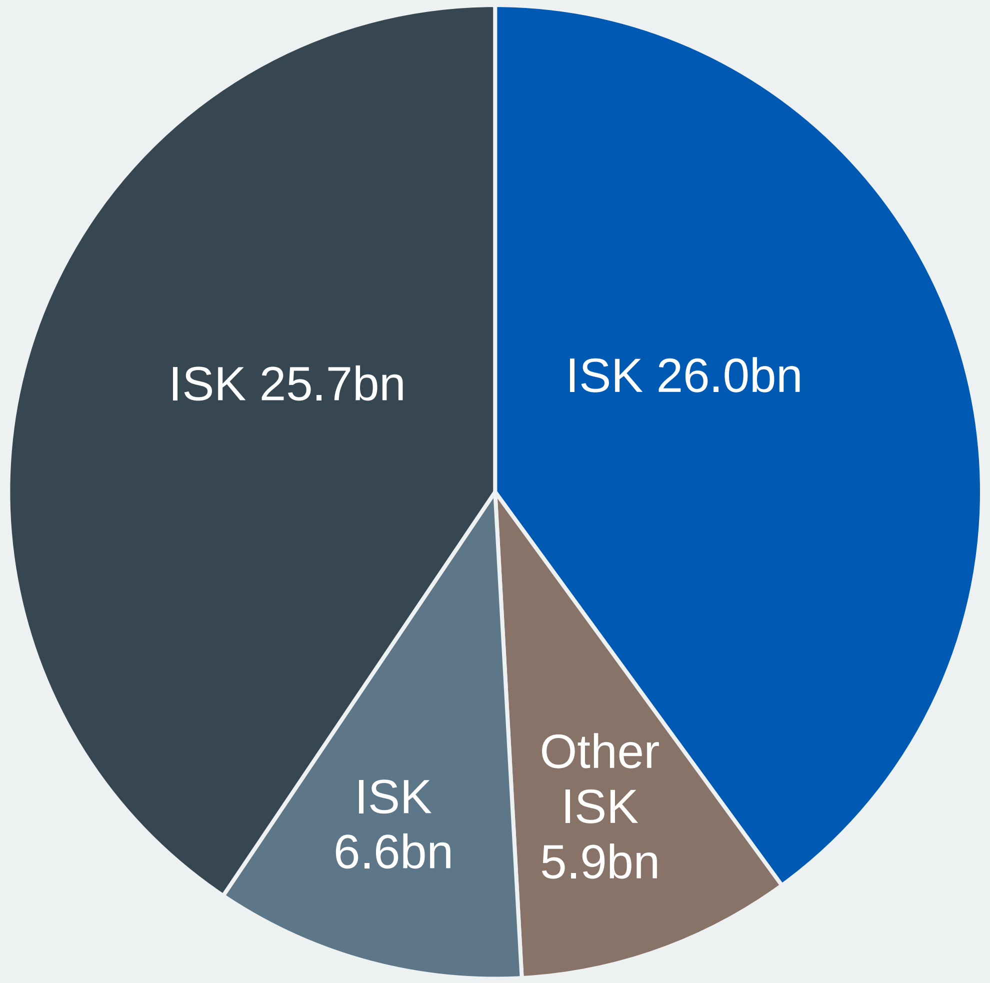
Arion Bank at a glance

Diversified financial institution in Iceland with strong market position

Retail Banking
(including insurance)

- 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, named the best banking app in Iceland for the last 7 years and offers premium services for affluent clients
  - 74% of core products sold digitally in 2023*
- Insurance services to retail customers

Operating income 2023 (ISK 64.2bn)



Corporate & Investment Banking
(including insurance)

- Corporate banking, advisory and insurance service to corporate customers
- Partner to large corporates and SMEs in Iceland and internationally, largely in the Arctic region
- 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 Iceland 2022 and 100% in 2023
- Insurance services to corporate clients

Markets and STEFNIR

- The largest asset manager in the Icelandic market with ISK 1,383bn (EUR 9.2bn) in assets under management – estimated around 1/3 of domestic GDP 2023
- Emphasis on institutional investors and high net worth clients
- Capital Markets had the highest market share in equities trading in the domestic market for the eighth consecutive year and second highest in bond trading in 2023
- Stefnir Funds is among largest fund management companies in Iceland with a variety of domestic and international assets under management

Strategic focus

- Increase market share in target client segments
- Enhance business we do with our clients by cross-selling products and services from the group and partners
- Explore and capitalize on opportunities in the Arctic region
- Elevate customer experience:
  - Be a leader in identifying and meeting customer needs
  - Customer centric and innovation focus, with the aim of enhancing the end-to-end customer journey
  - Reward loyalty to foster long-term relationships

Insurance vörður

Insurance revenue 2023: ISK 17.8bn

- Fastest growing insurance company in Iceland with 18.5 % market share
- Around 67,000 customers
- Full range of insurance products and services
- Continued focus on a fully integrated bancassurance model with the Bank
  - Bancassurance ratio at 31.12 2023:
    Individuals 34.9%
    Corporates 25.8%

* Core products: Current accounts, savings accounts, credit cards, personal loans, mortgages and investments

Key results in Q4 and FY 2023

Solid Q4 supports strong results for the full year

- 12.7% ROE in the quarter and 13.6% for the year
- Key medium-term targets exceeded in 2023
- CET1 ratio 480bps above regulatory requirements and 230-330 bps above our targets
- Expected dividend of 50% of net profit for the year or ISK 9 per share
- Robust capital, liquidity and funding position

Key results	Medium-term targets		Q4 2023		FY 2023
Return on equity	Exceed 13%	•	12.7%	✓	13.6%
Core operating income[4] / REA	Exceed 6.7% on core income	✓	7.0%	✓	7.1%
Insurance premium growth (YoY)	Premium growth (net of reinsurance) to exceed the growth of the domestic market by more than 3%[1]	✓	21.0%	✓	15.0%
Cost-to-core income[4] ratio	Below 48%	•	54.9% (46.3%[5])	✓	44.7%
CET1 ratio above regulatory capital requirements	150-250 bps management buffer[2]	•	480 bps	•	480 bps
Dividend payout ratio[3]	50%	✓	50% of net profit deducted from CET1	✓	50% of net profit deducted from CET1

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 2023 was 10.2% and 7.5% in full year 2022
2 Approx.16.4 - 17.4% based on current capital requirements and current AT1 and T2 ratios
3 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
4 Core income: Net interest income, net fee and commission income and insurance service results (excluding opex)
5 Excluding incentive scheme

Key milestones of the year

Markets and Stefnir delivered a solid performance despite a challenging market backdrop

- AuM increased by 6.5% in 2023 and positive net inflow
- Ranked #1 in equities trading in the domestic market and #2 in bond trading
- Introduced real time market data for equities in the app, proxy trading, limit orders and numerous pension related functions

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

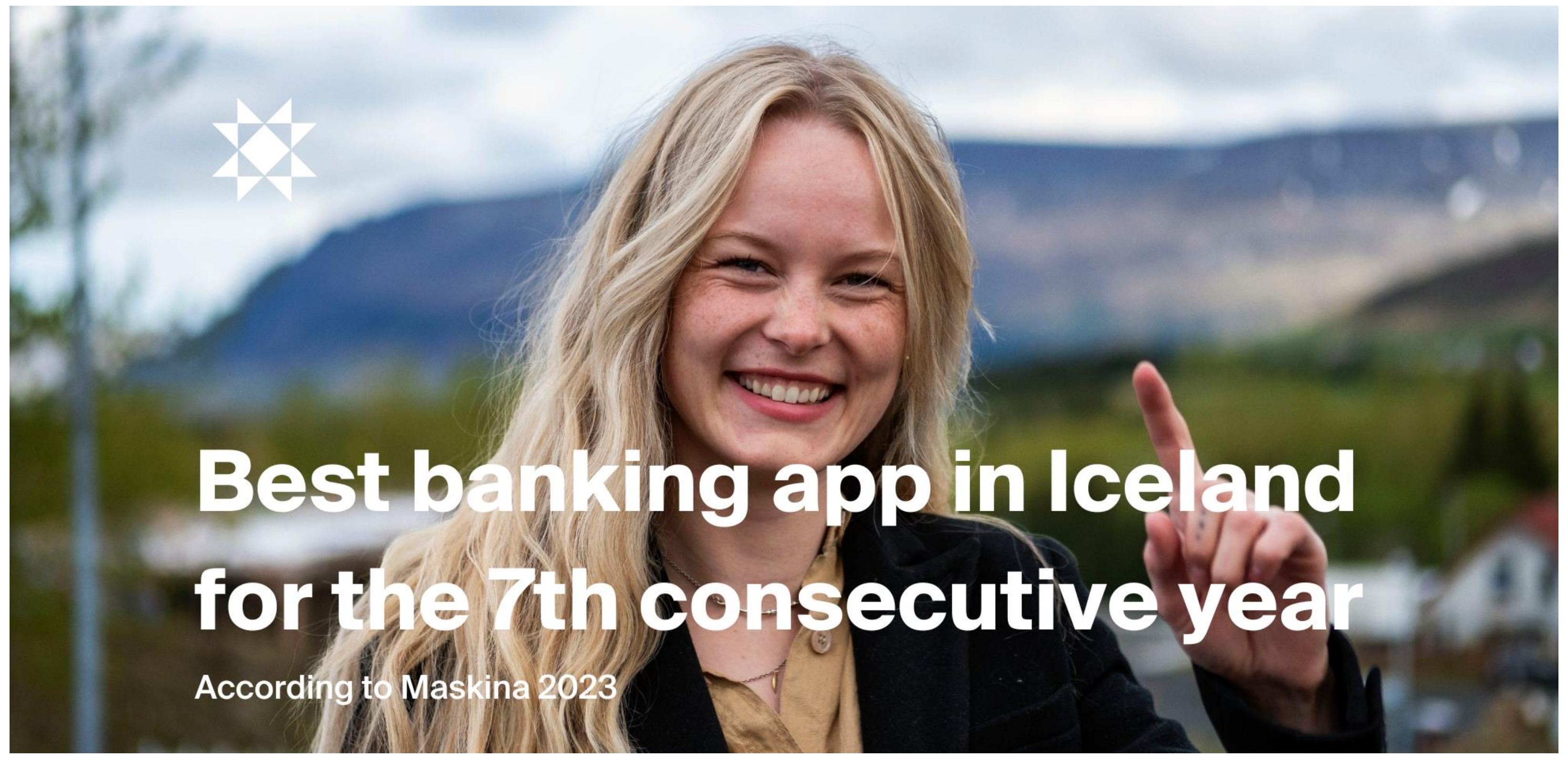
UN environment programme | finance initiative
Principles for Responsible Banking

net-zero banking alliance

SUSTAINALYTICS ESG 2024 INDUSTRY TOP RATED

Moody's upgraded Arion Bank's issuer rating to A3 and assigned a new covered bond rating of Aa2 which is currently the highest rating by an Icelandic issuer

MOODY'S



Best banking app in Iceland for the 7th consecutive year

According to Maskina 2023

THE BANKER
BANK OF THE YEAR 2023
ICELAND

Positive progress in the development of Blikastadir

As one of the largest undeveloped plot of land in the capital region this development will play a pivotal role in supporting the future housing market

Innovative Retail Banking

- 74% of core products sold digitally in 2023*
- Introduced fixed payments for non-indexed loans
- 70% increase in insurance sales YoY
- Proactive engagement with customers with upcoming interest rate resets of their fixed nominal mortgages

Bancassurance strategy momentum

- Bancassurance ratio for individuals to 34.9% vs. 33.7% at YE 2022
- Bancassurance ratio for corporates to 25.8%. vs 22.9% at YE 2022

Strong activity in Corporate & Investment Banking

Advised on 80% of listings on Nasdaq Iceland and First North Iceland and was further involved in numerous large transactions in 2023

HAMPIÐJAN Nasdaq | ÍSFÉLAG Nasdaq | KALDVALÓN Nasdaq | Arnarlax FIRSTNORTH
Kerecis | ICE FISH FARM | .origo

* Core products: Current accounts, savings accounts, credit cards, personal loans, mortgages and investments

Volcanic activity in the vicinity of Grindavík

The Bank will continue to support its customers in the town of Grindavík through times of uncertainty

Measures in response to volcanic activity near Grindavík

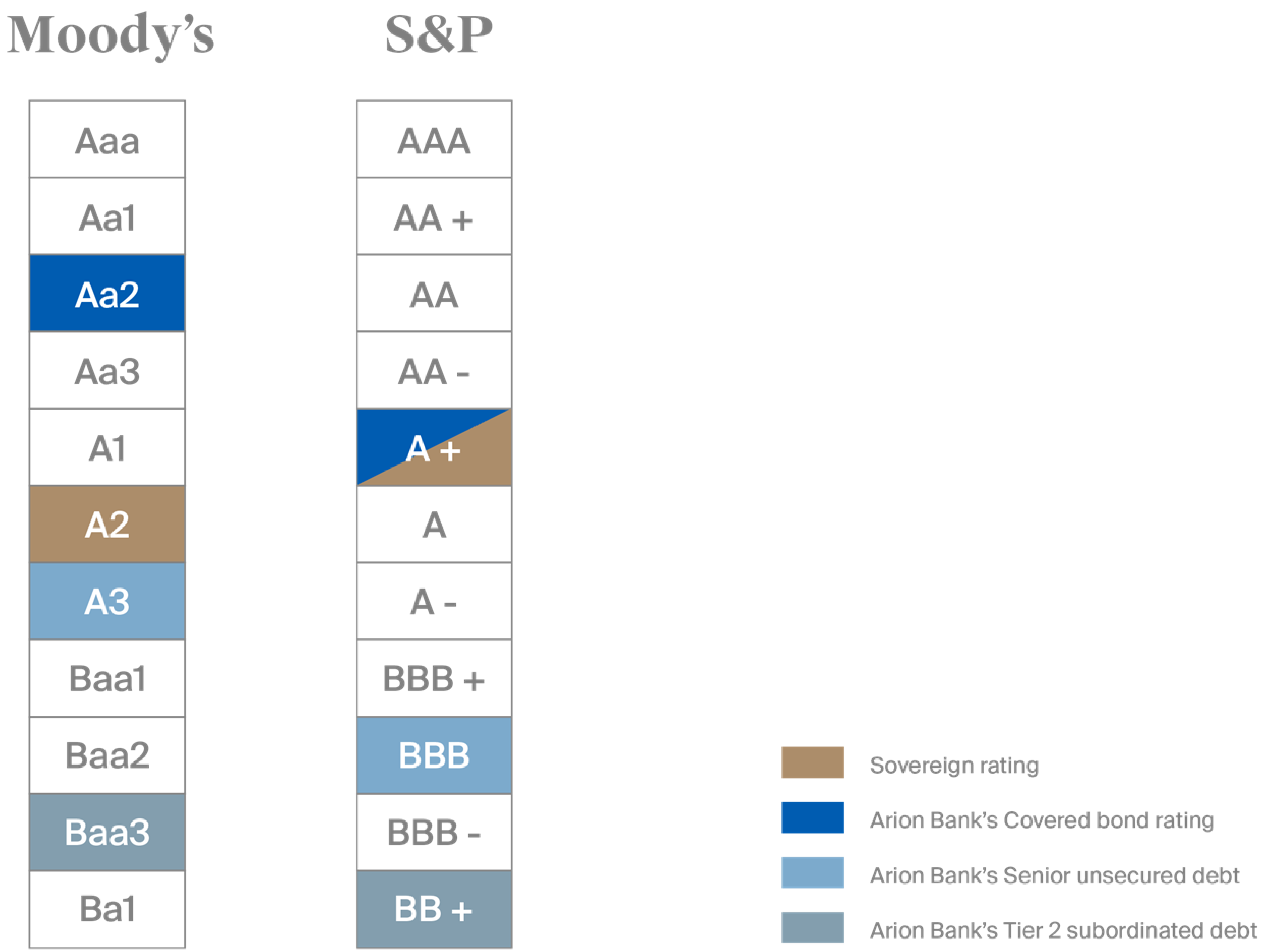
- Following the events near Grindavík starting in November 2023, Arion Bank has offered to freeze the mortgages of its customers in Grindavík and to waive interest and indexation on their loans until the end of April 2024. The Bank will continue to closely monitor developments in Grindavík and do its utmost to support the local community.

Arion Bank's credit exposure

- The volcanic events in the vicinity of Grindavík have an impact on the credit quality of a section of the Group's loan portfolio.
- The Natural Catastrophe Insurance of Iceland covers real estate up to the fire insurance value in case of destruction by a natural disaster. Compensation has been paid out for several properties.
- The total carrying amount of loans to individuals and corporates domiciled in the area is **ISK 10.3bn**
  - Thereof **ISK 8.3bn** to corporates and **ISK 2.0bn** to individuals
  - Of the loans to corporates, **ISK 6.0bn** is secured by fishing vessels with associated fishing quotas which are not impacted by the events.
  - Average LTV is **42%** for the corporate portfolio and **53%** for the mortgage portfolio
  - The other main collateral is residential and commercial real estate.
- The Bank has transferred most of the exposure in Grindavík (96%) to stage 2 as the event constitutes a significant increase in credit risk. Impairments remain immaterial at 31.12.2023 but will be subject to careful review in the coming quarters as the event is still ongoing and may be impacted by possible government intervention.

Positive credit rating trajectory

- An inaugural credit rating for Arion covered bonds from Moody's was received in December. The Aa2 rating assigned is currently 3 notches higher than the sovereign rating and is now the highest rating by an Icelandic issuer
    - The rating reflects the high credit quality of Arion Bank's covered bond pool, the strength of the Icelandic covered bond legislation and the systemic importance of covered bonds
    - The Bank is hopeful that this solid credit rating opens up the way to a more diverse range of investors than before
- In Q4 S&P raised the Bank's covered bond rating to A+
- S&P also affirmed Arion Bank's senior unsecured debt ratings at BBB/A-2 and outlook changed from negative to stable in November



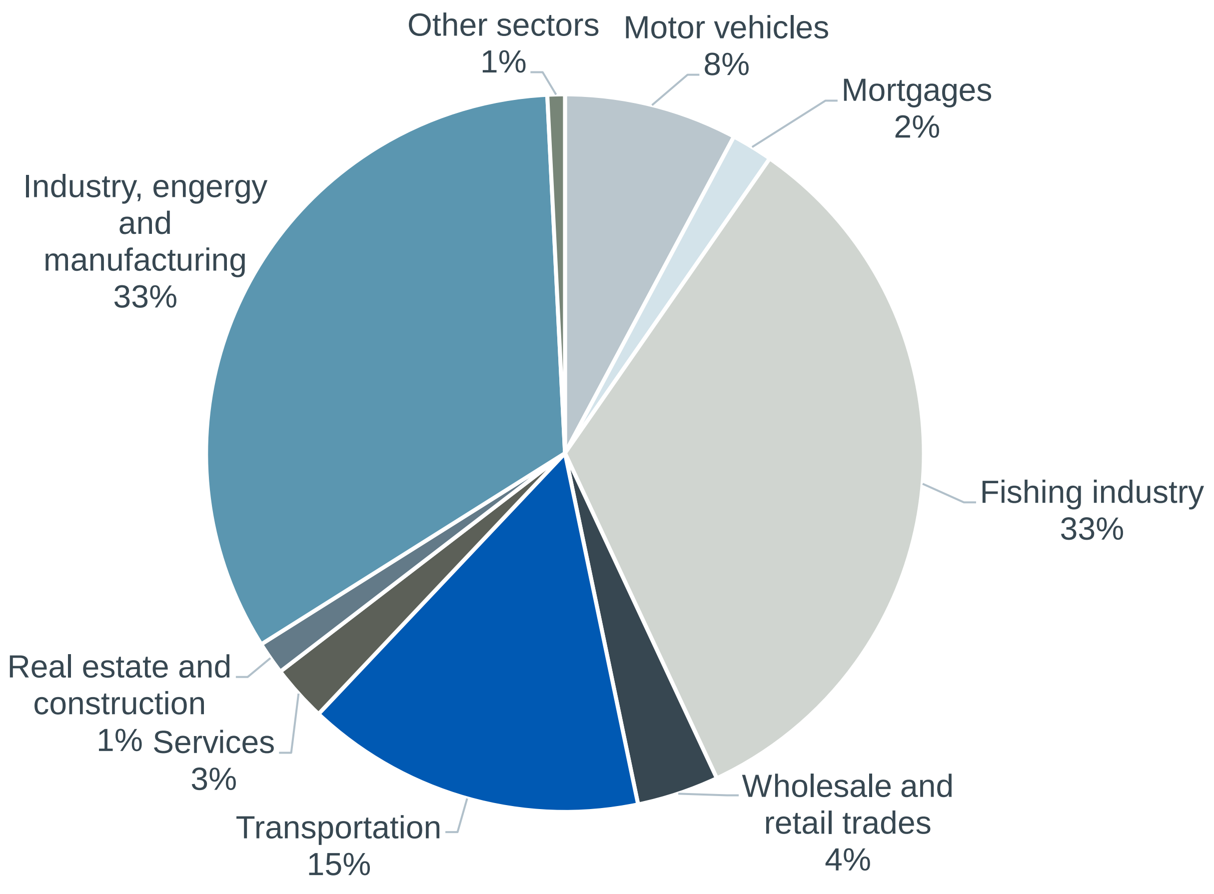
The Bank received strong ESG ratings and aims to be net zero by 2040

Arion Bank became a member of Science Based Targets initiative (SBTi) and Net-Zero Banking Alliance (NZBA) at the end of 2023. For the second time the Bank has published a financed emissions report along with its first emissions reduction targets until 2030.

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.

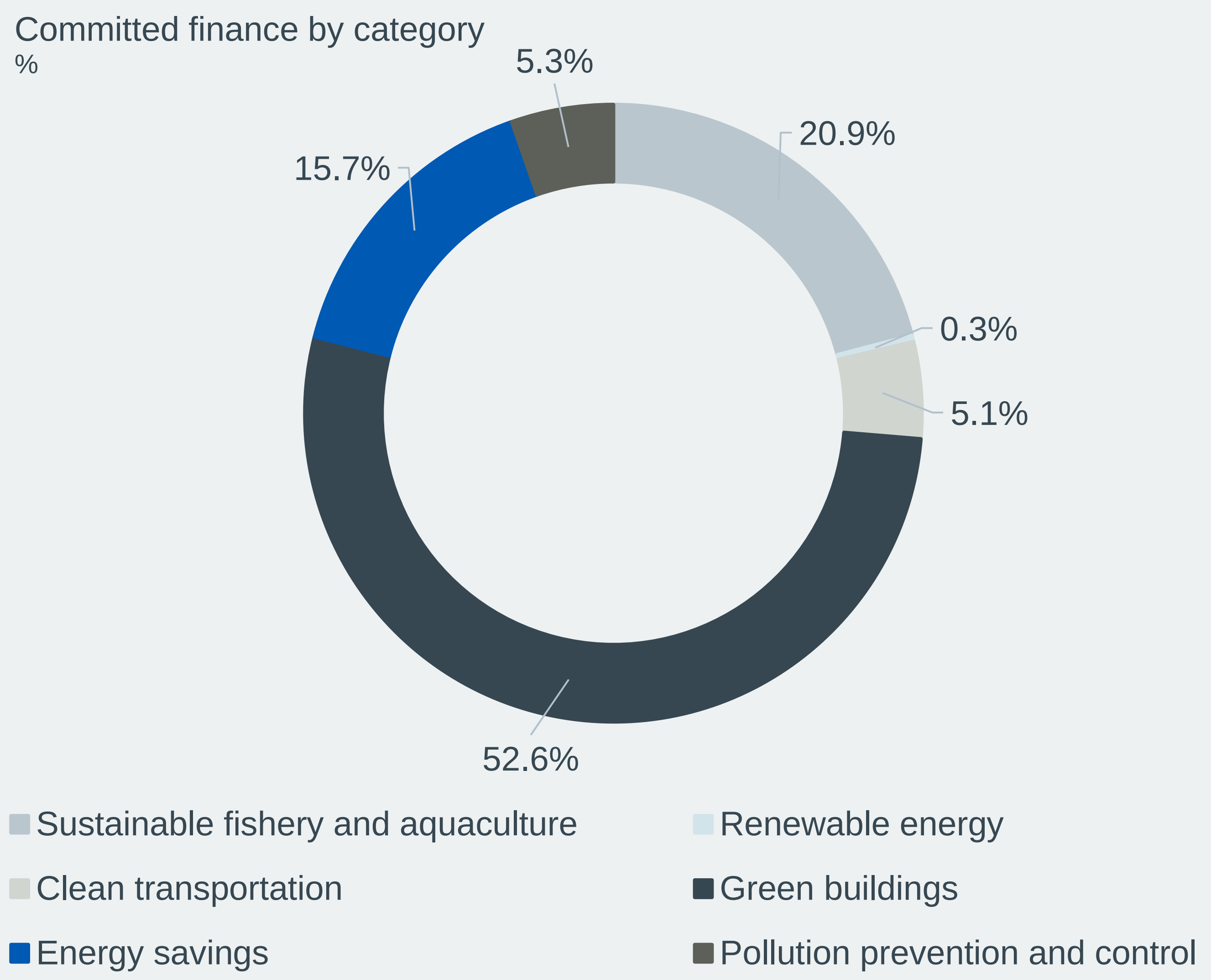
Arion Bank’s emissions from loan portfolio



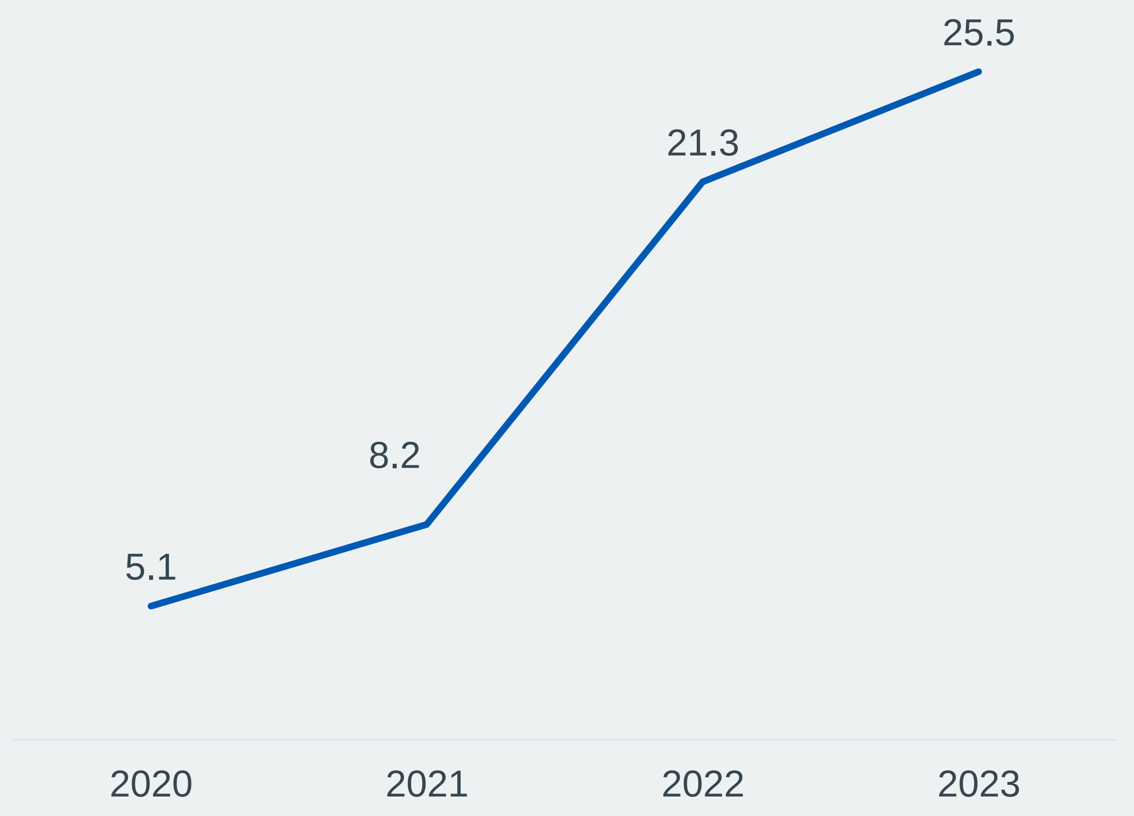
The Bank’s total financed emissions in 2022 was 153 ktCO_2e (excluding emissions from sovereign debt)

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

At the end of 2023 the Bank’s green asset pool was ISK 128bn



Green deposits (ISK bn) at year end 2023



Women invest!

Why

Women are underrepresented when it comes to investments and finance

How it's going

Market campaign launched in January 2024

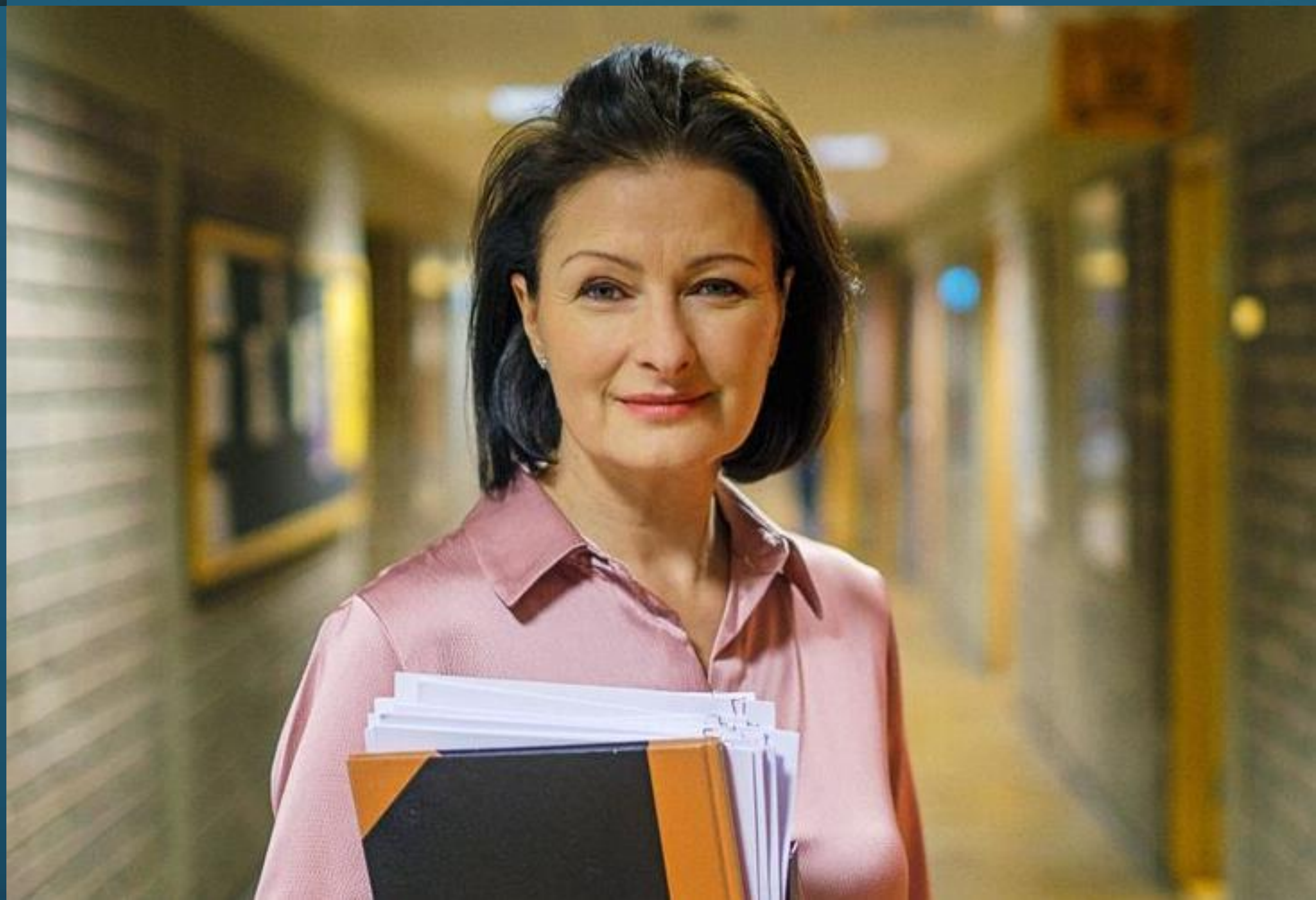
Followed by seminars and online accessible information on how to start investing

3 weeks into the project, over 600 women have already attended seminars

The objective

Increase women's participation in financial markets

Economic empowerment, and thereby life quality



Save the date – 1 March 2024

Arion Bank’s Capital Markets Day

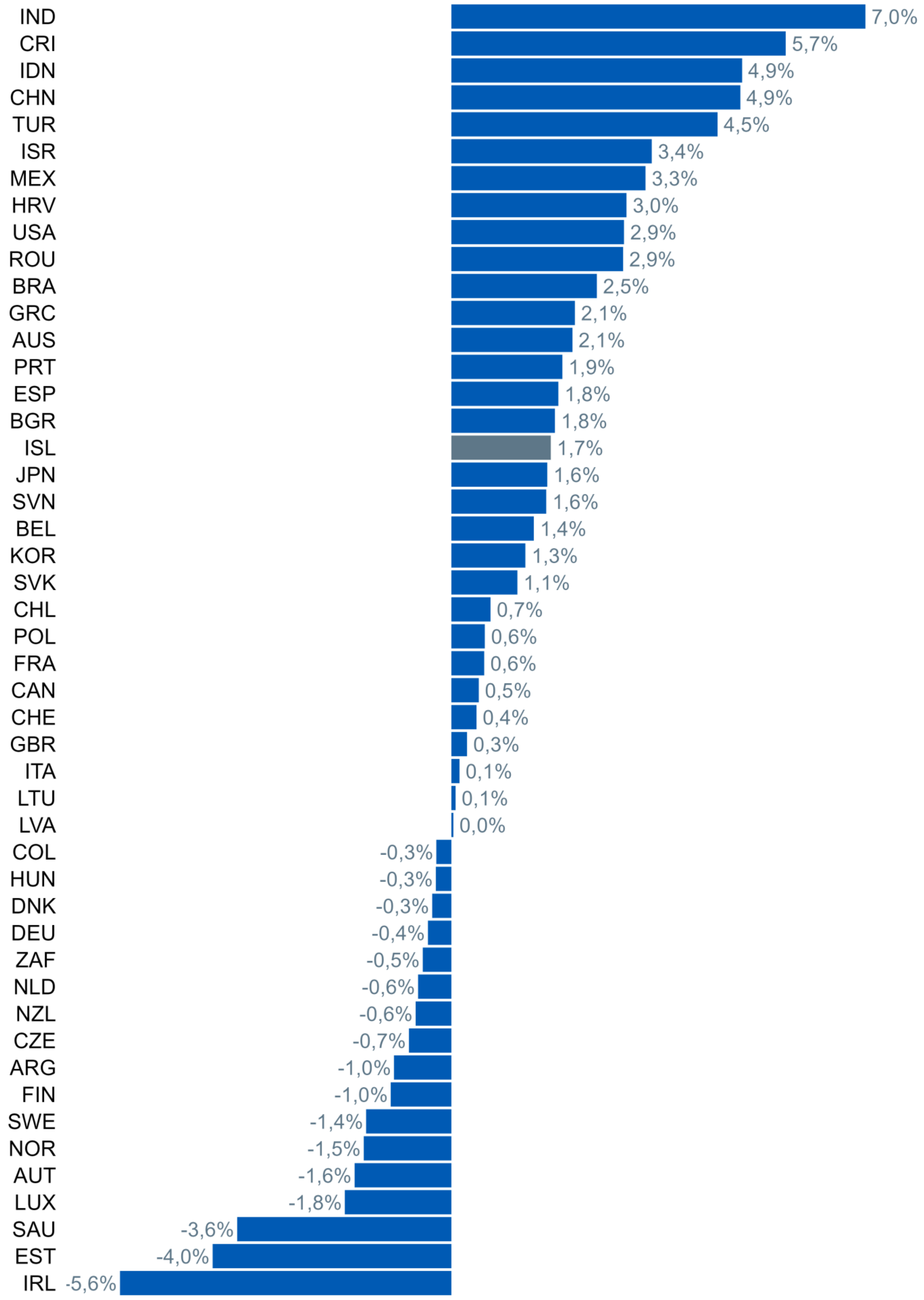
- Update on key strategic initiatives and outlook
- Medium-term targets under review
-The event will take place at the Bank’s headquarters and streamed live

Economic growth still slowing but strong exports reflect sound foundations

The Icelandic economy is slowing down, as is evident by the latest preliminary figures from Statistics Iceland. The economy only grew by 1.7% YoY (seasonally adjusted), with both private consumption and investment contracting between years. Payment card turnover figures indicate further muted consumer demand in Q4. However, the labor market figures still suggest a continued growth in Q4 and strong exports continue to improve the current account.

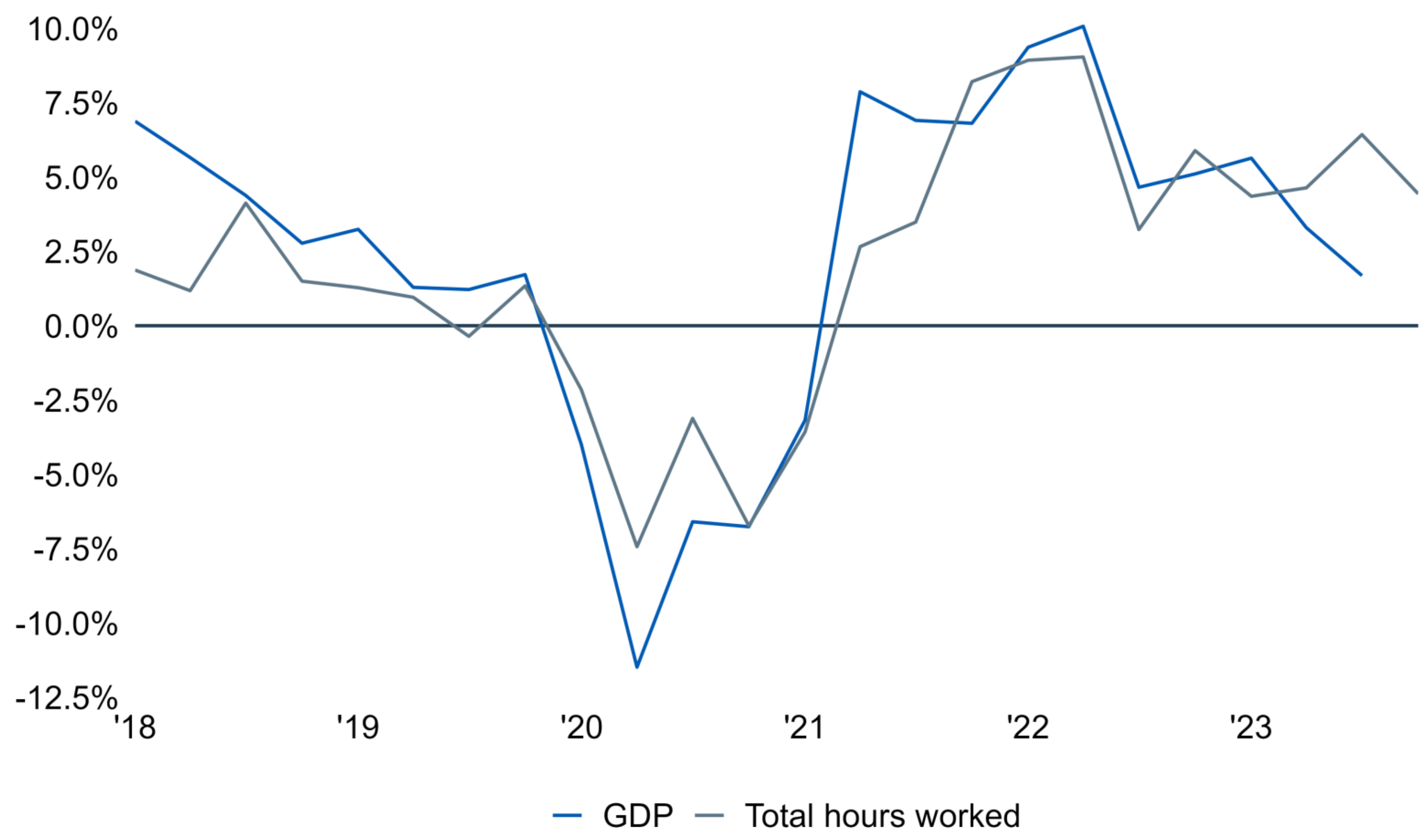
GDP growth in Q3 2023

-YoY change, seasonally adjusted figures

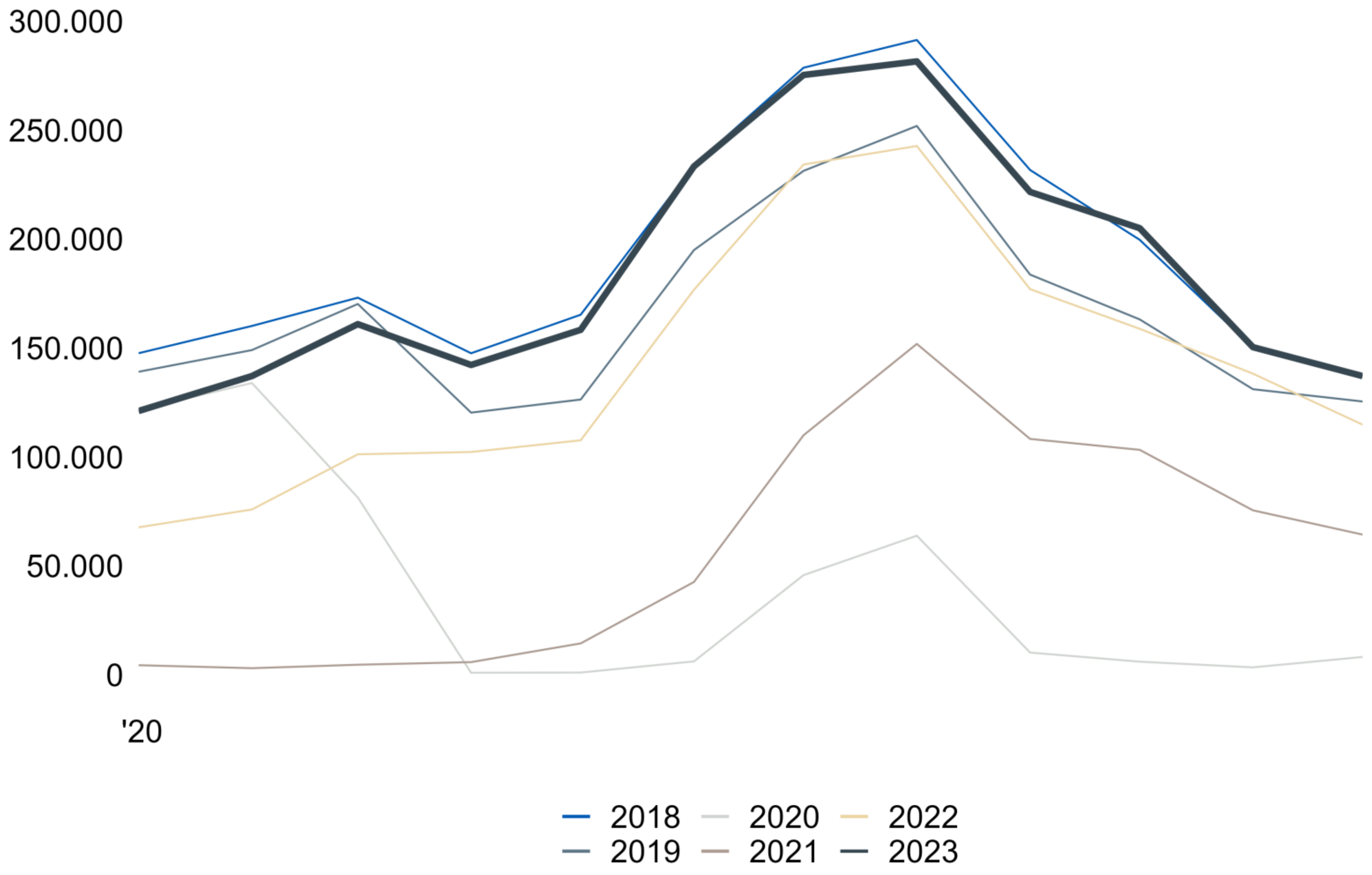


Employment and GDP

-YoY changes (%)

