



Capital Markets Day

1 March 2024

Schedule

Arion Capital Markets Day 2024

Time	Agenda	Speaker
09:00	Building on a strong foundation Attractive market – unique position – track record of delivering	Benedikt Gíslason CEO
09:30	Maintaining digital leadership	Björn Björnsson CIO
09:45	Enhancing the value of being a customer of Arion	Iðá Brá Benediktsdóttir Deputy CEO and MD of Retail Banking
10:05	Break	
10:20	Leading market position with digital innovation	Jóhann Möller MD of Markets
10:35	Delivering sustainable growth through client relations and capital management	Hákon Hrafn Gröndal MD of CIB
10:55	Capturing the value of bancassurance	Guðbjörg Heiða Guðmundsdóttir CEO of Vörður
11:10	Drivers of continued financial performance Resilience - efficiency - growth	Ólafur Hrafn Höskuldsson CFO
11:30	Q&A Session	





Building on a strong foundation

Benedikt Gíslason
CEO



**Operating in
an attractive
market**

**With a unique
position**

**And a track
record of
delivering**



Opportunities for growth in a dynamic business climate

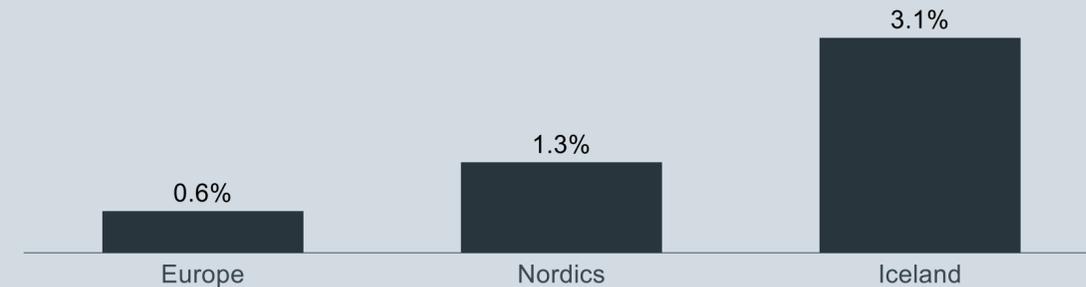
- Operating in an attractive market
With a unique position
And a track record of delivering

Dynamic business climate

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

Opportunities for growth

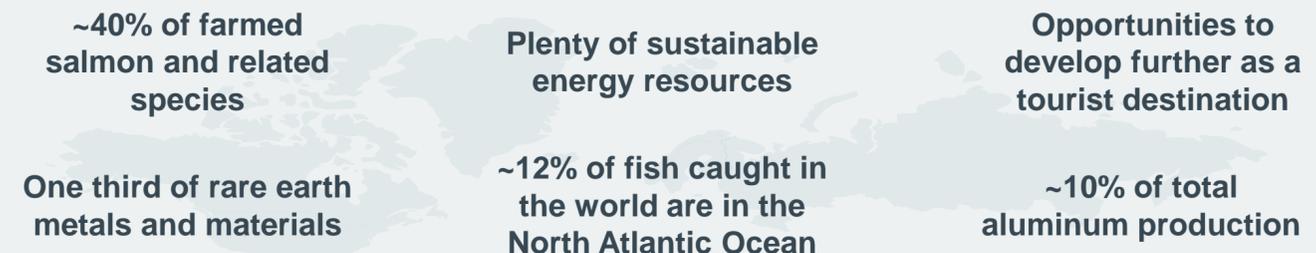
Record growth of the Icelandic population in 2022, growing by 3.1%



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



Arctic region presents significant long-term opportunities

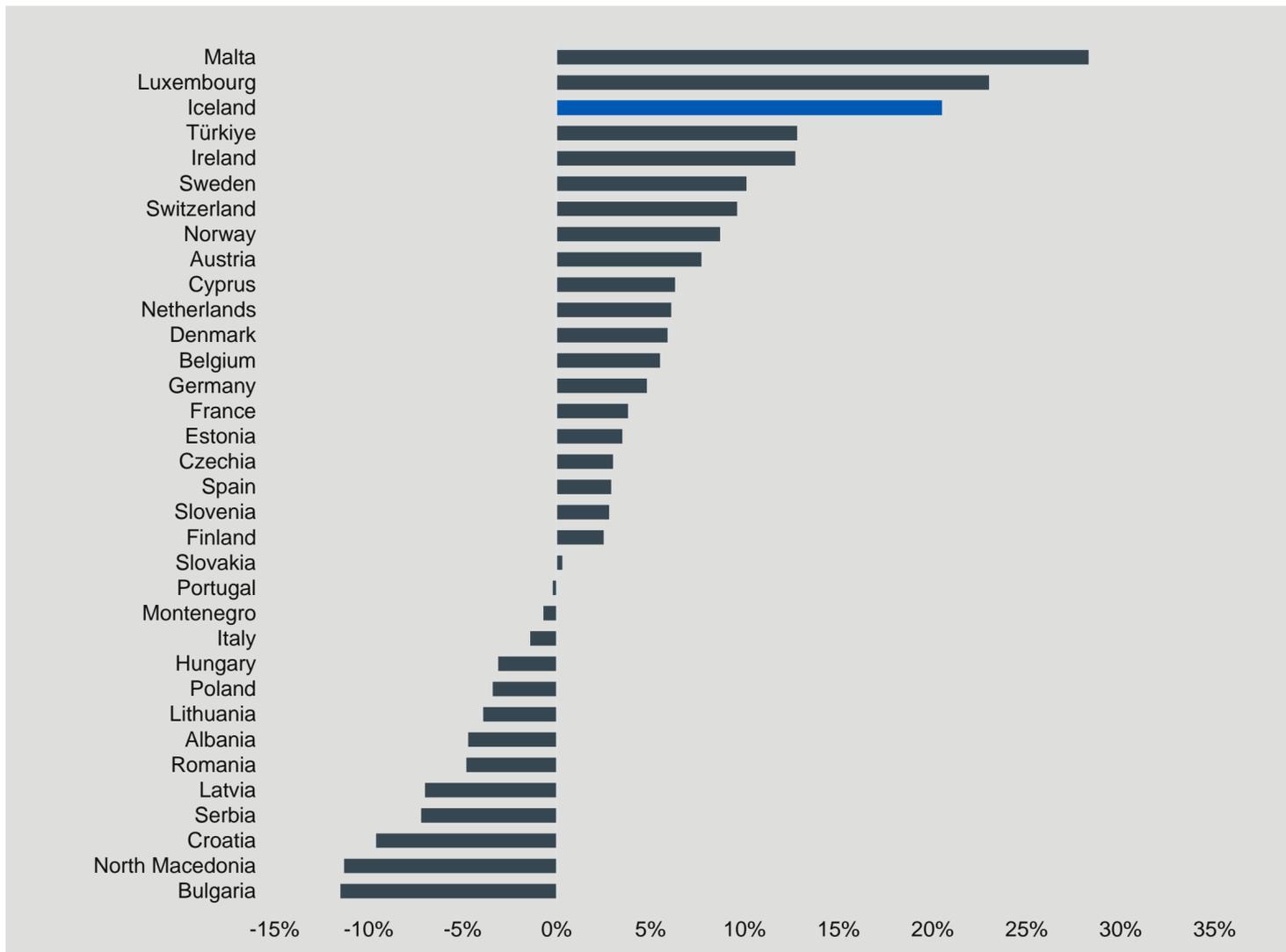


Track record of solid economic growth

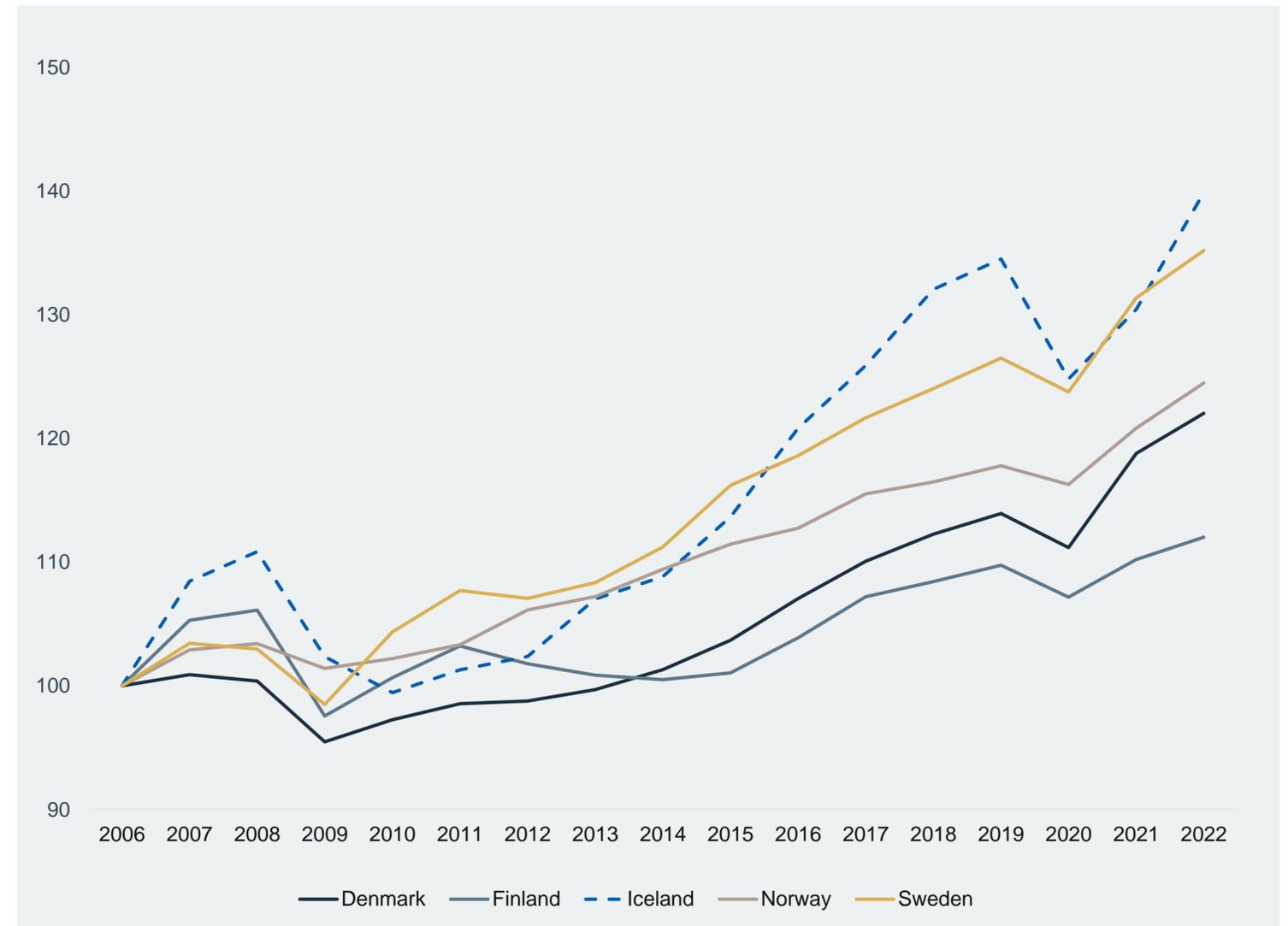
- Operating in an attractive market
- With a unique position
- And a track record of delivering

Iceland's thriving economy attracts an international workforce which has led to one of the highest rates of population growth in Europe contributing to robust and consistent economic growth

Population growth 2013-2023



Real GDP – Index (Jan 2006 = 100)



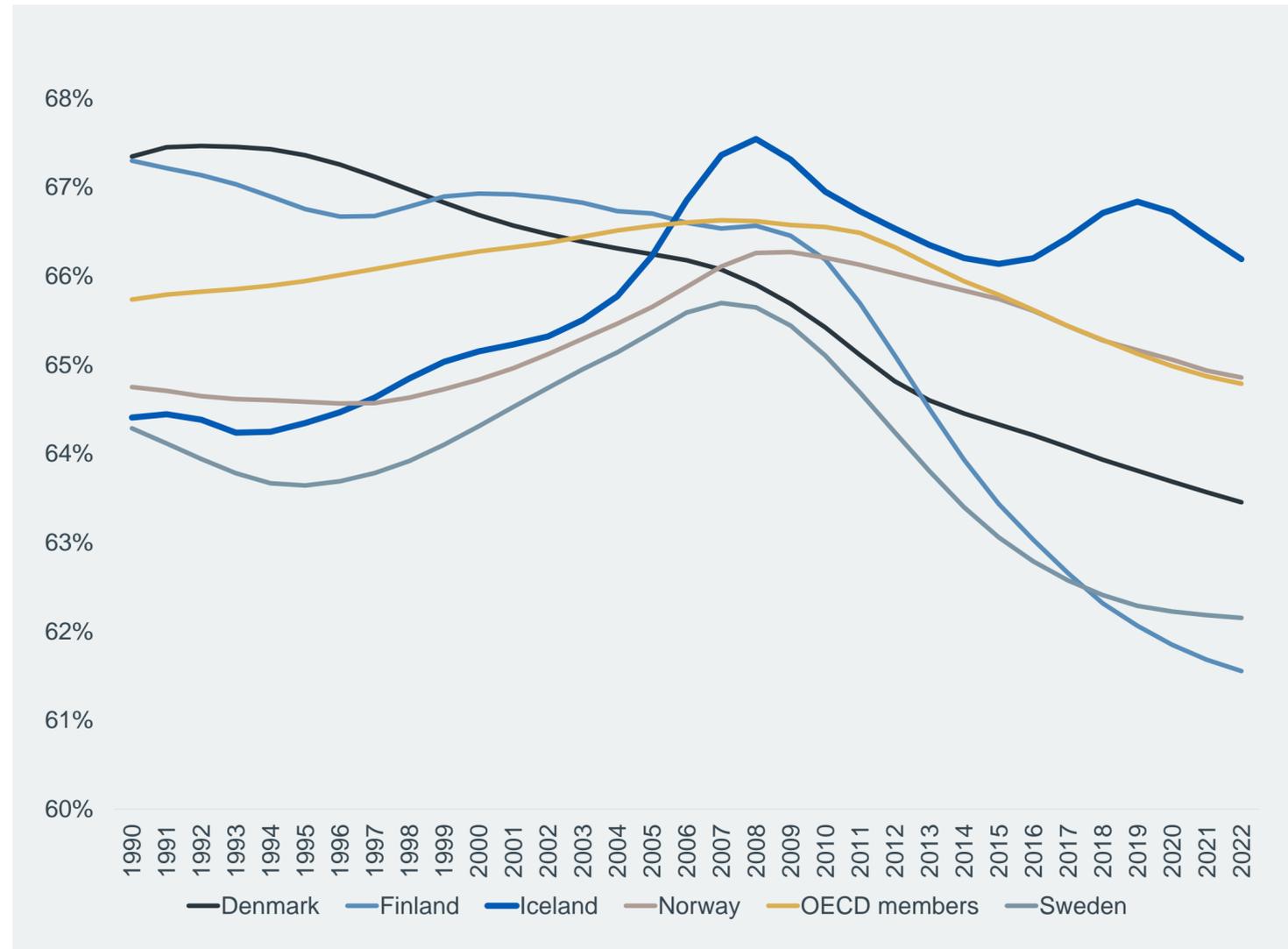
Favorable demographics foster growth

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

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

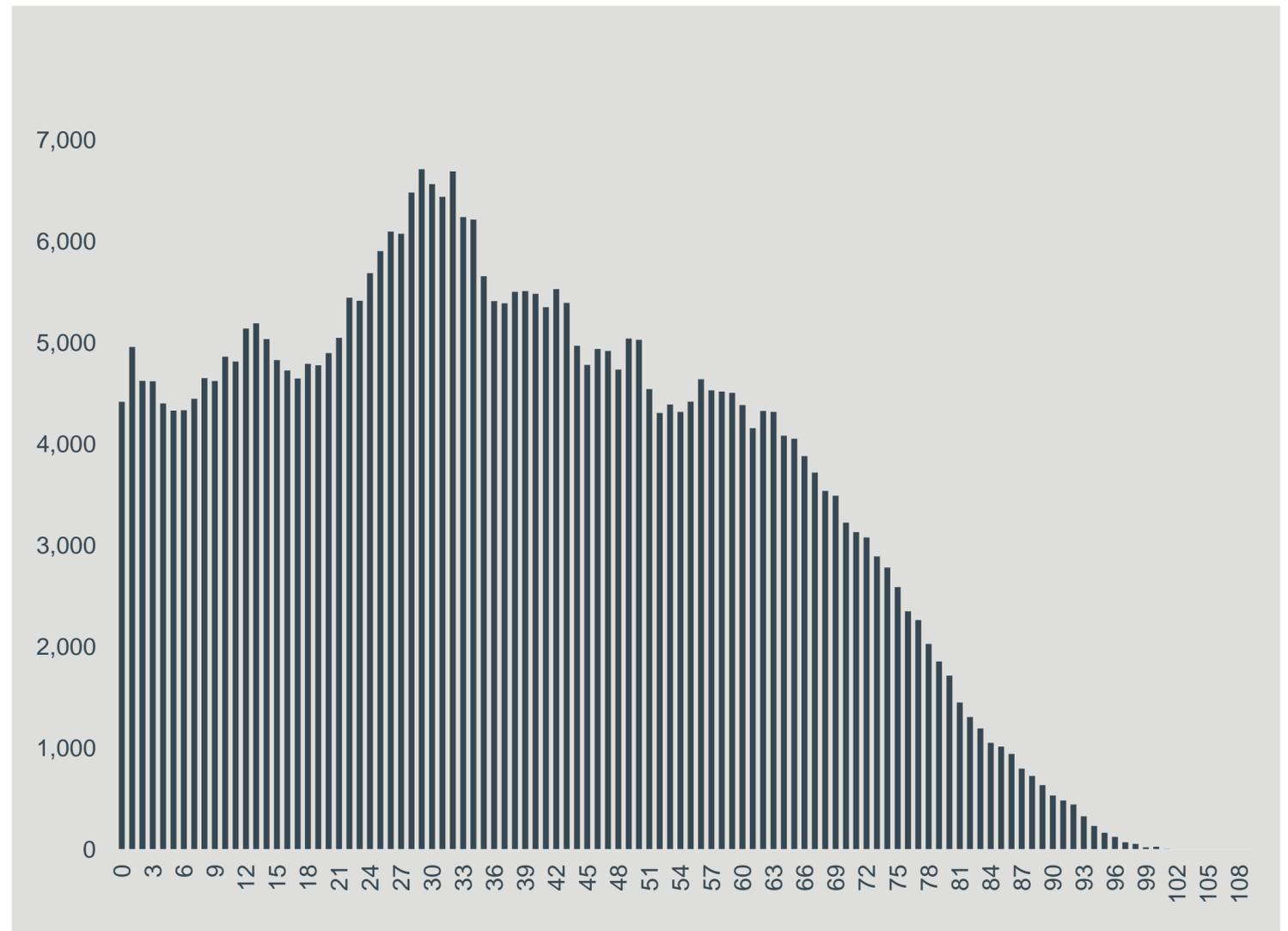
Working age population

Share of total population (%)



Population age distribution

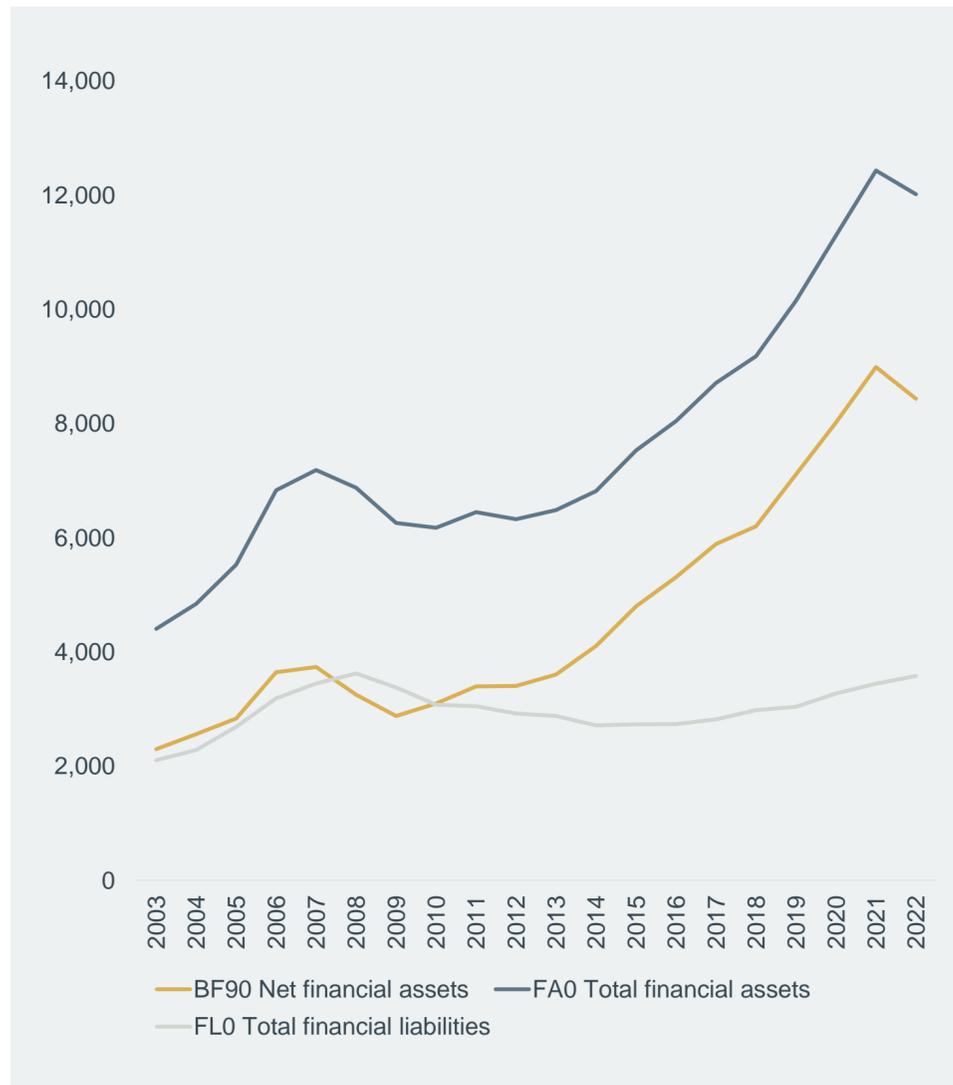
Number of inhabitants by age



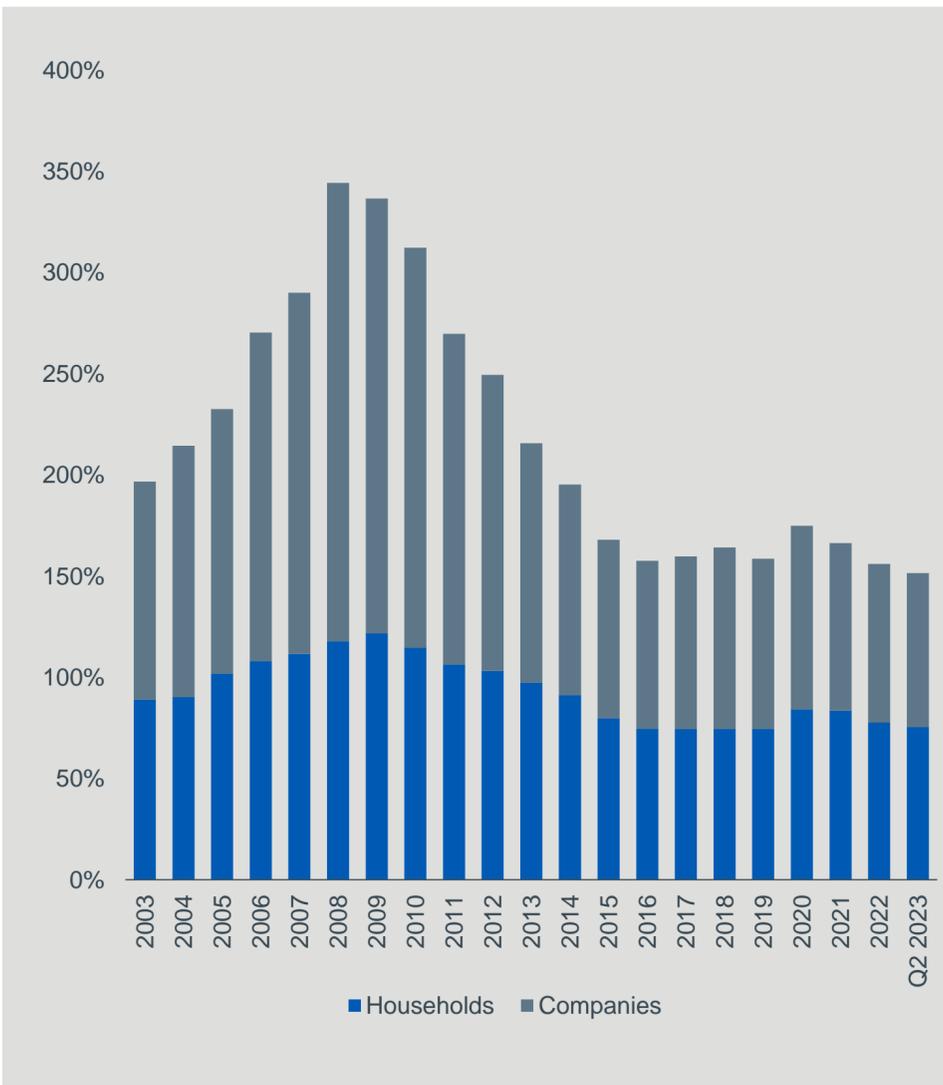
Strong financial standing of private and public sectors provides fertile ground for continued entrepreneurship and innovation

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

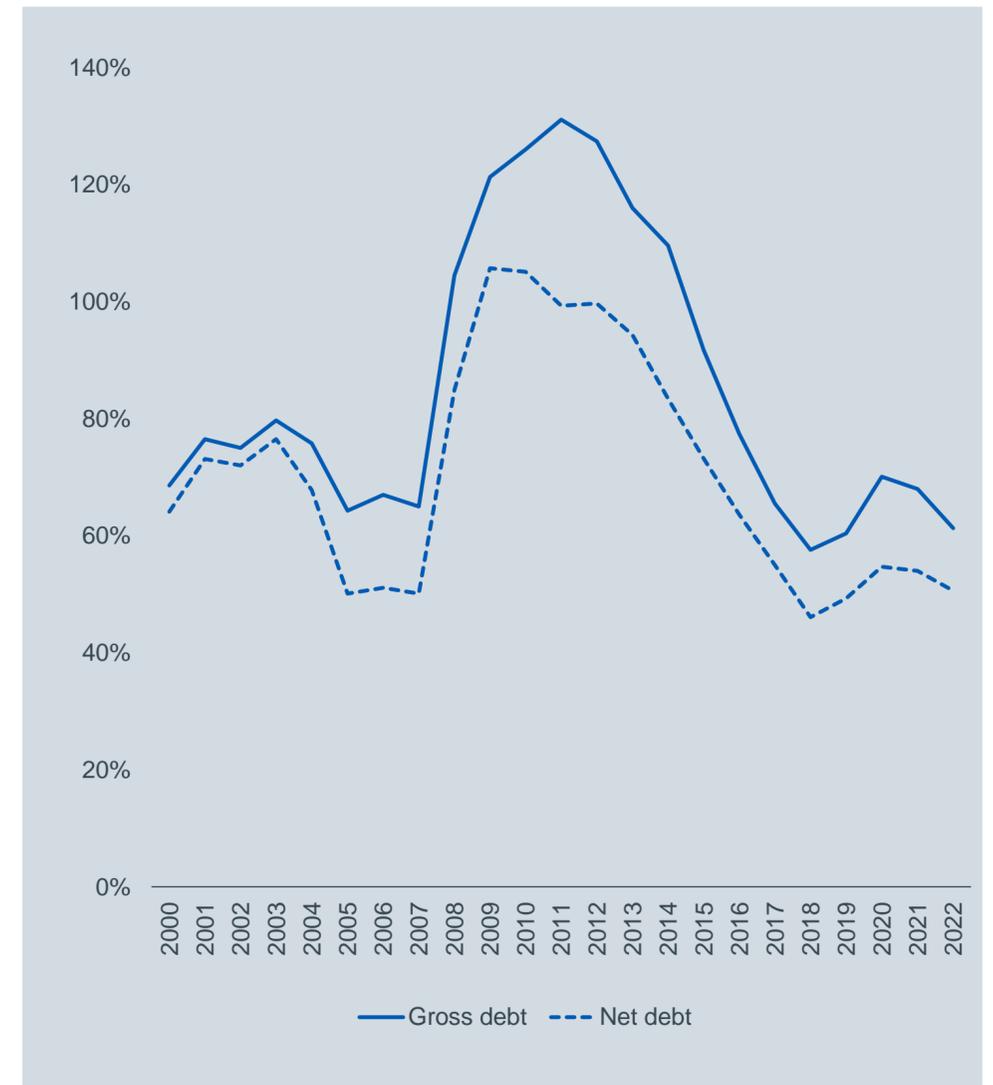
Households' financial assets and liabilities
 ISK bn (Jan 2024 prices)



