Arion Bank

Fourth quarter and full year results 2020

Investor presentation

10 February 2021

Key takeaways in Q4

Strong performance as Arion Bank prepares for the future with revised Strategic Direction and updated Medium Term Targets

The Bank delivers strong results as economic uncertainty decreases and financial markets gather strength

- The best quarter in over 3 years as most line items exceed expectations
- Return on equity above the 10% target and 14.9% from optimized equity
- Solid core income growth of 8.2%
- Improved operating efficiency demonstrated by strong cost-to-income ratio

Diversified income streams and distribution channels demonstrate value in volatile economic environment

- Strong digital distribution channels have sustained full product offering throughout pandemic
- Transformation of branches to sales and service centres with focus on providing customer service and advice with full product suite is underway
- ESG interacted in strategy and ESG related product offering gaining momentum

Significant balance sheet strength and dividend capacity

- ISK 3 billion of dividend and ISK 15 billion of share buy-backs in the pipeline
- CET1 and total capital ratios among highest in Europe
- Leverage ratio significantly stronger than European peers
- ISK 40 billion of surplus capital on top of ISK 18 billion reserved for dividend and buyback in 2021

Broad market access provides a unique value proposition in supporting the rebound of the Icelandic economy

- The only bank in Iceland with international shareholder base. Ongoing marketing of the Group and the Icelandic economy to investors in key financial centres
- Access to domestic and international investors across the capital structure
- Strong share price performance since March 2020
- Liquidity in the stock has allowed for significant volumes of shares changing hands and broadening of shareholder base

Revised strategy introduced in 2021

Values

We find solutions | We make a difference | We get things done | We say what we mean

Positioning:

To excel by offering smart and reliable financial solutions which create future value for our customers, shareholders and society as a whole.

Excel at what we do

Solution-oriented and performance-driven culture

Outstanding employees in a motivating environment which is innovative, demanding and enjoyable

Work with partners who enhance our business and diversify our product offering

Offer smart solutions

Diverse and value-added services for discerning customers

Service and decisions are based on data and analysis

Digital solutions which make our services more convenient

Create future value

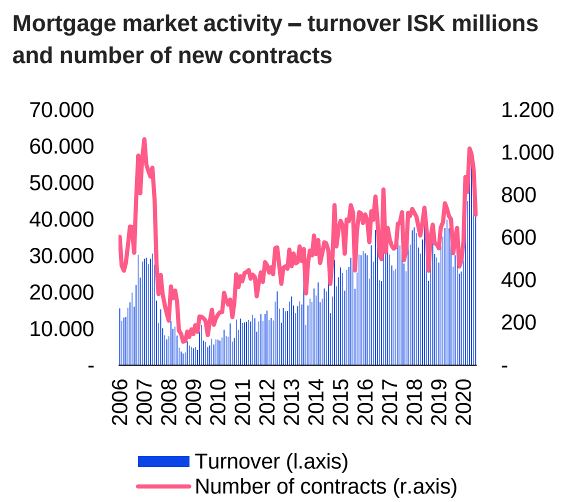
See things from our customers' perspective and understand their needs and goals

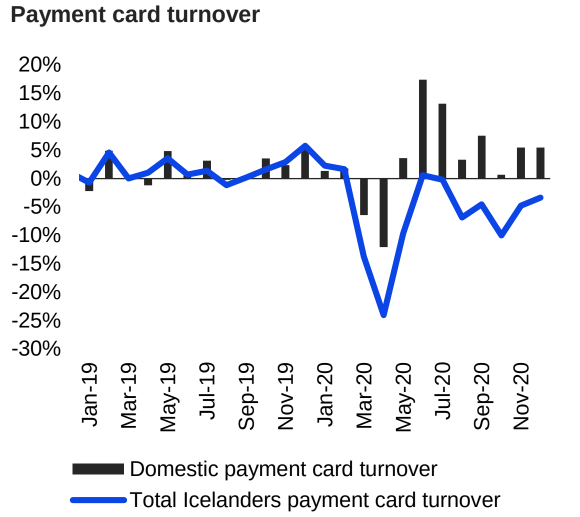
Work responsibly, guided by sustainability

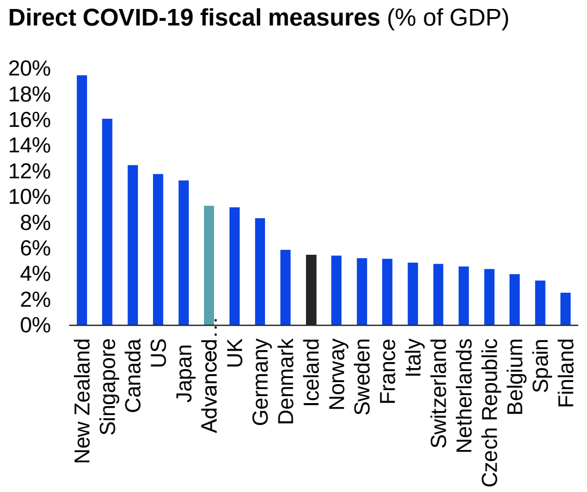
Be there for our customers by providing ingenuity, solutions and financial resources

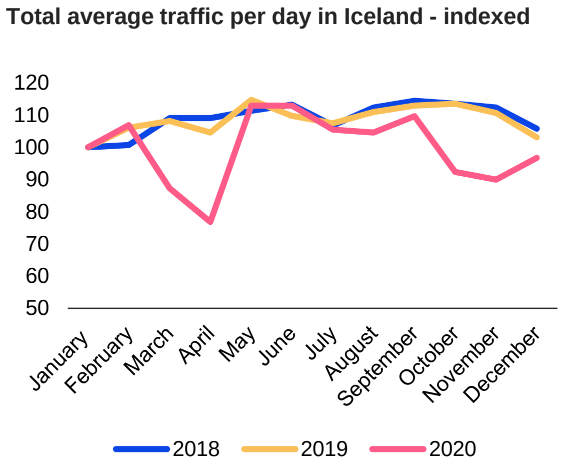
Successfully dealing with COVID-19

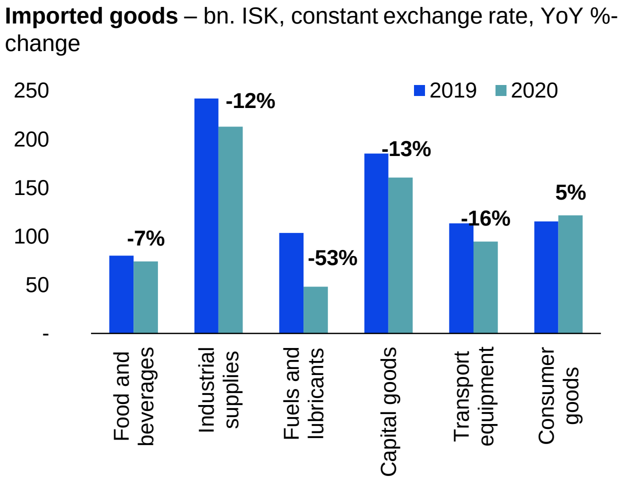
Numerous volume indicators show economic resilience despite pandemic impact

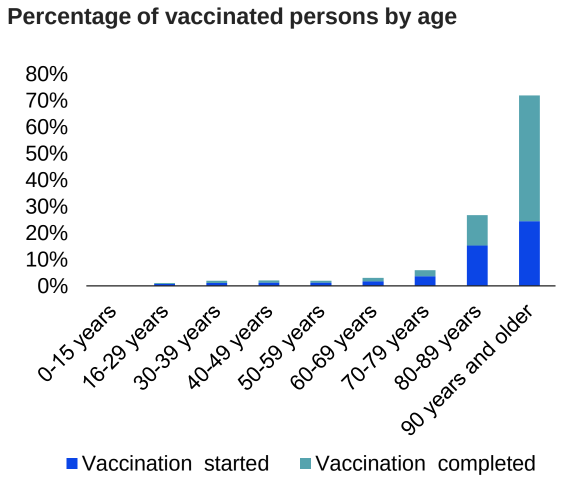












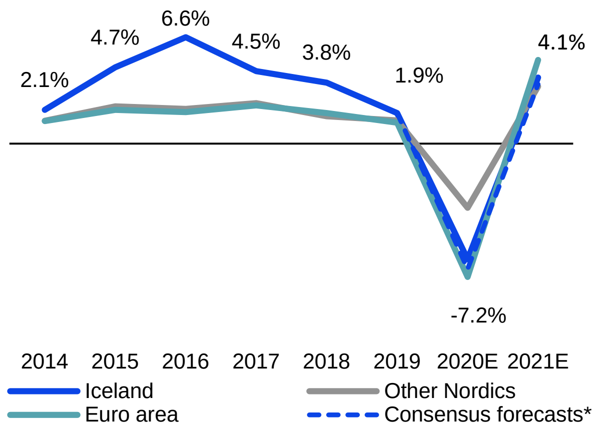
Sources: Covid.is, Central Bank of Iceland, Statistics Iceland, Arion Bank

The economy is forecast to rebound in second half of 2021

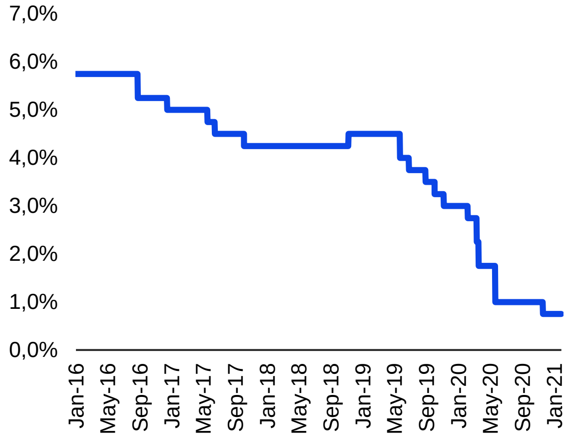
Monetary and fiscal measures have been significant but the low government debt levels show that there is scope for more if required.