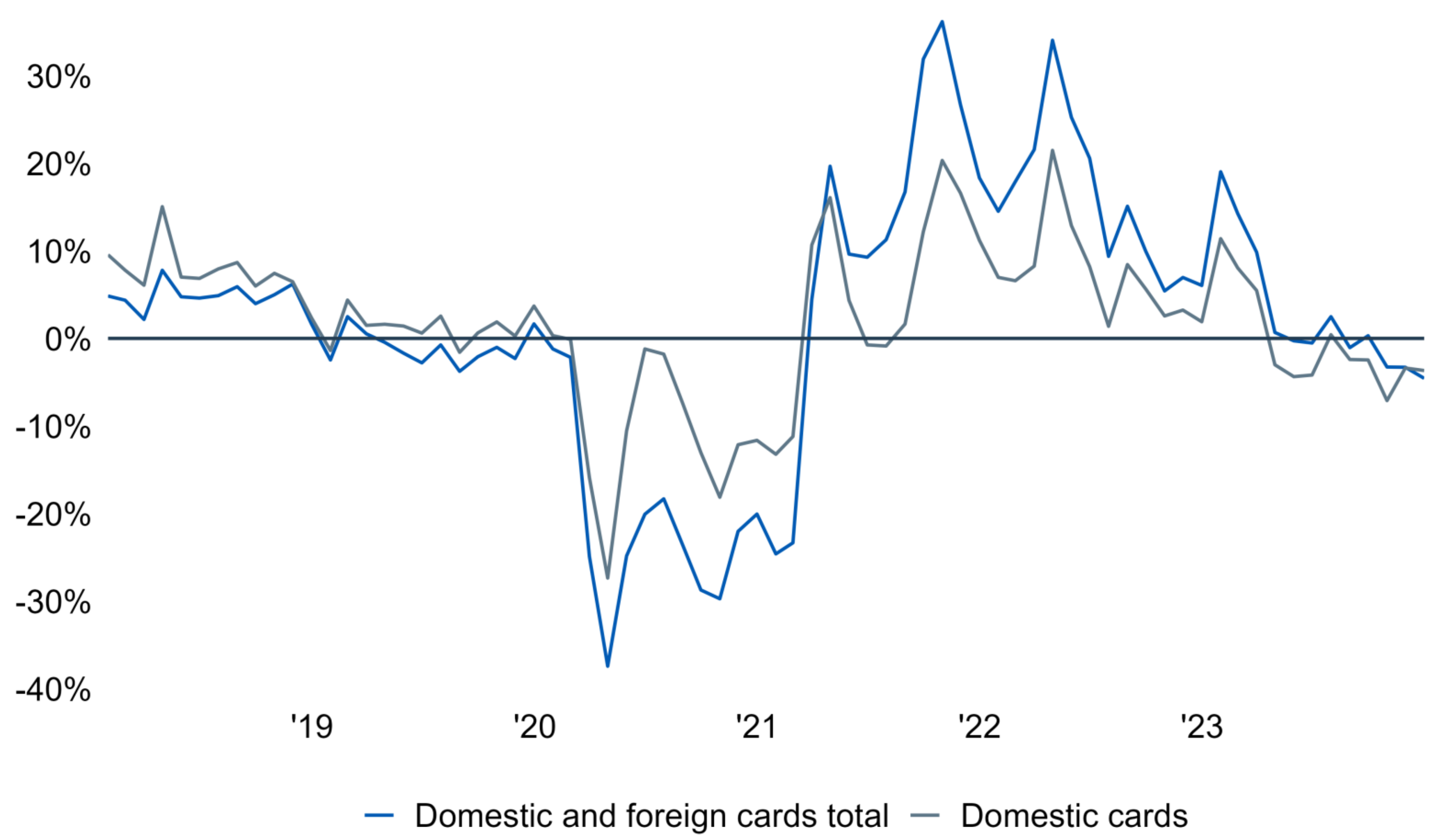


Tourist arrivals via Keflavík International Airport



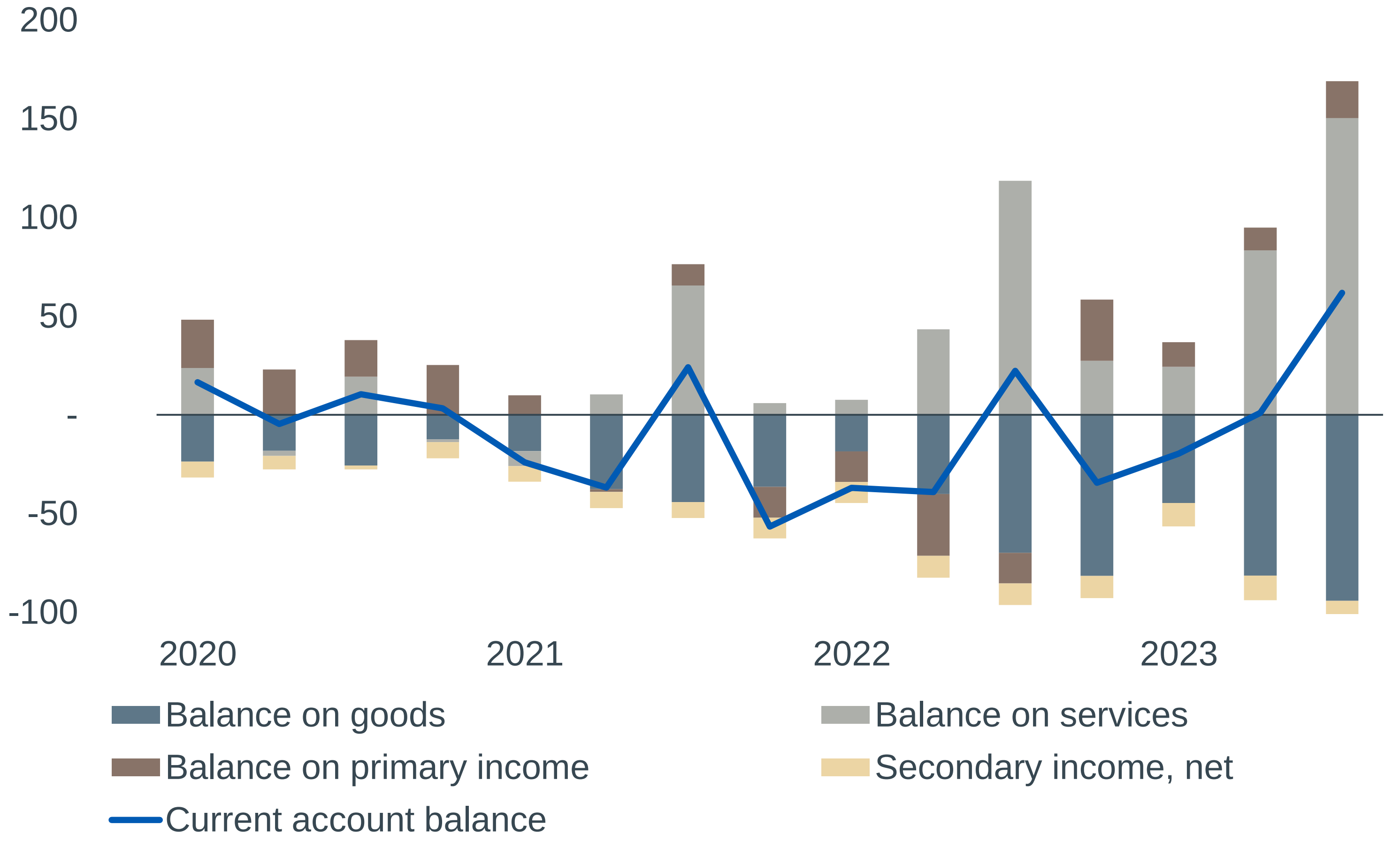
Payment card turnover in Iceland

-Foreign and domestic cards, YoY %-change



Current account balance

- bn. ISK at constant exchange rate,

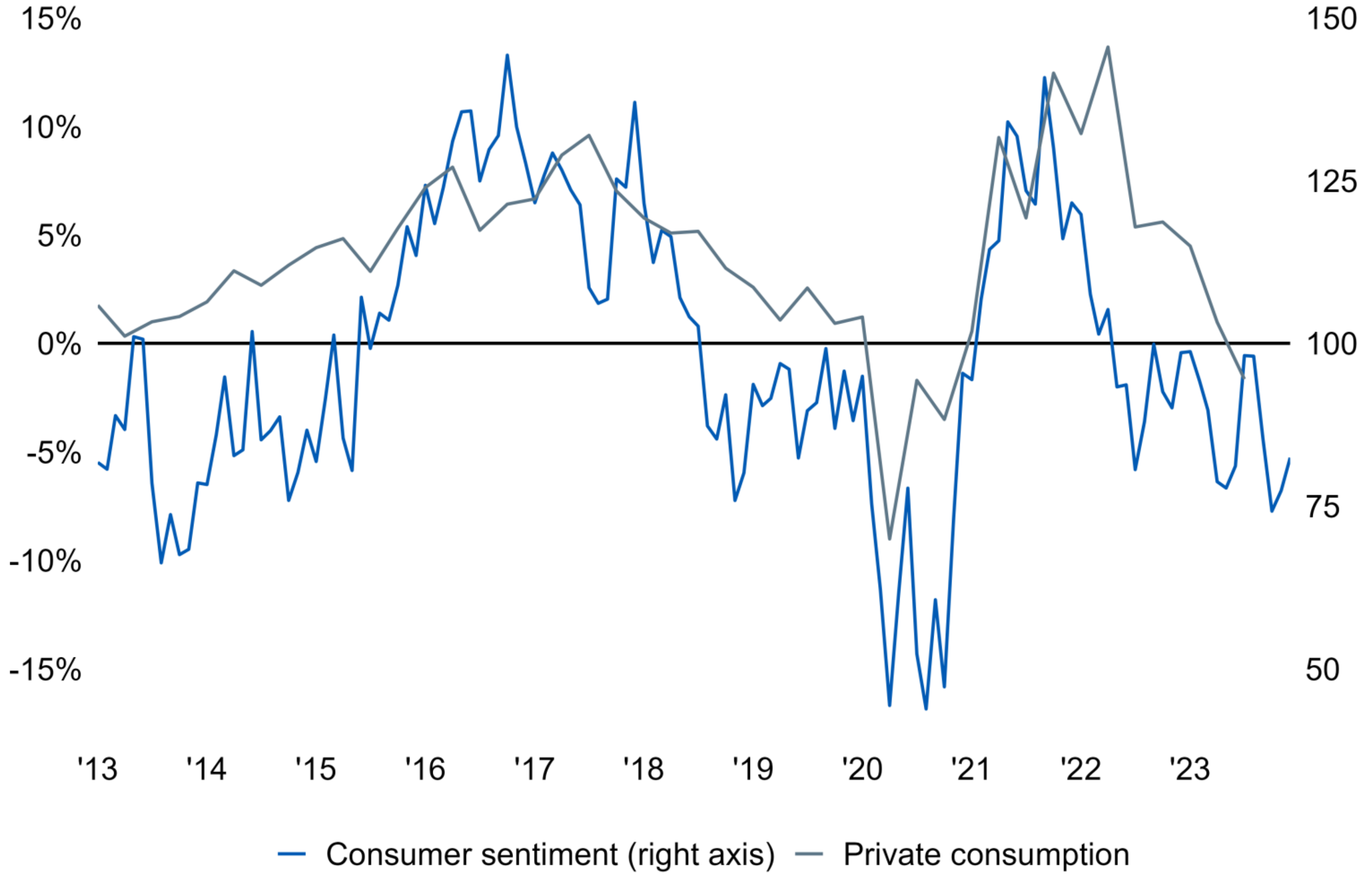


Sources: OECD, Statistics Iceland, Central Bank of Iceland, Icelandic Tourist Board, Arion Research.

Households press harder on the brakes

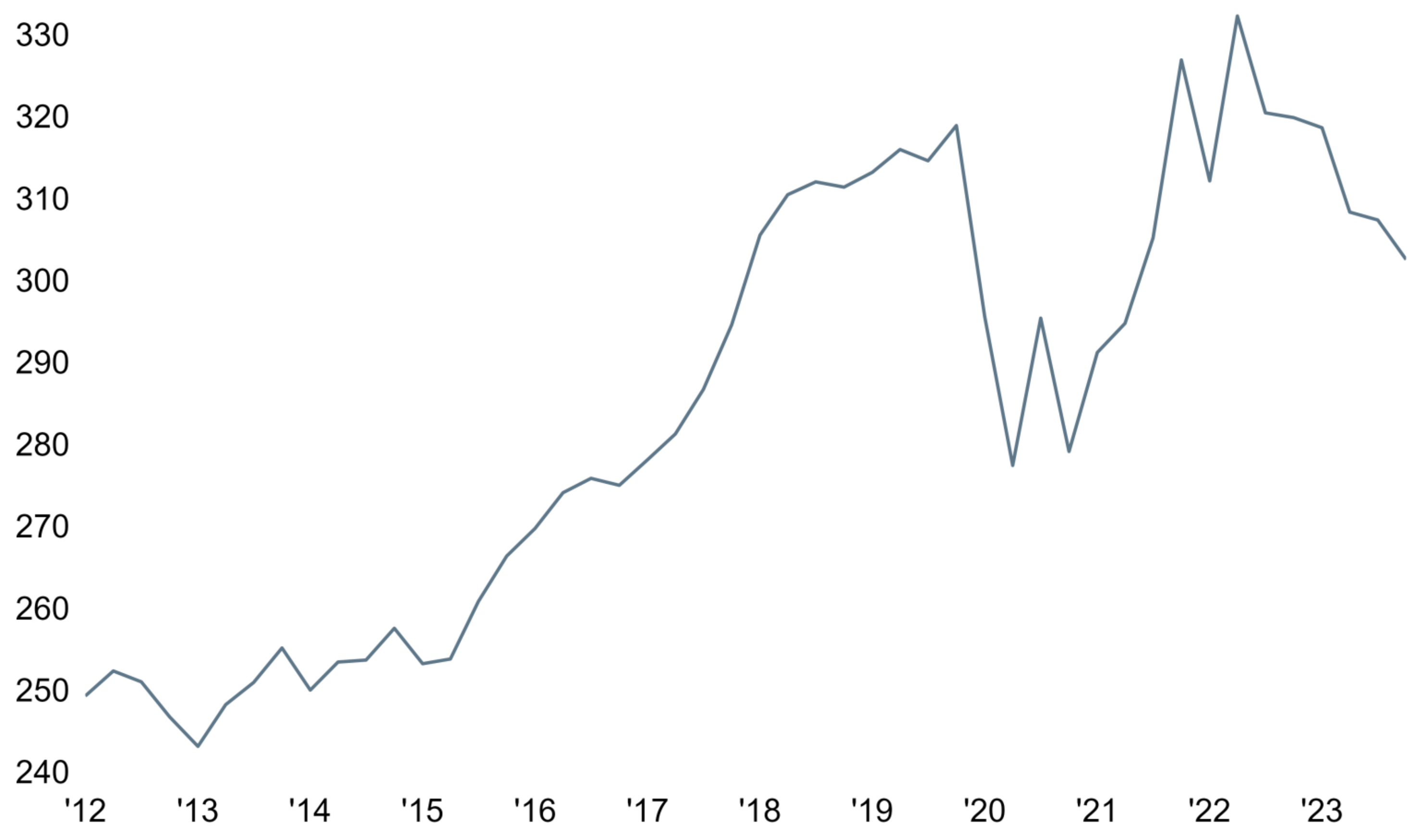
- As interest rates have been increasing, consumer confidence is declining, and salaries are increasingly being spent on financial costs. As a result, households have started to hold back on spending. In Q3 2023 private consumption was 2.8% lower than its peak in Q4 2022. Households' payment card turnover has decreased even more, by 8.9% in real terms from its peak in Q4 2022.
- As often is the case when households become more conservative with money, they have especially decreased consumption on big ticket items, such as cars and semi durables, such as clothing and house appliances.

Consumer sentiment and private consumption

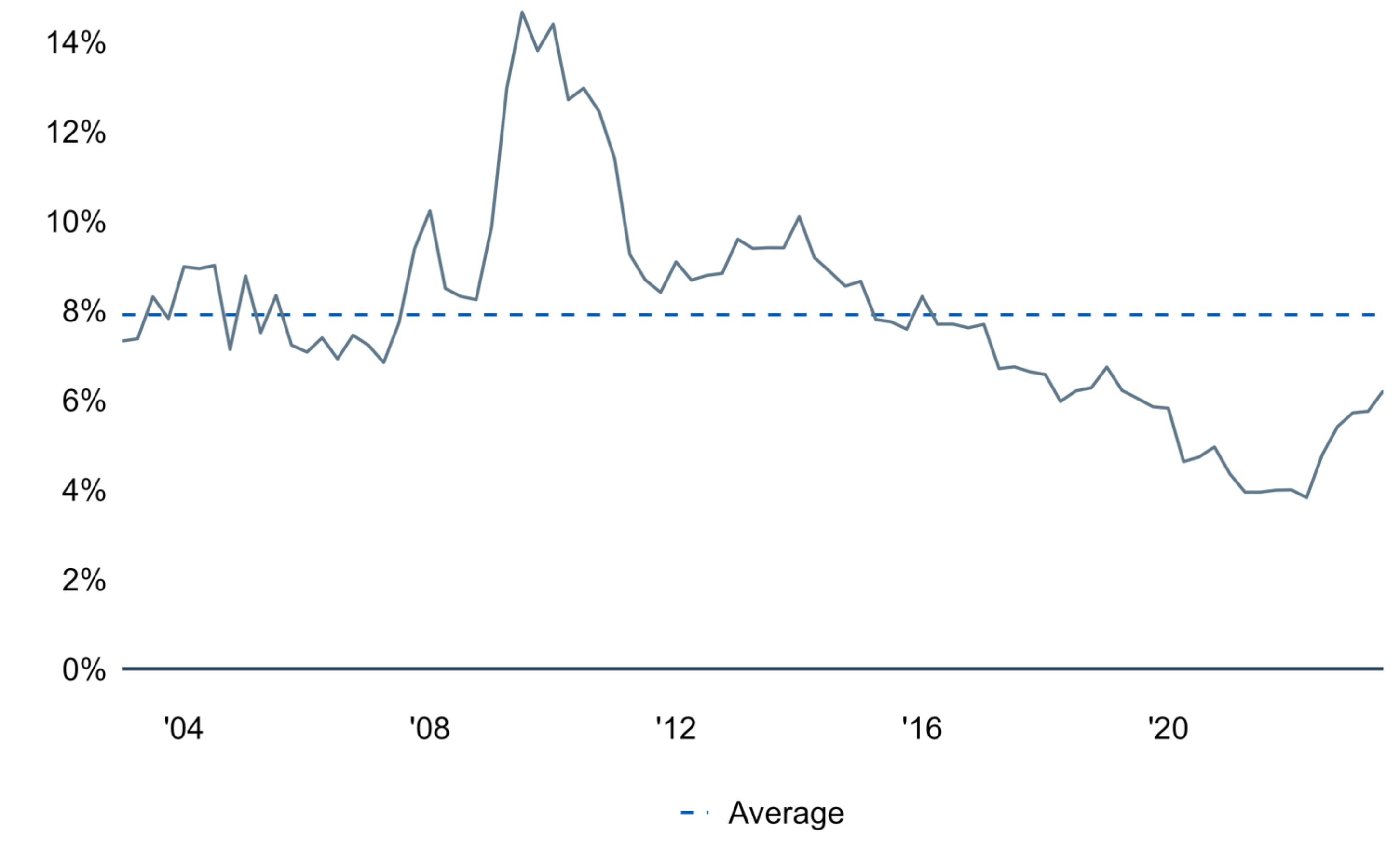


Payment card turnover

-Bn. ISK per quarter, current prices, seasonally adjusted

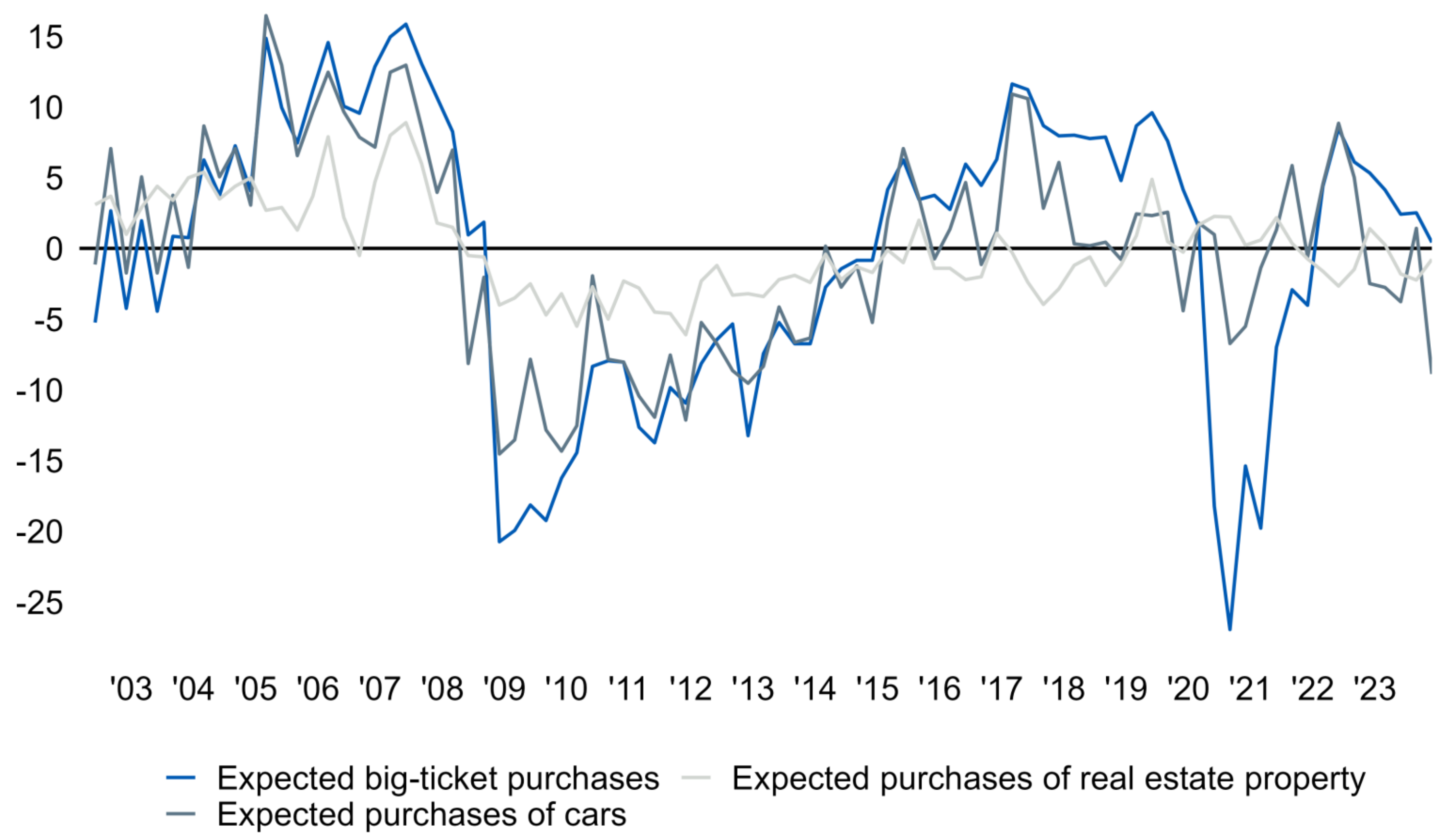


Households' interest payments as a % of disposable income



Expected big-ticket purchases

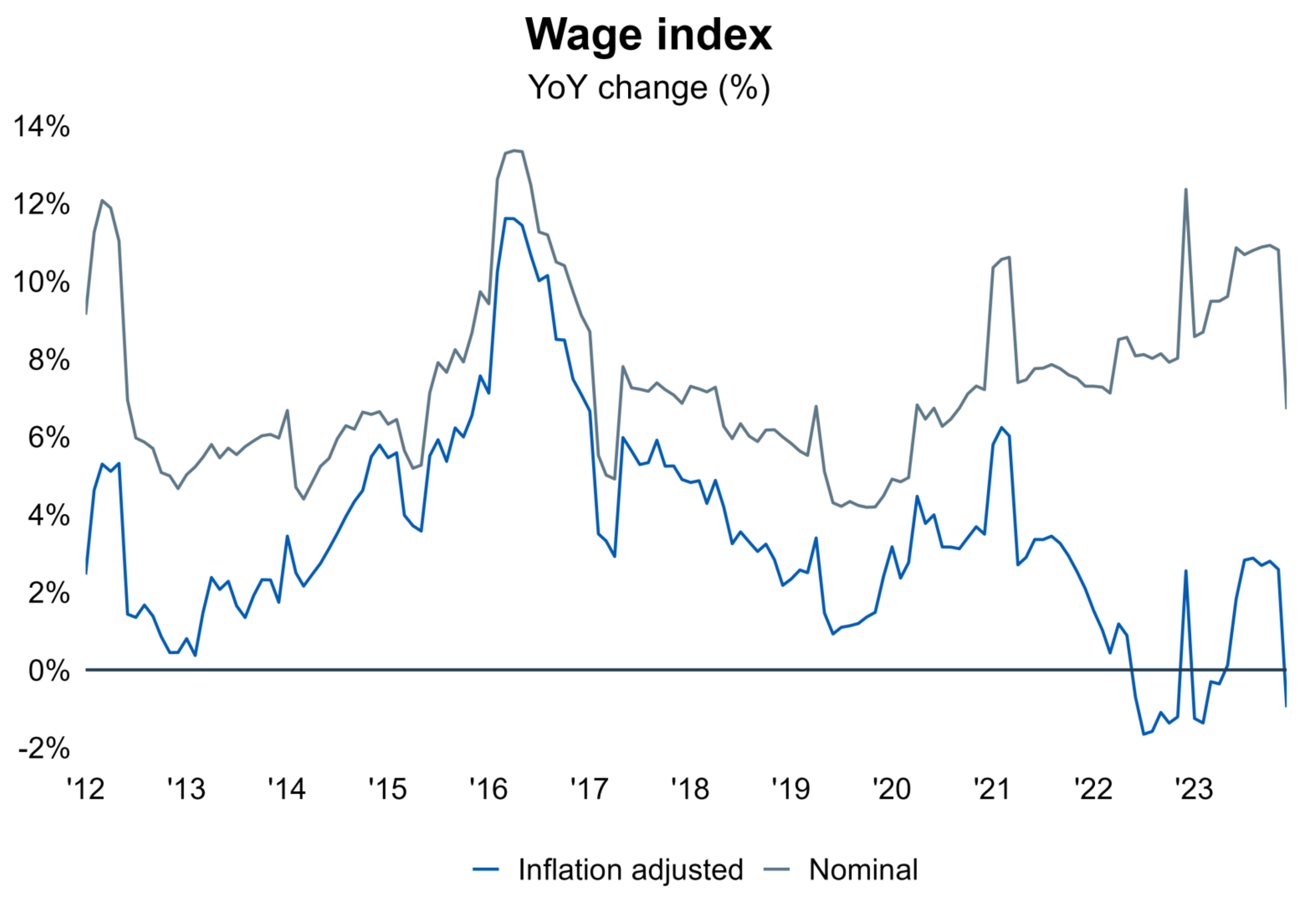
Difference from mean

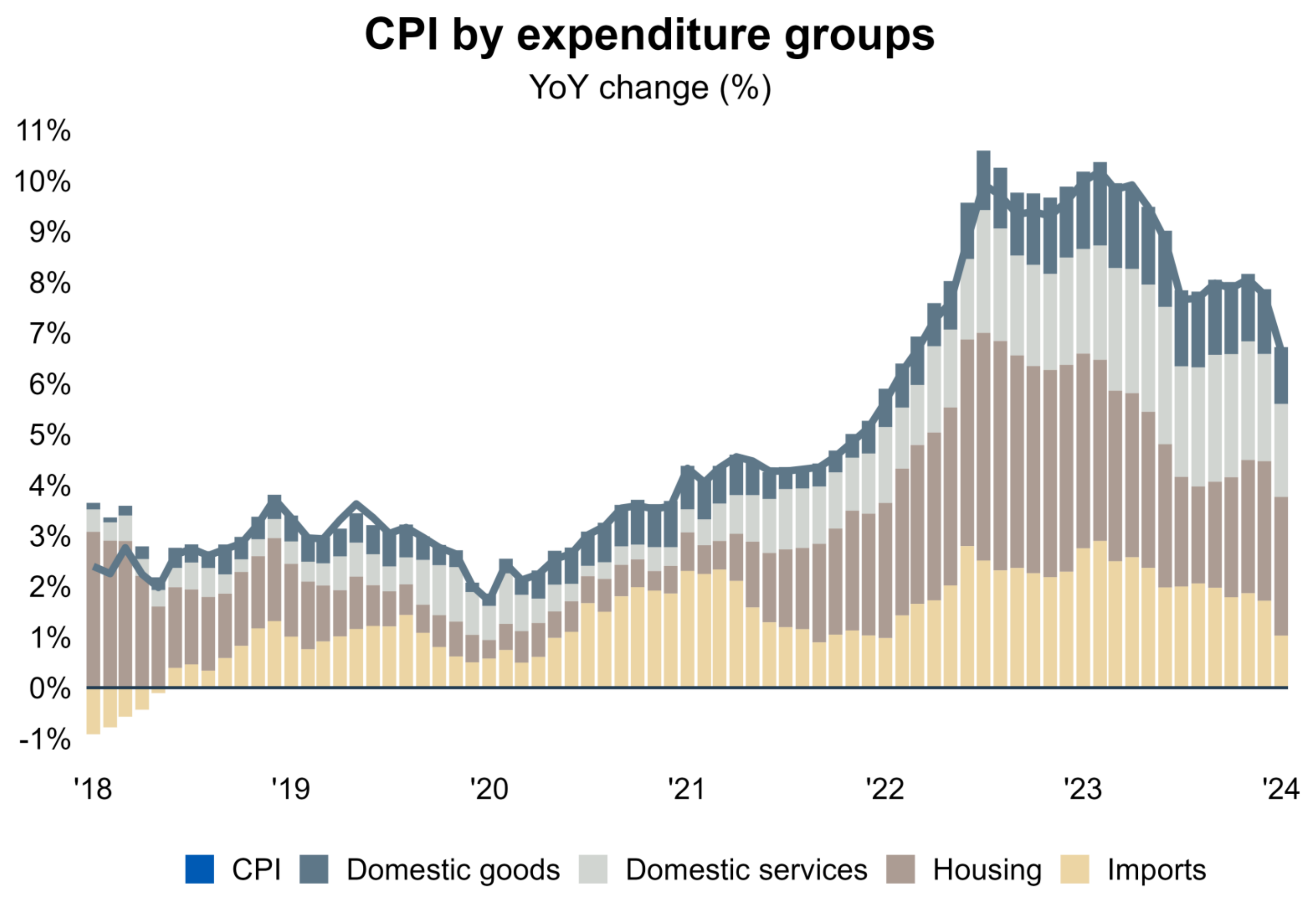


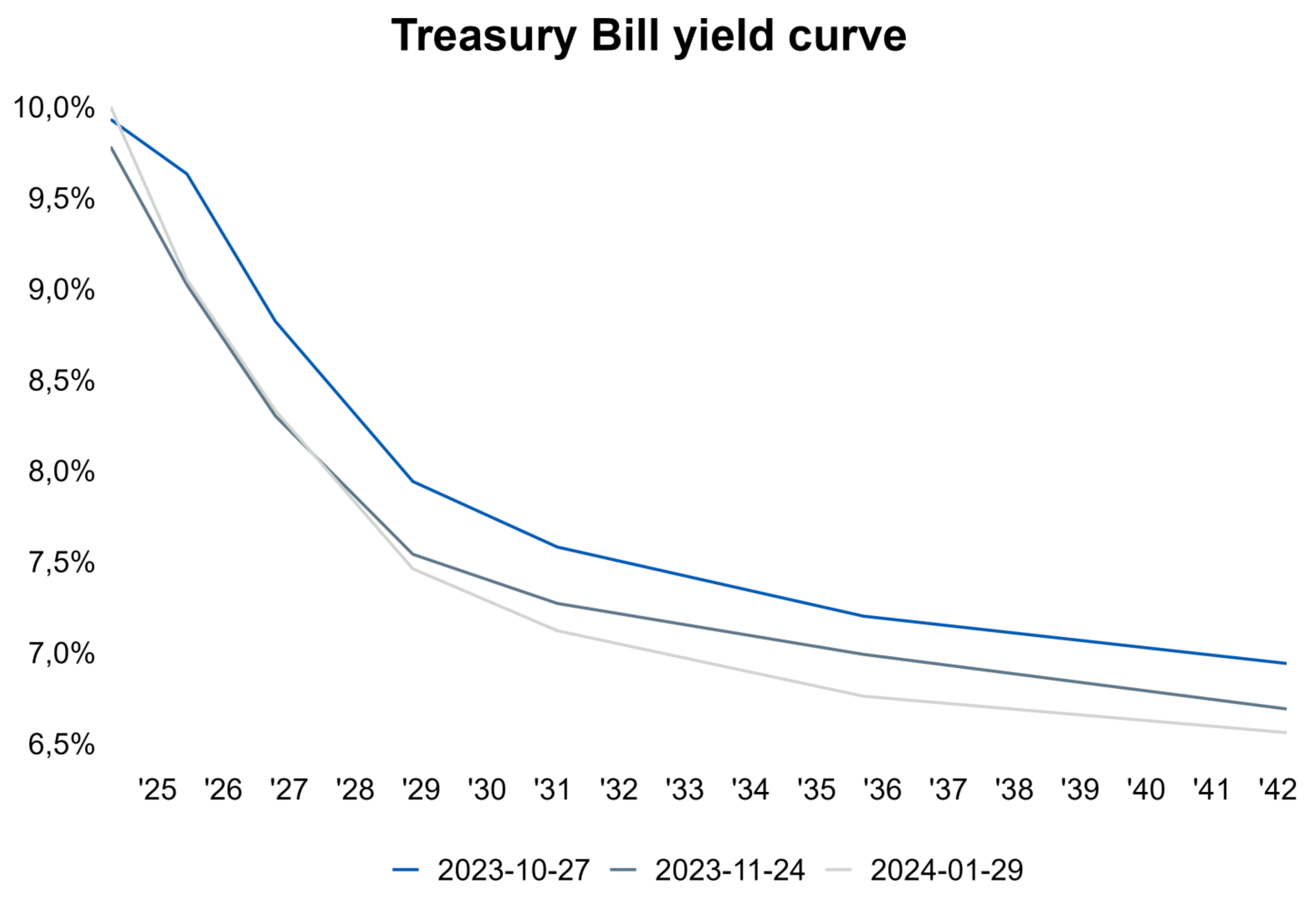
Sources: Central Bank of Iceland, Statistics Iceland, HMS, Arion Research.

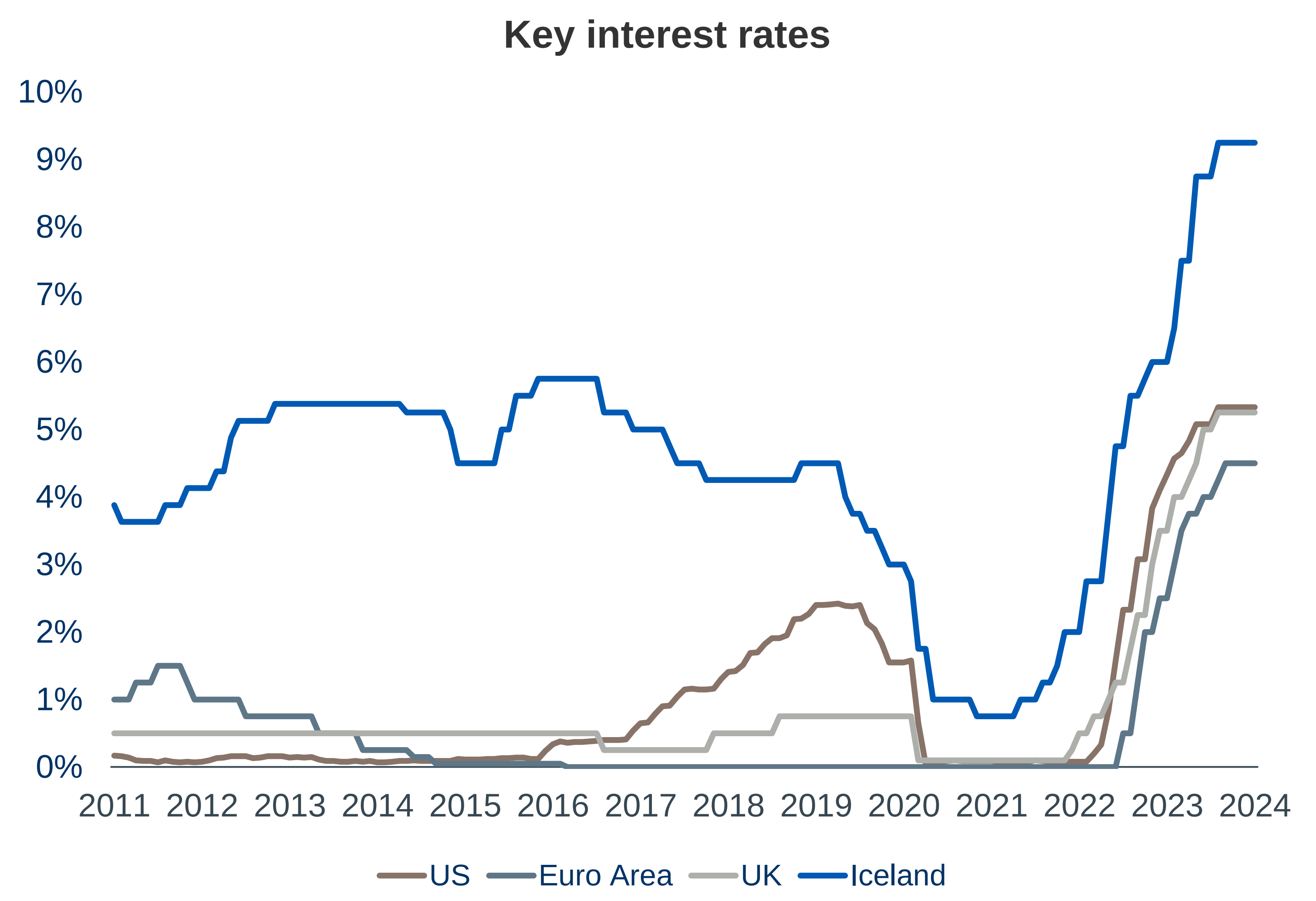
Inflation declining while homes await lower interest rates

- Inflation has started to slow down with the YoY price changes decreasing in the past few months in all major expenditure groups except for housing. Conveniently, imported inflation has been lower than price increases in other categories. The rate of wage increases has also started to slow down. Decreased demand and deacceleration of wages has decreased inflationary pressures in general
- Lower inflation automatically increases the bite of the CBI’s interest rates, which, along with improved inflation expectations, facilitates further the deacceleration of inflation
- But the fight against inflation is not over. Two major sources of uncertainties in particular have the potential to give inflation second wind. One is the collective wage agreements, and the other one is the effect of governmental support for the people of Grindavík





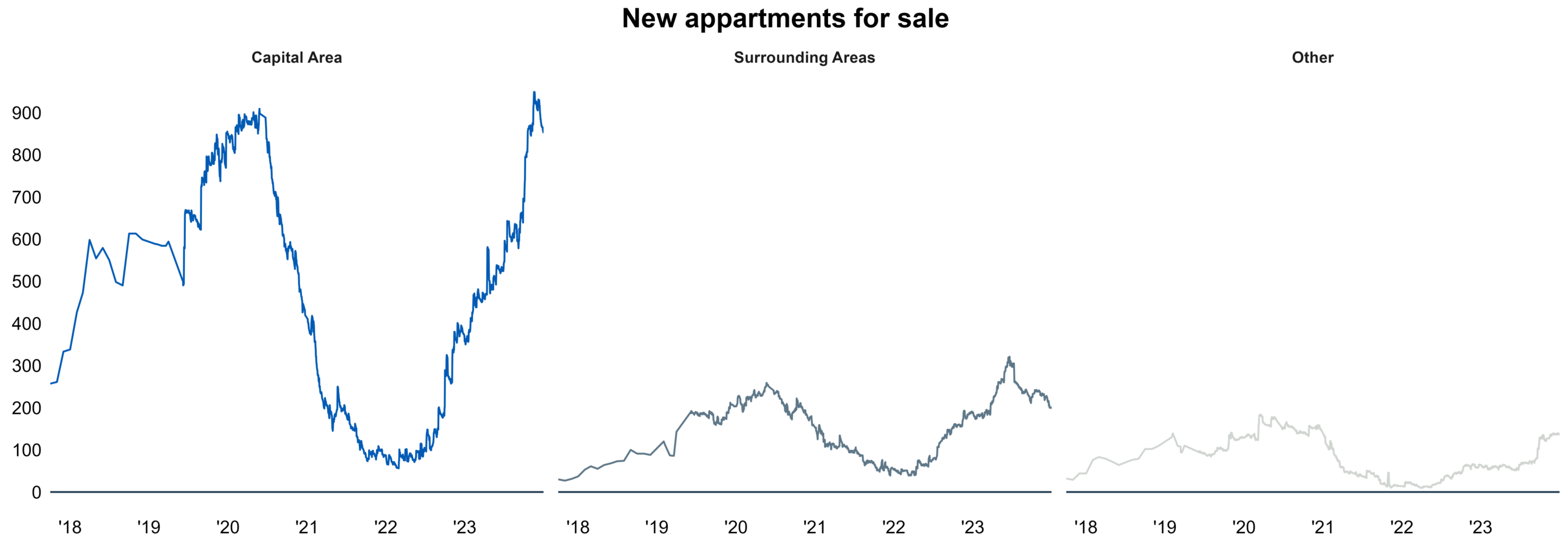


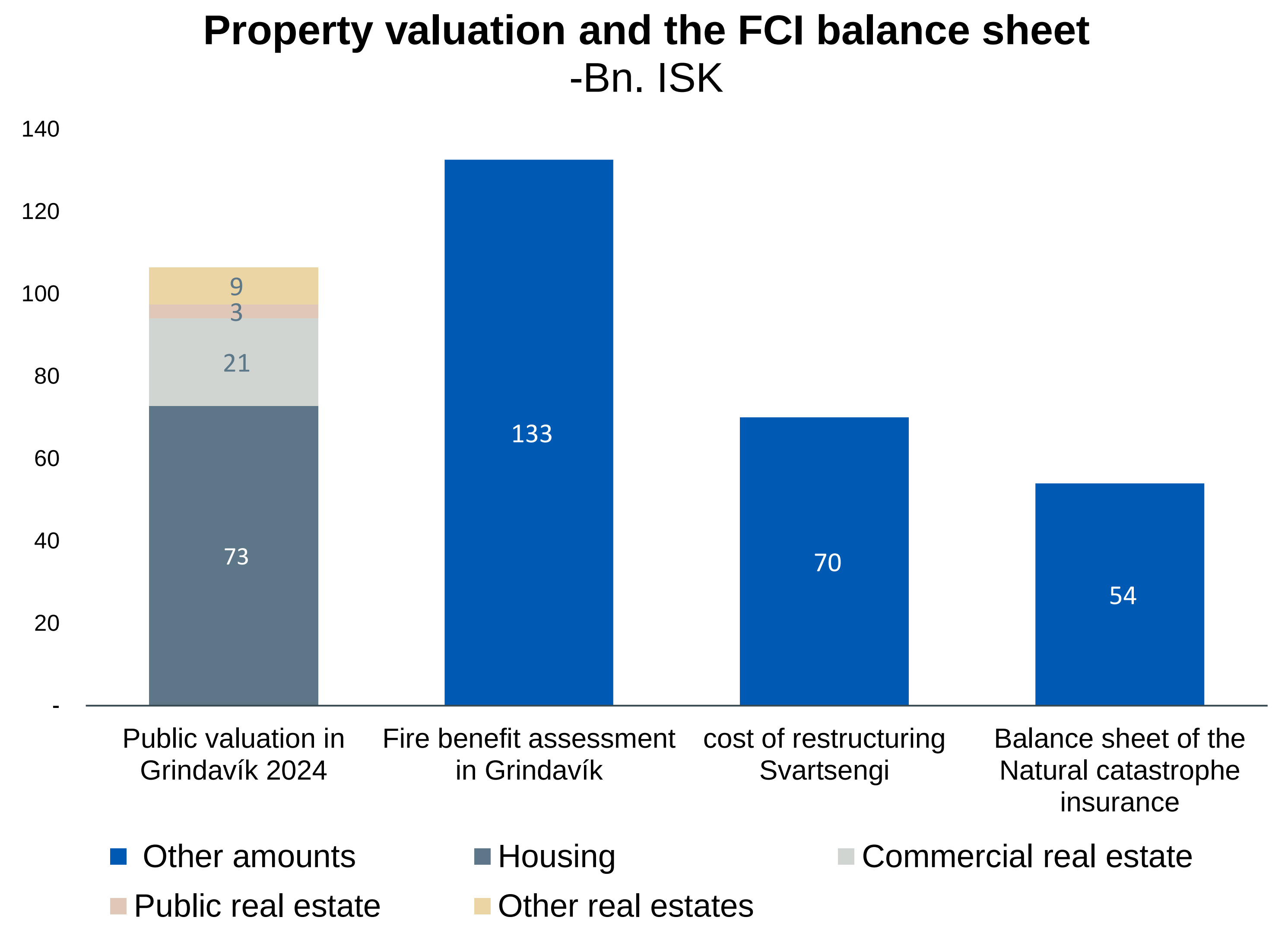


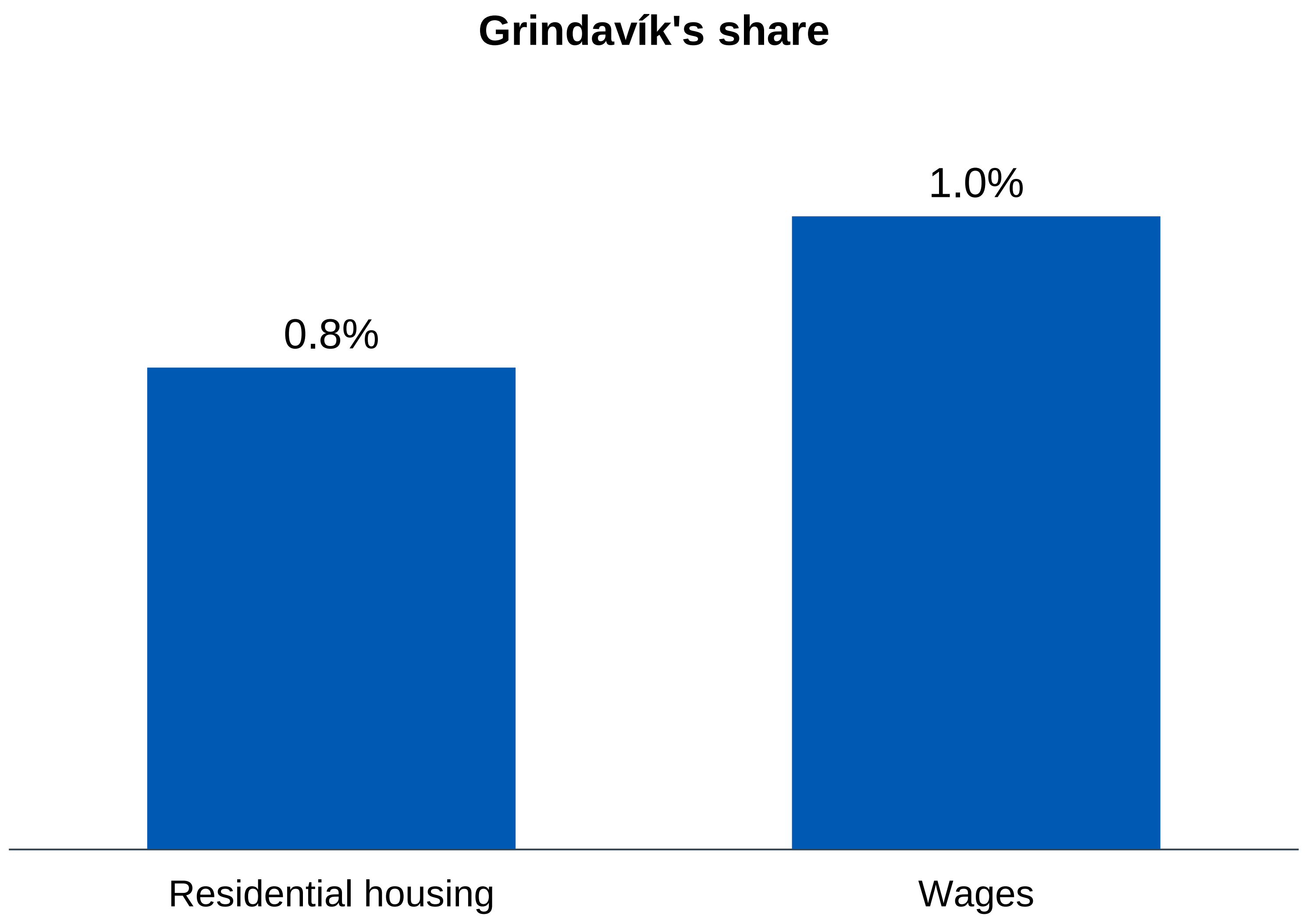
Sources: Statistics Iceland, Central Bank of Iceland, Kodiak
BoE, ECB, Federal Reserve, Arion Research.