Household and non-financial corporate debt
 % of GDP



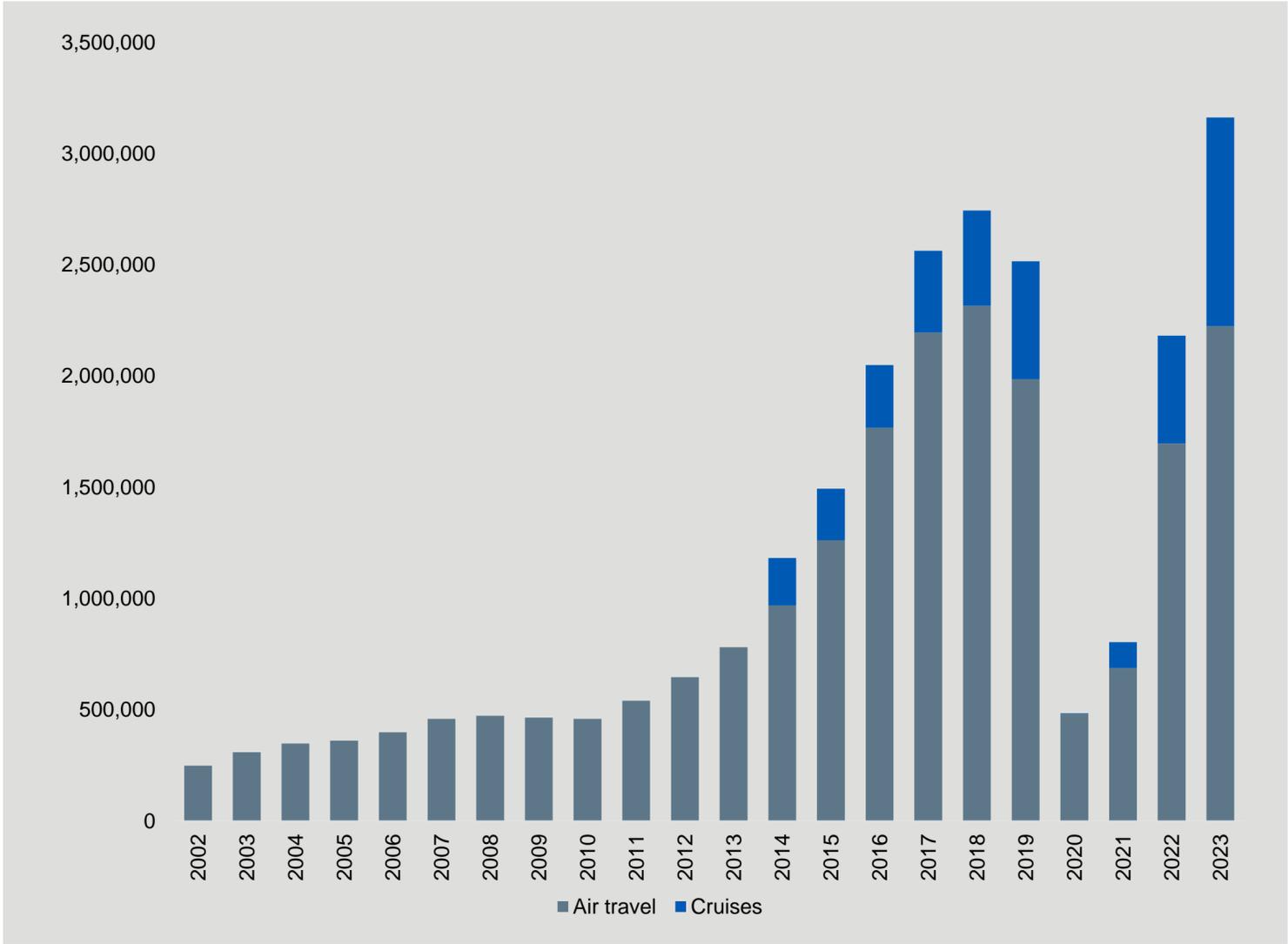
Debt of central government
 % of GDP



Exports remain robust as tourism bounces back, fostering economic vitality

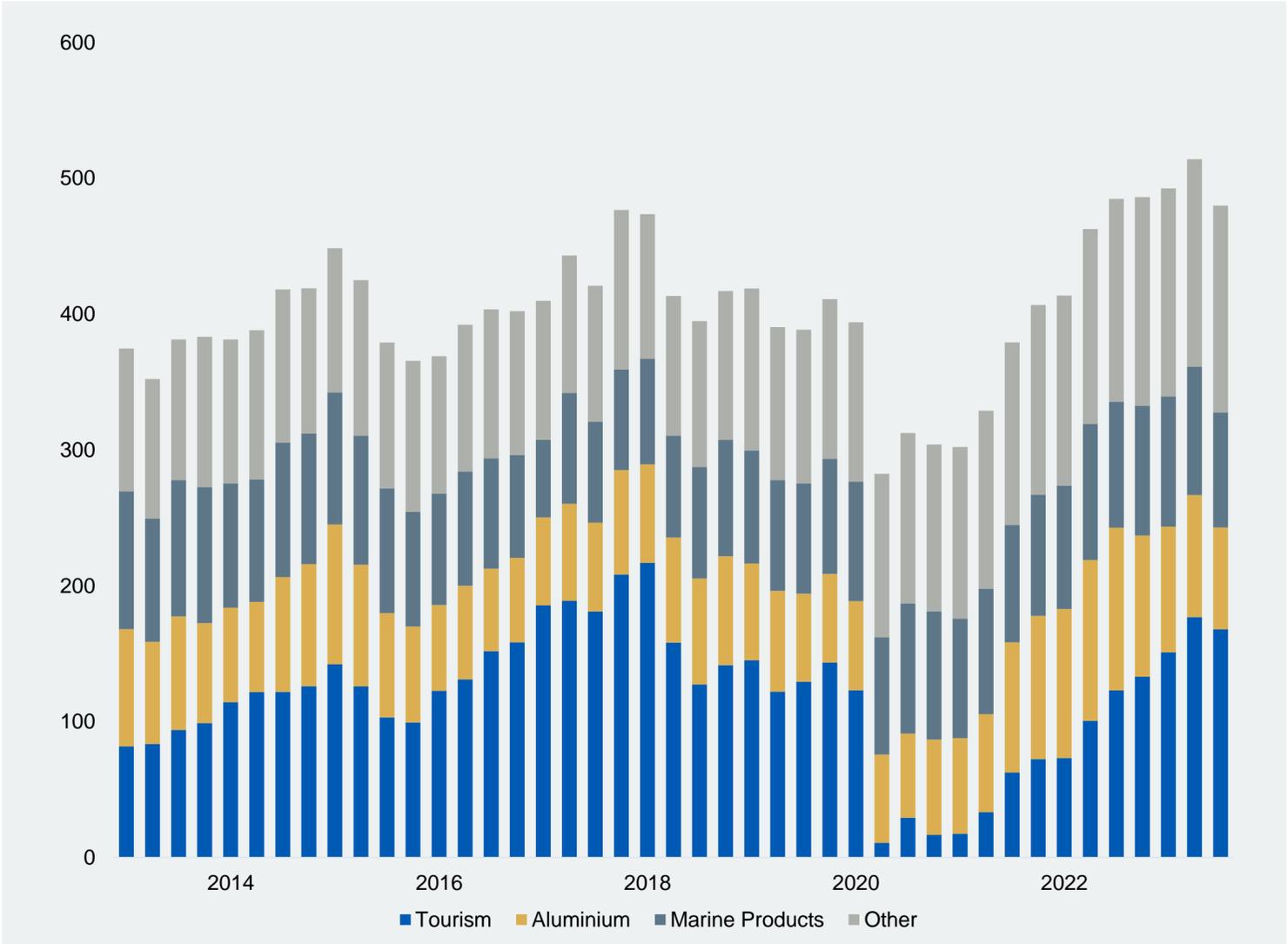
● Operating in an attractive market
 With a unique position
 And a track record of delivering

Number of foreign tourists



Exports

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



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

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



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

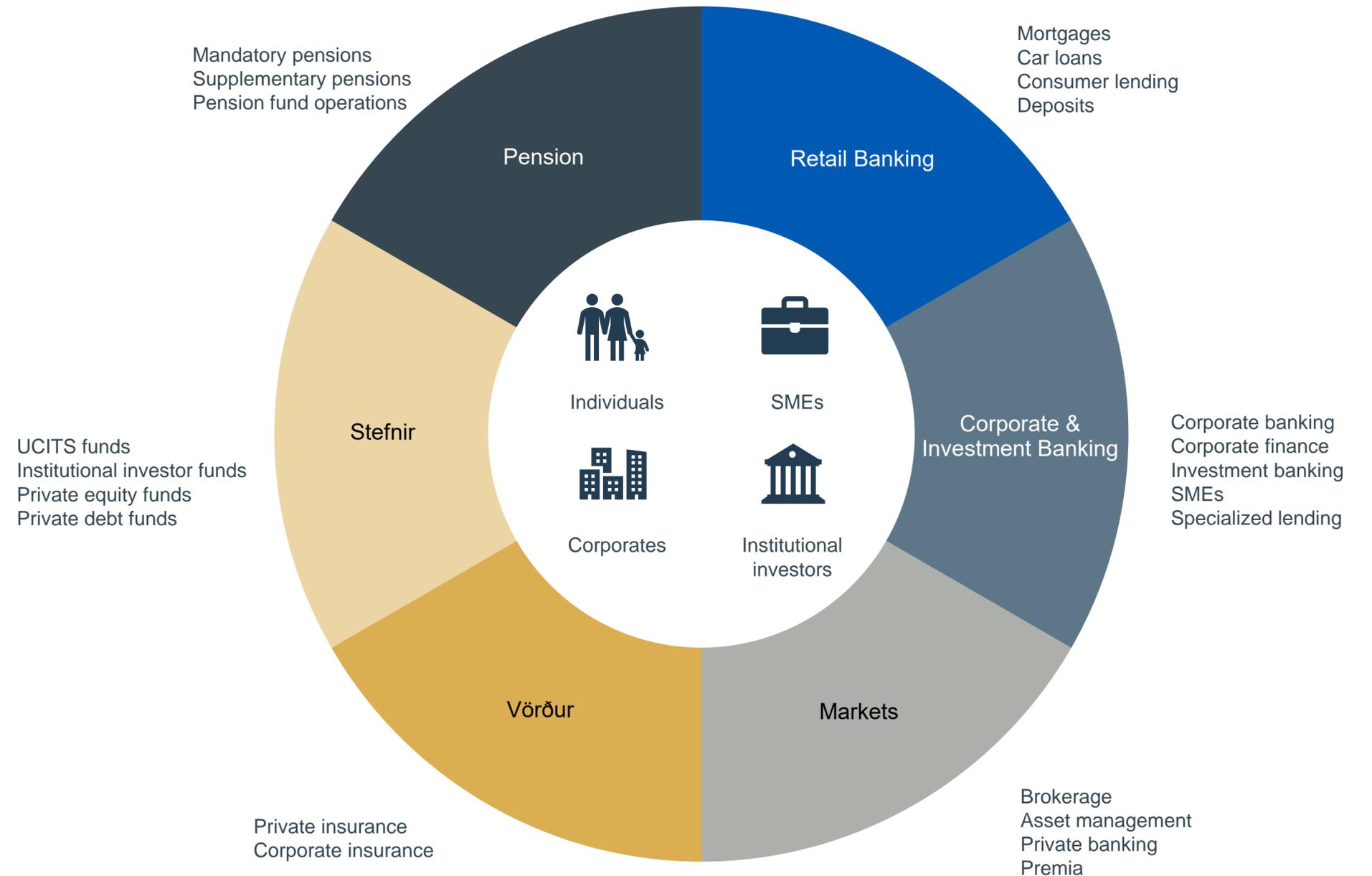
Known for innovation – digital at the core and a customer first focus

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

Servicing half of the Icelandic population



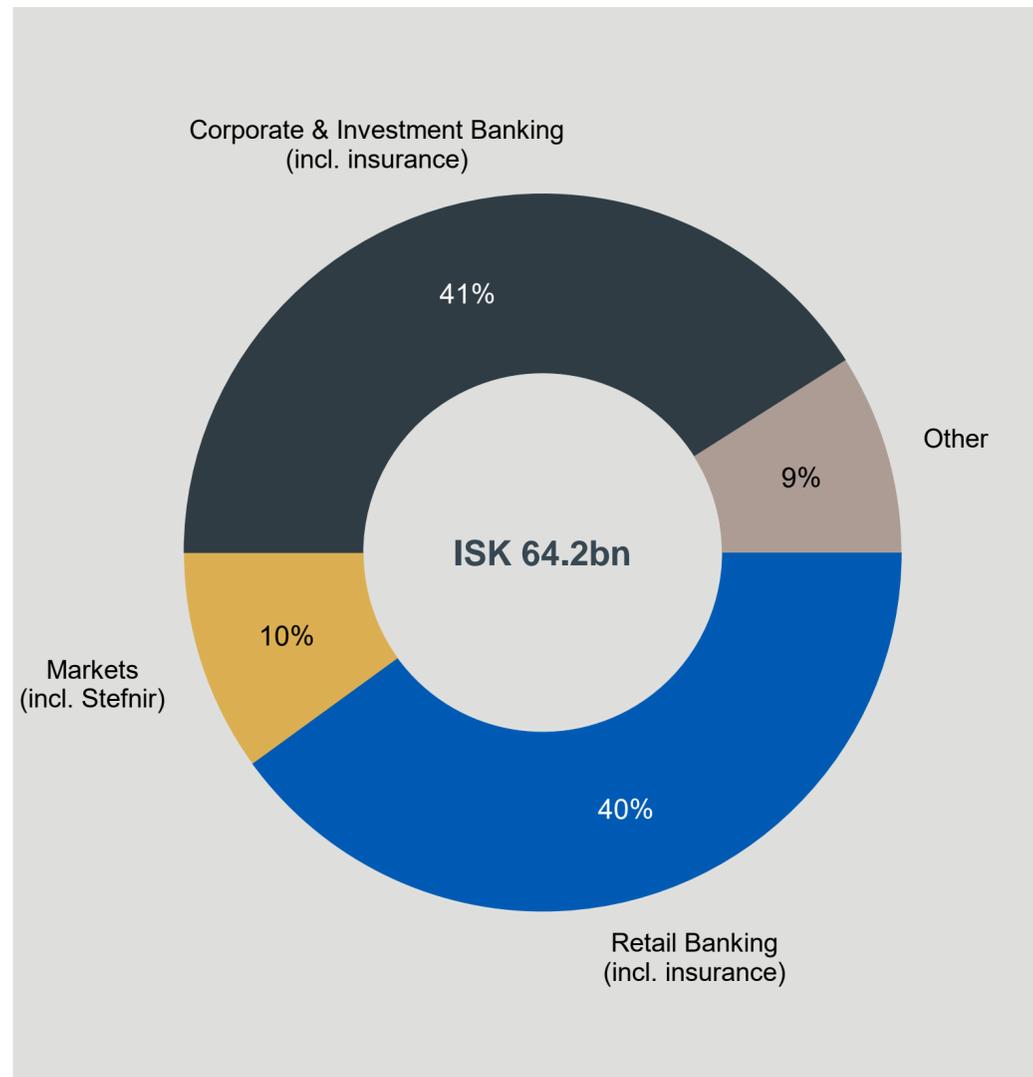
and over half of Icelandic corporations



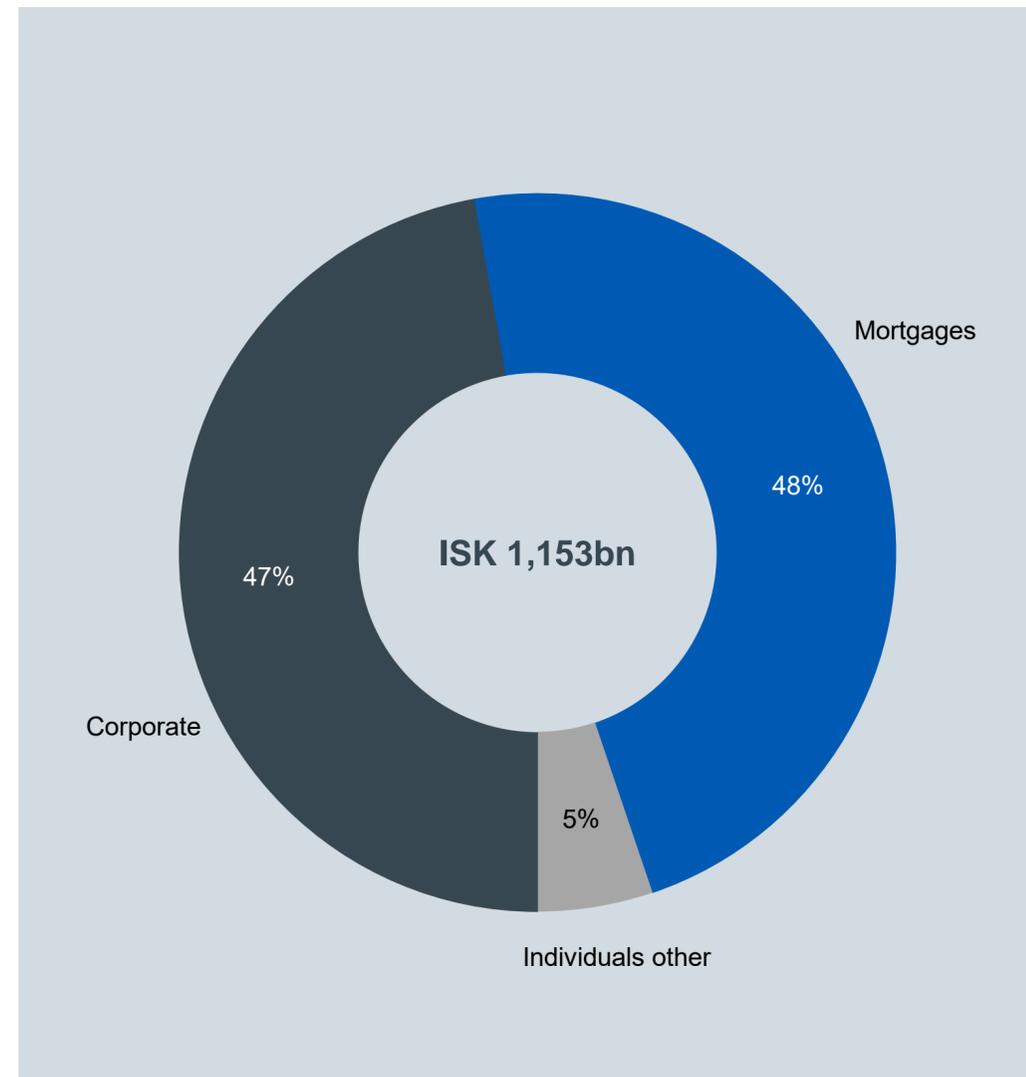
Strong financial and risk profile

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

Diverse income mix
Operating income 2023



Diverse loan book
Loans to customers YE 2023



CET1
19.7%

Leverage ratio
12.4%

LCR
192%

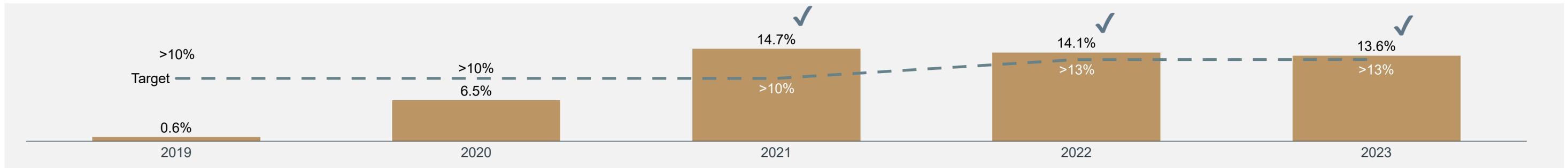
Problem loans
1.7%



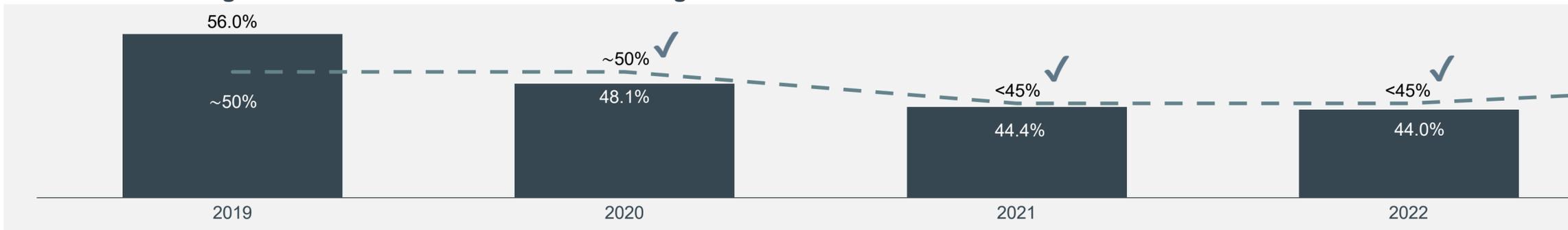
Focused strategic direction has enabled us to significantly exceed our medium-term targets

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

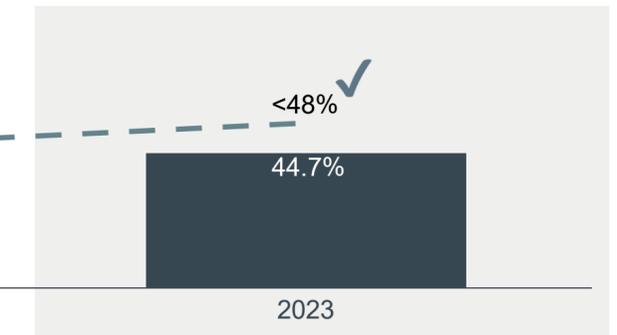
ROE target of >10% reached in 2021 – revised target of >13% reached in 2022 and 2023



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



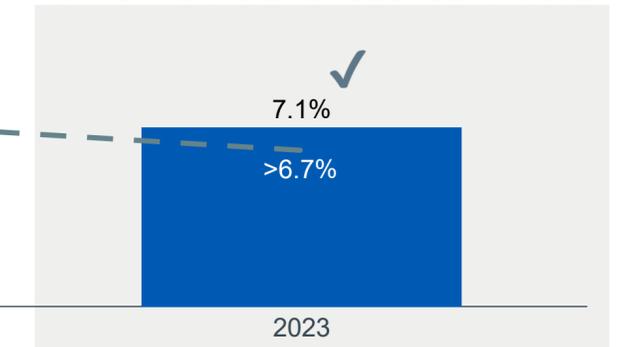
Target revised to cost to core income of <48% and reached in 2023



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



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



2019 strategic focus areas remain the guiding light

Capital Markets Day 2019

2019-2023

Next steps....

Updated strategic priorities

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

Strong delivery

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

Commitment to return surplus capital

ISK 96.2bn

Dividend / Buy-backs 2019-2023

Important milestones in simplifying the balance sheet through divestments

 **Bravo Tours**

 **LANDEY**

VALITOR

Bancassurance emphasis

 **vörður**

Strategic refinements to secure long-term success

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



Target client segments



Financial health

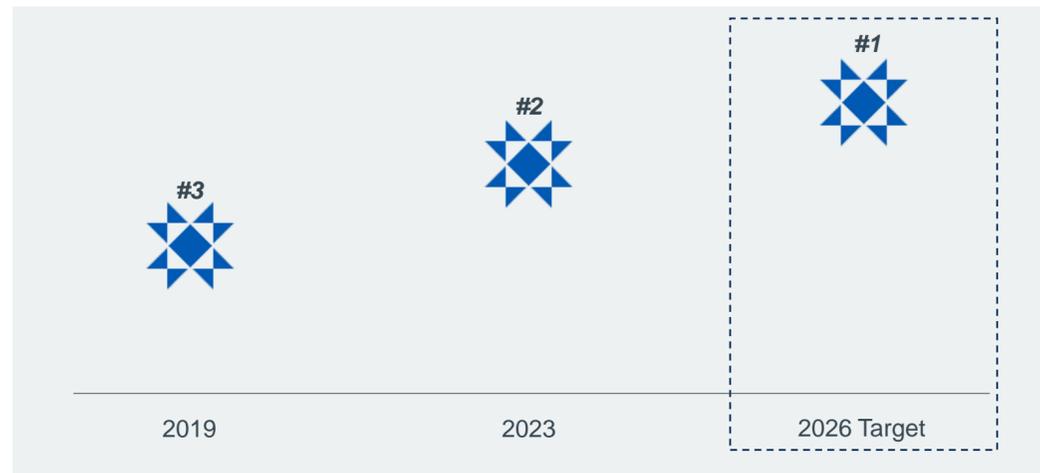


Arctic

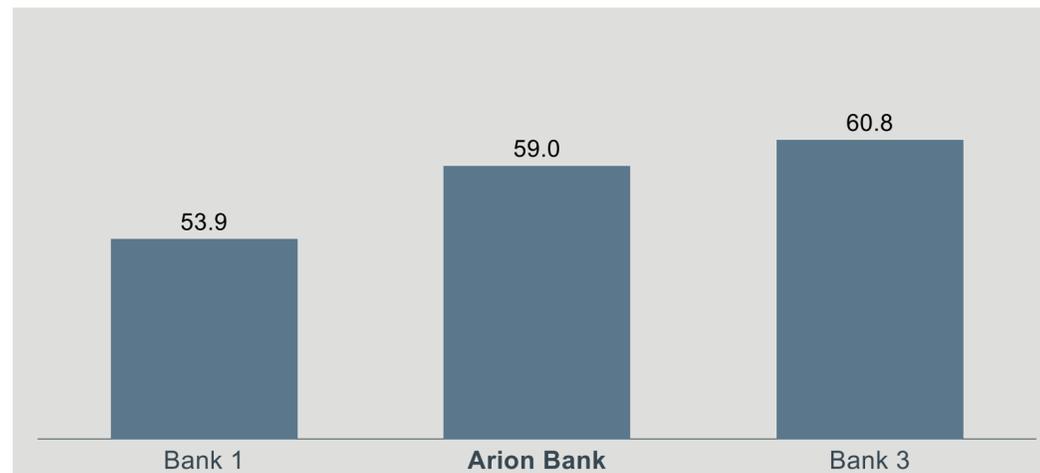


Significant momentum in customer satisfaction in line with enhanced focus on a customer centric culture

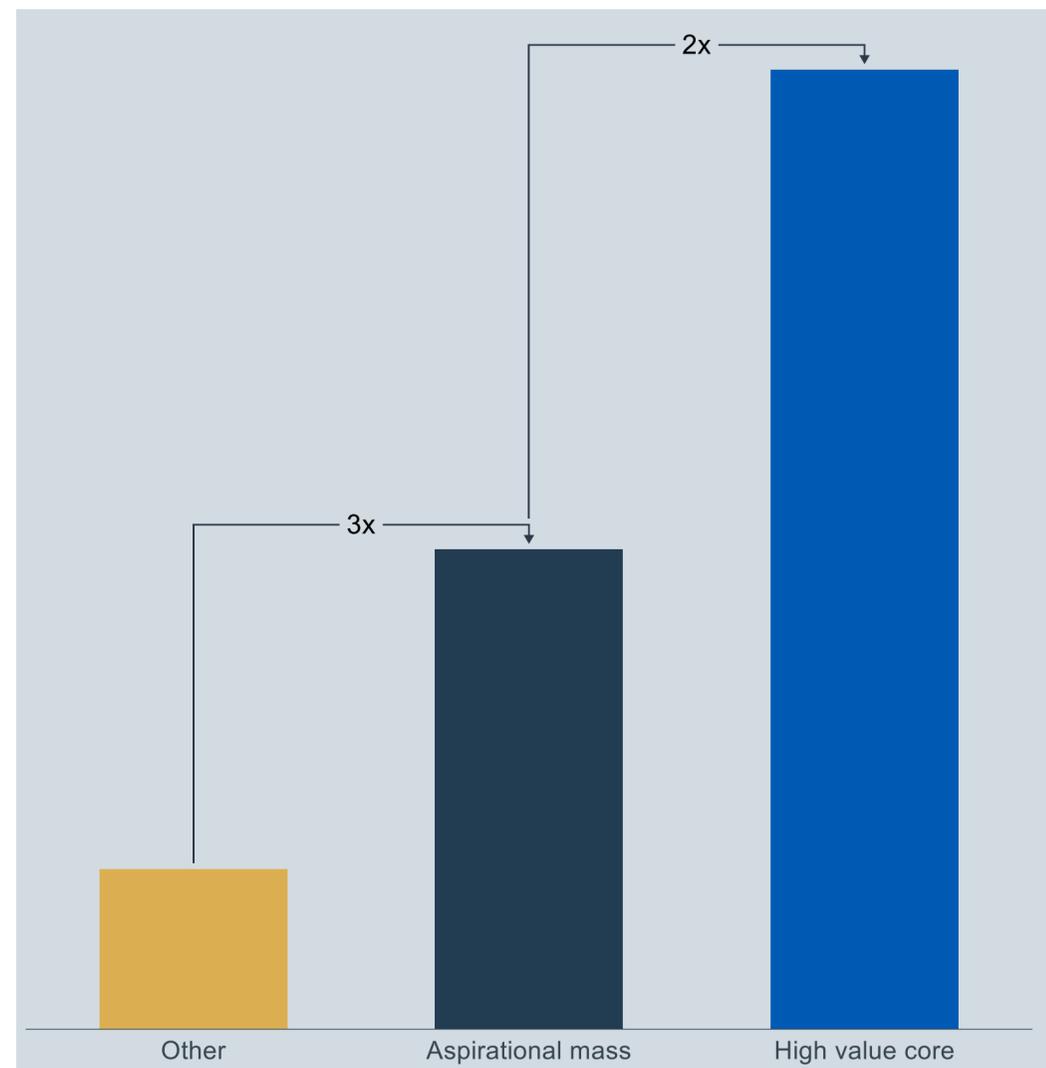
Opportunities for growth
Customer satisfaction



Customer Satisfaction Index
Results for 2023



Continued focus on growing share of wallet in target client segments
Revenue per customer



Strategic priorities

Be a leader in identifying and meeting customer needs

Reward loyalty to foster long-term relationships

Deepening relationships, increasing connectivity and cross selling

Customer centric and innovation focus, with the aim of enhancing the end-to-end customer journey



Strategic initiatives focused on leveraging our established framework

Retail Bank / Insurance

In the coming weeks we will be launching a new rewards program which ties together the various benefits associated with being a customer of the Arion Group



Corporate & Investment Bank

Optimized products and services for corporates and SMEs following service-related customer journey mapping



Markets

Premium and wealth management service launched to cater to a growing client segment



Strategic pillars

Target client segments

Financial health

Arctic



The Arctic offers significant potential in the long term

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

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

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

Key focus sectors

Fishing

Tourism

Shipping

Financial services



Continued progression of our development assets within Landey

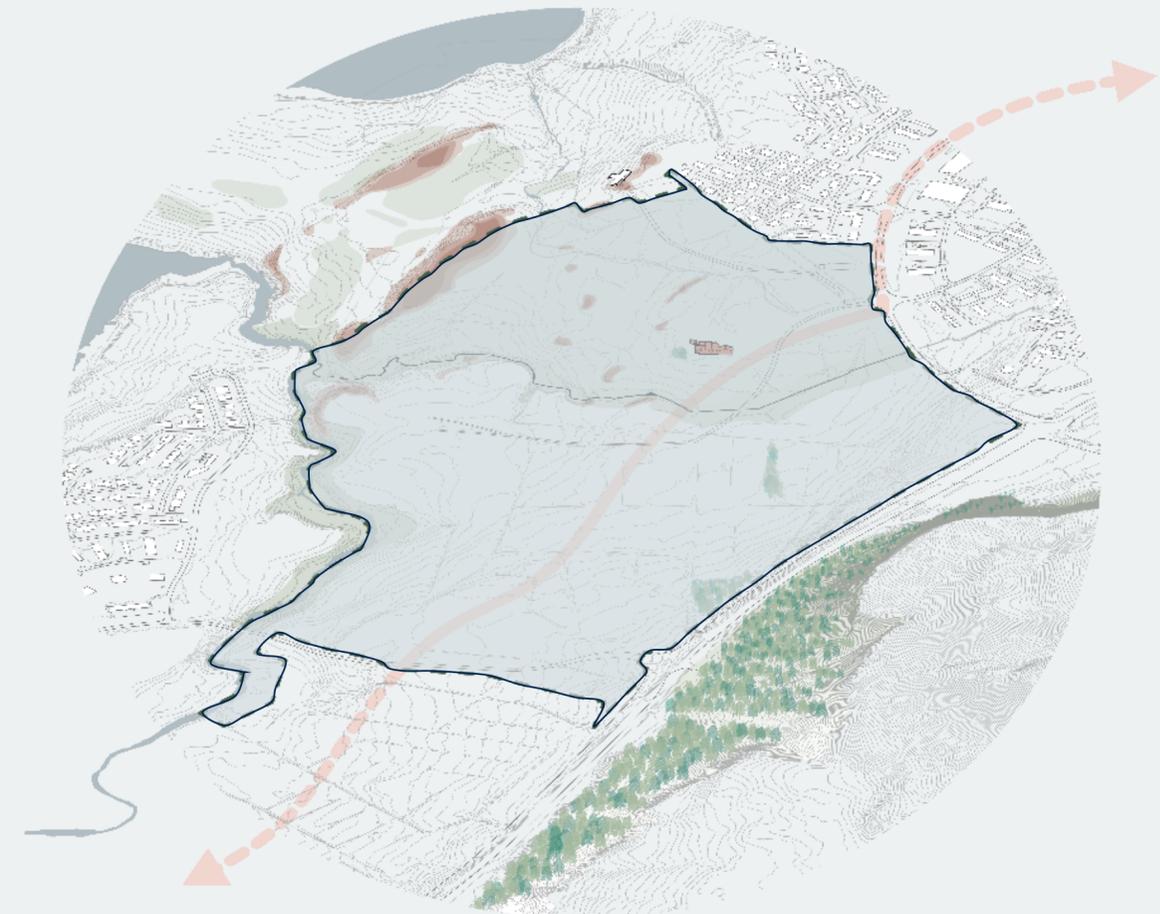
Arnarland

The land covers approximately 9 hectares and is located in the heart of the capital area, in Garðabær. Development is ongoing and it is anticipated that the Local Plan for the area will be finalized and approved in the second half of 2024. Arion owns 51% in the project.