Inflation is expected to be short lived and unemployment which is currently around 12% will trend down over time

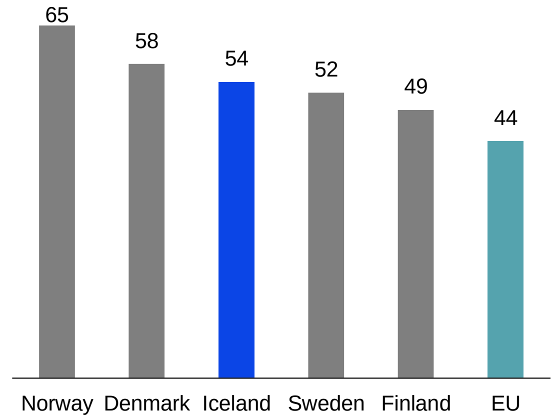
GDP growth



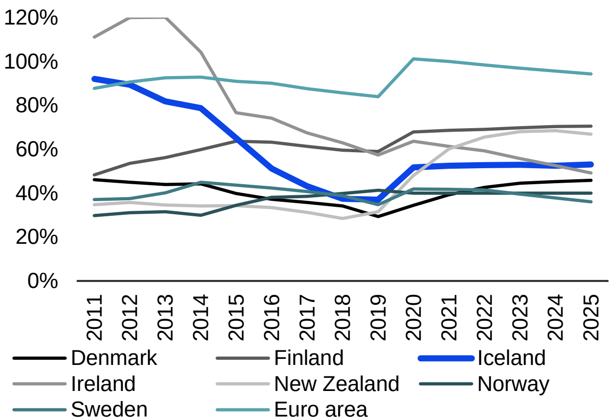
Key interest rates (seven-day term deposit rate)



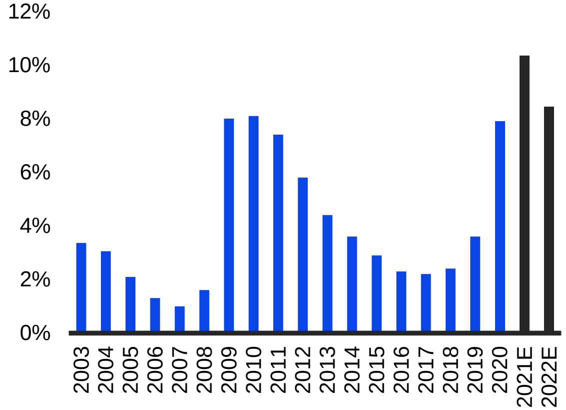
GDP per capita in 2020 (PPP, International dollars, thous. IMF's estimates)



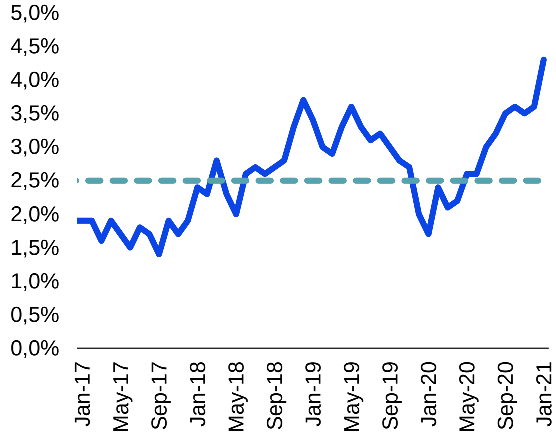
General government gross debt (% of GDP)



Registered unemployment, excluding the reduced employment ratio scheme (Arion Bank's estimates)



Inflation and inflation target



Sources: Covid.is, University of Oxford, Keflavik Airport, Central Bank of Iceland, Statistics Iceland, Arion Bank

Leading financial services platform with considerable further potential

Over **42 million annual interactions with our clients,** 99% of which are through digital channels.

Leading to **73% of sales transactions through digital channels.**

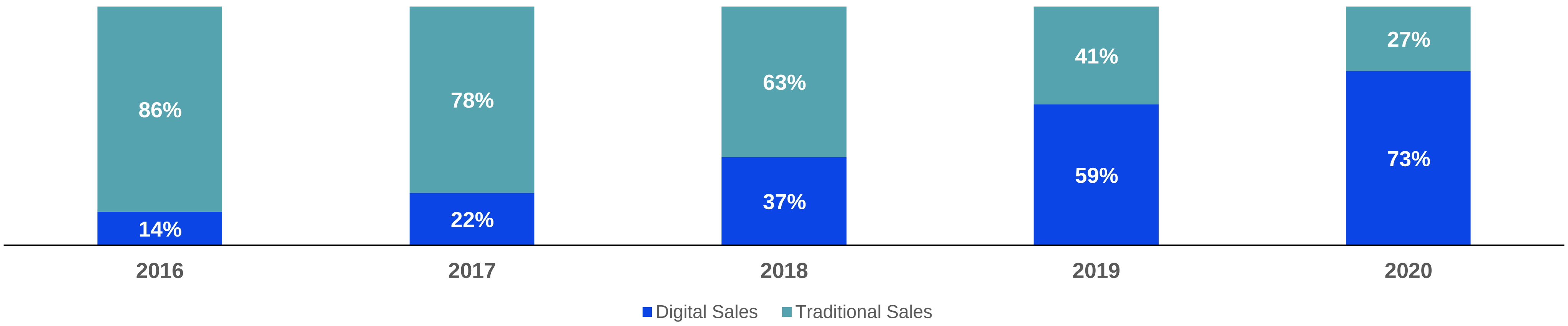
Digital Interactions

Video conferencing	Loyalty app logins	arionbanki.is	Online Banking logins	App logins
7,000	**800,000**	**9,100,000**	**5,700,000**	**26,000,000**

Traditional Interactions

Telephone calls	Branch visits
300,000	**294,000**

Digital vs. Traditional Sales



A comprehensive digital journey has created a market leading platform

Next phase focused on further utilizing this platform
and intergrade into broader customer journeys

Daily interactions made available online

- 3-minute process for onboarding
- Opening new accounts online
- Changing overdraft limit in app
- Changing the credit card limit in app
- Spreading the credit card bill in app
- Online mortgage credit assessment
- Online mortgage process
- Onboarding for Investment Banking
- Automatic car loan process
- Opening new business accounts

Winning daily interactions

- End of month process and push notifications
- Online pension service
- Mortgage refinancing
- Consumer lending solution
- Automated chatbots in service centers
- Authenticated video conference service in service center
- Mobile payments
- Arion customer club into app

Integrate into broader customer journeys

- Personalized recommendation using analytics on all touchpoints
- Open app, onboarding in app
- Insurance sales through app
- Personal finance management in app
- Account aggregation with other banks through the Arion app
- Fintech investment in Leiguskjól, rental guarantees and housing
- Centralized overview and onboarding for pension funds

Responsible banking that creates value for the future

The Bank has reduced carbon emission in its own operations by 35% since 2015

Green deposits

- **First bank in Iceland t**o offer Green Deposits
- The accounts are based on **a green framework** which is intended to support the UN Sustainable Development Goals number 7,9,11 and 13
- The reaction from customers has exceeded our expectations and due to its popularity we have expanded the green deposit framework.

Green Mortgages

- Our customers now **pay zero loan origination fees** on mortgages when investing in residential property which has been **environmentally certified** by one of the following:
  - Swan Ecolabel
  - BREEAM - Very Good
  - LEED Gold

Green car financing

- Customers do not pay any arrangement fees for financing vehicles which run **entirely on electricity or other 100% renewables**
- There is a **50% discount** on arrangement fees on loans for hybrid vehicles which emit less than 99g/km in carbon dioxide equivalents
- Green car financing was around **20%** of all car financing in the first nine months of 2020

Outstanding results in ESG ratings

- In September 2020 Arion Bank achieved outstanding results in Reitun's ESG rating (Icelandic ratings company), **scoring 86 points out of a possible 100** and placing it in category A3
- Approximately 30 Icelandic issuers have been rated by Reitun and the average score is 60 points

Recent international and domestic commitments

- Arion Bank is a **founding signatory** to the **Principles for Responsible Banking** (PRB)
- In September 2020 Arion Bank signed a **declaration of intent on investment for a sustainable recovery, post Covid-19**

Arion Bank's Environment and Climate Policy

- We are **evaluating our loan portfolio** according to green criteria, setting ambitious targets and adopting a policy on loans to individual sectors **and evaluating our suppliers**

Gender equality

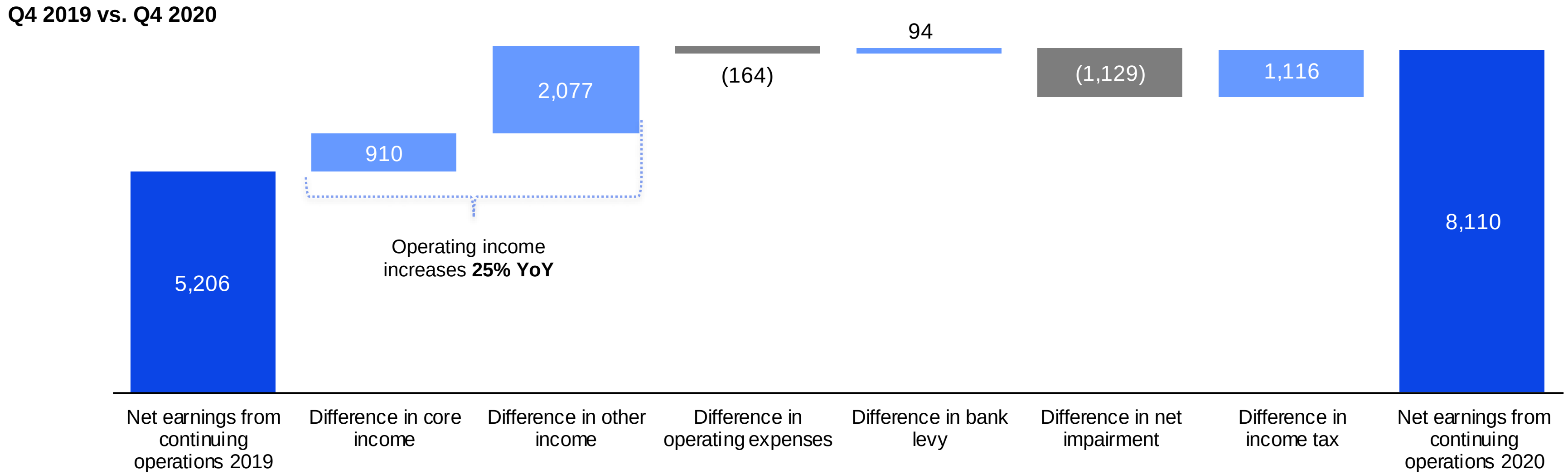
- First bank in Iceland to gain the **equal pay symbol** from the Ministry of Welfare. Equal pay imbalance is now down to 1%
- **UN Women and UN Global Compact** Women's Empowerment Principles

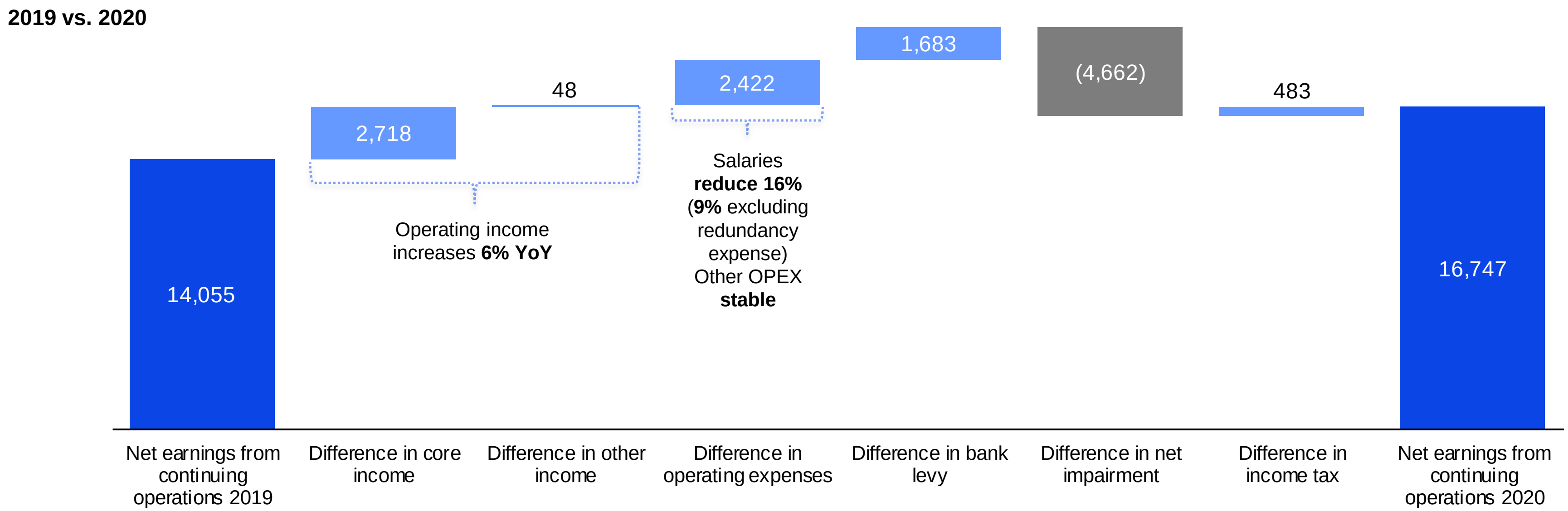
Corporate governance

- Arion Bank has been recognized as a company which has achieved excellence in corporate governance following a formal assessment based on **guidelines on corporate governance issued by the Icelandic Chamber of Commerce**

