Q4 and full year results 2021

Investor presentation 9 February 2022

Key results for the year

ROE

14.7%

vs. target 10%

All business units exceeding Group target ROE

Cost / Income ratio	44.4%	vs. target <45%
CET1 ratio	19.6%	vs. target ~17%
Core income growth	9.4%	vs. 2020
Deposit growth	15.3%	vs. 2020
Loan growth	13.8%	vs. 2020
AuM growth	19.5%	vs. 2020

Sources: Arion Bank and Nasdaq Iceland

Key milestones of the year

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The Banker Bank of the Year 2021 ICELAND

Equal pay

Delivering value to our customers

Strong partner to our customers in Corporate & Investment banking and Capital Markets

Expansion of lending activity in Arctic region outside Iceland in energy and seafood sector

Assets managed on behalf of our customers (AuM) increased by 19.5% in 2021

Implementation of bancassurance model to increase product offering and benefit different customer segments

Digital service offering continues to strengthen with the trading app solution

A record year in mortgage lending where the mortgage loan book increased by ISK 85bn - up 23.2%

Balance sheet management

Arion Bank's green financing framework issued in July followed by green bond issuances in both EUR and ISK

Successful entry into the Euro Covered Bond market

Sale of Valitor to Rapyd for USD 100mn – subject to regulatory approval

ISK 31.5bn release of capital through buybacks and dividends

Deposits increased by 13.8% from YE 2020. Green deposits up 61% during same period

Operational excellence

New Customer Experience division formed to place customer experience at the heart of all the Bank's services

Arion Bank's equality and human rights policy updated with clear objectives

Arion Bank achieved an outstanding score in Reitun's ESG rating. 90 points out of 100

SOPRA core system went live in April – enhances the Bank's product development capabilities

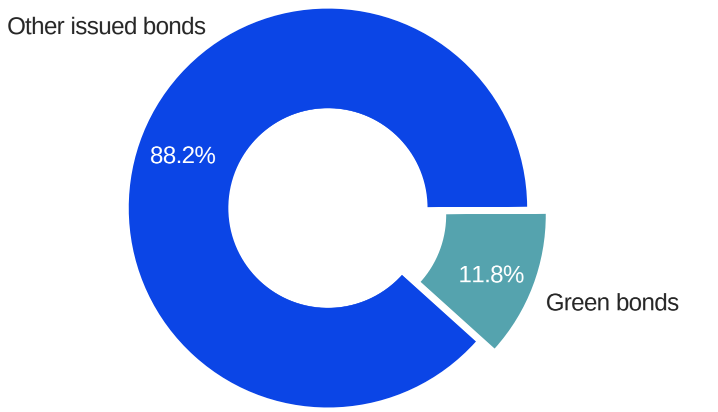
Performance-based incentive scheme and share option plan aligns employee interests with those of the Bank

The Arion app awarded the best banking app fifth year in a row

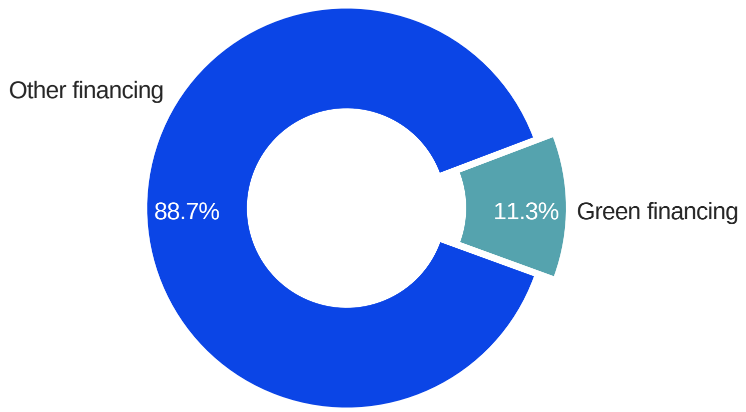
Sustainable banking

Close to 3,000 green projects defined at YE 2021 representing 11.3% of the loan book. The Bank targets 20% by 2030*

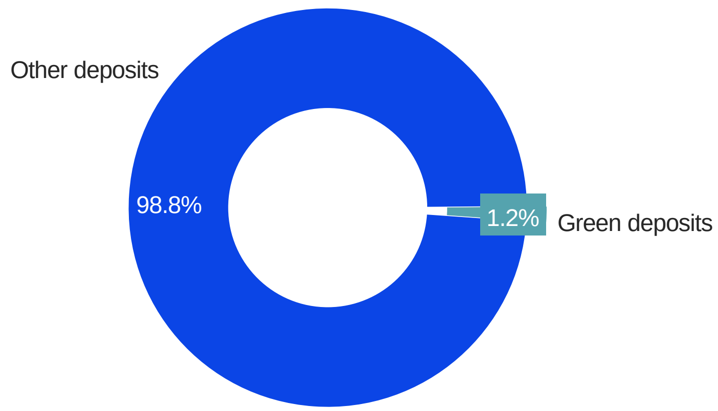
Arion Bank has issued ISK 47.7bn in green bonds, which represents 11.8% of total debt instruments.



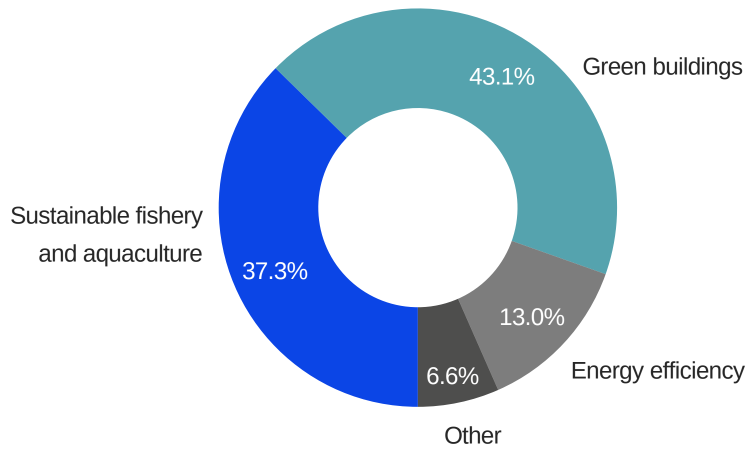
Arion Bank has committed to 2,969 green projects. This represents 11.3% of the Bank's loan book.



Green deposits launched 2020, showing steady growth



Green financing is distributed to numerous project categories



Annual CO_2 emissions avoided 12,680 tCO_2

Clean transportation 785

Sustainable housing 2,162

To reach the goals of the Paris Agreement to keep global warming below 2 degrees Celsius (and preferably 1.5 degrees), massive amounts of capital will need to be directed towards projects and initiatives that reduce or eliminate greenhouse gas (GHG) emissions, support the transition from fossil-based fuels and diminish the adverse impact to the environment.

*This target on the ratio of green loans will be reviewed annually, taking into consideration the opportunities over the next few years for green financing, and the Bank hopes the growth rate might be even quicker.

Medium-term targets updated in December 2021

- All medium-term targets reached in 2021 except for the CET1 ratio target
- Improved operations and outlook supports revision of targets
  - ROE target increased to exceed 13%
  - Operating income / REA increased to exceed 7.3%
  - New insurance premium growth target introduced
  - Loan growth expected to be in line with nominal economic growth
- Proposed dividend of ISK 15 per share or 79% payout ratio in line with dividend policy
  - 50% of net earnings plus 29% due to capital optimization
- Continued commitment to capital optimization. This will be managed in combination with lending growth and other drivers

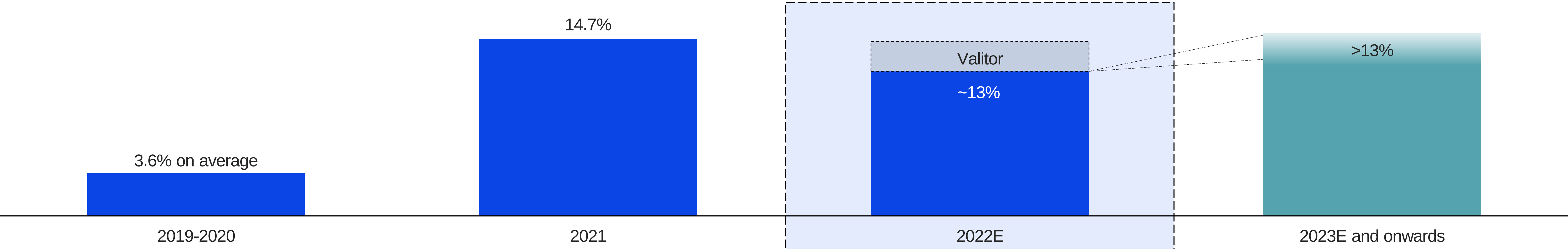
	2021 FY	Previous target	New target
Return on equity	14.7%	Exceed 10%	Exceed 13%
Operating income / REA	7.6%	Exceed 6.7%	Exceed 7.3%
Insurance premium growth	12.4%	-	Premium growth (net of reinsurance) to exceed the growth of the domestic market by more than 3 percentage points
Loan growth	13.8%	The loan book will grow in line with economic growth, with growth in mortgage lending expected to outpace corporate lending	In line with nominal economic growth
Cost-to-income ratio	44.4%	Below 45%	Below 45%
CET1 ratio	19.6%	~17%	~17%
*Dividend payout ratio**	79%	50%	50%

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

* Pay-out ratio of approximately 50% of net earnings attributable to shareholders through either dividends or buy-back of the Bank's shares or a combination of both. Additional distributions will be considered when Arion Bank's capital levels are above the minimum requirements set by the regulators in addition to the Bank's management buffer.

Positive momentum and constructive outlook supports revised ROE target

Development of ROE



2019-2020

- ▲ Opex efficiency drive
- ▼ Low-rate environment
- ▼ CIB restructuring
- ▼ Impairments/Provisions related to restructuring and COVID
- ▼ Dividend restrictions limits opportunity for capital optimization
- ▼ Held-for-sale assets impairments

2021

- ▲ Reversal of provisions
- ▲ CIB performing post restructuring
- ▲ Market activity supporting fee income
- ▲ First milestones in capital optimization
- ▼ Low-rate environment while rising rates late in year

2022E

- ▲ Building on 2021 operational performance across all business units
- ▲ Rising policy rates
- ▲ Economy recovering post pandemic.
- ▲ Strong lending pipeline building both on retail and corporate sides, supporting growth.
- ▲ Large strides in capital optimization
- ▲ Expected sale of Valitor
- ▼ Normalized provisions
- ▼ Inflationary pressure on opex
- ▼ Specific ISK 0.5 - 1bn investment in customer experience and IT projects
- ▼ ISK funding markets crowded

2023E and onwards

- ▲ Icelandic economy in strong position to benefit from broader global economic recovery
- ▲ Cost and revenue benefits from specific Customer experience and IT investments realised
- ▲ True bancassurance platform and enhanced monetisation of distribution channels
- ▲ Originate-to-distribute model enhanced further
- ▲ Optimal capital structure reached (CET1 around 17%)

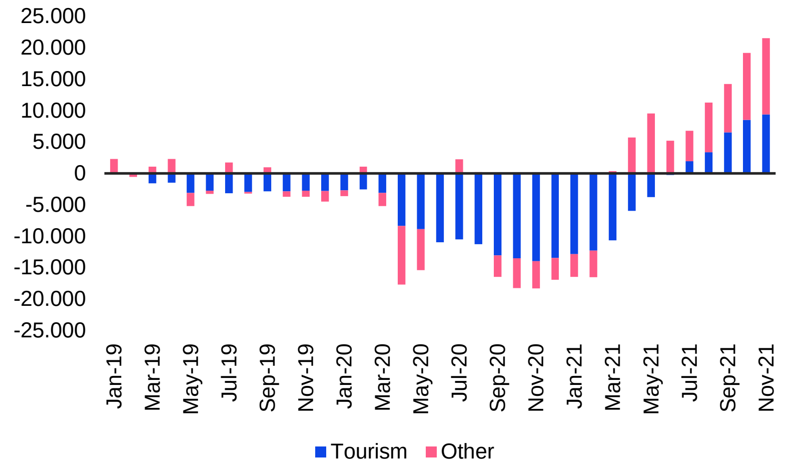
Macroeconomic environment

Erna Björg Sverrisdóttir – Chief economist

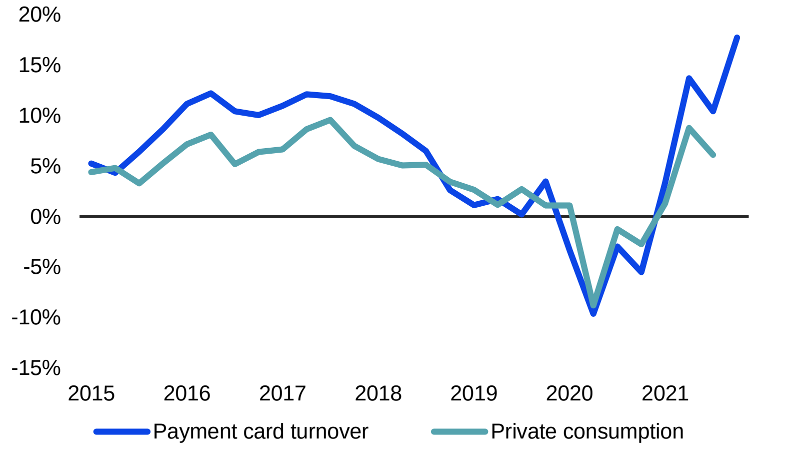
Domestic demand takes the wheel

Domestic demand has flourished, supported by better employment prospects, high consumer confidence and rapid asset growth in the housing market. Despite a surge in new COVID-19 cases Icelanders have enjoyed relatively soft measures, as 80% of the population 5 years and older is fully vaccinated. However, the omicron variant could temporarily slow down tourism recovery

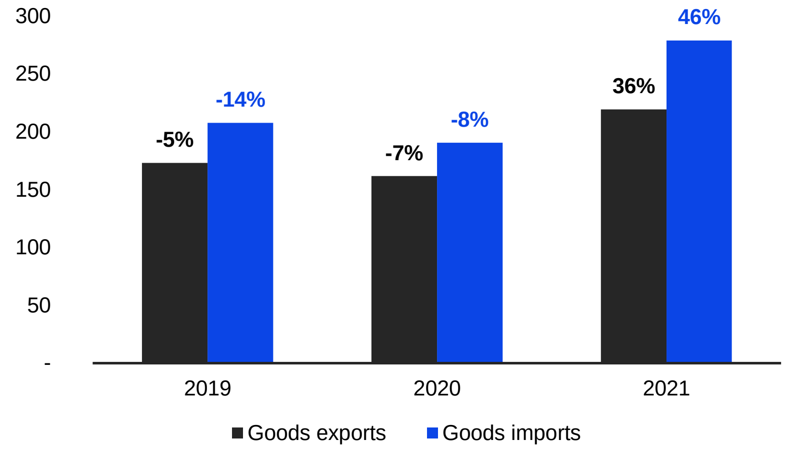
YoY change in number of registered employed persons by economic activity