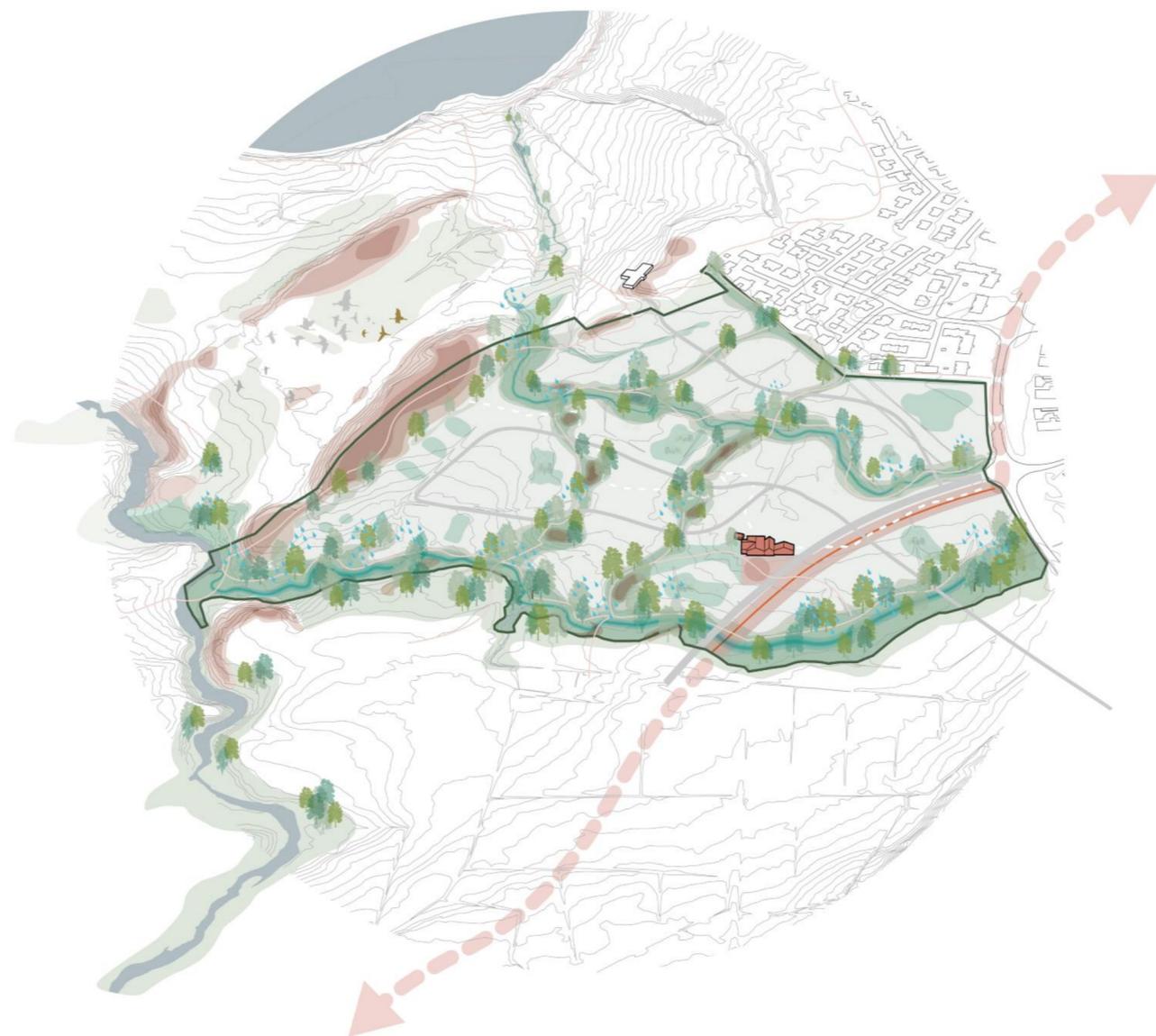
Blikastadir

Blikastadir is the largest undeveloped plot of land in the capital area, covering approximately 98 hectares and is located in Mosfellsbær. Arion is the sole owner of Blikastadir.



Blikastadir is a long-term project with significant potential

(Book value ISK 6.7bn)



1. Blikastaðir - 1st phase

Local planning in progress

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

Our role

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

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

Next steps

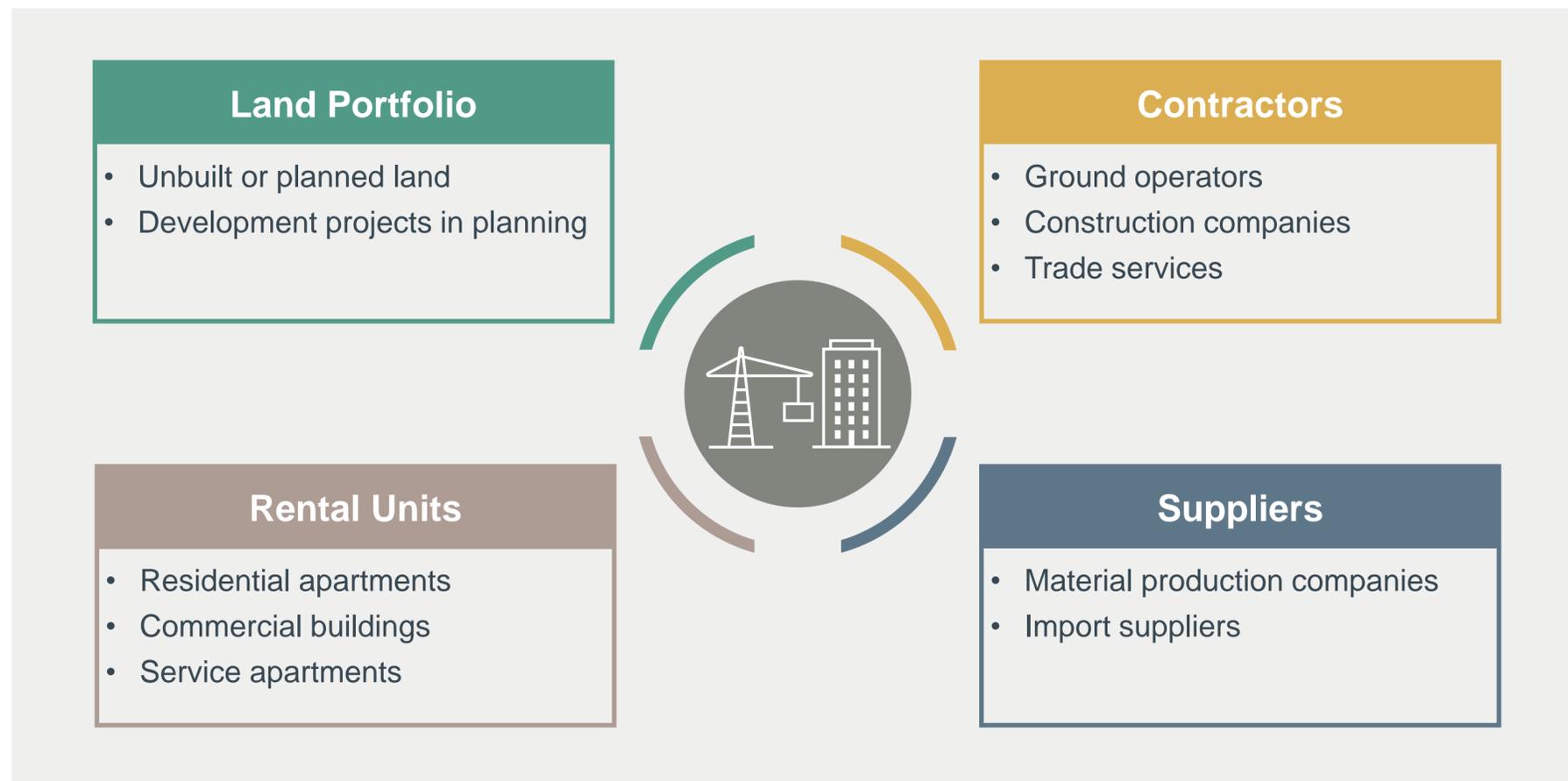
Local plan for this first part of the land is expected to be finalized and approved in the second half of 2025. We are now in the process of exploring multiple options regarding future ownership of the land.



A new approach to our development assets

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

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



Robust real estate company

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

Unique consolidation domestically

Development and construction operations combined with rental company

Social commitment

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

Listing on Nasdaq Iceland

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



Continued focus on sustainability

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



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



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



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

Next steps in our sustainability journey

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

Have targets on financed emissions validated by SBTi within two years

Increase percentage of investment by women

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

Implementing CSRD legislation and report on sustainability according to ESRS standards

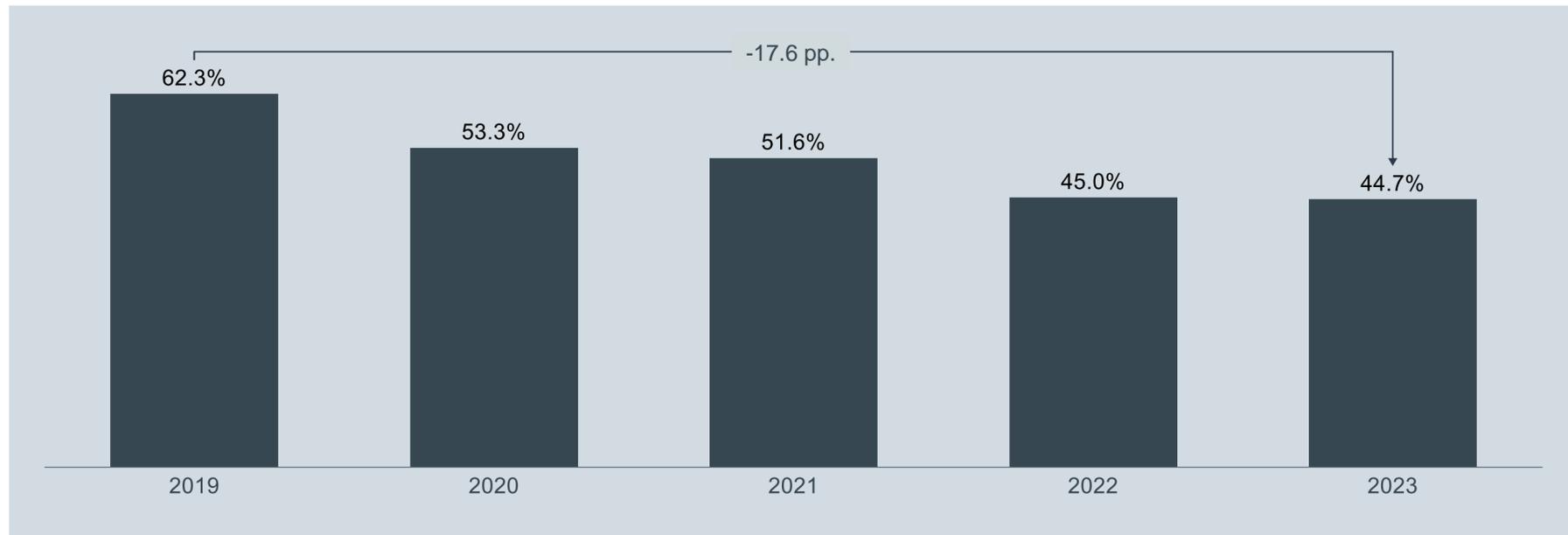
Further engagement with customers regarding sustainability

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

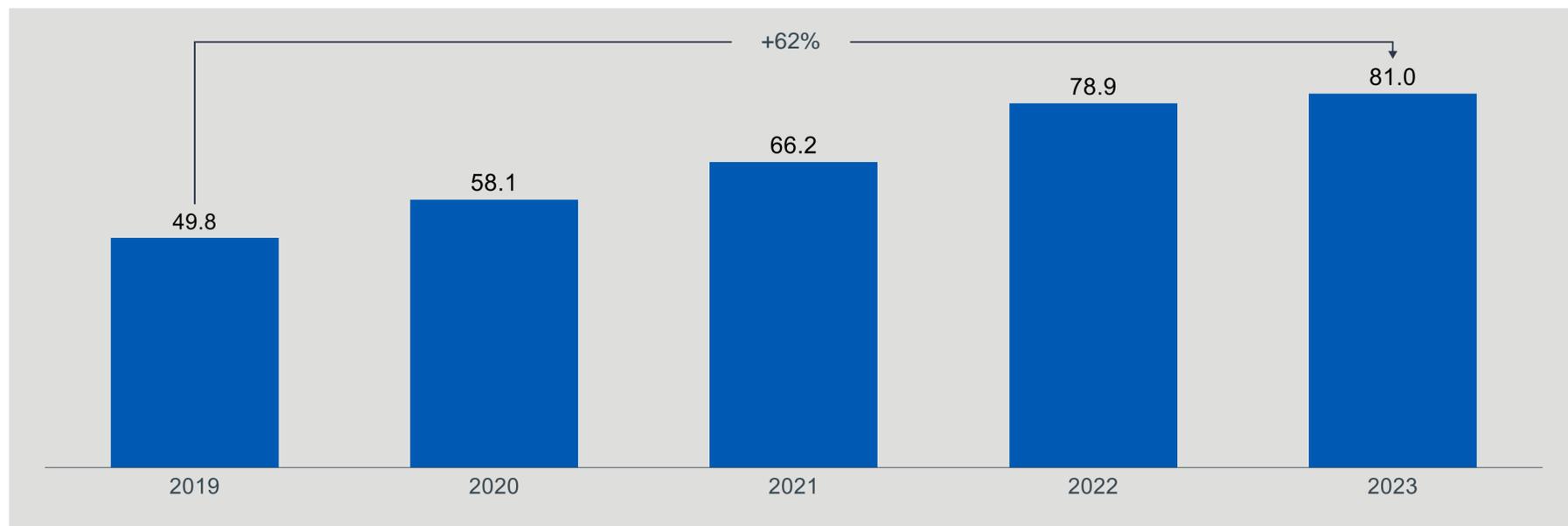


Continued operational efficiency

Cost-to-Core income (%)



Core Income per FTE (ISK m)



Continued focus on streamlining the Bank

Cost-to-core income medium target of <45%

Branch strategy has resulted in reduction of smaller branches and development of larger full-scale service branches

New COO role fosters cross-unit collaboration and enhanced operational efficiencies

Future proof our digital platform

Focus on automation, data and AI



Operating in an attractive market

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

With a unique position

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

And a track record of delivering

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

Medium term targets*

>13% Return on equity

>7.2% Core income over REA

<45% Cost to core income

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

<95% Insurance combined ratio of Vörður

50% Dividend payout ratio

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

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





Maintaining digital leadership

Björn Björnsson
CIO

Arion has spearheaded the delivery of digital financial services in Iceland

Front runner in building a comprehensive digital platform for financial services (select examples)

Digital loan applications

Home loans and Car loans

Retail investments in App

Trading of securities and funds with real time data

Insurance in App

Insurance overview and offer via App

Pension savings in App

Sales, changes, status and development

Recognized locally and globally

Best banking app in Iceland
7 years in a row¹

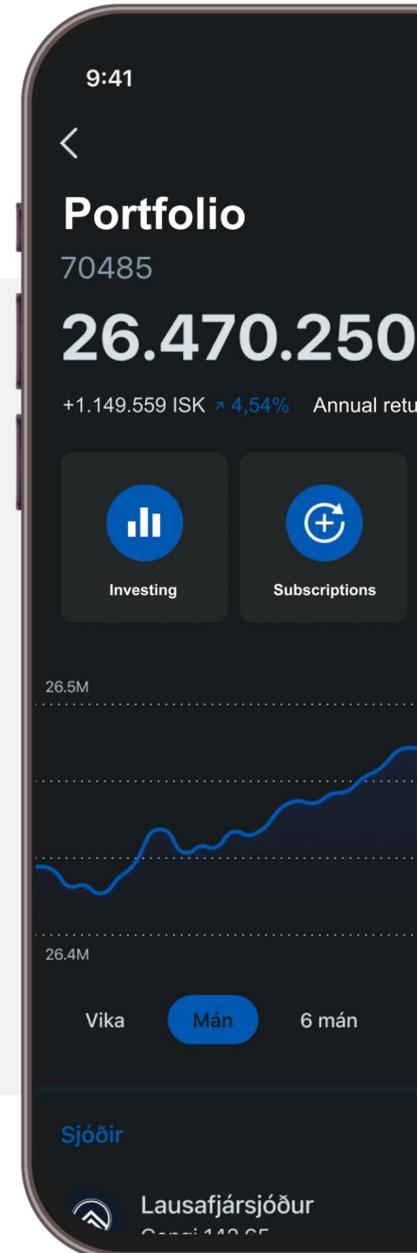
Amongst top performers in
global benchmarking on mobile
app activity and digital sales

Driven by customer centricity and effective execution

Focus on differentiation based on customer-centric digitization

Foresight to invest in digital development and robust infrastructure

High agility and culture of strong cross-functional collaboration



Maintaining tech leadership requires continued investment with clear alignment to the Group's strategy

Key challenges

Breadth of offering stresses technology infrastructure and development capacity

Competition from new entrants targeting pockets of Arion's service portfolio

Amplified and more advanced cyber and fraud activity

Actively addressed

Ongoing infrastructure modernization with focus on cloud native technology and SaaS

Increased investment in and higher productivity of digital development organization

Continued investment in cybersecurity and fraud prevention

A

B

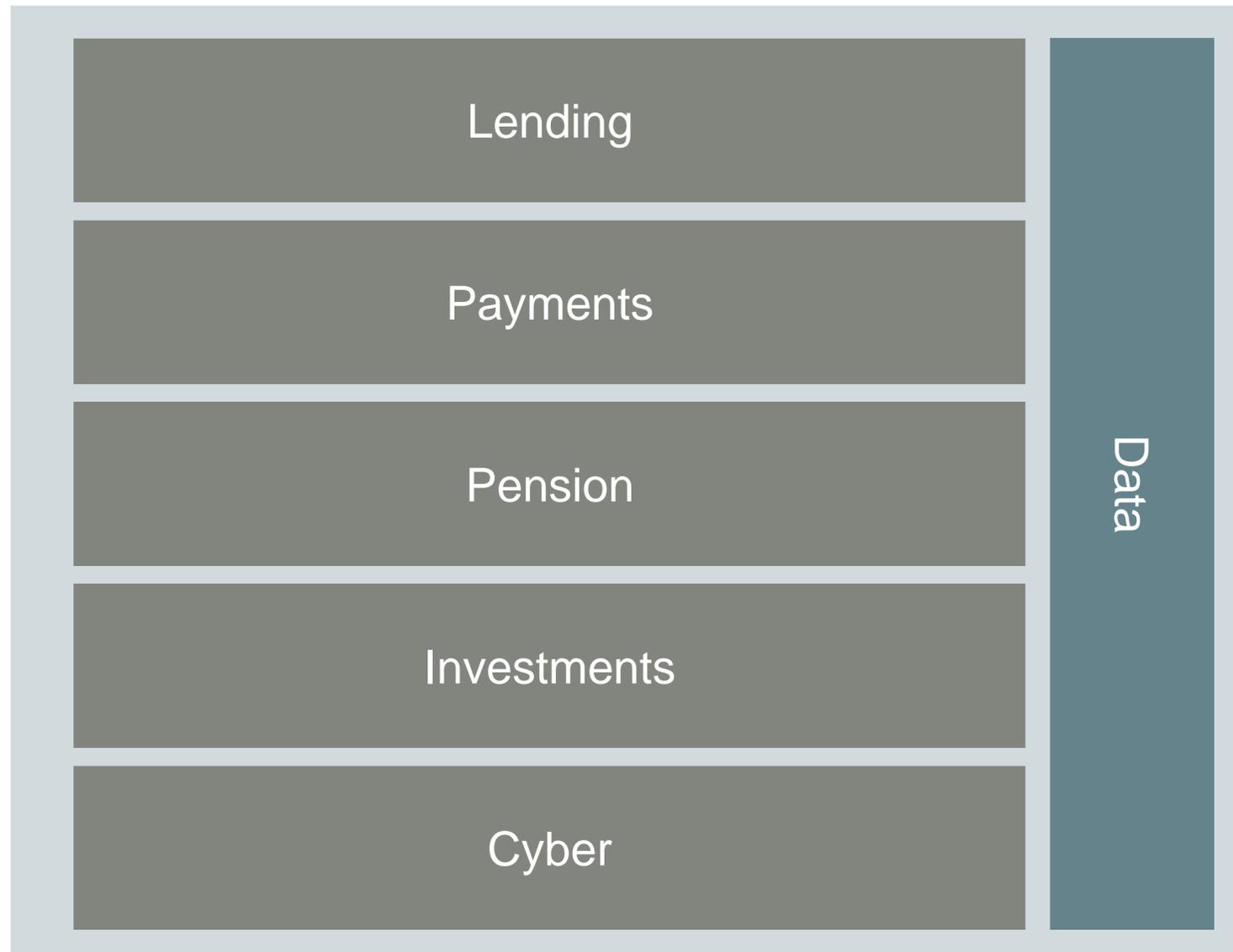
C



Ongoing infrastructure modernization with focus on cloud native technology and SaaS – *without outsized investment levels*

A

Special focus areas in Arion's technology stack 2024-2026



Ongoing for all technology domains

Modernization of services layer to cloud native technology

- New services
- Customer experience
- Front-to-Back digitization

Special infra focus 2024-2026

New systems or major services layer overhaul

- Lending – *Collateral management and lending processes*
- Payments – *Modernization of core systems*
- Pension – *Liability management and process digitization*
- Investments – *Asset management*
- Data – *New data virtualization layer, AI*
- Cyber – *Upgrades to security and fraud prevention layers*

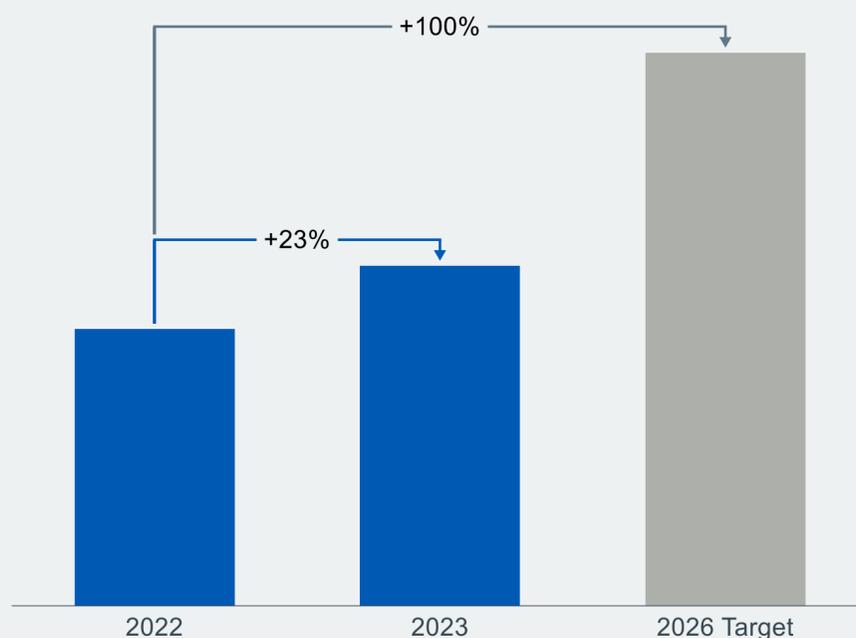


Increased investment in and higher productivity of digital development organization



Mid '23 Agile@Scale transformation already delivering improved productivity

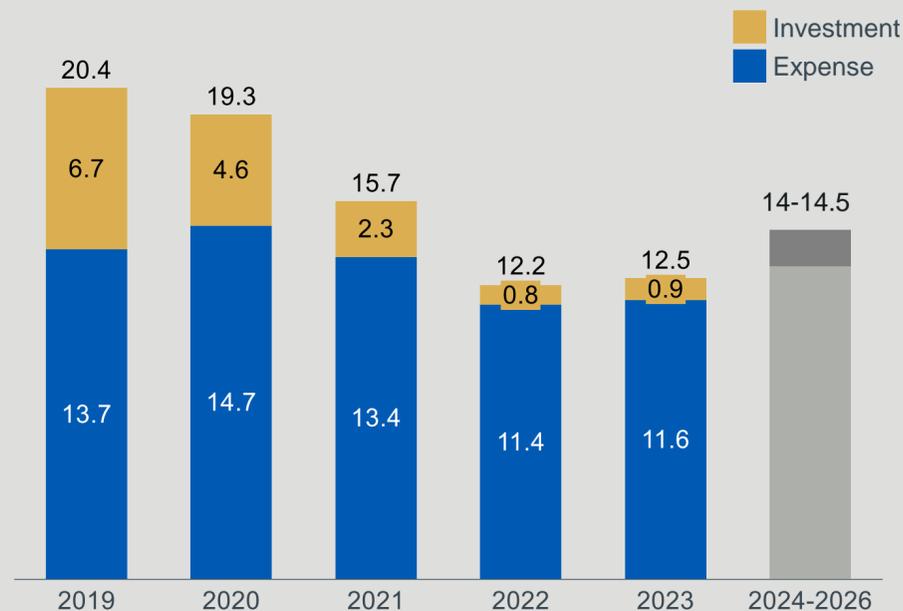
of tech development initiatives delivered



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

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

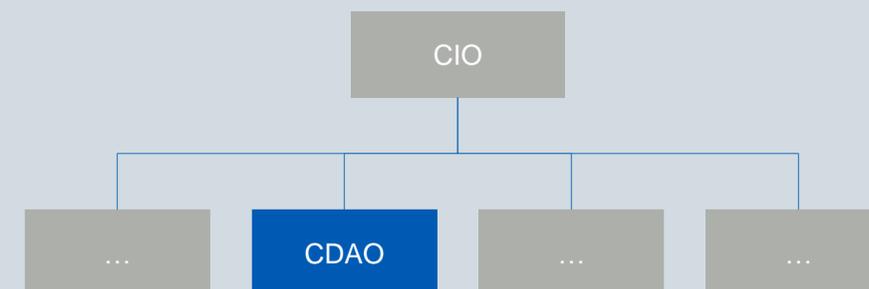
% IT Investment and Expense relative to Core Income



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

Acceleration of Data ambitions with new Data organization reporting to CDAO

IT organizational chart



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



Continued investment in cybersecurity to address amplified and more advanced cyber and fraud activity