Net earnings from continuing operations improve significantly YoY

Positive developments both in core income items and operating expenses





All amounts in ISK million

Improved performance and outlook reflected in updated medium-term financial targets

Return on Equity

Exceed **10%**

Revenues / REAs

Exceed **6.7% -** *was 6.5%*

Cost to Income Ratio

Reduce to **45% -** *was 50%*

Loan growth

The loan book will **grow in line with economic growth,** with growth in mortgage lending expected to outpace corporate lending

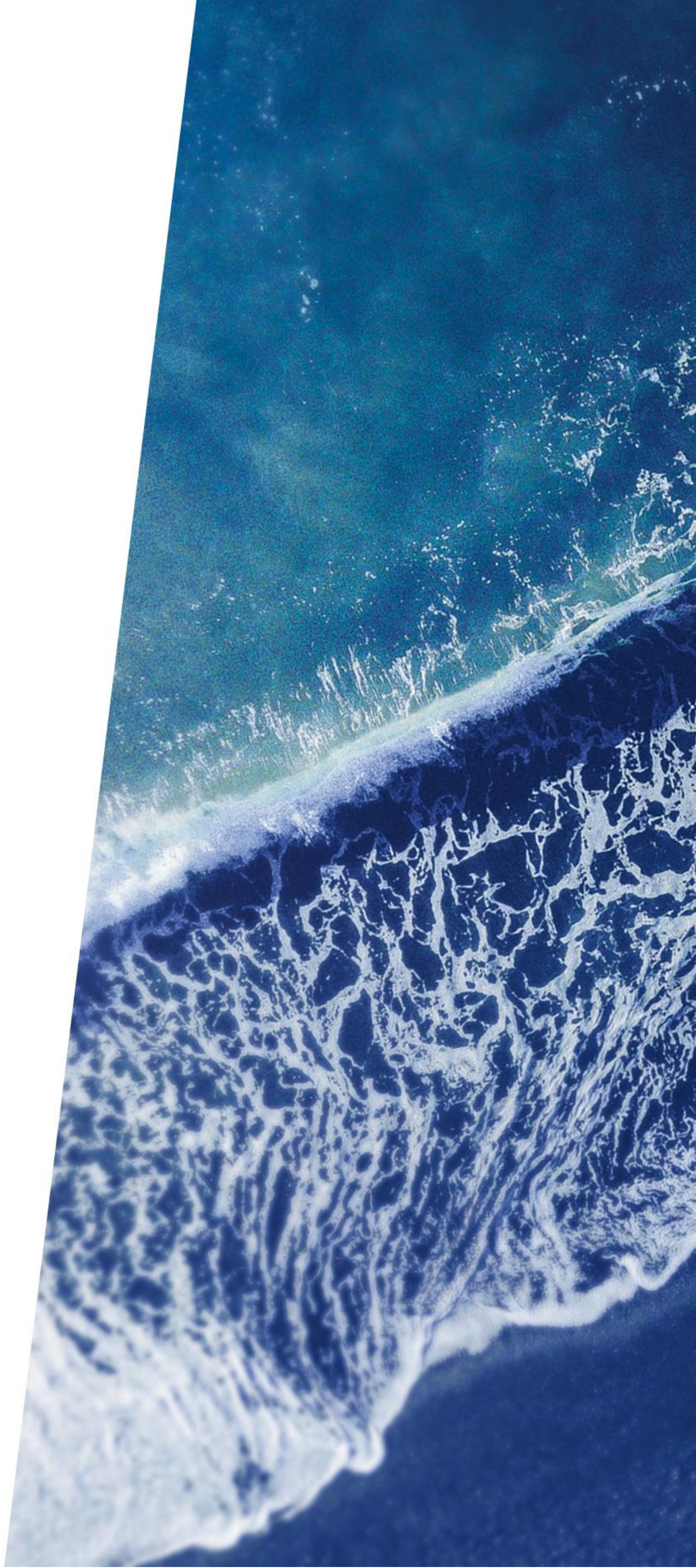
CET 1 Ratio (Subject to regulatory requirements)

Reduce to **17%**

Dividend Policy / Share buy-back

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

Financials



Operational highlights of the fourth quarter 2020

- Arion Bank's strategy results in core operations trending positively
  - Core revenues up 8.2% YoY
  - NII to Credit risk improves YoY
  - OPEX is under control
- All other items favorable
  - Financial income up as is other income
  - Impairments are marginal as is income tax
- The balance sheet and loan book increase from year end 2019 but REA remains stable
- Surplus CET1 Capital of ISK 40 billion on top of the Bank's 17% CET1 capital target

	Q4 2020	12M 2020	2020 Target
Return on equity	11.8%	6.5%	Exceed 10%
ROE assuming 17% CET 1	14.9%	7.9%	Exceed 10%
Operating income / REA	8.0%	7.0%	Exceed 6.5%
Cost-to-income ratio	44.9%	48.1%	Below 50%
CET 1	22.3%	22.3%	17.0%

Income statement Q4 2020

Very strong quarter – Revised strategy results in robust growth in earnings

- Strong growth in core income; NII, NCI and Net insurance income, increase of 8.2% YoY and 1.2% from Q3
  - Net interest income improves with a larger and better managed loan book and improved funding activities
  - Strong net commission income during the quarter. Advisory within CIB is showing strong performance as is retail banking except for certain volume related fees
- Net financial income very strong in Q4, even if hampered by costs relating to buyback of senior bonds at a premium
- Other operating income in Q4 2020 due to fair value changes on investment property and profit from sale of assets
- Impairments are insignificant. Model has been improved but economic assumptions remain similar as in Q3
- Positive income tax due to favorable combination of revenue items
- Held for sale assets continue to weigh on performance as Stakksberg is marked down by ISK 1.8 billion

	Q4 2020	Q4 2019	Diff%	Q3 2020	Diff%
Net interest income	8,059	7,693	5%	7,989	1%
Net commission income	3,116	2,615	19%	2,762	13%
Net insurance income	766	723	6%	1,043	(27%)
Net financial income	1,362	489	179%	692	97%
Share of (loss) profit of associates	(22)	6	-	51	-
Other operating income	1,432	200	-	475	201%
Operating income	**14,713**	**11,726**	**25%**	**13,012**	**13%**
Salaries and related expenses	(3,121)	(3,076)	1%	(2,504)	25%
Other operating expenses	(3,486)	(3,367)	4%	(2,728)	28%
Operating expenses	**(6,607)**	**(6,443)**	**3%**	**(5,232)**	**26%**
Bank levy	(263)	(357)	(26%)	(383)	(31%)
Net impairment	74	1,203	-	(1,340)	-
Earnings before income tax	**7,917**	**6,129**	**29%**	**6,057**	**31%**
Income tax expense	193	(923)	-	(1,096)	(118%)
Net earnings from continuing operations	**8,110**	**5,206**	**56%**	**4,961**	**63%**
Discontinued operations, net of tax	(2,349)	(7,981)	(71%)	(995)	136%
Net earnings	**5,761**	**(2,775)**	**-**	**3,966**	**45%**

All amounts in ISK million

Income statement 2020

Continuous improvement in core operations

- Core income; NII, NCI and Net insurance income, increases 6.3% YoY
  - Focus on earnings in corporate lending and diversified funding with deposits as prime source results in higher NIM
  - NCI increased mainly due to capital volatility in the loan book
- OPEX is down 5.2% YoY, excluding redundancy expense of ISK 1,079 million in Q3 2019, in line with revised strategy
- The bank levy has been lowered from 0.376% to 0.145%. The bank levy is still high in international comparison
- Increase in net impairment YoY is mainly due to assumptions in IFRS 9 models in due to the Covid-19 pandemic
  - Impairments were 71 bps during the year, mainly during the first three quarters
- Effect of discontinued operations still high but down from a very difficult last year

	2020	2019	Diff	Diff%
Net interest income	31,158	30,317	841	3%
Net commission income	11,642	9,950	1,692	17%
Net insurance income	3,071	2,886	185	6%
Net financial income	2,745	3,212	(467)	(15%)
Share of profit of associates	0	756	(756)	-
Other operating income	2,148	877	1,271	145%
Operating income	**50,764**	**47,998**	**2,766**	**6%**
Salaries and related expenses	(12,332)	(14,641)	2,309	(16%)
Other operating expenses	(12,109)	(12,222)	113	(1%)
Operating expenses	**(24,441)**	**(26,863)**	**2,422**	**(9%)**
Bank levy	(1,301)	(2,984)	1,683	(56%)
Net impairment	(5,044)	(382)	(4,662)	-
Net earnings before income tax	**19,978**	**17,769**	**2,209**	**12%**
Income tax expense	(3,231)	(3,714)	483	(13%)
Net earnings from continuing operations	**16,747**	**14,055**	**2,692**	**19%**
Discontinued operations, net of tax	(4,278)	(12,955)	8,677	(67%)
Net earnings	**12,469**	**1,100**	**11,369**	**1,034%**

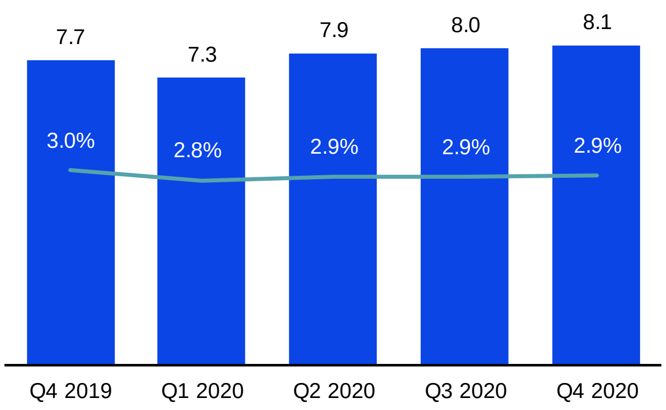
All amounts in ISK million

Net interest income

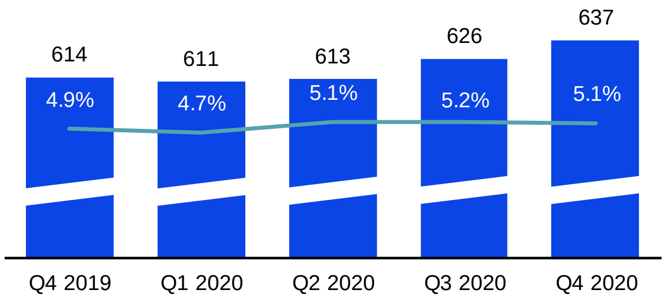
Strong NIM in a record low interest rate environment