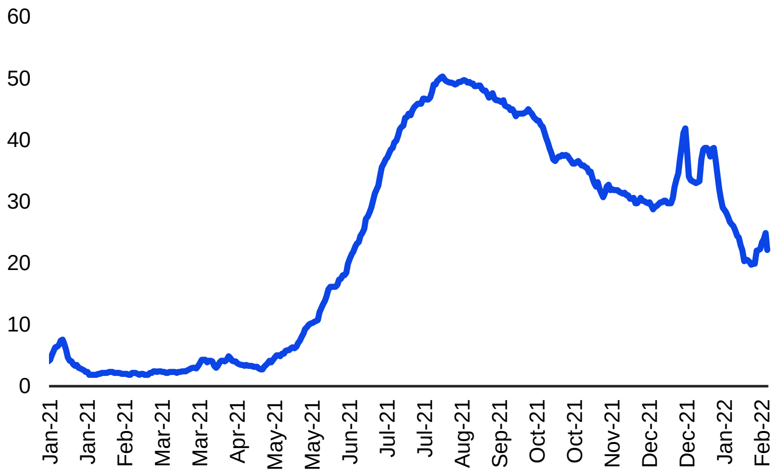
Payment card turnover and private consumption – YoY %-change



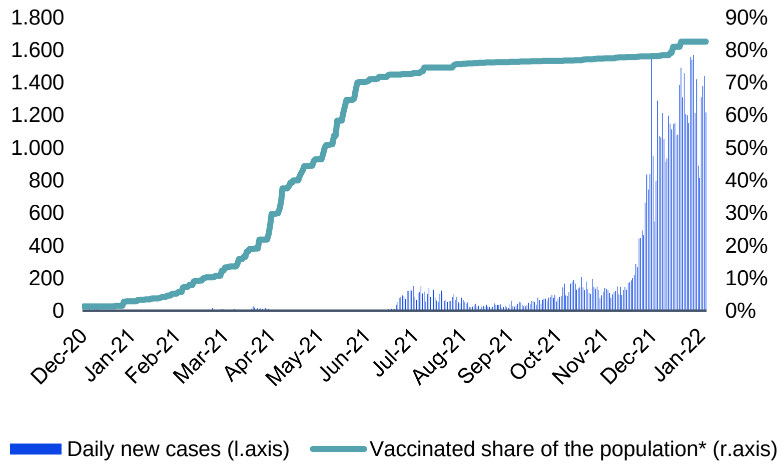
External trade in Q4 – ISK bn. constant exchange rate and YoY %-change



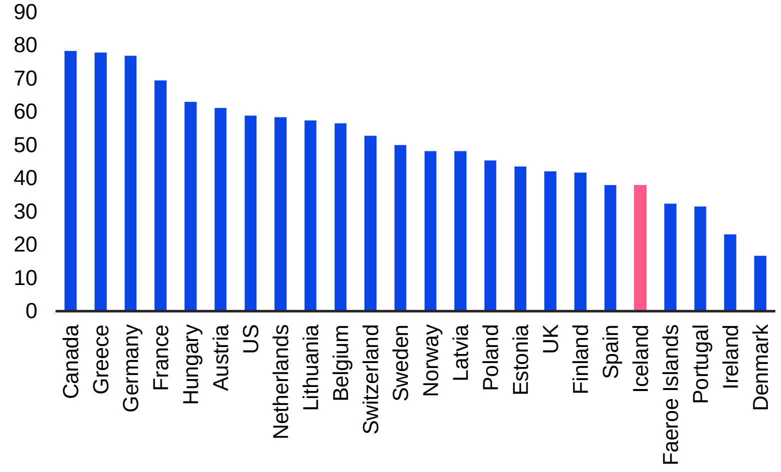
Departures from KEF airport – 7 day moving average



Daily COVID-19 cases and vaccination



The Oxford COVID-19 Government Response Tracker



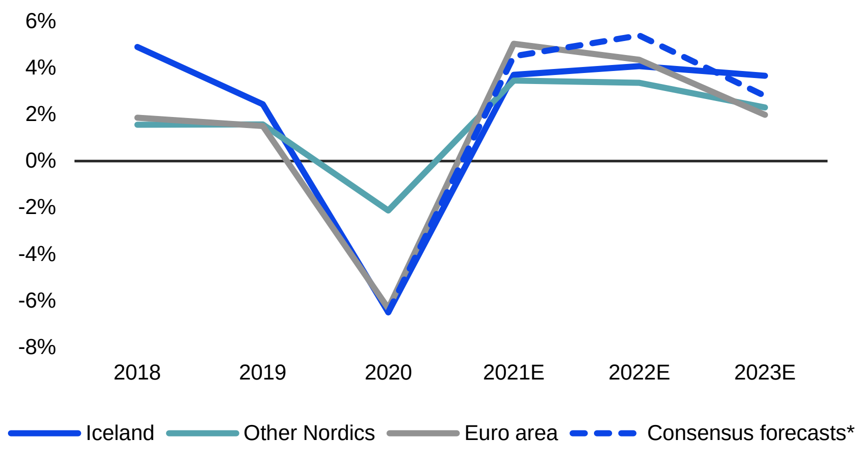
Sources: Statistics Iceland, Central Bank of Iceland, Isavia, Covid.is, University of Oxford, Arion Bank. *At least one dose.

On the road to full recovery – omicron shaped bumps ahead?

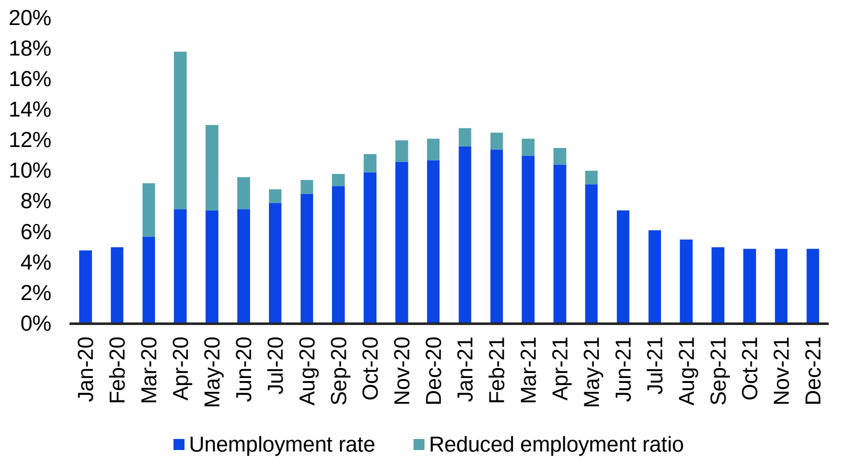
Tourism is on the mend, unemployment has reached pre-pandemic levels and domestic demand is thriving. The economy is set for a strong GDP growth in 2022, driven by private consumption and business investment.

- The Icelandic economy is slowly but surely regaining its footing. The outlook for foreign trade is positive, with tourism prospering, capelin returning in large quantities and other industries, e.g., the intellectual industry, going from strength to strength
- Domestic analysts are more optimistic than IMF for this year, with the consensus at 5.4% GDP growth
- The situation on the labor market has exceeded all expectation, with unemployment returning to pre-pandemic levels much sooner than anticipated. By the end of Q3, jobs had increased by 20 thousand, cross-sector
- The number of tourists in Q4 was roughly 58% of Q4 in 2019. As hope rises of "pandemic endgame" in Europe sooner than later, the Icelandic tourist industry has the means to regain its strength relatively quickly

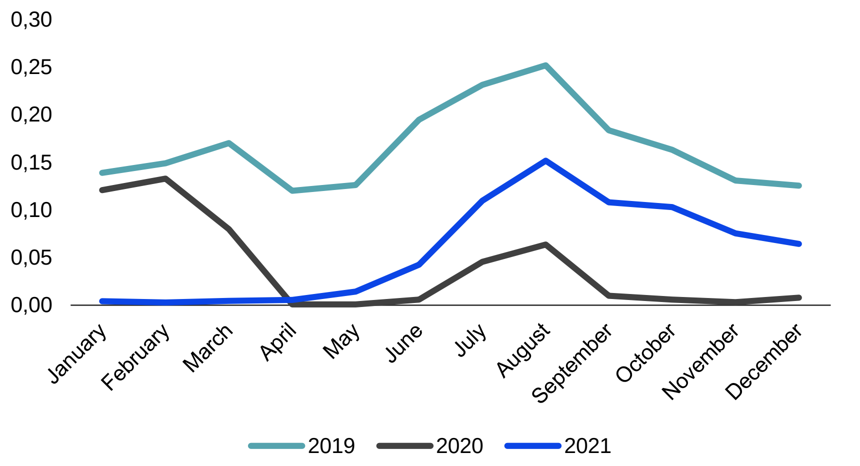
GDP growth – IMFs' forecast



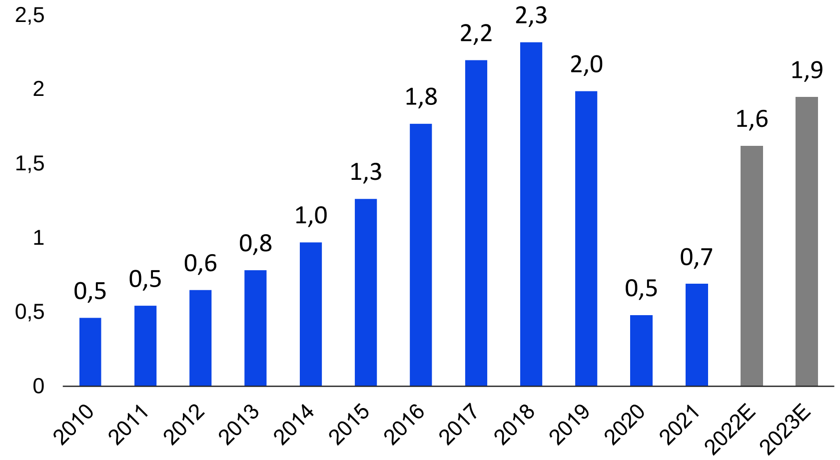
Registered unemployment



Tourist arrivals via KEF airport - millions



Tourist arrivals via KEF airport (millions, Arion Bank's October 2021 estimates)



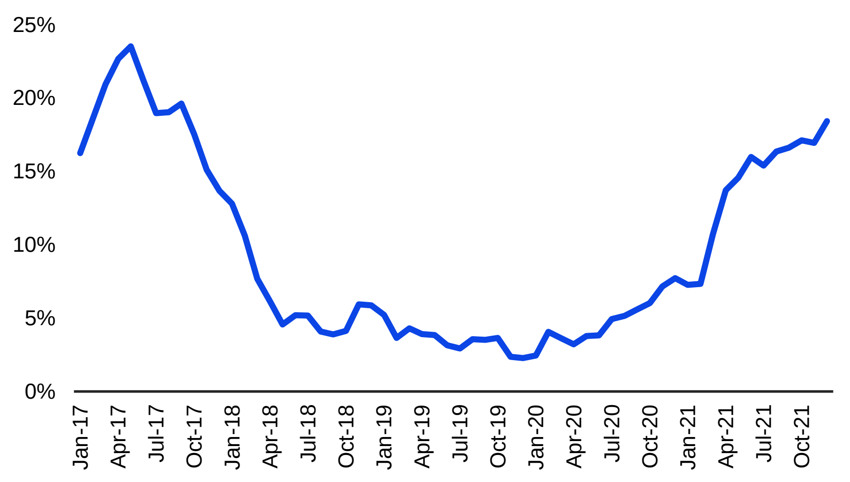
Sources: IMF, Directorate of Labour, Icelandic Tourist Board, Arion Bank. * Domestic analysts

The major challenges ahead

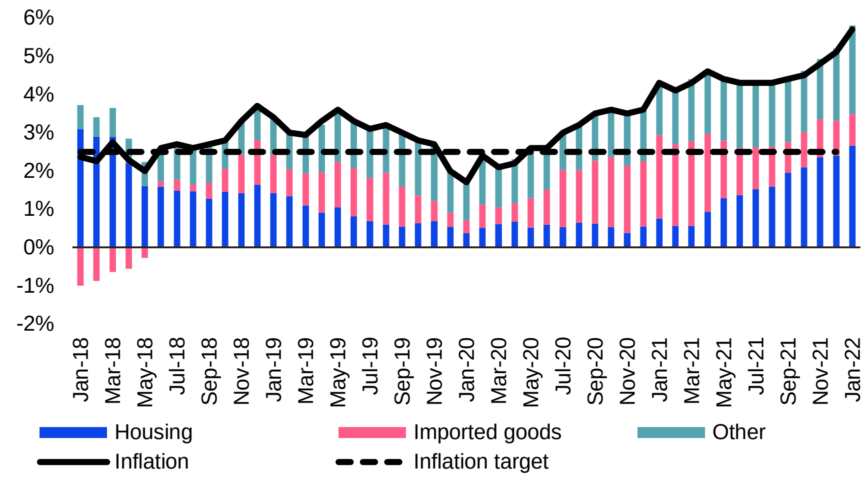
Sharp rises in the housing market and persistent inflation

- House prices rose sharply in Q4, increasing by 18% YoY. At first, the price increases were driven by hefty interest rate cuts, but now a supply shortage plays a more prominent part
- Housing prices have risen at a considerably quicker rate than wages, despite over 8% wage increases last year
- Better employment prospects and rapid asset growth in the housing market laid the foundations for a strong private consumption, especially in the second half of the year. Thus, Icelanders' total payment card turnover increased by 18% YoY in the fourth quarter
- Climbing housing prices, imported inflation and domestic demand pressures have stoked inflation, which has proven to be much more persistent than expected
- Even though most analysts expect that inflation has peaked, inflation risk is tilted to the upside

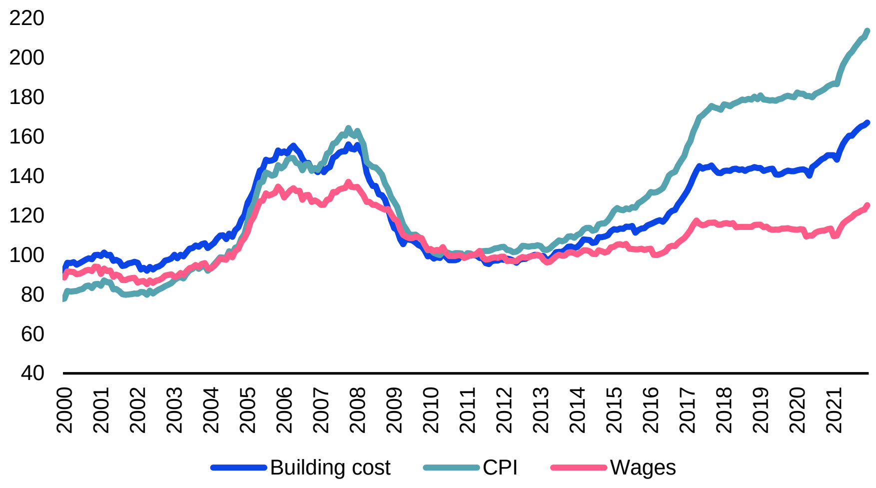
Housing prices in the Capital Area - YoY %-change