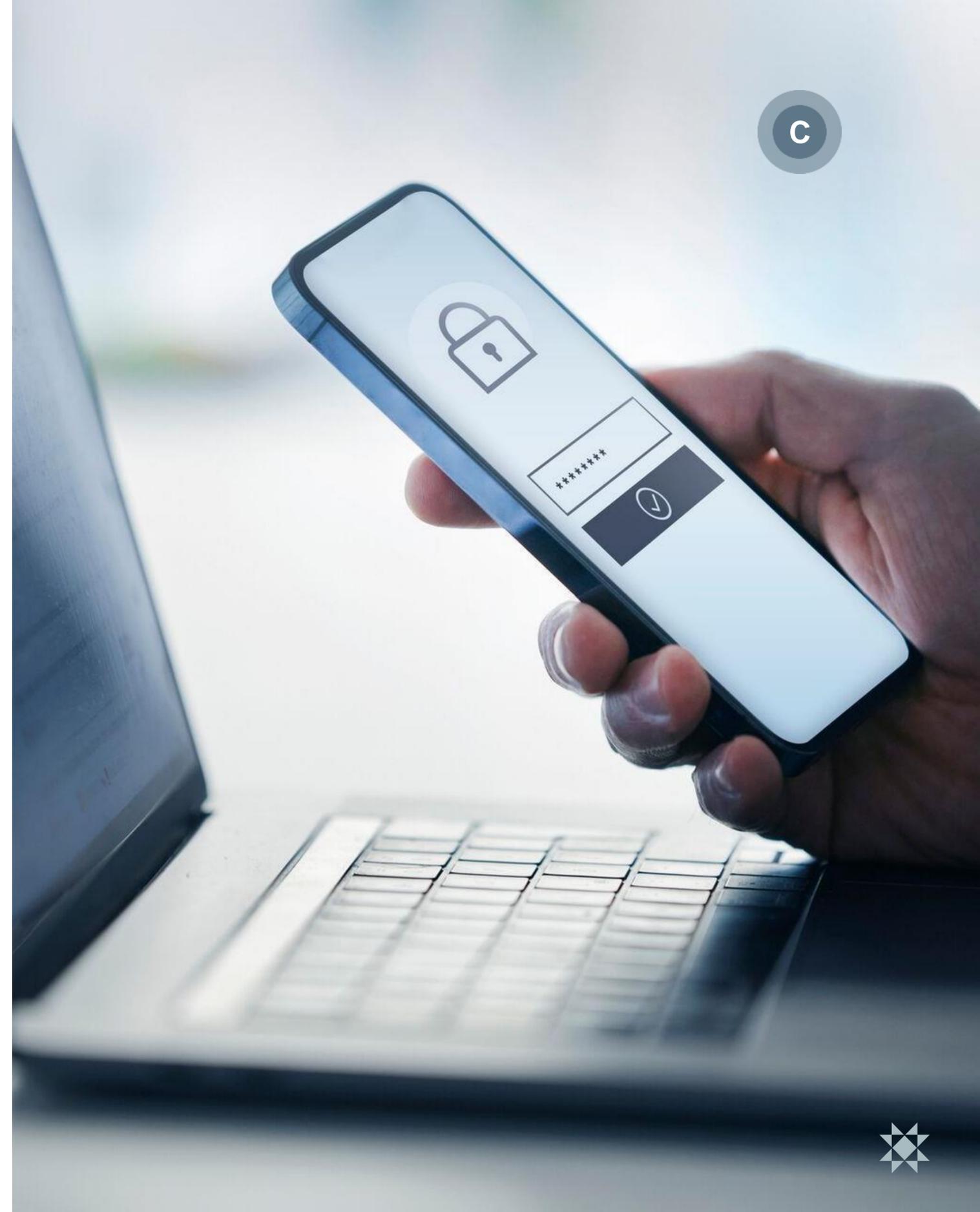


Stronger security

- Upgrades to networking hardware and security layer
- Elevated DDoS security levels
- Partnership with Defend Iceland
- Modernizing our real-time threat intelligence feed
- Added automation in backup and recovery

Fraud prevention

- AI based risk profiling of contextual data for suspicious activity detection
- Dynamic, risk-based interventions promoting customer action with minimal friction



Key takeaways

Information Technology

IT infrastructure modernization well progressed

No outsized investments outstanding, largely cloud-native services layer supporting move to SaaS

Step change in deliveries from digital development

AWoW, new Agile@Scale organization aiming to double initiative delivery focusing on CX and F2B digitization

New CDAO role to accelerate Data and AI ambitions

Consolidation of Data resources to speed up data development and AI efforts

Continued commitment to invest in Cyber

Increasing overall security levels and adding fraud prevention layers

IT cost & investment planned at 14-14.5% of Core Income

Mainly towards increased capacity for digital development





Enhancing the value of being a customer of Arion

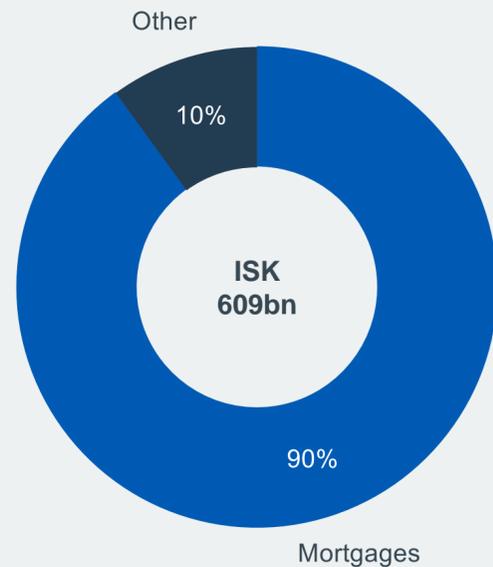
Íða Brá Benediktsdóttir

Deputy CEO and Managing Director of Retail Banking

Diverse revenue streams through comprehensive financial services to individuals

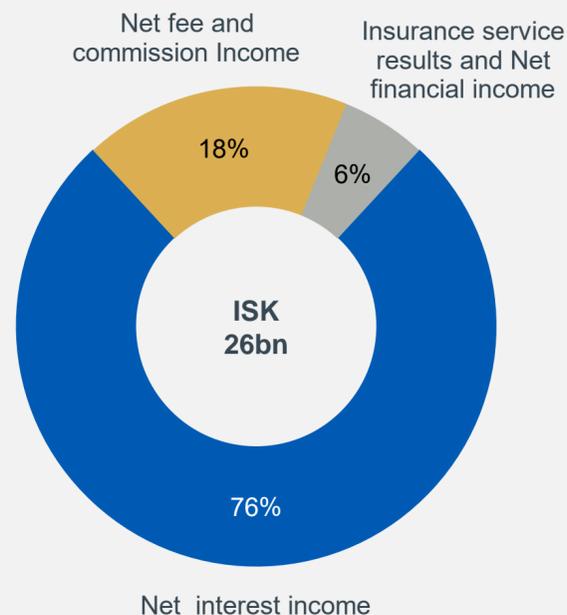
Loans to individuals represent 53% of total loan book

Mortgages represent 90% of loans to individuals. Other loans include overdraft, short-term loans, car loans and credit cards



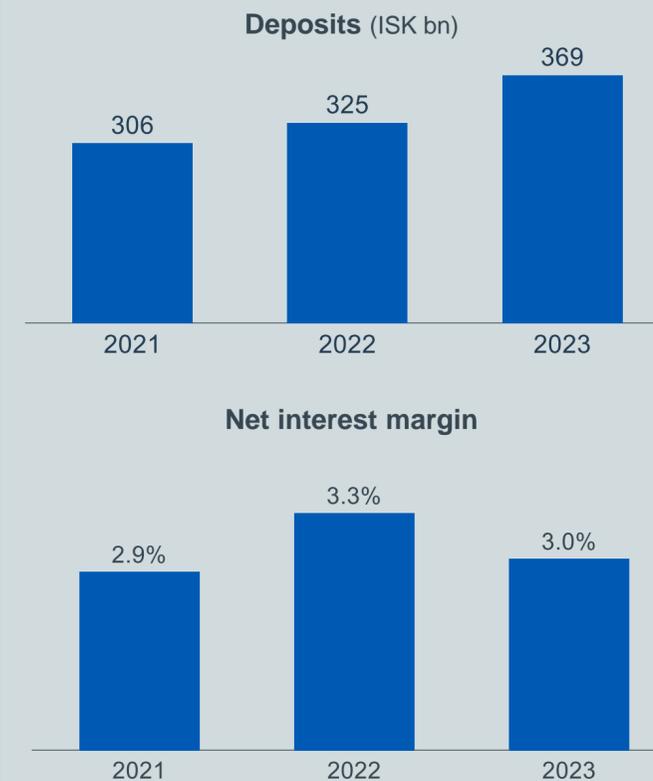
Net interest income represents 76% of revenue

Net interest income is a stable revenue stream despite fluctuating policy rates due to high deposits beta in Iceland. Fee and commission largely driven by credit cards. Insurance results are expected to increase going forward



Successful deposits strategy, robust NIM and stable deposits

Stable term deposits from individuals have increased by 60% since 2021



ISK 12bn EBT in 2023

Compared with ISK 9bn in 2021¹

ISK 4.6bn fee and commission income in 2023

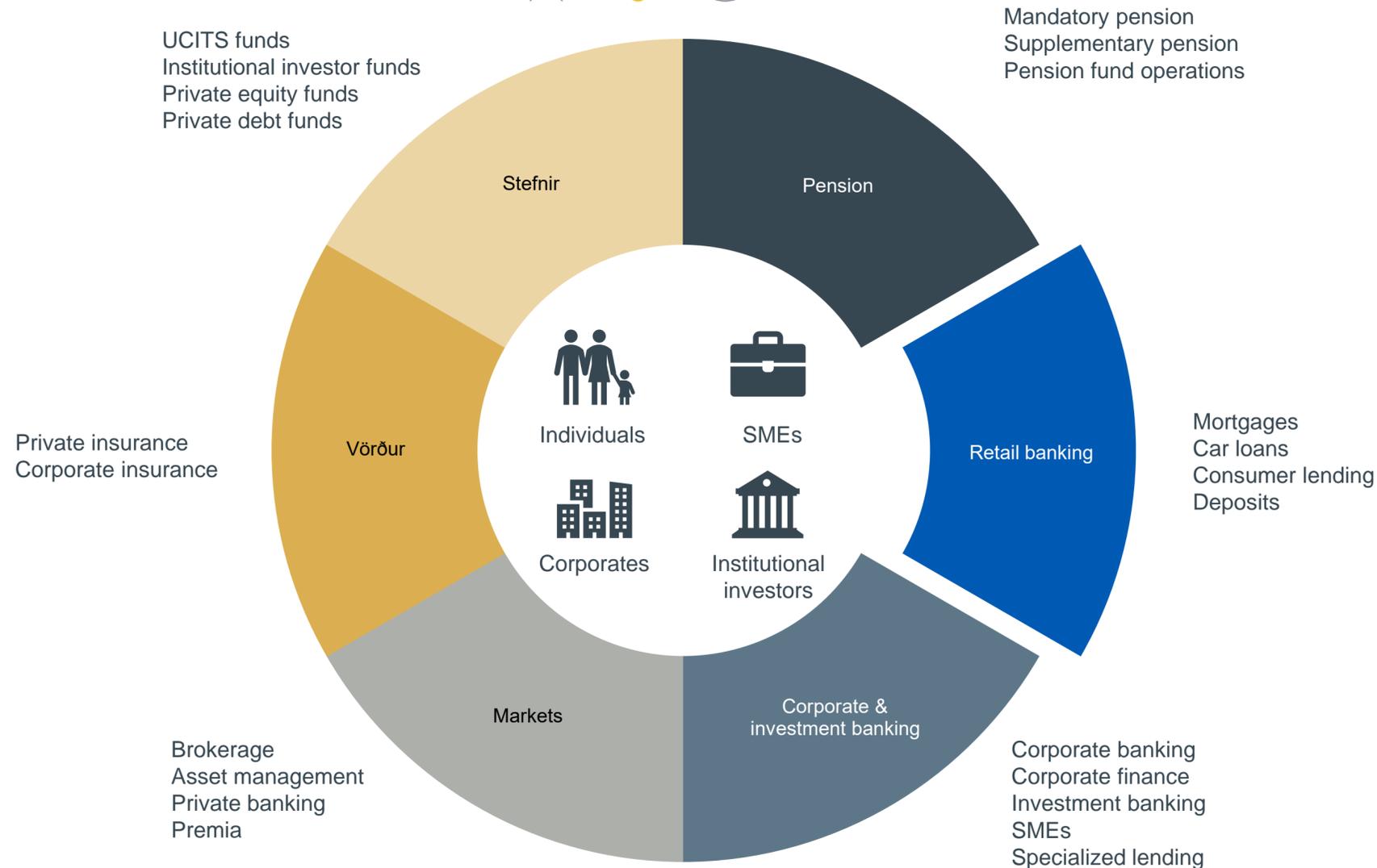
Compared to ISK 4.1bn in 2021¹

Customer Satisfaction Index

Second place in 2023 for financial services



Unique position, offering a full range of financial services and products



Arion Bank, Vörður, Stefnir, and the pension funds we service have long-standing relationships with half of the Icelandic population



387,758
Population of Iceland in 2023

190,000
Arion customers



Digital leader in financial services

- Best financial app in Iceland 7 years in a row
- Digital leader in global comparison regarding usage and digital sales

The Arion app offers a broad range of financial services

Loans

Mortgages
Overdrafts
Car
Short term

Deposits

Current account
Currency account
Savings account

Insurance

Life
Non-life

Payments

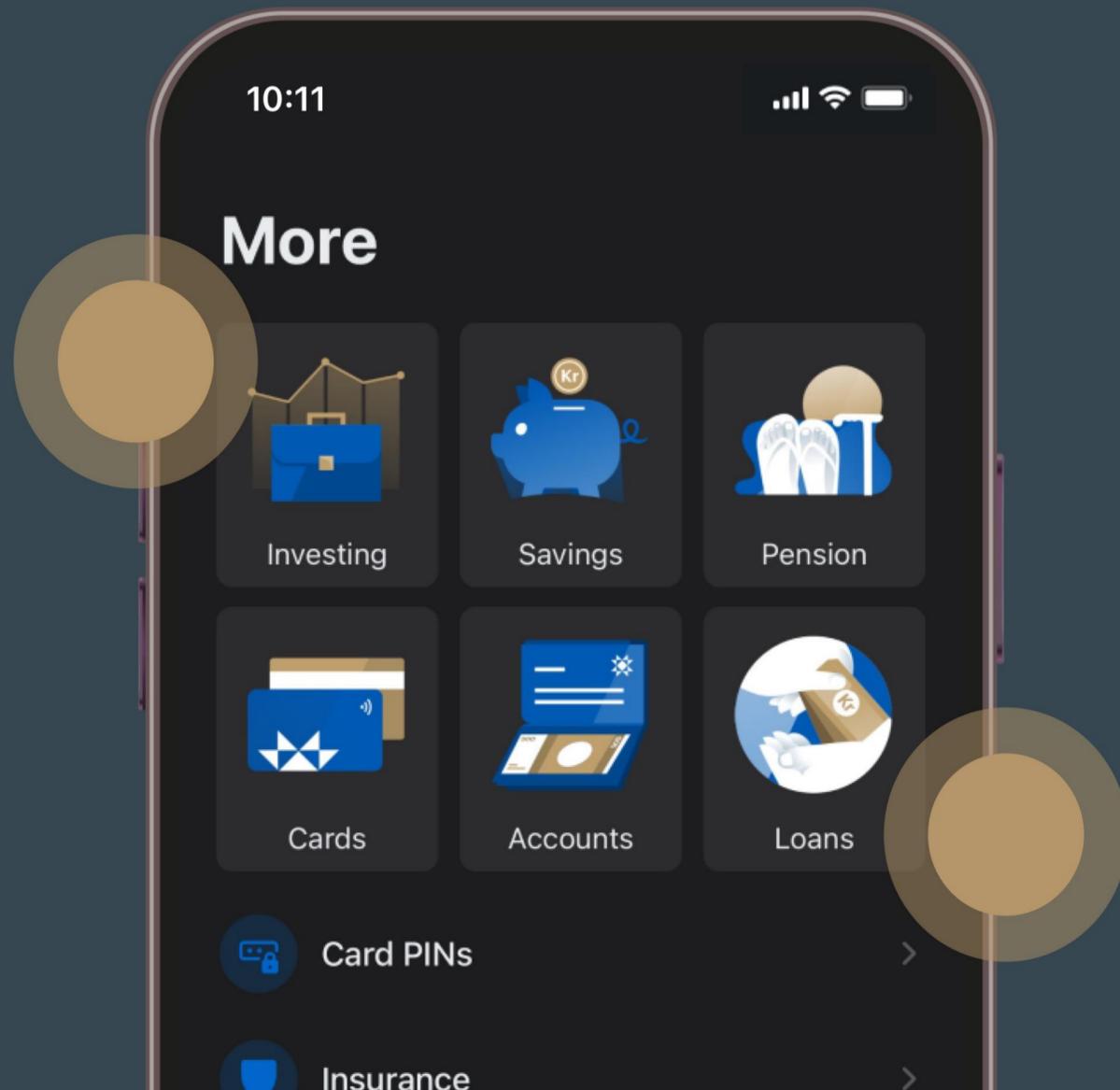
Credit cards
Debit cards
Bills
Claims

Securities

Bonds
Equities
Funds

Pension

Mandatory
Supplementary



Source: Maskína 2017-2023



Efficient branch network

Ready to capitalize on well balanced digital and branch network

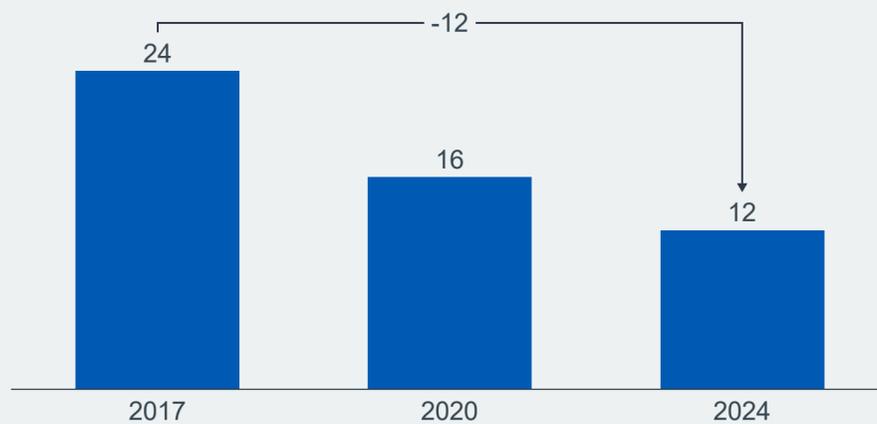
Important changes to the branch network

Significant changes in branch network and FTEs in the past decade has resulted in 12 fewer branches. Now we have five full-service branches and seven smaller limited-service branches.

42% decrease in square meters over the past 5 years.

Further opportunities in optimizing processes and enhancing sales culture

Number of branches



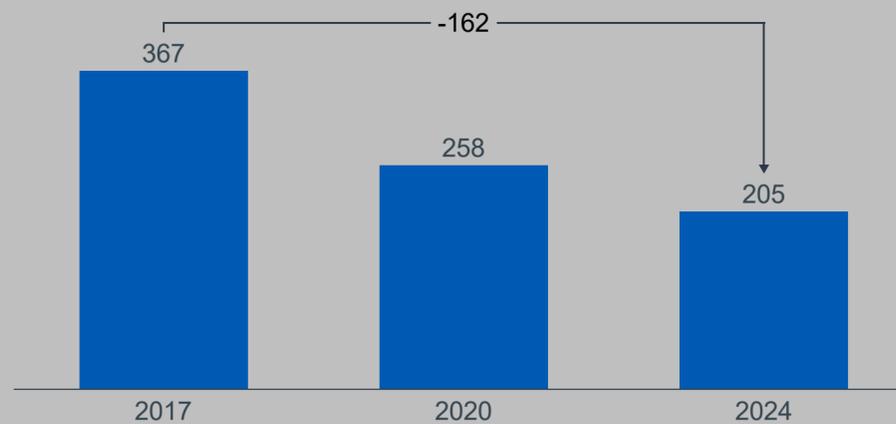
Increased cost efficiency with digital channels

Migration of 11,000 customers to digital-only behaviour since 2021

Simplifying cash management, first steps towards cash-less bank

Partnerships with Vörður, Stefnir, and Frjálsi

Number of FTEs



Strong momentum in our bancassurance journey, with significant potential

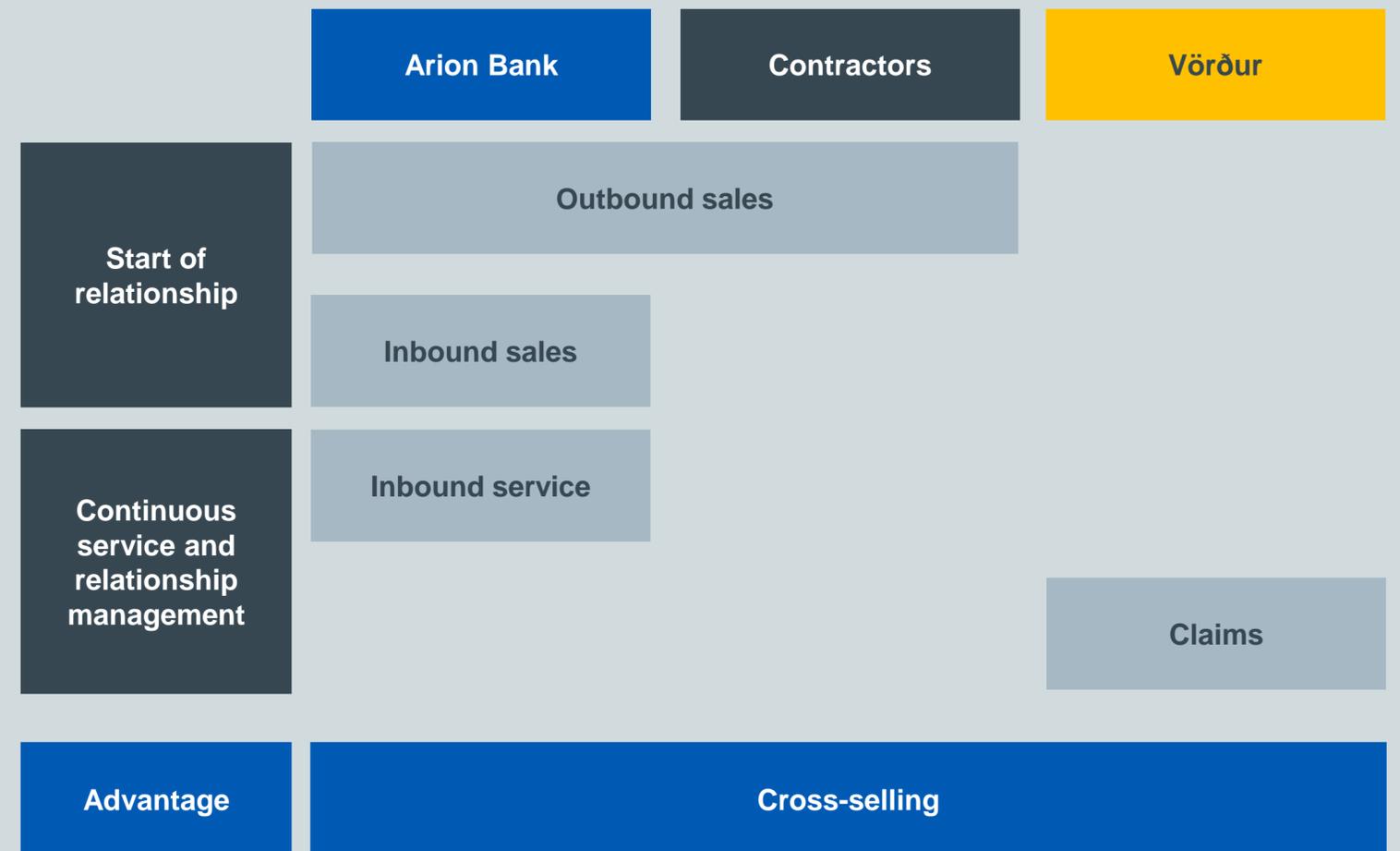
Personal service integration successful

Integrating service representatives of Arion Bank and Vörður, both for individuals and corporates, has proven a successful step with considerable increase in sales and valuable leads

Arion Bank's #1 app offers significant potential

We see considerable growth opportunities in using our leading digital channels for sales and services of Vörður's comprehensive product offering

Arion Bank and Vörður's service setup



136%

increase in insurance sales through Arion sales teams in 2023

38.2%

bancassurance ratio for individuals aged 25-70 at YE 2023

40%

bancassurance ratio for Premia clients at YE 2023



Key initiatives rolled out in 2024 enhancing the value of being a customer of Arion



Arion Rewards

Arion Family



Arion Rewards

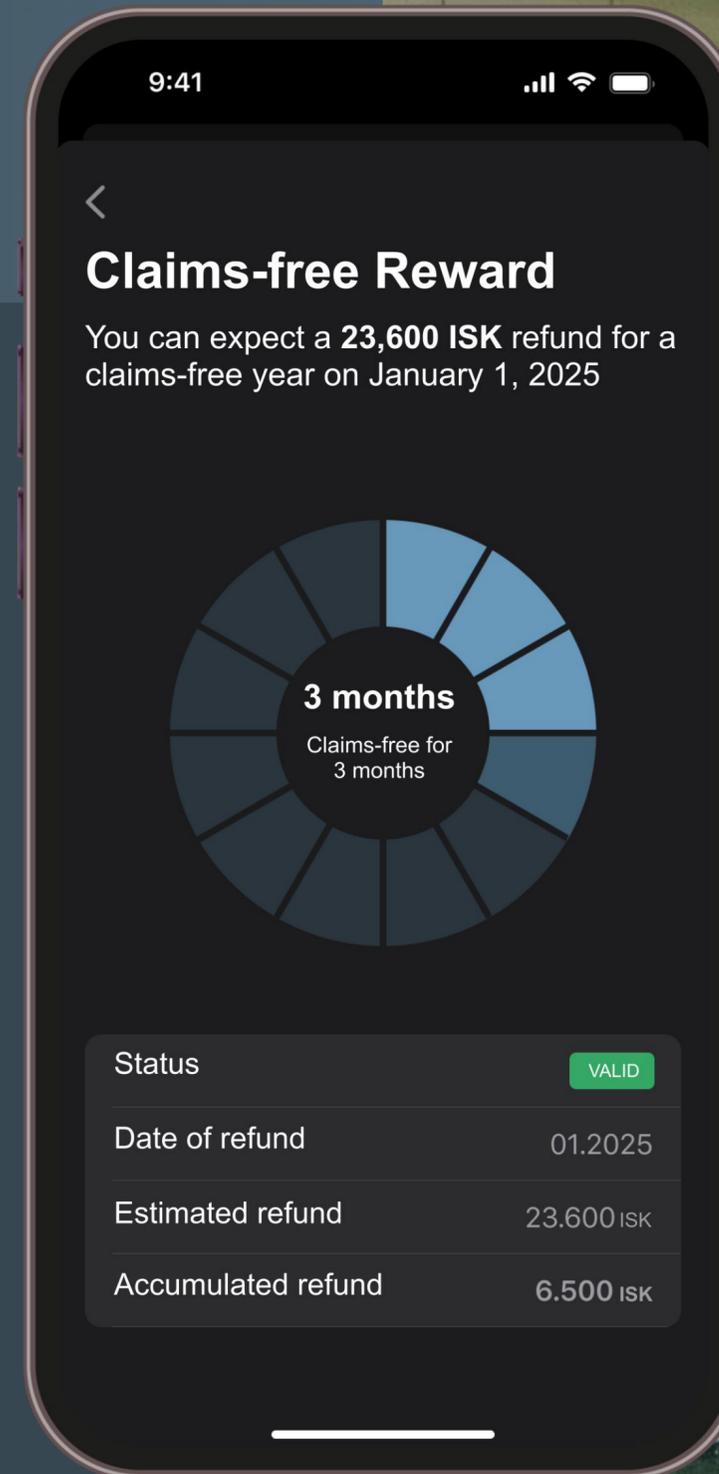
Rewards system for customers of the Arion Group with diverse financial services

Our bancassurance journey continues with a new reward program focused on families

Bancassurance rewards are created to fuel Vörður insurance sales and highlight the value of being a customer of the Group

Key aspiration

- Increase perceived and actual value of Arion services
- Increase customer satisfaction and loyalty
- Increased cross-selling between Arion Bank, Vörður and Stefnir



Arion Family

New financial management features in our app and online bank

Outstanding services to families by creating a financial overview, increasing financial education to improve financial health and creating a simple offering for parents to manage finances for their children and other family members

The aim is to facilitate financial management of the whole family

Key aspiration

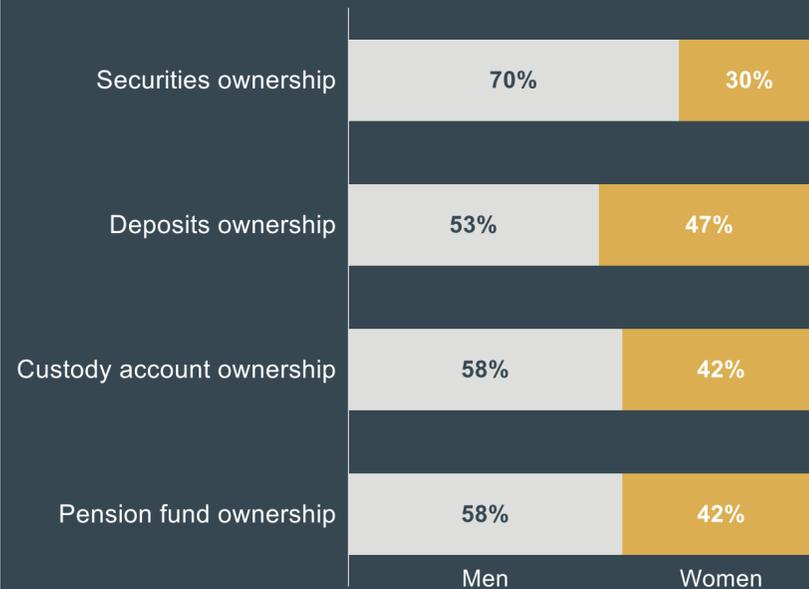
- Comprehensive view of the family's finances
- Making all activities relating to the management of children's banking transactions simpler for parents
- First project already launched