- Net interest income increased by 4.8% from Q4 2019, average interest bearing assets increased by 7.5%, mainly mortgages and liquid assets
- Strong net interest margin in light of:
  - Policy rate, which was at historic low during the period at 0.75% from mid November
  - Issuance of Tier 2 subordinated bonds in Q4 2019 and AT1 in Q1
  - Excessive liquidity
- Net interest income / average credit risk continues at strong levels
- Positive effect of 3.5% inflation is reducing as the CPI imbalance decreased by approx. 40% or ISK 35 billion between years
- Increase in deposits and a corresponding reduction of wholesale funding, both maturing and buy-backs, have positive effect on NIM
- NII increases YoY as lower interest expense on deposits, borrowings, inflation and good liquidity management make up for lower interest income from loans to customers and credit institutions in the low interest rate environment

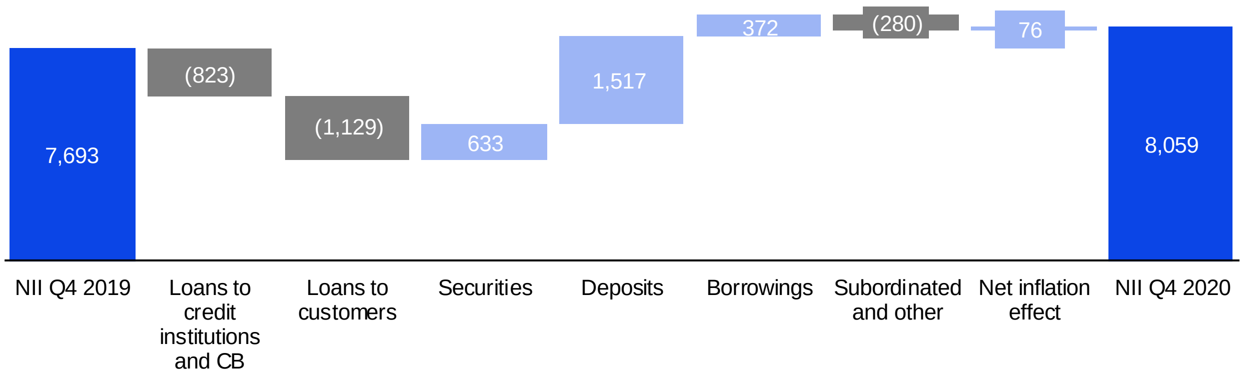
Net interest income



Credit risk



Net interest income Q4 2019 vs Q4 2020 (ISK million)

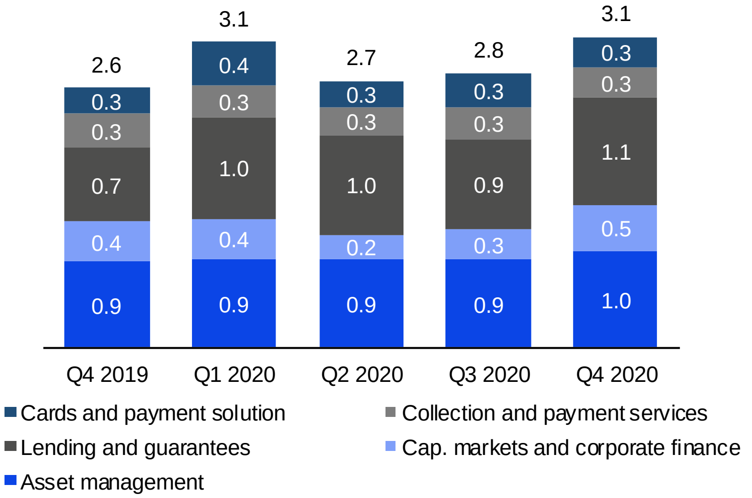


All amounts in ISK billion

Net fee and commission income and net insurance income

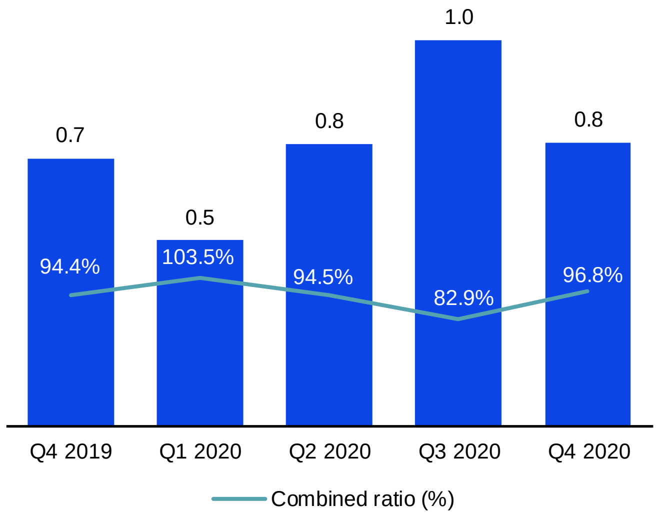
Net fee and commission income continue to trend positively

Net fee and commission income



- Strong quarter in corporate finance
- Strategy of capital velocity results in income from lending and guarantees being exceptionally strong in 12M 2020, increase of 93% from 12M 2019
- Asset management stable from quarter to quarter but increase of 7% during 2020
- Strategy calls for increased fee and commission income going forward

Net insurance income



- Strong quarter but a slight decrease from Q3 due to seasonality
  - Constant premium growth of 6-8% during the year compared with prior year but claims are marginally up YoY
- Combined ratio of 94.4% in 2020 (92.4% taking into account discount in relation to Covid-19 in Q2). Combined ratio was 93.1% in 2019

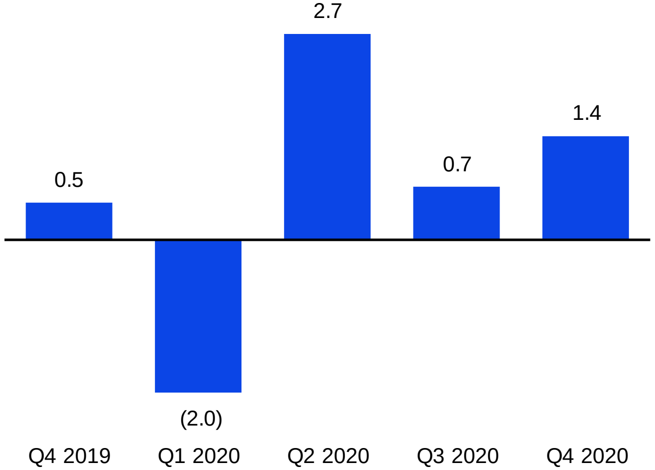
All amounts in ISK billion

Net financial income

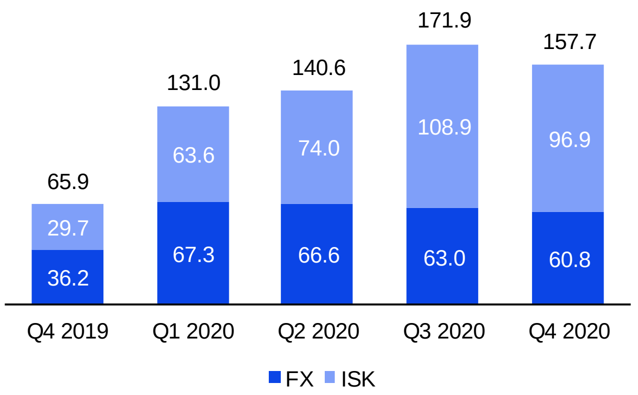
Very strong quarter driven by strong performance in equities

- Net financial income in Q4 driven by:
  - Equity holdings measured at fair value
  - Solid performance in equities market making
- Performance of fixed income was slightly negative in Q4 but positive for the full year
- The FX loss in Q4 derives from an open position at a subsidiary level, that the Bank aims to reduce
- As a part of liability management, the Bank bought-back at a premium EUR 300 million from a EUR 500 million public issue due in December 2021, which was about to get a higher NSFR requirement given its short remaining life
- Bond holdings increased in 2020 as the Bank's liquidity position strengthened
- Equity holdings decrease slightly between years
- Total portfolio of Vördur included in the Group figures is ISK 21.3 billion; ISK 14.6 billion of bonds and ISK 6.7 billion in equity instruments

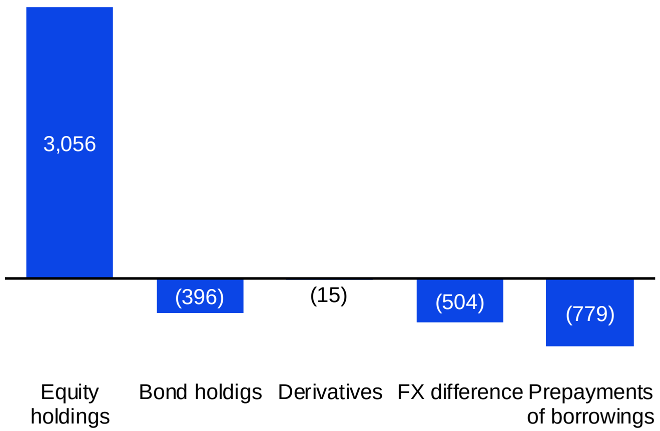
Net financial income



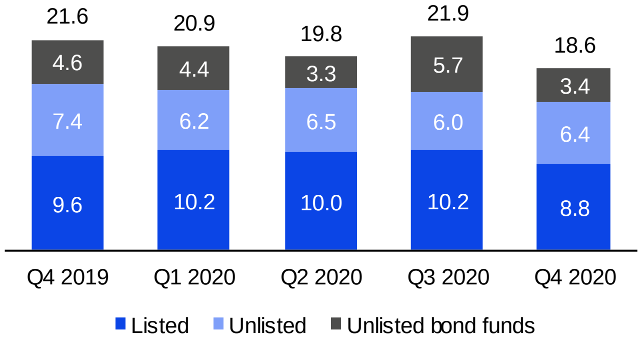
Bond holdings



Net financial income by type in Q4 2020 (ISK million)



Equity holdings



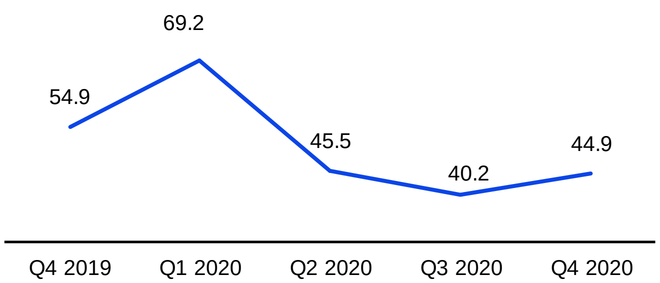
All amounts in ISK billion

Total operating expenses

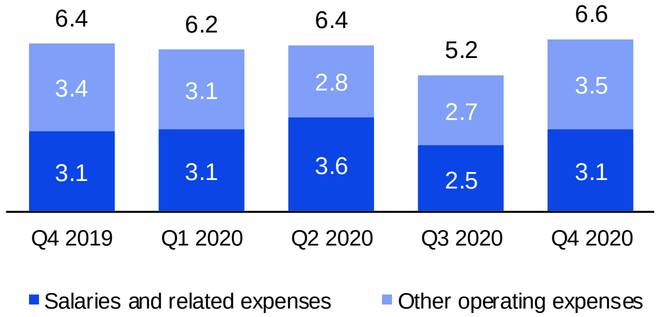
Cost-to-income ratio of 48.1% in 2020, a significant improvement from 56.0% in prior year