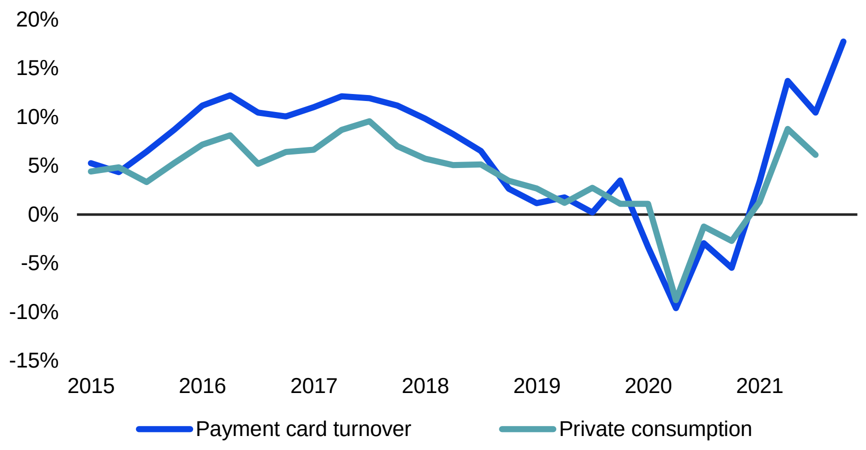
Composition of the Icelandic CPI



House prices relative to fundamentals – indices, January 2011=100



Payment card turnover and private consumption – YoY %-change



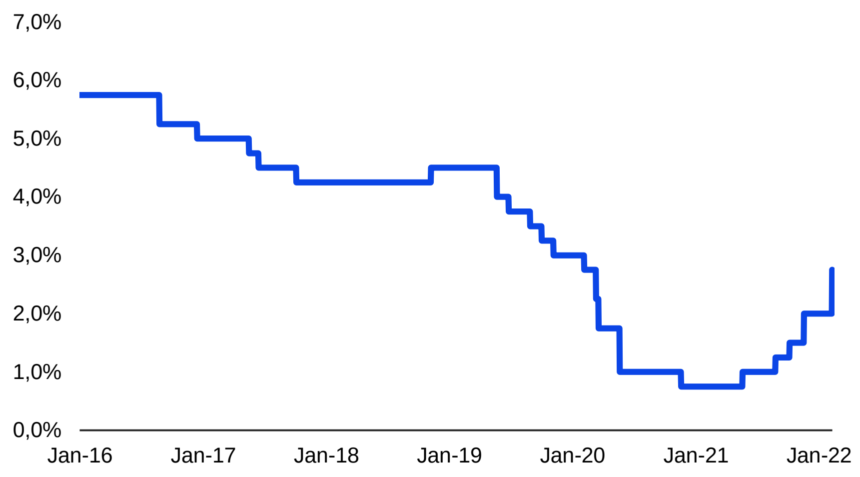
Sources: Registers Iceland, Statistics Iceland, Central Bank of Iceland

All about timing: Tighter fiscal and monetary policies

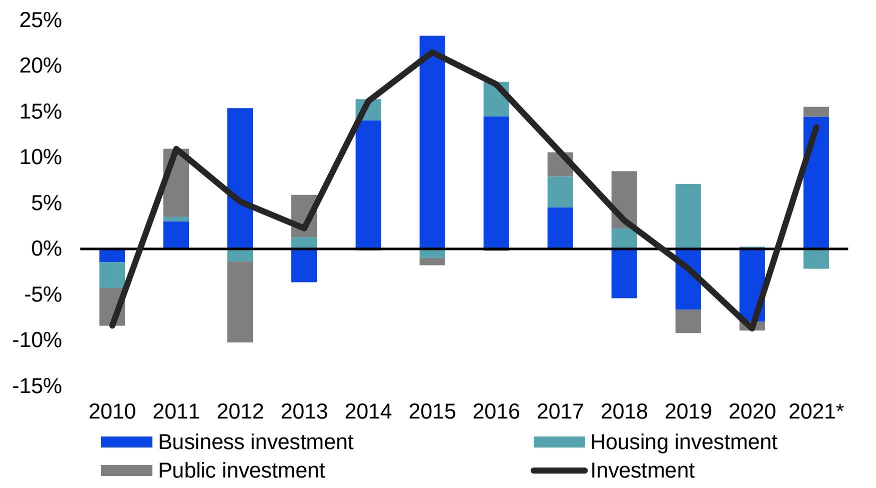
Tricky road ahead, navigating between rate hikes, stimulating investment and reducing government deficit

- Persistent inflation, rising house prices and fear over inflation expectations has compelled the CBI to raise interest rates by 125 bps. since May last year
- At the same time as the Central Bank tightens the monetary policy, the government needs to finance a considerable fiscal deficit, albeit smaller than previous years
- There's a risk that the government will crowd-out business investment in its search for capital, a worrying thought as business investment has finally picked up following a three-year slump
- This year the government, the Central Bank and the labor movement must work together in order to bring about price stability and create a fertile ground for the economy

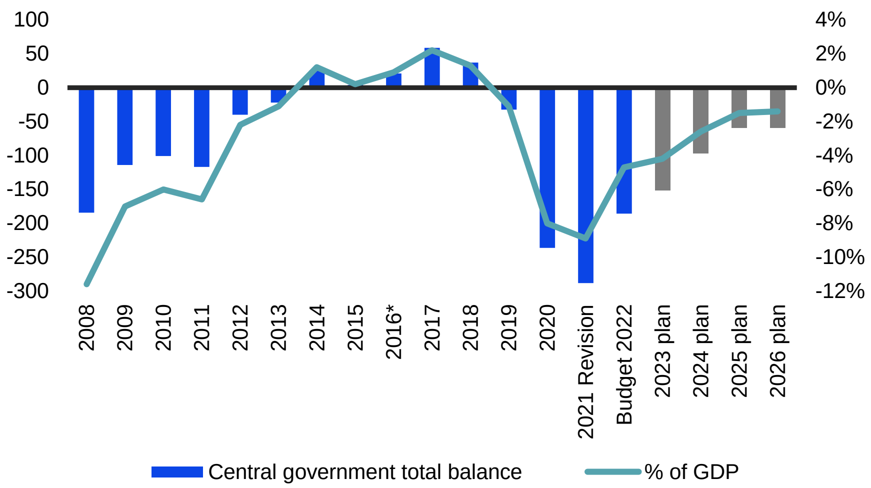
Key interest rates - seven-day term deposit rate



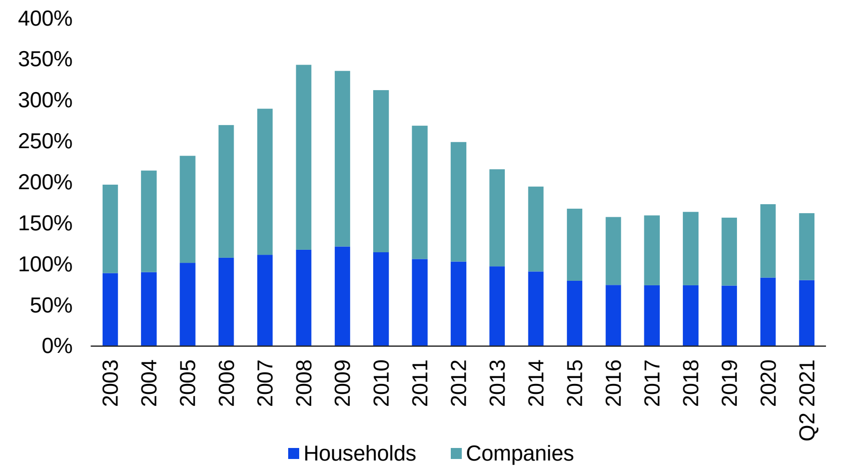
Investment – growth contribution of components



Central government total balance – bn. ISK and % of GDP



Household and non-financial corporate debt - % of GDP



Sources: Central Bank of Iceland, Statistics Iceland, Ministry of Finance and Economic Affairs, Arion Bank. * First nine months of the year, Excluding stability contributions.

Financials

CFO – Ólafur Hrafn Höskuldsson

Key takeaways in Q4 2021

Another robust quarter completes a positive year in a challenging environment

Profitability

Robust trajectory and growth outlook

- ROE of 13.4% in the quarter and 14.7% for the year
- All main business areas achieving returns in excess of target which supports strategic flexibility
- Lending growth in Q4 and 13.8% for the year, driven by mortgages for the year but with robust growth for corporates in the quarter
- Strong pipeline and growth outlook across business units

Fee and commission income

Rises for sixth straight quarter

- Total commissions over ISK 4bn in the quarter supported by broad based fee generation
- Commissions and net insurance now cover 70 % of total opex up from 48% and 60% for 2019 and 2020 respectively
- Underpinned by strategic alignment, customer focus, as well as favorable market activity momentum
- Strong growth in Assets under management to ISK 1,352bn, 19.5% increase from year-end 2020 and 33.4% from 2019

Net interest margin

Positive momentum

- Increasing over past quarter to 2.8% and anticipated at upper end of guidance in medium term supported by rising rate curve
- Further supported by repayments of debt that was pre-funded at the second half of the year as well as surplus liquidity position reduced through capital release and lending growth
- Additionally supported through increased portion of growth in corporate book

Operating expenses

Impacted by accrued employee incentive scheme

- ISK 1.6bn accrued in the quarter due to employee incentive scheme with all KPIs for the scheme met at year end. This includes the overarching KPI of achieving an ROE in excess of competitors
- Key focus on managing inflationary pressure into the new year and the incentive scheme plays a key role there
- Building on operating momentum to support future earnings potential with specific strategic investments this year in Customer Experience and IT infrastructure projects

Capital optimization

Milestones achieved

- Proposal for ISK 15 per share or net 22.5bn dividend payment for the year (79% payout ratio)
- This follows ISK 35.8bn[1] in capital release since the start of 2021 with CET1 ratio moving closer to target at 19.6% at year-end
- Expect to continue to explore buy-backs for the year and extraordinary dividend related to Valitor sale. This will be managed in combination with lending growth opportunities which show signs of a robust pipeline

[1] includes ongoing buy-back

Income statement Q4 2021

Completing a strong year, continuing positive trend in core operations

- Net earnings of ISK 6.5bn and 13.4% ROE. Without incentive scheme, Net earnings would have been ISK 7.6bn and 15.7% ROE
- Core income (NII, NCI and net insurance income) increases 14.8% YoY
  - Continuing strong net commission income growth across the Bank
  - Strong increase in net interest income YoY. The loan book increased by 13.8% from Q4 2020
  - Net insurance income (premiums and claims) increased by 13% from Q4 2020
- Operating expense excluding incentive scheme decreased YoY by 4%
  - Additional salary expense is mainly due to accrued expense on incentive scheme, ISK 1.6bn for the Group
- Impairments are positive during the quarter, mainly due to improved economic assumptions in the IFRS models
- The impact of HFS assets is positive during the quarter due to positive effect from operation at Valitor and to a profit from sale of assets at the subsidiary Sólbjarg

	Q4 2021	Q4 2020	Diff%	Q3 2021	Diff%
Net interest income	8,768	8,059	9%	7,937	10%
Net commission income	4,079	3,116	31%	3,755	9%
Net insurance income	865	766	13%	992	(13%)
Net financial income	1,151	1,362	(15%)	1,366	(16%)
Share of profit of associates	(11)	(22)	-	7	-
Other operating income	382	1,432	(73%)	833	(54%)
Operating income	**15,234**	**14,713**	**4%**	**14,890**	**2%**
Salaries and related expenses	(4,893)	(3,121)	57%	(2,899)	69%
Other operating expenses	(2,974)	(3,486)	(15%)	(2,689)	11%
Operating expenses	**(7,867)**	**(6,607)**	**19%**	**(5,588)**	**41%**
Operating profit	**7,367**	**8,106**	**(9%)**	**9,302**	**(21%)**
Bank levy	(345)	(263)	31%	(486)	(29%)
Net impairment	559	74	-	718	(22%)
Earnings before income tax	**7,581**	**7,917**	**(4%)**	**9,534**	**(20%)**
Income tax expense	(1,588)	193	-	(1,920)	(17%)
Net earnings from continuing operations	**5,993**	**8,110**	**(26%)**	**7,614**	**(21%)**
Discontinued operations, net of tax	529	(2,349)	-	624	(15%)
Net earnings	**6,522**	**5,761**	**13%**	**8,238**	**(21%)**

All amounts in ISK mn

Income statement 2021

Strong year with momentum in core operations combined with favorable market dynamics

- Net earnings of ISK 28.6bn and 14.7% ROE. Without incentive scheme Net earnings would have been ISK 29.8bn and 15.3% ROE
- Core income increases 9.4% from last year
  - Increase in net interest income YoY. The loan book increases significantly between years, driven by mortgage lending
  - Very strong net commission income growth across the Group
  - The increase in net insurance income is driven by 12% increase in premiums and stable claims rate YoY
- Operating expenses stable between years except for accrued expense from incentive scheme of ISK 1.6bn while other OPEX decreasing in line with objectives
- Great improvement in net financial income and in particular impairments from last year, but both line items were significantly affected by the pandemic in 2020
- Substantial improvement at HFS assets YoY, both from operation of Valitor and profit from sale of asset at Sólbjarg. Intercompany transactions are excluded for HFS assets
  - Profit from the sale of Valitor will be included subject to ICA approval expected in the coming months

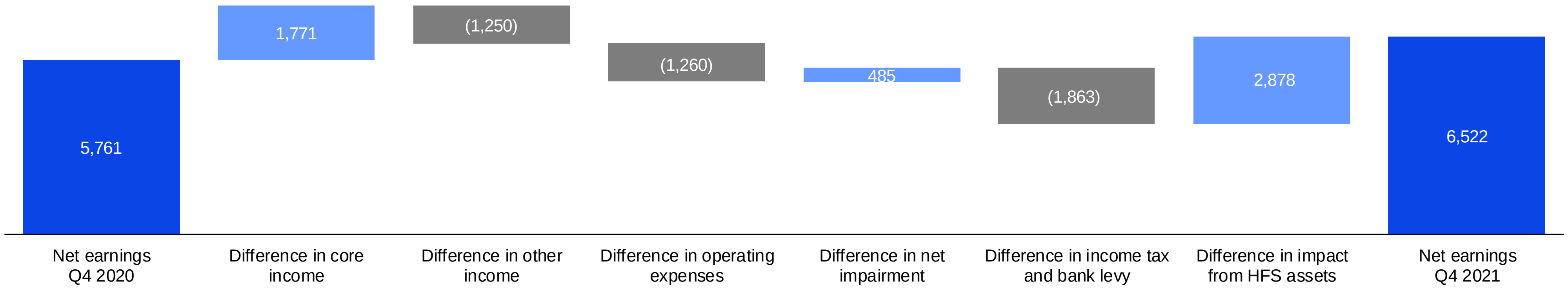
	2021	2020	Diff	Diff%
Net interest income	32,063	31,158	905	3%
Net commission income	14,673	11,642	3,031	26%
Net insurance income	3,442	3,071	371	12%
Net financial income	6,220	2,745	3,475	127%
Share of profit of associates	22	0	22	-
Other operating income	1,805	2,148	(343)	(16%)
Operating income	**58,225**	**50,764**	**7,461**	**15%**
Salaries and related expenses	(14,638)	(12,332)	(2,306)	19%
Other operating expenses	(11,237)	(12,109)	872	(7%)
Operating expenses	**(25,875)**	**(24,441)**	**(1,434)**	**6%**
Operating profit	**32,350**	**26,323**	**6,027**	**23%**
Bank levy	(1,516)	(1,301)	(215)	17%
Net impairment	3,169	(5,044)	8,213	-
Net earnings before income tax	**34,003**	**19,978**	**14,025**	**70%**
Income tax expense	(6,782)	(3,231)	(3,551)	110%
Net earnings from continuing operations	**27,221**	**16,747**	**10,474**	**63%**
Discontinued operations, net of tax	1,394	(4,278)	5,672	-
Net earnings	**28,615**	**12,469**	**16,146**	**129%**