Supporting Grindavík

- The situation in Grindavík remains uncertain due to repeated volcanic eruptions and seismic activity. While the government has promised to support residents with reallocation, there is still little clarity on how this will be implemented.
- The government could face significant costs, but they would be easily absorbable. The Natural Catastrophic Insurance, a public fund, has ISK 54 billion in capital and is reinsured for a similar amount. The property valuation of all properties in the area is ISK 107bn.
- The effects of the measures taken are expected to be limited and short lived, with the brunt of it going towards the housing market.







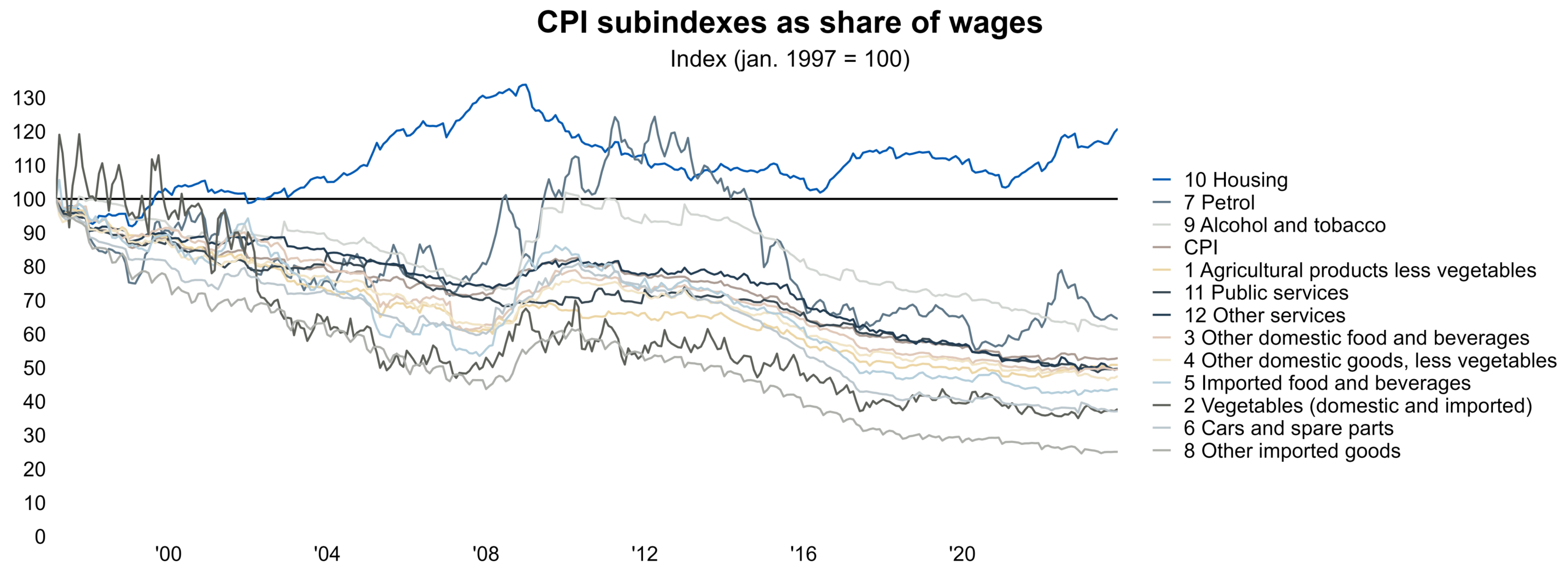
Sources: Statistics Iceland, Central Bank of Iceland, Kodiak BoE, ECB, Federal Reserve, Arion Research.

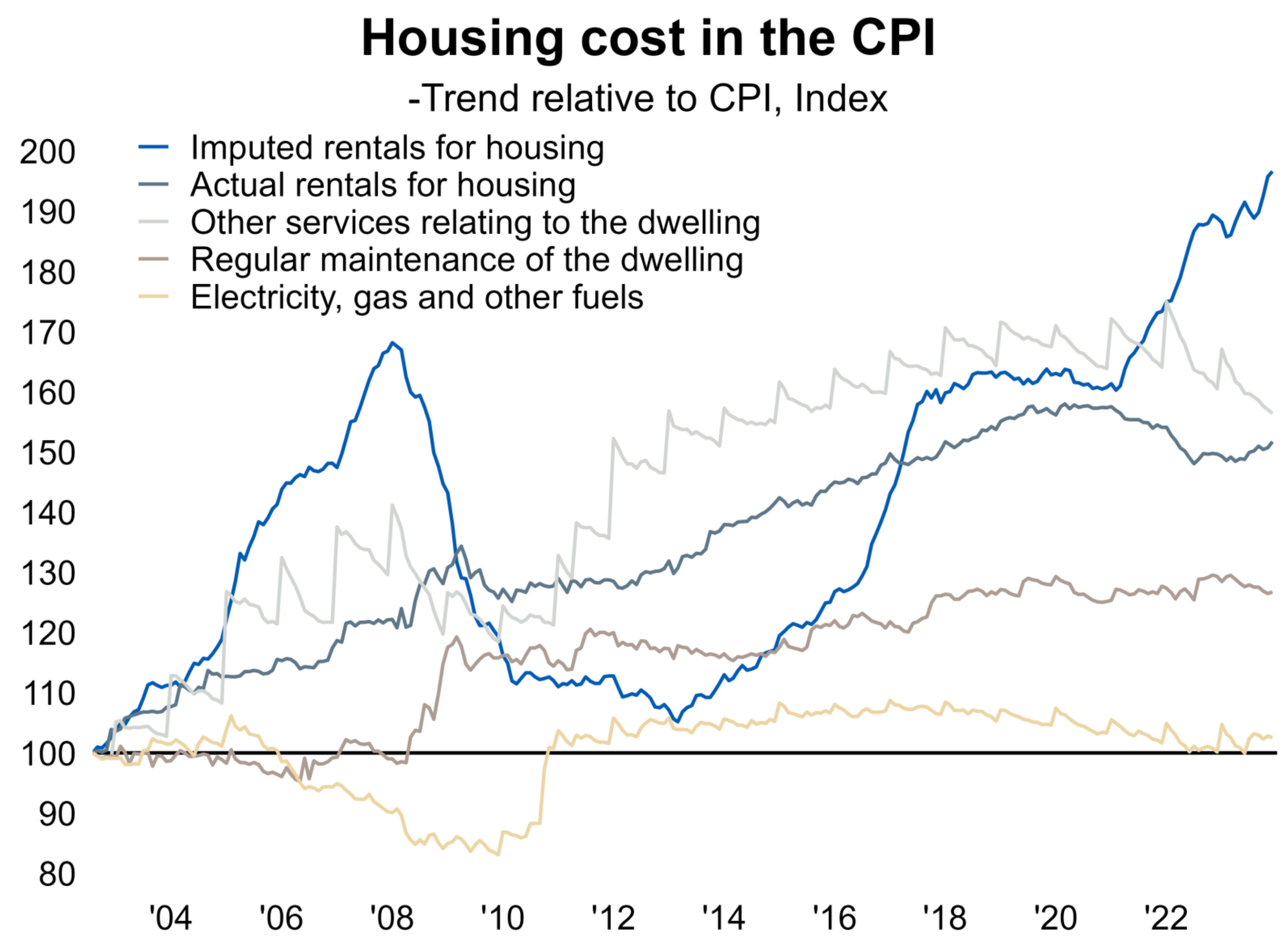
Housing prices in the Consumer Price Index

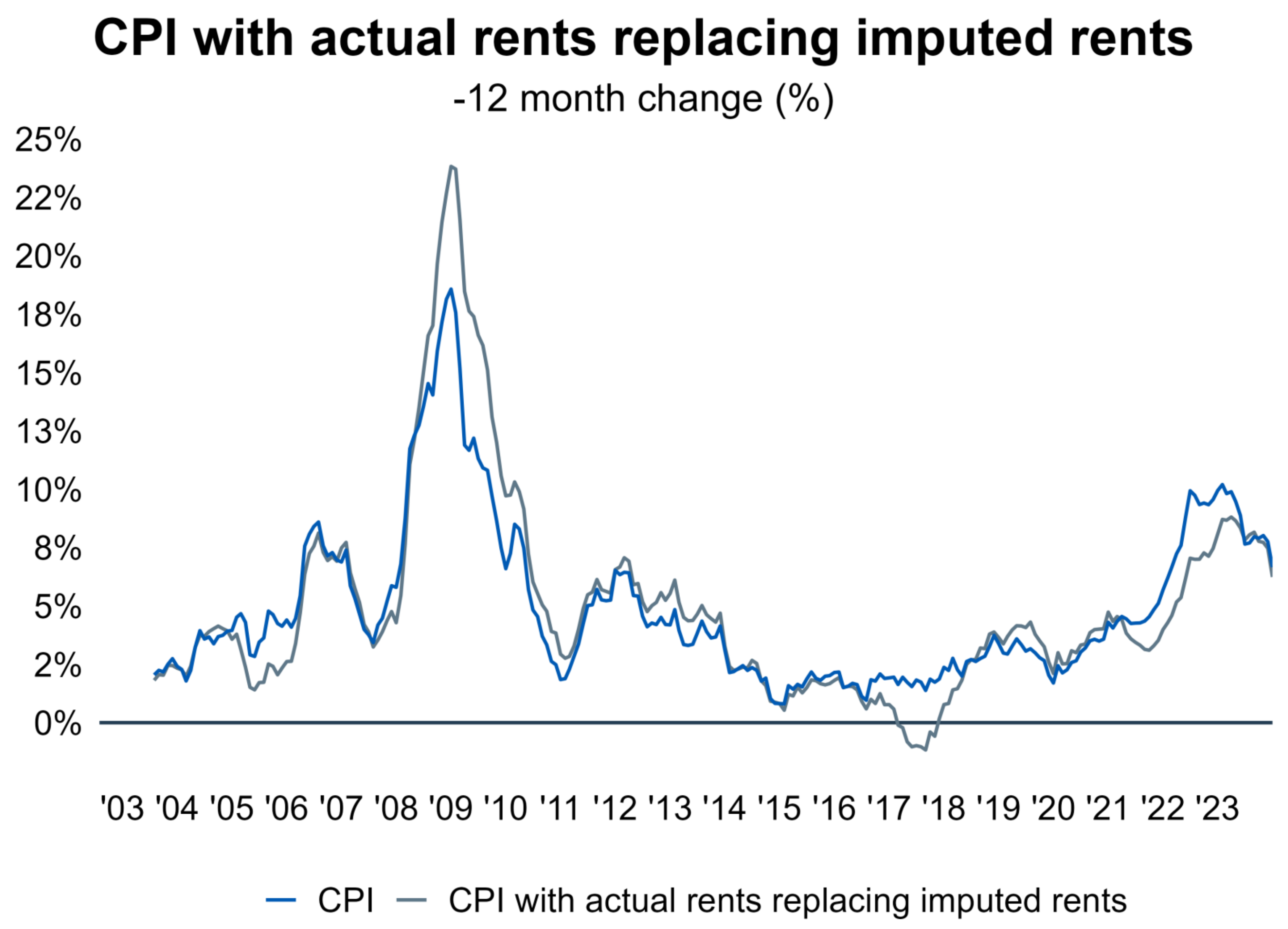
- Housing cost has historically been increasing more than other subcomponents of the CPI and has therefore been a driving force in keeping up inflation.
- This is especially true with imputed rentals for housing, which is essentially driven by real estate prices and interest rates. That is about to change, because Statistics Iceland has announced that in the near future, imputed rental prices will be estimated from actual rental prices.
- The method has not yet been published so the effects on CPI are still unclear. But if the CPI had been calculated using the actual rent instead of imputed rent in the past, inflation would have measured lower in the past three years.

Impact of impending changes to the CPI

Year	New method*	Current method
2021	3,8%	4,5%
2022	6,0%	8,5%
2023	8,2%	9,1%



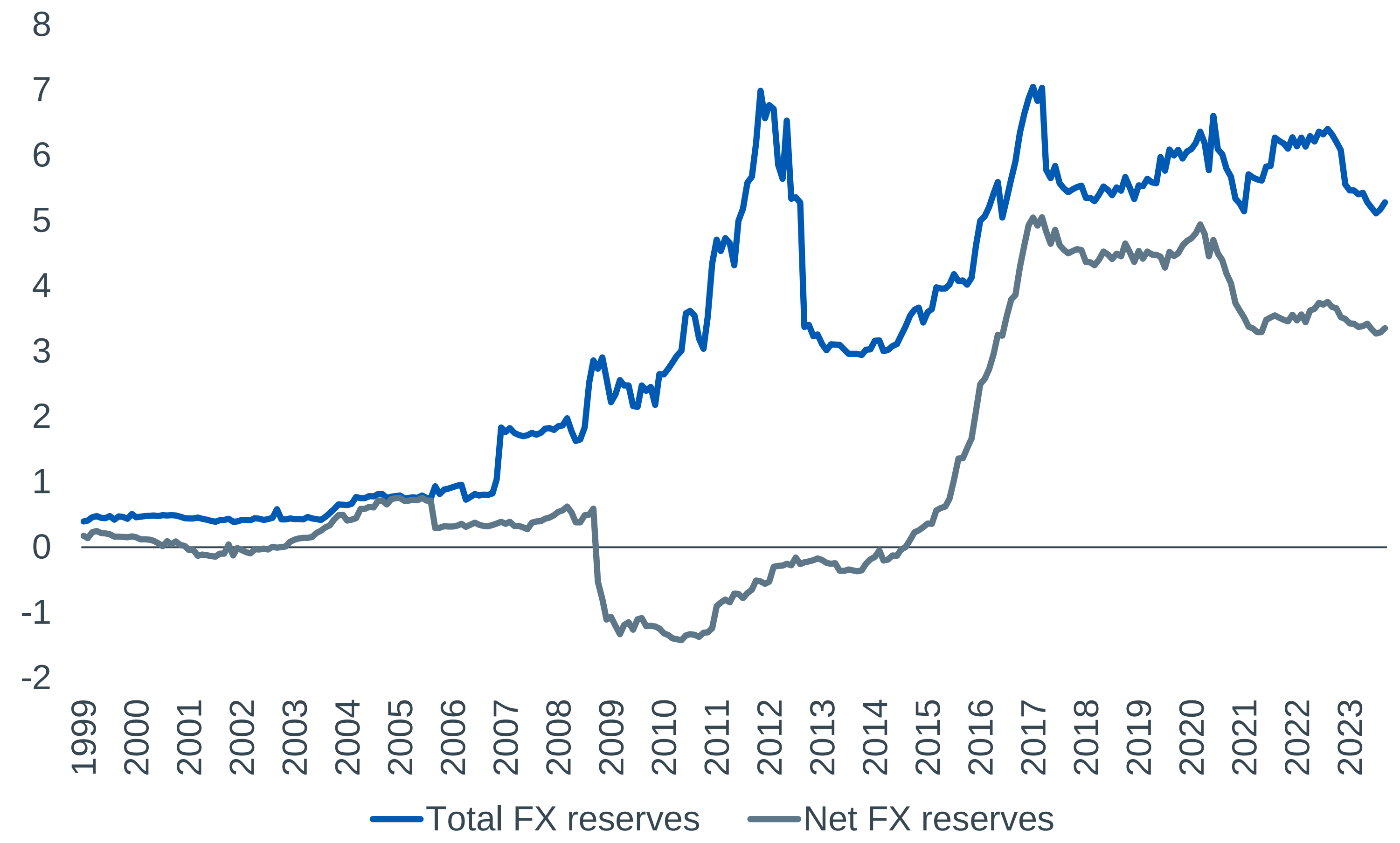




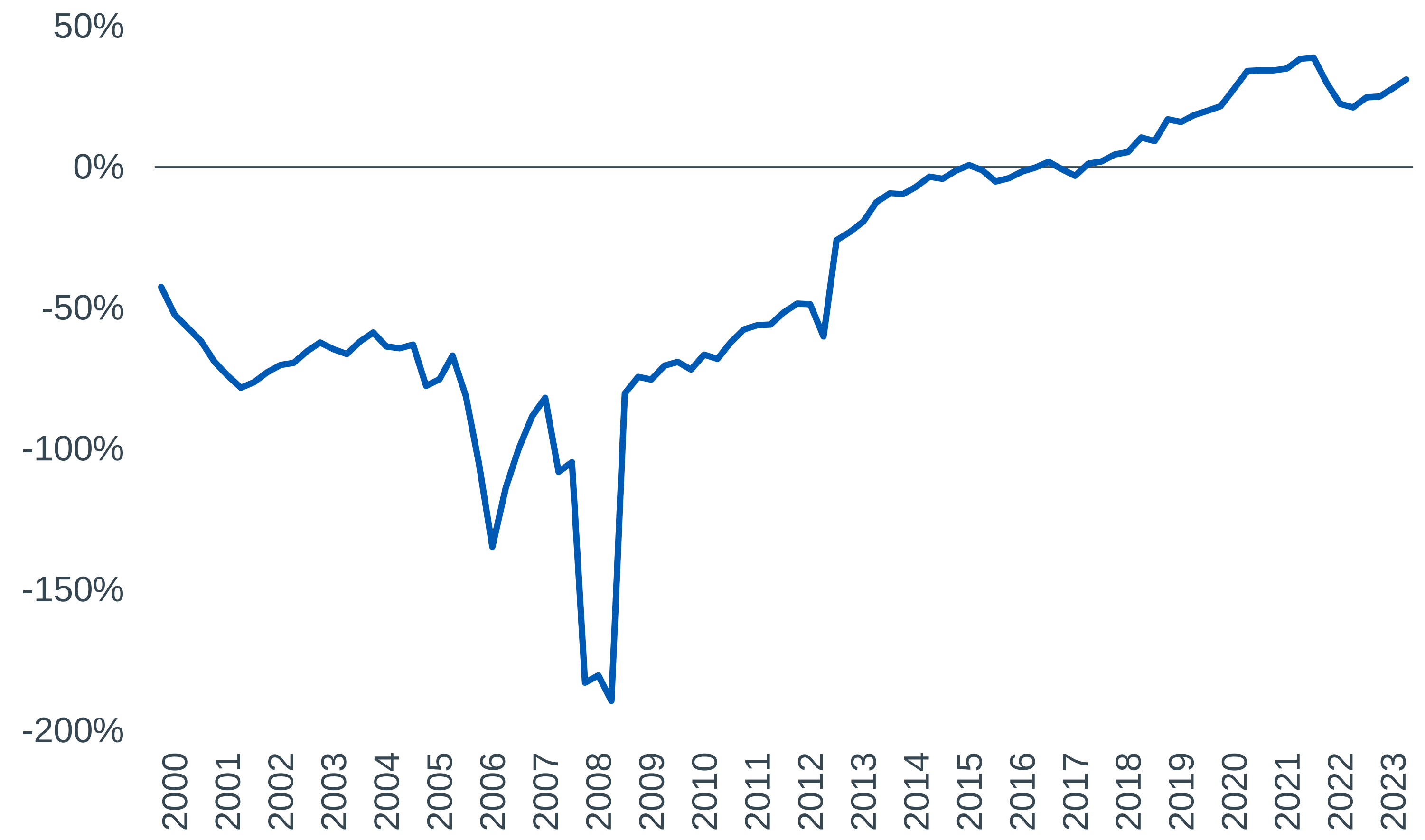
*Approximation, assuming imputed rents equal actual rents
Sources: IMF, Central Bank of Iceland, Statistics Iceland, Arion Research.

Small economy, strong foundations

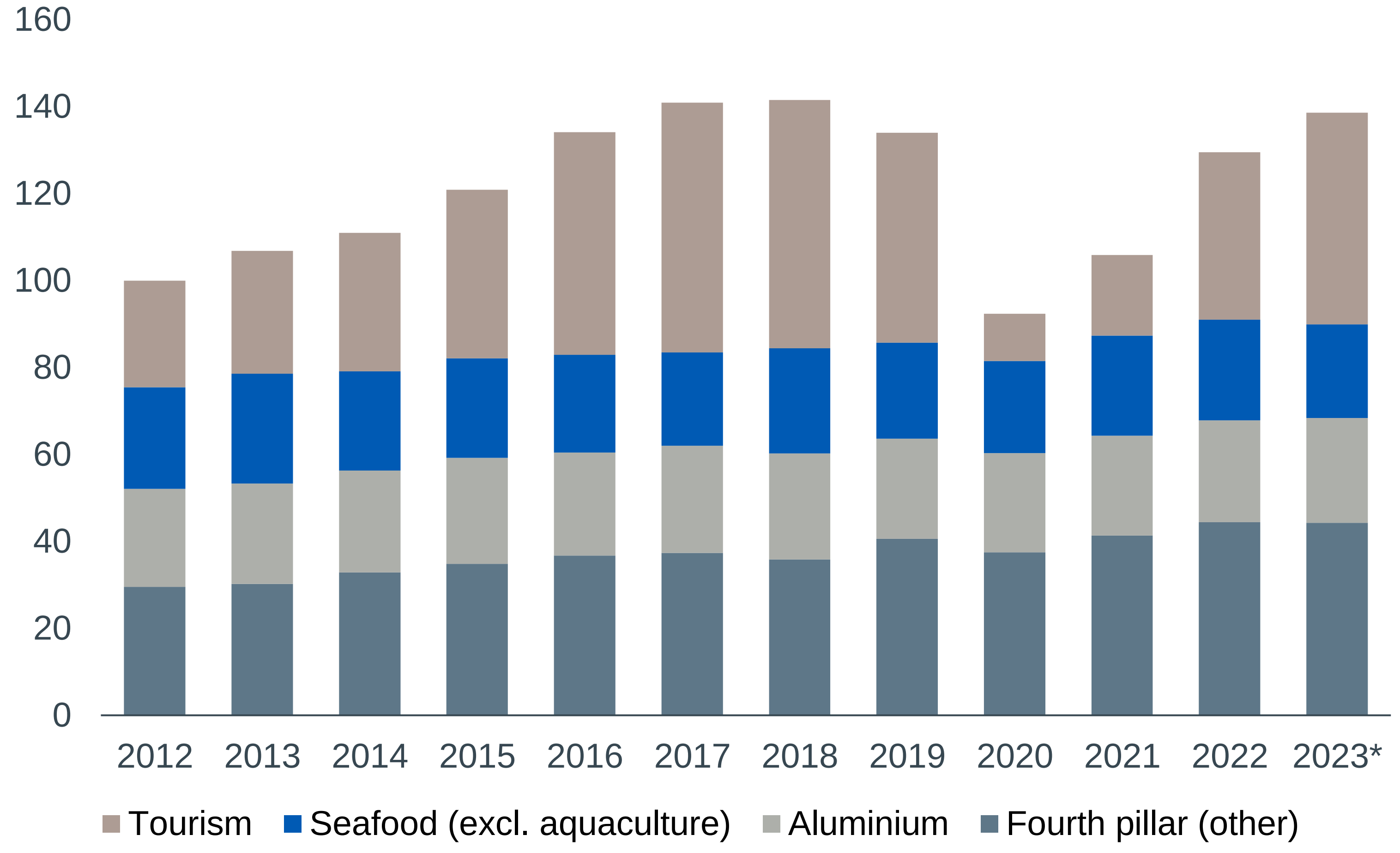
CBI's FX reserves
- bn. EUR



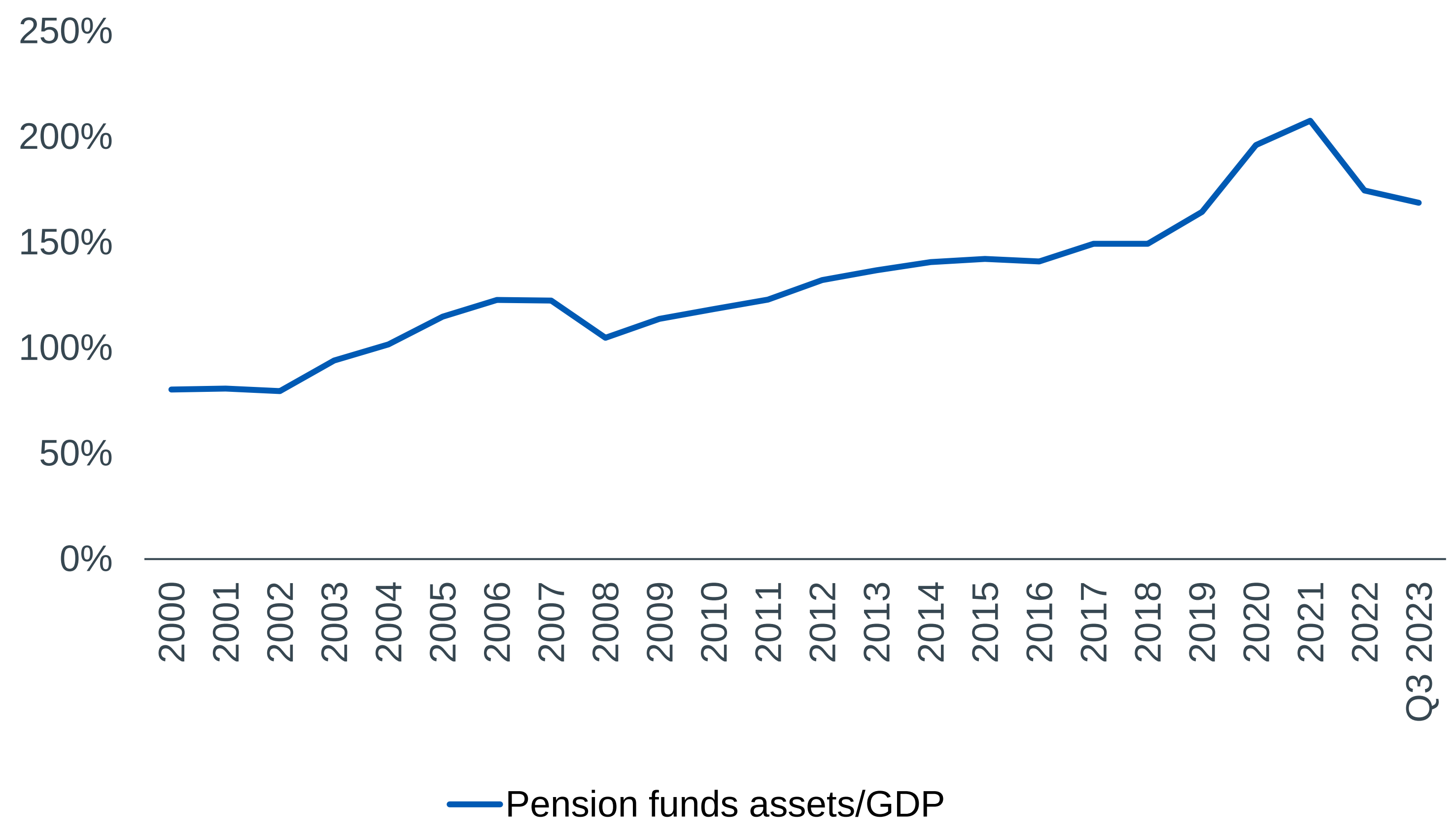
Net international investment position
- % of GDP



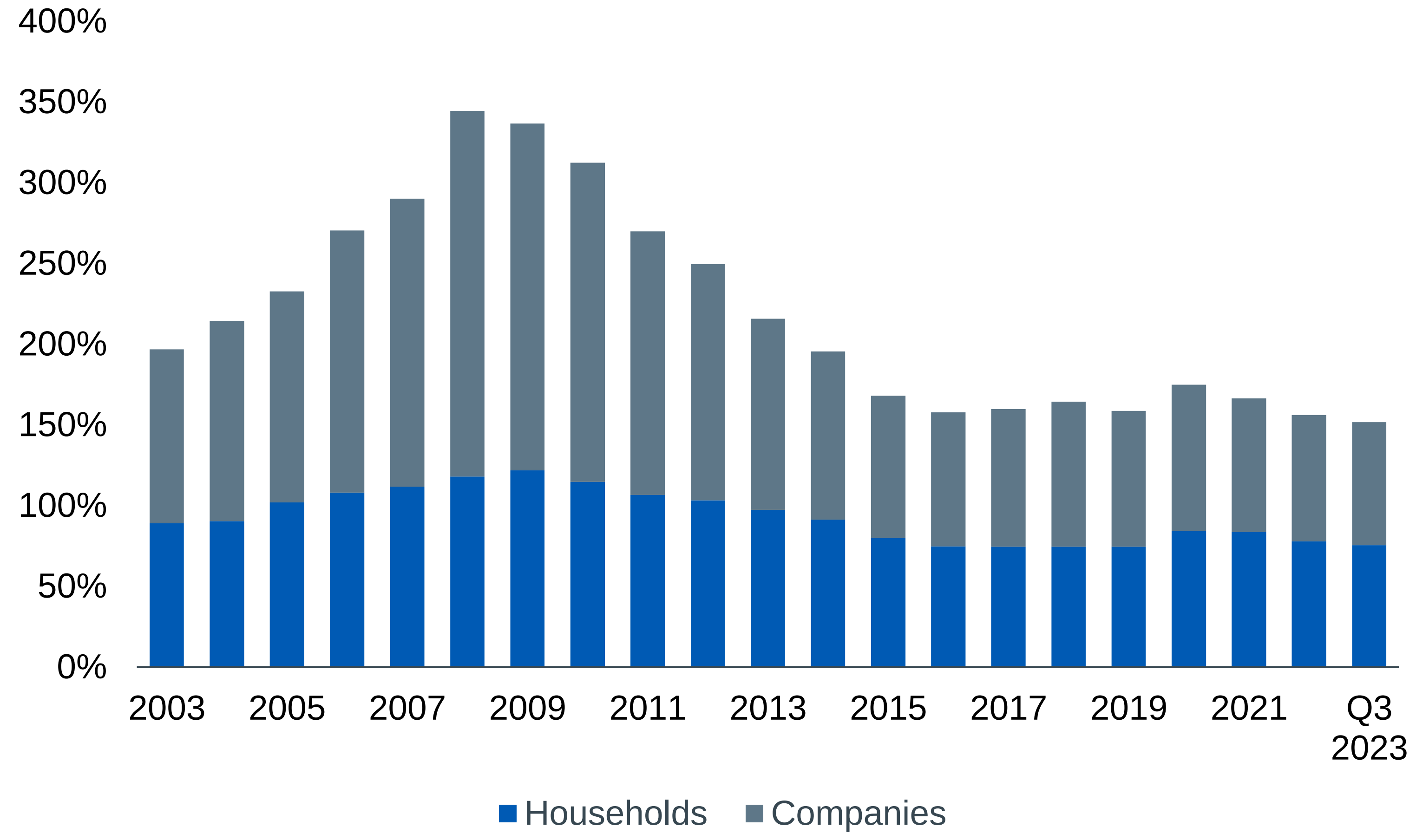
Exports
- index, total in real terms in 2012=100



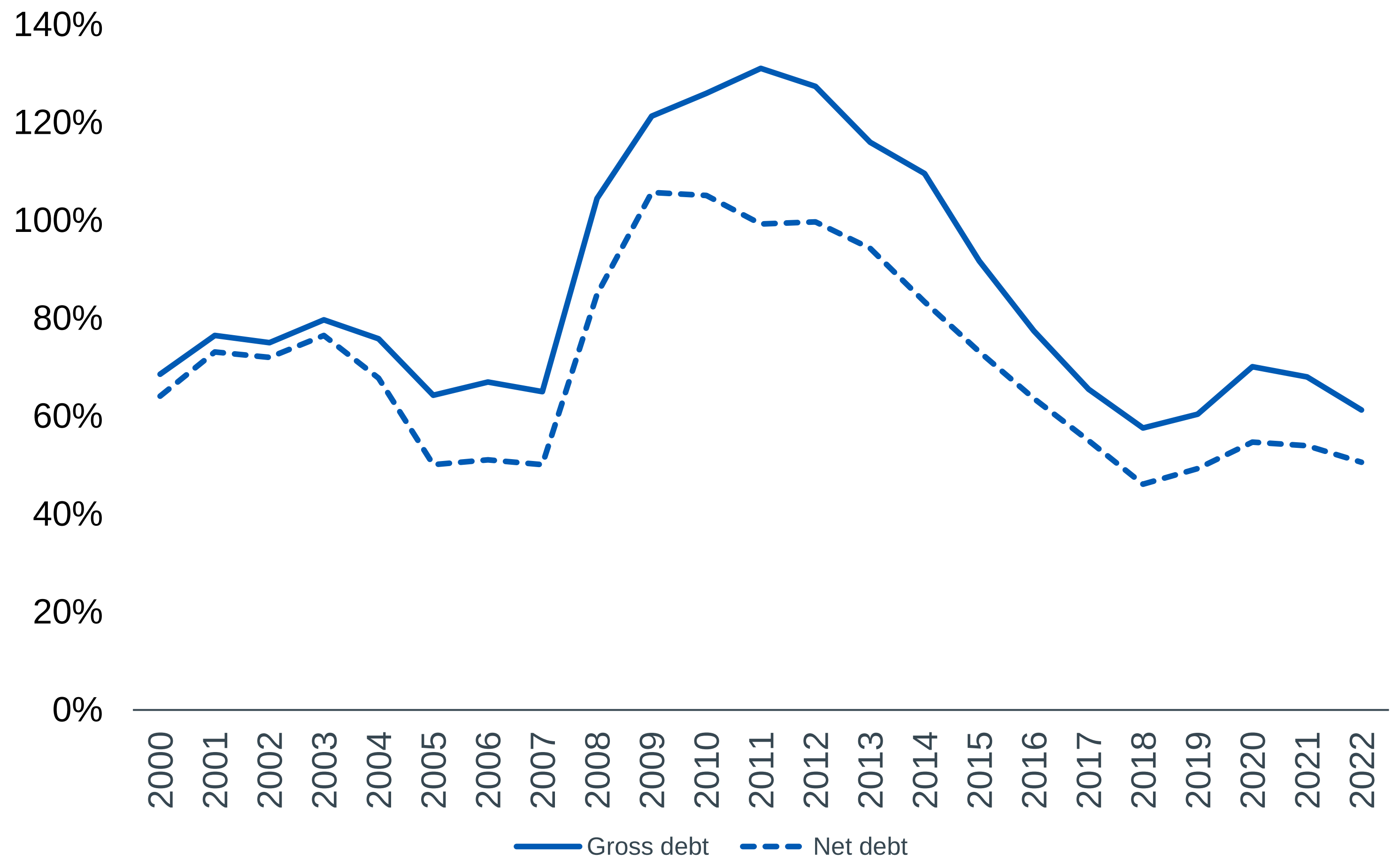
Pension funds assets
- % of GDP



Household and non-financial corporate debt
- % of GDP



Debt of central government
- % of GDP



 Sources: Statistics Iceland, Central Bank of Iceland, Arion Bank.*Arion Research forecast.

Key takeaways from Q4 2023

Operational performance *Solid quarter completes a strong year*	▸ Solid quarter with ROE of 12.7%, resulting in a strong ROE for the year of 13.6%, with capital level significantly above medium-term target ▸ Robust core income momentum and strong recovery in financial income in the quarter ▸ Diversity in the Groups businesses continues to support earnings through evolving economic cycle
Net interest income *Robust while enhanced quarterly fluctuations*	▸ Net interest income continues to increase with the net interest margin up in the quarter to 3.1% ▸ Increased CPI linked lending will impact fluctuations in NIM between quarters near term ▸ New phase entered in rate hiking cycle as fixed rate mortgage portfolio starting to reset in the quarter
Loan book *Growth subsiding*	▸ Reduced loan growth as the economy slows, combined with managed impact of S&P raised capital requirements ▸ Solid pipeline while rate trajectory will continue to be the key determinant of economic activity and loan growth
Capital, funding and liquidity *Strong position*	▸ Capital position very strong with a CET1 ratio of 19.7% or 480bps above regulatory minimum ▸ MREL buffer of 8.4% above requirements and balanced wholesale funding maturity profile ▸ New Moody´s covered bond rating of Aa2 and a positive revision of outlook from S&P ▸ Stable deposits continue to grow, while expected enhanced volatility in less stable deposits materializing ▸ Liquidity position strong with an LCR of 192%. Average duration of liquidity bond portfolio within one year and no HTM accounting

[1] Net interest income, net fee and commission income and insurance service results (excluding opex)

Income statement Q4 2023

- Net profit of ISK 6.2bn resulting in ROE of 12.7%
- Core income** increases 2% YoY
- NII increases between quarters partly due to effect from inflation
- Strong NCI, although slightly down from Q4 last year
- Positive momentum in insurance revenue, with 21% increase in insurance revenue compared with prior year while quarterly results are impacted by seasonality
- Recovery in net financial income after period of volatility
- Operating expense increased by 5% YoY, while inflation was 8%
- Positive effect from impairments during the quarter is mainly due to improved collateral positions of individual loans in stage 2 and 3
- Effective tax ratio of 22.4%

	Q4 2023	Q4 2022*	Diff	Q3 2023	Diff
Net interest income	11,347	10,623	7%	10,918	4%
Net commission income	3,903	4,254	(8%)	3,848	1%
Insurance service results	(284)	(232)	22%	395	-
Net financial income	1,370	(52)	-	(183)	-
Other operating income	(24)	52	-	8	-
Operating income	**16,312**	**14,645**	**11%**	**14,986**	**9%**
Operating expenses	(7,830)	(7,474)	5%	(5,392)	45%
Bank levy	(422)	(496)	(15%)	(468)	(10%)
Net impairment	13	411	-	(741)	-
Net earnings before taxes	**8,073**	**7,086**	**14%**	**8,385**	**(4%)**
Income tax expense	(1,808)	(1,755)	3%	(2,274)	(20%)
Net earnings from continuing operations	**6,265**	**5,331**	**18%**	**6,111**	**3%**
Discontinued operations net of tax	(41)	(366)	-	20	-
Net earnings	**6,224**	**4,965**	**25%**	**6,131**	**2%**
Return on equity	12.7%	10.6%		12.9%	
Core income**	15,814	15,498	2%	15,812	0%
Net interest margin	3.1%	3.1%		3.0%	
Cost-to-core income ratio	54.9%	53.7%		38.2%	

*Comparative figures for Q4 2022 have been restated in accordance with IFRS 17
**Core income: Net interest income, net fee and commission income and insurance service results (excluding opex)

 All amounts in ISK million

Income statement 2023

- Net profit of ISK 25.7bn resulting in ROE of 13.6%
- Core income** increases 6.8% YoY
- Strong increase in NII YoY, mainly due to increased base rate and 6% growth in loans to customers from year end 2022
- NCI remains stable, despite slowing activity in the economy and in capital markets
- Insurance revenue grew by 15.3% YoY whereas claims increased by 17.7% and opex increased by 14.5%
- Net financial income challenging during the first nine months while recovering during Q4
- Positive result in other income is mainly from revaluation of the investment property Blikastadir in Q2
- Operating expense increased by 5.3% YoY but taking into account opex connected to insurance operation by 6.8% while inflation was 8.9%. One-off items impacted opex especially early in the year.
- Cost of risk for the year calculated at 12bps
- Effective tax rate 27.2% for the year

	2023	2022*	Diff
Net interest income	44,685	40,201	11%
Net commission income	16,389	16,449	(0%)
Insurance service results	152	615	(75%)
Net financial income	1,366	(3,286)	-
Other operating income	1,589	1,314	21%
Operating income	**64,181**	**55,292**	**16%**
Operating expenses	(25,701)	(24,329)	6%
Bank levy	(1,796)	(1,749)	3%
Net impairment	(1,348)	144	-
Net earnings before taxes	**35,336**	**29,359**	**20%**
Income tax expense	(9,595)	(9,944)	(4%)
Net earnings from continuing operations	**25,741**	**19,415**	**33%**
Discontinued operations net of tax	(4)	6,543	-
Net earnings	**25,737**	**25,958**	**(1%)**
Return on equity	13.6%	14.1%	
Core income**	64,270	59,923	7%
Net interest margin	3.1%	3.1%	
Cost-to-core income ratio	44.7%	45.0%	

*Comparative figures for 2022 have been restated in accordance with IFRS 17
**Core income: Net interest income, net fee and commission income and insurance service results (excluding opex)

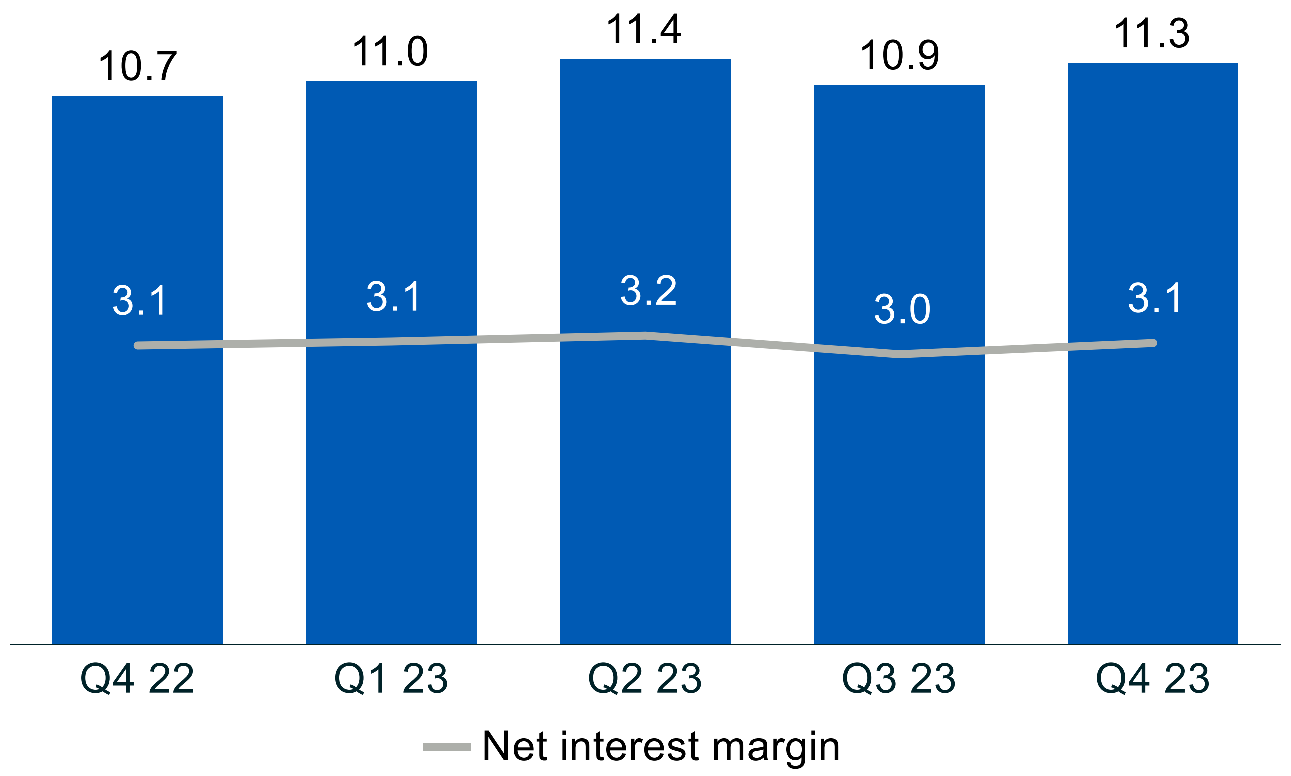
All amounts in ISK million

Net interest income

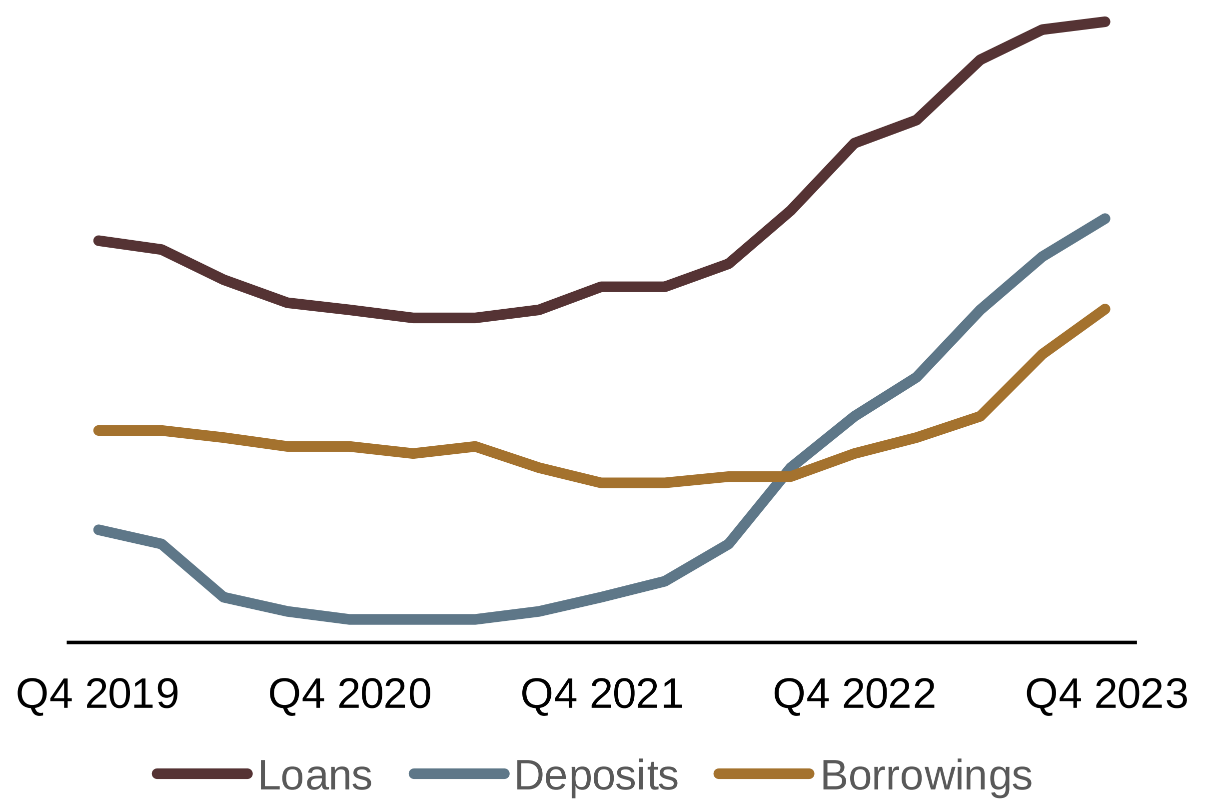
Robust net interest margin

- Net interest income in Q4 increased by 6.8% from Q4 2022 and by 3.9% from Q3 2023
- Central Bank base rate was 9.25% at year-end 2023 compared with 6% at year-end 2022
- Higher inflation in Q4 vs. Q3 partially explains impact between quarters. Increasing CPI-linked lending and therefore higher CPI net balance will increase NII and NIM fluctuations
- New phase of the rate hiking cycle commencing in the quarter with resetting of fixed rate mortgages. Non-CPI linked mortgages with fixed rates of more than ISK 120bn will be reset in the next 24 months which can be a tailwind for the margin
- CPI linked loans increased by ISK 119bn during the year, thereof ISK 29bn in Q4. CPI linked borrowings increased by ISK 27bn and deposits by ISK 19bn during the year, with net CPI balance ISK 90bn at year end 2023 compared with ISK 15bn at year end 2022