- Salaries expenses are stable in Q4 but other OPEX increases slightly YoY
- Number of FTEs down 3% YoY (6% at parent company)
  - The reduction in FTEs does not lead to reduction in salaries as wage inflation is moderate and the composition of the staff is changing
  - The increase in salaries and related expenses from Q3 is due to seasonal vacation allowance
  - Salaries and related expenses were slightly affected by capitalized salaries which amounted to ISK 148 million in Q4 (ISK 142 million in Q4 2019) relating to investment in the Sopra core system
- IT cost increase by 13% YoY, largely explained by lower ISK, Covid-19 related expenses and non Sopra development being expensed
- The Bank is reorganizing and improving its housing, resulting in increased housing cost in Q4. The objective is to improve staff well being and lower expenses going forward

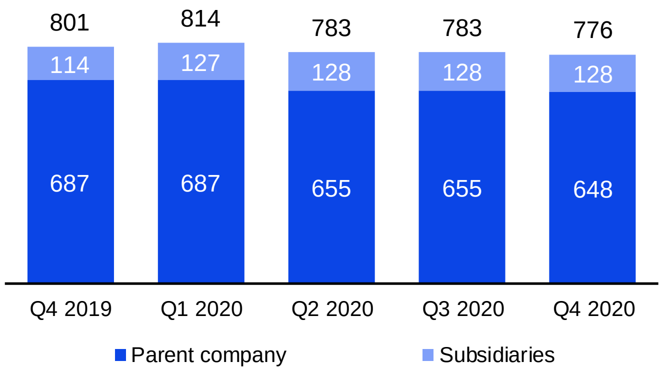
Cost-to-income ratio (%)



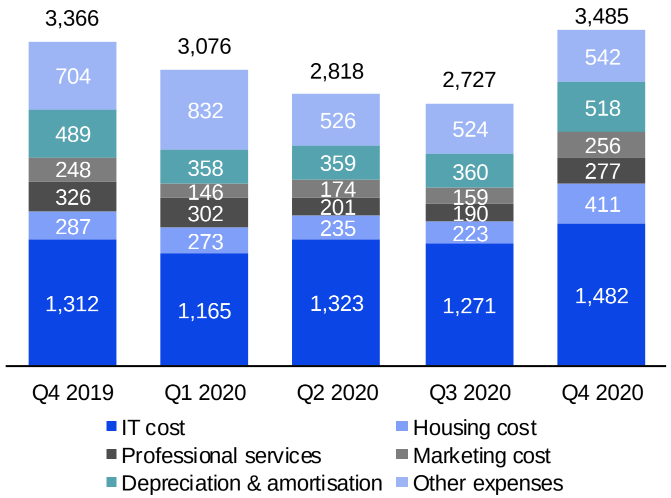
Total operating expenses



Number of employees



Other operating expenses (ISK million)

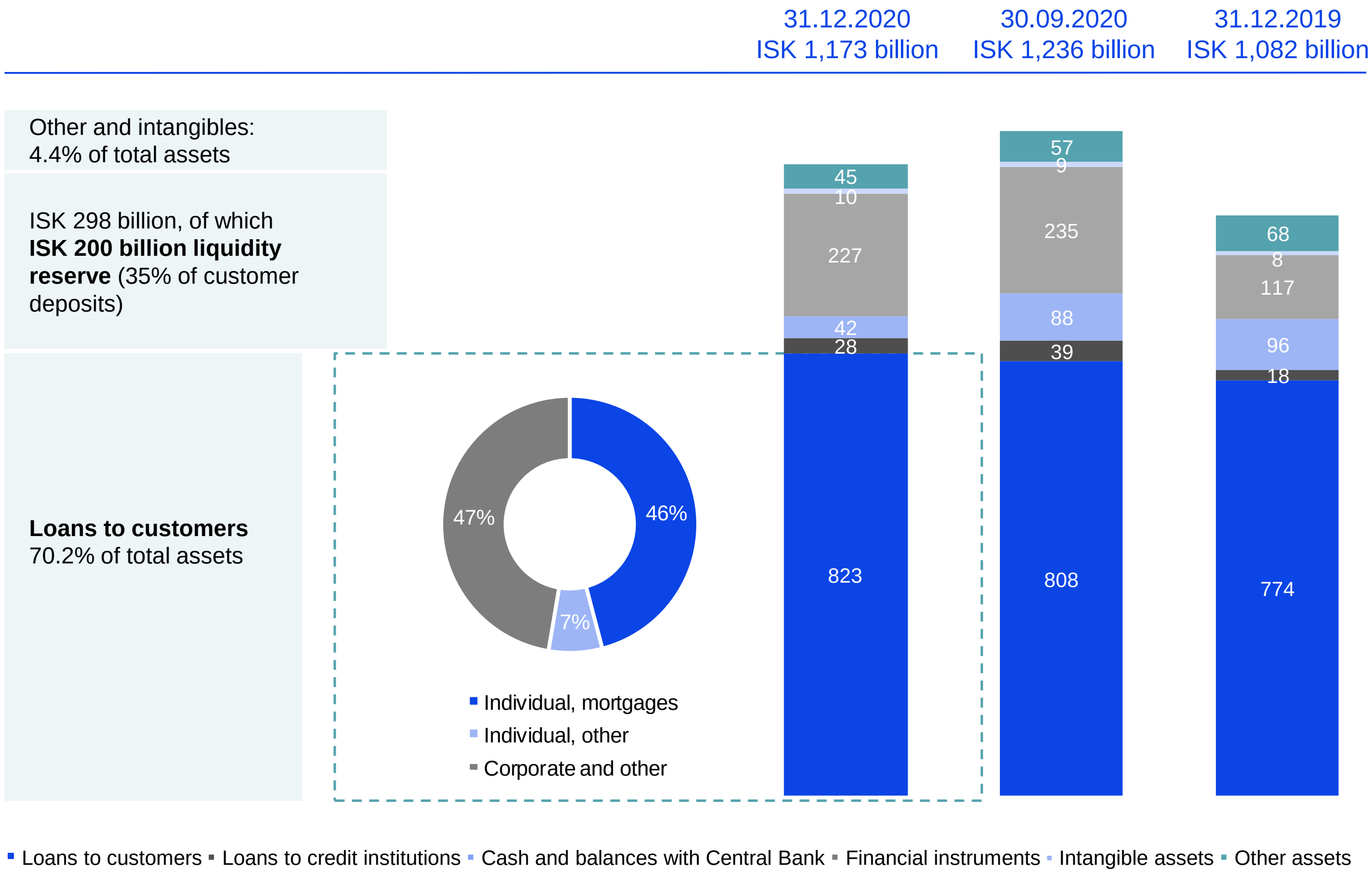


All amounts in ISK billion

Balance sheet – Assets

Mortgage lending and increased liquid assets drive 8.4% balance sheet growth in 2020

- Loans to customers increased by 6.3% from YE 2019
  - Mortgage lending was up 21.9%
  - Corporate lending measured in ISK is down by 4% in line with strategy but is for the most part held up as FX loans increased in value with the depreciation of the ISK during the year
- Despite solid loan growth REA increased by only 3.6% from YE 2019. Thereof 3.0% due to the new treatment of the equity of Vördur.
- Increase in liquid assets due to postponement of dividend payment, issuance of AT1 and strong increase in deposits
  - The Bank has used liquidity to repay bonds at maturity and buy back senior bonds
- Very strong liquidity position
  - Total LCR ratio is 188% and ISK LCR ratio is 144%
- The Bank is very well positioned to distribute capital and meet the funding requirements of its customers in both ISK and FX



[1]Other includes investment property, investment in associates, tax assets, assets and disposal groups held for sale and other assets

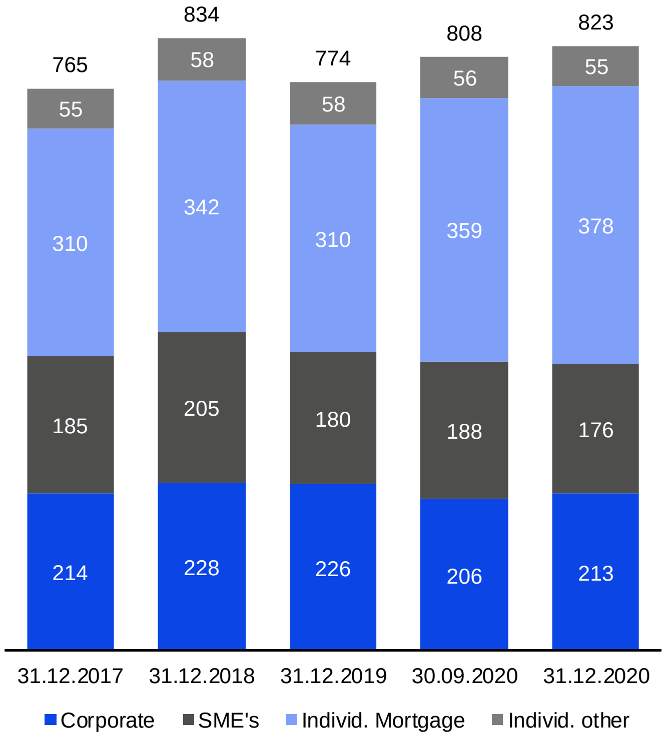
All amounts in ISK billion

Loans to customers

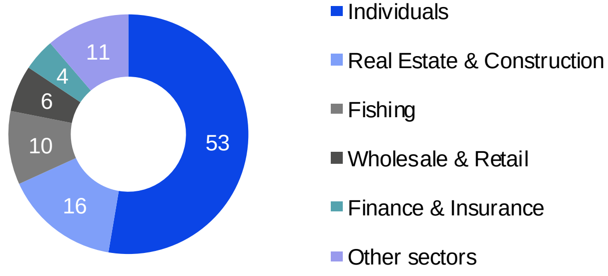
Low risk and capital light retail mortgages 46% of the loan book

- Loans to individuals increased by 17.6% during the year due to strong mortgage lending which increased by 21.8%. Mortgage lending increased by 5.4% during Q4
  - NIM in the front book is slightly lower than in the back book
- The corporate loan book is slightly reduced and partially held up by lower ISK
- Calculated cost of risk was 71 bps of loans to customers during 2020
  - Of which 24.2 bps (34% of net impairment) is due to changes in economic scenarios in IFRS 9 models
  - 24.2 bps (34% of net impairment) is due to specific impairment (Stage 3)
  - 16.2 bps (23% of net impairment) is due to tourism exposure in credit risk
  - 6.4 bps. (9% of net impairments) is due to other exposure in credit risk
- REA from loans to customers is at the same level as YE 2019 while loans to customers have increased 6.3%. Deviation partly due to regulatory changes regarding SME exposures

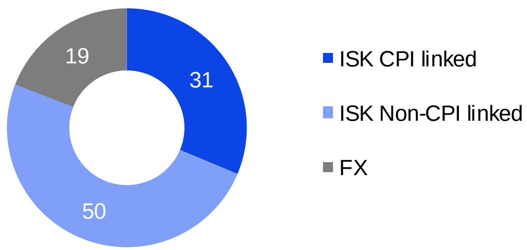
Loans to customers



Loans to customers by sector (%)



Loans to customers by currency (%)