All amounts in ISK mn

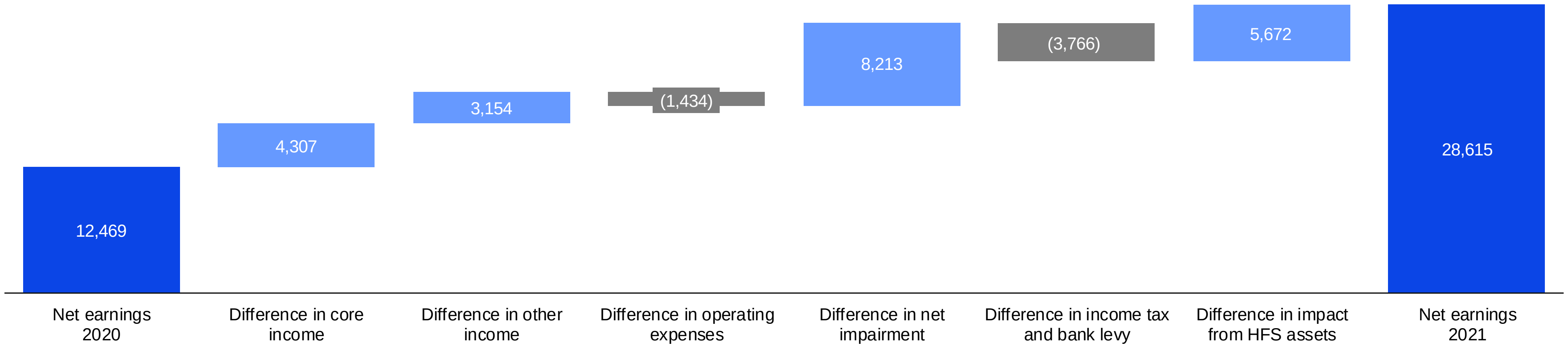
Net earnings improve significantly YoY

Core operations improve markedly while other segments also make a substantial contribution

Q4 2020 vs Q4 2021



2020 vs 2021



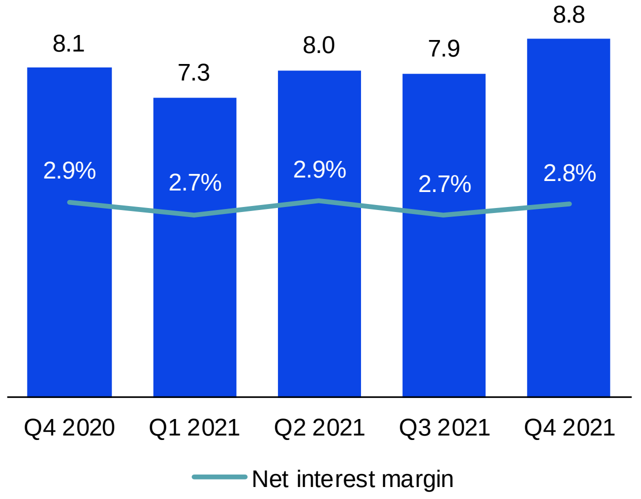
All amounts in ISK mn

Net interest income

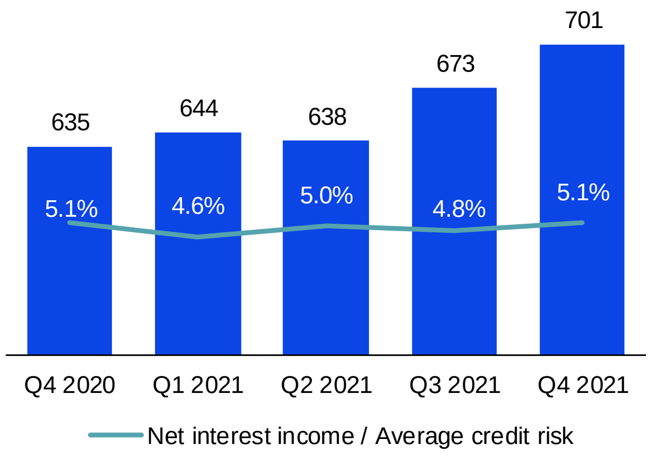
Increased policy rates and growth in corporate lending supports net interest income going forward

- Net interest income increased by 8.8% from Q4 2020 whilst average interest bearing assets increased by 10%, mainly loans but interest bearing liabilities increased by 14% YoY
- Acceptable net interest margin for the year in light of:
  - Policy rate, which has been unusually low during the year but has increased by 125bps from May to year end
  - Surplus liquidity
- Net interest income / average credit risk continues at strong levels – stable around 5% and significantly up from previous years
- The Bank aims to maintain NIM in the range of 2.7% - 2.9%

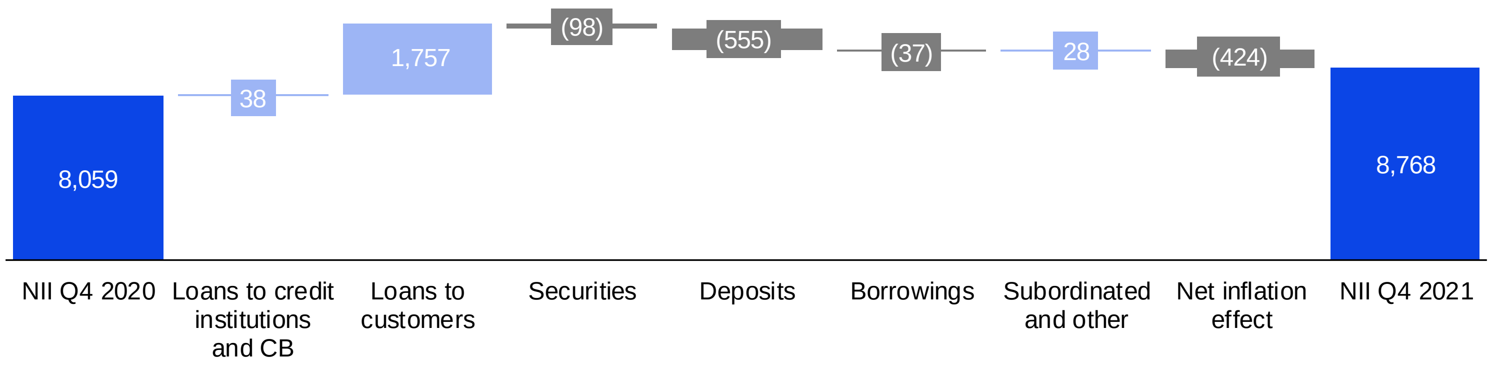
Net interest income



Credit risk



Net interest income Q4 2020 vs Q4 2021 (ISK mn)



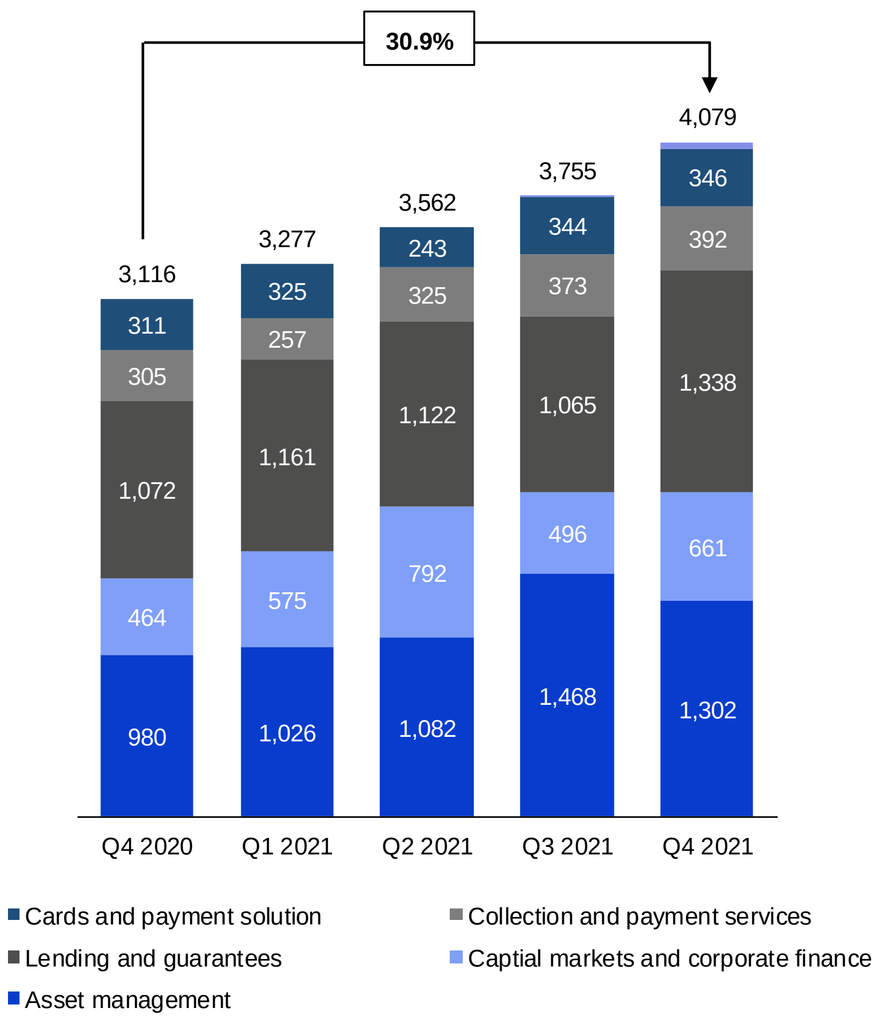
All amounts are in ISK bn

Net fee and commission income

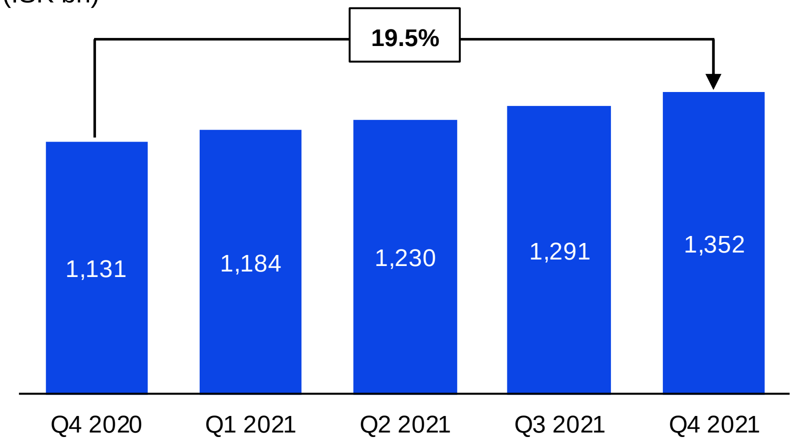
Strong growth in commissions continues. Net fee and commission income and insurance income amounted to 70% of OPEX in 2021 compared to 60% in 2020

- Sixth quarter in a row producing an increase in net fee and commission income
- CIB continues to deliver strong results following strategic realignment
- Income from asset management increased 33% from Q4 2020 through higher AUM and increasing flows into equity funds
- Strong result from capital markets transactions, with the Bank number one in total equity and bond trading in the Icelandic market

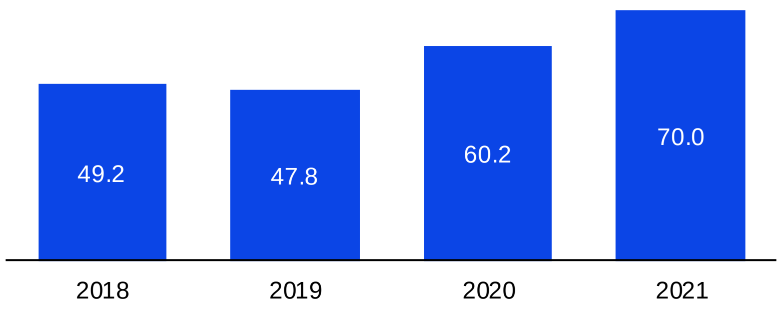
Net fee and commission income



Assets under management
(ISK bn)



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



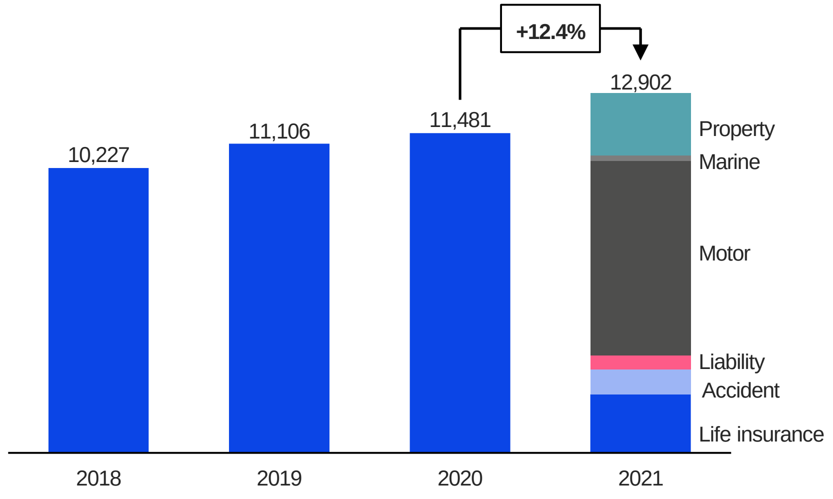
All amounts in ISK mn

Strong growth in insurance premiums in 2021 and ROE remains robust

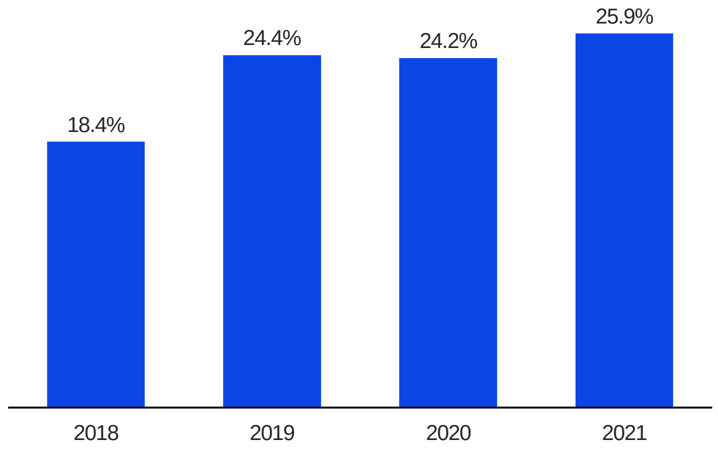
Significant opportunities to drive further growth and earnings strength through bancassurance drive