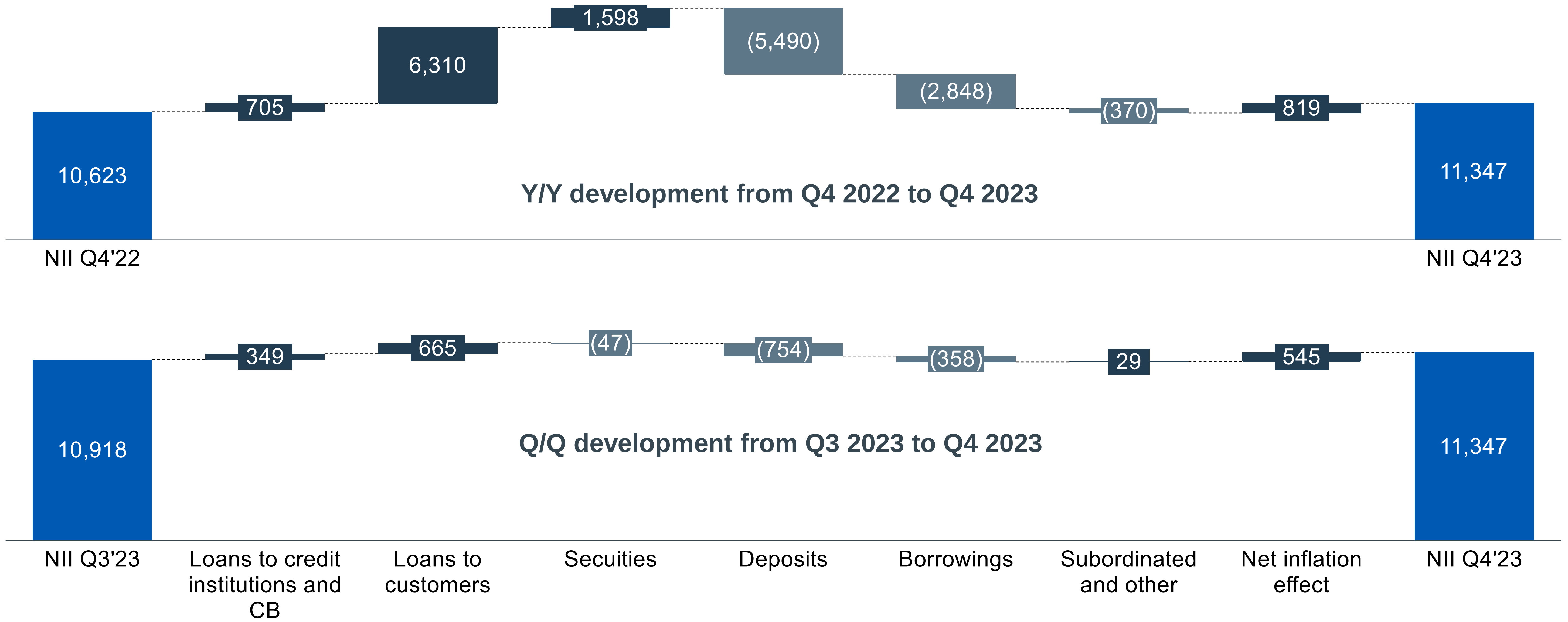
Net interest income (ISK m)



Main interests (%)



Net interest income development (ISK m)

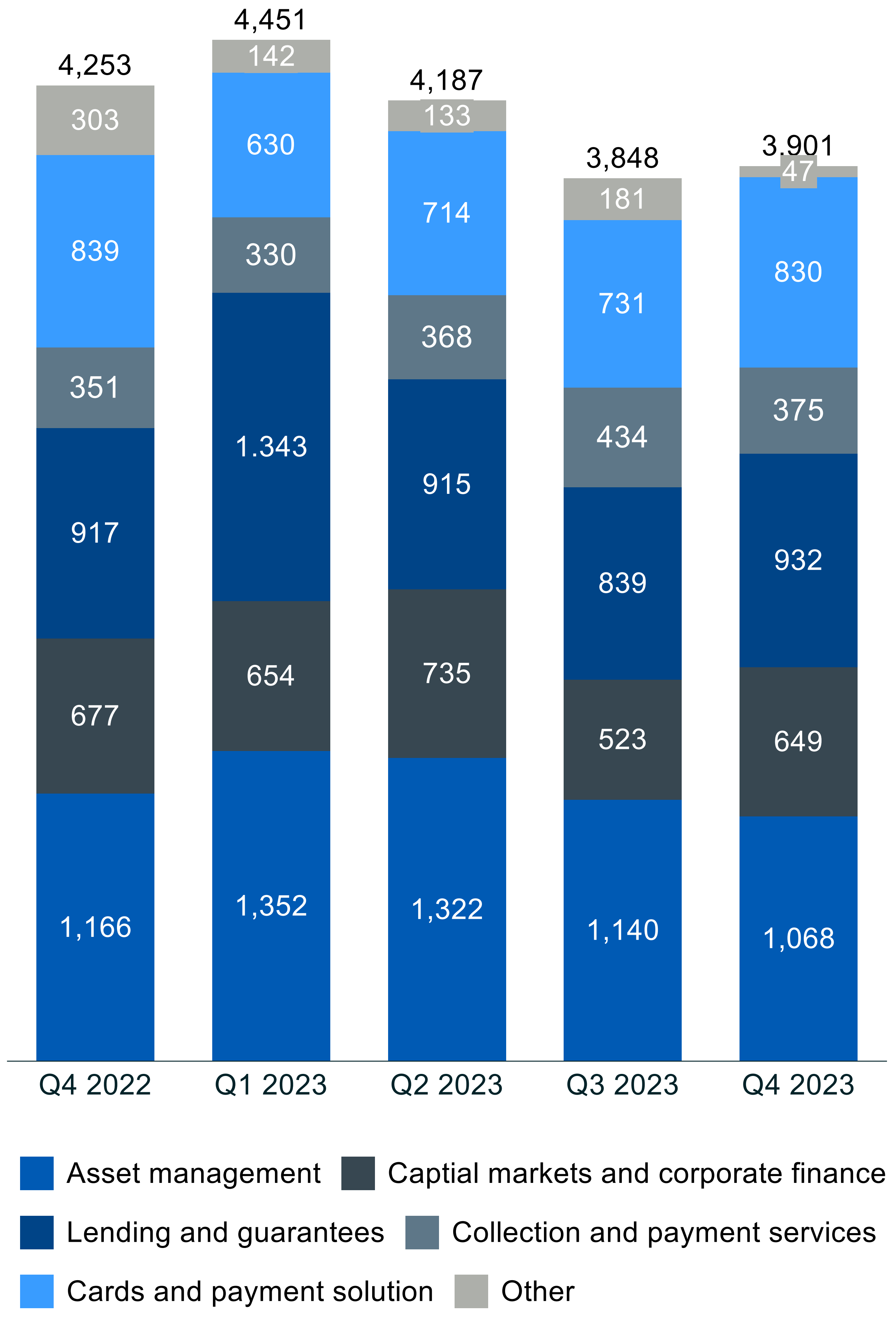


Net fee and commission income

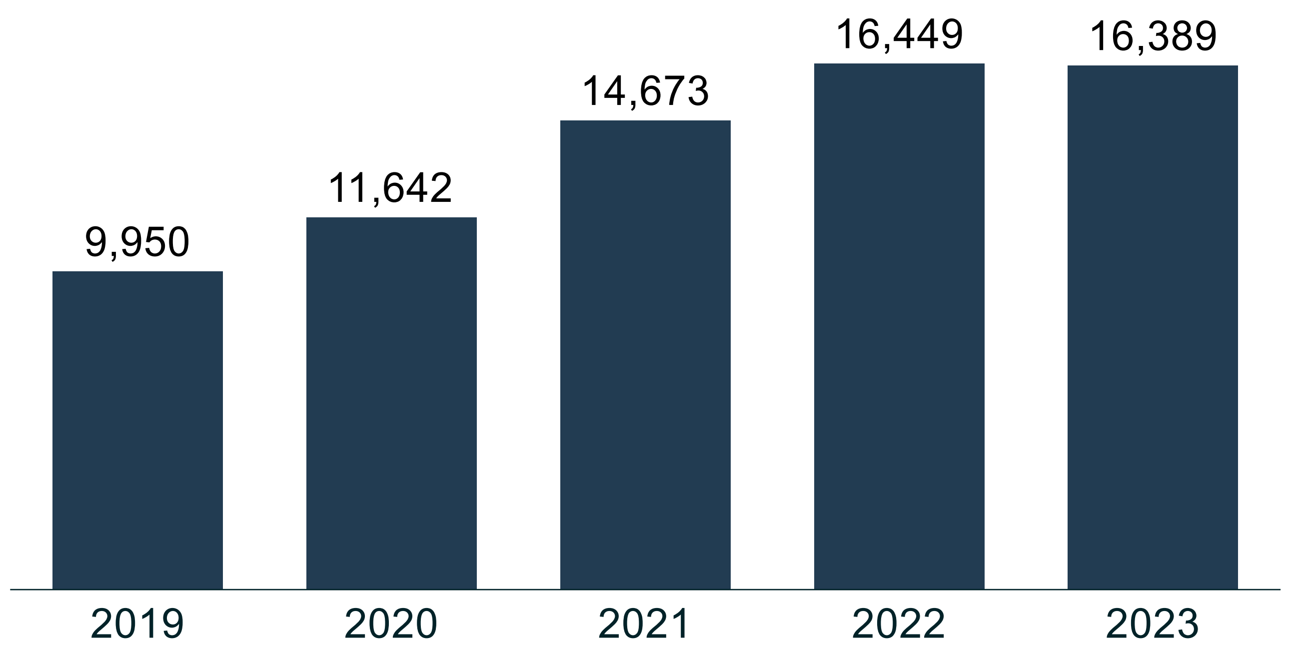
Diversified fee businesses support continued robust fee generation

- Solid quarter with total fees of ISK 3.9bn, taking fees for the year to ISK 16.4bn representing 13% CAGR since 2019
- Net fee and commissions income covers 57% of total operating expenses, up from 37% in 2019
- Solid fees in lending and guarantees despite low loan growth in the quarter. Fee generation in this area has been strengthened in recent years following originate to distribute strategy
- Capital markets and corporate finance fees increase from last quarter, partly due to listing of Ísfélagið on Nasdaq Iceland in the quarter
- Continued stable income from asset management. Limited performance-based fees in past two quarters explain difference compared to first two quarters of the year. Assets under management robust and end the year at ISK 1,383bn
- Other fee and commission income unusually high in Q4 2022, partly due to reclassification in IFRS 17

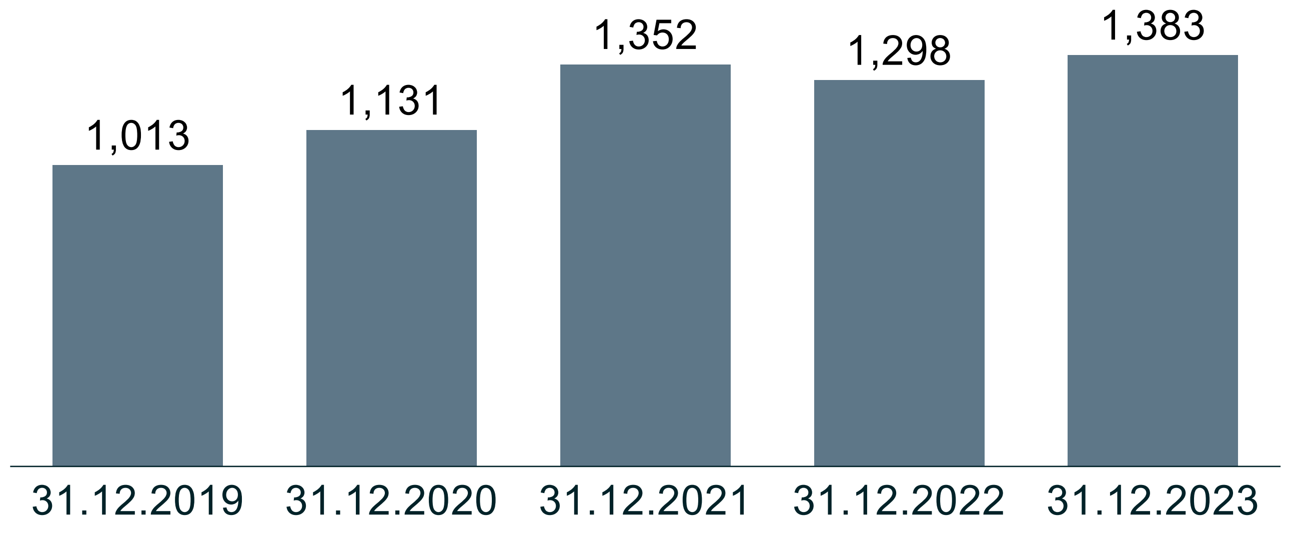
Net fee and commission income (ISK m)



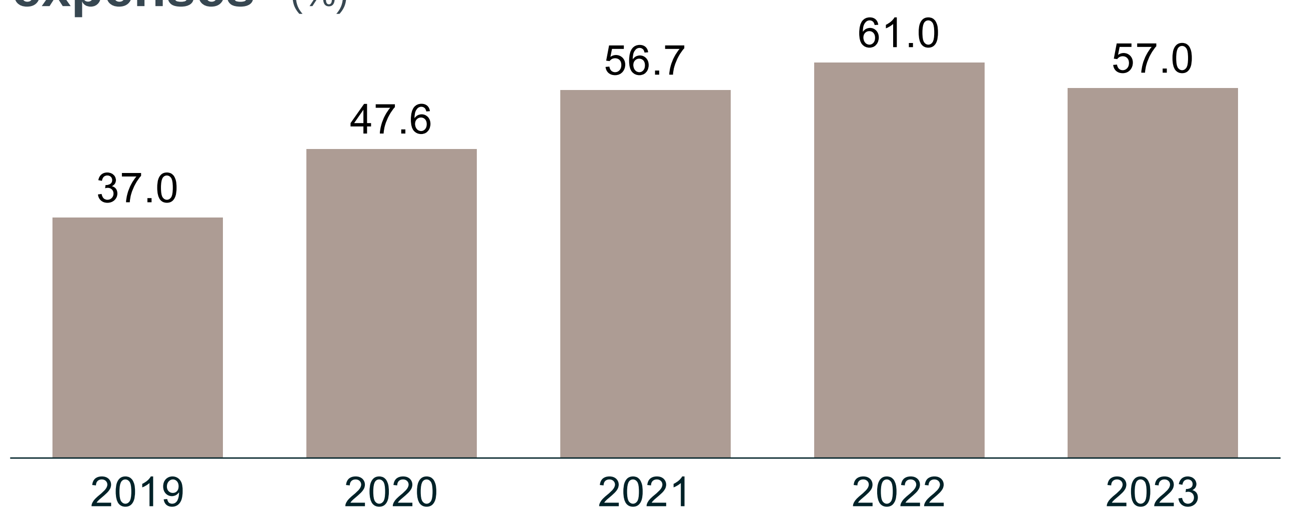
Net fee and commission income (ISK m)



Assets under management (ISK bn)



Net fee and commission income / Total operating expenses* (%)

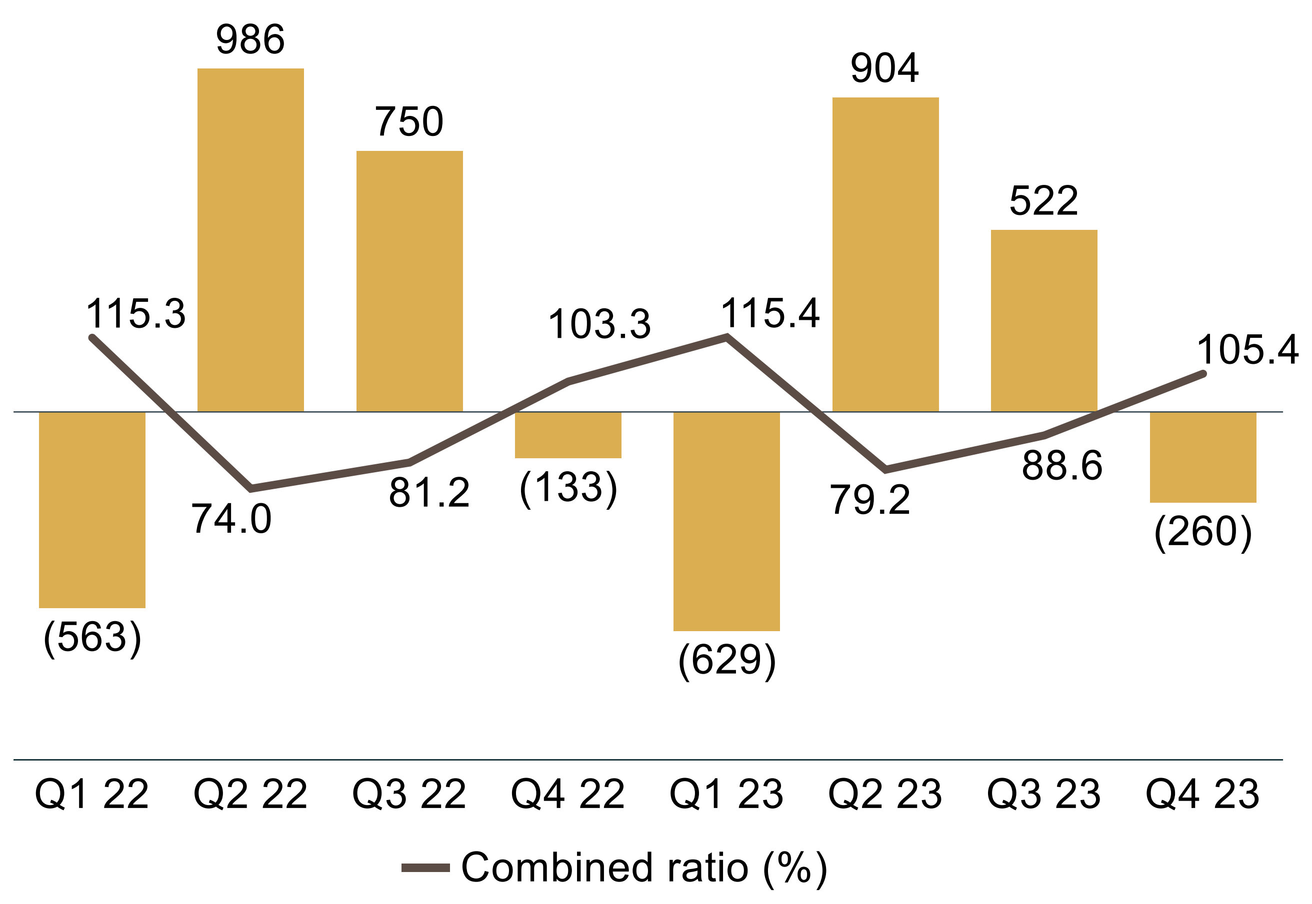


*Operating expenses from insurance operations are included in Total operating expenses

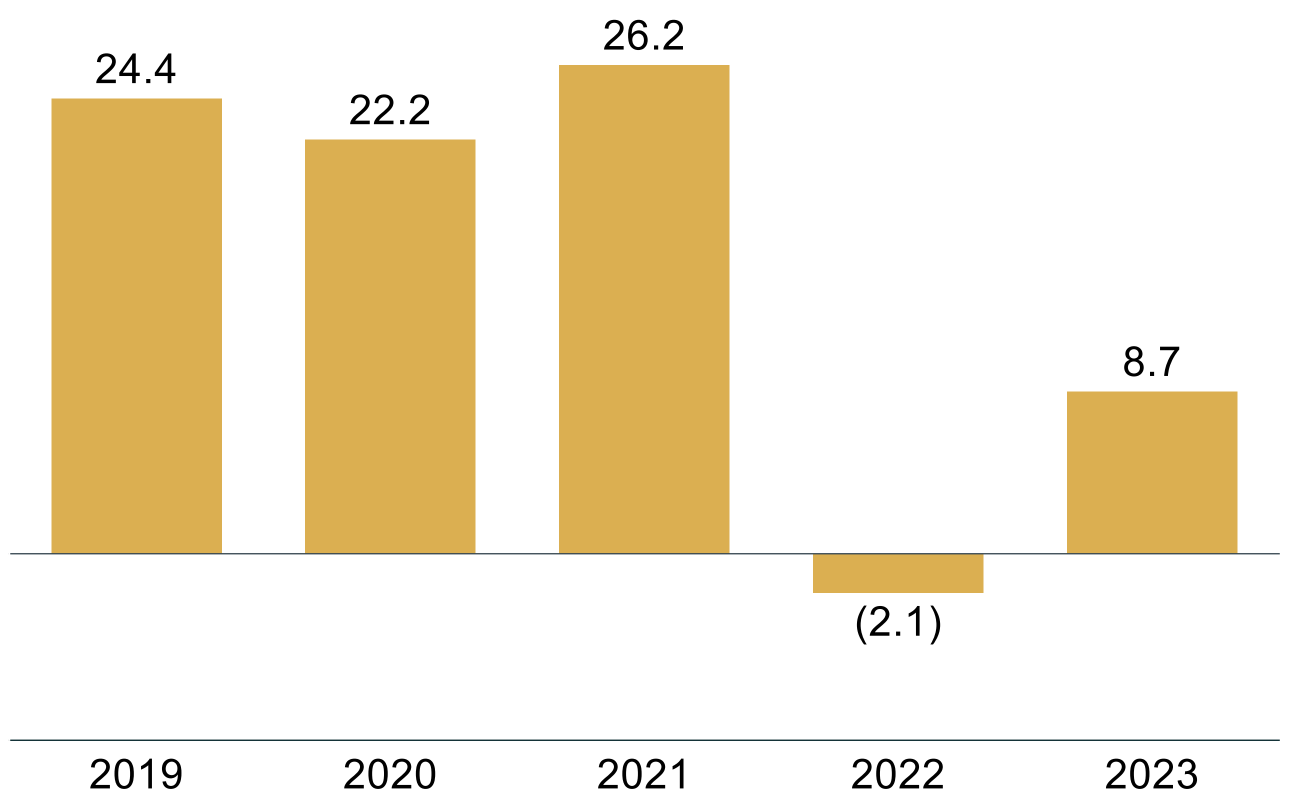
Insurance results*

- Continued steady growth of 15% in revenues between years and 11% CAGR over past five years with market share gradually increasing
- Number of new customers increased by 2.1% YoY, corporate customers by 8.1% and individuals by 1.5%
- Key strategic focus on broadening and diversifying the business mix and investing in the infrastructure to enable further growth, with bancassurance cooperation being the core of this strategy
- Seasonality in claims normally results in Q4 and Q1 annual highs in claims ratio. Furthermore, cost ratio in quarter impacted by incentive payments
- Combined ratio for the year was 97.0% which is up from 93.3% in 2022, mainly due to higher claims
- Claims ratio for the year is up from recent year average. The main change was in fire insurance claims, which were seven times the average for the years 2017-2021
- Cost ratio was 19.2% for 2023, lower than average 20.5% 2019-2022
- Stand-alone ROE of Vörður was just under 9% for the year and has been below target for past couple of years. This is primarily due to volatile capital markets and depressed investment income

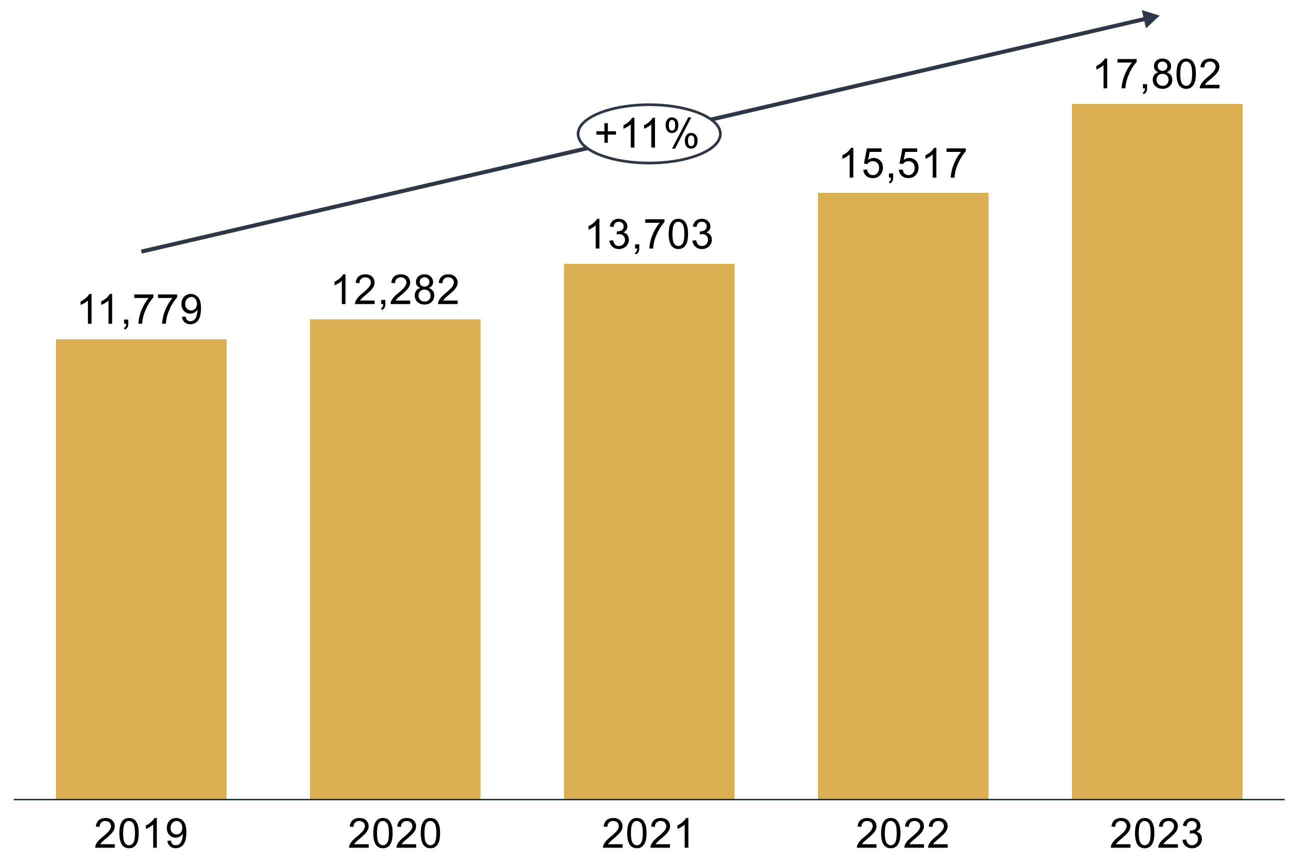
Insurance service result (ISK m)



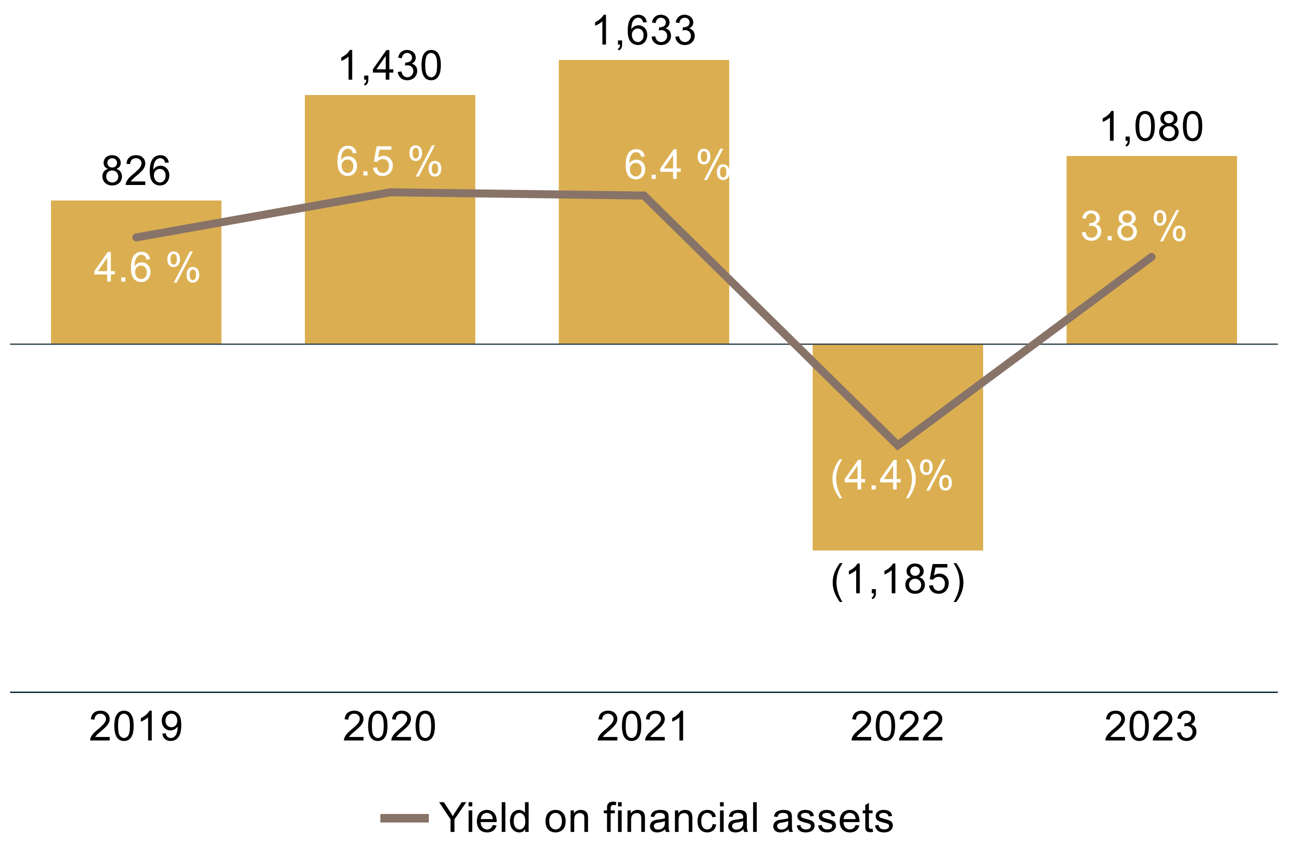
Vörður ROE (%)



Insurance revenue (ISK m)



Vörður net financial income** (ISK m)



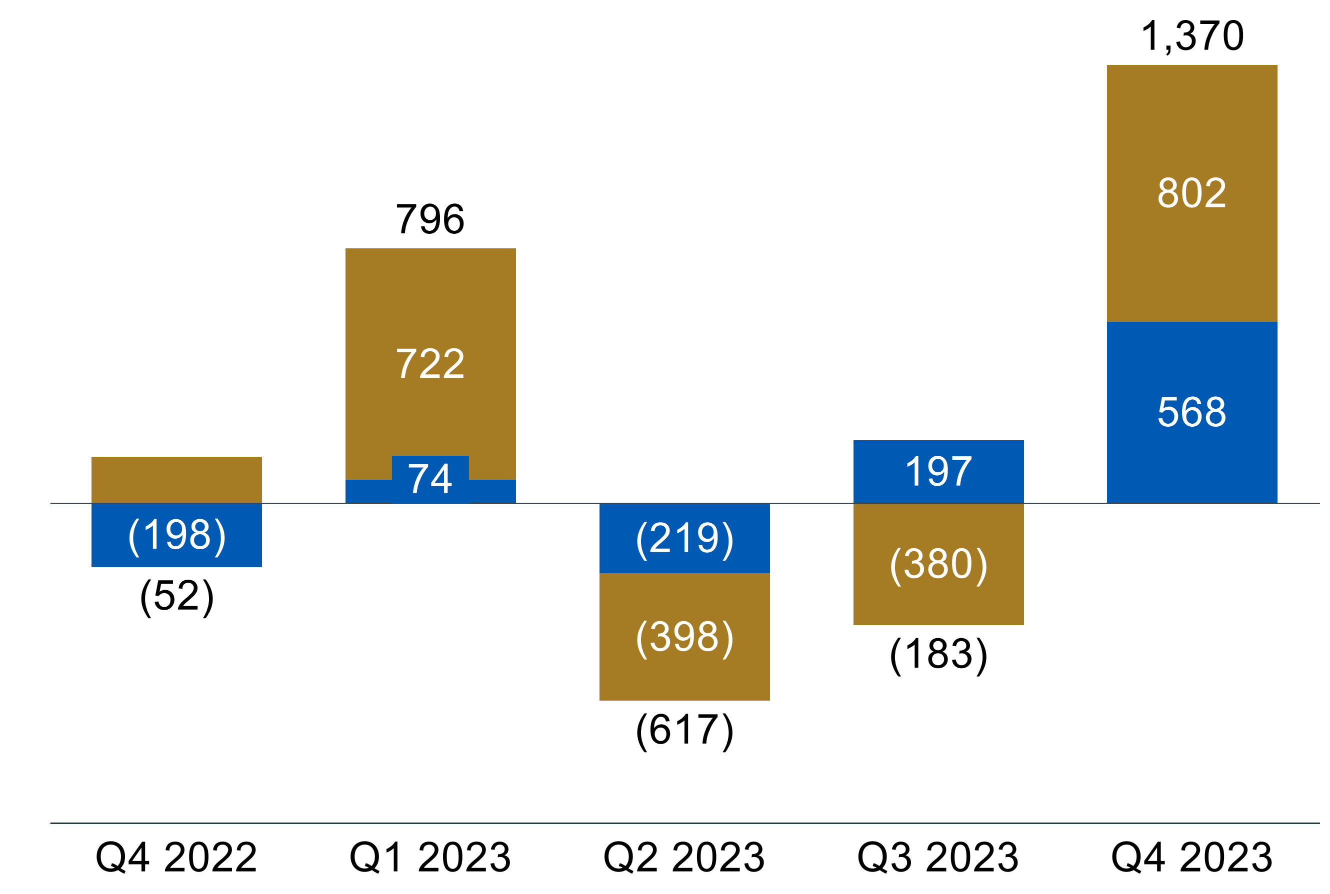
* Figures based on Vördur stand-alone financial results, before elimination within the Group. Figures for 2022 have been restated in accordance with IFRS 17
** Excluding financial loss from insurance contracts

Net financial income

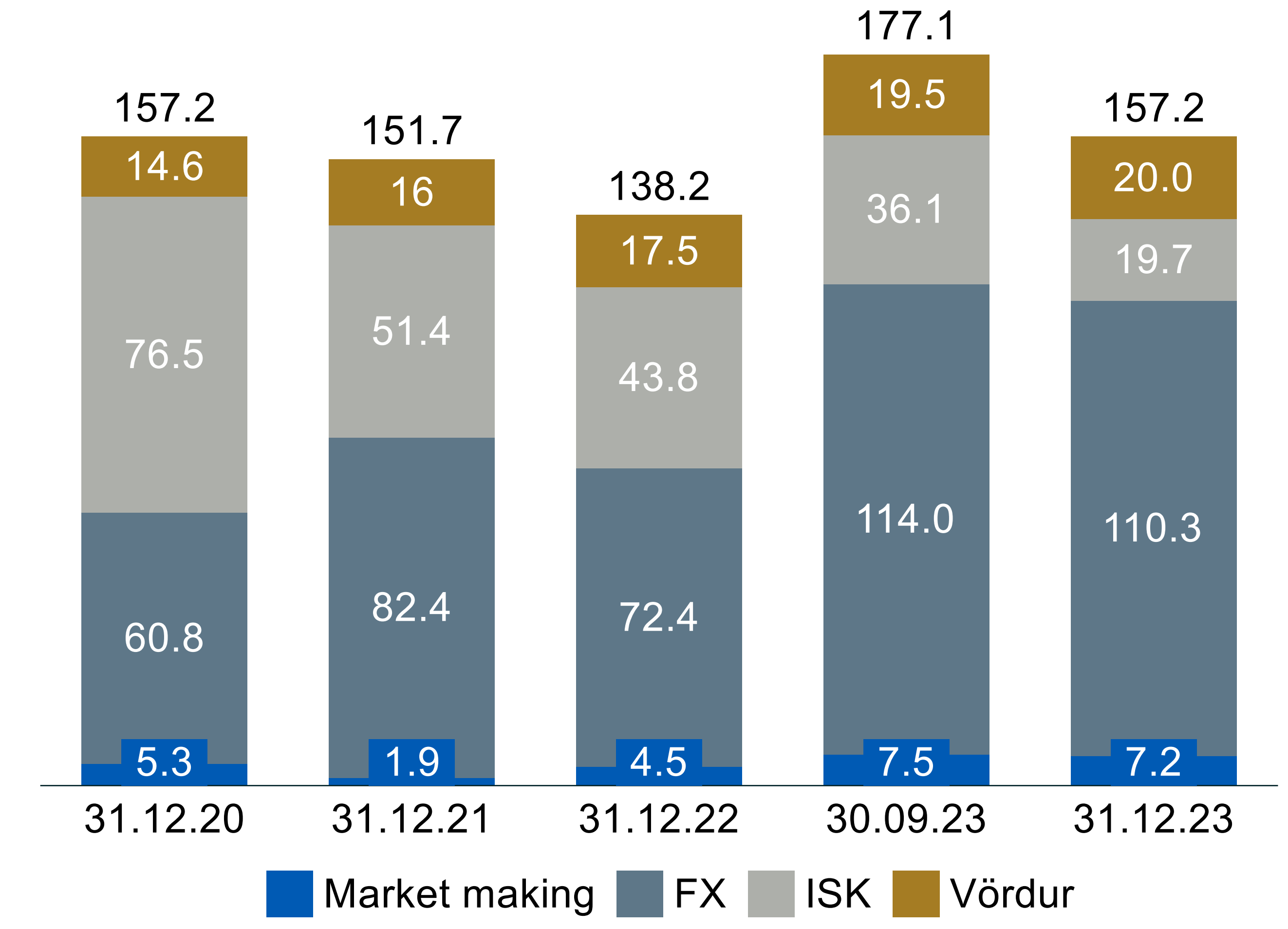
Recovery to a more normalized quarter following a period of volatility

- More normalized quarter in income from equity and bond holdings following a challenging year in capital markets
- Total investment portfolio of Vördur is ISK 28.6bn; ISK 20.0bn of bonds and ISK 8.6bn in equity instruments, yielding a profit of ISK 802m in the quarter, including negative effects from insurance contracts
- Bond holdings fluctuate between quarters in line with liquidity management
  - No held-to-maturity (HTM) accounting within bond portfolio, with all market value changes incorporated in capital position
  - Average duration of liquidity portfolio within one year

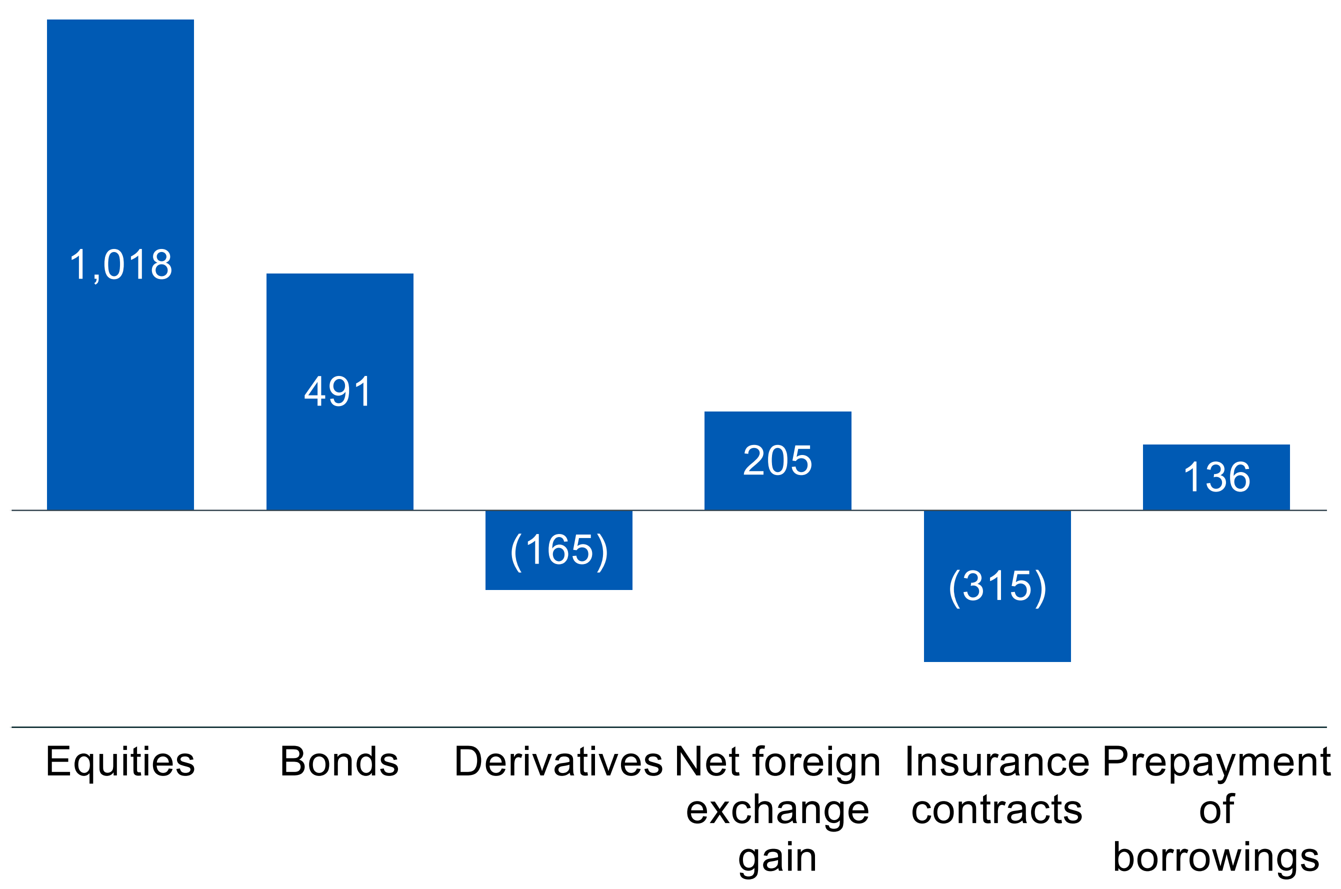
Net financial income (ISK m)



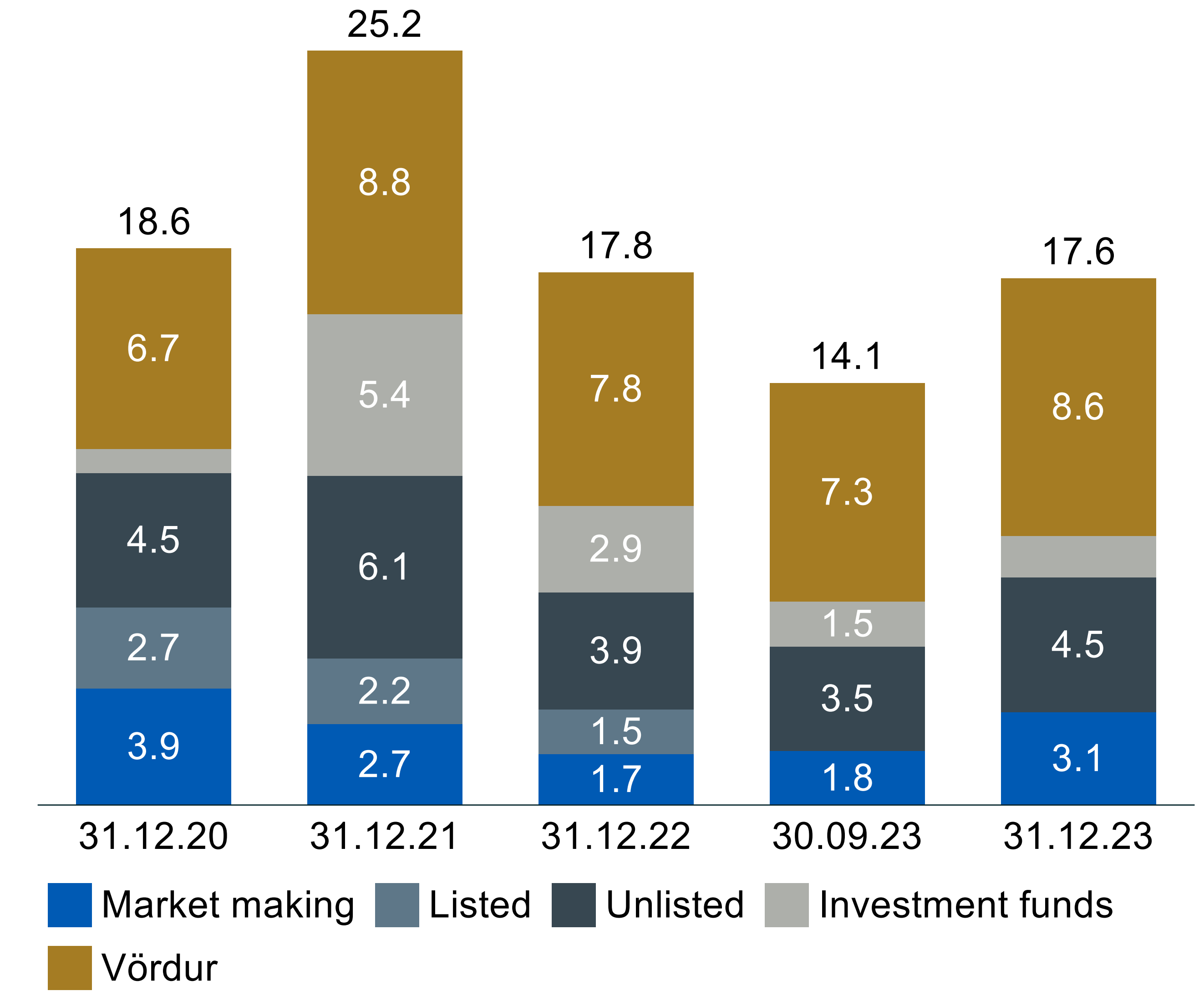
Bond holdings (ISK bn)



Net financial income by type Q4 2023 (ISK m)



Equity holdings (ISK bn)