We encourage women to invest

Long-term initiative designed to empower women and support financial health was launched in January

Women are historically less involved in decisions relating to capital markets and investments. Our own data shows that 70% of securities assets are owned by men



- Arion Bank's **Women Invest** is a long-term project with the aim of empowering women to invest, increase their financial health and expanding the market
- Our contribution will be in the form of seminars, education, interviews with inspiring women, advertisements and private meetings
- So far, we have held 13 seminars since our launch in January, attended by over 1,000 women
- Women will not accept having to wait for another 70 years until we have reached equality in investments



Key takeaways

Retail Bank

Strong foundation with diversified income streams

Integrated bank with holistic product offering

Unique position for cross-selling and relationship with half of the Icelandic population

Momentum in customer satisfaction

Customer centric focus

Improve end-to-end customer journey

Continuing our Bancassurance journey

Consolidate Arion and Vörður at our branches

Increase combined sales efforts

Part of Arion Loyalty

Arion Loyalty starting with Bancassurance

Rewards and Family will provide a new value proposition in the Icelandic financial market

Remain digital leader

Supporting Arion Loyalty Insights and digital advice built on the Group's data





Leading market position with digital innovation

Jóhann Möller

Managing Director of Markets

Arion Bank has leading market position in Icelandic capital markets and asset management

Capital markets	19% market share of volume in 2023	#1 in equities 8 consecutive years	#2 in bonds (#1 in 2022)
Private Banking	ISK 157bn in assets under management	Increased AuM of 12.2% CAGR since 2018	Bancassurance ratio of 30%
Premia	3,800 clients	Focus on share of wallet	Bancassurance ratio of 40%
Sales & services	ISK 181bn in 3rd party assets under management	Enduring relationships with leading international fund managers	
Institutional investors	ISK 803bn in assets under management	#1 Private pension ² 36% market share	
Operations and Development	Pension fund administration	Implementation of new asset management system	
Arion Research	Regular forecasts and updates on key economic issues		
 Stefnir¹	ISK 247bn in assets under management	#1 Katla Fund Global Value Largest fund in Iceland	#1 Stefnir Icelandic Growth Fund Largest fund of its kind in Iceland

ISK 1,383bn in assets under management

Largest asset manager in Iceland

#1 in private pensions² with 36% market share

#1 clear market leader in equity brokerage for 8 consecutive years



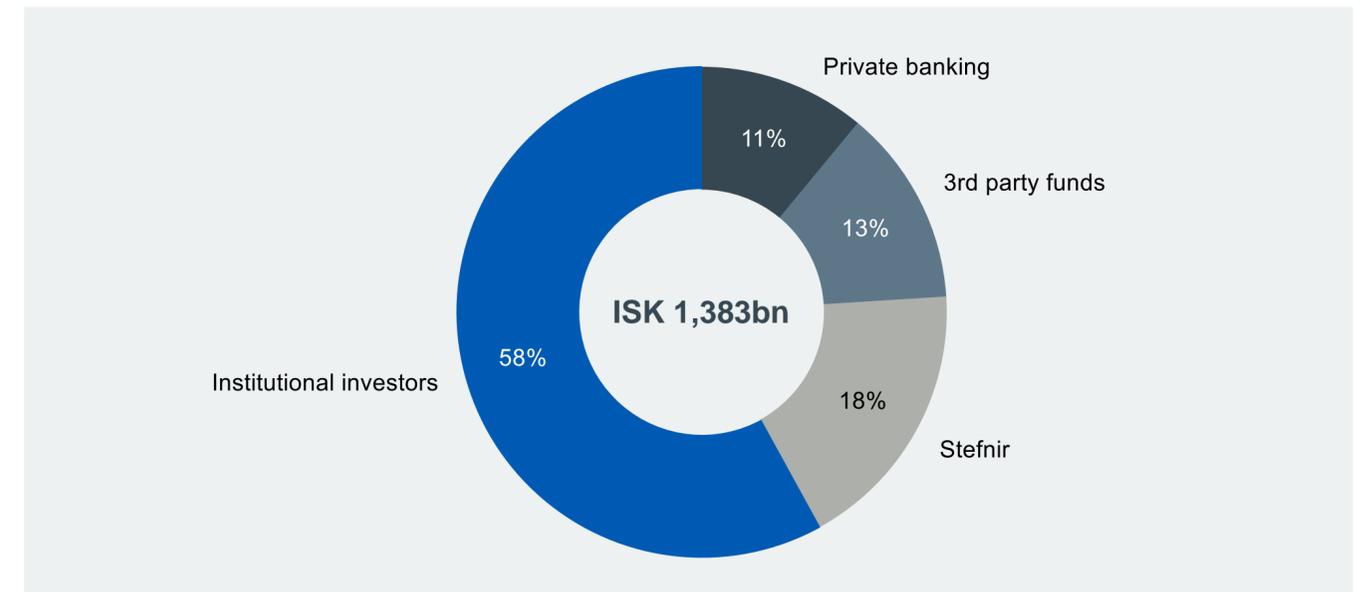
Solid AuM growth has driven durable revenue and earnings

The largest asset manager in the Icelandic market with ISK 1,383 bn (EUR 9.2bn) in assets under management at year-end 2023

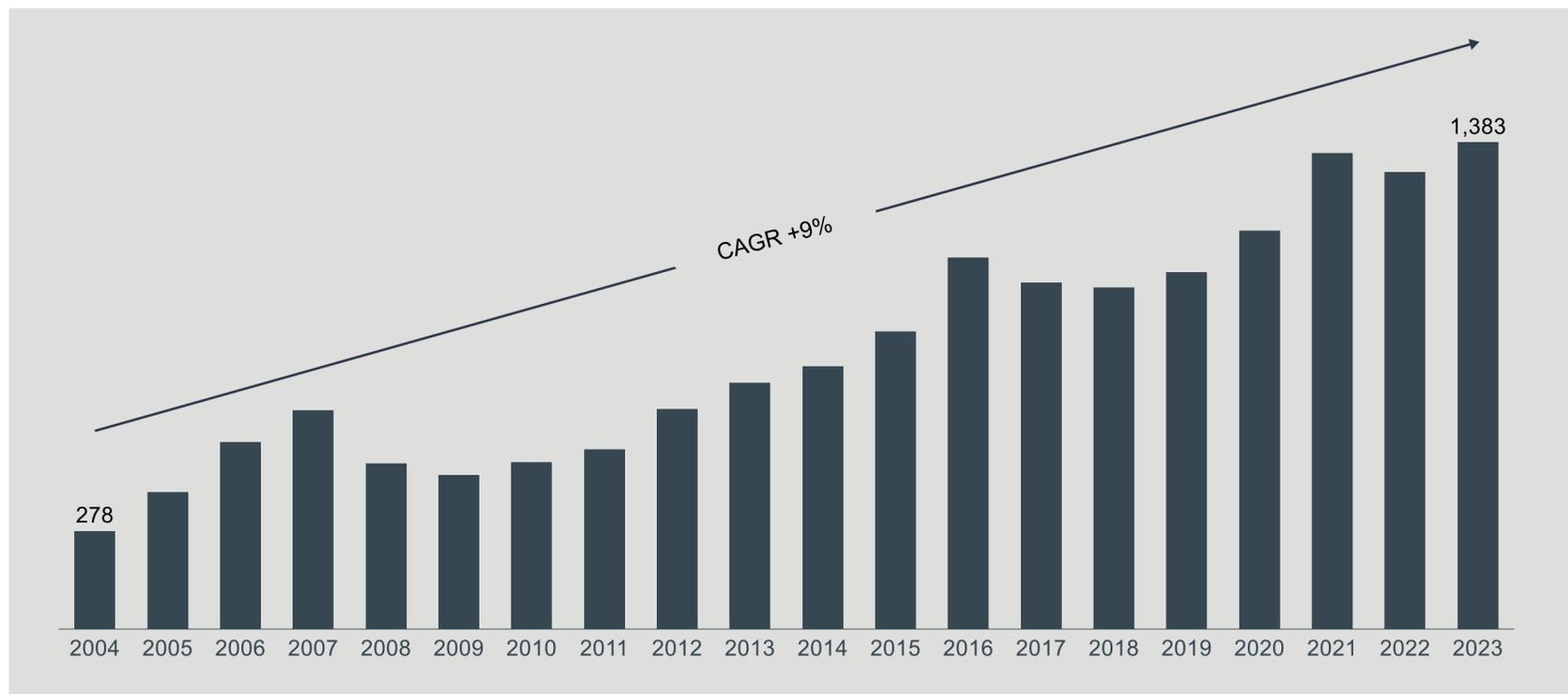
Estimated around 1/3 of domestic GDP 2023

Arion Bank has a long history of being a key player in the Icelandic capital markets

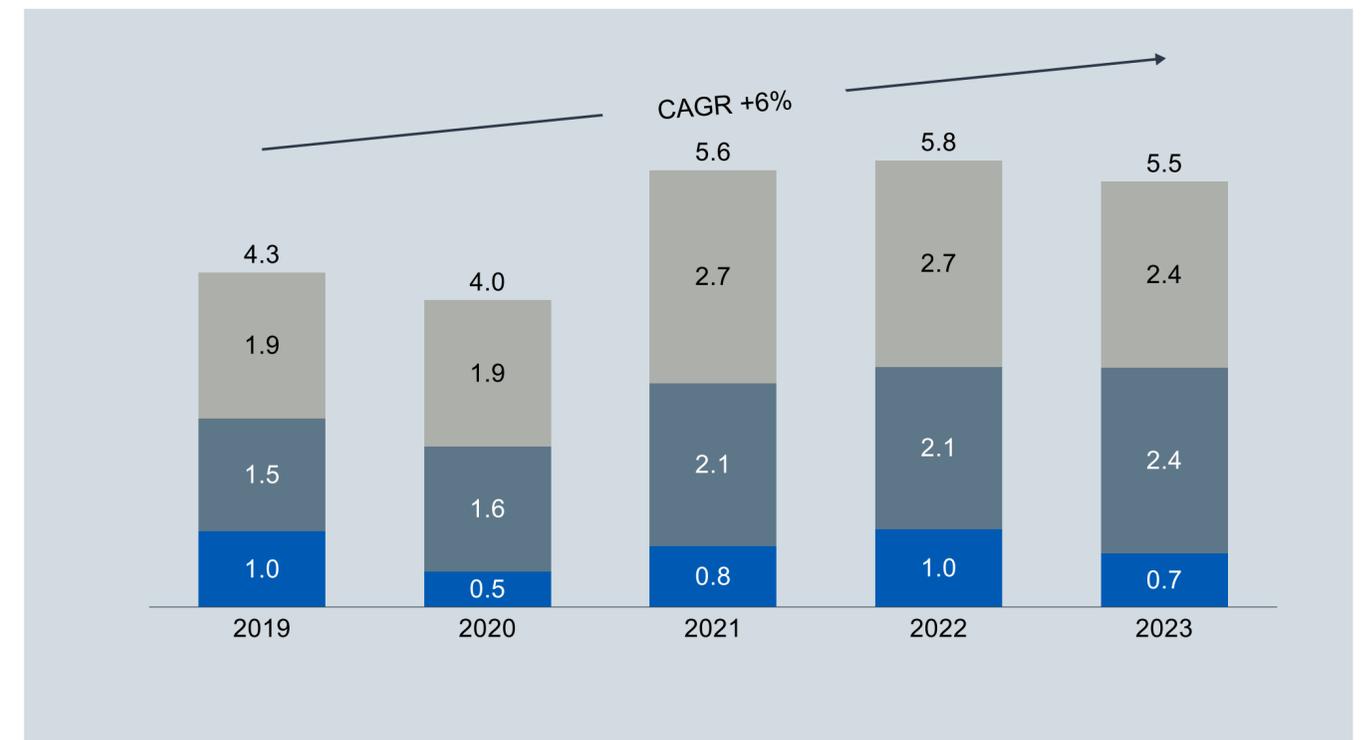
Assets under management split YE 2023



Arion Bank's assets under management at Group level (ISK bn)



Markets Net fee and commission income (ISK bn)



Institutional asset management remains the cornerstone of our asset management business

Market leader

Arion Bank is the largest institutional asset manager in Iceland

Growth to over ISK 800bn in assets under management in the last two decades

Forecasted to reach over ISK 1,000bn in the next 2-3 years

Historical roots

Legacy pension funds from Arion Bank's predecessor, Kaupthing Bank (est. 1982) and Búnaðarbanki Íslands (est. 1930)

Other non-pension long-term institutional mandates

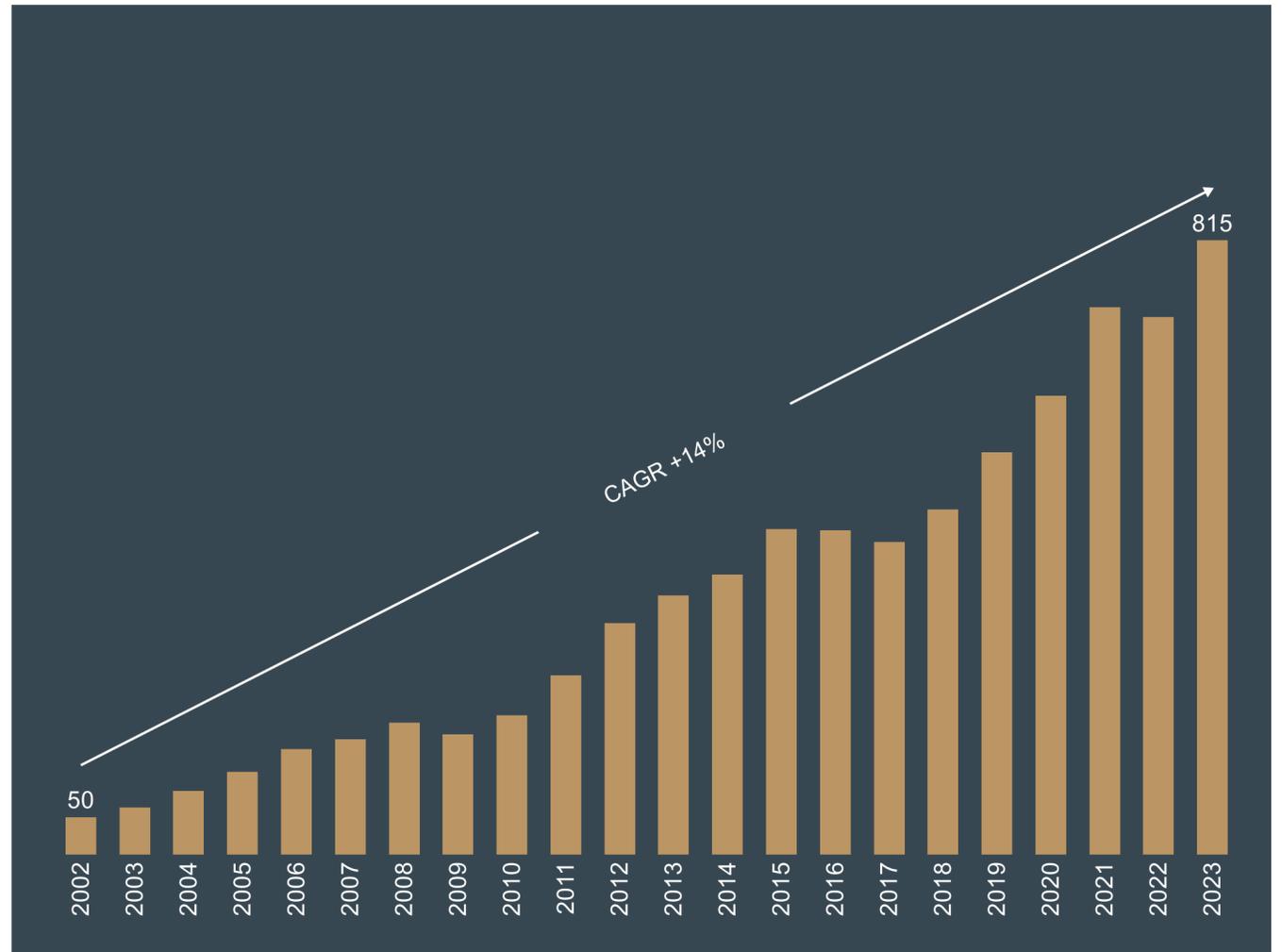
Economies of scale

Highly scalable services and infrastructure for institutional investors

Access to all asset markets, best rates, preferred partner

One stop shop in institutional asset management

Institutional assets under management (ISK bn)



Premia and private banking offer Iceland's most comprehensive financial services to private clients

Premia

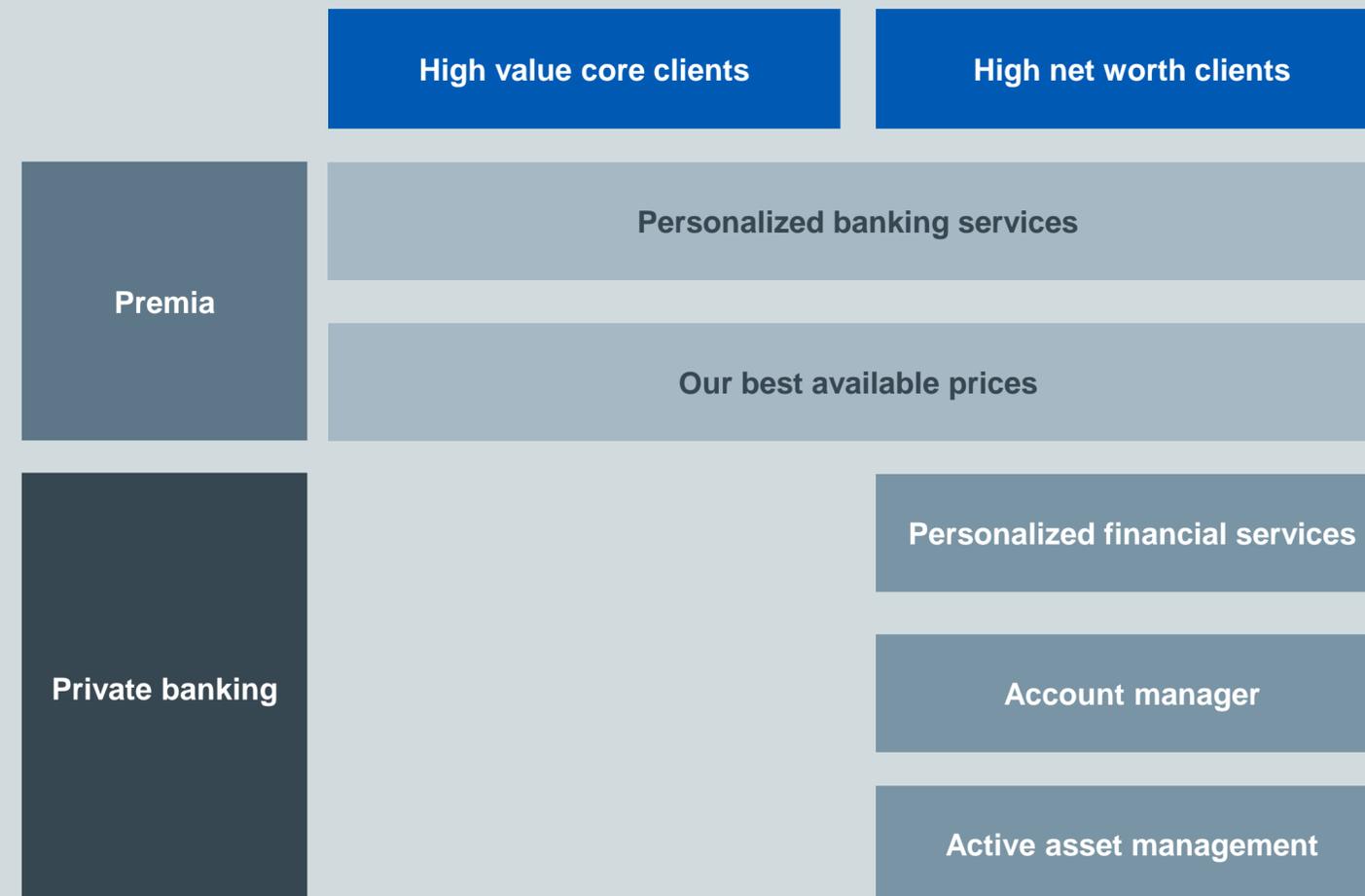
Premia is a service tailored to our high value market segment

Through Premia, Arion aims to improve customer experience and loyalty by offering first class service and best available rates on premium products, leading to an increased market share and cross-selling

Private banking

Adding onto our Premia value offering, high net worth clients get bespoke access to our private banking which offers personalized financial services and active asset management

Premia and private banking value offering



ISK 157bn in AuM
in private banking

40% bancassurance
ratio of Premia customers

ISK 68bn deposits
from Premia customers



Clear leader in Icelandic capital markets

Unrivalled deal flow and placing power

Leading position in equity and bond trading focusing on superb brokerage-client relationship

Key role in establishing the Icelandic stock market historically

Largest share of foreign inflows around the FTSE Emerging Markets inclusion events in 2023

Building on long-standing relationships with all largest participants in domestic capital markets and instrumental in attracting and servicing foreign investment

Universal product offering

- Desk analyst
- Equity funding
- Forward contracts and CFDs
- Interest rate swaps
- FX and inflation swaps
- DMA

Unique retail features through digital channels

Investors can trade Icelandic equities and Stefnir funds conveniently through Arion App, anytime from anywhere

Arion app stands out as one of the premier applications, providing real time market information

#1 in equities trading

Eight consecutive years

#2 in bonds trading in 2023

#1 in 2022

Selling agent in 64% of all public equity offerings

Largest in Iceland for the last decade



Stefnir is a market leading fund management company with a proven track record

AuM of ISK 247bn

Stefnir, founded in 1996, is a wholly owned subsidiary of Arion Bank and is one of the largest fund managers in Iceland

Stefnir offers a diverse range of funds catering to both retail and institutional investors

Product development and sustainability is a core competence of Stefnir and supports Markets in its value proposal

Current group capital requirements from Stefnir's holding is ISK 2.2bn compared to 2023 profit of ISK 1.1bn

Unique product offering

Katla Fund Global Equity (art.8)¹ is Iceland's biggest fund and actively invests in selected foreign listed equities

Stefnir Icelandic Growth Fund is the largest fund of its kind in Iceland

Stefnir Dividend Fund is the only dividend paying equity fund in Iceland

Stefnir Sustainable Arctic Fund (art.8) is the only one of its kind in Iceland

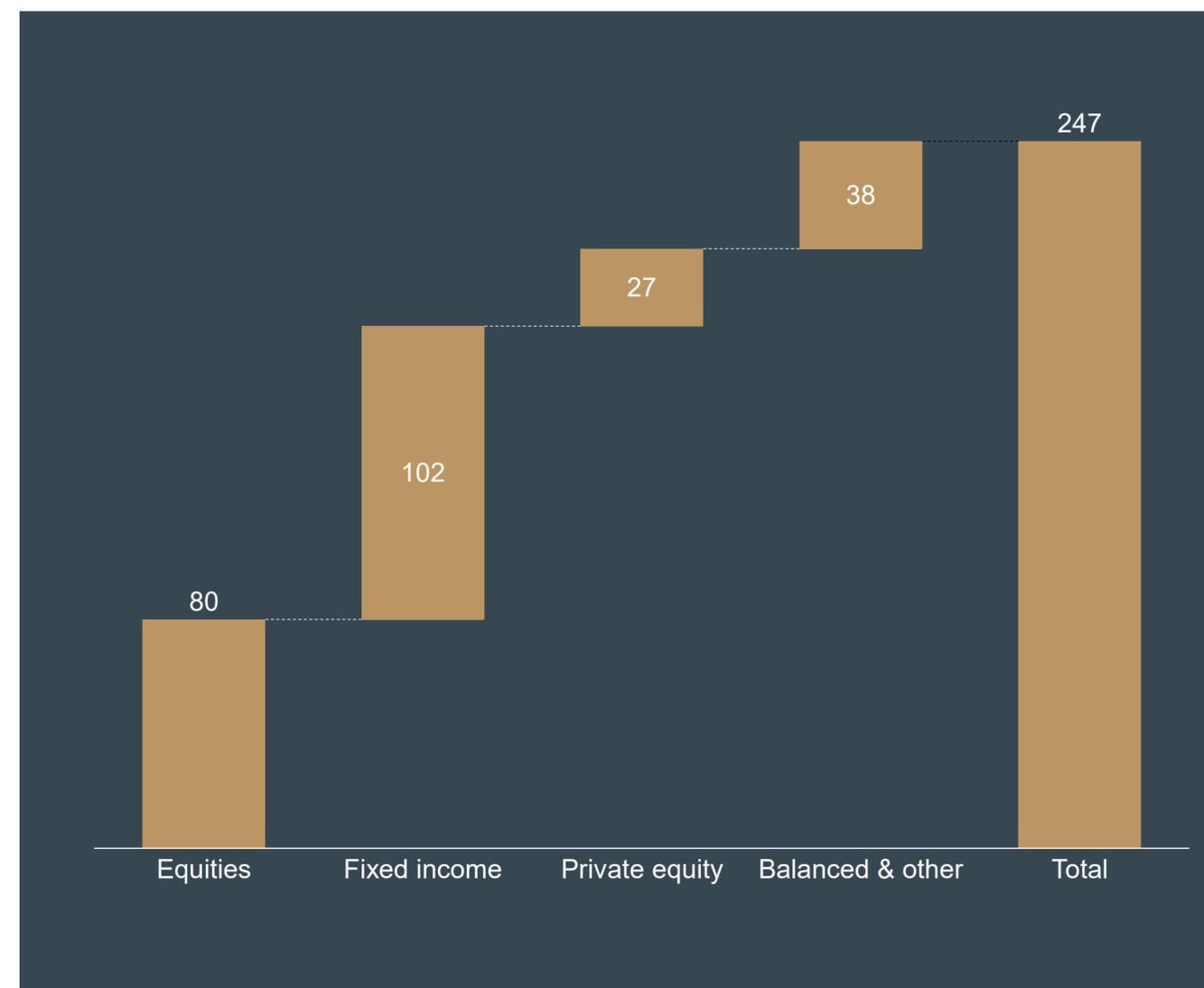
Solid private equity track record

Stefnir's PE investments have raised ISK 130bn towards alternative investments since 2009, supporting and strengthening the Icelandic equity market

SÍA funds (series I-IV) have invested ISK 40bn in private equity through 16 investments, resulting in 3 IPOs

Emphasis has been placed on working with co-investors that have specialized sector knowledge

Stefnir AuM by asset class (ISK bn)



The Arctic is a long-term growth opportunity enabled through private equity and debt investments

There is great investment need in the Arctic region in coming decades

Fishing

Tourism

Shipping

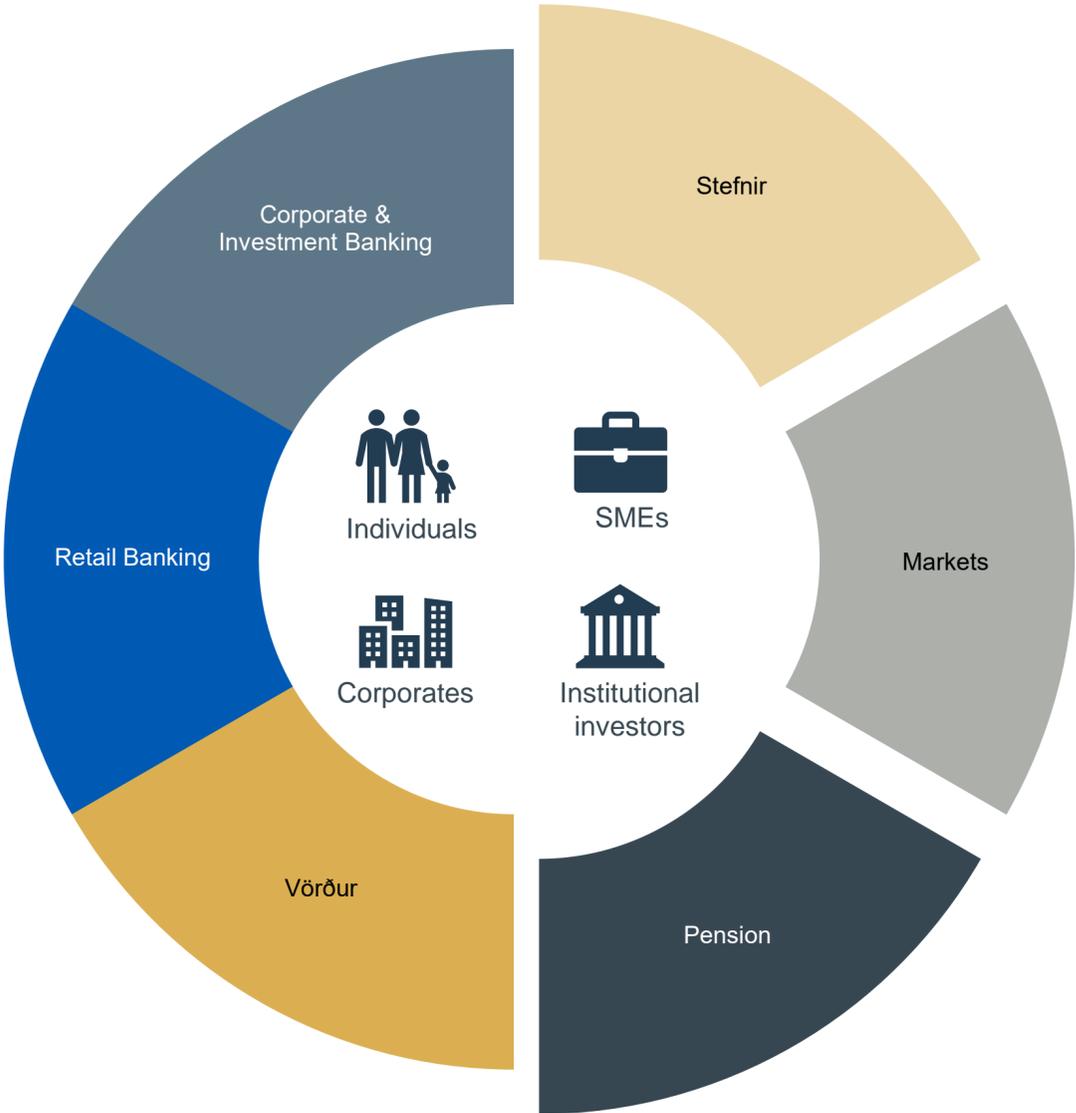
Financial services

Arion Bank's unique position and possible contribution in the area

- Icelandic experience of building infrastructure and key sectors
- Arion Bank's strong track record of private equity and debt investments
- Increasing CIB's presence in the region through corporate finance and lending provides a strong base