- Net profit in Q4 for Vördur was ISK 502mn and ISK 2.5bn for the year
- Continues to gain market share in the Icelandic insurance market
- Premiums grew by 12.4% in 2021 and combined ratio was 93.2% for the year (94.4% in 2020)
- Return on equity was 25.9% in 2021 and has been 23.2% on average since 2018.
- Investment assets amounted to ISK 26.1bn, of which ISK 6.6bn was in government bonds
- Arion Bank continued its integration of Vördur into the Bank's headquarters in 2021 Q4

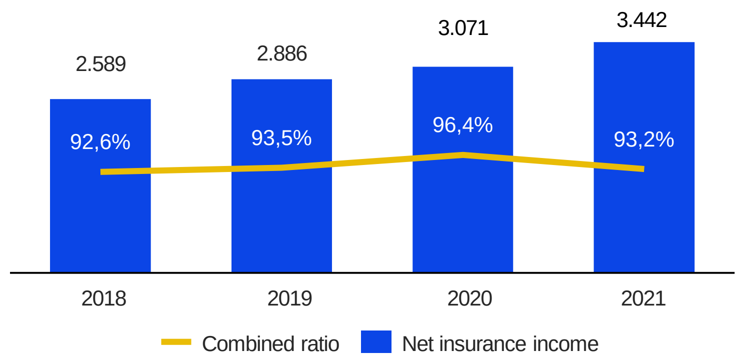
Premiums



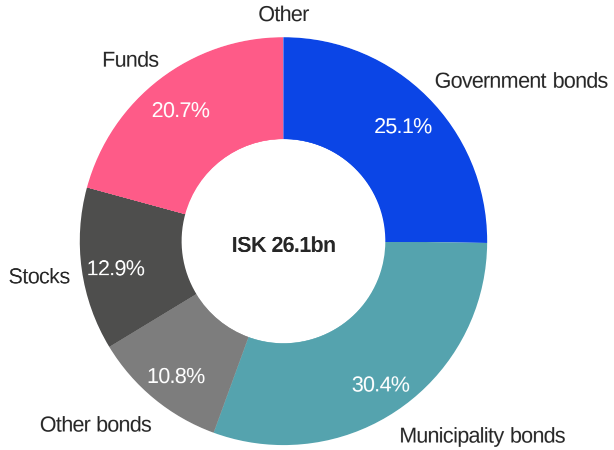
Vördur's return on equity



Net insurance income and combined ratio



Investment assets YE 2021



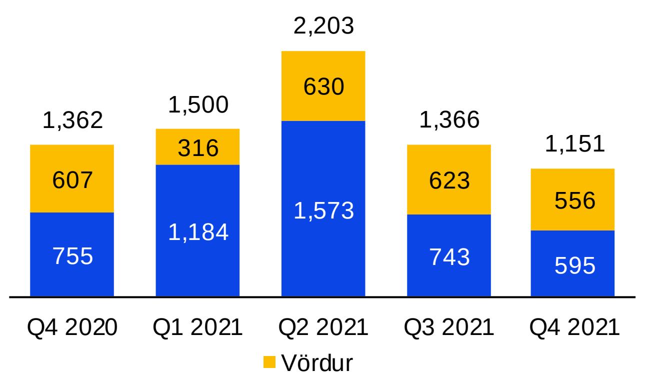
All figures in ISK mn

Net financial income

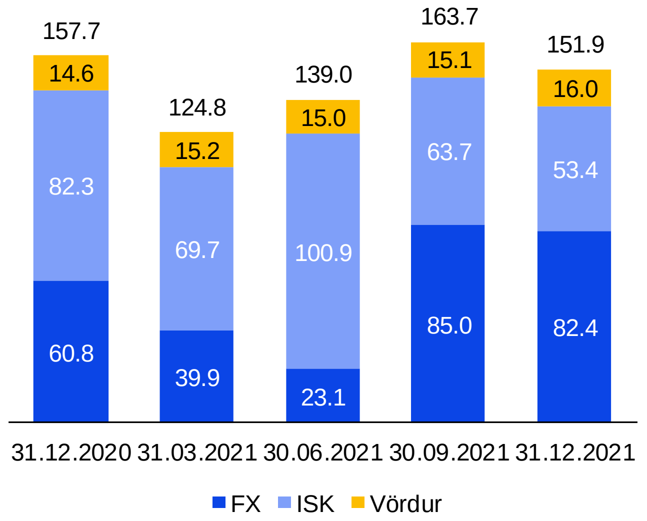
Favorable market conditions and active management deliver strong performance

- Net financial income in Q4 driven by equity holdings in the market making business and at Vördur
- Equity holdings continue to increase mainly due to increase in market value
- Bond holdings are predominantly used for liquidity management and fluctuate in line with funding needs and equity distribution
- Total portfolio of Vördur included in the Group figures is ISK 24.8bn; ISK 16.0bn of bonds and ISK 8.8bn in equity instruments, yielding ISK 556mn in the quarter and ISK 2.1bn during the year

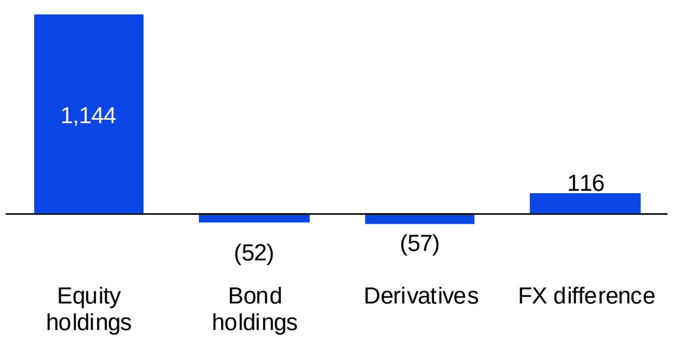
Net financial income (ISK mn)



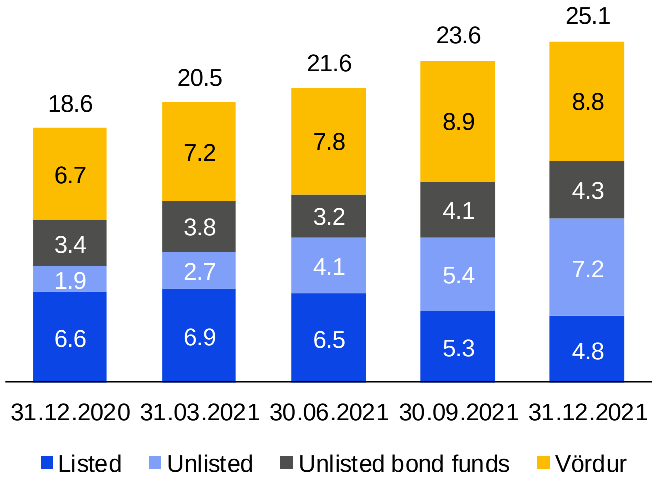
Bond holdings



Net financial income by type in Q4 2021 (ISK mn)



Equity holdings



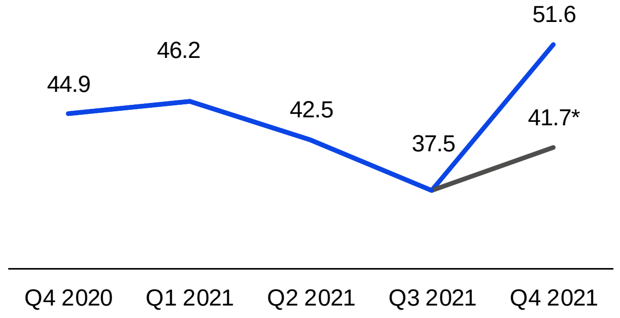
All amounts are in ISK bn

Total operating expenses

Significant efficiency gains with cost-to-income ratio of 44.4% for the year. Plan to build on operational momentum with strategic investments

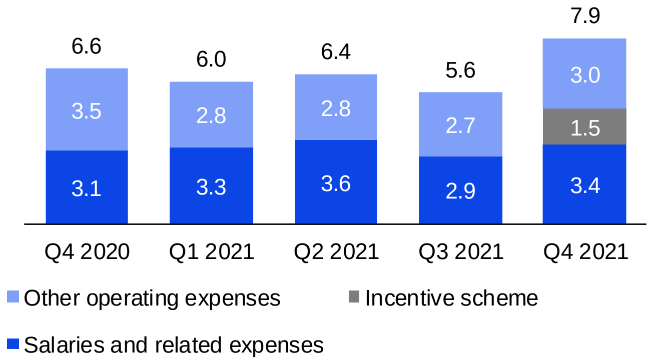
- Significant efficiency gains over past years results in a Cost/Income ratio of 44.4% for the year and operating expenses decreasing by 1% excluding expense for incentive scheme
- Number of FTEs continues to trend down, 3.2% from year end 2020
- Salary expense in Q4 2021 affected by ISK 1.5bn due to incentive scheme (ISK 1.6bn for the year)
- Other OPEX decreasing YoY
  - IT expenses decreased partly due to more insourcing reflected in more FTEs and higher salary expenses in IT division
  - Housing cost on lower level following optimization of the branch network
- Building on operating momentum to support future earnings potential with specific strategic investments this year in Customer Experience and IT infrastructure projects
  - Up to ISK 1bn investment
  - Capital optimization and earnings drivers will more than counter for this impact as reflected in our raised ROE target

Cost-to-income ratio (%)

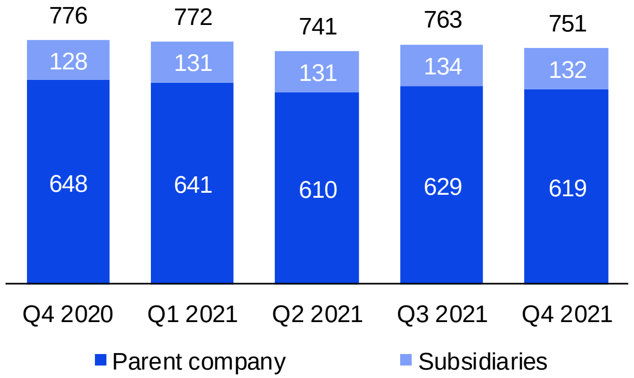


*Adjusted for incentive scheme expenses

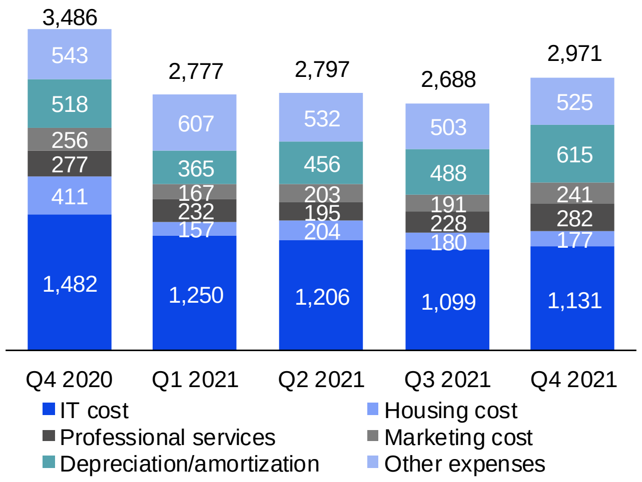
Total operating expenses



Number of employees



Other operating expenses (ISK mn)



All amounts are in ISK bn

Balance sheet

Strong loan growth supported by increase in core deposits

- Loans to customers increased by 4.4% in Q4 and 13.8% from YE 2020
- Liquidity position remains very strong despite ISK 31.5bn capital distribution
  - Strong liquidity coverage ratio (LCR) of 203% (136% in ISK)
  - Net stable funding ratio (NSFR) of 121%
- The Bank is very well positioned to meet the funding requirements of its customers in both ISK and FX and to distribute surplus capital

Assets	31.12.2019	31.12.2020	30.09.2021	31.12.2021
Cash & balances with CB	96	42	70	69
Loans to credit institutions	18	28	30	30
Loans to customers	774	823	897	936
Financial assets	117	227	250	226
Assets and disposal groups held for sale	44	17	17	16
Other assets	33	35	82	37
Total Assets	**1,082**	**1,173**	**1,346**	**1,314**
Liabilities and Equity				
Due to credit institutions & CB	6	13	8	5
Deposits from customers	493	568	641	655
Liabilities associated with disposal groups held for sale	29	16	17	17
Other liabilities	40	42	52	50
Borrowings	305	299	397	357
Subordinated liabilities	20	36	35	35
Total Liabilities	**892**	**975**	**1,152**	**1,119**
Equity	190	198	195	195
Total Liabilities and Equity	**1,082**	**1,173**	**1,346**	**1,314**

- Strong equity position and very high leverage ratio despite significant share buy-back
- The funding mix is well balanced between deposits, covered bonds and senior unsecured bonds
- Deposits increased by 15.3% from YE 2020
- Inaugural EUR covered bond issue diversifies funding options and broadens investor base
- Arion Bank will continue its ESG related funding efforts, both in the deposit and wholesale funding space
- The Bank paid a dividend of ISK 2.9bn and bought back own shares amounting to ISK 28.6bn during the year

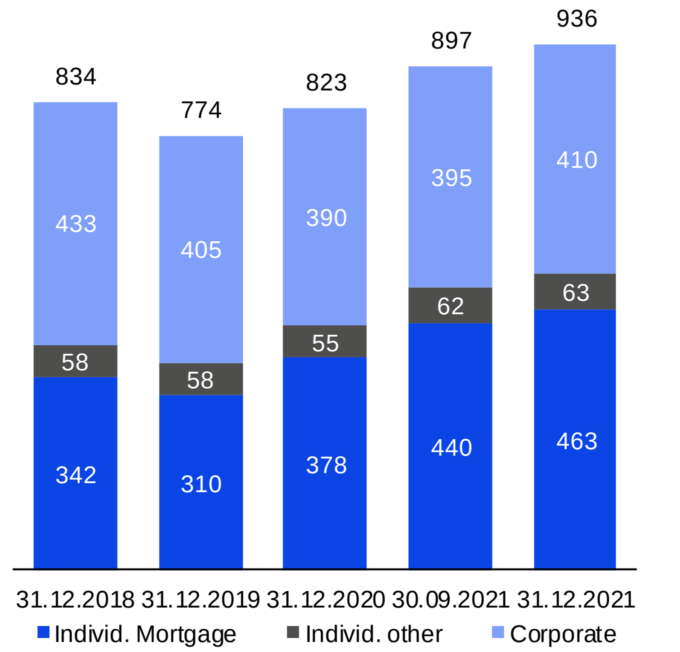
All amounts in ISK bn

Loans to customers

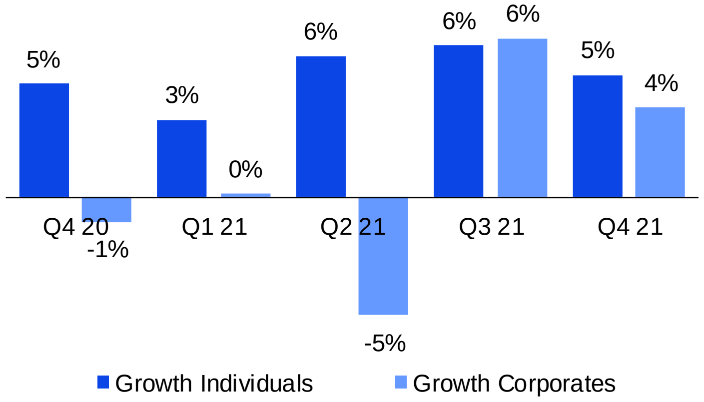
Growth over the year driven by mortgages but more balanced growth between corporate and individuals in second half of the year