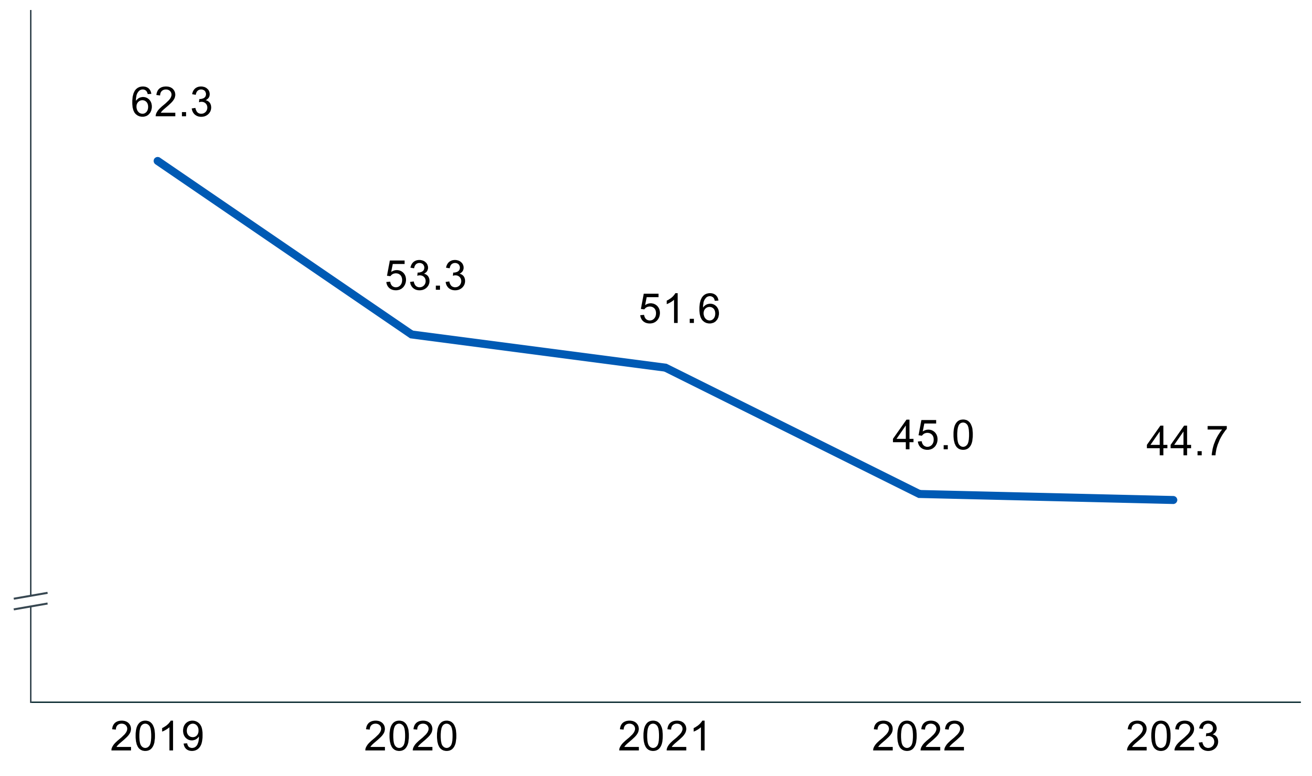


Operating expenses*

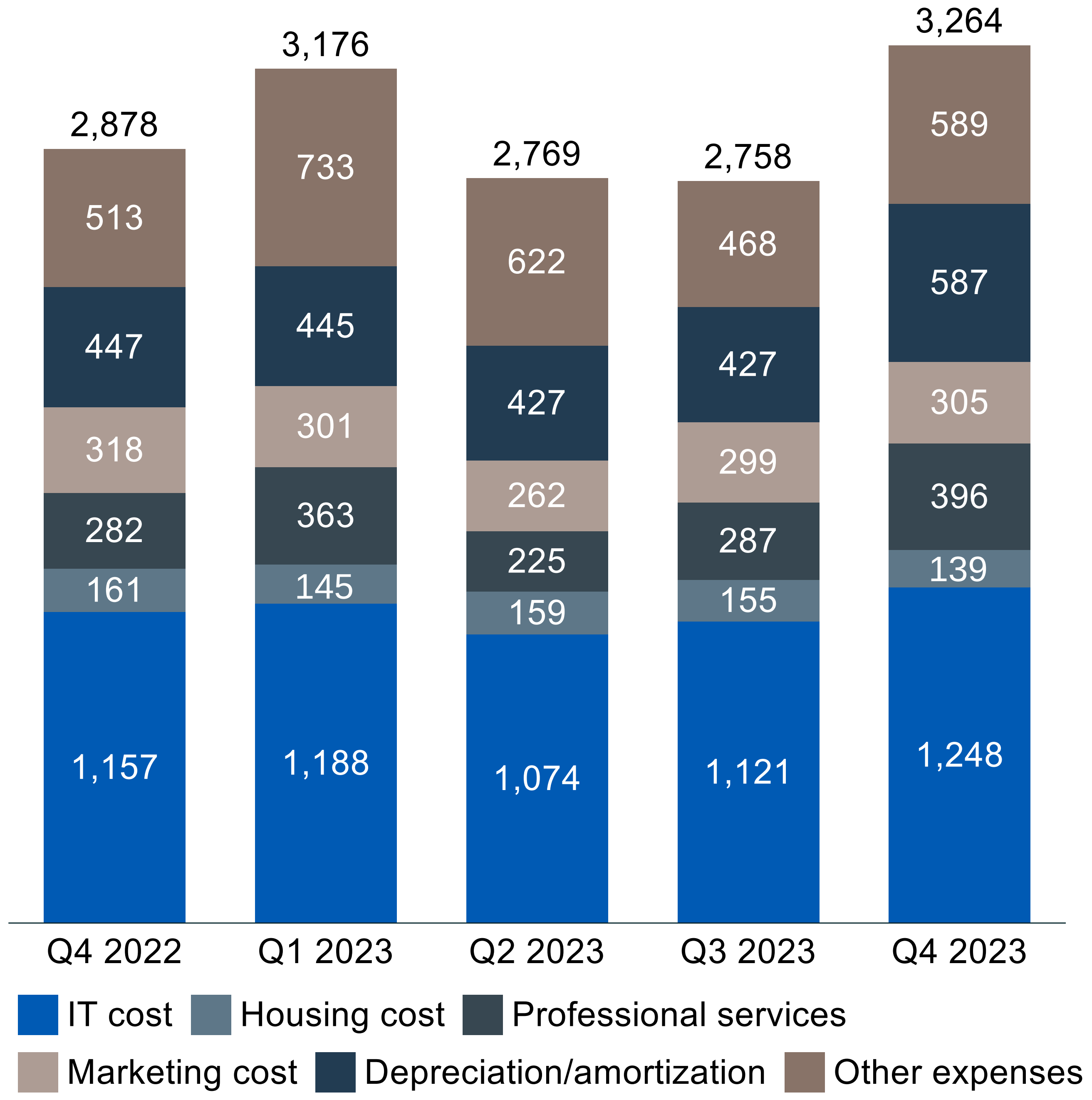
Continued cost discipline while inflationary pressure remains

- Total operating expenses outlined here include costs related to insurance business which is accounted for through insurance service results post IFRS17.
- The increase of total operating expenses from Q4 2022 was 4.1% but at the same time inflation was 8.0%
- Seasonality generally means Q4 is high in terms of expenses due to cost of incentive scheme
- One-off additional amortization of software in the quarter due change in systems (ISK 130m)
- Increase in FTE's is mainly related to investment in IT and growth in insurance operation

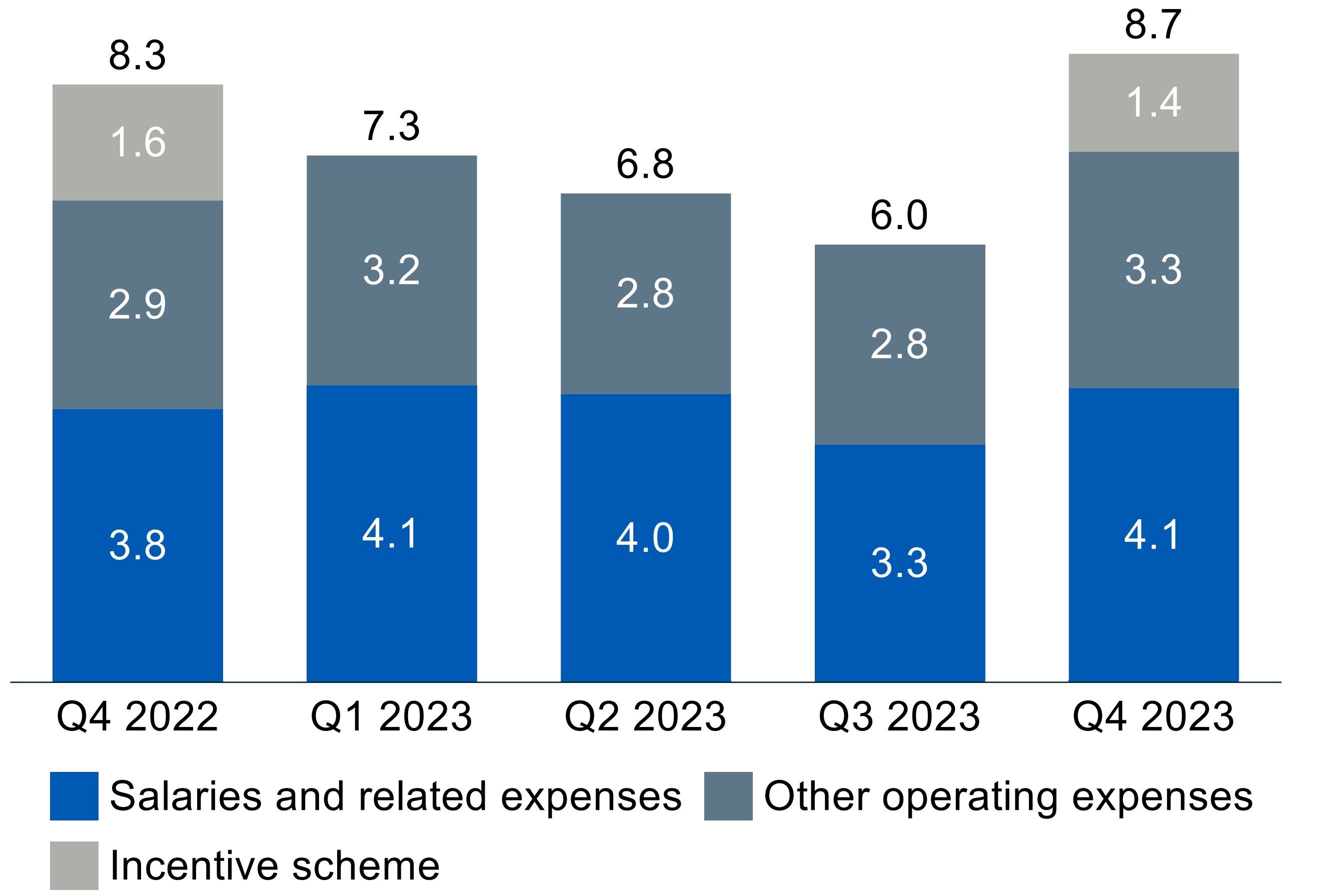
Cost-to-Core income ratio (%)



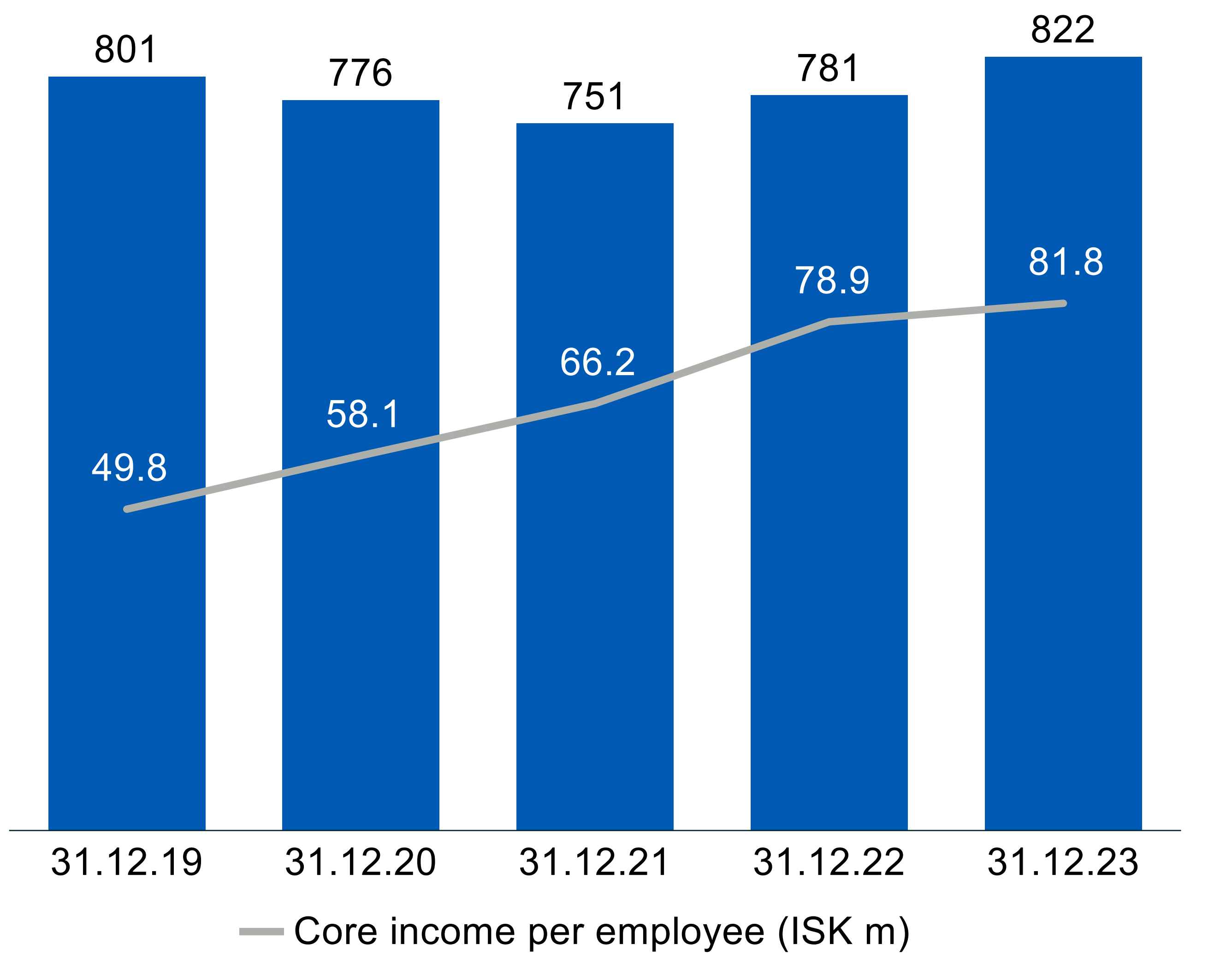
Other operating expenses (%)



Total operating expenses (ISK bn)



Number of FTE's



*Operating expenses from insurance operations are included in all figures for comparative purposes

Balance sheet

Robust and relatively simple balance sheet

- Loans to customers increased by 0.8% in Q4 and by 6.3% during the year
- Deposits decreased by 1.7% in Q4 mainly money market deposits but the increase between years was 4.9%, primarily deposits from individuals and corporate customers
- Liquidity position remains strong:
  - Liquidity coverage ratio (LCR) of 192% (117% in ISK)
  - Net stable funding ratio (NSFR) of 119%

Assets	**31.12.2023**	**30.09.2023**	**Diff.**	**31.12.2022**	**Diff.**	**31.12.2021**	**Diff.**
Cash & balances with CB	102	80	27%	114	(11%)	69	48%
Loans to credit institutions	29	51	(44%)	46	(37%)	30	(5%)
Loans to customers	1,153	1,143	1%	1,085	6%	936	23%
Financial assets	206	221	(7%)	193	6%	226	(9%)
Other assets	36	45	(19%)	28	30%	49	(27%)
Total Assets	**1,526**	**1,541**	(1%)	**1,466**	4%	**1,311**	16%

Liabilities and Equity							
Due to credit institutions & CB	3	13	(79%)	12	(76%)	5	(45%)
Deposits from customers	793	806	(2%)	755	5%	655	21%
Other liabilities	69	74	(6%)	71	(2%)	65	7%
Borrowings	420	408	3%	393	7%	357	18%
Subordinated liabilities	41	47	(12%)	47	(13%)	35	18%
Total Liabilities	**1,326**	**1,348**	(2%)	**1,278**	4%	**1,117**	19%
Equity	199	193	4%	188	6%	194	3%
Total Liabilities and Equity	**1,526**	**1,541**	(1%)	**1,466**	4%	**1,311**	16%

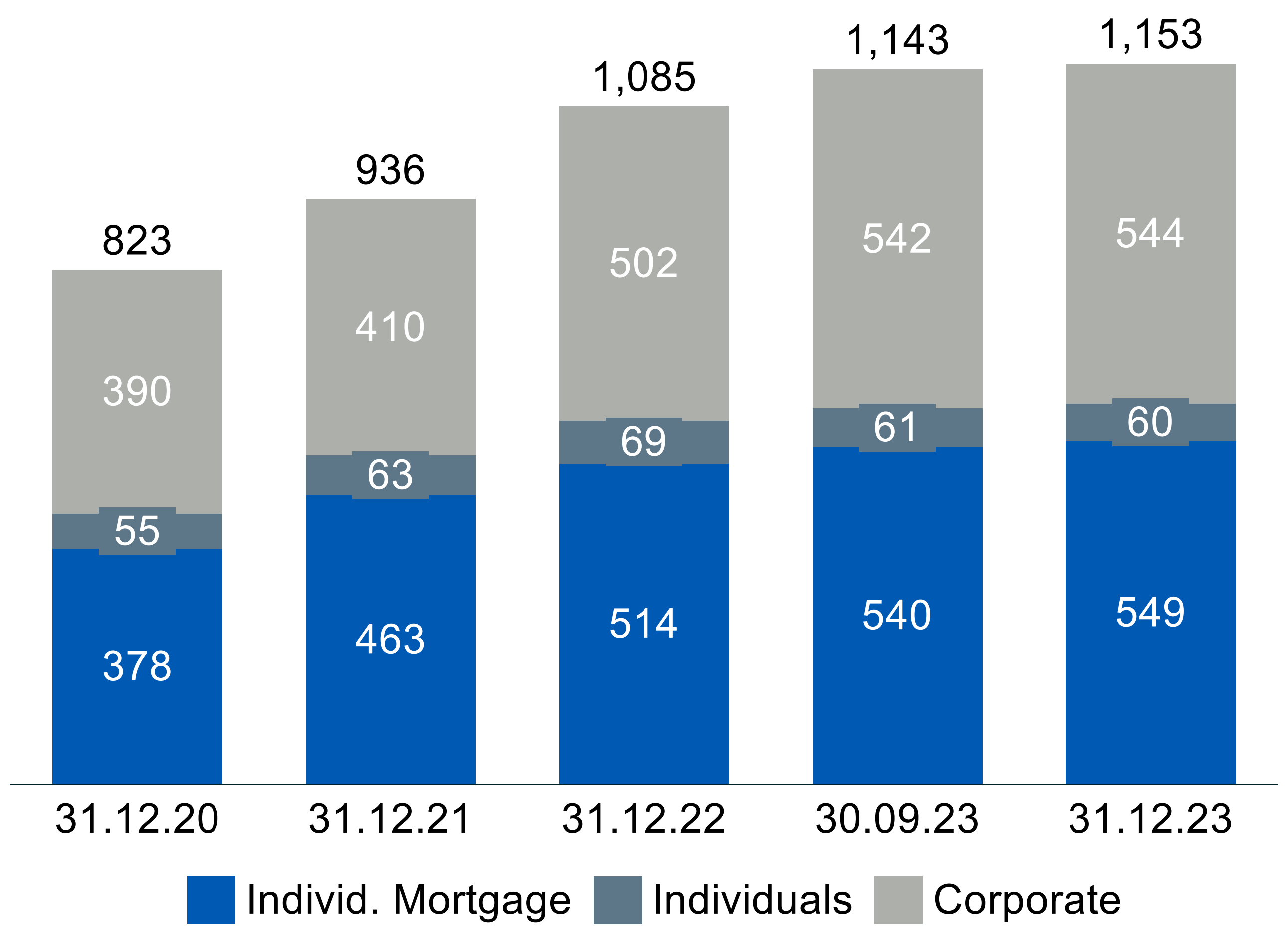
All amounts in ISK billion

Loans to customers

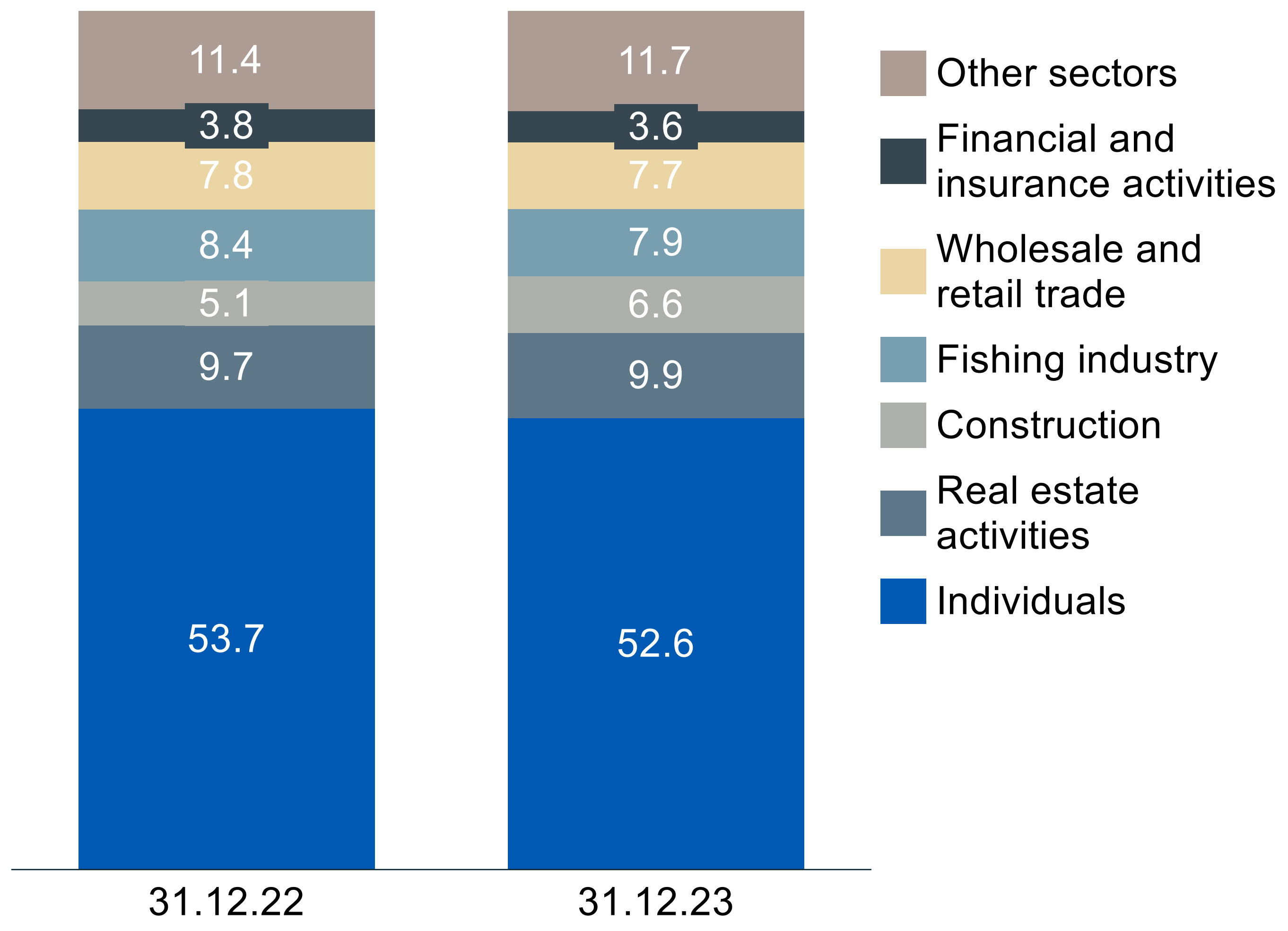
Growth slowing in line with economic activity and S&P constraints

- Loans to customers increased by ISK 9.3bn or 0.8% during the quarter
  - Loans to corporates increased by ISK 2bn or 0.3% and loans to individuals increased by ISK 8bn, or 1.3%
  - Total loans increased by ISK 4.6bn due to inflation, of which ISK 3.5bn mortgage lending. FX loans increased by approx. ISK 3.7bn during the quarter due to weaker ISK, primarily corporate loans
- The diversification in terms of sector and single name concentration of the corporate loan book continues to be good and in line with the Bank's credit strategy

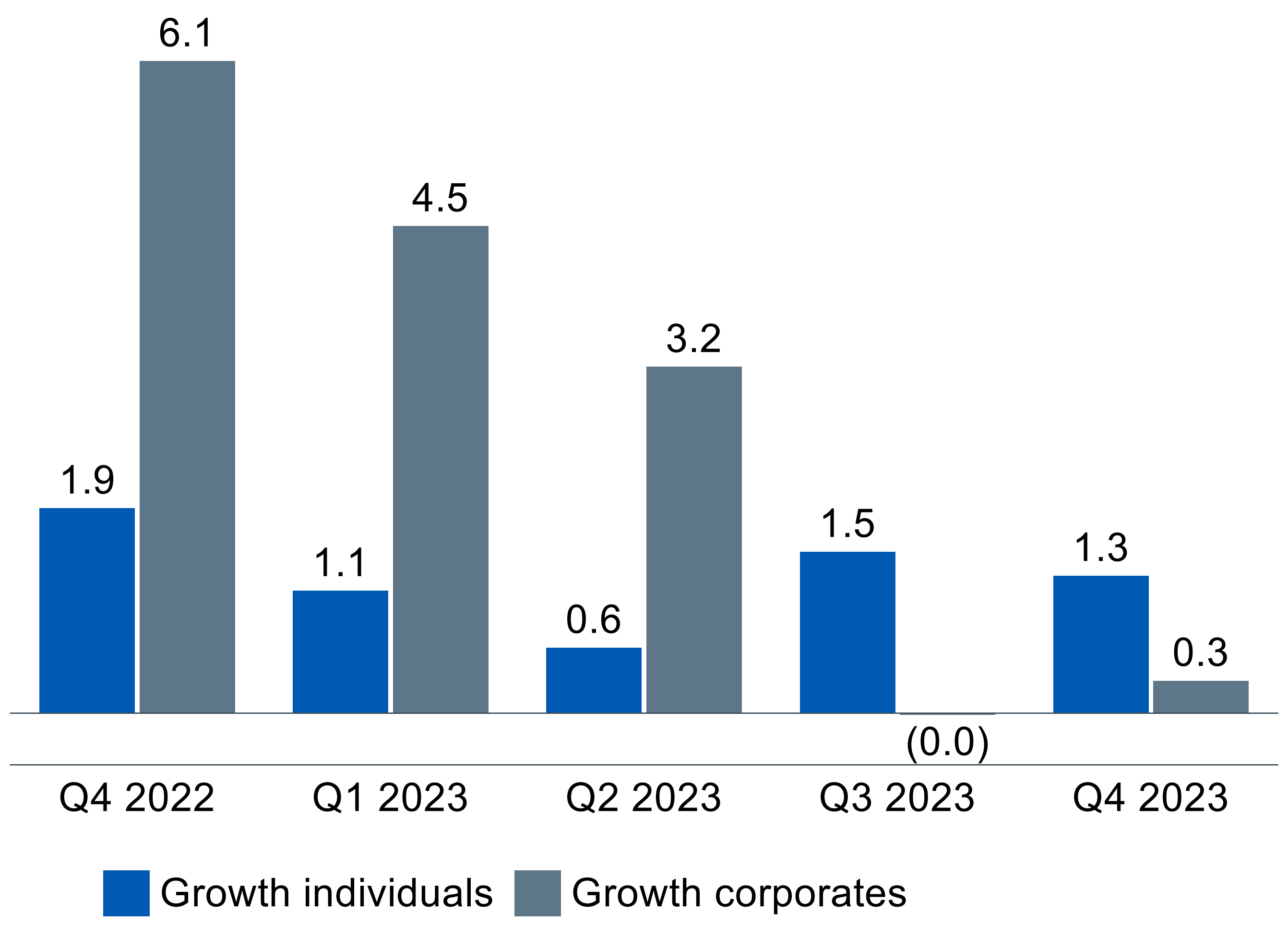
Loans to customers (ISK bn)



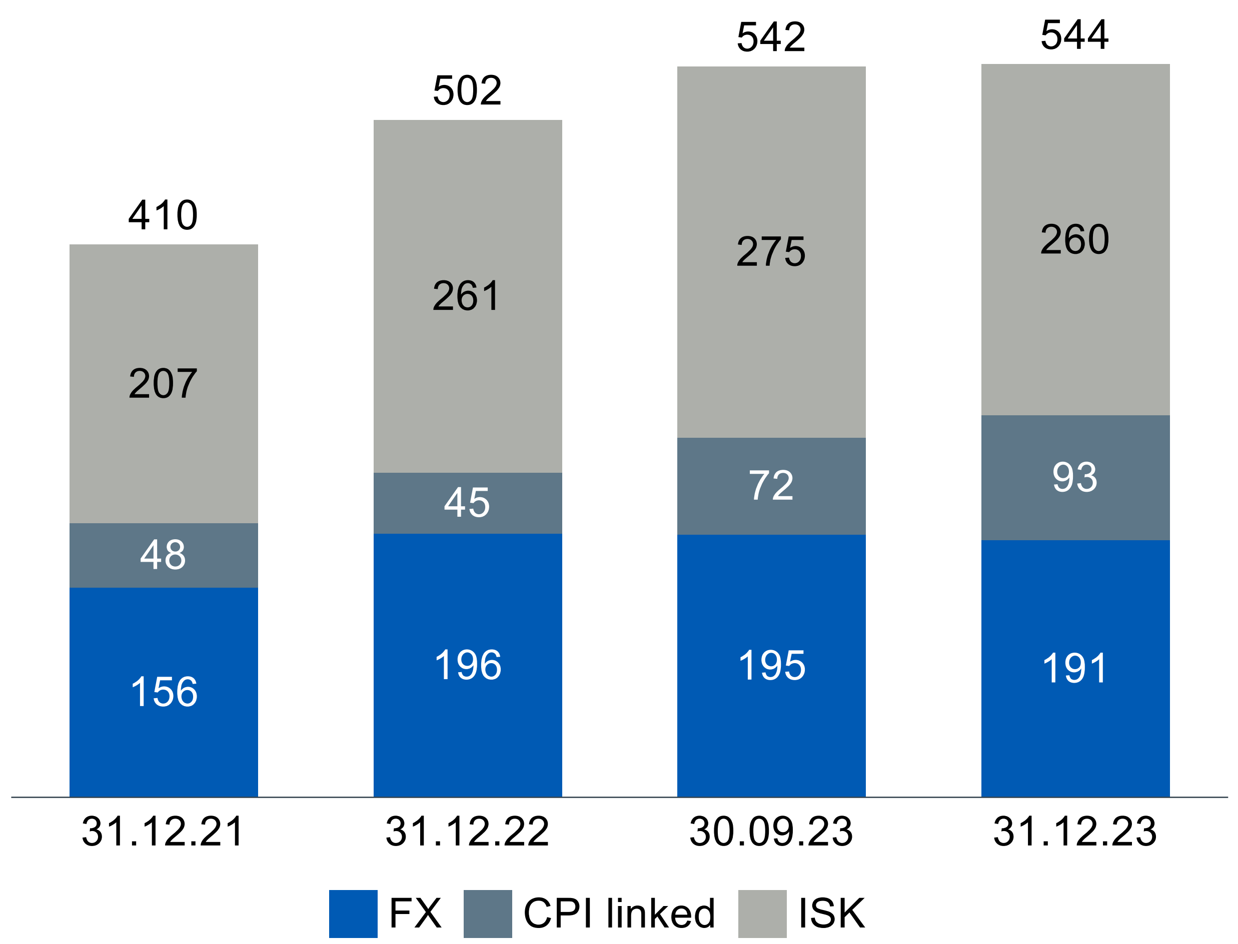
Loans to customers by sector (%)



Loan growth (%)



Loans to corporates by type (ISK bn)



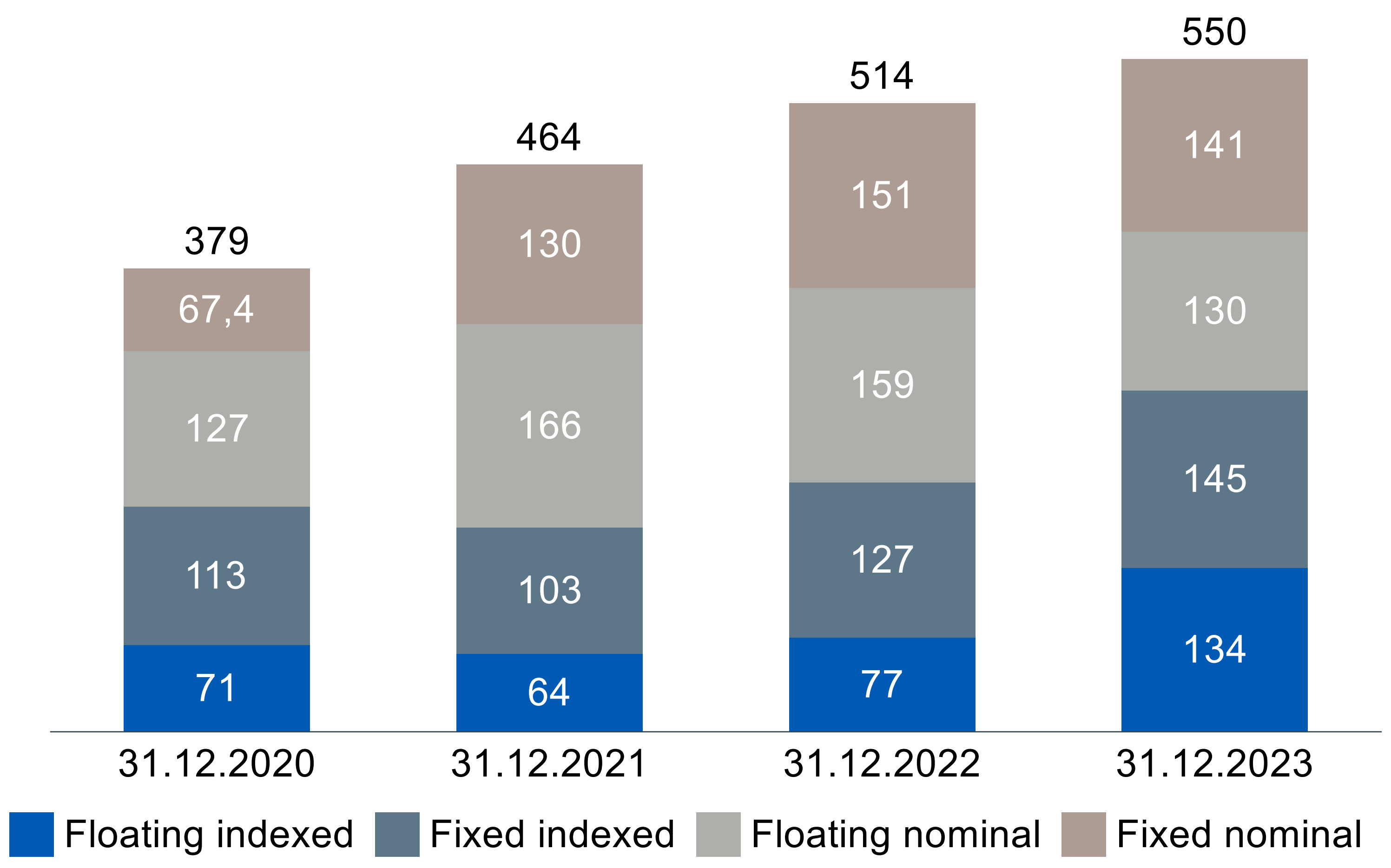
Residential mortgages

Low default rates and comfortable LTV levels, but rising costs for borrowers

- The average loan-to-value of the mortgage portfolio is 49%. The problem loans ratio is trending upwards and was 1.2% at year-end 2023, which is below the historical average. As a result of current interest rate levels, there is a considerable shift towards indexed mortgages which offer lower payment burden
- The Bank has adjusted its criteria for household expenditures in its customer payment assessment, taking into account the rising cost of living
- A significant portion of fixed nominal rate mortgages are reset in the second half of 2024
- An internal stress test of fixed nominal portfolio shows that up to one third of borrowers may need to seek lower monthly payments, e.g., through refinancing to indexed loans
  - In this stress test floating nominal rates reach a maximum of 13% in 2024 and rates remain high into 2025
  - The stress test reveals that following refinancing to lower debt servicing, further measures may be needed for 3-4% of borrowers assuming the indexed rates offered currently

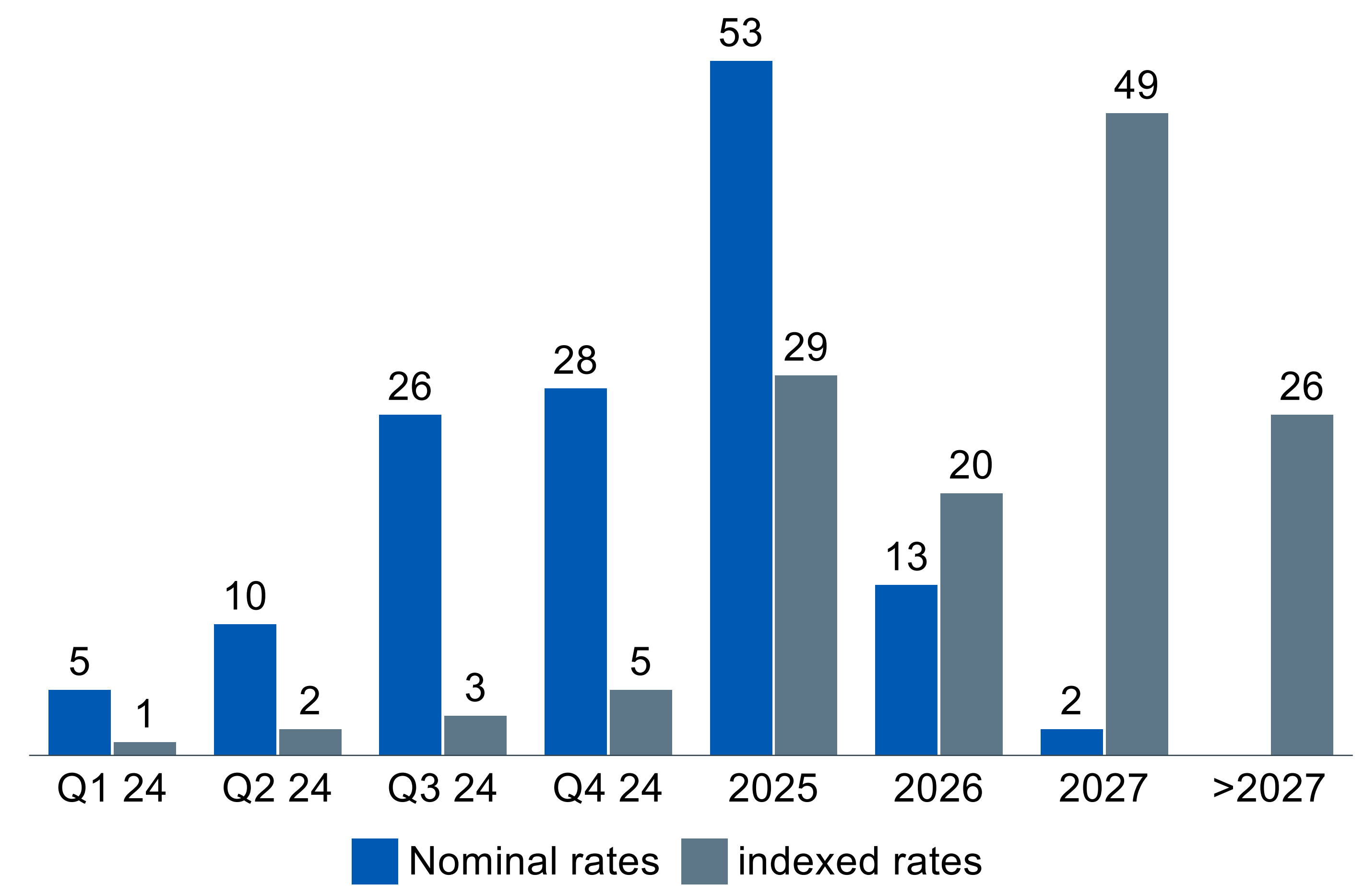
Residential mortgages by interest rate type (ISK bn)

Indexed mortgages were 51% of the portfolio at year-end. Currently, most mortgage applications are for indexed loans.



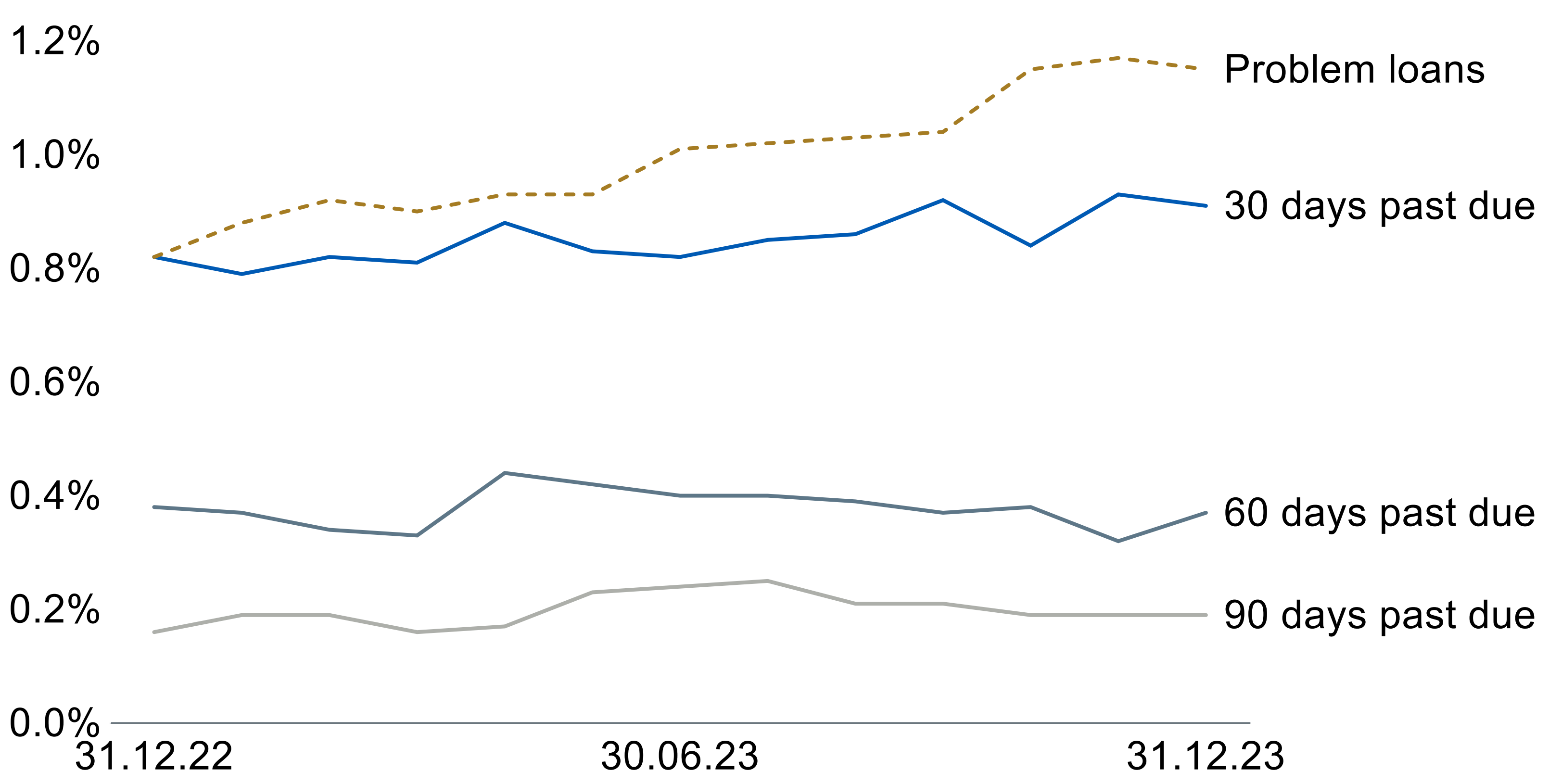
Interest rate reset profile for fixed rate mortgages (ISK bn)

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



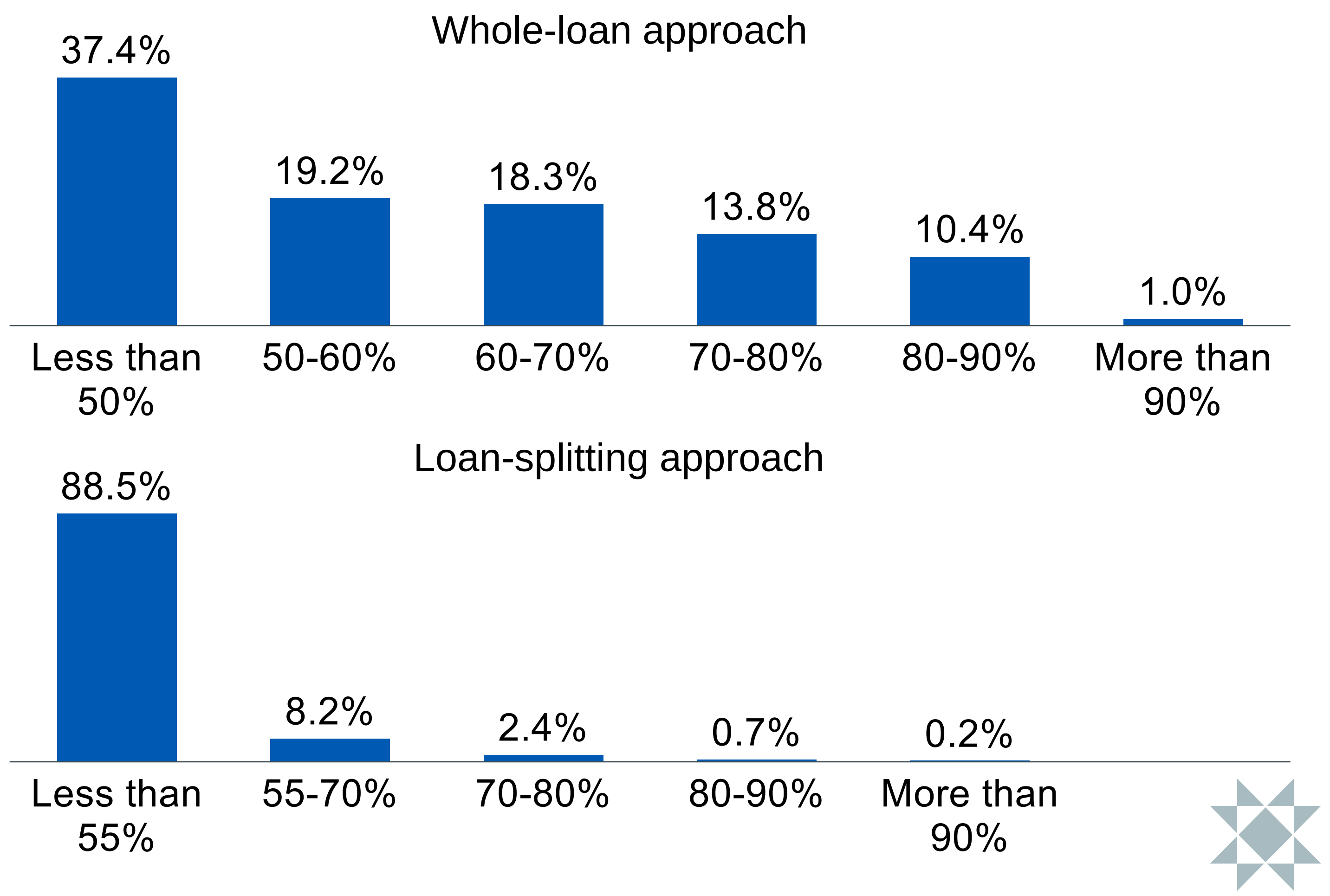
Rate of defaults and payments past due

Non-performing loans are 1.2% of the mortgage portfolio with a slight trend upwards from YE 2022.