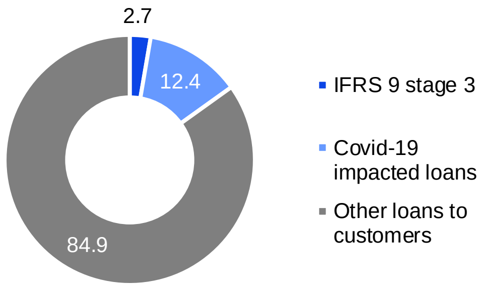
All amounts in ISK billion

Covid-19 impacts ISK 102 billion or 12% of the loan book

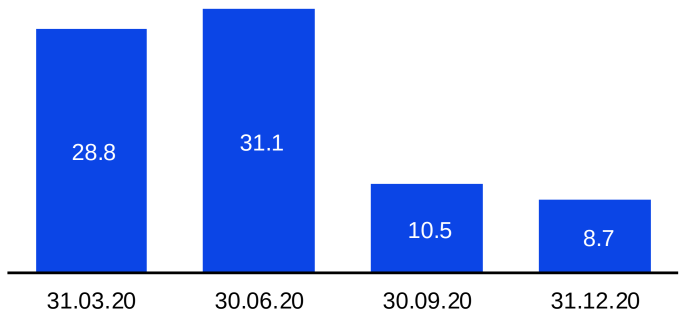
IFRS 9 impairments are forward looking but management overlay is necessary

- IFRS 9 models do not fully capture Covid-19 impact so management overlay on certain customers is necessary (Covid-19 impacted loans):
  - Tourism
  - Customers with payment moratoria in Q4
  - Recipients of loans through government sponsored loan schemes
- Book value of Covid-19 impacted loans is ISK 102 billion or 12% of total loan book
  - Thereof ISK 86 billion secured by real estate
  - Tourism loans with carrying amount of ISK 73 billion
- Credit ratings of Covid-19 impacted loans was downgraded based on assessment into four impact groups
- Use of payment moratoria is stabilizing on the individual side but increasing on the corporate side, as support measures are expiring

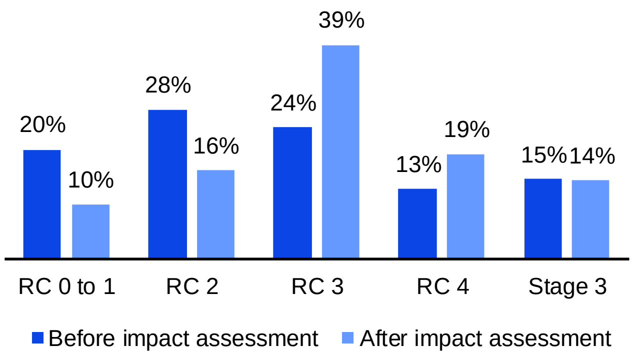
Breakdown of loans to customers (% of gross carrying amount)



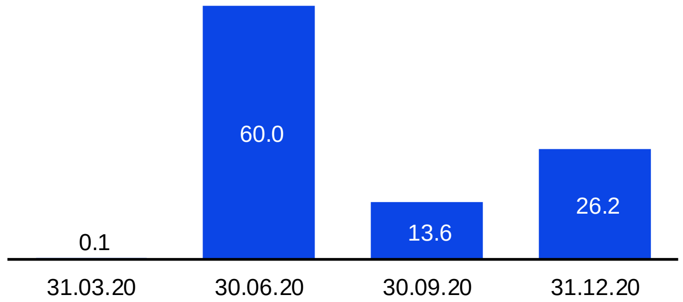
Loans to individuals with Covid-19 related payment moratoria (ISK billion)



Risk classes (credit ratings) in Covid-19 impacted loans were downgraded based on impact assessment
(% of gross carrying amount)



Loans to corporates with Covid-19 related payment moratoria (ISK billion)



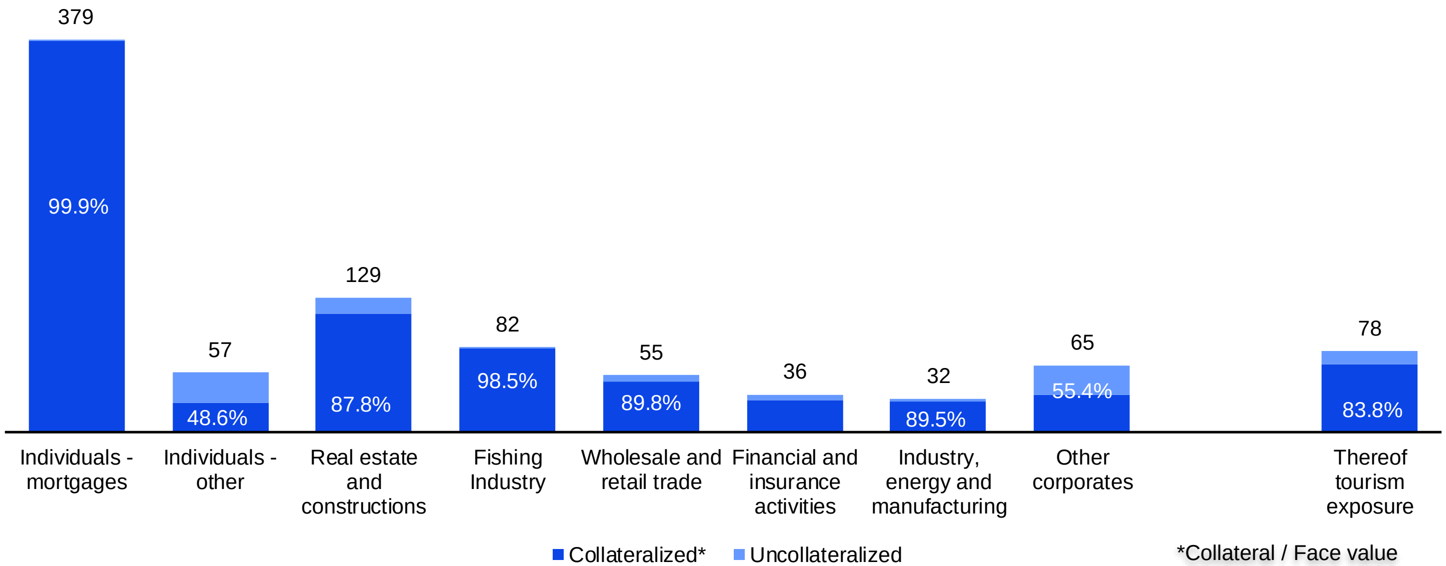
All amounts in ISK billion

Loans to customers – asset quality

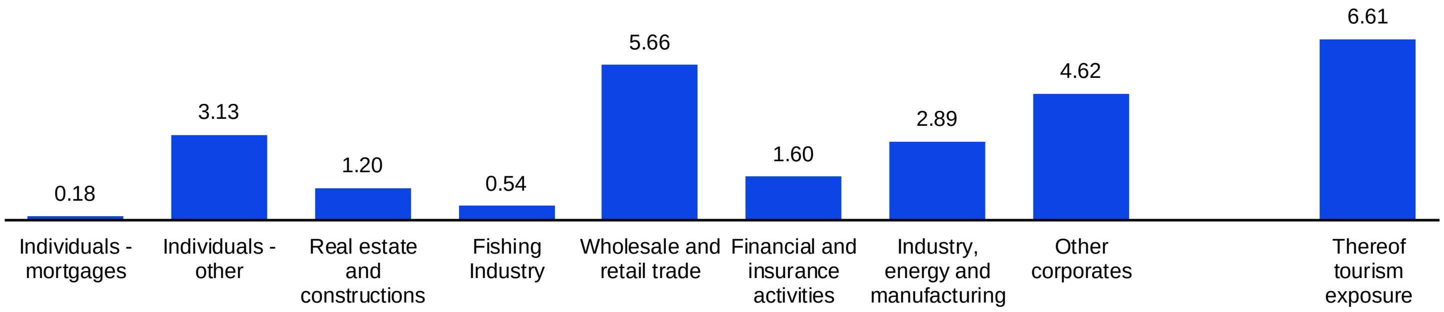
Very well collateralized loan portfolio supports asset quality

- Approximately 91% of loans to customers are secured by collateral, of which 73% are secured by real estate
- Mortgages to individuals are about 46% of the loan portfolio
- Due to Covid-19 pandemic, the Bank decided to transfer all tourism-related loans to Stage 2 in Q1. Increased loss allowance of tourism exposure amounted to approx. ISK 3.1 billion during 2020
- Coverage ratio of 35%, which is low due to high collateral rate in the loan portfolio

Loans to customers by sector (ISK billion)



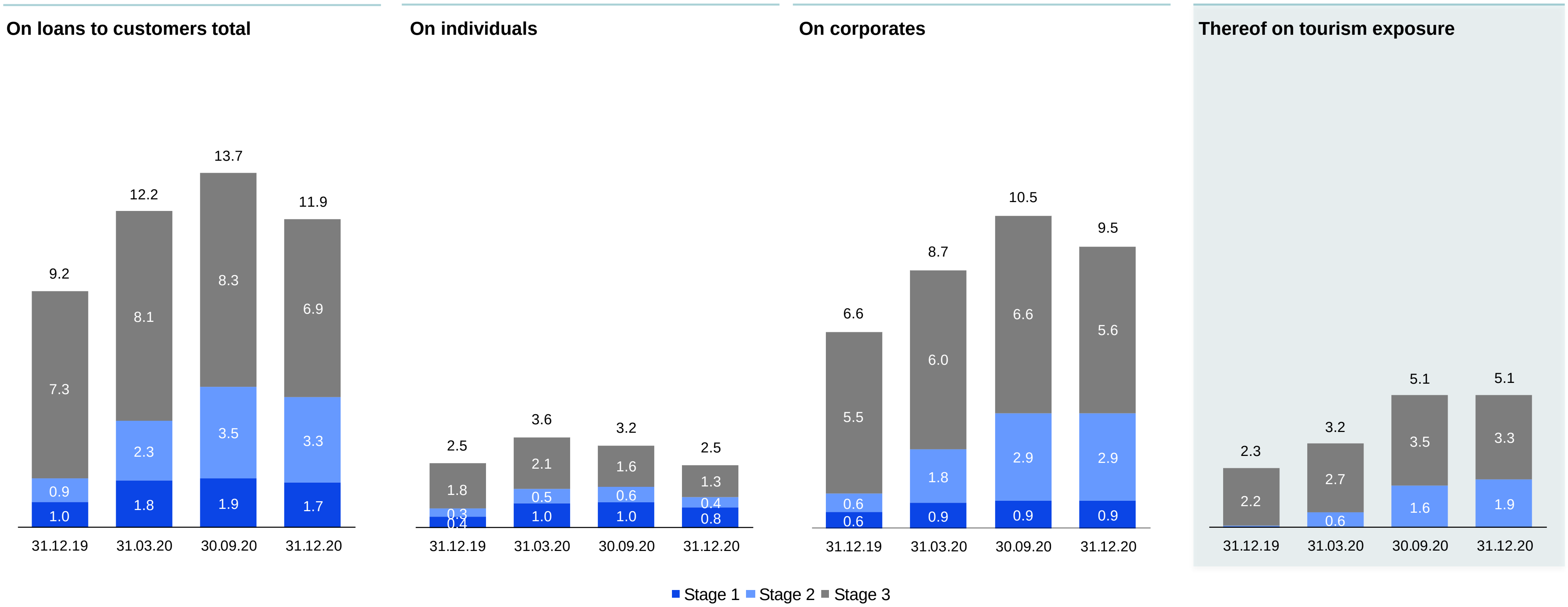
Loss allowance by sector (% of face value)



All amounts in ISK billion

Loss allowance on loans to customers by IFRS 9 stages

Covid-19 has so far had minor effect on loans to individuals which comprises 53% of the loan book