Arion's #1 app lays the foundation to our comprehensive product offering



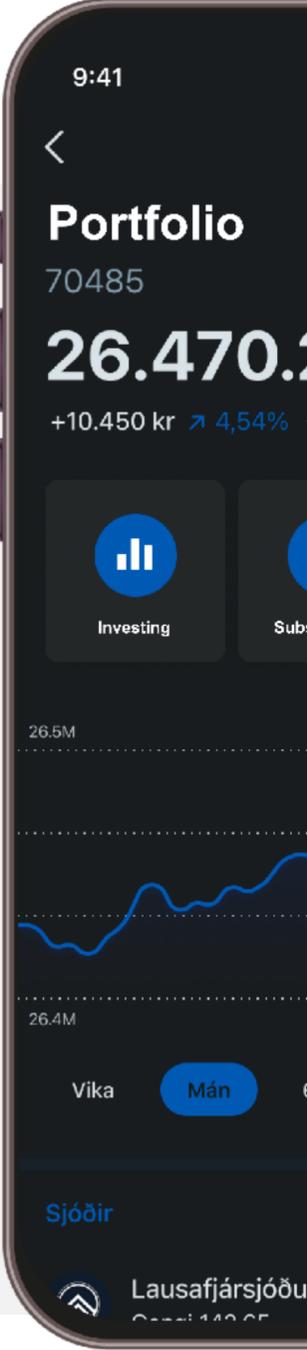
UCITS funds
 Institutional investor funds
 Private equity funds
 Private debt funds

Brokerage
 Asset management
 Private banking
 Premia

Mandatory pension
 Supplementary pension
 Pension fund operations

Our clients benefit from Arion being a one-stop-shop for all financial services

- Deep market insights and investment opportunities
- Highly experienced employees
- Exceptional client service
- Provides the opportunity for integrated financial services in one place
- Excellent oversight over financial health in the Arion app



Key takeaways

Markets

Leader in capital markets and asset management

Diversified revenue streams

Arion ecosystem basis for robust 360° service and financial health

Digital leadership enables scalable business

Increase in Assets under Management to ISK 2,000bn in five years





Delivering sustainable growth through client relations and capital management

Hákon Hrafn Gröndal

Managing Director of Corporate & Investment Banking

We have made solid operational progress

And have structured CIB to further support our focus areas

Large corporates and leveraged finance

An integrated one-stop-shop for large corporate financing, capital structuring, alternative financing and syndication

SMEs and bancassurance

Merging all SMEs and Bancassurance under same management within CIB with clear focus and ambitions for growth

Corporate finance

First choice corporate advisory with seasoned experienced team in M&A, equity and debt raising and divestments

Operations and development

Dedicated team driving our corporate digital strategy – mandated to seek out and implement opportunities for operational efficiency

ISK 19bn EBT in 2023

Compared with ISK 16bn in 2021¹

Arion Group has a relationship with 59% of domestic corporates

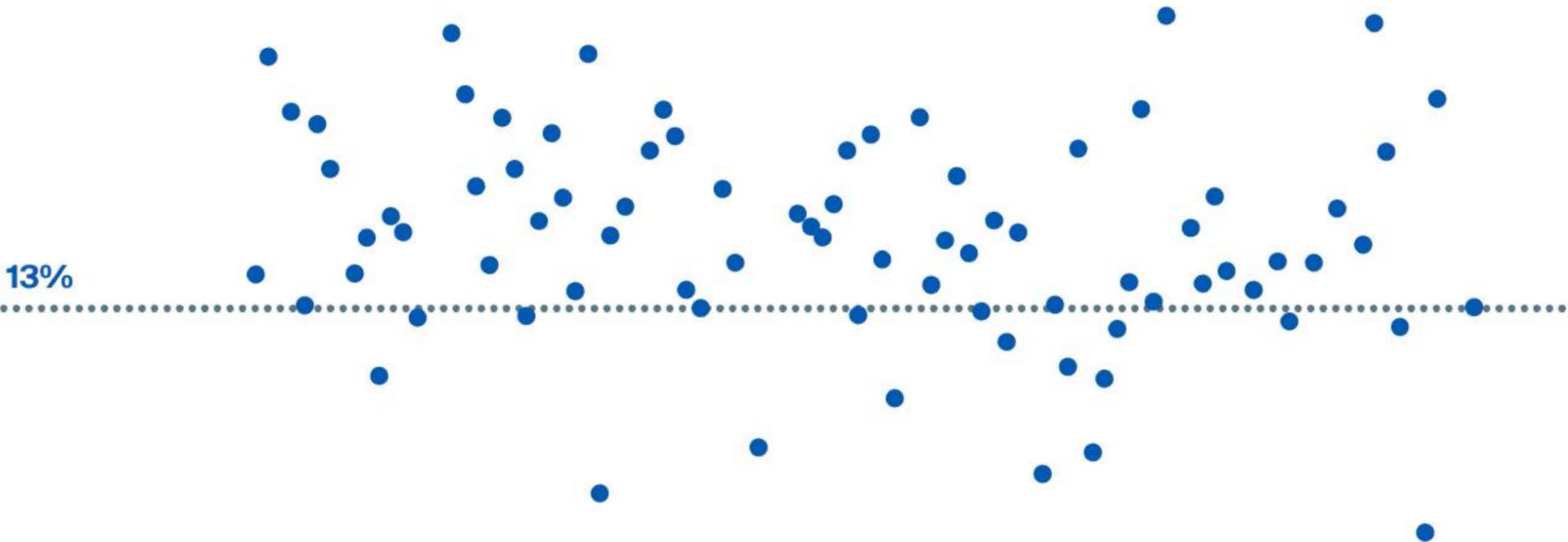
Highest customer satisfaction score in five years

80% of stock exchange listings since 2021



Improved profitability driven by customer focus and a clear pricing strategy

ROE 2023 - Target 13%



4.5% NIM

On average 2023
Compared with less than 3.0% in 2019

80% delivering above ROE target

ISK 5.6bn

Total commission and financial income 2023
Compared with ISK 1.7bn in 2019

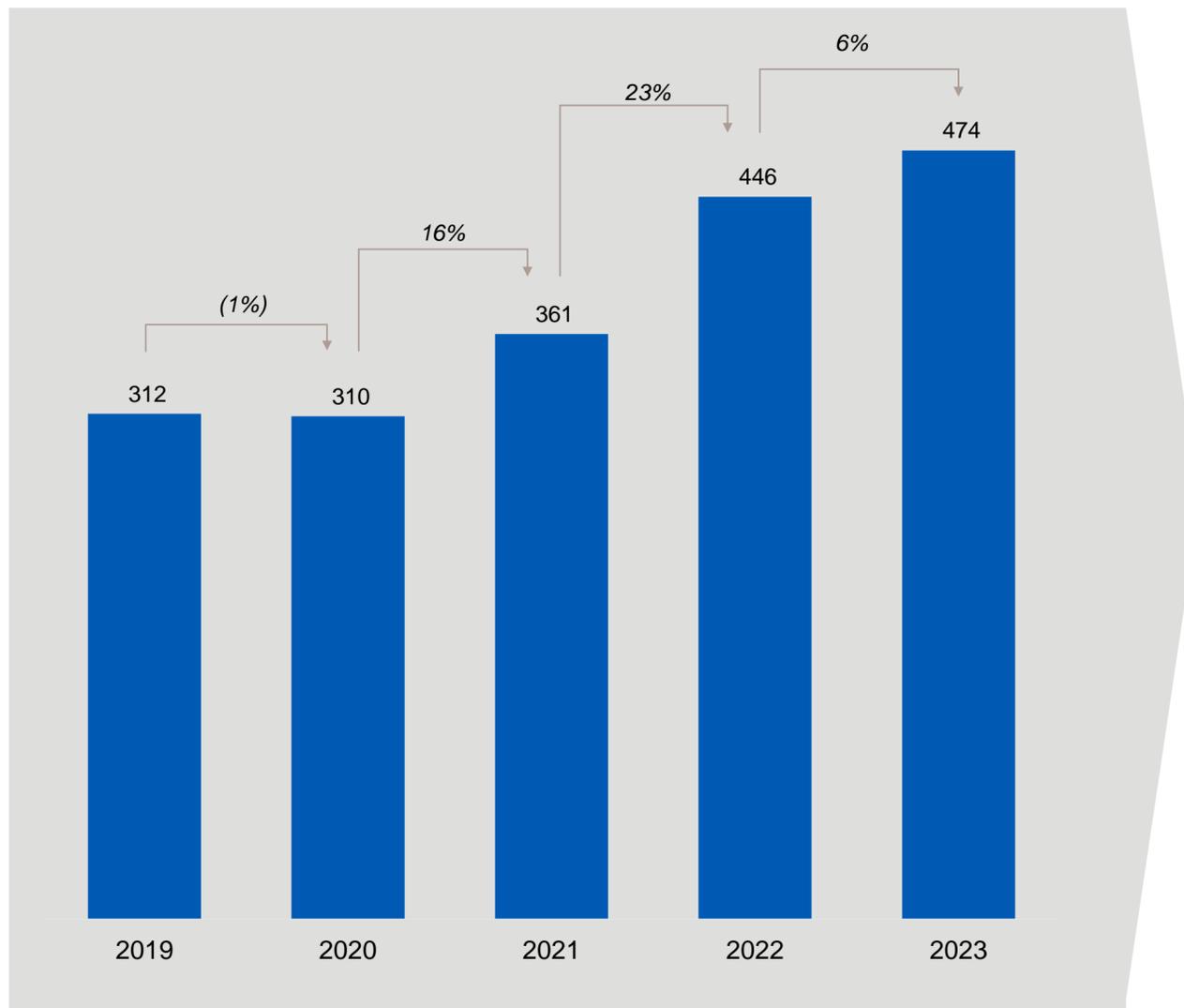


Capital velocity

The key to effective use of equity and support increased profitability

CIB on balance exposure each year

ISK bn



Improved
Capital efficiency

Driving
Profitable churn of the book

Pricing
Built on strong price strategy

52%

Growth in on-balance lending
Since 2019

300%

Increase in lending activity
Compared with 2019

ISK 3.0bn

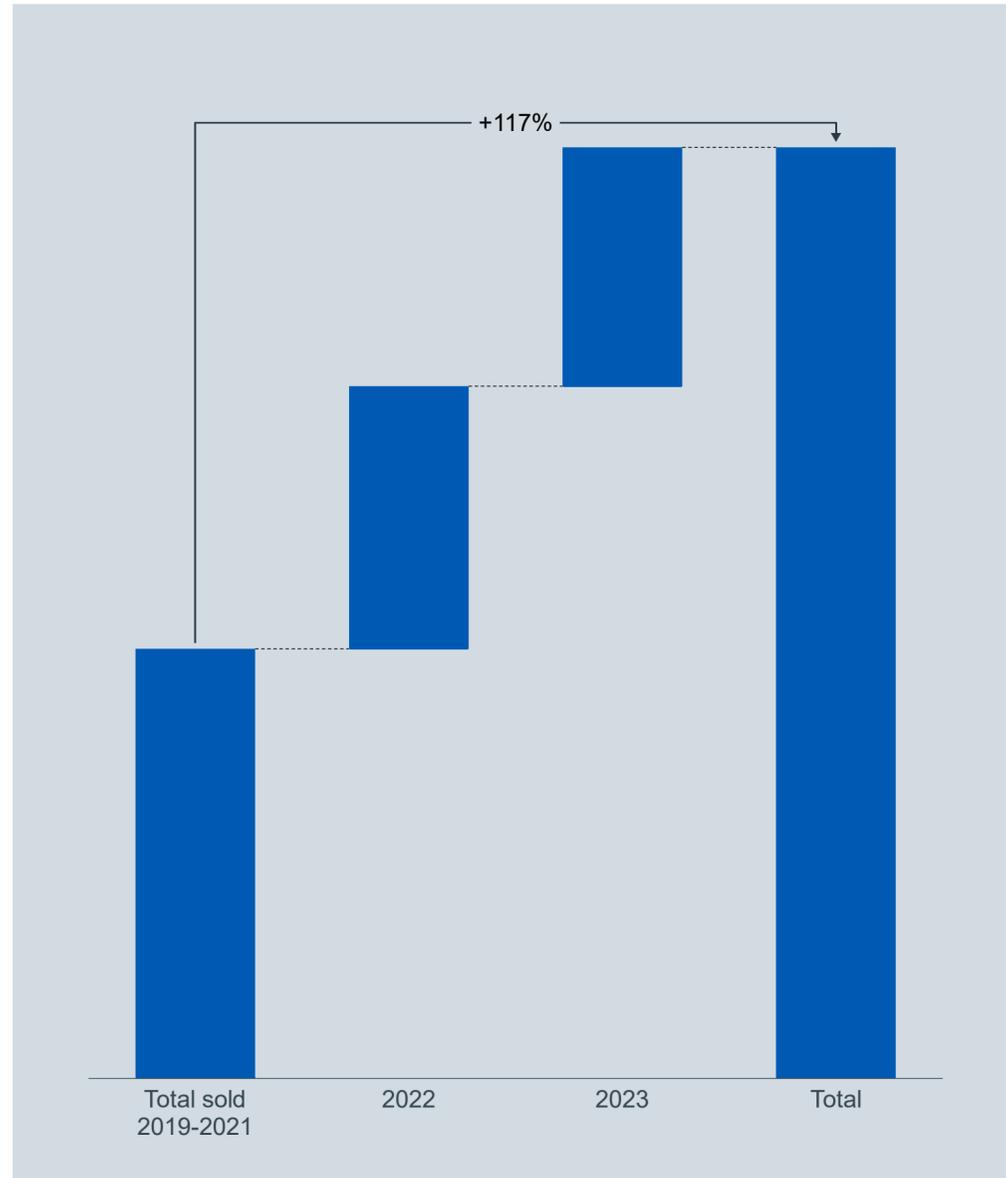
Yearly lending commission in 2021-2023
Compared with less than ISK 1.0 bn in
2019



Our credit syndication focus is evolving

Supporting strong returns without elevated risk profile

Corporate credit sales



Increased capital velocity

Improved utilization

Increased capacity

We provide the infrastructure	Arion
Proven lending processes	✓
Loan and risk monitoring	✓
Access to a bank's deal flow in all ticket sizes	✓
Relationship management in a bank's name	✓
Legal obligations to financial institutions apply	✓
Proven Infrastructure	✓
Risk mitigation	✓

30% CAGR

Corporate credit sold from 2021
Credit funds corporate credit growth + 25% CAGR

20% marketable

credit in the corporate loan book

20% non-bank lenders

as a proportion of the banking system
Compared to +50% in Europe and other developed economies



Leading in Corporate Finance

Advised on 80% of listings and equity public offerings since 2021

2023



2022



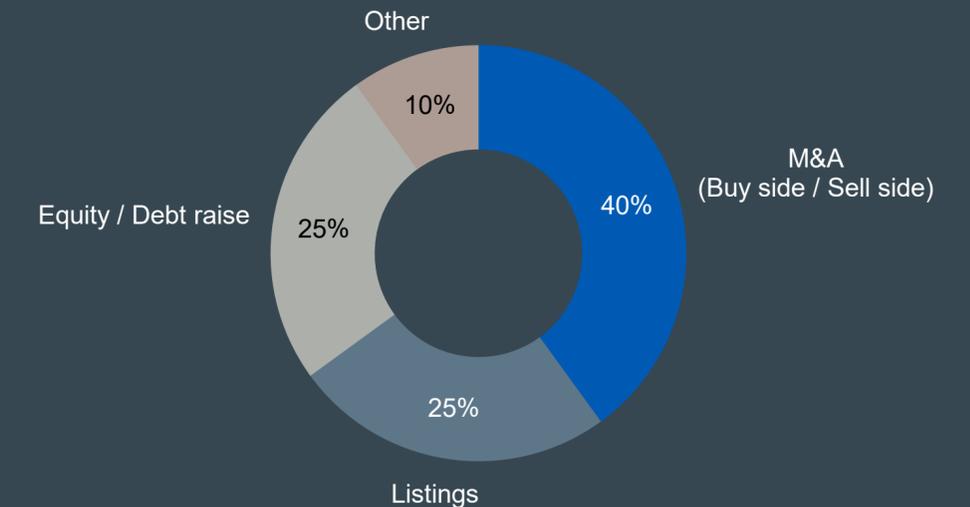
2021



Strategic focus

- Support client ambitions
- Leading advisor in large transactions
- Preferred partner in listings
- Project origination
- Focused on closing ratio

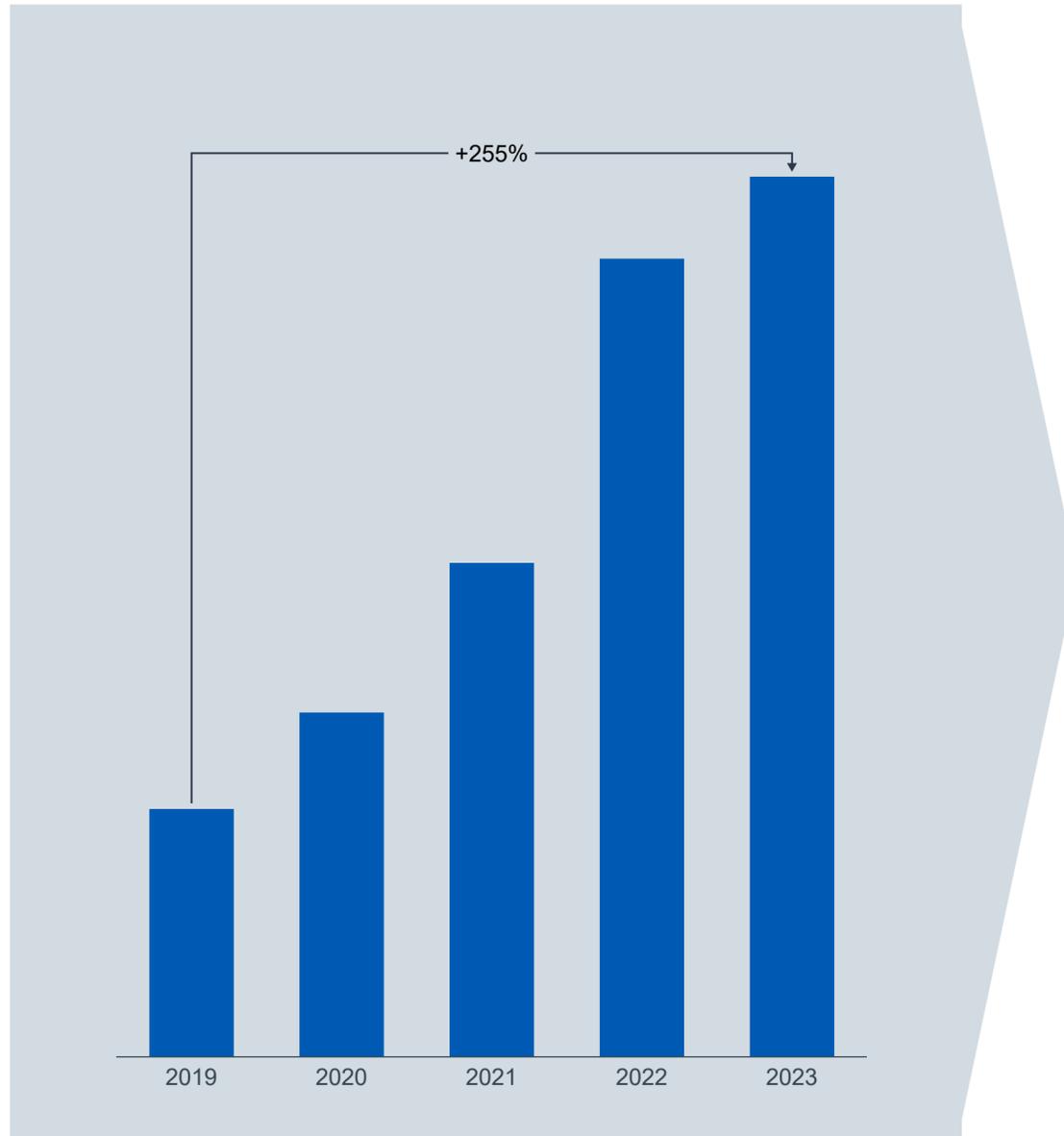
Projects by type



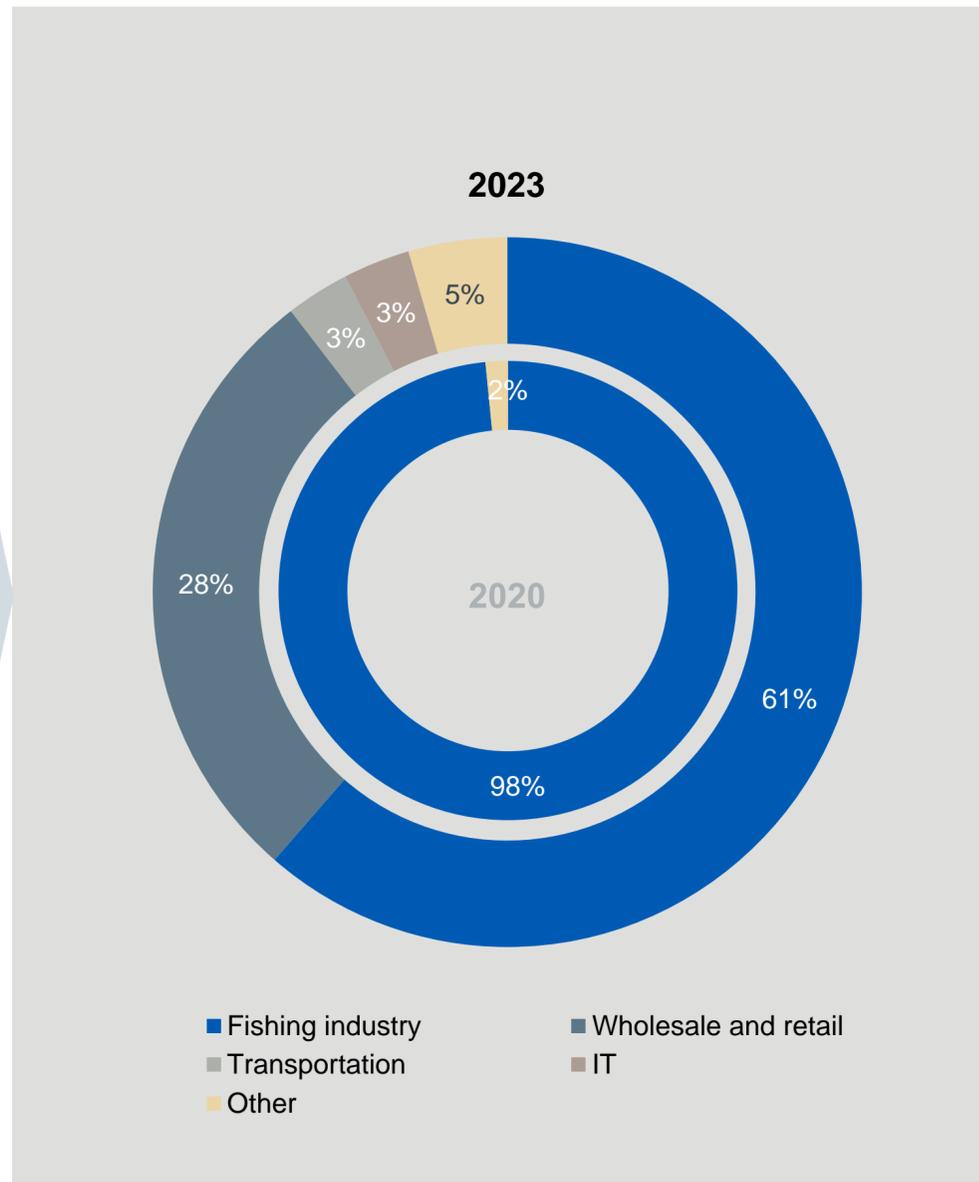
There are further opportunities in the Arctic region

Our Arctic book represents 9.3% of total lending in 2023 (from 5.5% in 2020)

Arctic loan book



Increased diversification



Arctic opportunities

Continued lending activity

Supporting sustainable investment opportunities

Arctic stock exchange

Deposits and house bank

CIB sees further lending opportunities in the region as its considered under-banked on the corporate side and CIB has ambitions to be the go-to investment bank in the Arctic

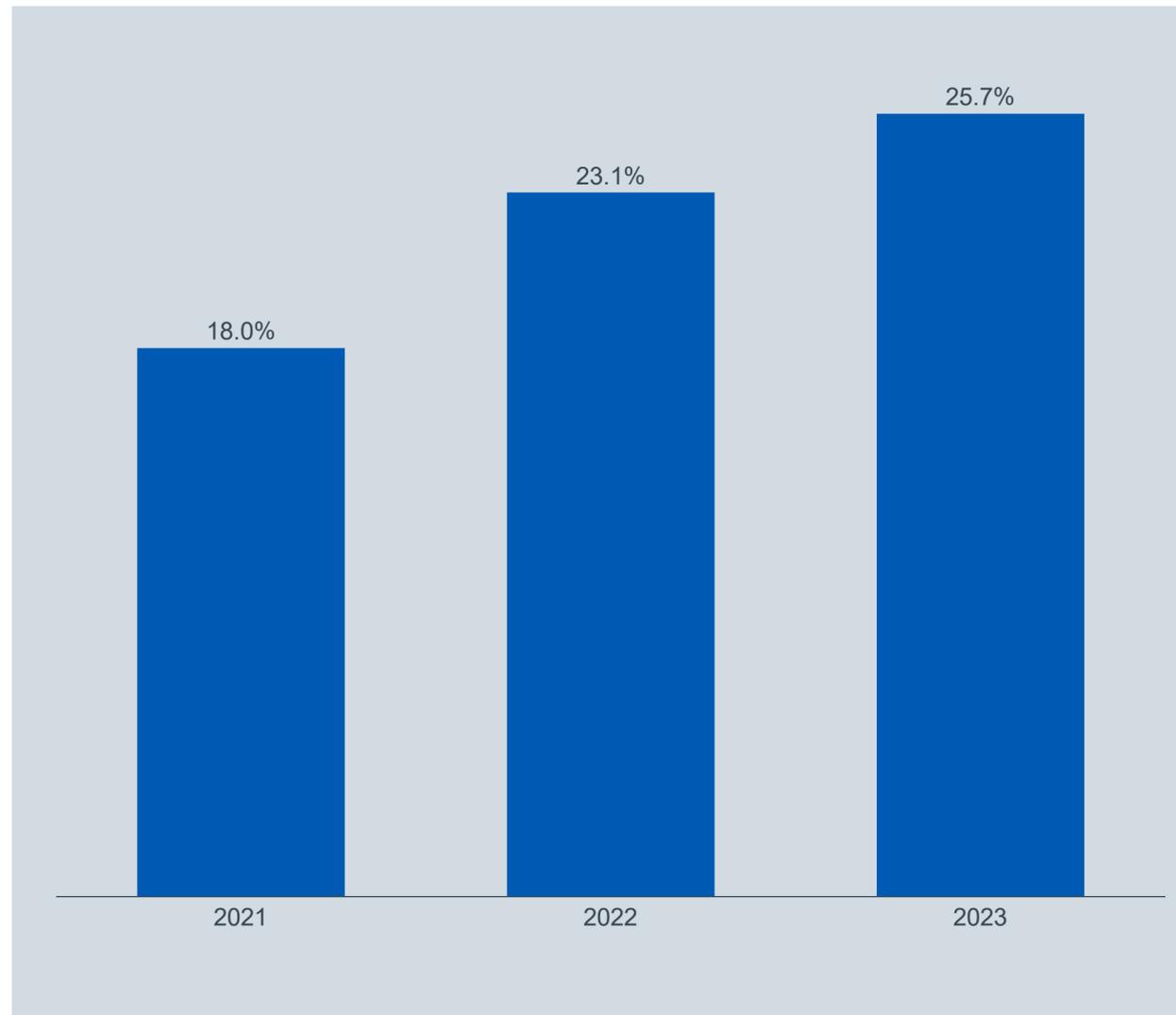




Our bancassurance strategy has come a long way

With further opportunities on customer base

Steady increase in corporate bancassurance



We have built our strategic capabilities

Broaden our customer segments

A composite and more customer-centric product offering

Enhanced customer service

Increasing convenience and accessibility for our customer for further service offerings