Loan to value distribution

Loan-to-value below 80% accounts for 88% of the mortgage portfolio (whole-loan approach).



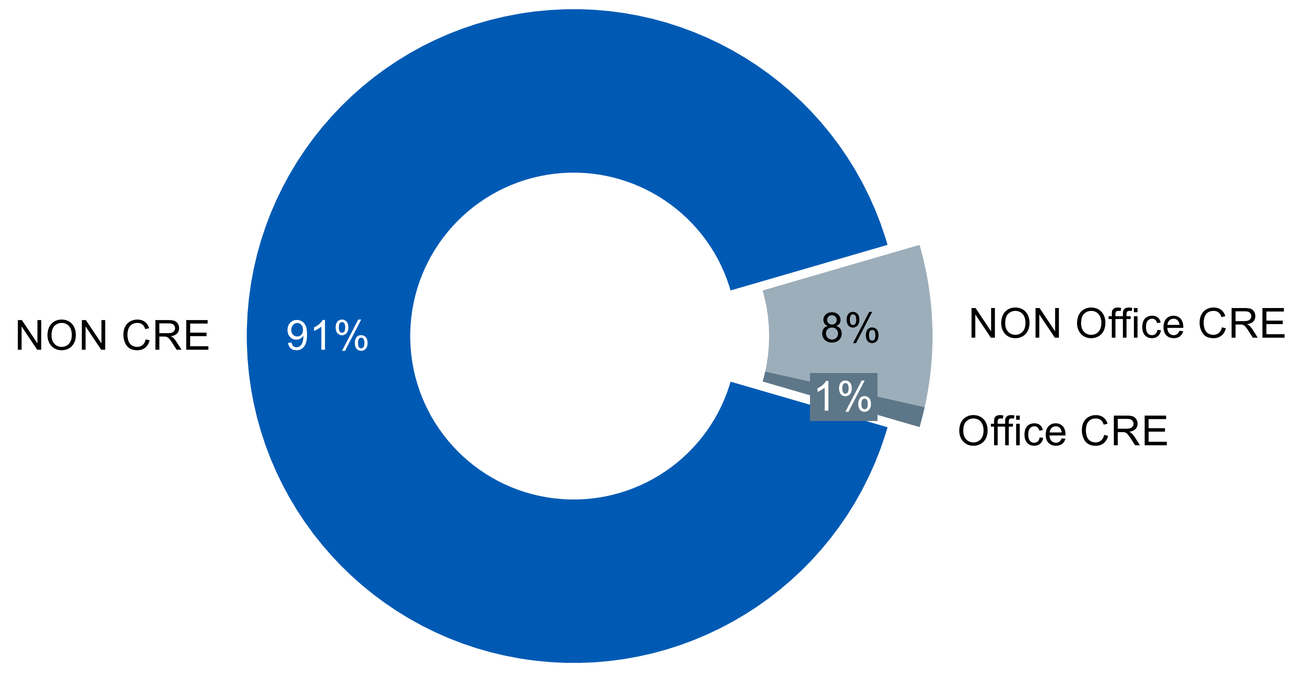
Real estate sector

Diversified portfolio

- Overall real estate related lending in the corporate loan book comprises a total of 109bn or around 9.5% of the loan book with an average LTV of 66%
- The portfolio is highly diversified
  - 46% of the portfolio comes from SME retail exposures (< ISK 600m per customer)
  - The portfolio is balanced between companies that lease properties to operating companies within the same group (parent, subsidiaries or sister companies) and property management companies
  - Exposure to office real estate is small or around 11bn or 1% of the loan book
- From 2020 to the end of 2022, the portion of CPI linked loans to real estate companies decreased significantly. With the recent hikes in interest rates this trend has been reversed and CPI linked loans are now 52% of the portfolio

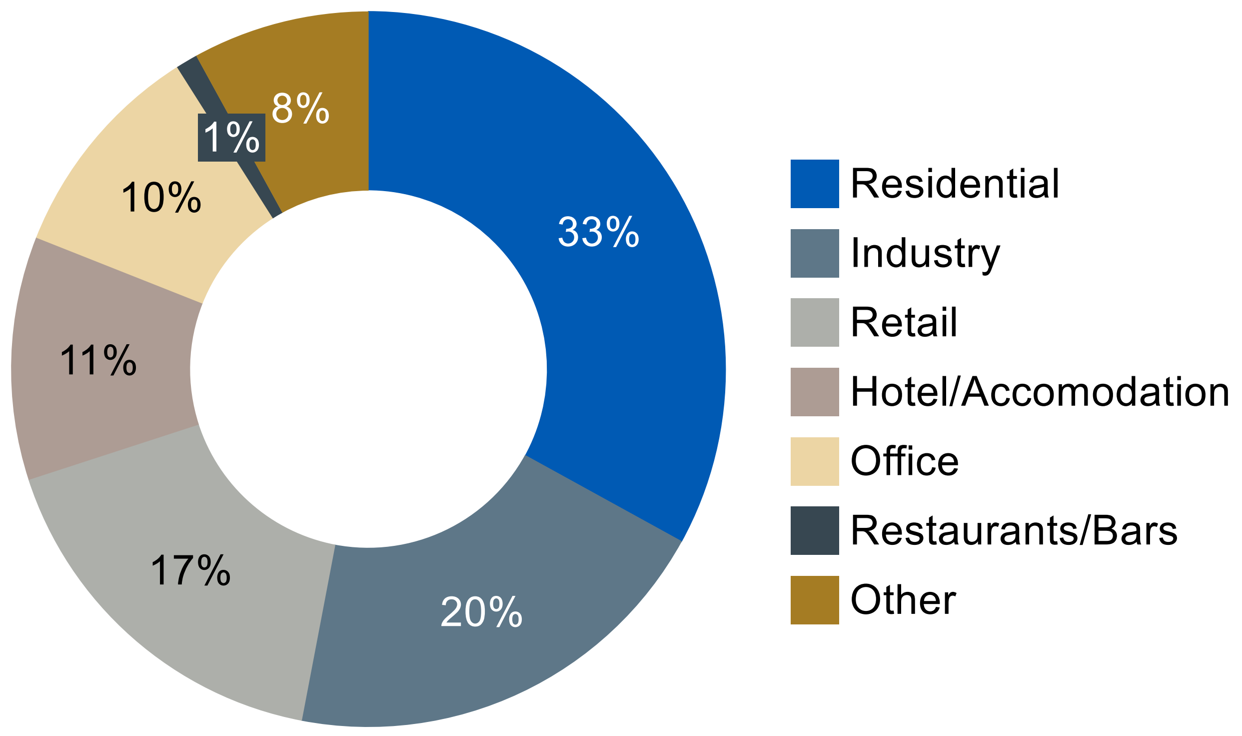
Loans to customers (ISK bn)

Loans to real estate companies are approx. 9.5% of total loans to customers and 1.0% are against office buildings



Real estate collateral by type[1]

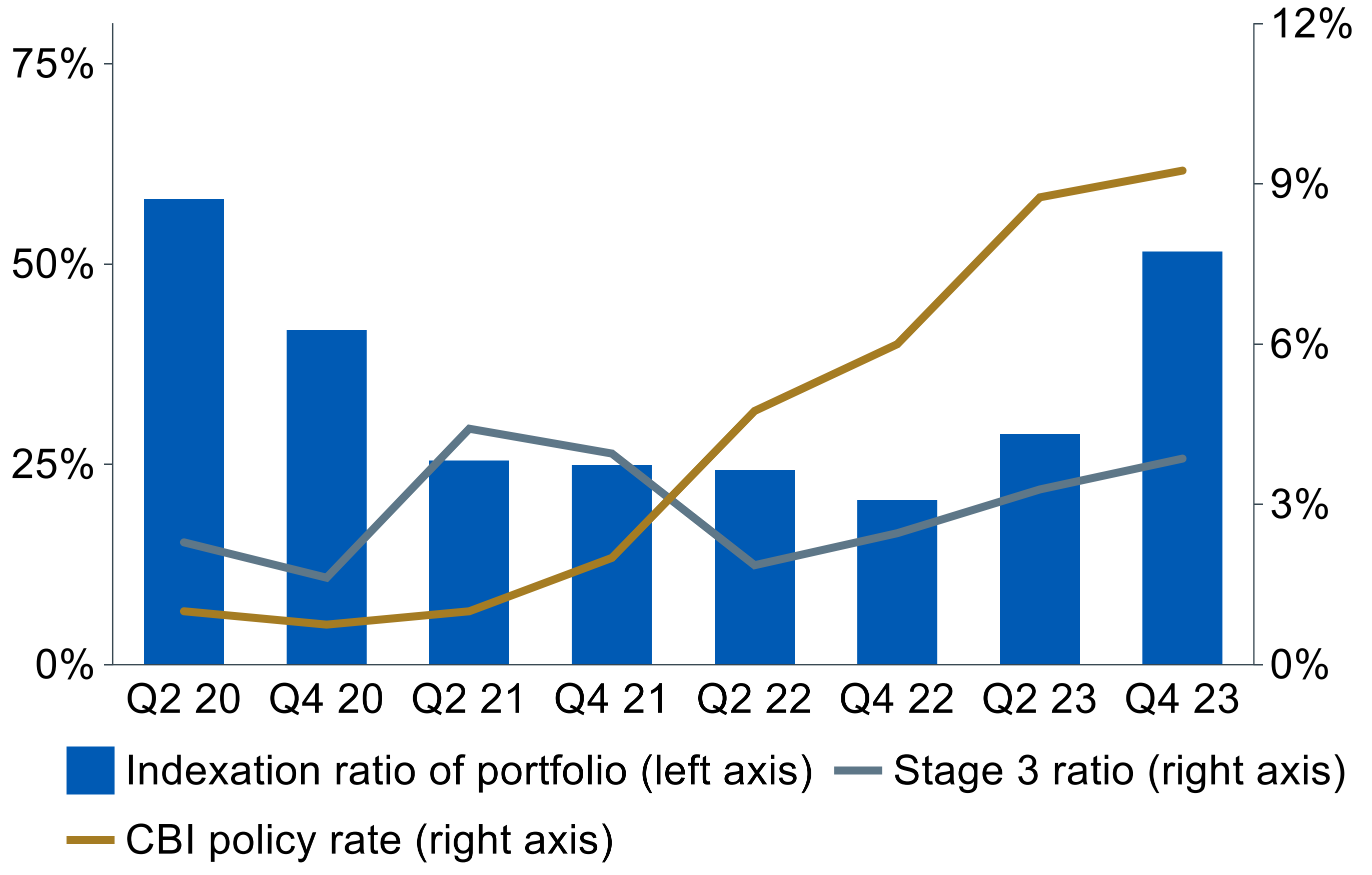
Well diversified collateral in terms of real estate type



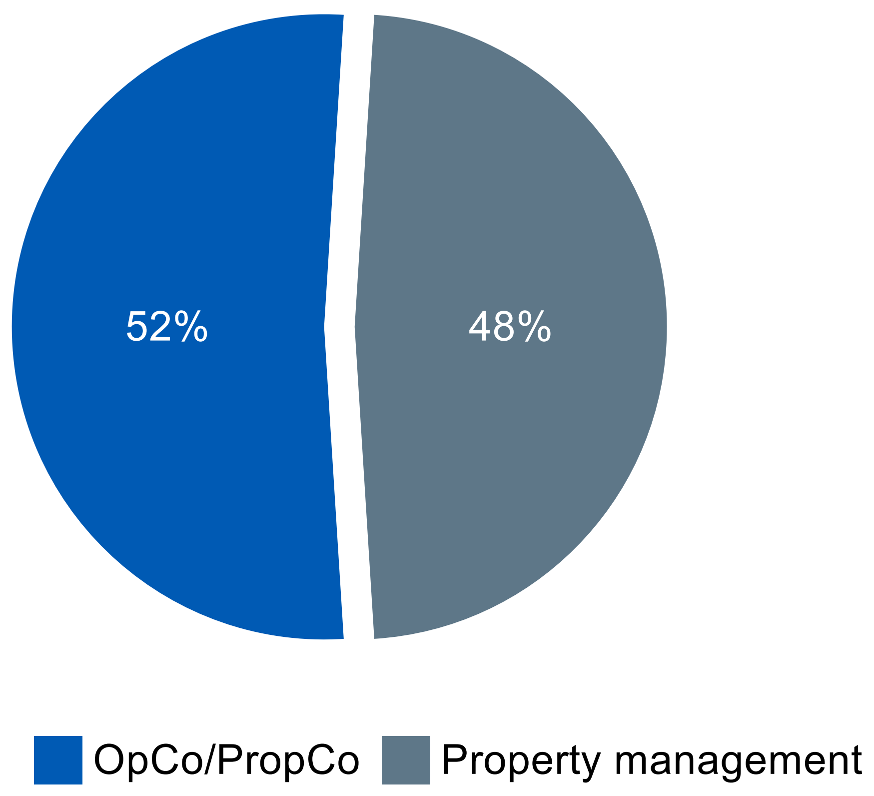
1. For real estate sector only.

Development of indexed loans and 90 days past due

Customers have reverted to indexed loans due to high interest rates. The delinquency rate remains low



Borrower type

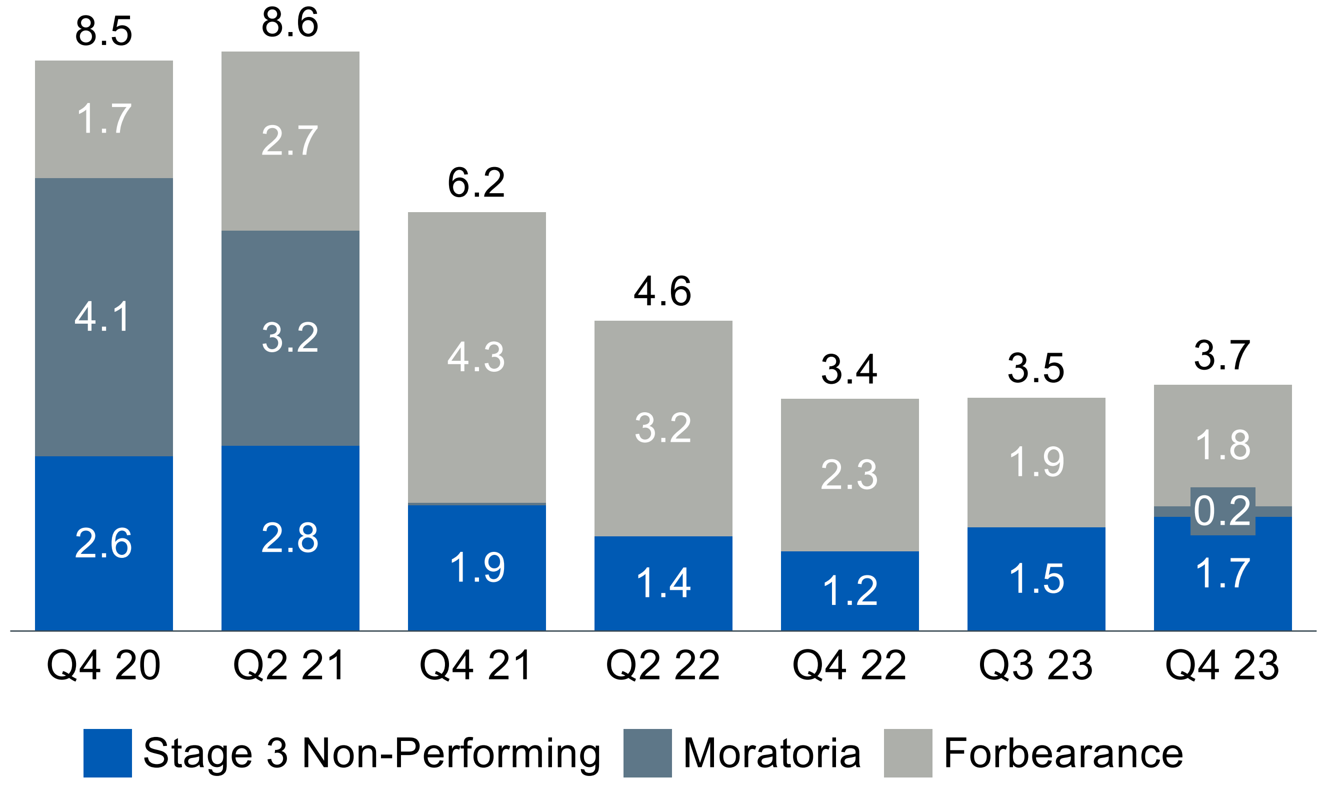


Risk profile

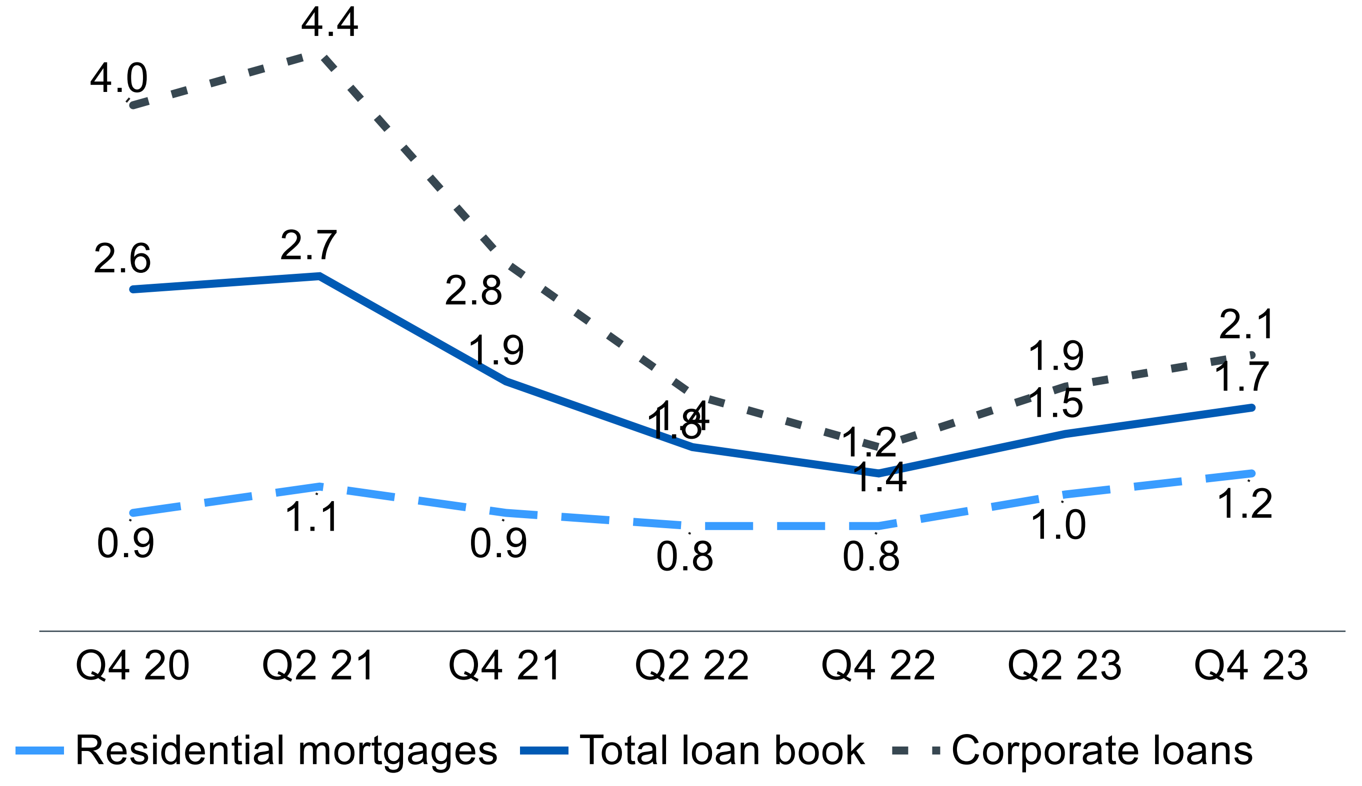
Strong credit quality indicators while a slight trend towards higher rate of payments past due observed

- Despite increased provisioning through management's forward looking macro-economic assumptions, risk indicators of credit quality remain at healthy levels.
- In 2023, the problem loans ratio has increased for the first time since before Covid-19, especially for retail SME loans and loans to individuals. The ratios are however below long-term averages.
- Forborne exposures that are not in Stage 3 are 1.8% of loans to customers at 31.12.2023. The majority is in tourism related activities that are recovering from the impact of Covid-19. Increase in loans in Moratoria in the quarter is due to measures in response to volcanic activity near Grindavík.
- Total expected credit loss is expected to approach between 20-25bps in the long term based on current loan book composition. At the end of Q4 the expected 12-month expected credit loss ratio of 30bps reflects management's prudent view in the current challenging conditions.
- The NPL coverage ratio at 31.12.2023 was 21.7%. Approximately 60% of problem loans are exposures secured by real estate, which have low coverage in general.

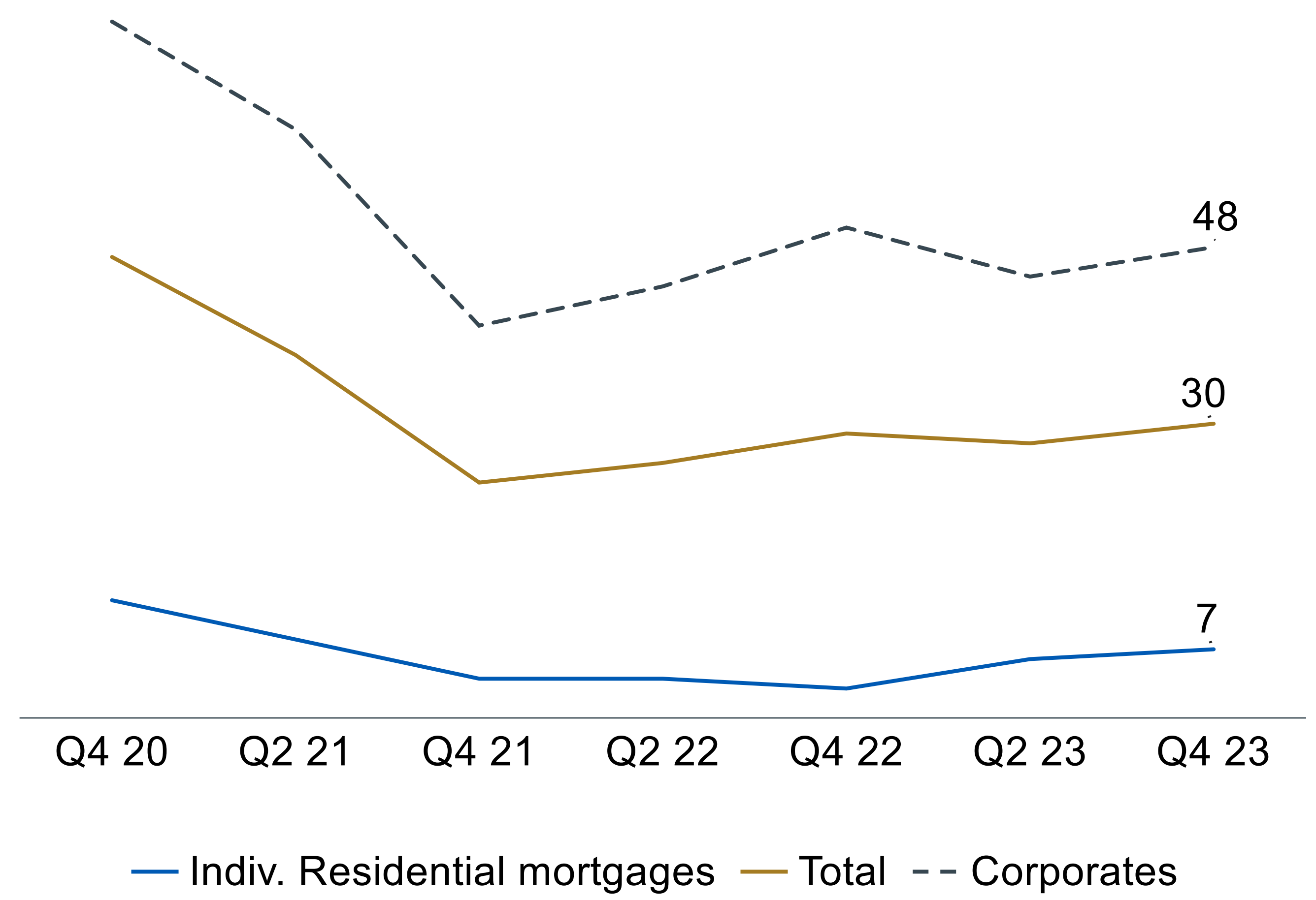
Development of non-performing loans, moratoria and forbearance (% of total loan book)



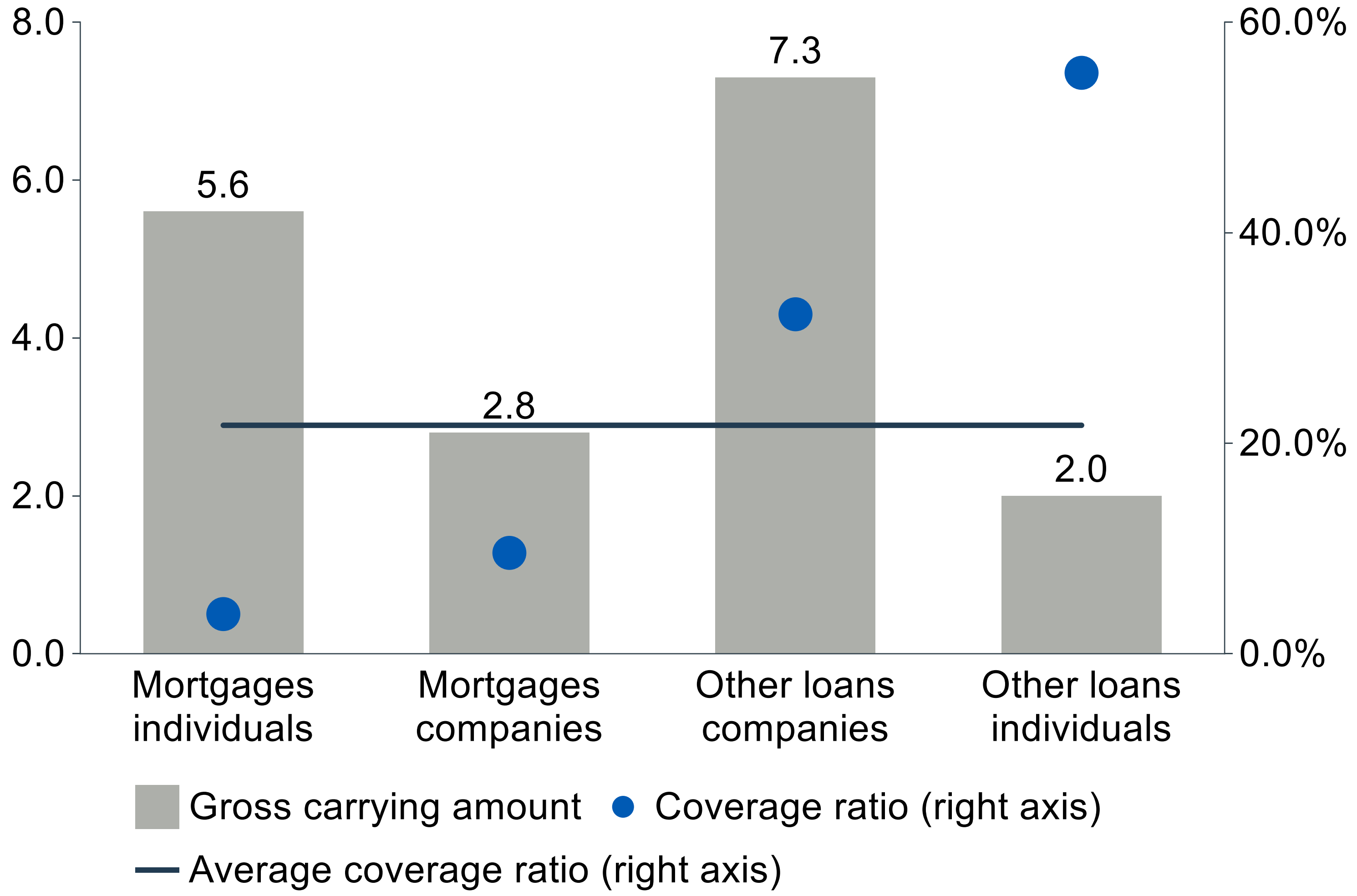
Development of problem loans ratio for loan portfolios
(% of relevant loan book)



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



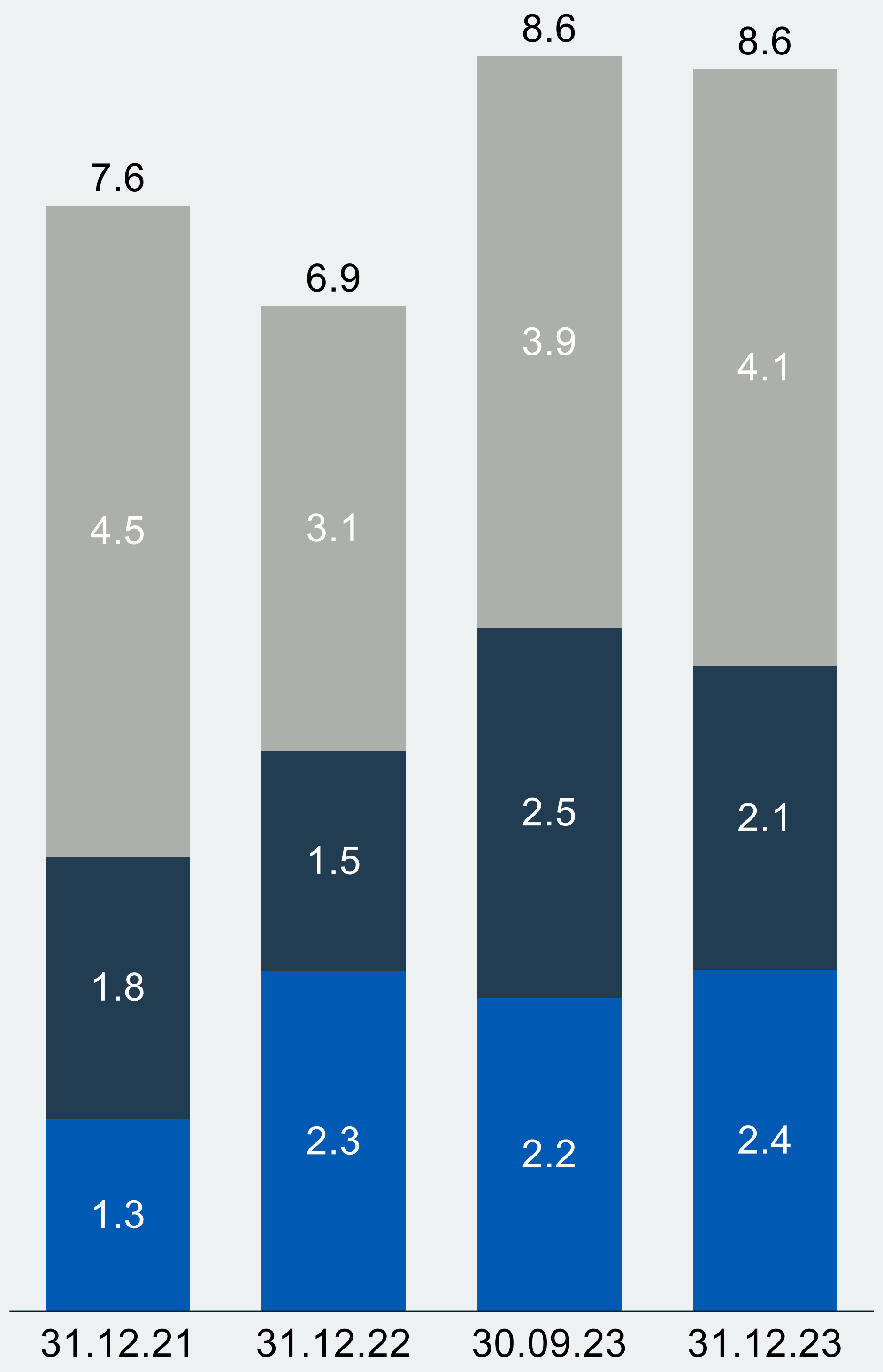
NPL coverage breakdown (ISK bn)



Loss allowance by IFRS 9 stages

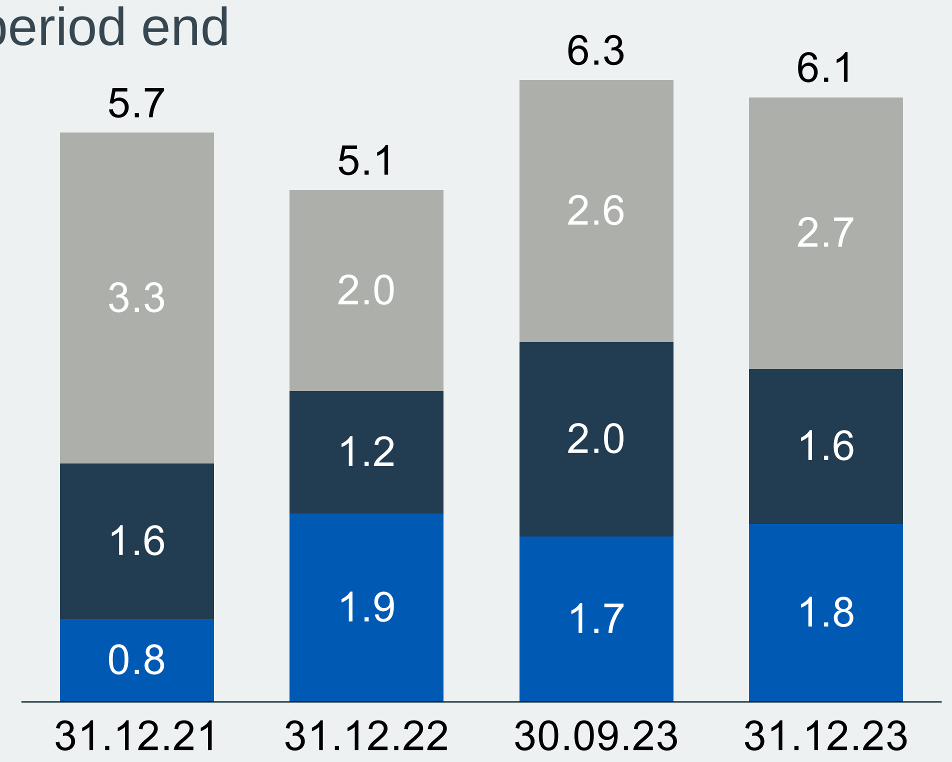
On loans to customers total (ISK bn)

Loans to customers are 0.74% provisioned at period end compared to 0.63% at YE 2022



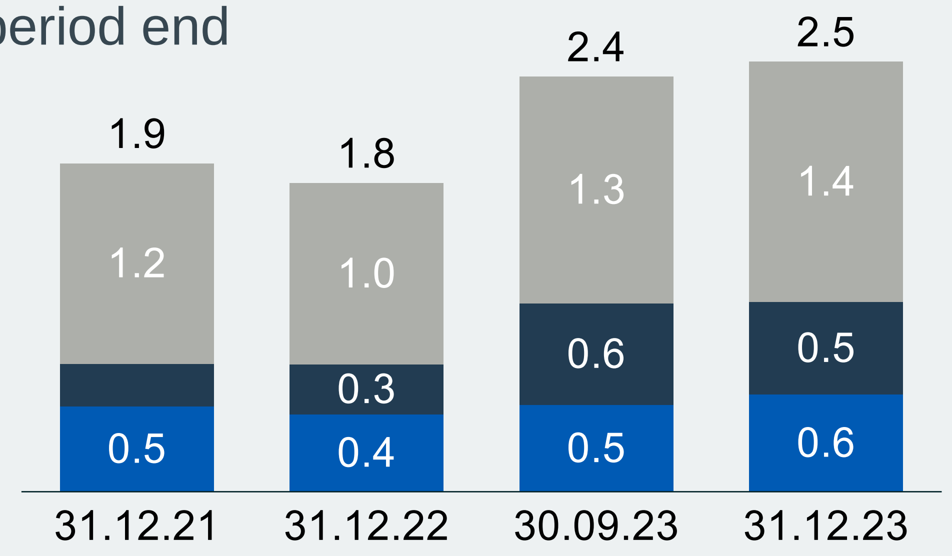
Thereof on loans to corporates (ISK bn)

Loans to corporates are 1.14% provisioned at period end



Thereof on loans to individuals (ISK bn)

Loans to individuals are 0.40% provisioned at period end



Stage 1 Stage 2 Stage 3

IFRS9 economic scenarios and assumptions

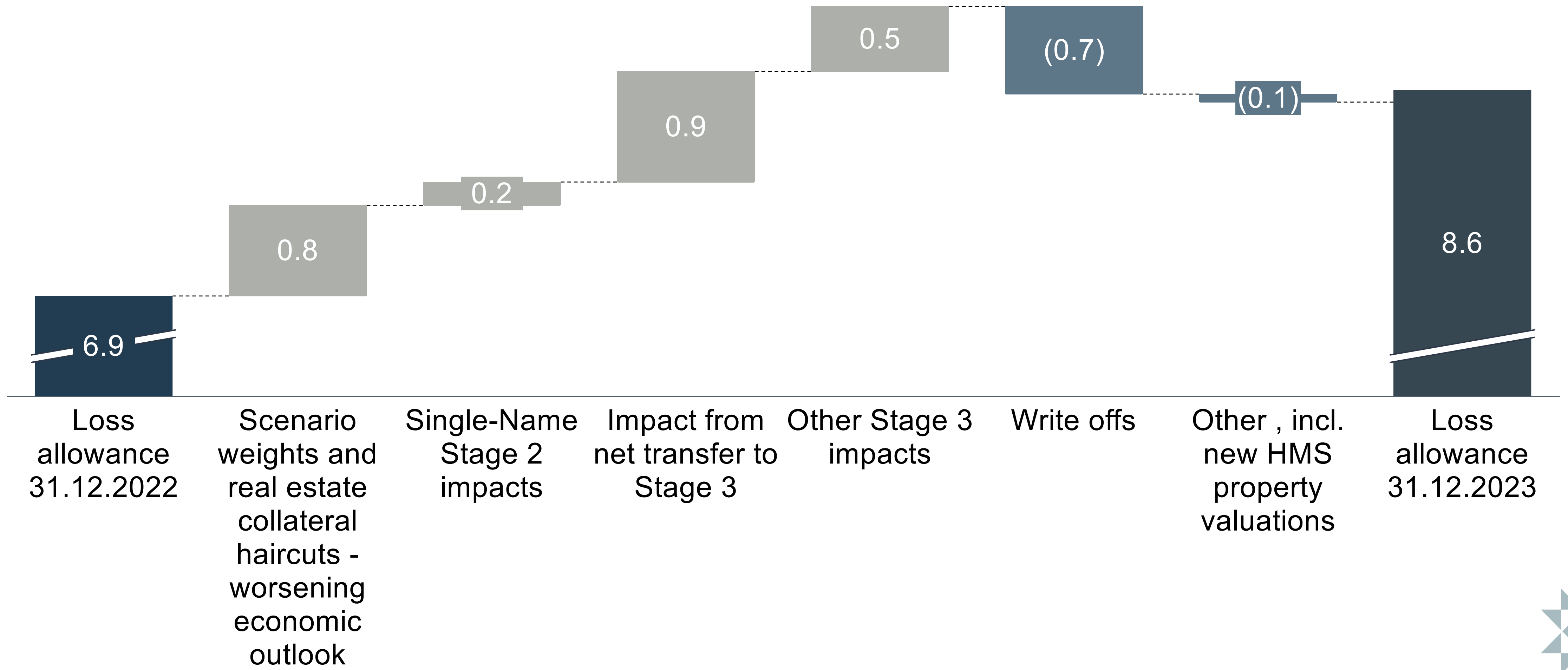
Deteriorating economic outlook is captured in a movement of weights during the past quarters from the optimistic case to the base and pessimistic case and increase in haircuts on real estate collateral

IFRS9 scenario likelihood	YE 2021	YE 2022	Q4 2023
Optimistic	20%	10%	10%
Base case	60%	65%	60%
Pessimistic	20%	25%	30%

Real estate collateral haircut	Q1 2023 and prior		Q2 2023 and onward	
	Base case	**Pessimistic**	**Base Case**	**Pessimistic**
Residential	20%	35%	25%	40%
Commercial	30%	45%	35%	50%

Changes to loss allowance on loans to customers in 2023 (ISK bn)

Included are FX changes and calculated interest 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

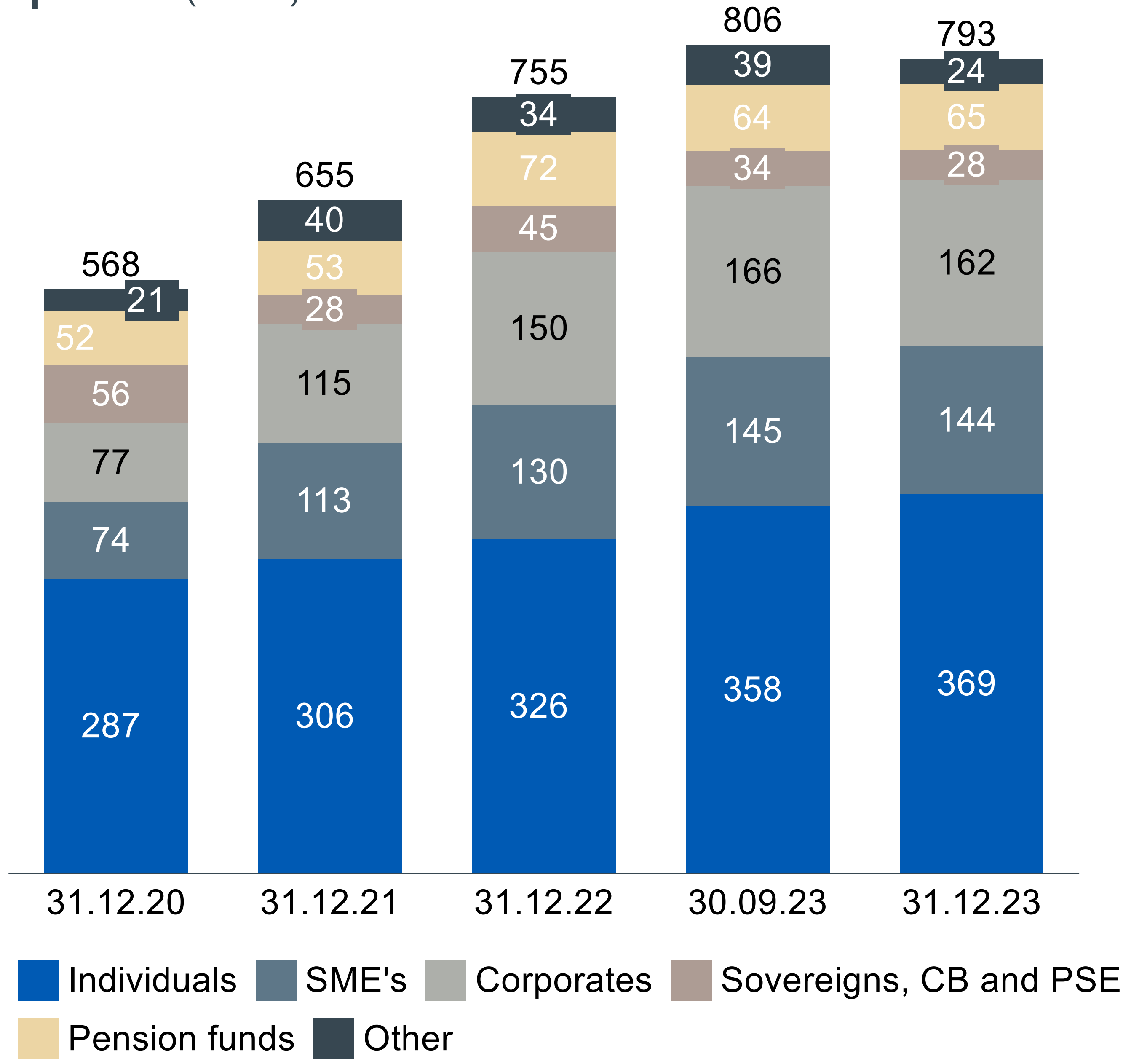


Deposits from customers

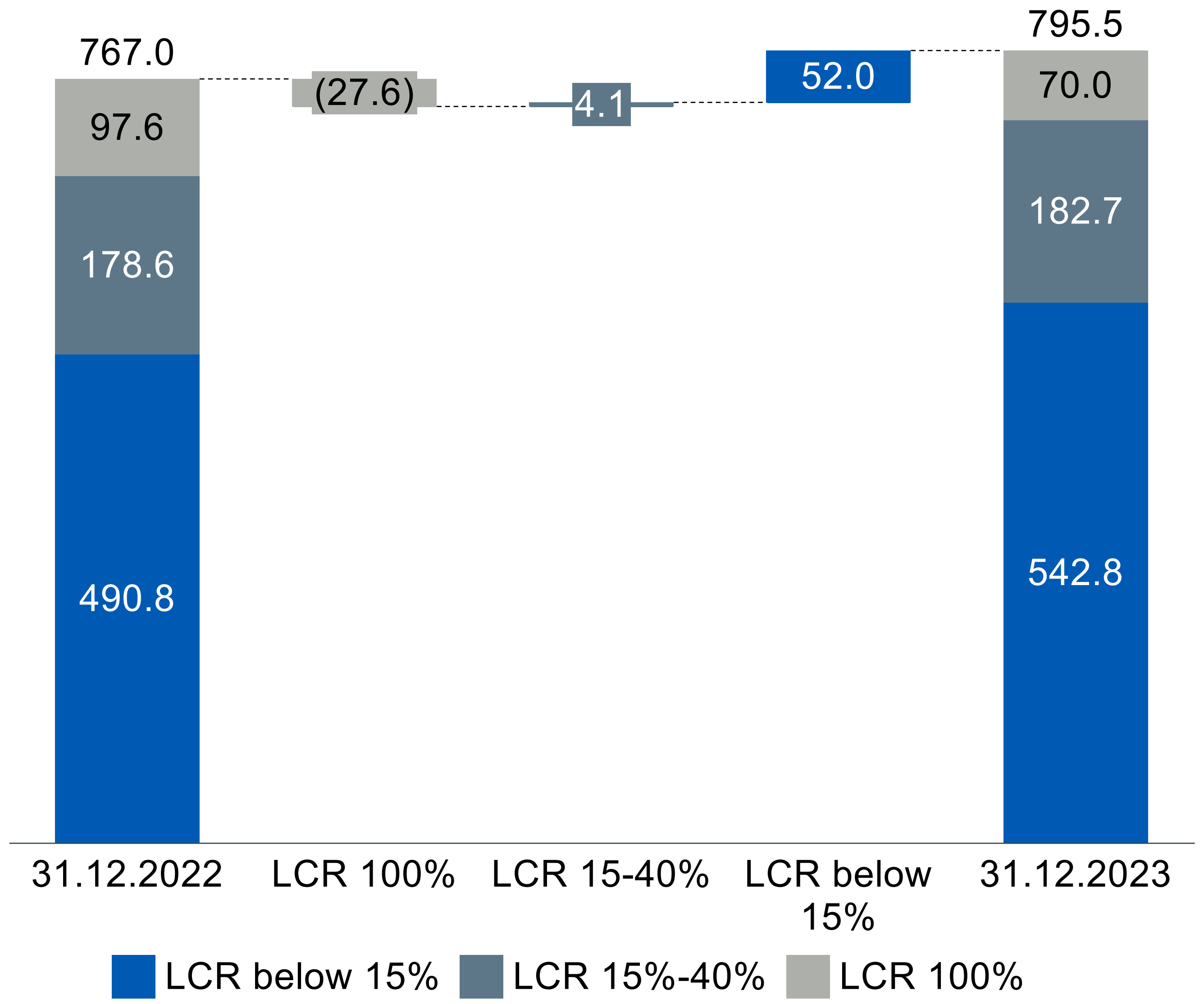
Diversified deposit base supports strong position in competitive environment