- Total loss allowance increase of ISK 2.7 billion or 30.3% during 2020
  - Loss allowance reduced during Q4 by ISK 1.8 billion during Q4 or 13.0% mainly due to final write-off on loans, both loans to individuals and corporate customers

- Transfer of all tourism exposure from Stage 1 to Stage 2 in Q1 had a significant effect on total loss allowance on tourism exposure or ISK 0.9 billion or 40% increase
- Further changes in assumptions from the end of Q1 had further negative effect, total of ISK 2.9 billion or 61%

All amounts in ISK billion

Balance sheet – Liabilities and equity

Deposits increasing in the funding mix in line with strategy

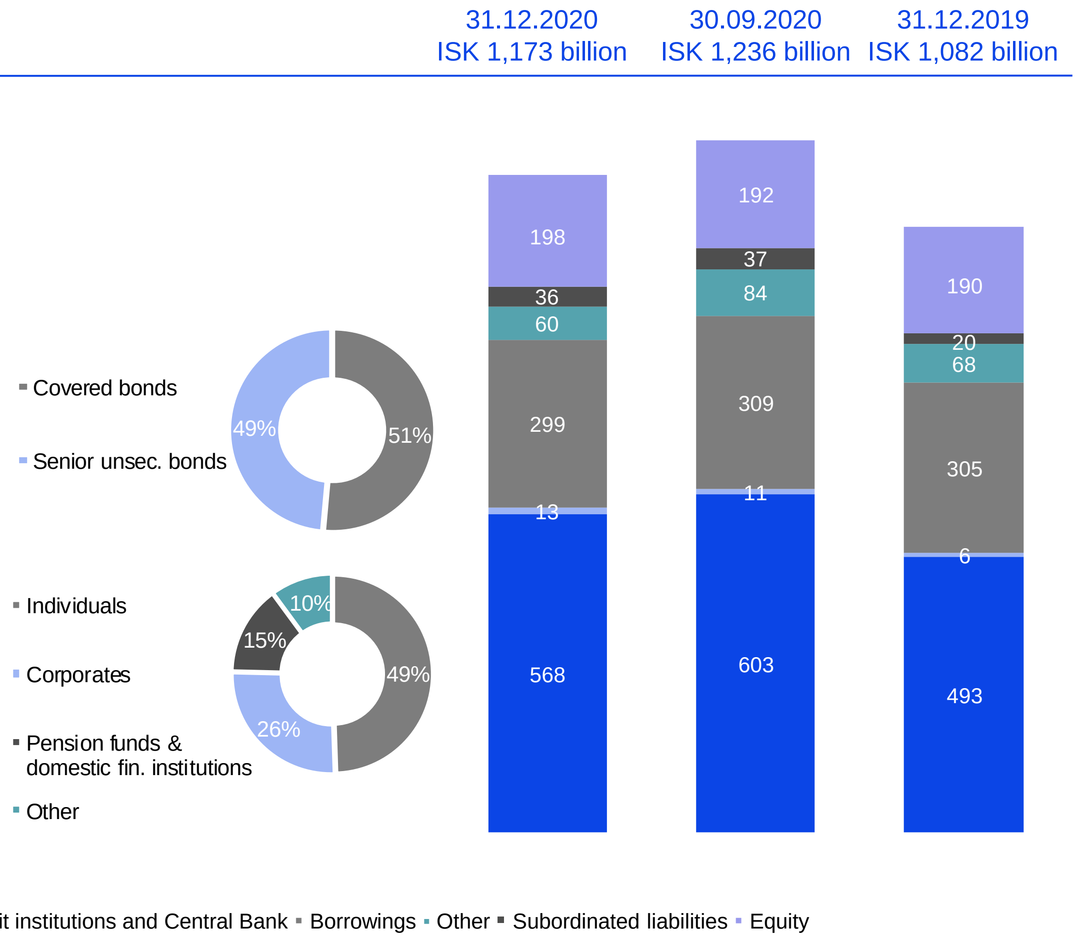
- Strong equity position and a very high leverage ratio
- The Bank is a frequent issuer of covered bonds in the domestic market and a regular issuer of senior unsecured debt in the international market.
- The Bank did a new EUR 300 million senior unsecured bond issue in November
  - At the same time the Bank did a buy-back of EUR 300 million in a liability management exercise
- Deposits increased by 15.3% from YE 2019. Slight reduction in Q4 resulting mainly from institutional flows that have limited effect on LCR
  - Core deposits are up 14.0% from YE 2019 and 2.6% during Q4
- The funding mix is well balanced between deposits, covered bonds and senior unsecured bonds
- The Bank issued its first AT1 instrument during Q1 (USD 100 million or ISK 13 billion) and has previously issued a number of Tier 2 subordinated bonds in line with its capital strategy

Equity
CET1 ratio 22.3%
CAD ratio 27.0%
Leverage ratio 15.1%

Borrowings (in ISK)
ISK 154 billion
EUR 124 billion
Other currencies 21 billion

Deposits
On demand 73%
Up to 3M 19%
More than 3M 8%

16.3% increase from 31.12.2019



[1] Other includes Financial liabilities at fair value, tax liabilities, Liabilities associated with disposal groups held for sale and Other liabilities

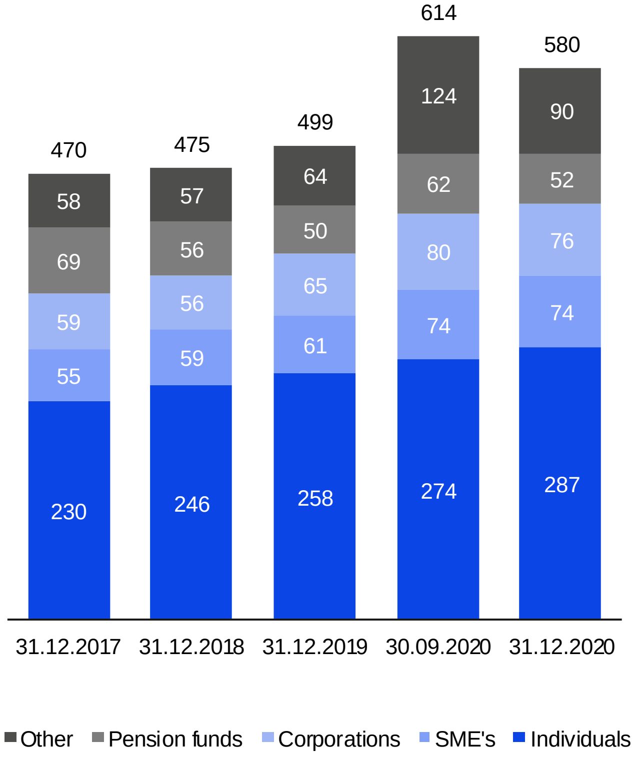
All amounts in ISK billion

Deposits

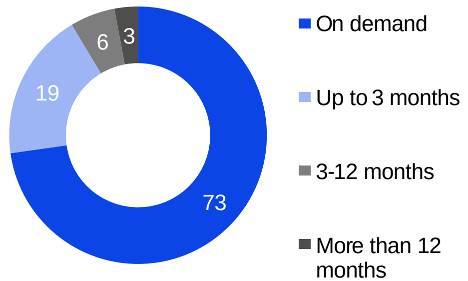
Strategic focus on deposits is showing

- Deposits represent 58% of the Bank's total liabilities
- Strong growth of 14.0% in core deposits from YE 2019
  - Core deposits are from individuals, SME's and corporates
- Very strong growth in other deposits that tend to be less sticky
- As a part of its ESG strategy the Bank launched in Q3 a new deposit product, Green Deposits, which has been well received in the market
- Special emphasis on corporate deposits
  - Which are up 20% from YE 2019
- FX deposits represent 13% of total deposits, practically unchanged from year-end 2019, mainly due to depreciation of the ISK
- The Bank will continue focusing on deposits from individuals and corporates as they provide long term stable funding

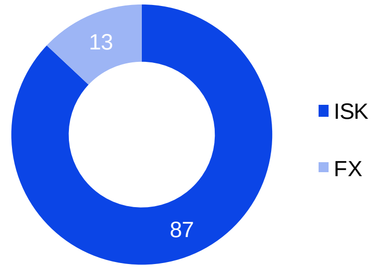
Deposits and due to credit institutions and Central Bank



Maturity of deposits (%)



Deposits by currency (%)



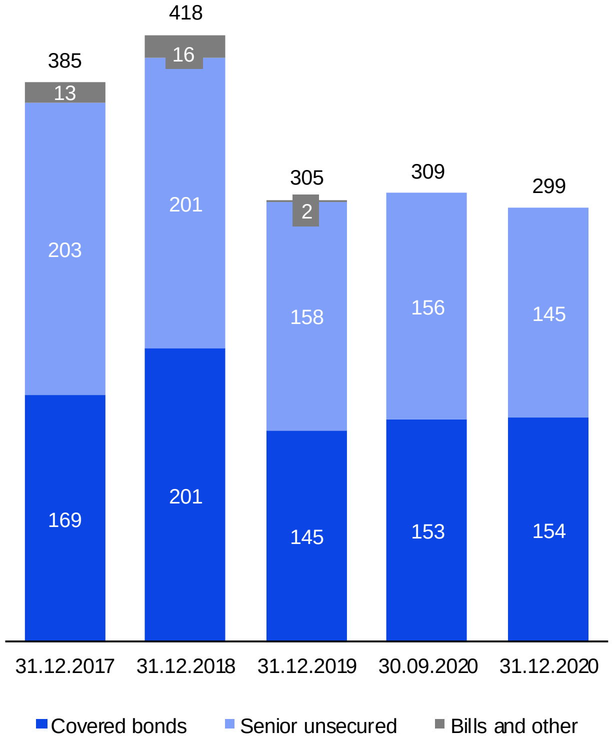
All amounts in ISK billion

Borrowings

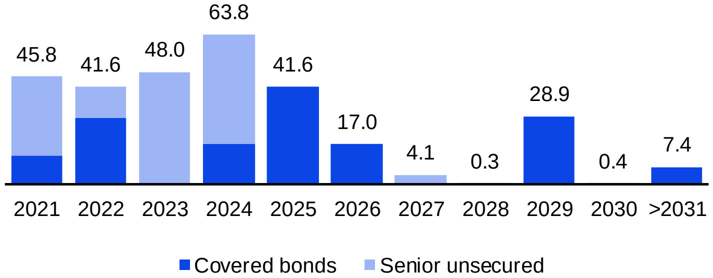
Prudent balance sheet management – New €300 million senior unsecured issue in Q4 in conjunction with a tender offer

- In November 2020 Arion launched a new EUR 300 million senior unsecured bond following an announcement of the issue the previous day
- The new issue was the first euro benchmark bond issue since March 2018
- The bond matures in May 2024 and was sold at a rate corresponding to 1.15% spread over inter bank rates
- The new issue was announced in conjunction with a tender of EUR 300 million of the outstanding benchmark bond maturing in December 2021
- The tender was made as a part of the Bank´s commitment to prudent liquidity and maturity management
- The Bank did not sell Covered bonds in the domestic market in the second half of the year due to exceptionally strong liquidity position in Icelandic króna as well as in other currencies

Borrowings by type



Maturities of borrowings



Ratings - S&P (April 2020)