- Loans to customers increased by 4.4% during the quarter, both due to mortgage lending to individuals and corporate lending. Mortgage lending is up 23.2% and corporate lending is up 5.2% from YE 2020
- Medium term growth outlook going forward expected to continue to be balanced between corporates and individuals while this will fluctuate between quarters
- Strong pipeline especially on the corporate side in origination as well as syndications and sales of loans as the Bank follows the strategy of increasing capital velocity
- The importance of index linked lending has decreased and index linked loans have reduced to ISK 221bn (ISK 258bn YE 2020). CPI balance at the end of the year amounted to ISK 17bn
- The diversification of the corporate loan book is good and in line with the Bank's credit strategy
- Book value of Covid-19 impacted loans is ISK 75bn or 8.1% of total loan book at YE 2021 (ISK 102bn / 12.0% of loan book YE 2020)

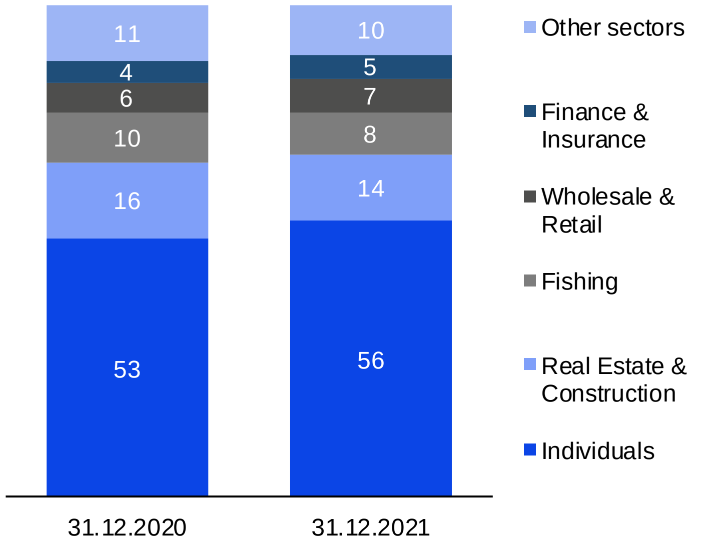
Loans to customers



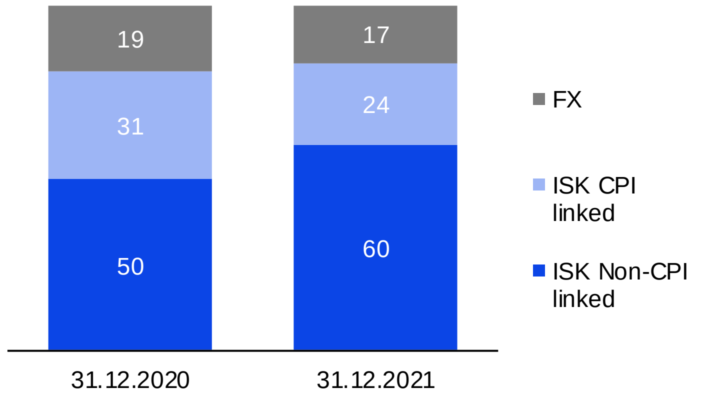
Growth in loans to customers



Loans to customers by sector (%)



Loans to customers by currency (%)

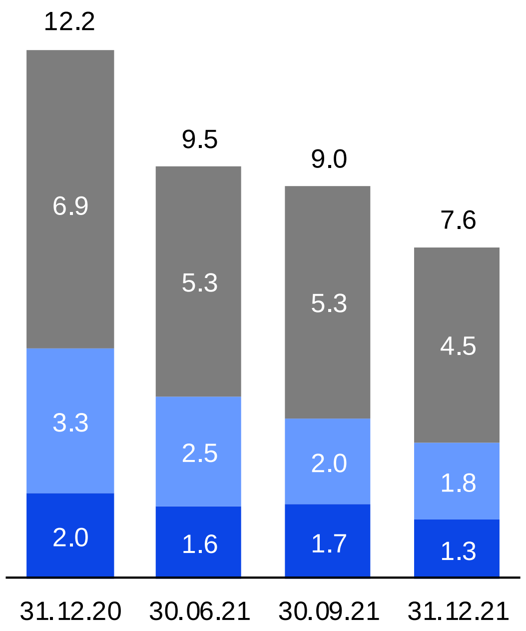


All amounts in ISK bn

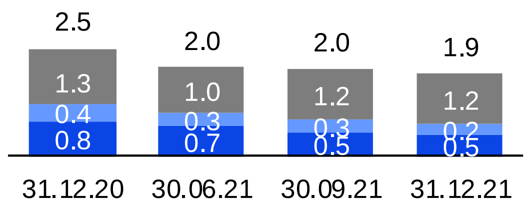
Loss allowance on loans to customers by IFRS 9 stages

Loss allowance has decreased significantly YoY

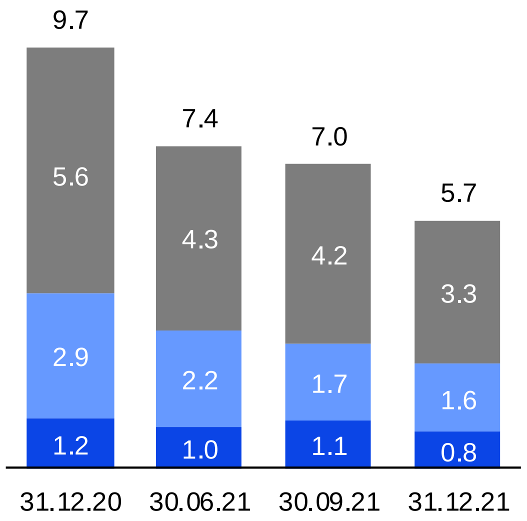
On loans to customers total



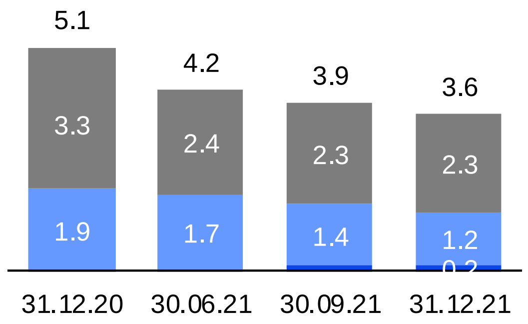
On individuals



On corporates



Thereof tourism exposure



■ Stage 1 ■ Stage 2 ■ Stage 3

- Total loss allowance decreased by 37.7% during 2021
  - Loss allowance on loans to individuals decreased by 24.0%
  - Loss allowance on loans to corporates decreased by 41.2%

- Total loss allowance as a percentage of face value of loans to customers decreased from 1.4% at year-end 2020 to 0.8% at year-end 2021
  - For stage 1 and 2 this is mainly due to more optimistic assumptions and inputs in our models for calculation on impairments
  - For stage 3 some significant loans with high impairments were written off and therefore loss allowance decreased

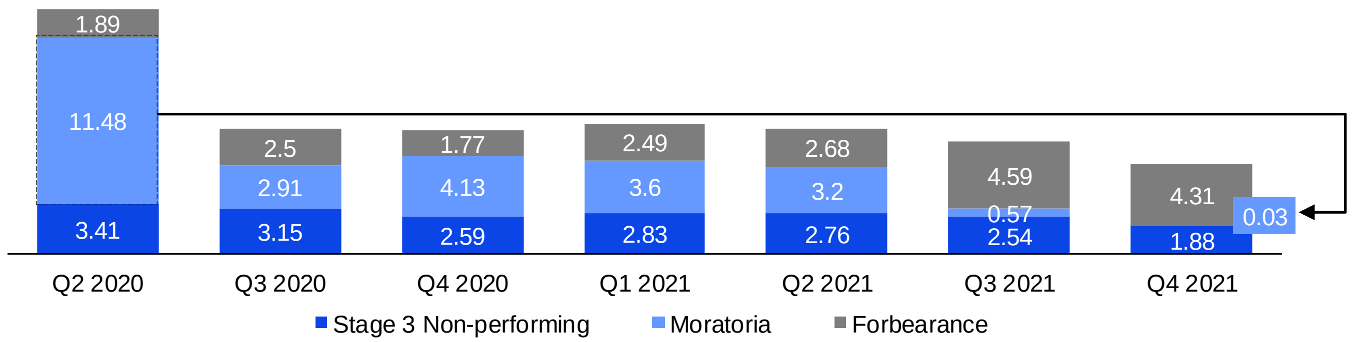
All amounts are in ISK bn

Risk profile of balance sheet improving and economic outlook constructive

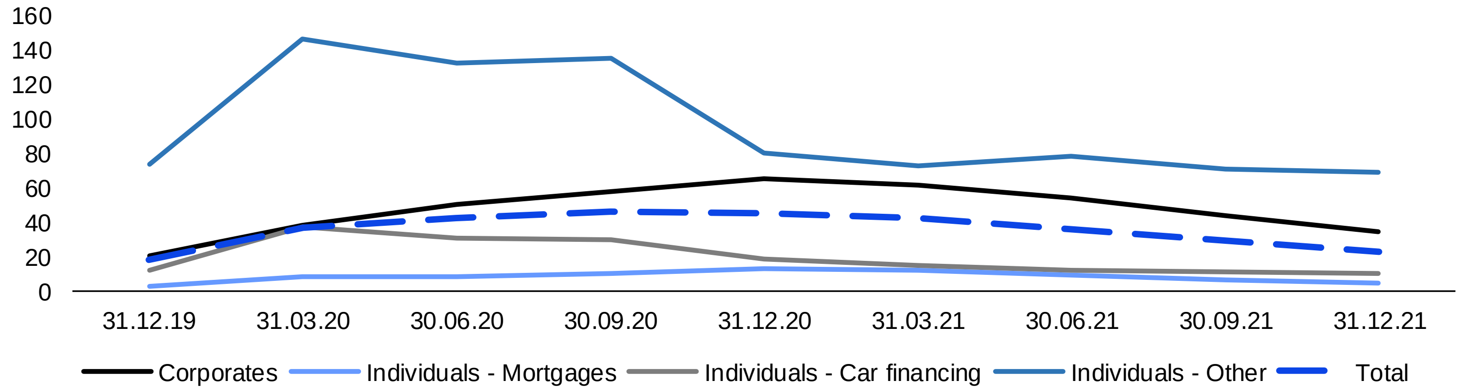
Increased portion of mortgages in total loan book reducing normalized Cost of Risk and moratorium assets now mostly performing

- The change in composition of the loan portfolio, with increased weight in mortgages where the expected loss is smaller contributes to decrease in Cost of Risk through the cycle
- In the medium term the expected credit loss ratios are likely to continue to approach their long-term average, around 4bps for mortgages to individuals and around 35bps for corporates. Total expected credit loss is therefore expected to approach c. 20bps based on current loan book composition. At the end of Q4 the expected total credit loss ratio was 23bps compared to 29bps at the end of Q3
- Covid related moratoria mostly expired in Q3 2021. Generally, moratoria were followed by restructuring of loans and forbearance measures. These are now mostly performing assets
- 82% of loans in default or subject to moratoria or forbearance are collateralized by real estates
- At year end about 50% of loans in default or subject to moratoria or forbearance are in the tourism sector.
- Loans with forbearance measures which have been extended have an extension on average around 15 months

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



12-month expected credit loss for performing exposures (bps)



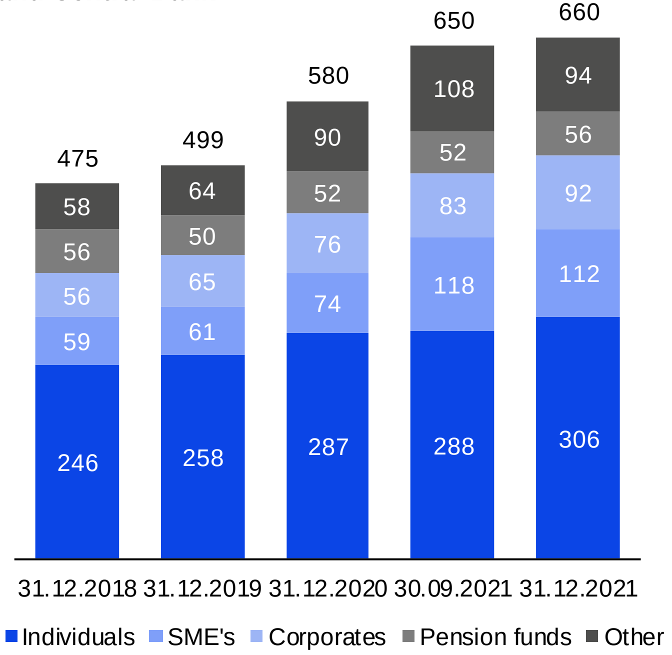
All amounts in ISK bn

Deposits

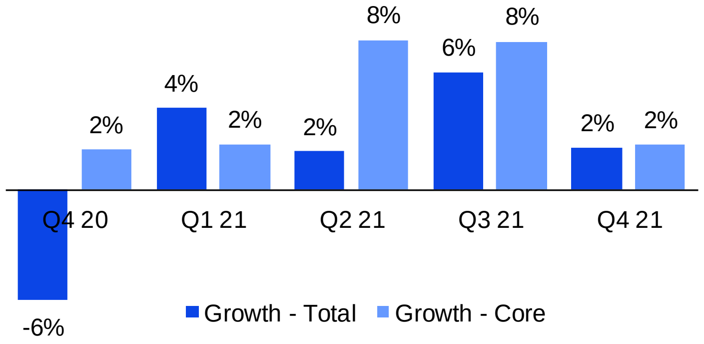
Strong growth in core deposits continues in Q4

- Deposits represent 59% of the Bank's total liabilities (58% and 55% in YE 2020 and 2019 respectively)
- Strong growth of 21.7% in core deposits from YE 2020
  - Core deposits are from individuals, SME's and corporates
- Loans to deposits has decreased significantly over the last years
- Green deposits have been very well received and are up 61% from YE 2020 (ISK 8.2bn at year end 2021)

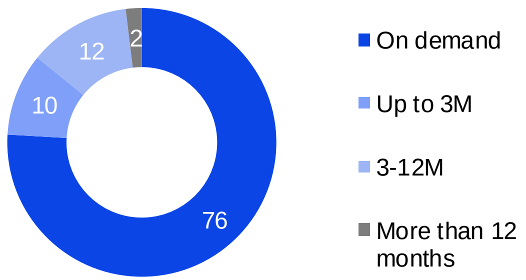
Deposits and due to credit institutions and Central Bank