- Total deposits of ISK 793bn represent 60% of the Bank's total liabilities
- Decrease in deposits from customers during the quarter was 1.7% but 4.9% growth YoY
- Decrease in the quarter from wholesale money market deposits
- Growth over past year has primarily been in "stable" LCR category and term deposits, reflecting the strategic focus in the area. During the year categories that have an LCR outflow of below 15% grew by ISK 52bn
- Loans to deposits ratio of 145% at the end of the quarter and has been relatively stable over the last few years

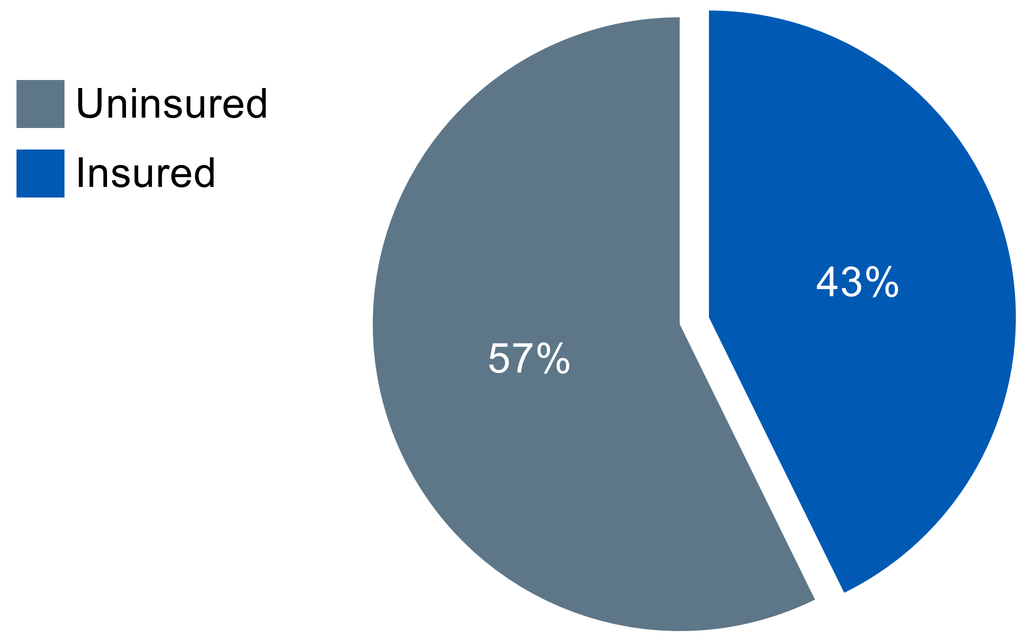
Deposits (ISK bn)



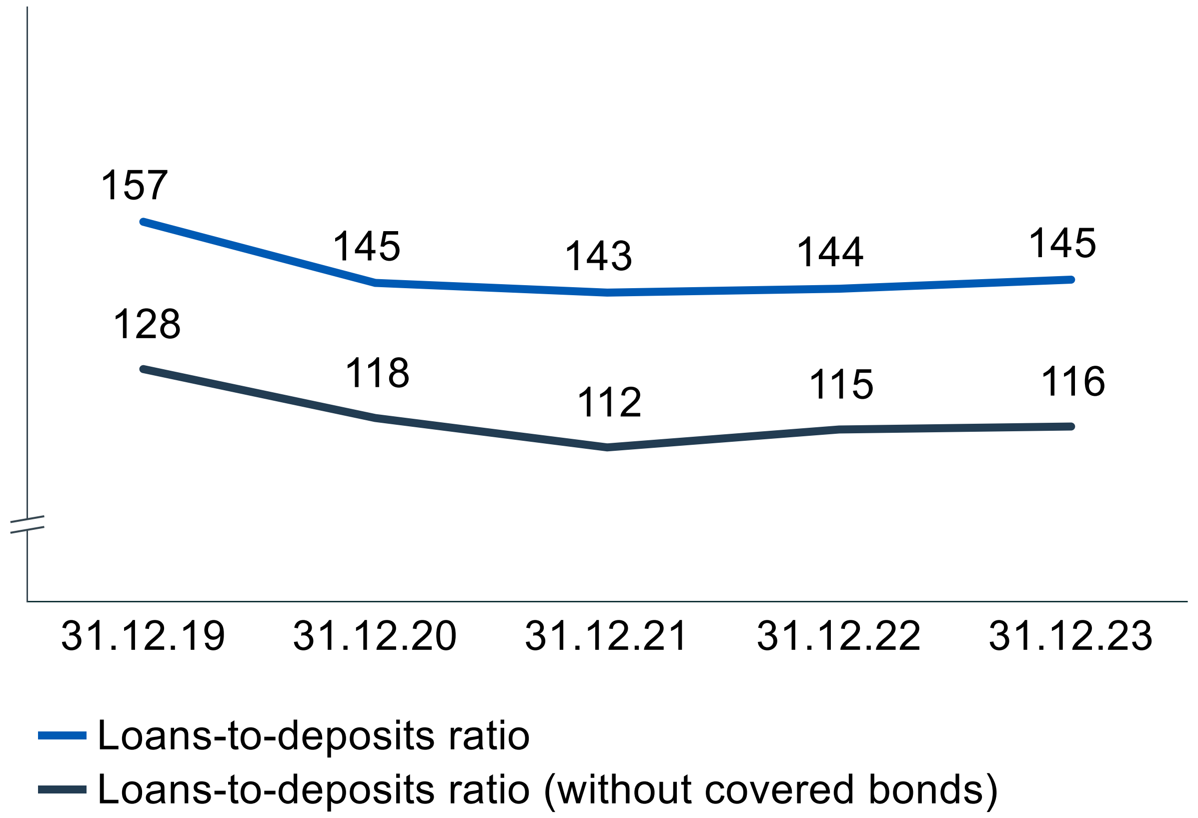
Deposit growth by LCR outflow category (ISK bn)
(including due to credit institutions)



Deposits by insurance scheme



Loans to deposits ratio (%)

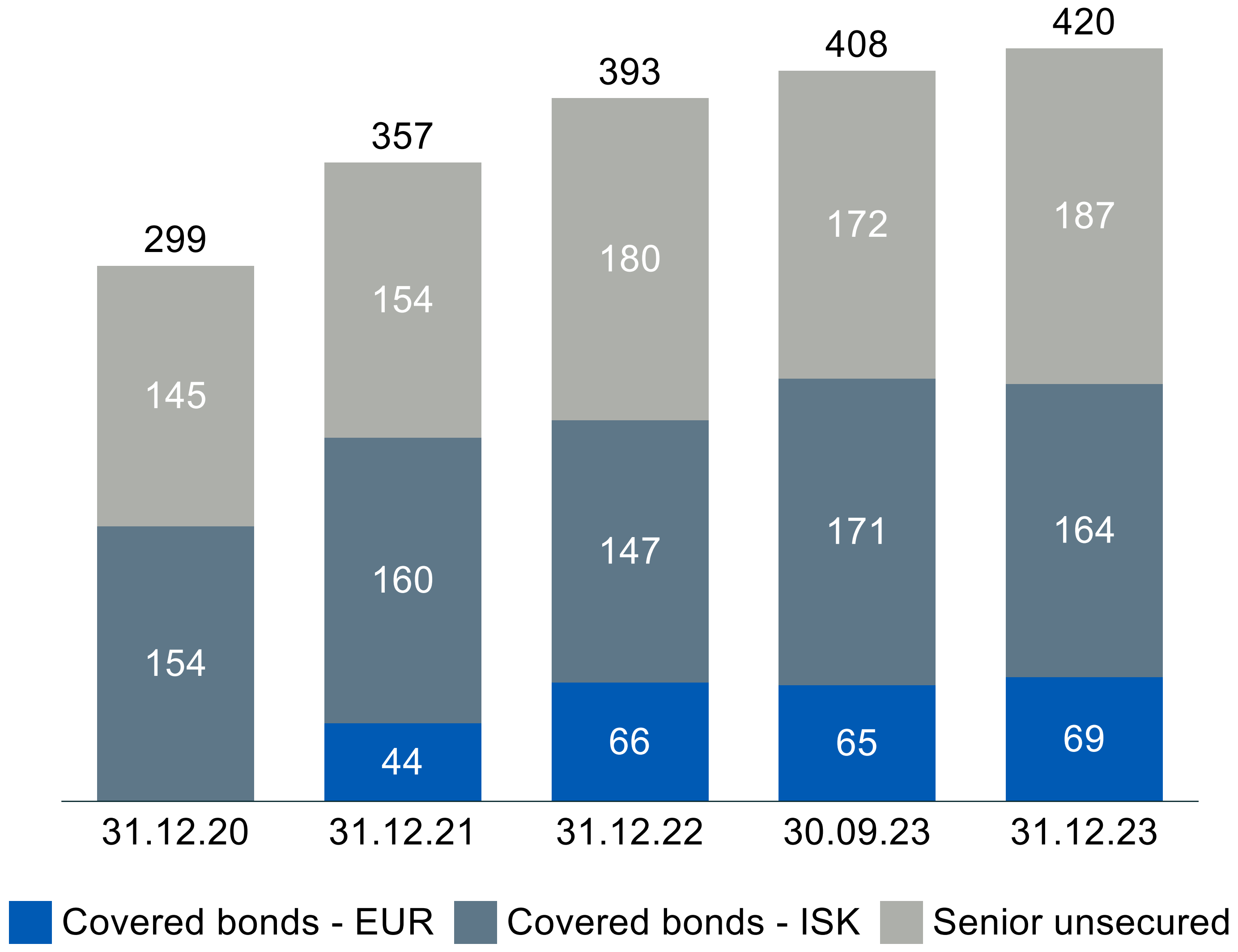


Borrowings

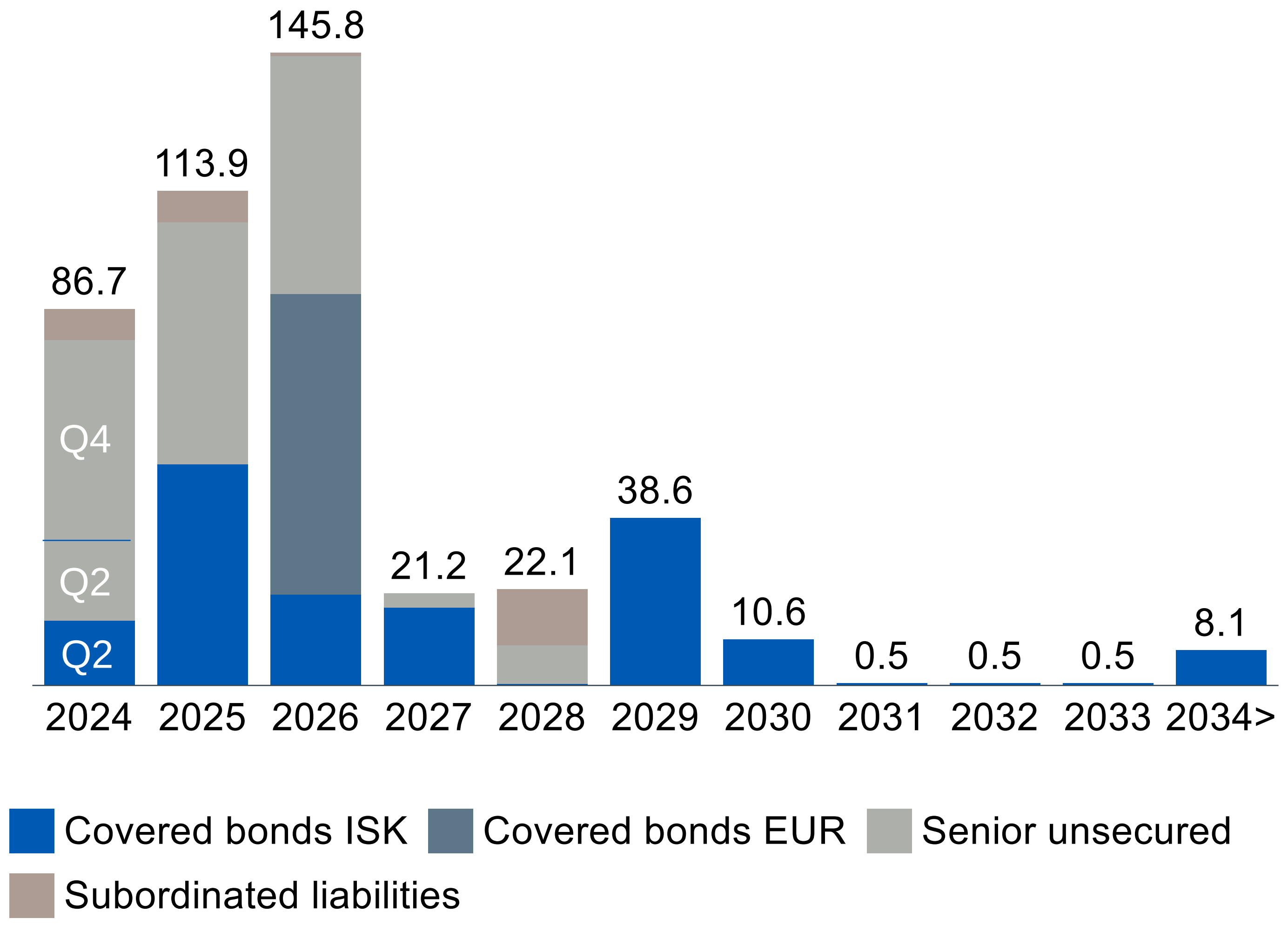
Balanced maturity profile and improved spread development

- New Moody's covered bond rating Aa2 on EUR dominated covered bonds.
  - 3 notches higher than the sovereign rating
  - Highest rating by an Icelandic issuer
- S&P moved the outlook for their rating of the bank to stable (from negative)
- New senior preferred bond issuance in ISK was very well received. Total issuance ISK 8.7 bn, which is the largest issuance size to date for this category in the domestic market.
- The Bank continued to issue covered bonds in the domestic market. Total covered bond issuance in 2023 ISK 44.4 bn, of which ISK 22.6 bn. for own use
- Funding spreads in the international market have developed favorably in recent months
- The Bank will continue to regularly issue in the domestic market and access the international markets

Borrowings by type (ISK bn)



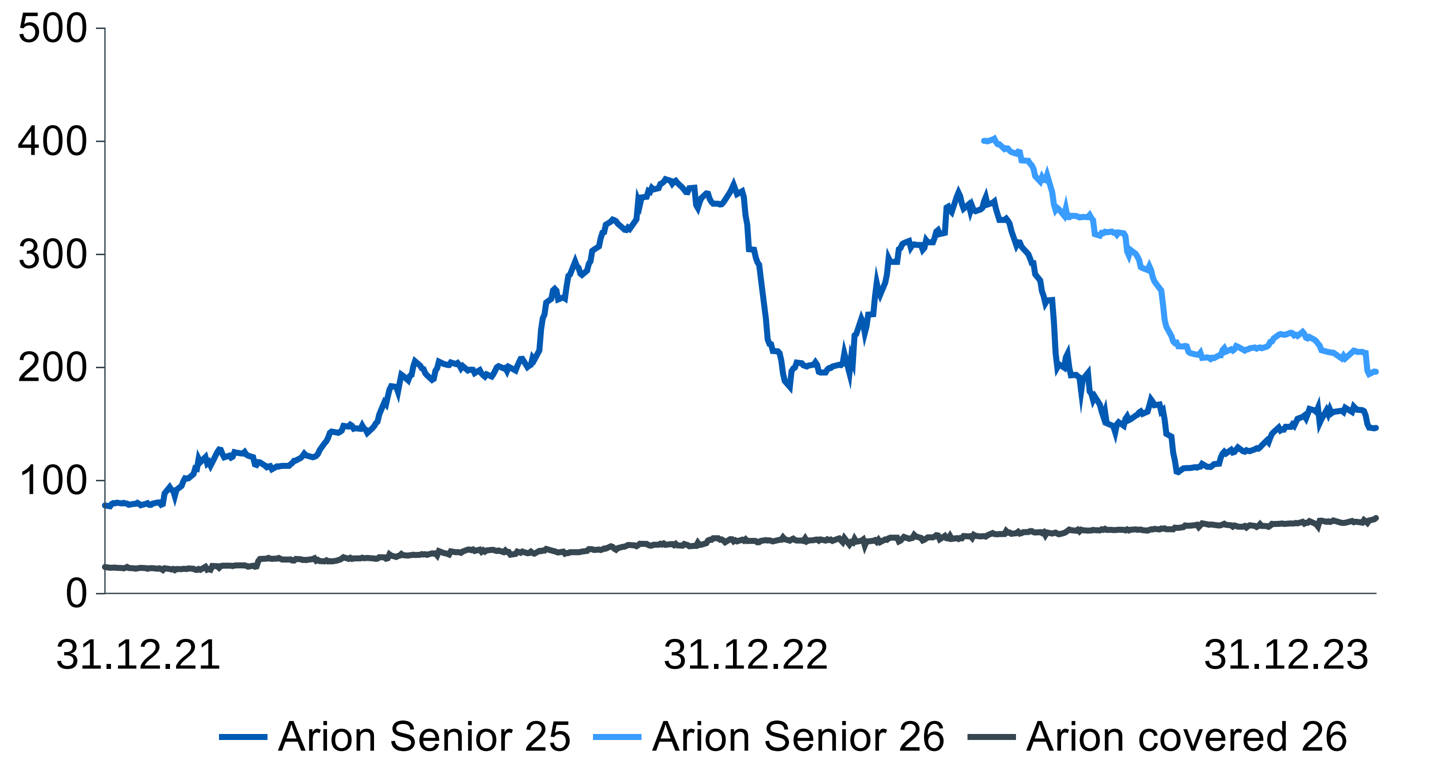
Maturities of borrowings and call dates on subordinated liabilities (ISK bn)



Ratings

S&P		
Long term	BBB	A+
Covered bond	A+	N/A
Short term	A-2	A-1
Outlook	Stable	Stable
Moody's		
Issuer - long term	A3	A2
Covered bond	Aa2	N/A
Outlook	Stable	Positive

Development of EUR funding spreads (bps)

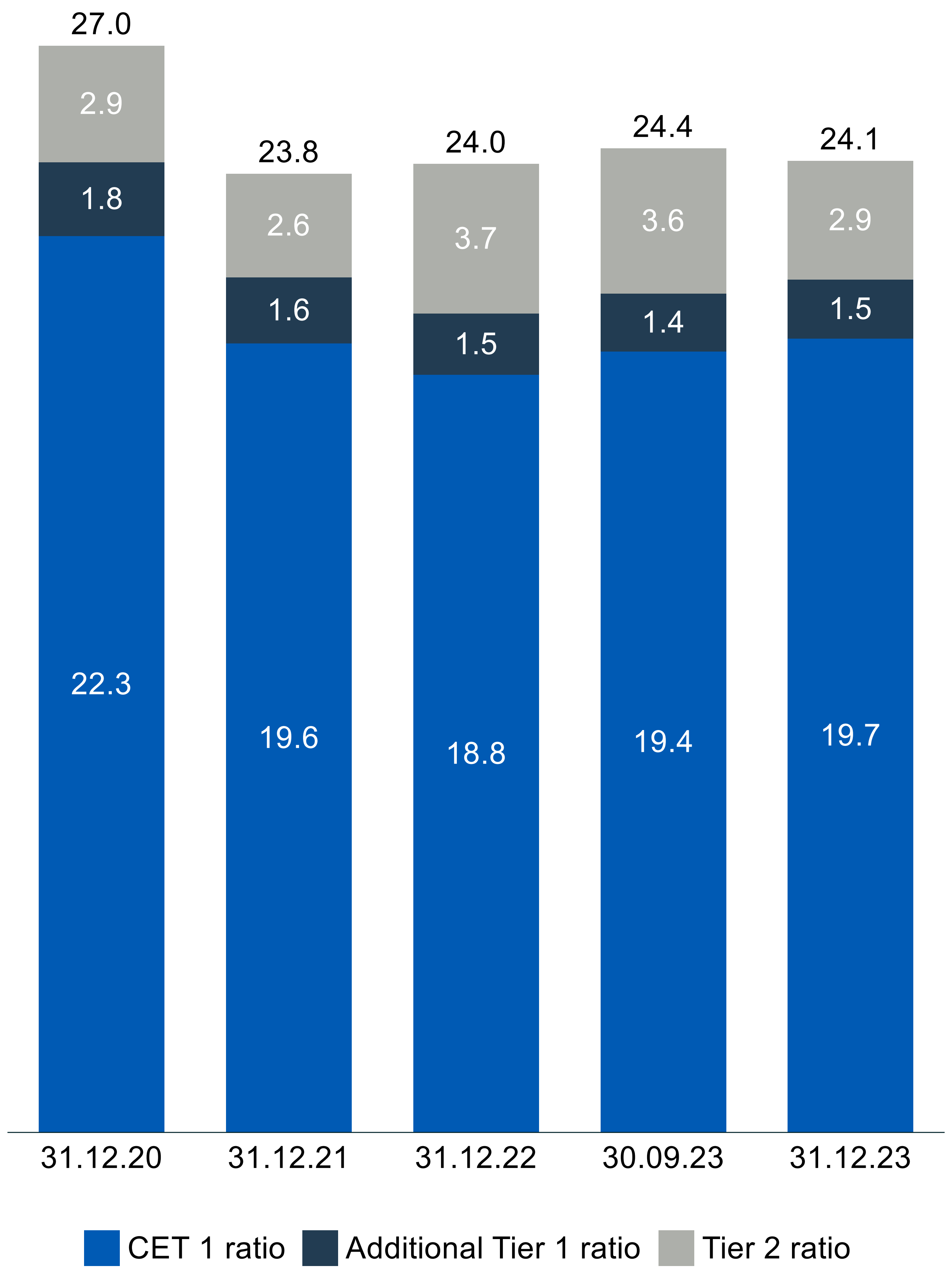


Own funds

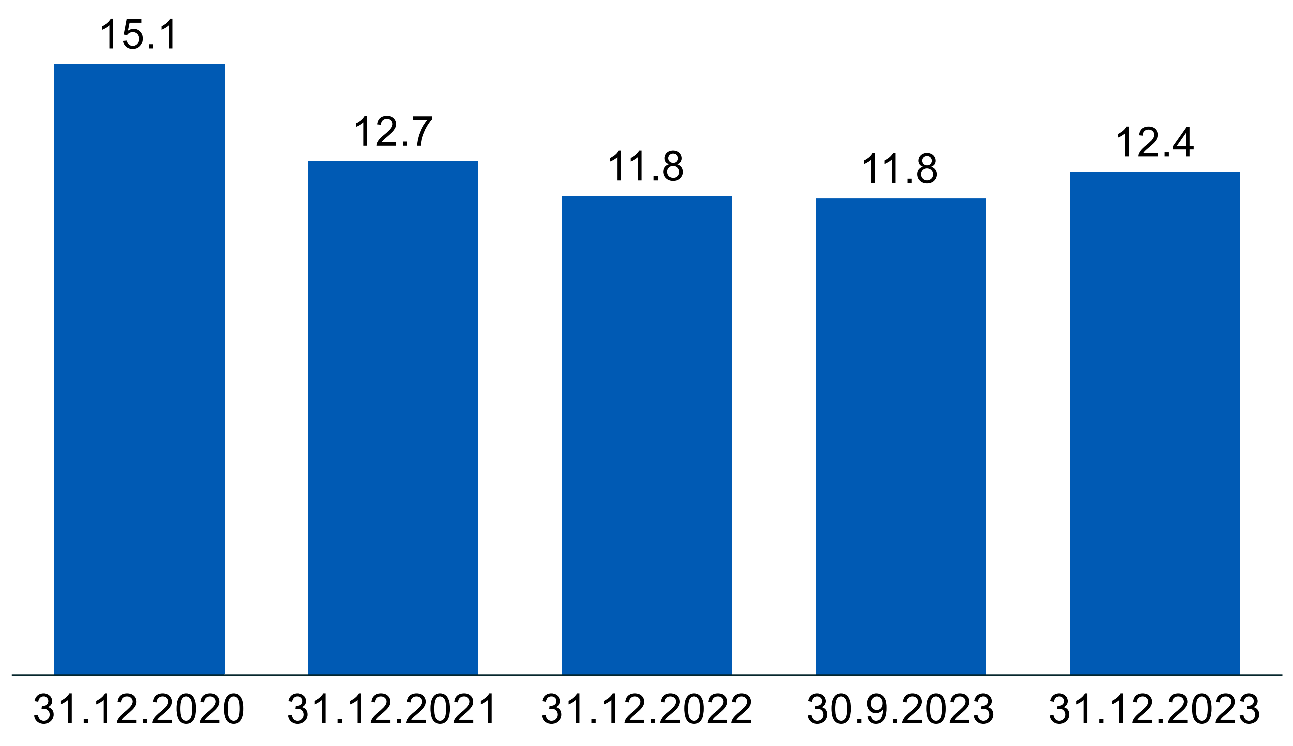
Strong capital position

- Capital position remains very strong and well above medium term targets
  - CET1 ratio increasing in the quarter by 30 bps to 19.7%
  - Tier 2 ratio decreased by 70 bps due to ISK 6.6bn redemption of Tier 2 bonds without replacement. Current high CET1 level reduces near term Tier 2 requirements.
- CET1 position 480 bps above regulatory requirements
- Leverage ratio of 12.4% significantly above most international peers
- The solvency ratio of Vördur insurance is 138.6%

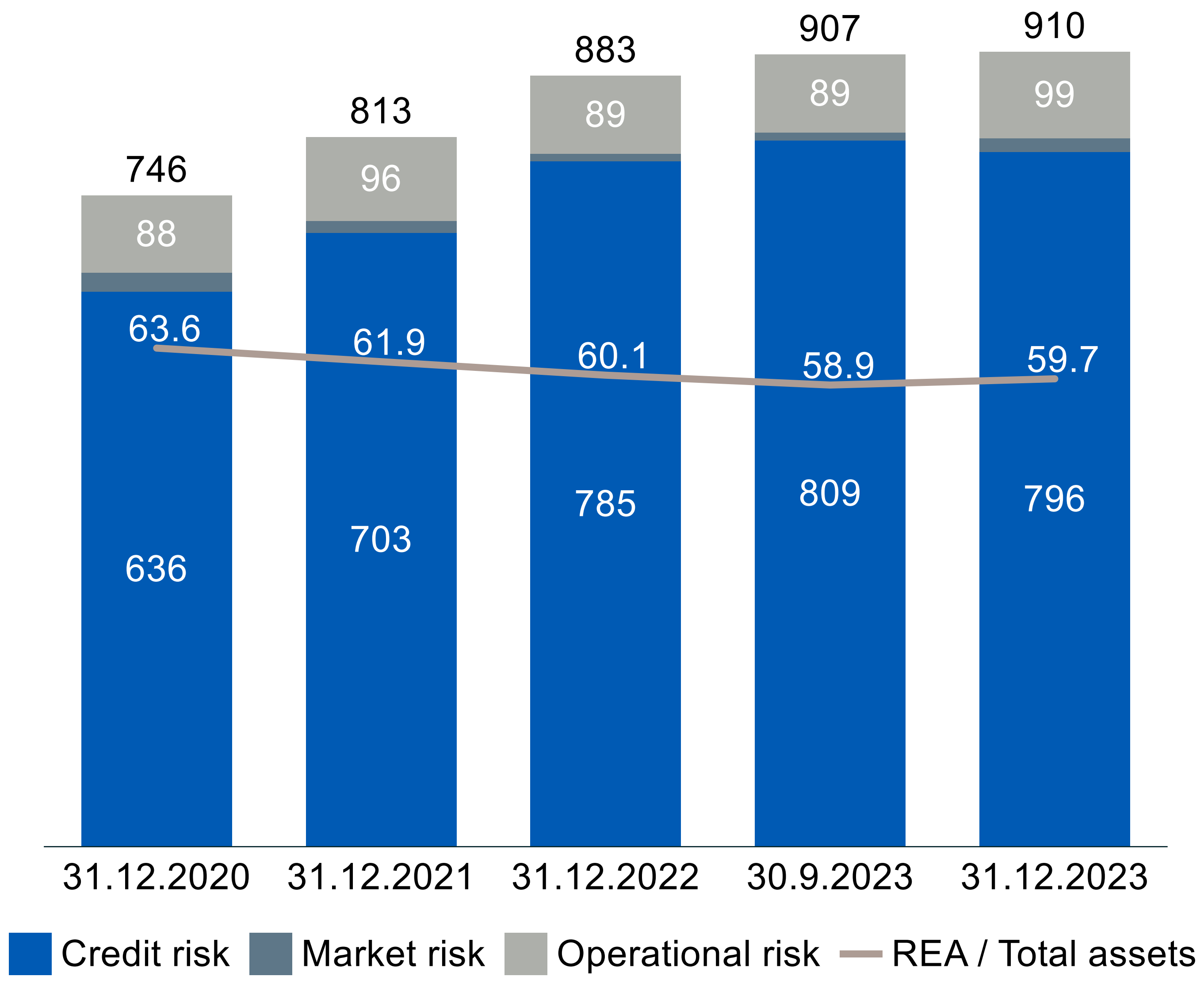
Capital ratio (%)



Leverage ratio (%)



Risk-weighted exposure amount (ISK bn)

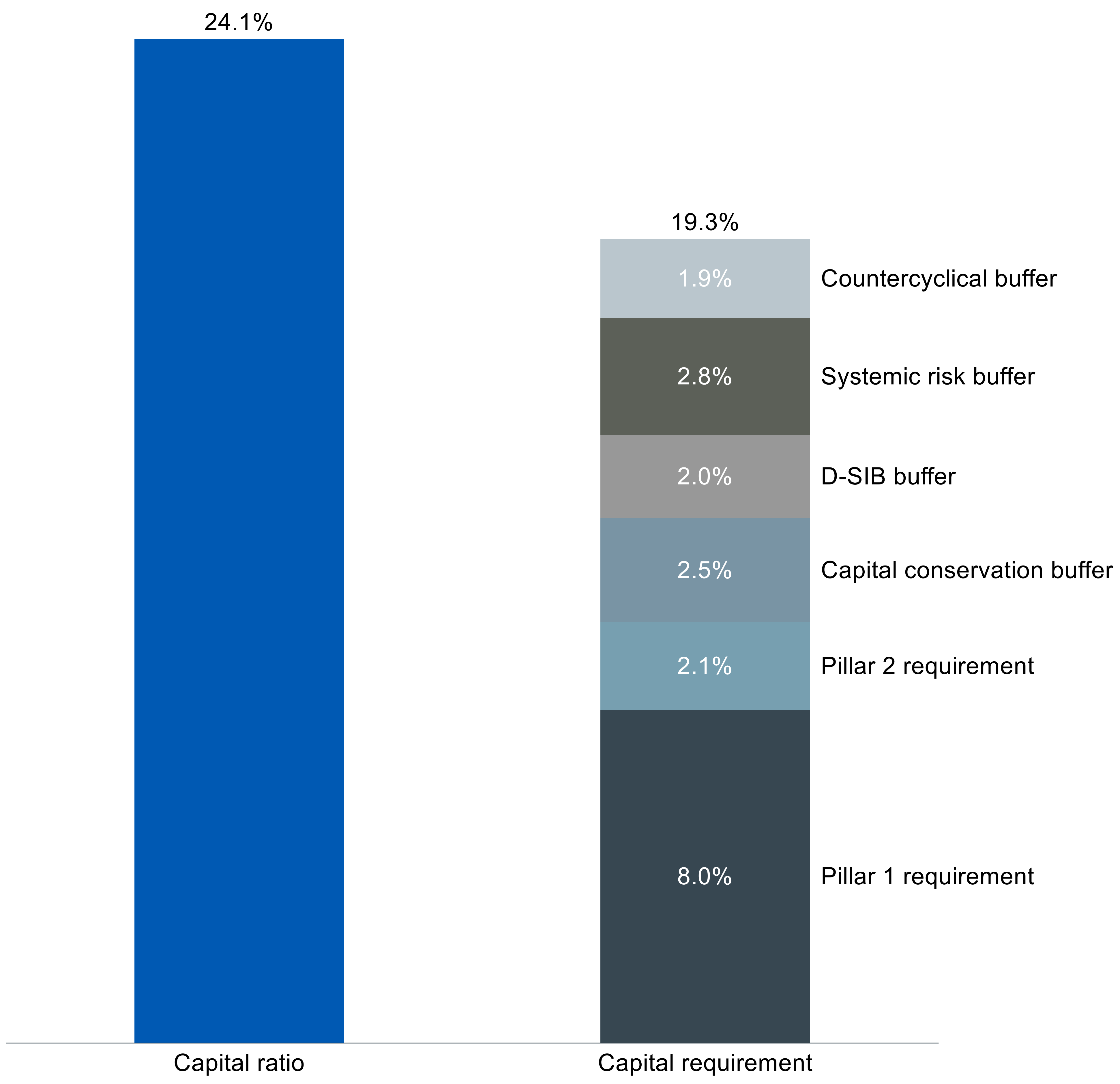


Own funds

Capital ratios comfortably above regulatory requirements

- The Pillar 2 requirement for the Bank at 2.1% of REA, based on year-end 2022 financials
- The countercyclical capital buffer in Iceland will increase from 2.0% to 2.5% in March 2024, bringing the total capital requirement to 19.7%
- Capital ratios account for foreseeable dividend that correspond to 50% of profits in accordance with the Bank's dividend policy
- The medium-term capital management buffer target is 150-250bps
- Considering the raised countercyclical buffer to 2.5% and the Bank's current AT1 ratio which is 40 bps less than the optimal value, the Bank has ISK 36 billion of surplus capital. The management buffer range implies surplus capital beyond the management buffer in the range from ISK 13 bn to 23 bn. Note however rating considerations on the next page, which impact capital management near term

Own funds and capital requirements (%)

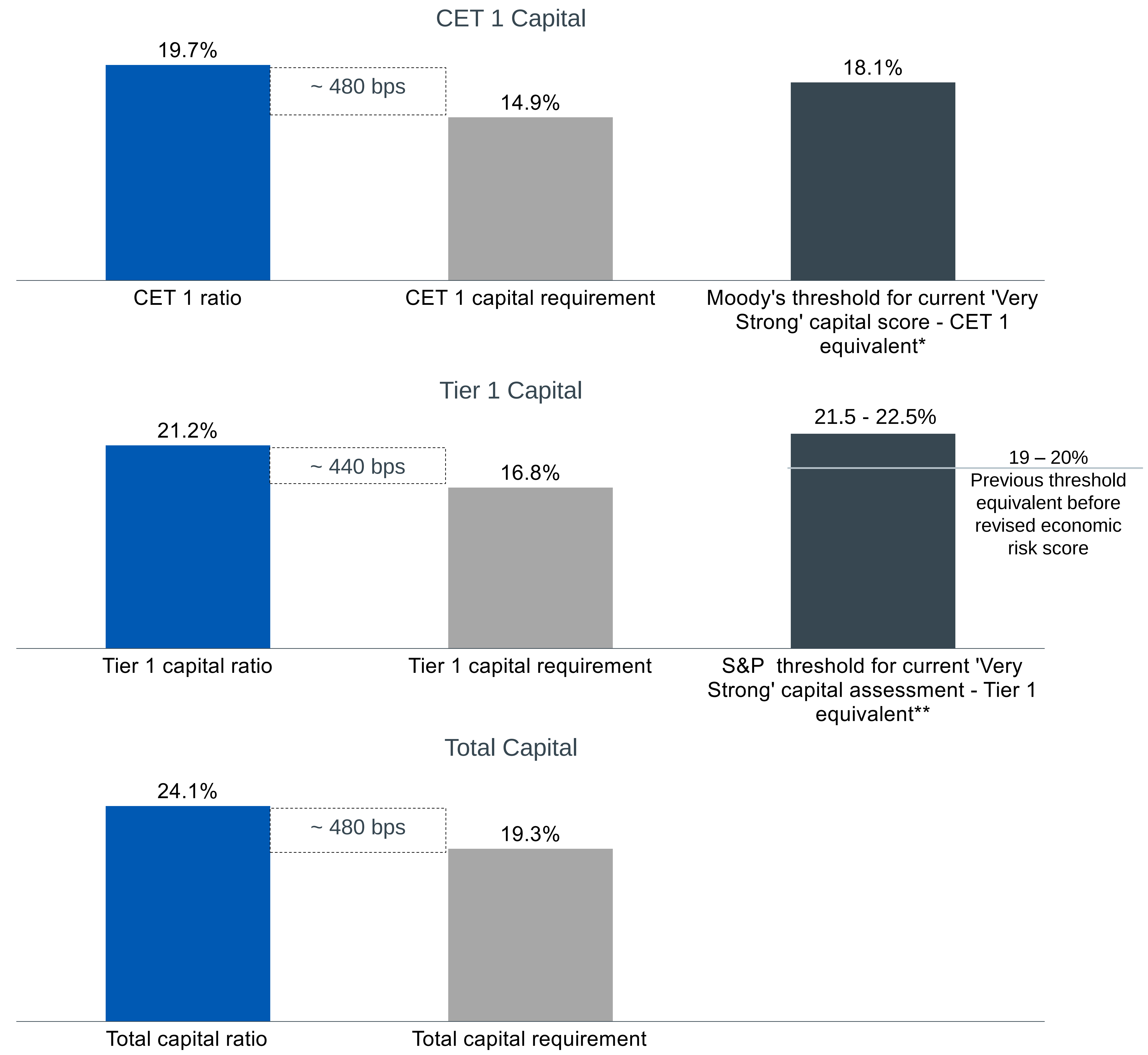


Own funds

Rating considerations impact capital management in the short-term

- The Bank's issuer ratings from Moody's and S&P are A3 (stable outlook) and BBB (stable outlook) respectively
- Both rating agencies' assessment of the Bank's capital position is 'Very Strong' as per the different methodologies
- In November S&P upgraded the economic risk for the Icelandic banking sector to positive, prompting an upgrade to Arion Bank's credit rating outlook from negative to stable
- Robust capital generation in 2023 but levels remain below S&P's threshold as the capital assessment by S&P remains unchanged
- The Bank will adhere to capital thresholds of the rating agencies in the short-term, which implies raising the Tier 1 management buffer to around 450-500bps. The expectation is however that constructive economic development and/or positive impact of other rating factors will result in convergence of capital benchmarks over the medium term

Own funds: capital requirements and rating benchmarks (%)



* Moody's capital benchmark ratio is tangible common equity over REA, with REA add-on of 20% risk-weight for sovereign exposures. The threshold for the current 'Very Strong' score for capital is 18%, which corresponds to 18.1% CET1 capital given fixed REA.

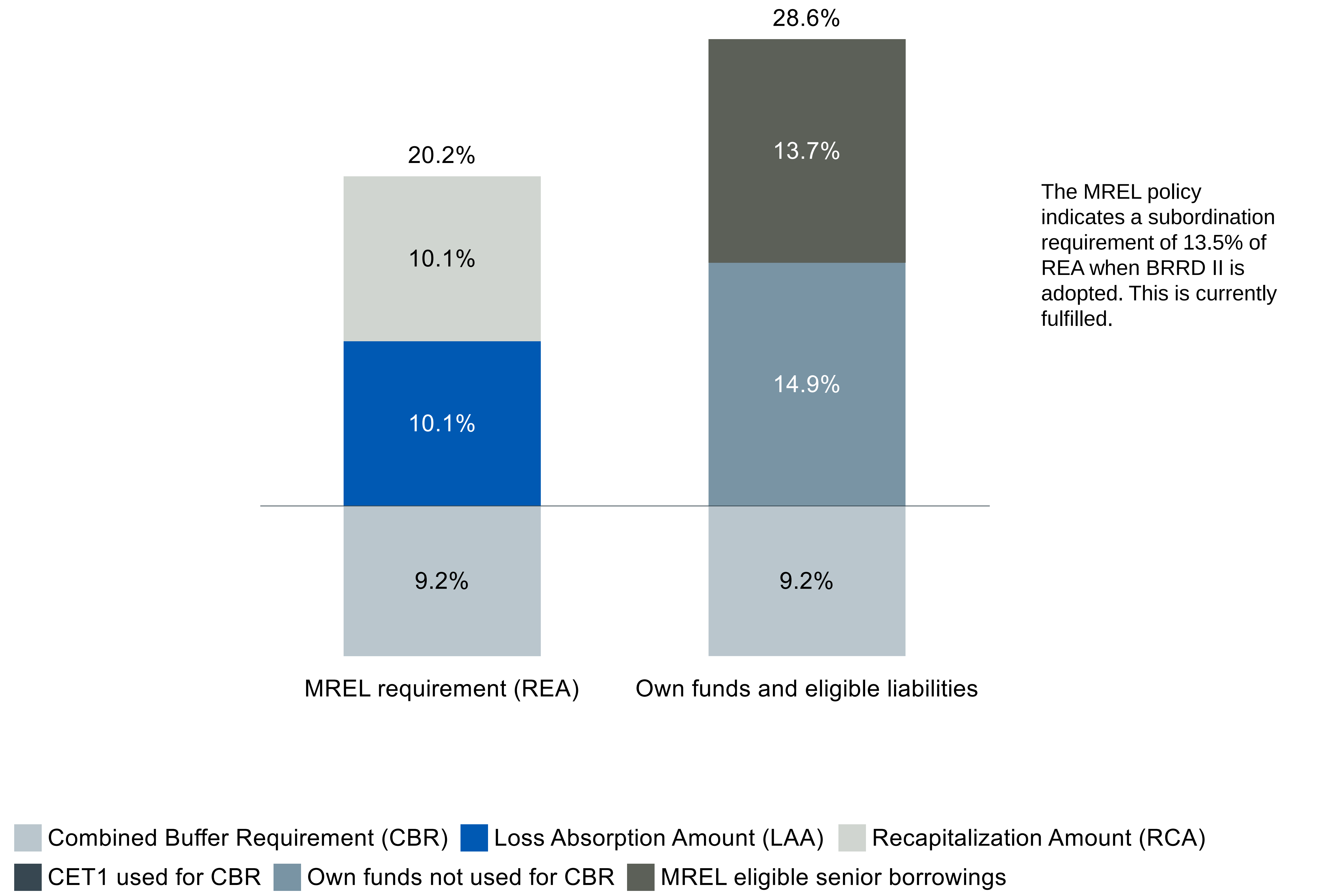
** S&P's risk-adjusted capital ratio (RAC) is total adjusted capital over S&P's own risk-weighted assets, where the risk-weights are a function of Iceland's economic risk score and banking industry country risk assessment (BICRA) score. The benchmark for 'Very Strong' capital assessment is a RAC ratio above 15% which roughly corresponds to a Tier 1 ratio of 22.4% but is a function of balance sheet composition, especially unlisted equity holdings.