Improve scale and efficiency

Utilizing our distribution channels for our increased customer needs

**18% to 25.7%
bancassurance
ratio**

since 2021

**32% increase in
new sales**

between 2022 and 2023

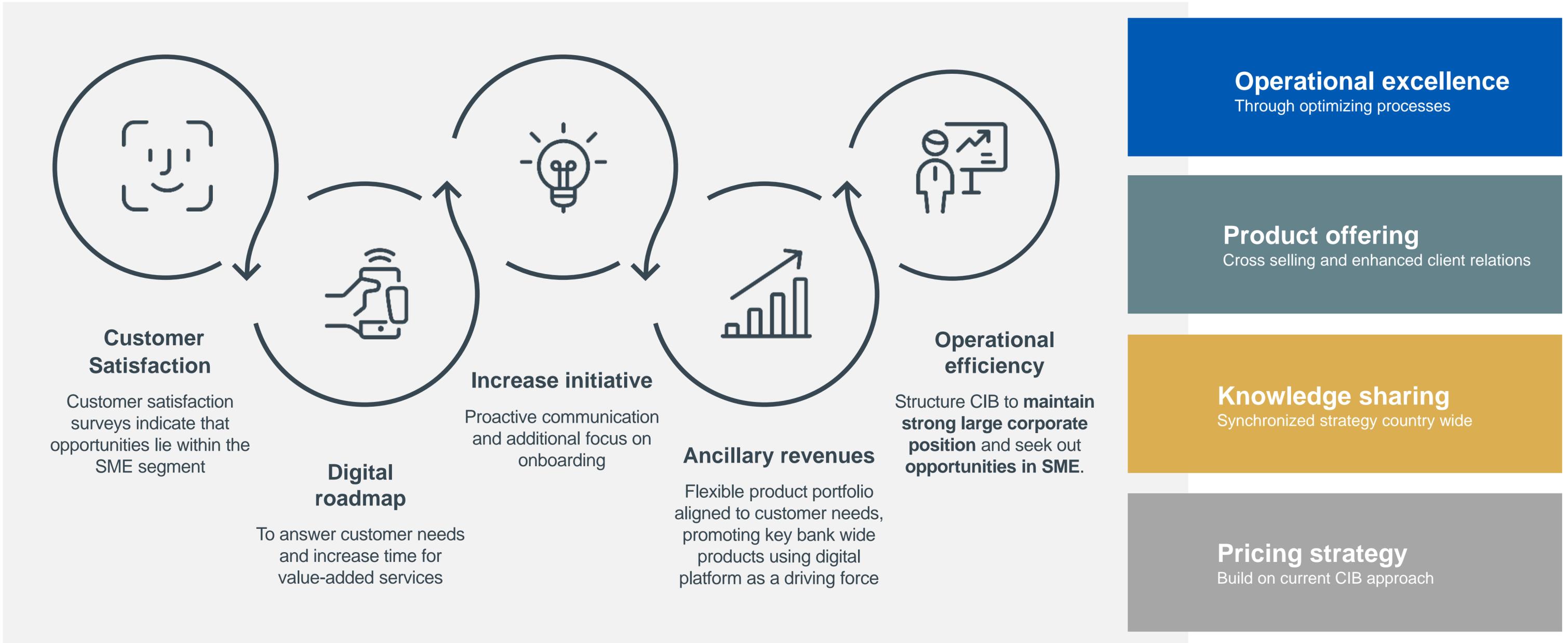


All corporates merged under Corporate and Investment Banking

We are extending our focus towards all corporates

Finetuning efficiency and increase service offerings

We are focused on



Operational efficiency is a priority

We are committed to increasing efficiency digitally and non-digitally

Motivation

Acting on customer feedback

In-depth interviews with customers and systematic analysis of customer feedback

Efficient decision making

Clear direction, increased mandate and shorter response time

Leverage digital capabilities

Deepening customer relationships by combining digital ease with competent advisory

Increase operational efficiency

Increased digital and non-digital investments to drive productivity

Objectives



Customer satisfaction



Digital engagement



Improve efficiency

15 transformational digital projects

committed in 2024 compared to 3 in 2022 and 5 in 2023

From 18% to 77%

in automated extensions from Q1 2022

Creating time with clients

by automating and eliminating non-value adding tasks



Key takeaways

Corporate & Investment Bank

We have cemented a strong operation and solid ground

With clear focus on pricing, processes and policies

We will maintain momentum and client focus

By seizing opportunities, listening to client needs and implementing accordingly

We are ready to build further on our foundation

With continued focus on Large Corps, integrating SMEs and delivering on Digital

Our culture is driven and solution oriented

With top talent employees focused on understanding our customers' ambitions combined with a winning mentality

There are considerable opportunities

We are going to work closer, smarter and better with our clients





Capturing the value of bancassurance

Guðbjörg Heiða Guðmundsdóttir
CEO of Vörður insurance



Meet Arna





During a lifetime, things happen

Fire **ISK 4.3m**

Homeowner **ISK 615k**

Home **ISK 522k**

Car **ISK 675k**

Pet **ISK 89k**

Source: Average claim cost based on Vörður's data



Vörður is a general insurer in Iceland building on strong foundations

Vörður tryggingar is a general insurance company offering holistic insurance solutions to individuals, families and corporate customers

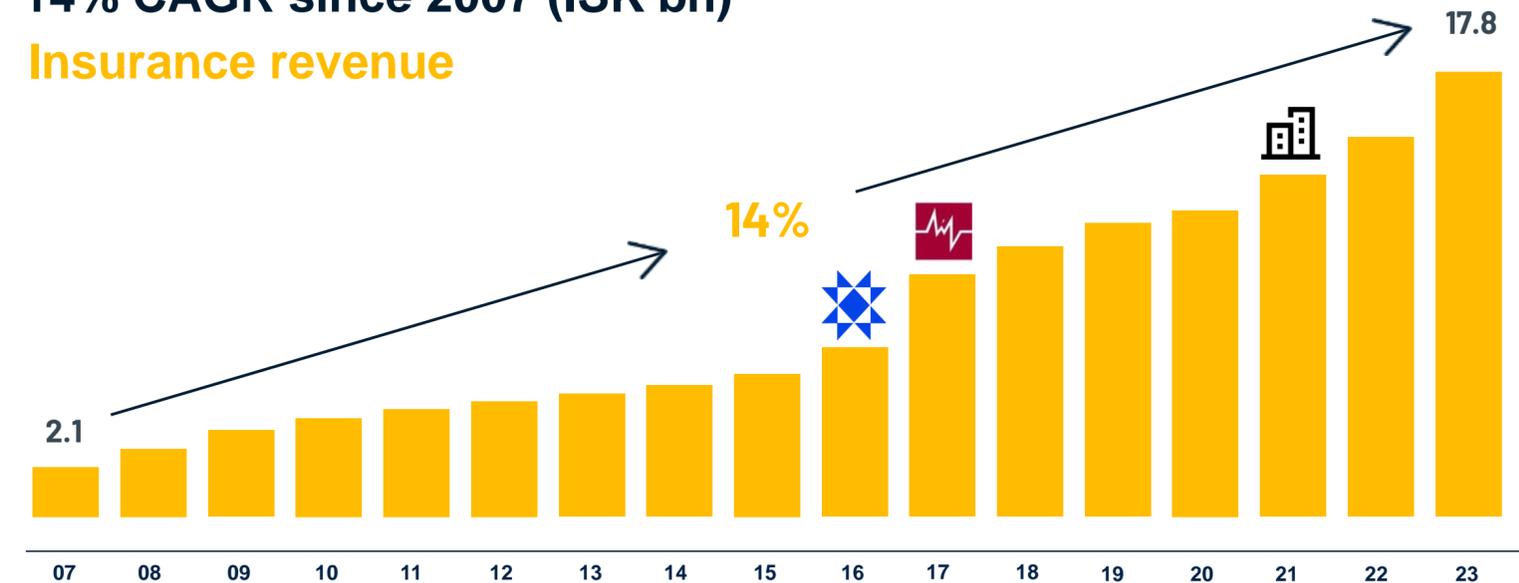
Vörður's history can be traced back to 1926 as a provider of marine insurance in northern Iceland. In 2007, the Vörður brand was launched with a 6% market share

Vörður was acquired by Arion Bank in 2016 and merged with Okkar life insurance in 2017, strengthening its market position considerably

Vörður moved into Arion Bank HQ in 2021 and now operates 5 joint branches in Iceland

14% CAGR since 2007 (ISK bn)

Insurance revenue



Number of customers



Revenue amount



Individuals

Corporate



Strong insurance revenue growth momentum and increasing market share

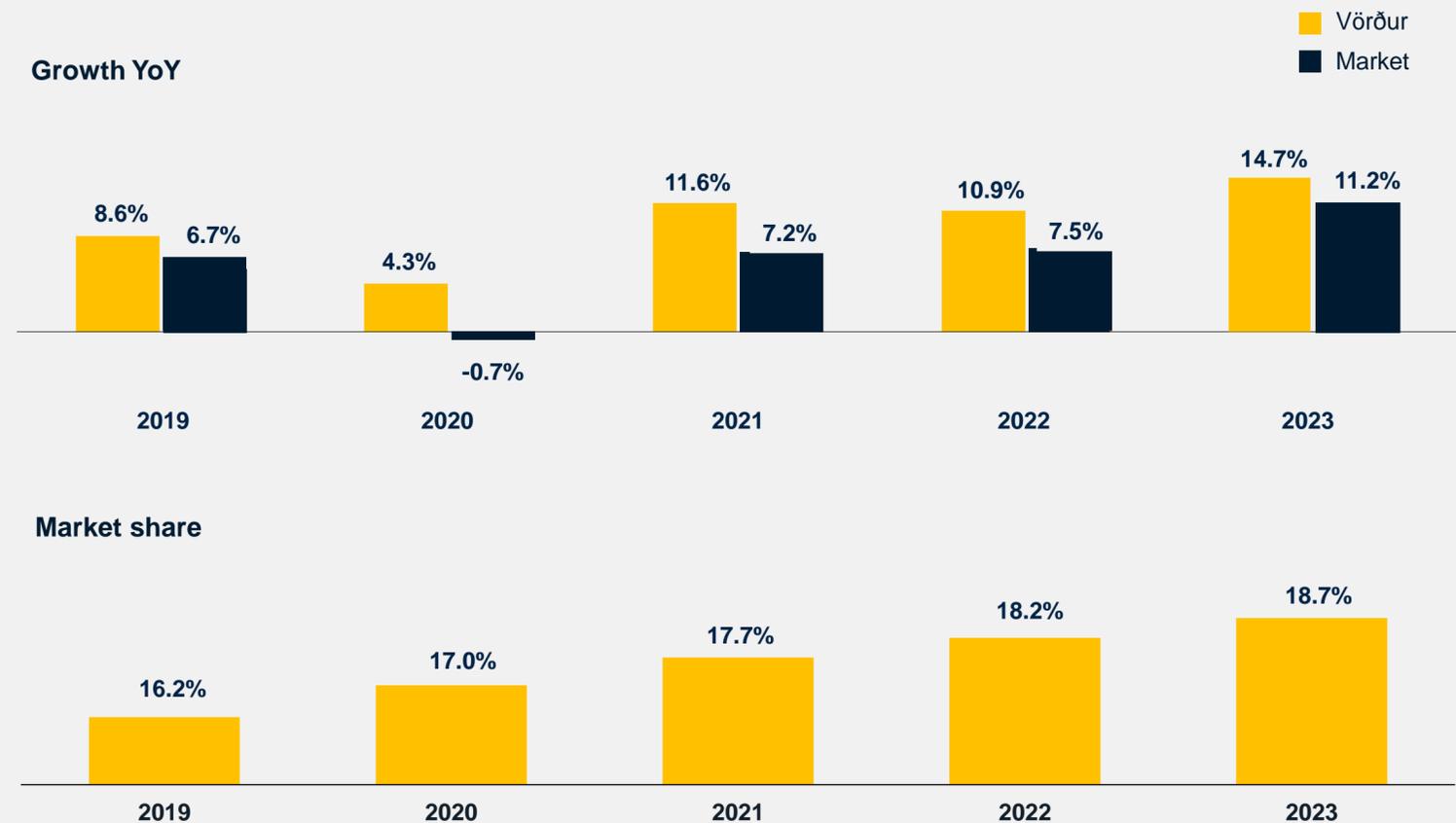
Our insurance revenues have consistently increased well over market growth over the past five years. There remain considerable growth opportunities, both in non-life insurance and in life and health insurance

Main reasons for growth

1 Targeted pricing strategy

2 Brand building

3 Ambitious sales efforts



Sustainable underwriting strategy allows for responsible future growth

There are considerable growth opportunities through bancassurance value proposition to individuals and having our corporate sales team within Arion Bank's Corporate and Investment Banking division

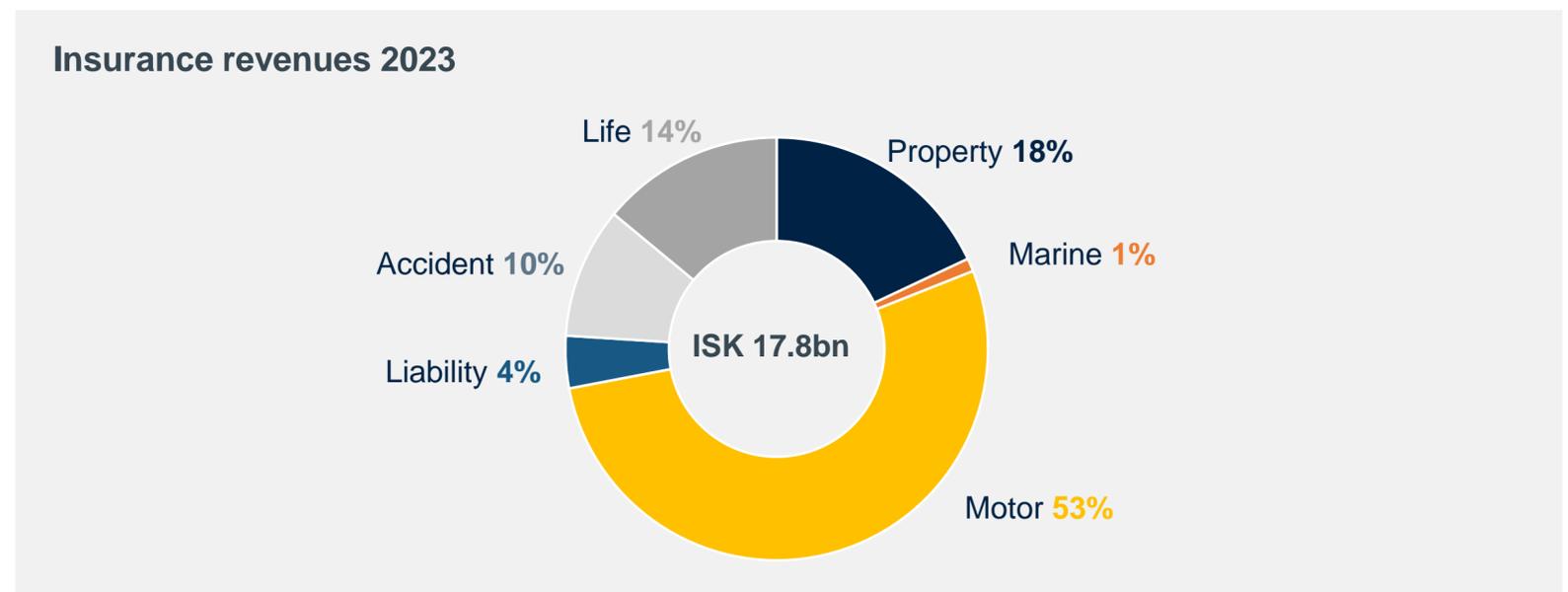
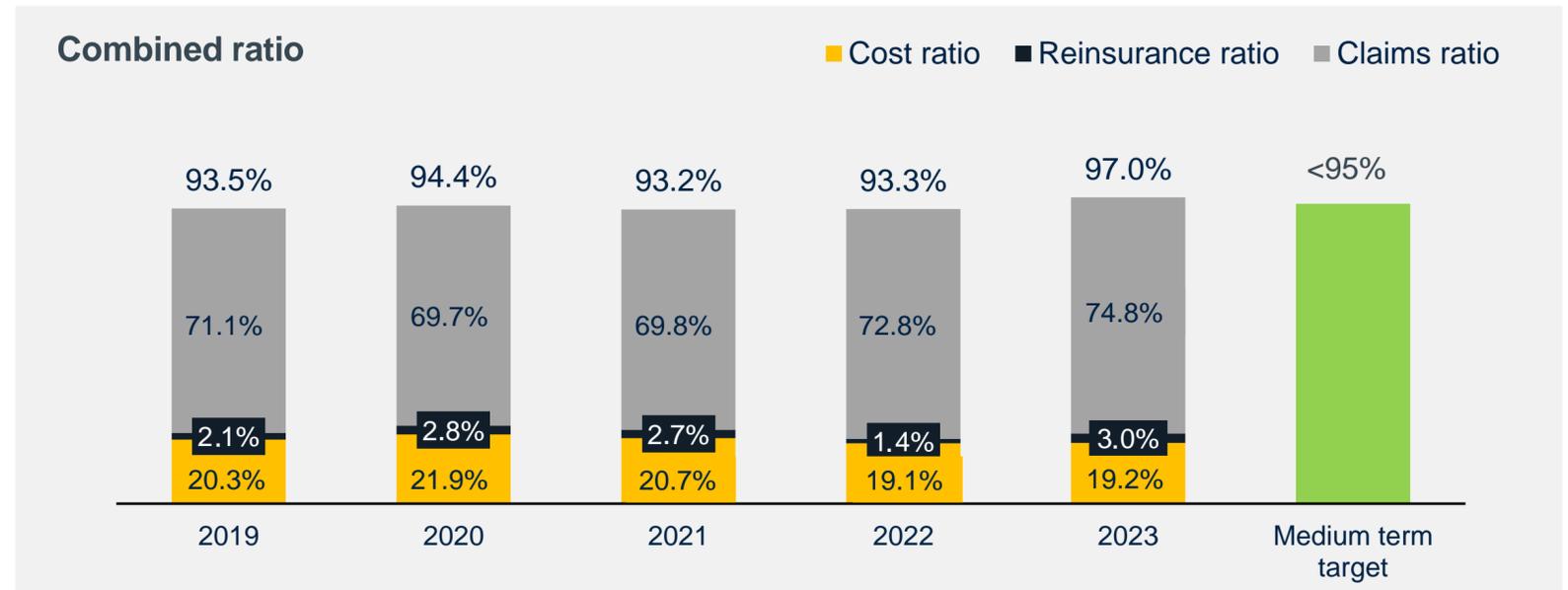
Our underwriting strategy emphasizes sustainable growth through careful risk pricing and risk segment balance

Balancing our business lines going forward and increasing the weight of the corporate book over time will allow for decreasing claims ratio

A growing business with emphasis on digital solutions will allow for more scalability and allows for a decreasing cost ratio

We see opportunities in product development, both in introducing new products to the market and in tailoring products to our customers

Vörður has a combined ratio medium-term target of <95%



Well balanced investment portfolio managed by Arion Bank

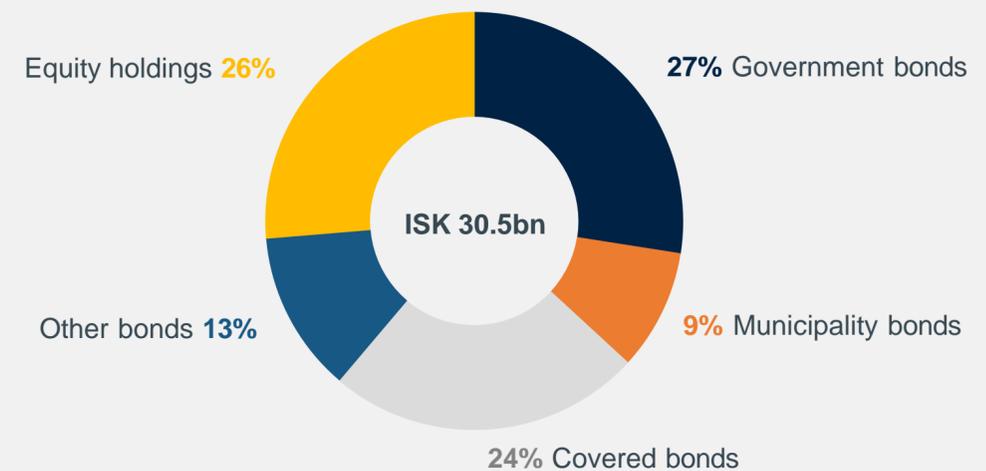
Vörður's investment portfolio at YE 2023 consisted of 74% bonds and 26% equity holdings

Vörður has historically maintained a liquid and relatively risk-averse portfolio, both to mirror the insurer's obligations, and to require less capital for an appropriate solvency ratio

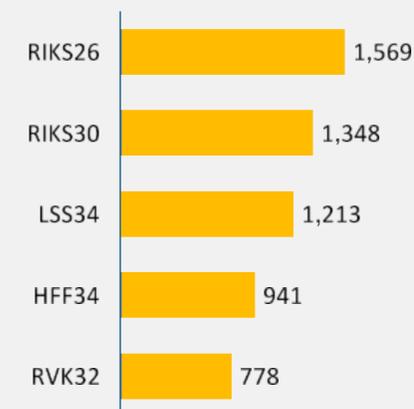
Bonds in the portfolio are 73% CPI-linked, to mirror expected insurance contract obligations. Their duration are 3.9 years, which is currently twice the duration of the obligations, due to the view that interest rates will decrease in the medium term

The portfolio is actively managed by Arion Bank's Institutional Investment Management and thus gaining from a broad and experienced investment team

Breakdown of investment portfolio YE 2023



5 largest bonds investments (ISK m)



5 largest equity exposure (ISK m)



Strategic priorities focus on growth opportunities and improved service

Strategic pillars	Priority	Description	Starting point												
<p>Society and culture</p> <p>Life and health</p> <p>Collaboration</p> <p>Innovation</p> <p>Outstanding service</p>	Corporate insurance	Integrated Corporate and Investment Banking and insurance teams accelerate premium growth and deepen the Group's relationship with customers	<p>Corporate premiums (ISK bn)</p> <table border="1"> <tr><th>Year</th><th>2021</th><th>2022</th><th>2023</th></tr> <tr><td>Value (ISK bn)</td><td>3.7</td><td>4.2</td><td>5.3</td></tr> <tr><td>Growth (%)</td><td>-</td><td>14%</td><td>26%</td></tr> </table>	Year	2021	2022	2023	Value (ISK bn)	3.7	4.2	5.3	Growth (%)	-	14%	26%
	Year	2021	2022	2023											
	Value (ISK bn)	3.7	4.2	5.3											
	Growth (%)	-	14%	26%											
	Life and health	Vörður is historically a leader in life and health insurance. Strategic priority to regain our leadership position	<p>Life insurance market share</p> <table border="1"> <tr><th>Year</th><th>2021</th><th>2022</th><th>2023</th></tr> <tr><td>Market share (%)</td><td>30.9%</td><td>30.2%</td><td>28.7%</td></tr> </table>	Year	2021	2022	2023	Market share (%)	30.9%	30.2%	28.7%				
Year	2021	2022	2023												
Market share (%)	30.9%	30.2%	28.7%												
Digital channels	Important improvements to self-service on our website offers increased scalability and improved service level	<p>% through website</p> <table border="1"> <tr><th>Year</th><th>2021</th><th>2022</th><th>2023</th></tr> <tr><td>Sales (%)</td><td>2%</td><td>4%</td><td>7%</td></tr> <tr><td>Claims (%)</td><td>60%</td><td>56%</td><td>63%</td></tr> </table>	Year	2021	2022	2023	Sales (%)	2%	4%	7%	Claims (%)	60%	56%	63%	
Year	2021	2022	2023												
Sales (%)	2%	4%	7%												
Claims (%)	60%	56%	63%												
Bancassurance	Unique opportunity to offer holistic financial services to customers of both Arion Bank and Vörður, leading to better service levels and longer customer relationships	<p>Bancassurance ratio</p> <table border="1"> <tr><th>Year</th><th>2022</th><th>2023</th></tr> <tr><td>Individuals (%)</td><td>33.5%</td><td>34.7%</td></tr> <tr><td>Corporates (%)</td><td>23.1%</td><td>25.7%</td></tr> </table>	Year	2022	2023	Individuals (%)	33.5%	34.7%	Corporates (%)	23.1%	25.7%				
Year	2022	2023													
Individuals (%)	33.5%	34.7%													
Corporates (%)	23.1%	25.7%													



Bancassurance is a unique competitive advantage in the market

The opportunity

Our strategy to get there

Our progress so far

1 Accelerate revenue growth

- Large network of Arion Bank branches and service representatives
- Integrated corporate insurance team within Arion Bank's Corporate and Investment Banking division
- Arion Bank's leading digital channels are scalable for sales and services

- Excellent lead generation through Arion Bank branches
- 34.7% bancassurance ratio of individuals
- 25.7% bancassurance ratio of corporates
- Higher bancassurance ratios within target client segments
- 26% growth in corporate revenues in 2023

2 Synergies

- Synergies in frontline and support units
- Operational cost optimization

- Sales and services outsourced to Arion Bank's frontline units supporting cross selling
- Majority of support units outsourced to Arion Bank

3 Increased service levels and customers satisfaction

- Loyalty and rewards system
- 360° knowledge of customer needs
- More opportunities for regular communication

- 2nd place Icelandic satisfaction index
- Loyalty calls
- Five branches Arion / Vörður

Next steps to further capturing the value of bancassurance

Integrated loyalty and rewards system

Digital sales through Arion Bank are still untapped

Further growth in corporates



Key takeaways

Strong momentum
in sustainable
revenue growth

Clear strategic
priorities

Unique position
for holistic
bancassurance offering





Drivers of continued financial performance

Ólafur Hrafn Höskuldsson
CFO

Track record of delivering on financial targets

Deliberate and focused strategic direction has facilitated strong delivery on medium-term targets

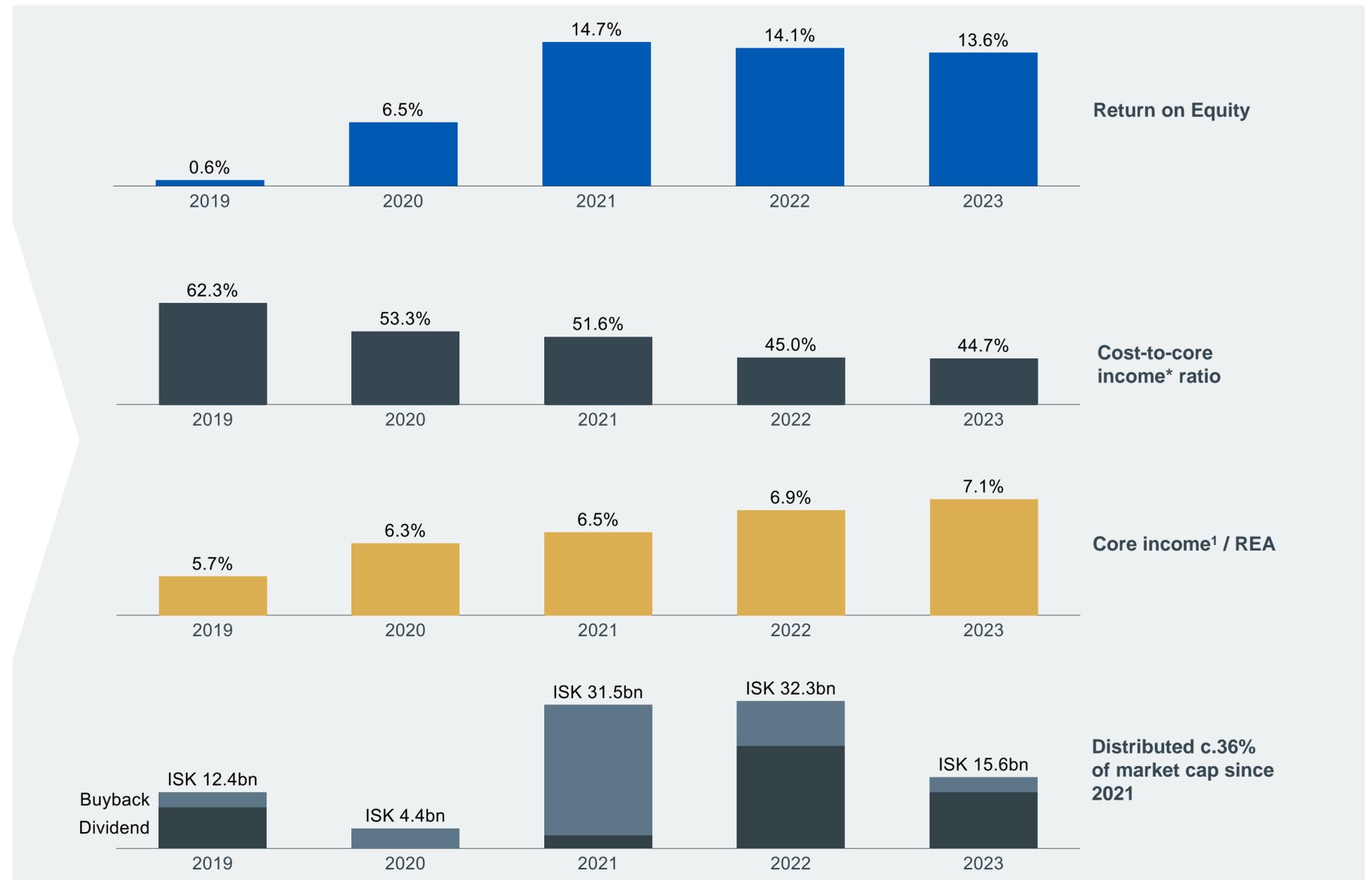
Significant milestones achieved 2019 strategic focus areas

Increased operational efficiency through
key cost initiatives

Increased revenues from RWAs
through capital velocity and
capital light revenue growth

Focus on capital optimization

Exit from non-core assets



Key initiatives to drive continued financial momentum

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

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

Resilience

Efficiency

Growth

IT

Investment commitment
Data and AI
Cybersecurity and customer education
AWoW

Markets

Wealth management and Premia
New asset management system
Arctic opportunities

Operations & Culture

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

Retail Banking

Rewards / Family
Market segmentation
Bancassurance
Stable deposit strategy
Women invest

Funding and Treasury

Stable deposit strategy
Broadening wholesale funding options
Capital optimization