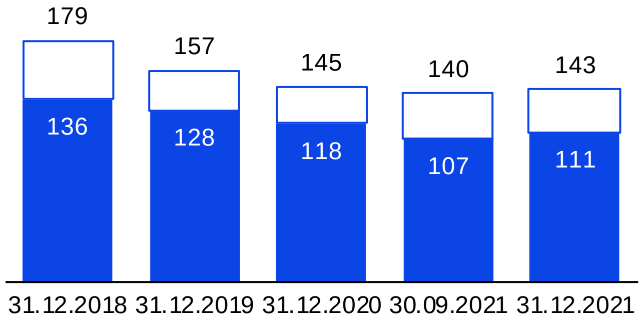
Growth in deposits (%)



Maturity of deposits (%)



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



All amounts are in ISK bn

Borrowings

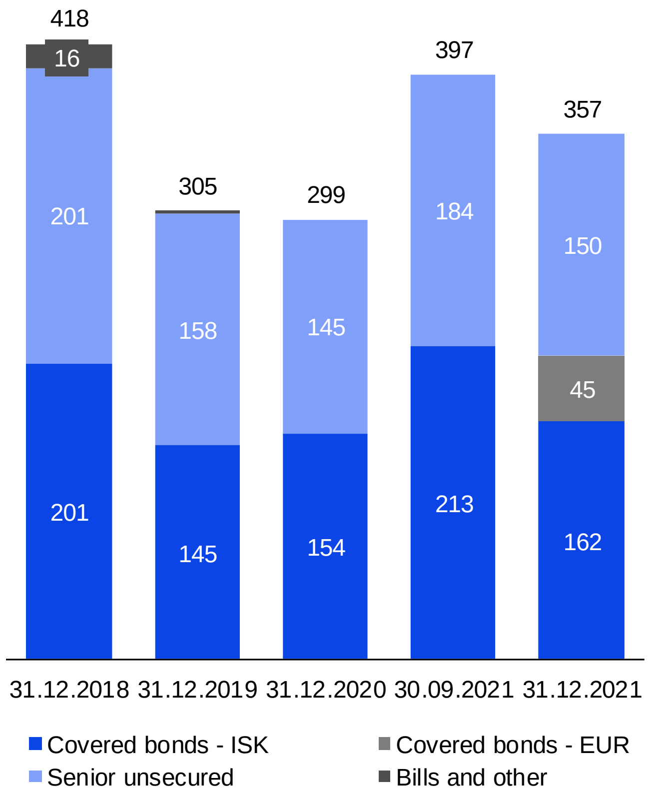
Successful issuances in 2021 supporting a balanced funding profile

- Good access to debt capital markets in senior, covered and subordinated format
- Increase in borrowings in 2021 due to debut EUR 300mn international covered bond in the end of September and EUR 300mn green bond in July
- Limited near term FX funding requirement. Expected to be more active in domestic funding market in the coming year
- Balanced funding profile
  - Evenly distributed maturities of long term funding
  - Balance between unsecured and secured funding and between domestic and international funding
  - Solid investment grade rating (BBB for senior debt and A- for covered bonds)
  - Lower cost of funding achieved with inaugural EUR covered bond and inaugural green bonds in 2021

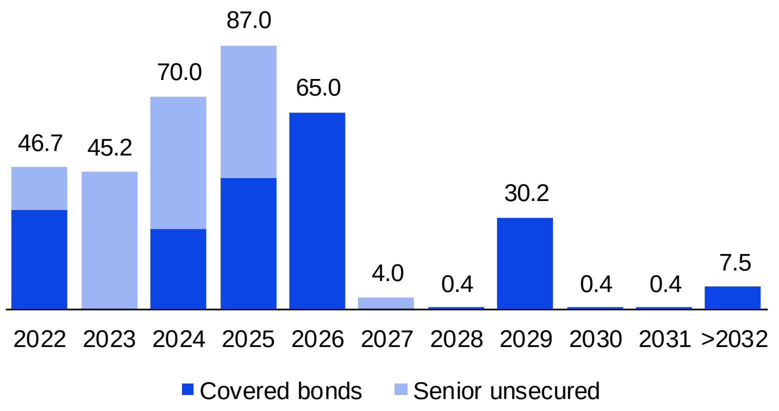
Rating – S&P (January 2022):

	Arion	Iceland
Senior unsecured	BBB	A
Covered bond	A-	N/A
Short term debt	A-2	A-1
Outlook	Stable	Stable

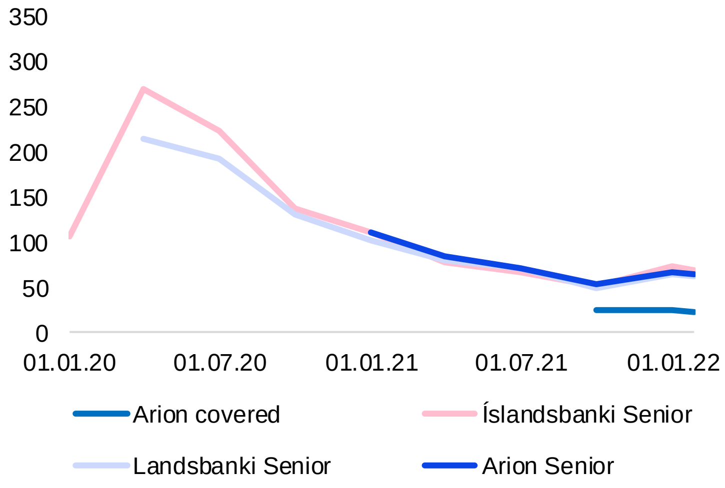
Borrowings by type



Maturities of borrowings



Development of funding spreads (bps)



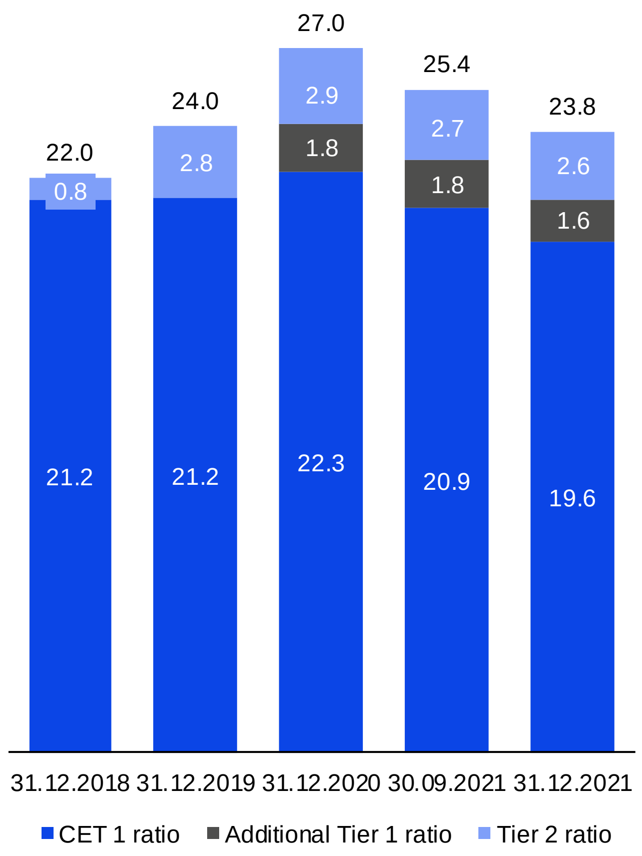
All amounts are in ISK bn

Own funds

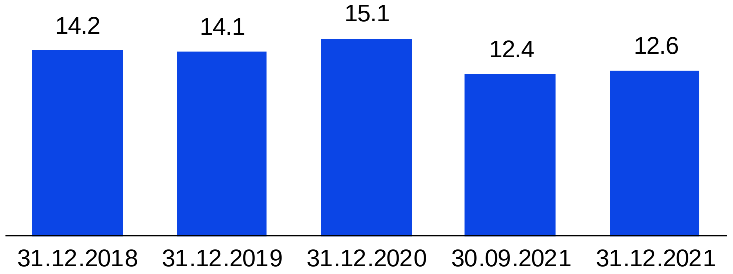
The capital ratios continue to be very strong while capital optimization efforts are ongoing

- The CET1 decreased by 1.6% in Q4
  - Dividend proposal of ISK 22.5bn and remaining ongoing share buy-backs of ISK 4.3bn is deducted from the capital base
- REA increased by 4.2% in Q4 and 9.0% from YE 2020
- Arion Bank has optimized the AT1 and Tier 2 buckets with issuance in 2018-2020
- Leverage ratio remains very strong

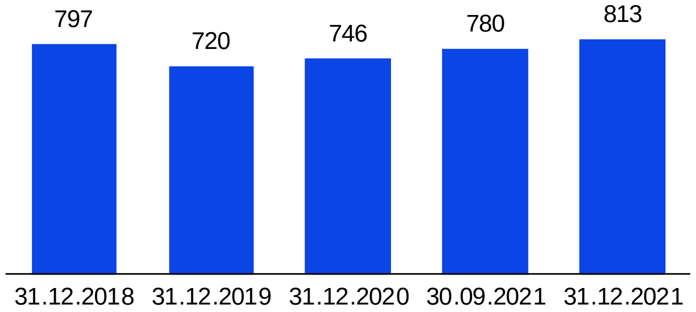
Total capital ratio (%)



Leverage ratio (%)



Risk-weighted exposure amount



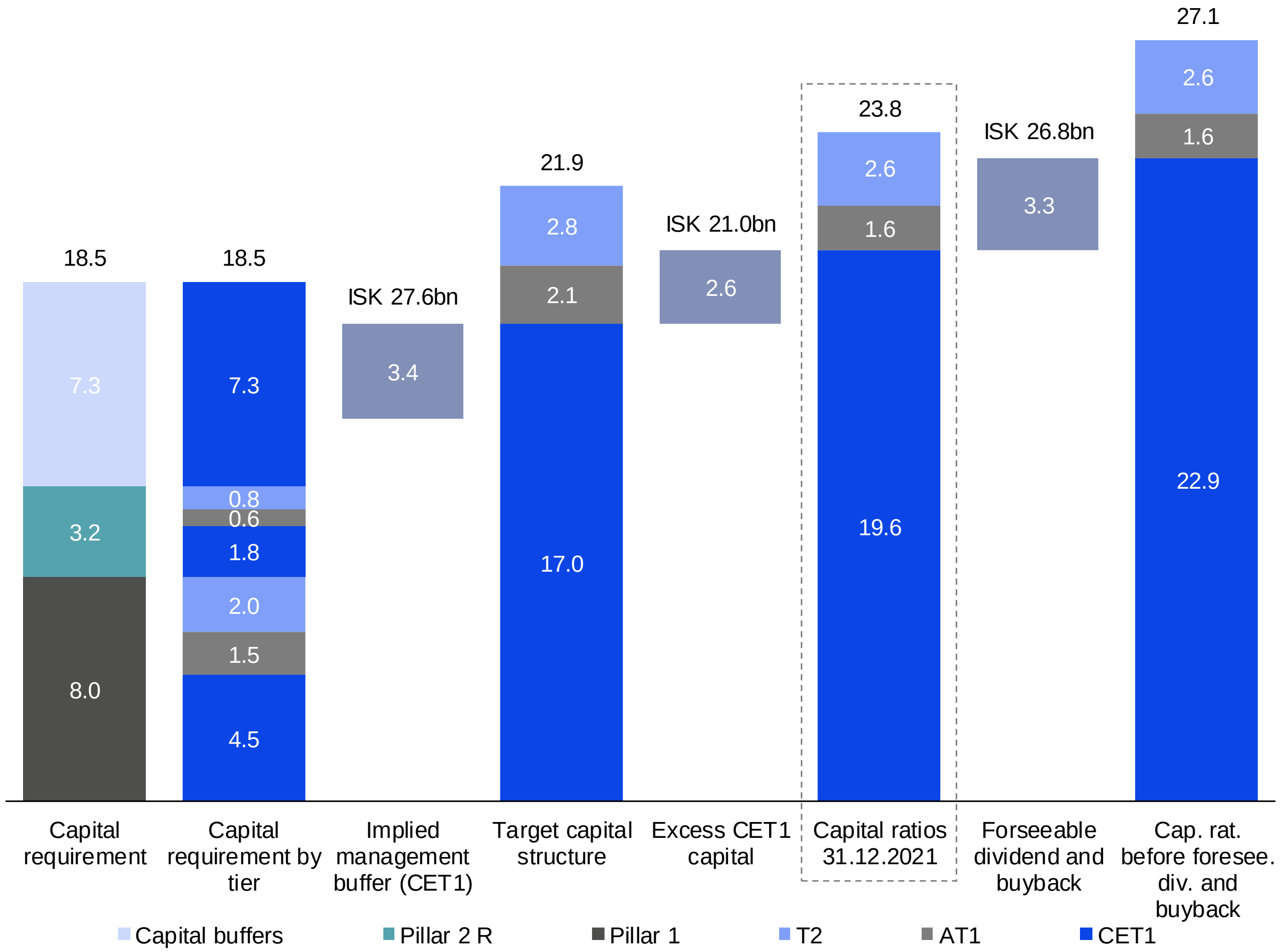
All amounts are in ISK bn

Capital adequacy

Capital ratios remain strong despite significant capital distributions in 2021

- Purchase of own shares and dividend payment in 2021 is ISK 31.5bn
- Total foreseeable dividend and buy-back of own shares of ISK 26.8bn is included in the capital ratios
- The Pillar 2 requirement is 3.2% as a result of the SREP process based on year-end 2020 financials
- The Financial Stability Council has announced that the countercyclical buffer will be increased to 2% as of 29 September 2022 from its current level of 0%
- Target CET1 ratio remains unchanged at 17%
  - Implied 3.4% CET1 management buffer (ISK 27.6bn) which is the difference between the target CET1 ratio and regulatory CET1 requirement
  - Thus, the Bank is prepared for the announced increase in the countercyclical capital buffer, when the value of that becomes 2% then the implied management buffer will be 1.4% CET1
  - CET1 capital of ISK 21.0bn in excess of target capital structure, in addition to the foreseeable equity release of ISK 26.8bn
- Impact from the sale of Valitor, subject to the ICA approval, is expected to increase the Bank's capital adequacy by 1.2 percentage points
- The solvency ratio of Vördur insurance is 150%

Own funds and capital requirements (%)