MREL requirement

Comfortably exceeding MREL requirements

- The BRRD II 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 10.1% of REA
  - No Market Confidence Charge (MCC) because of the high level of combined buffer requirement (CBR), currently 9.2% of REA
  - No subordination requirement has been implemented
  - Some details of the BRRD II requirements may change as the IRA finalizes the implementation
- In October 2023, the IRA published a decision on the MREL requirements for Arion Bank, 20.2% of REA in addition to the CBR and 6% of TEM (exposure measure for the leverage ratio), which corresponds to 10.2% of REA.
- 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

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 24.2% REA at 30.9.2023

Going forward

Another strong operational year and a robust platform for the future

Solid fourth quarter concludes another strong operational year for the Group in what continues to be a volatile external market backdrop

Very robust capital, liquidity and funding position. Near-term capital management driven by S&P position, while expectation is that regulatory and rating capital thresholds should converge more over medium term

The high interest rate environment has started to slow the economy and we are seeing inflationary pressures subsiding. Union wage negotiations will be a key milestone to cement sustainable path towards a balanced economy

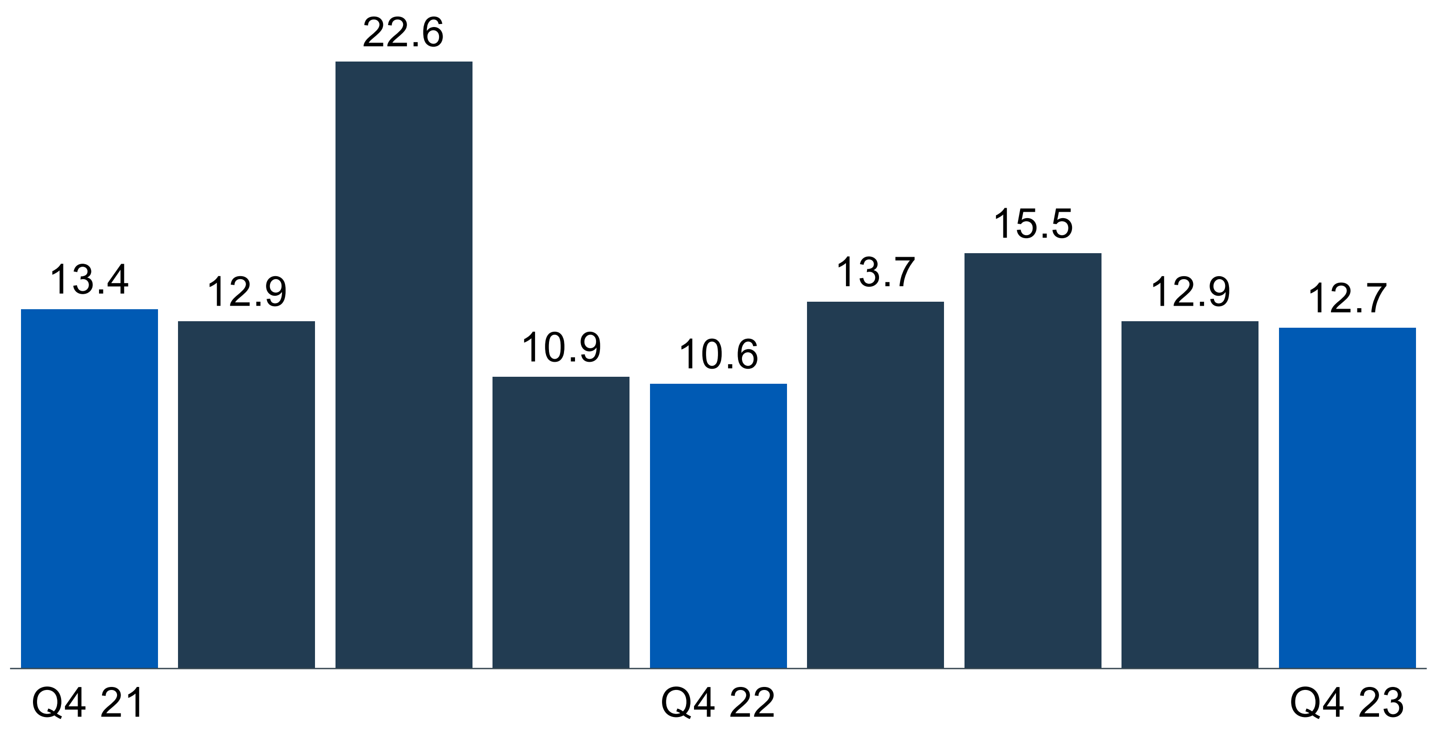
Volcanic activity in the Reykjanes peninsula and the impact to the town of Grindavik has been a key focus in the quarter. Arion is working closely with our clients and authorities around the evolving outlook

The Group is in a strong position to navigate the current external operational environment with diverse and seasoned businesses and conservative and agile balance sheet management

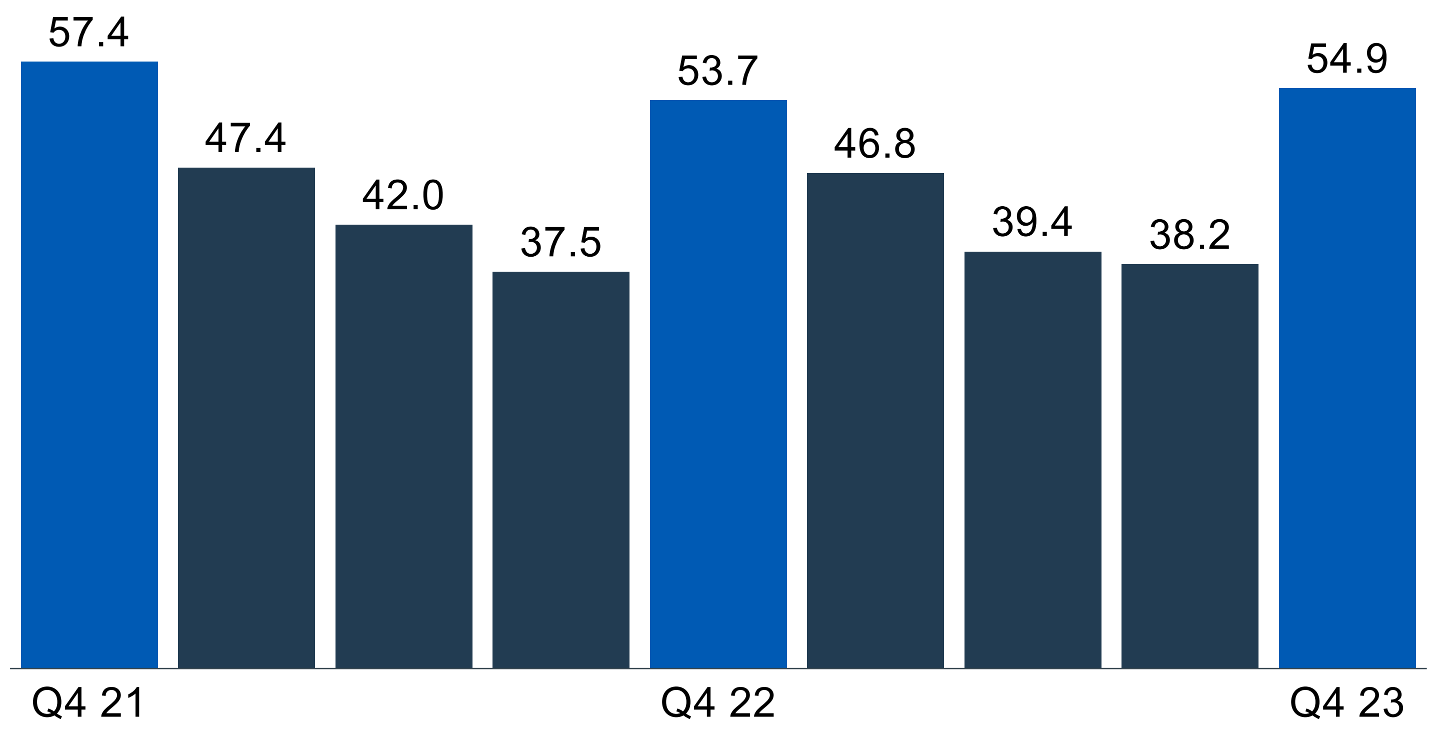
Capital Markets Day 1 March 2024 will provide an update on key strategic initiatives and outlook

Key financial indicators - quarterly

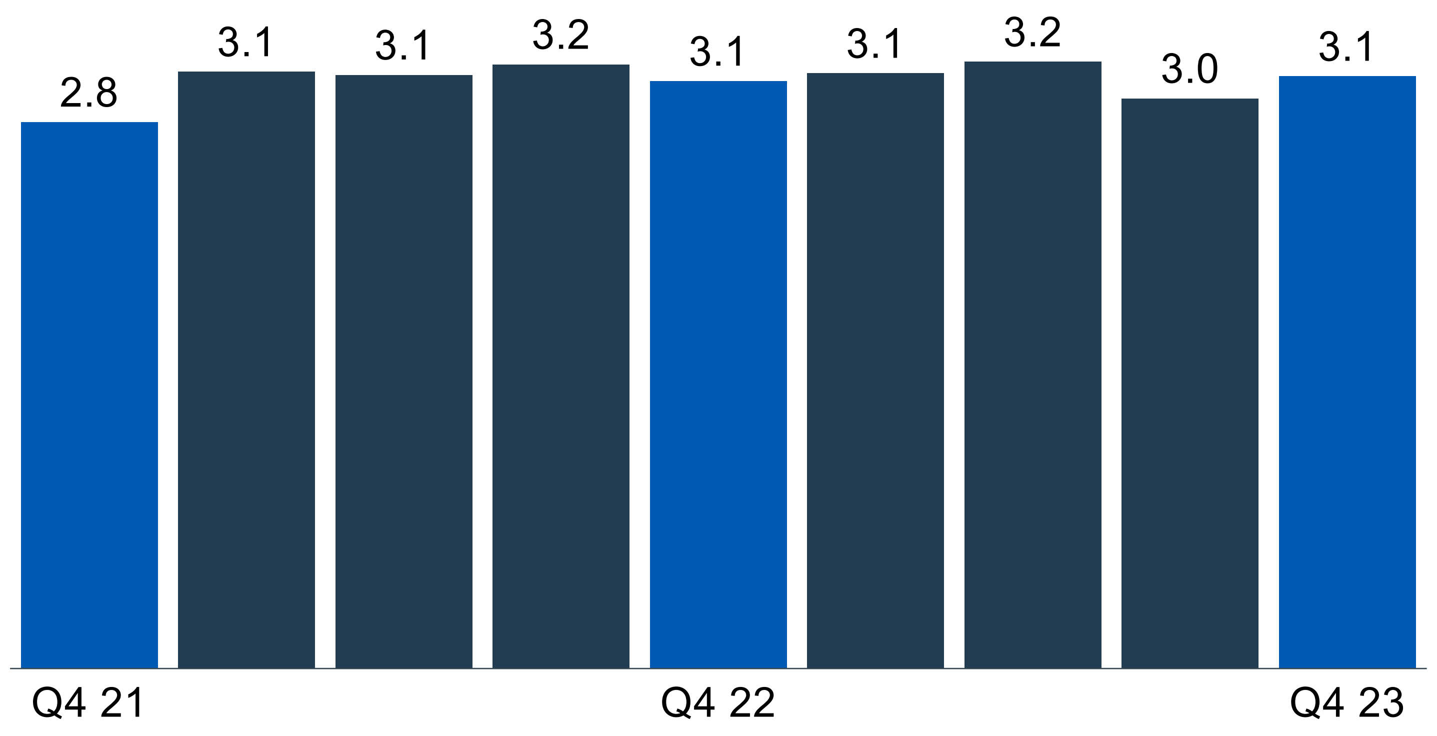
Return on equity (%)



Cost-to-Core income ratio (%)

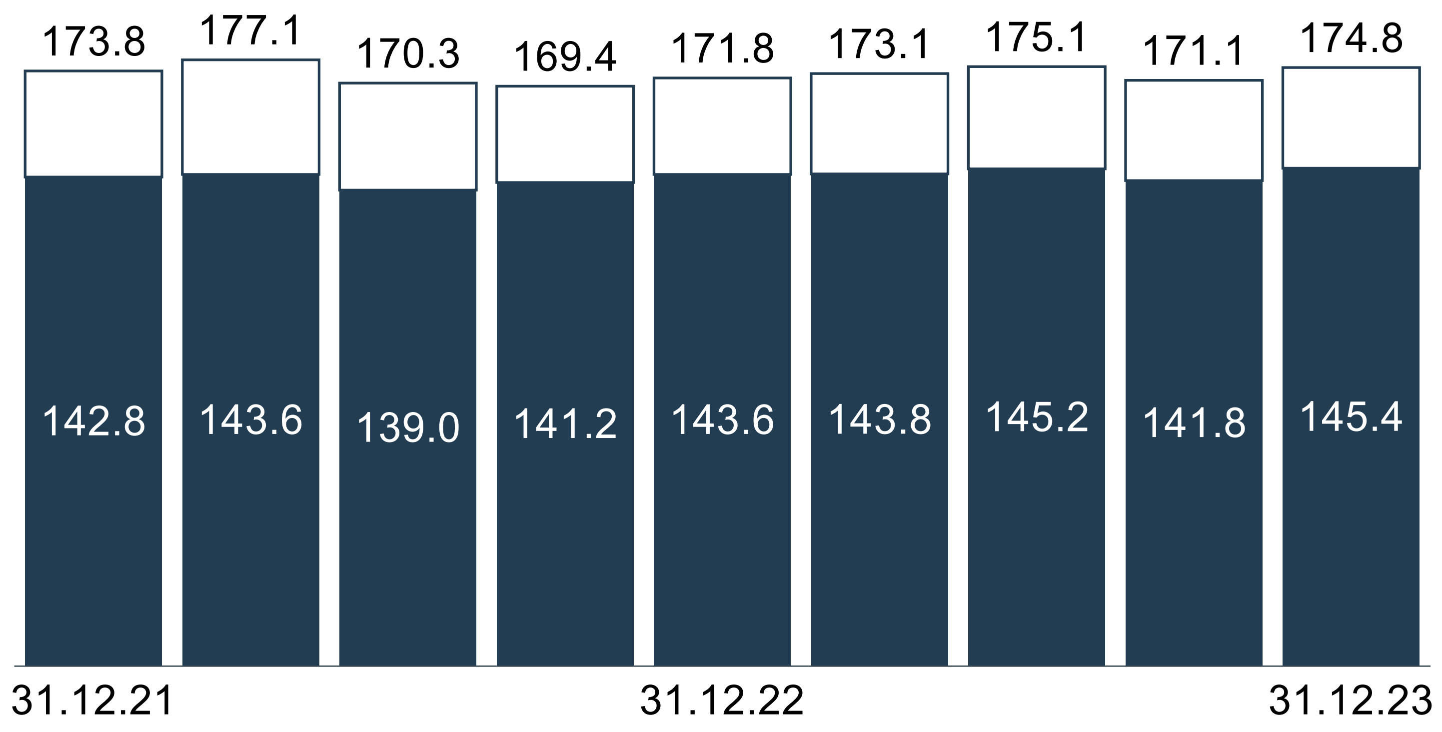


Net interest margin (%)

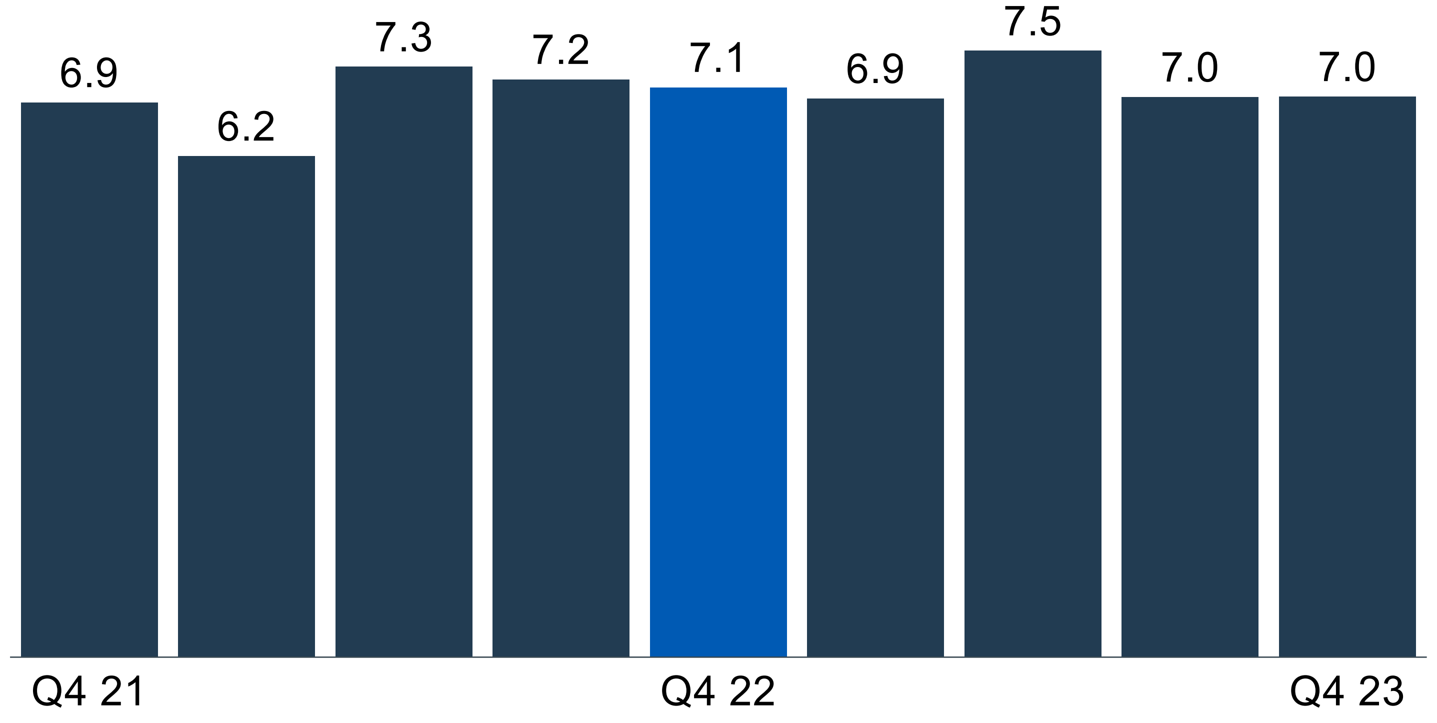


Loans to deposits ratio (%)

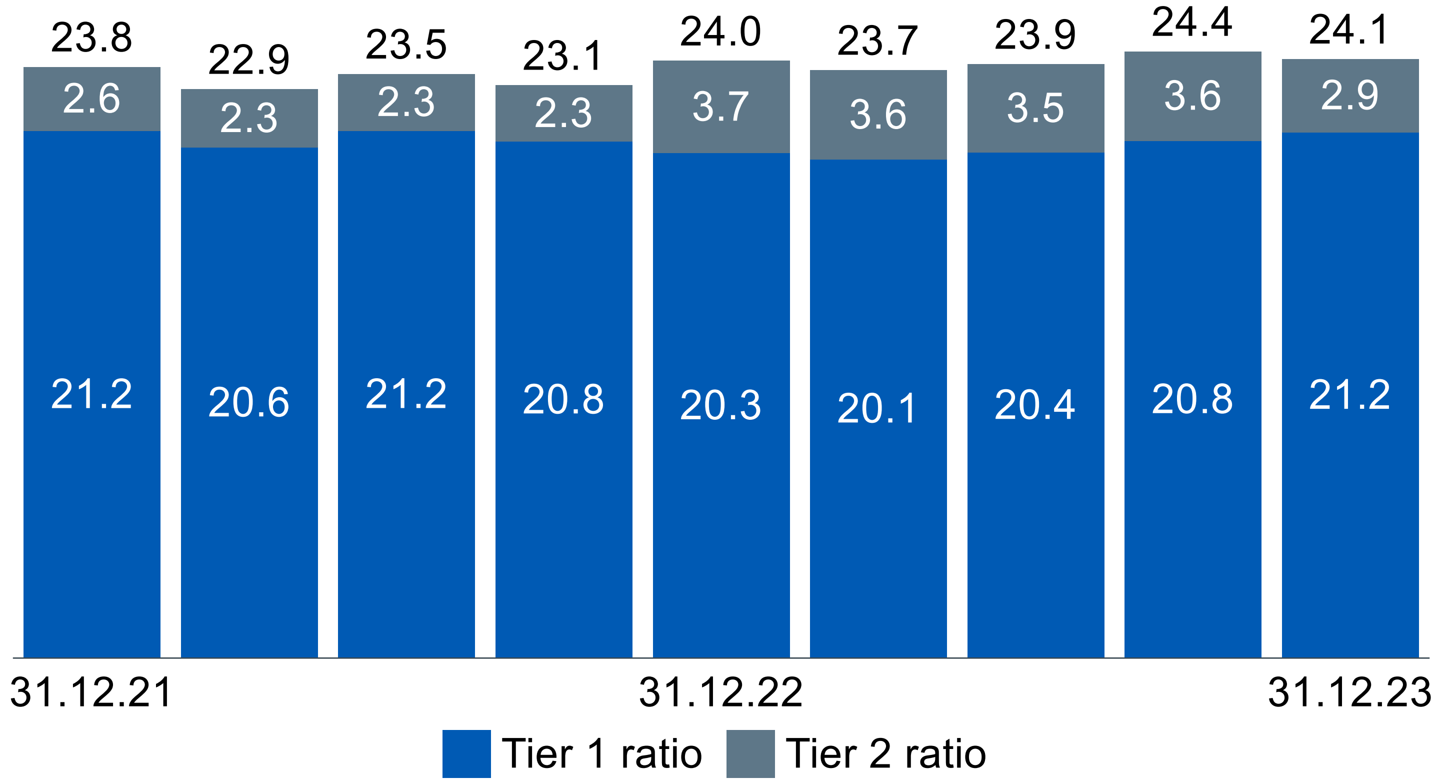
(without loans financed by covered bonds)



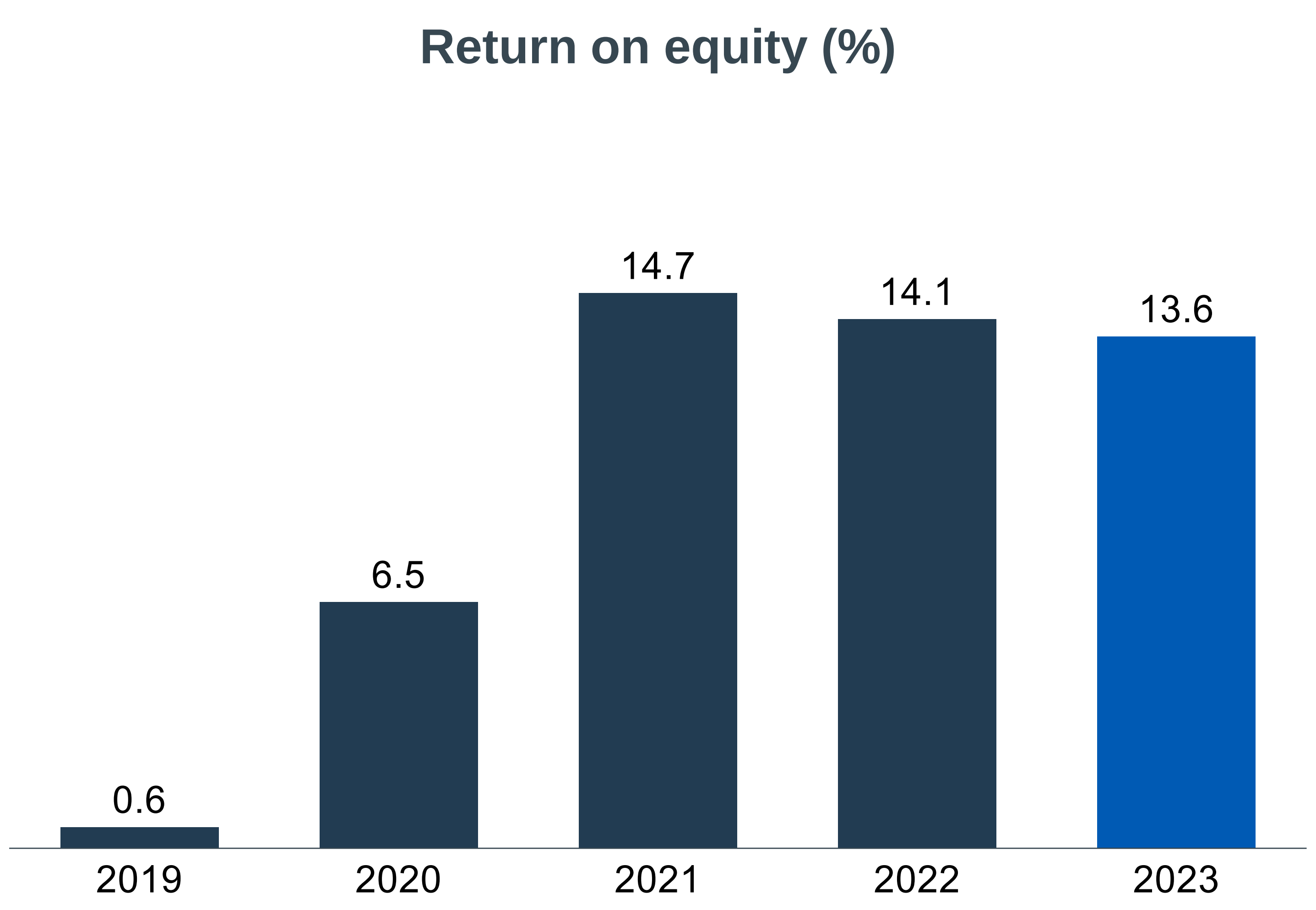
Core operating income / REA (%)*

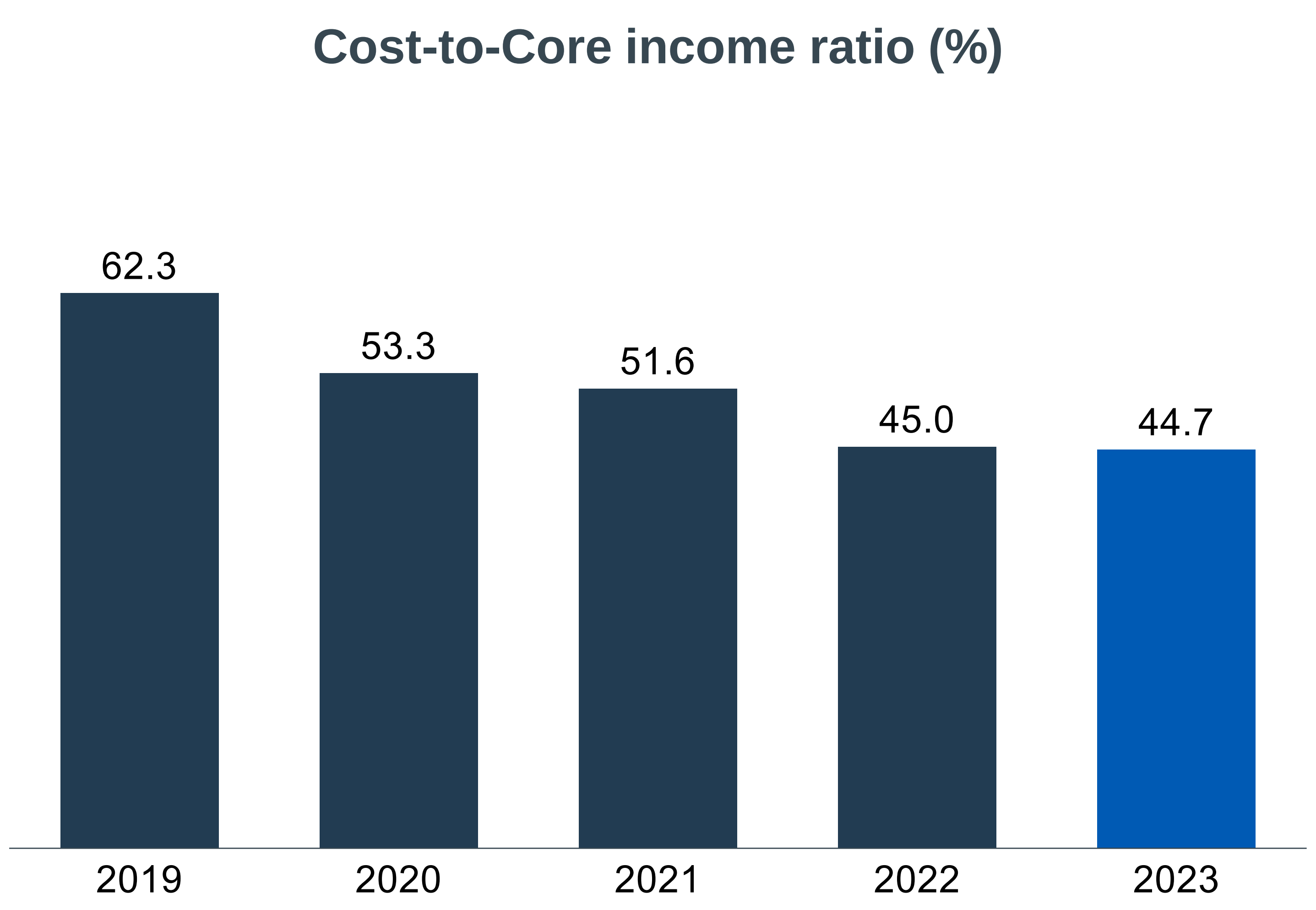


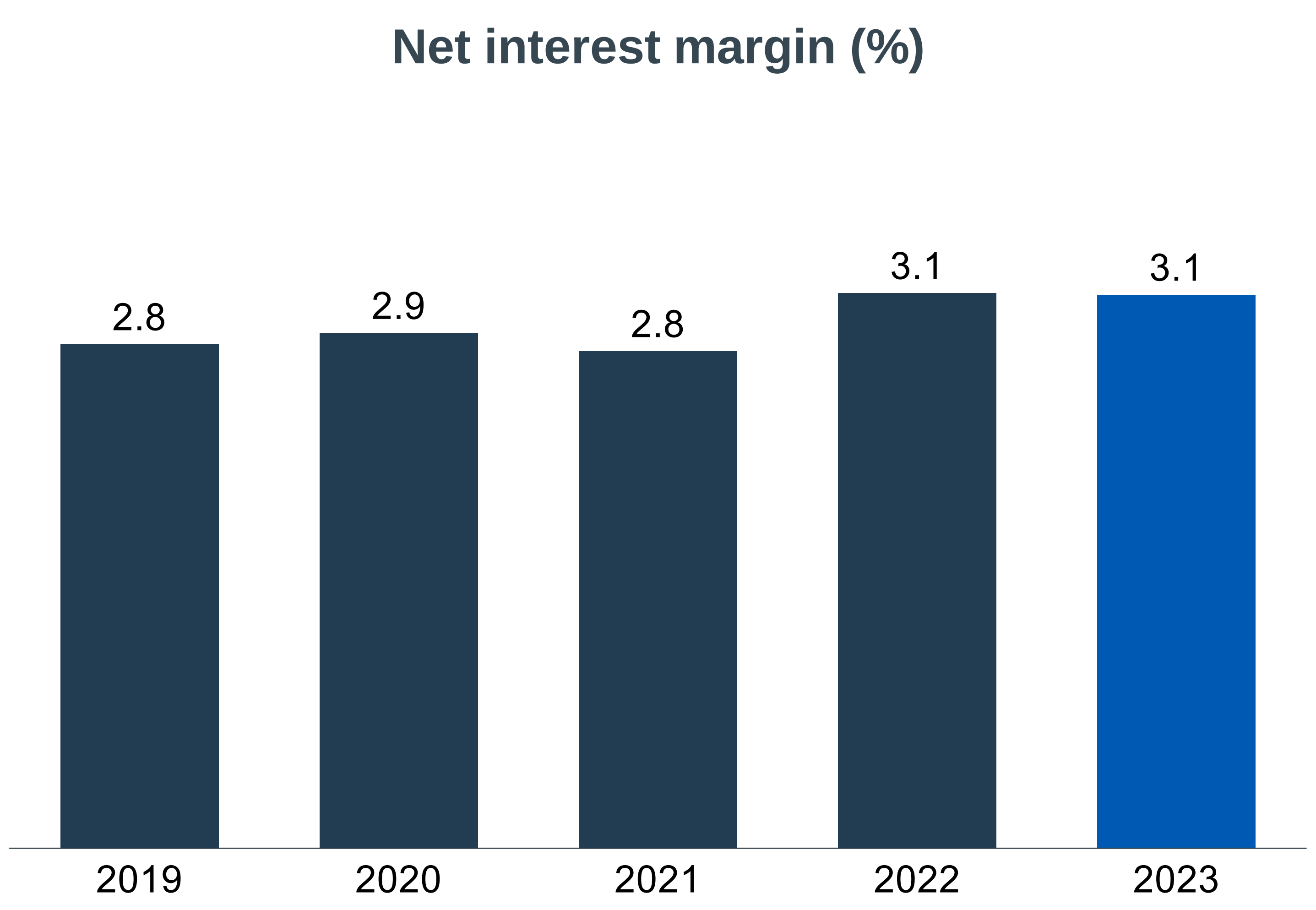
Risk exposure amount / Total assets (%)

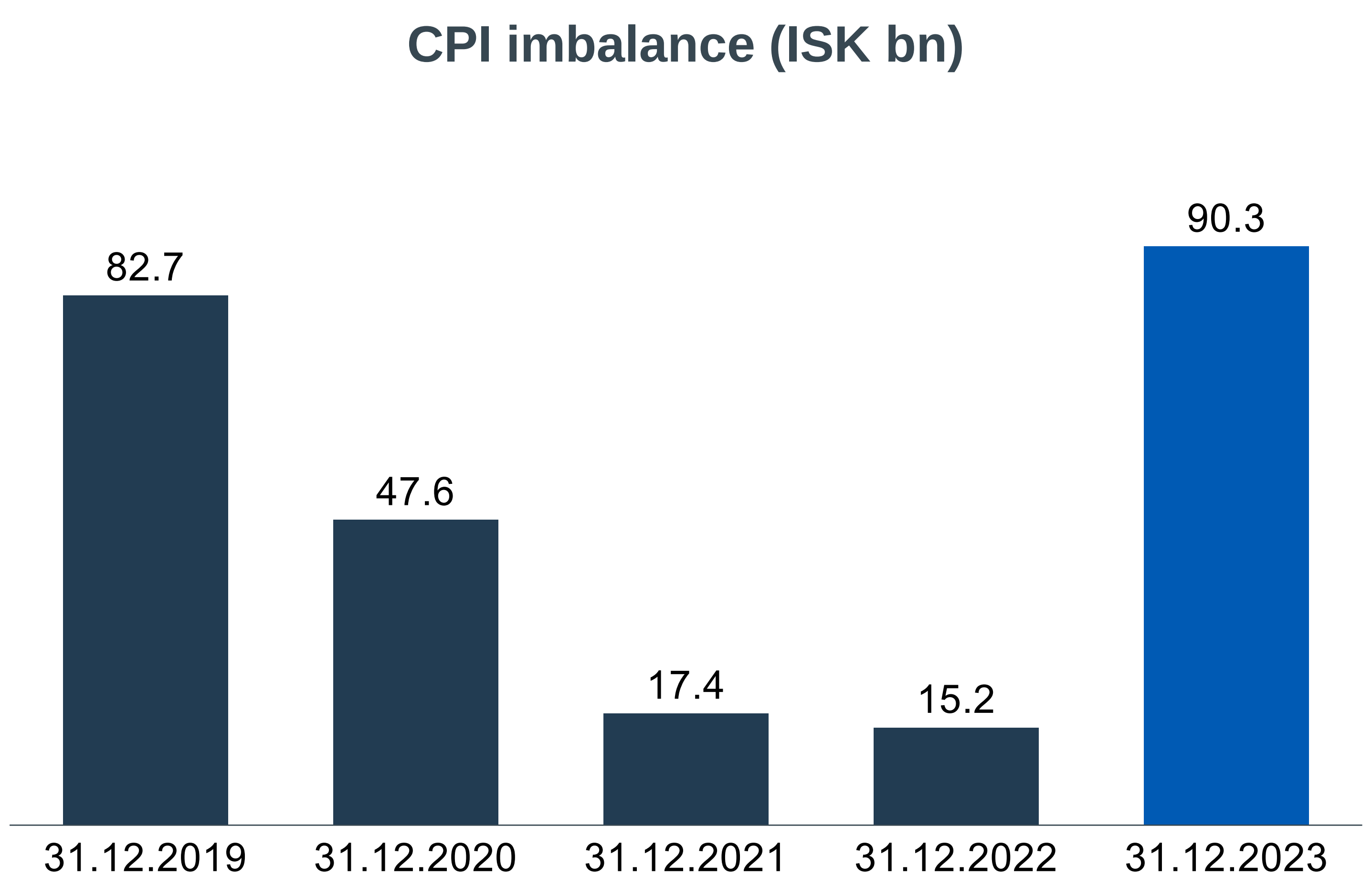


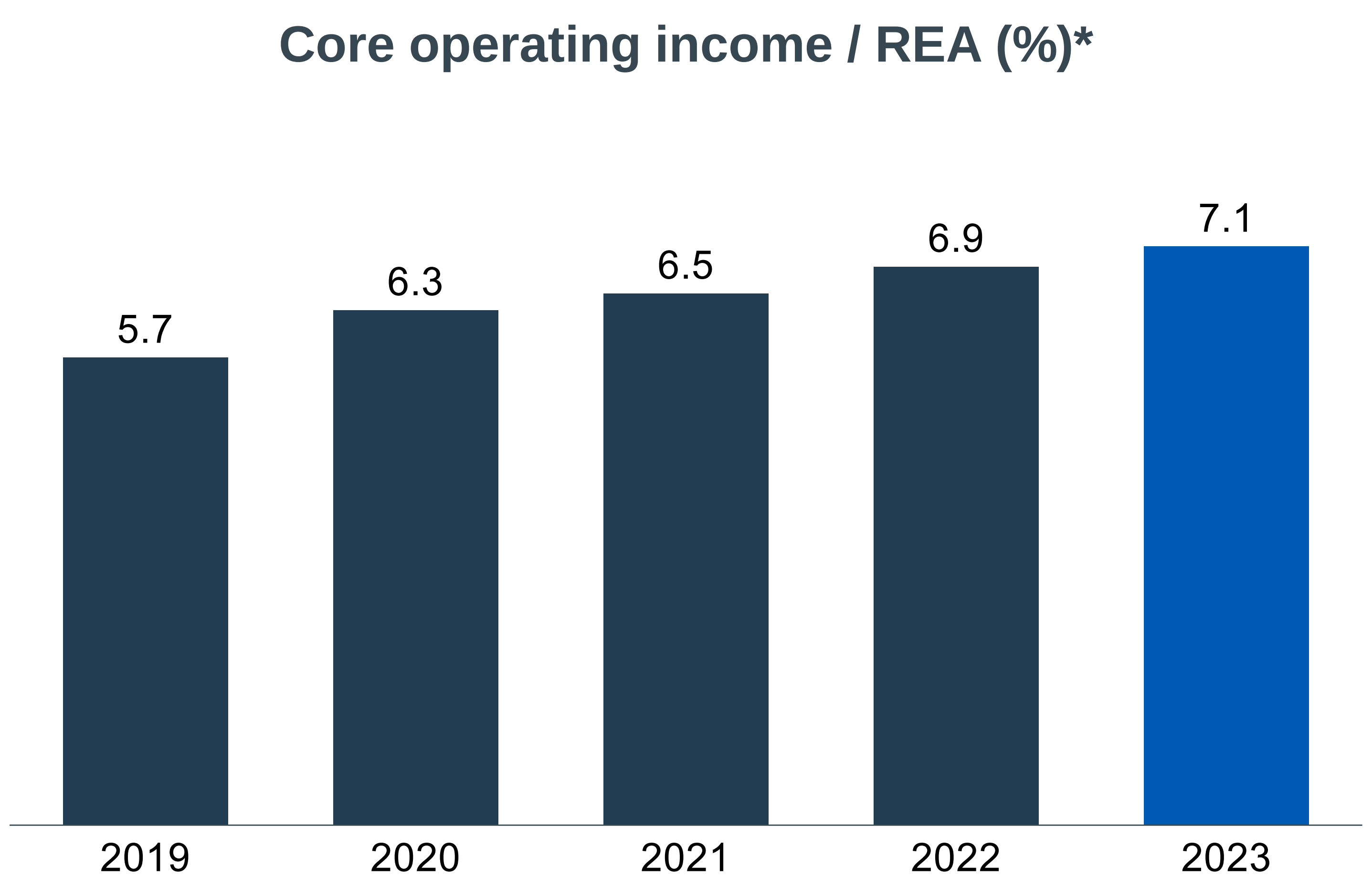
Key financial indicators - annual

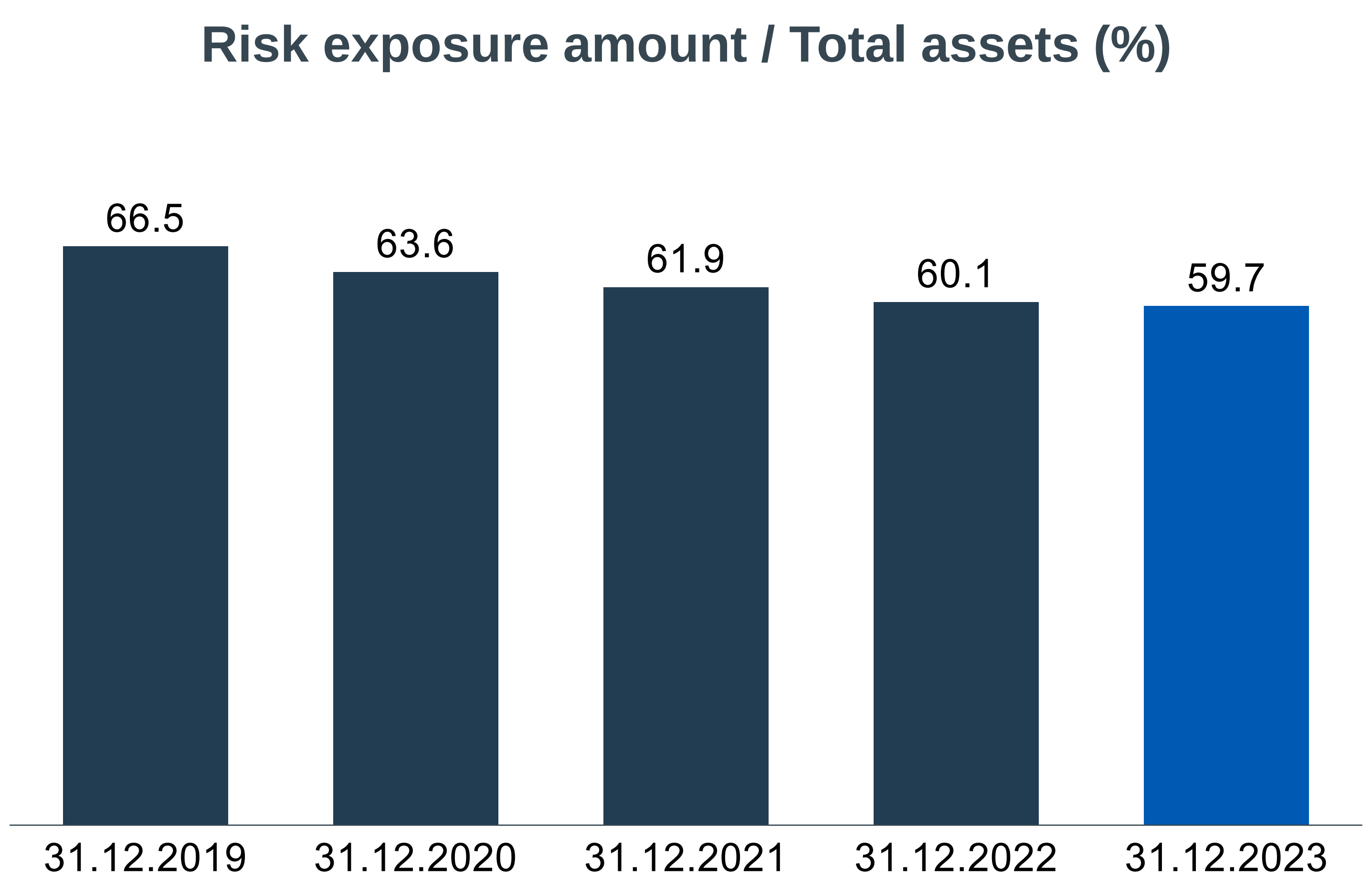












Key figures*

Operations	2023	2022	2021	2020	2019	Q4 2023	Q3 2023	Q2 2023	Q1 2023	Q4 2022
Net interest income	44,685	40,201	32,063	31,158	30,317	11,347	10,918	11,426	10,994	10,623
Net commission income	16,389	16,449	14,673	11,642	9,950	3,903	3,848	4,187	4,451	4,254
Operating income	64,181	55,293	58,225	50,764	47,998	16,312	14,986	17,344	15,539	14,645
Operating expenses	(25,701)	(12,850)	(12,420)	(12,602)	(13,480)	(7,830)	(5,392)	(8,251)	(5,810)	(6,649)
Net earnings	25,737	25,958	28,617	12,468	1,100	6,224	6,131	7,091	6,291	4,965
Return on equity	13.6%	14.1%	14.7%	6.5%	0.6%	12.7%	12.9%	15.5%	13.7%	10.6%
Net interest margin	3.1%	3.1%	2.8%	2.9%	2.8%	3.1%	3.0%	3.2%	3.1%	3.1%
Return on assets	1.7%	1.9%	2.3%	1.1%	0.1%	1.6%	1.6%	1.9%	1.7%	1.4%
Cost-to-core income ratio	44.7%	45.0%	51.6%	53.3%	62.3%	54.9%	38.2%	39.4%	46.8%	53.7%
Cost-to-income ratio	40.0%	44.0%	44.4%	48.1%	56.0%	48.0%	36.0%	34.6%	41.6%	51.0%
Cost-to-total assets	1.7%	1.8%	2.1%	2.1%	2.3%	2.0%	1.4%	1.6%	1.7%	2.1%

Balance Sheet	31.12.2023	31.12.2022	31.12.2021	31.12.2020	31.12.2019	31.12.2023	30.09.2023	30.06.2023	31.03.2023	31.12.2022
Total assets	1,525,672	1,465,609	1,310,710	1,172,706	1,081,854	1,525,672	1,540,669	1,518,227	1,500,645	1,465,609
Loans to customers	1,152,789	1,084,757	936,237	822,941	773,955	1,152,789	1,143,473	1,134,621	1,114,128	1,084,757
Mortgages	617,648	574,029	504,877	409,641	333,406	617,648	605,449	595,896	576,861	574,029
Share of stage 3 loans, gross	1.7%	1.2%	1.9%	2.6%	2.7%	1.7%	1.5%	1.5%	1.4%	1.2%
REA/ Total assets	59.7%	60.1%	61.9%	63.6%	66.5%	59.7%	58.9%	60.1%	60.4%	60.1%
CET 1 ratio	19.7%	18.8%	19.6%	22.3%	21.2%	19.7%	19.4%	18.9%	18.6%	18.8%
Leverage ratio	12.4%	11.8%	12.7%	15.1%	14.1%	12.4%	11.8%	11.7%	11.3%	11.8%
Liquidity coverage ratio	191.8%	158.5%	202.8%	188.5%	188.3%	191.8%	179.1%	162.9%	173.6%	158.5%
Loans to deposits ratio	145.4%	143.6%	142.8%	144.8%	157.0%	145.4%	141.8%	145.2%	143.8%	143.6%

*Figures for periods before H1 2022 have not been restated according to IFRS 17

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