Risk

Credit models development
Data and AI
cyber-security education

Vörður

Corporate insurance
Life and health
Digital channels
Bancassurance

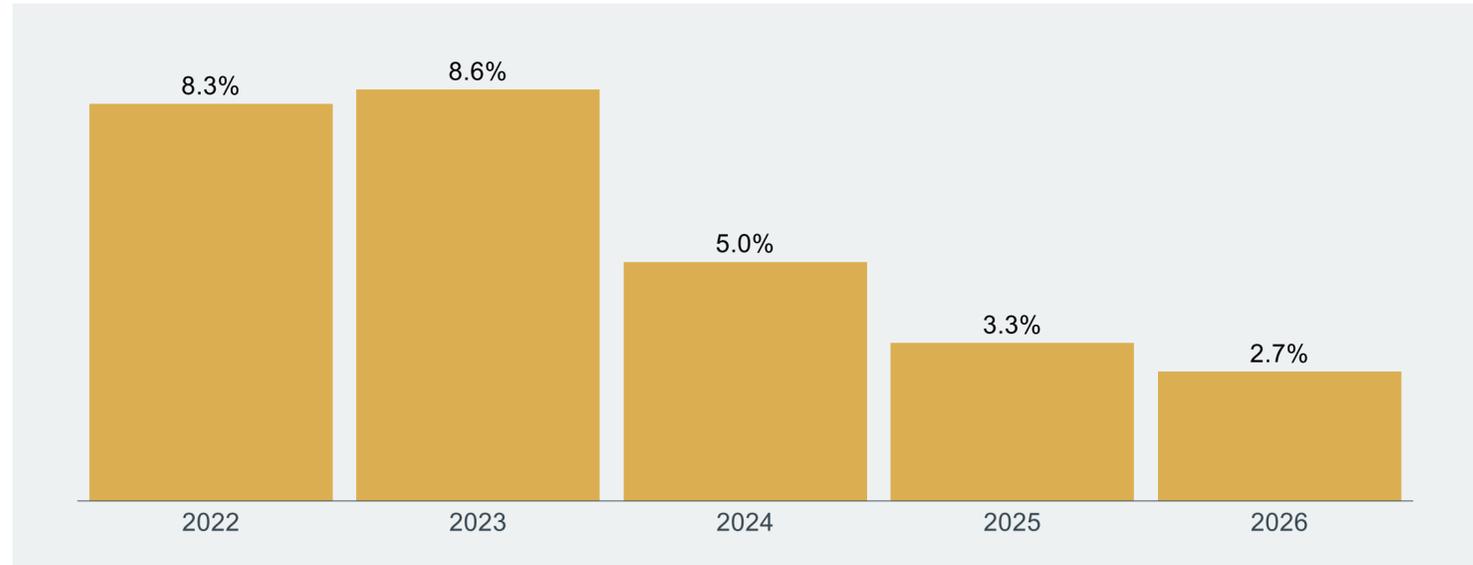
CIB

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

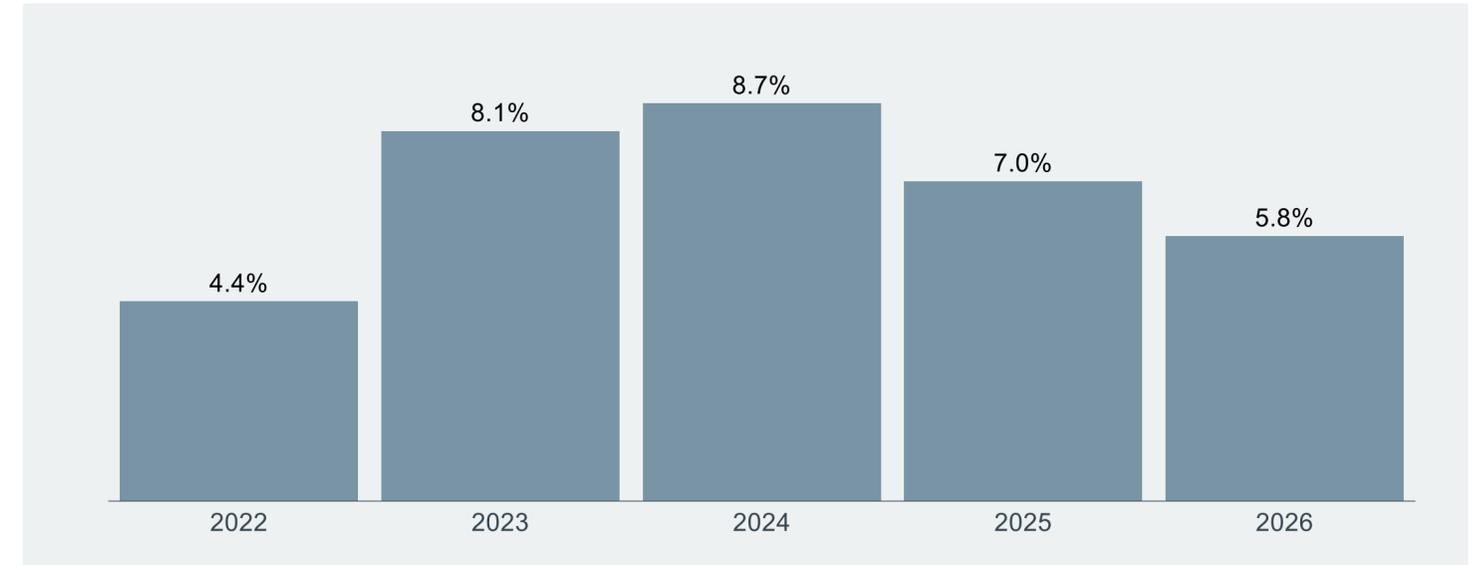


Economic outlook assumptions

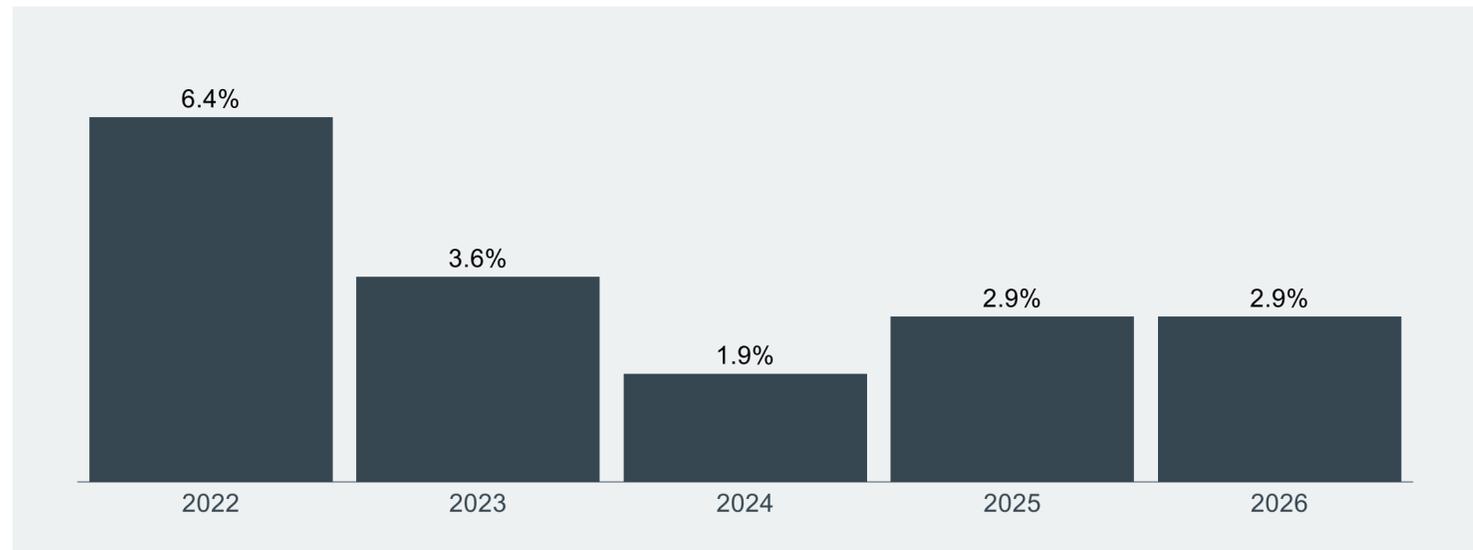
Inflation



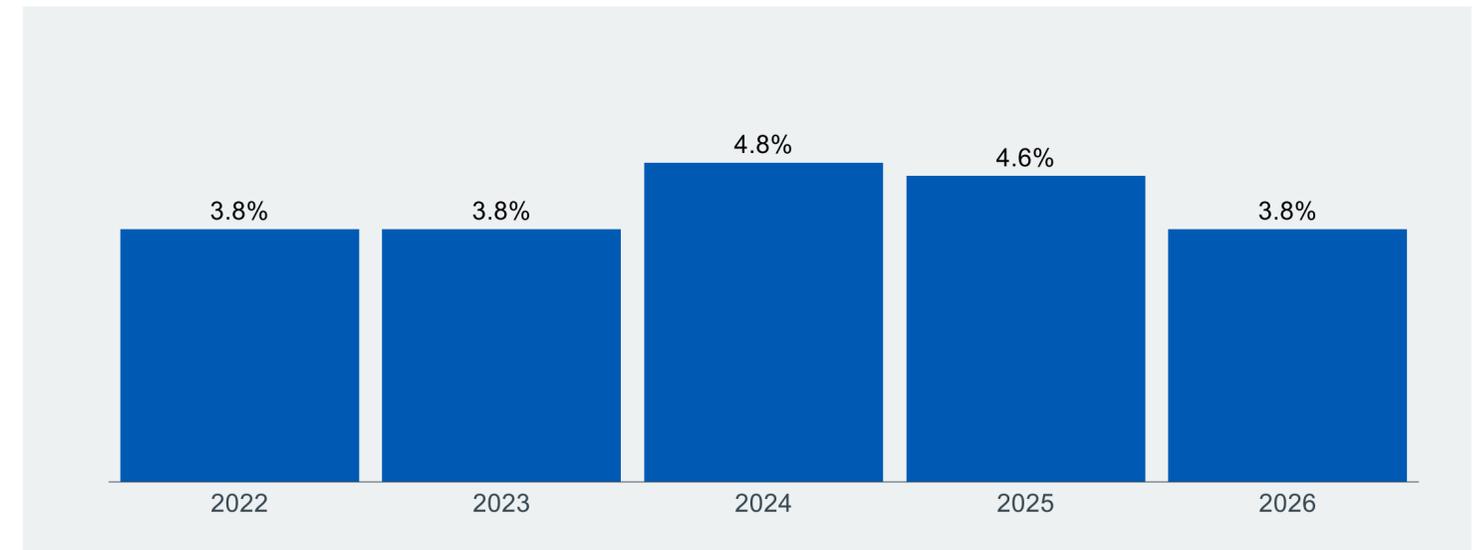
Central Bank policy rate



GDP growth



Unemployment rate

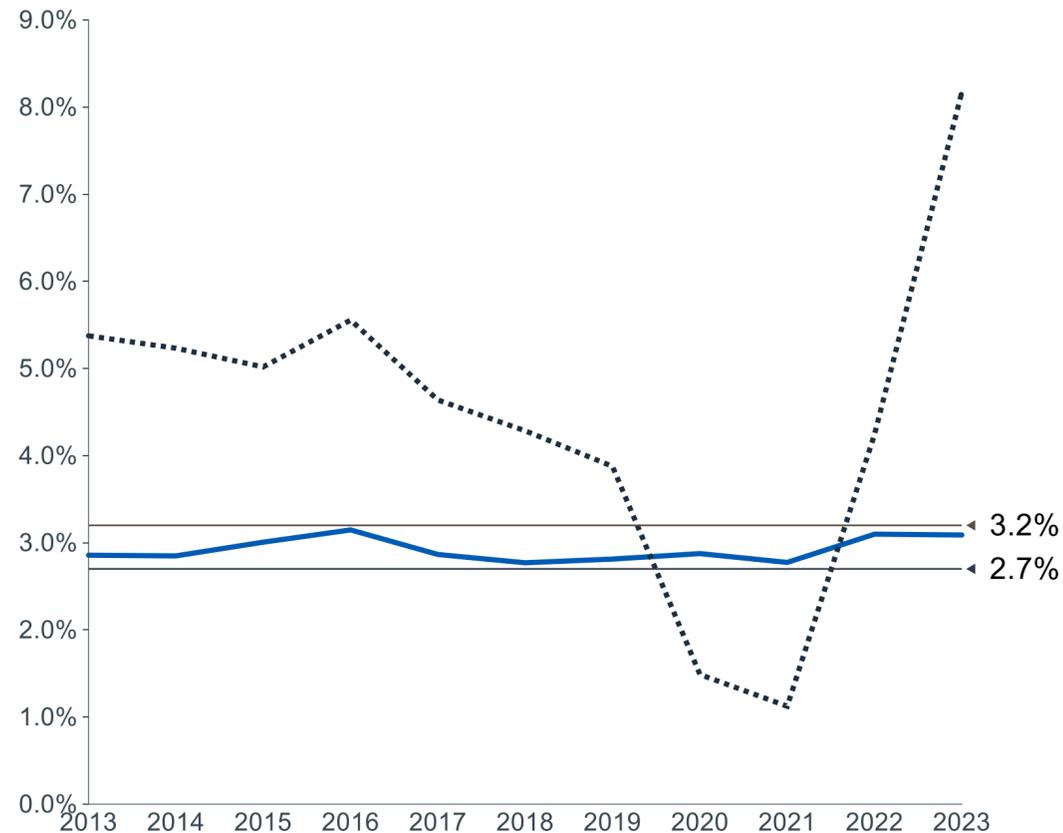


Net interest margin

Stability through the cycle and near-term tailwind

Evolution of NIM

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



Near-term NIM outlook

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

↑ Positive impact ↓ Negative impact

Examples of strategic initiatives impacting NIM

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

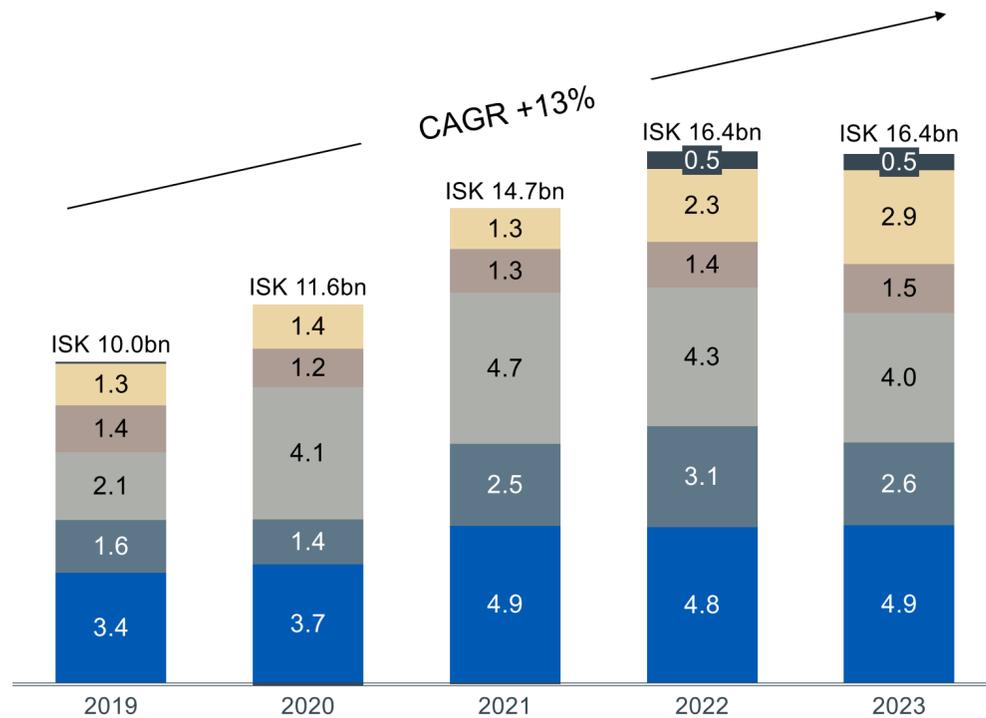


Net fee and commission income

Continued momentum

Evolution of fee and commission income

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



Near-term outlook

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

Strategic initiatives impacting fee generation

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

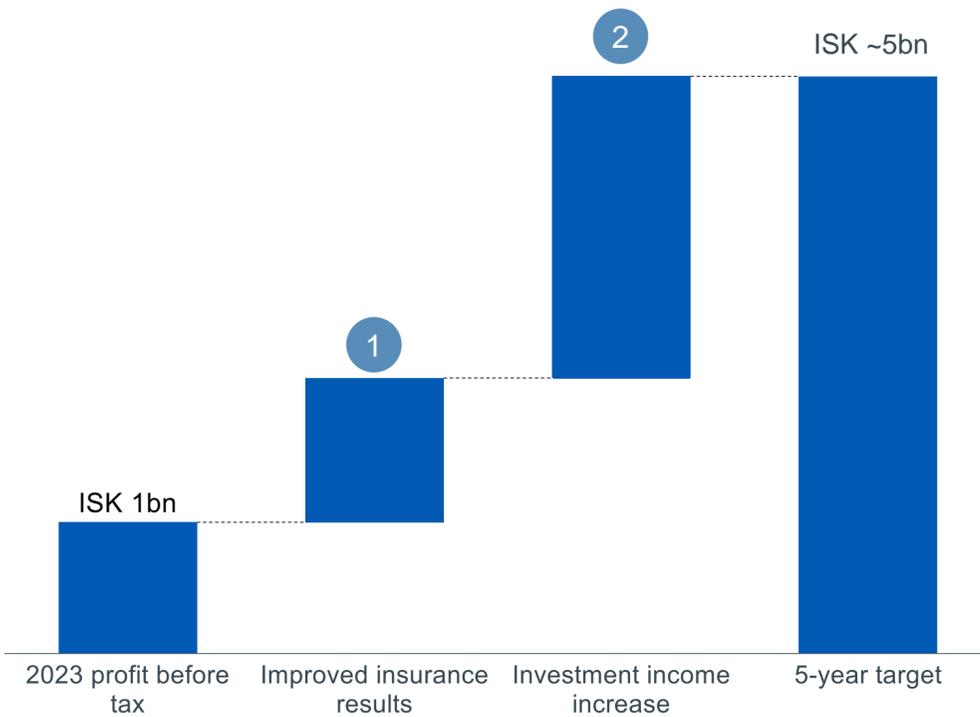
↑ Positive impact ↓ Negative impact



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

The road to enhanced profitability of insurance

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



Outlook

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

Strategic initiatives impacting net insurance and financial income

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

↑ Positive impact ↓ Negative impact

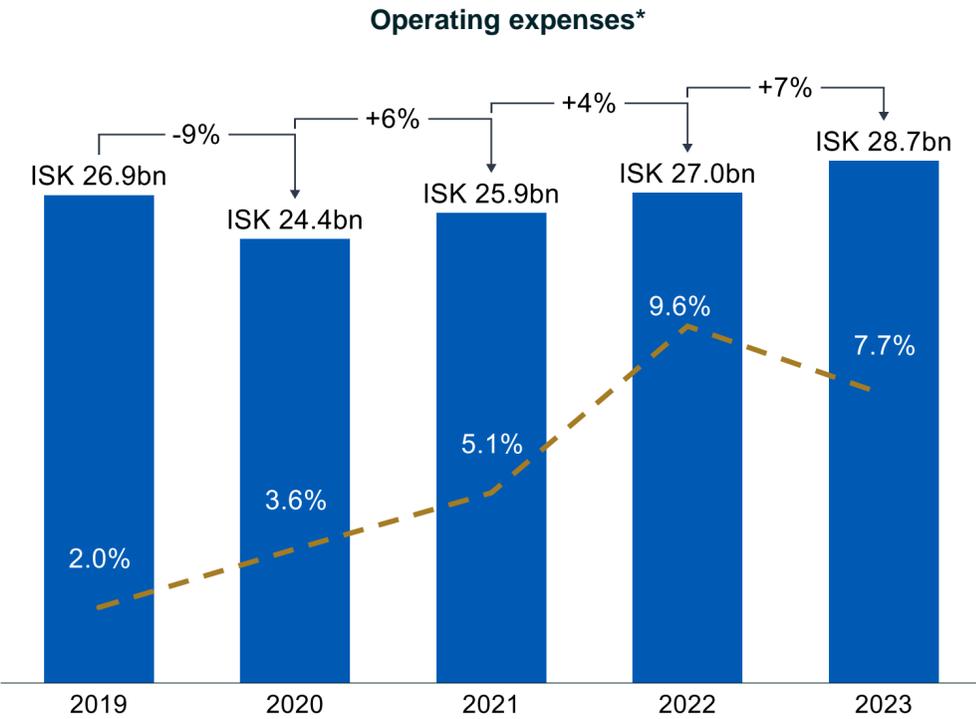


Operating expenses

Ongoing efficiency drive

Evolution of OPEX

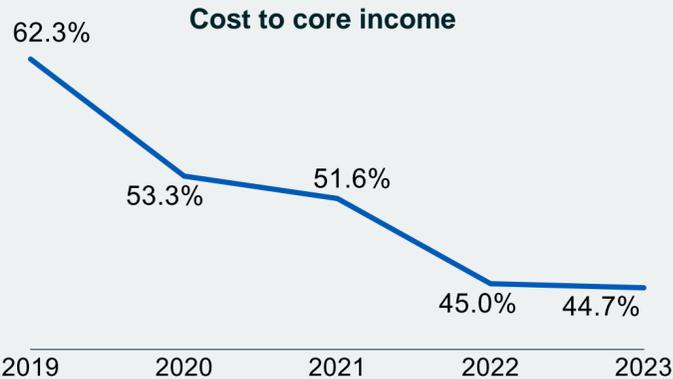
Cost increase in recent years been below inflation and held relatively stable while supporting significant increase in revenues



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

Near term OPEX outlook

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



↓ Positive impact ↑ Negative impact

Examples of strategic initiatives impacting operating expenses

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

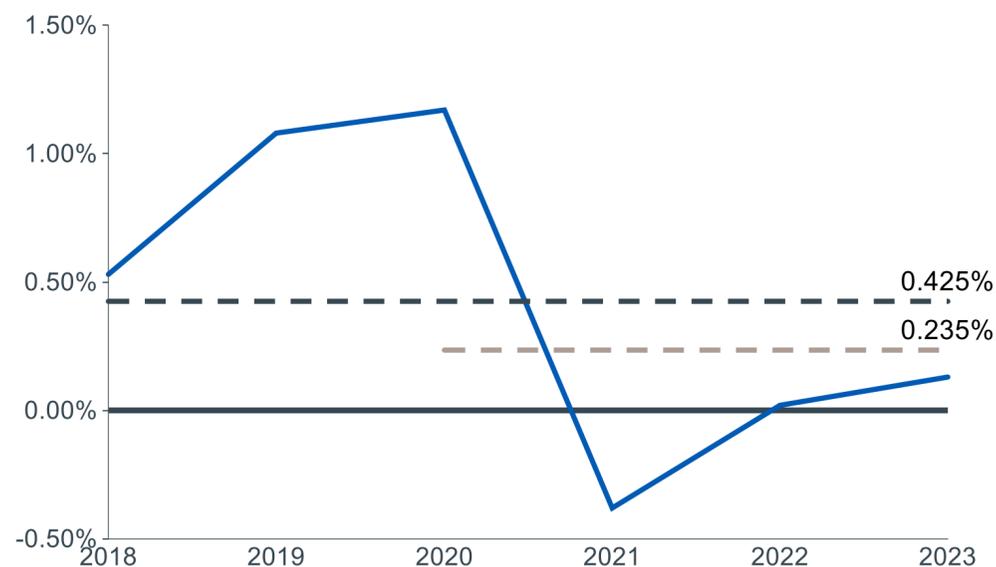


Cost of Risk

Solid position

Evolution of Cost of Risk

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



Near term Cost of Risk outlook

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

↓ Positive impact ↑ Negative impact

Strategic initiatives impacting Cost of Risk

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



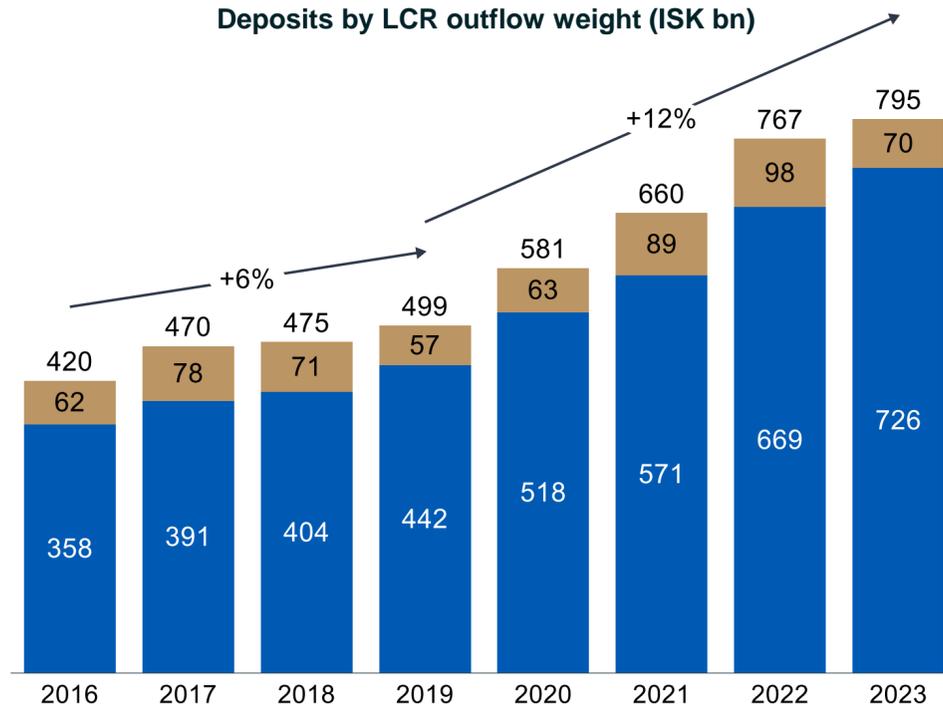
Funding

Enhanced stability and diversity

Deposits

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

Deposits by LCR outflow weight (ISK bn)



*Deposits with LCR outflow weight above 40%

Near-term funding considerations

Covered bonds

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

Senior preferred

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

Senior non-preferred

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

Subordinated

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

Navigating through multiple capital and funding constraints

Regulatory constraints

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

Rating agency constraints

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

Management constraints

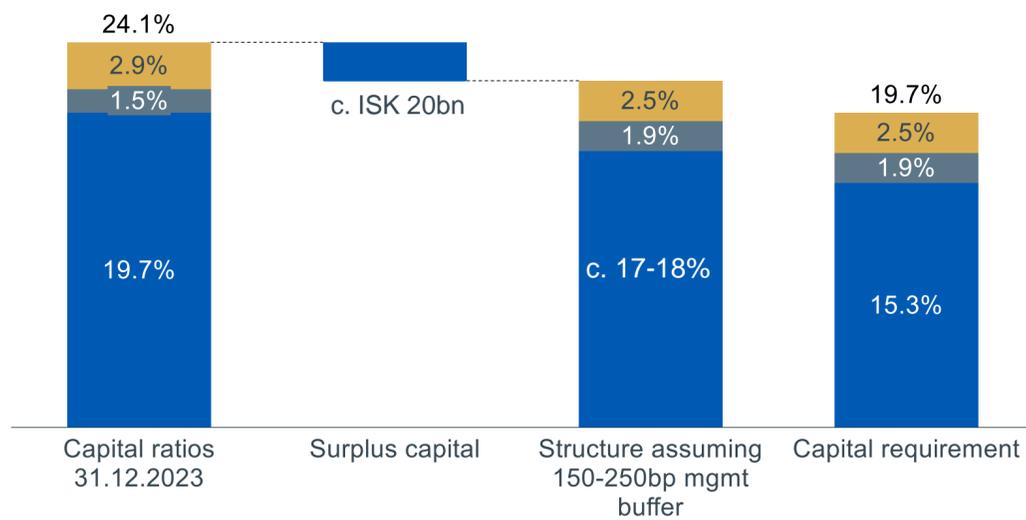
- Asset encumbrance
- Capital and MREL management buffers



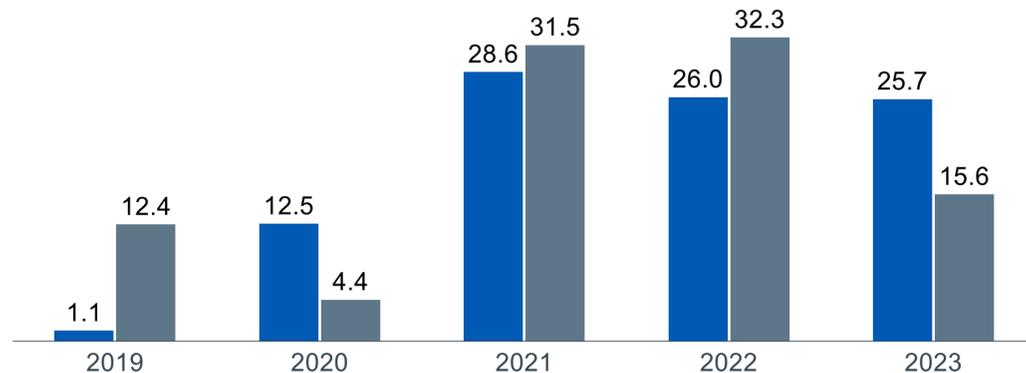
Capital and credit rating

Medium term capital target unchanged

Target capital structure over the medium term



Historical capital distribution to shareholders (ISK bn)



S&P Global

Issuer rating
Covered bond
Outlook

BBB
A+
Stable

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

MOODY'S

Issuer rating
Covered bond
Outlook

A3
Aa2
Stable

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

Ongoing strategic review on Arion's optimal credit rating coverage

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

This review will consider among other factors:

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

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

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



Operating in an attractive market

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

With a unique position

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

And a track record of delivering

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

Medium term targets*

>13% Return on equity

>7.2% Core income over REA

<45% Cost to core income

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

<95% Insurance combined ratio of Vörður

50% Dividend payout ratio

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

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





Q&A

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