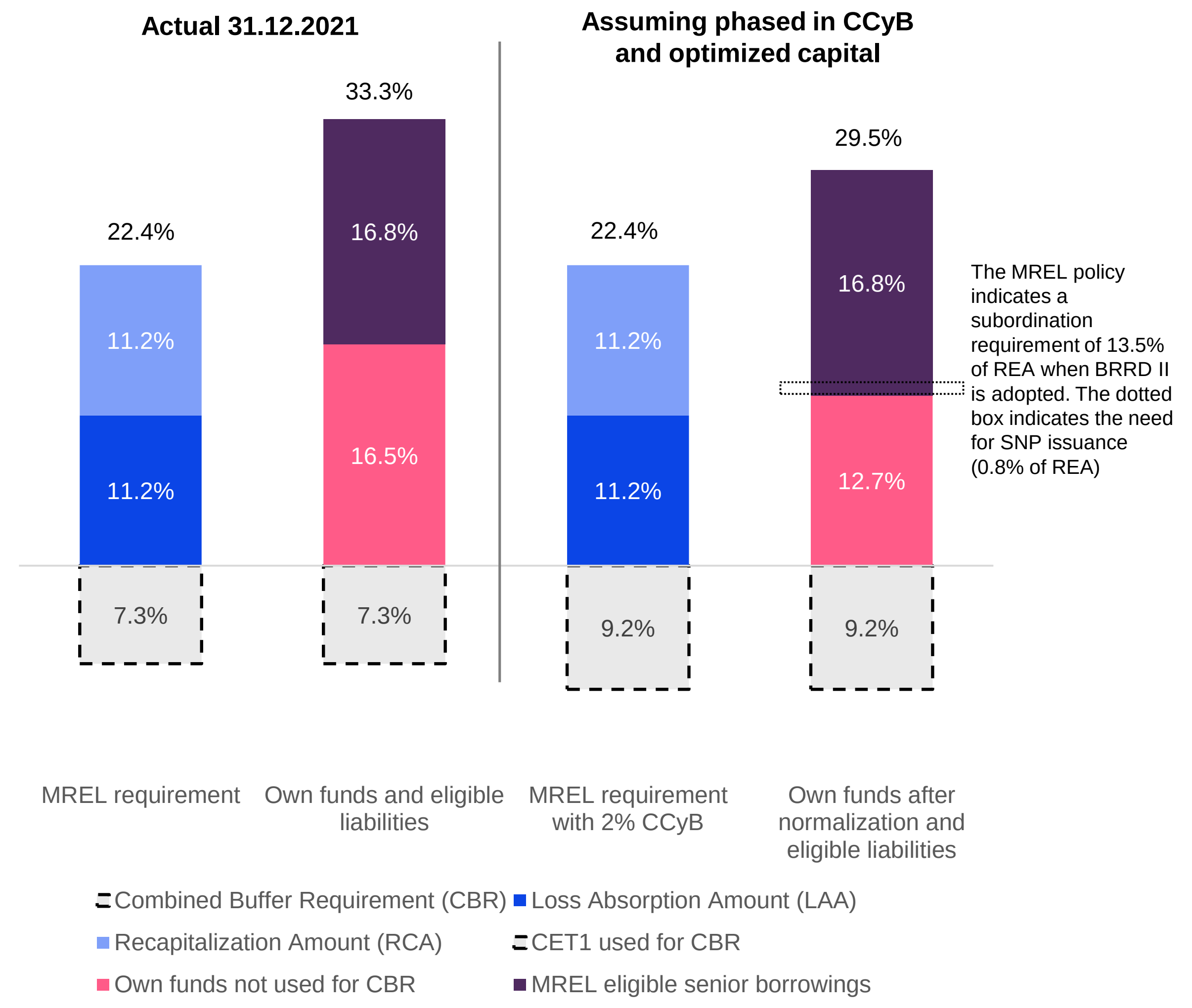


MREL requirement

The Icelandic Resolution Authority has published its MREL policy with Arion. Significant headroom above requirements even with optimized capital position. Potential requirement for non-preferred issuance of ~0.8% of REA in coming years when subordination requirements become effective

- Minimum requirements for own funds and eligible liabilities (MREL) has been implemented 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
  - Loss Absorption Amount (LAA) equal Pillar 1 plus Pillar 2, currently 11.2% of REA
  - Recapitalization Amount (RCA) equal Pillar 1 plus Pillar 2, currently 11.2% of REA
    - No Market Confidence Charge (MCC) because of the high level of combined buffer requirement (CBR), currently 7.3% of REA and expected to increase to 9.2% of REA on 30 September 2022
  - No subordination requirement
- Iceland is obligated to introduce the BRRD II approach at some point, but the timeline is uncertain
- Some steps towards BRRD II have been taken
  - The Senior Non-Preferred (SNP) rank has been introduced into Icelandic law
  - The IRA MREL Policy discusses the key differences in MREL between BRRD I and BRRD II but does not state any firm decisions regarding their approach under the BRRD II regime
- Arion Bank has updated the terms of senior unsecured borrowings so that new issuances will be MREL eligible (senior preferred, SP) according to BRRD II
- Arion Bank does not foresee a need to issue SNP borrowings in 2022
- The graph shows
  - Expected MREL requirement for Arion Bank 22.4% of REA in addition to the CBR
  - Own funds and MREL eligible senior borrowings (>1yr to maturity)

MREL requirement as % of REA*



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

Going forward

Strong operating momentum, clear business plan and positive outlook underpins raised targets

Robust operational performance a strong testament to the strategic direction of the Group. Growth and diversity in fee income and increased importance in the Group’s core earnings a clear positive

We are building on this strong trajectory with an investment plan for the year which focuses on Customer Experience drive, including bancassurance and IT infrastructure to further enhance our customer service. The plan will support earnings momentum going forward and strengthen competitive position

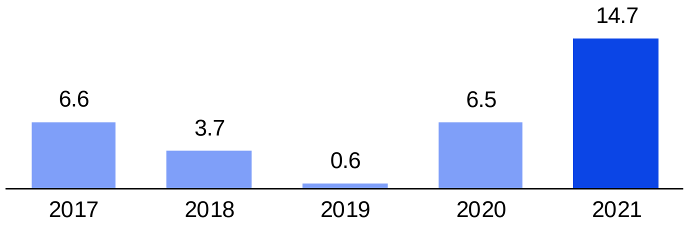
Updated medium term targets, including a revised ROE target of 13% demonstrates strong growth pipeline and confidence in the business outlook

Strong milestones in capital optimization over the past year and a proposed ISK 15 per share dividend payment. Ongoing commitment to further optimize the capital structure which will be managed in parallel with business drivers in the coming year

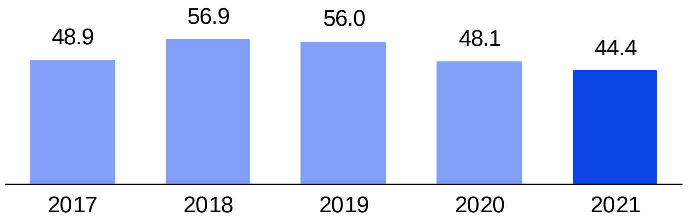
In 2022 we will continue to focus on sustainability with our customers and will adopt a policy concerning those sectors in which our loans have the greatest impact in terms of environmental and climate considerations

Key financial indicators – annual

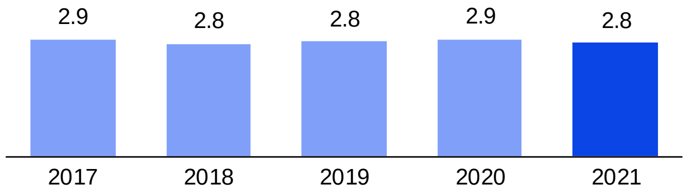
Return on equity (%)



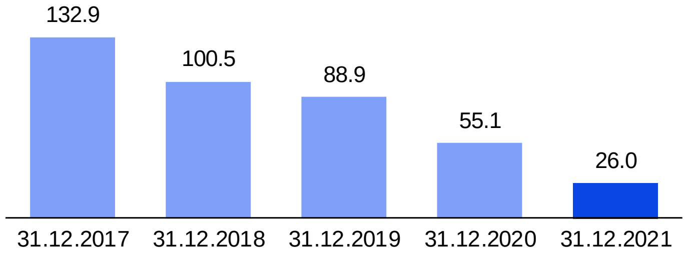
Cost-to-income ratio (%)



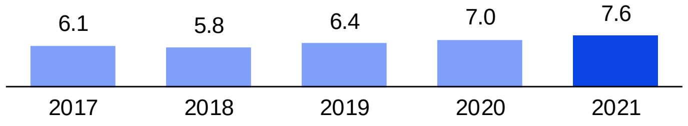
Net interest margin (%)



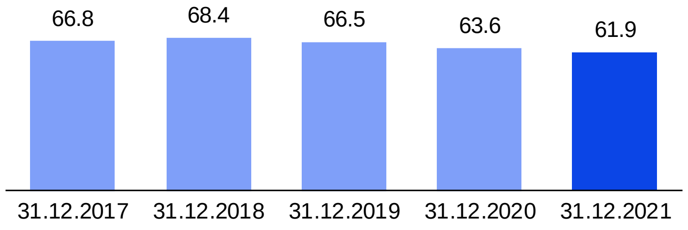
CPI imbalance (ISK bn)



Operating income / REA (%)

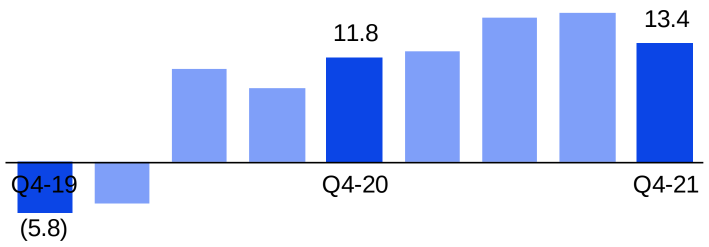


Risk weighted assets / Total assets (%)

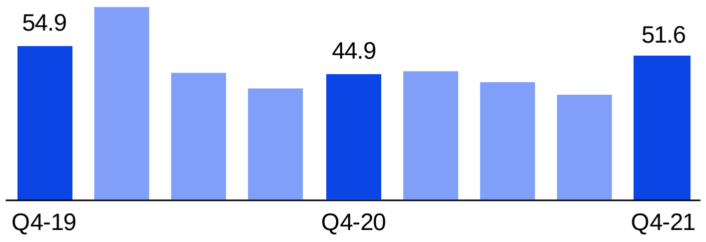


Key financial indicators – quarterly

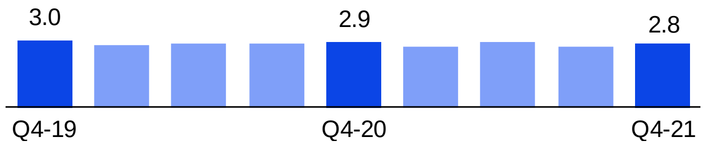
Return on equity (%)



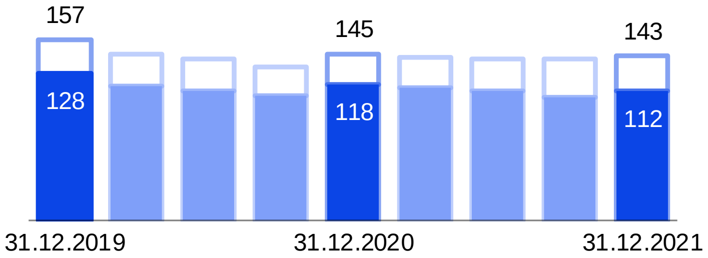
Cost-to-income ratio (%)



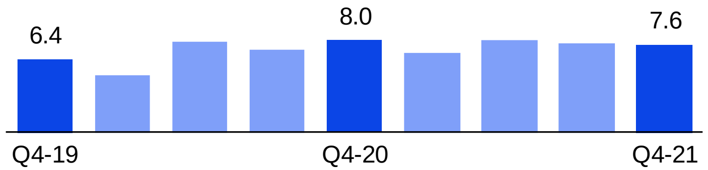
Net interest margin (%)



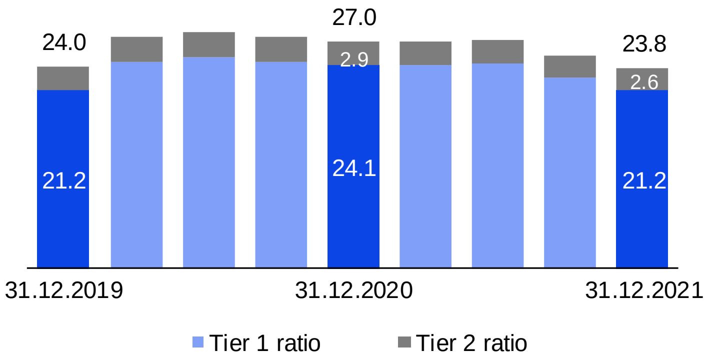
Loans-to-deposits ratio (%)
(without loans financed by covered bonds)



Operating income / REA (%)



Capital ratio (%)



Key figures

Operations	2021	2020	2019	2018	2017	Q4 2021	Q3 2021	Q2 2021	Q1 2021	Q4 2020
Net interest income	32,063	31,158	30,317	29,319	28,920	8,768	7,937	8,016	7,342	8,059
Net commission income	14,673	11,642	9,950	10,349	10,211	4,079	3,755	3,562	3,277	3,116
Operating income	58,225	50,764	47,998	46,169	46,863	15,234	14,890	15,004	13,097	14,713
Operating expenses	25,875	24,441	26,863	26,278	22,893	7,867	5,588	6,372	6,048	6,607
Net earnings	28,615	12,469	1,102	7,775	14,419	6,522	8,238	7,816	6,039	5,761
Return on equity	14.7%	6.5%	0.6%	3.7%	6.6%	13.4%	17.0%	16.3%	12.5%	11.8%
Net interest margin	2.8%	2.9%	2.8%	2.8%	2.9%	2.8%	2.7%	2.9%	2.7%	2.9%
Return on assets	2.3%	1.1%	0.1%	0.7%	1.3%	2.0%	2.6%	2.6%	2.1%	1.9%
Cost-to-income ratio	44.4%	48.1%	56.0%	56.9%	48.9%	51.6%	37.5%	42.5%	46.2%	44.9%
Cost-to-total assets	2.1%	2.1%	2.3%	2.3%	2.1%	2.4%	1.7%	2.1%	2.1%	2.2%
Balance Sheet										
Total assets	1,313,863	1,172,706	1,081,854	1,164,326	1,147,754	1,313,864	1,346,092	1,217,921	1,181,093	1,172,706
Loans to customers	936,237	822,941	773,955	833,826	765,101	936,237	896,940	843,988	837,162	822,941
Mortgages	504,877	409,641	333,406	365,820	190,008	504,877	483,514	452,881	423,732	409,641
Share of stage 3 loans, gross	1.9%	2.6%	2.7%	2.6%	-	1.9%	2.6%	2.8%	2.9%	2.6%
REA/ Total assets	61.9%	63.6%	66.5%	68.4%	66.8%	61.9%	58.0%	61.3%	63.9%	63.6%
CET 1 ratio	19.6%	22.3%	21.2%	21.2%	23.6%	19.6%	20.9%	22.7%	22.4%	22.3%
Leverage ratio	12.6%	15.1%	14.1%	0.0%	0.0%	12.6%	12.4%	14.6%	14.7%	15.1%
Liquidity coverage ratio	202.8%	188.5%	188.3%	164.4%	221.0%	202.8%	221.0%	215.1%	191.6%	188.5%
Loans to deposits ratio	142.8%	144.8%	157.0%	178.9%	165.5%	142.8%	139.9%	139.6%	141.3%	144.8%

All amounts are in ISK mn

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