Senior unsecured	BBB	A
Short term debt	A-2	A-1
Outlook	Stable	Stable

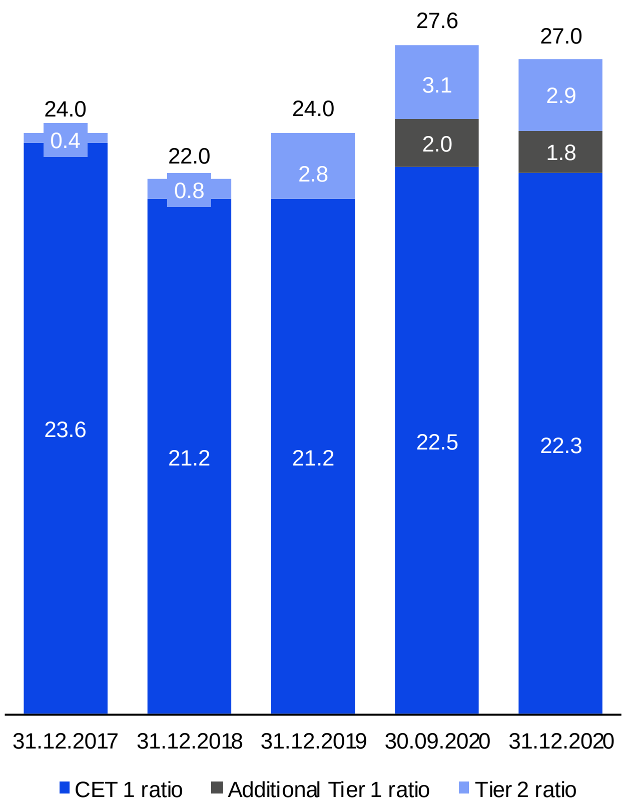
All amounts in ISK billion

Own funds

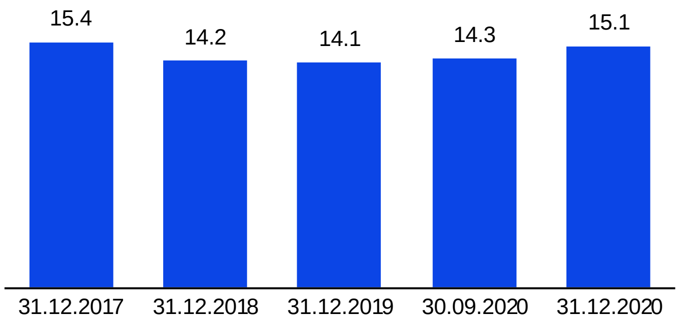
The Bank deducts ISK 18 billion in dividend payment and buy back in 2021

- The CET1 ratio is further enhanced to 22.2% from 21.2% at year end 2019 through earnings, management of REA and IFRS 9 related regulatory changes
- Slight increase in REA, mainly due to new treatment of the equity of Vördur where the position is added to REA with 250% risk weight instead of being deducted from CET1
- Arion Bank filled the Tier 2 bucket with issuance in 2018 and 2019
- The AT1 bucket was filled with issuance in February 2020
- Both instruments strengthen the Bank's own funds and are a milestone towards bringing the Bank's CET1 ratio down to the 17% medium-term targets
- Leverage ratio remains very strong in all respects

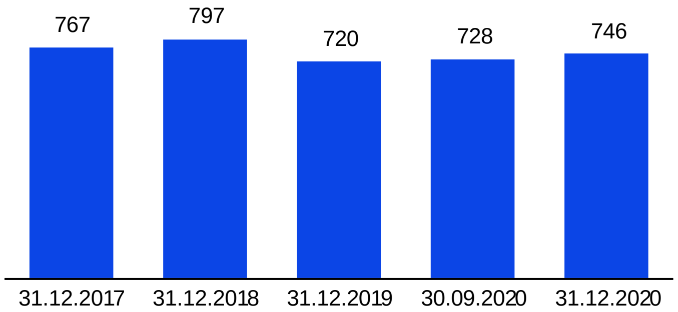
Capital ratio (%)



Leverage ratio (%)



Risk-weighted exposure amount



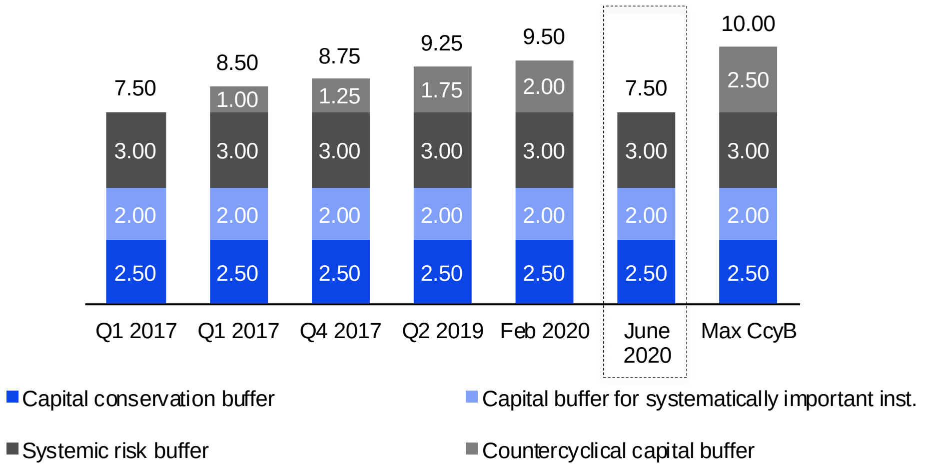
All amounts in ISK billion

Capital adequacy

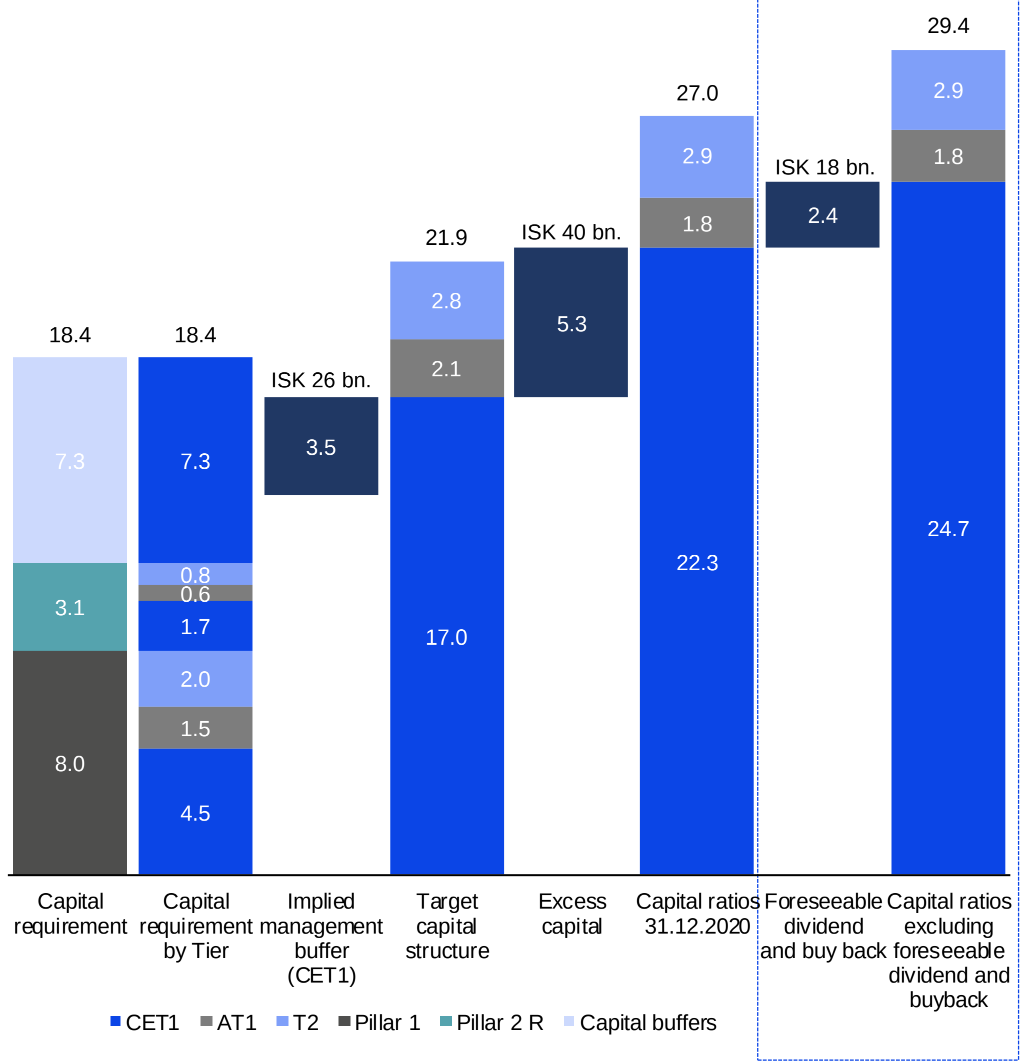
Exceptionally strong capital position which needs to be moved to normal levels

- Total capital ratio of 27.0% and CET1 ratio of 22.3%
- Total foreseeable dividend and buy back of own shares of ISK 18.0 billion included in the capital ratios
- ISK 1.9 billion added back to CET1 capital through IFRS9 transitional arrangements which were ratified into Icelandic law on 4 May 2020
- Target CET1 ratio remains unchanged at 17%
  - Implied 3.5% CET1 management buffer (ISK 26 billion) which is the difference between the target CET1 ratio and regulatory CET1 requirement
  - CET1 capital of ISK 40 billion in excess of target capital structure, in addition to the foreseeable equity reduction
- The solvency ratio of Vördur insurance was 151% at 31.12.2020

Development of capital buffers (%)



Own funds and capital requirements (%)

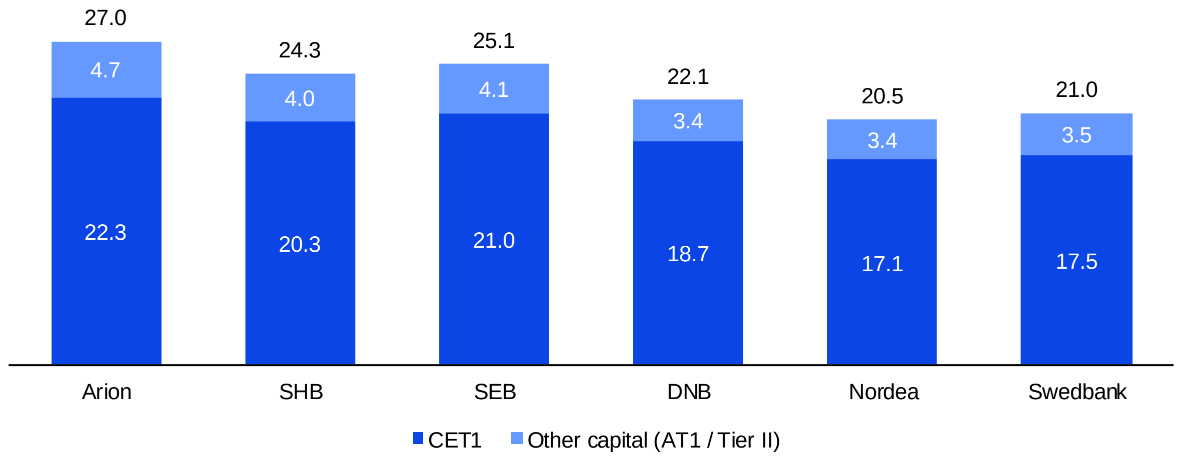


Arion Bank's capital position in a Nordic context

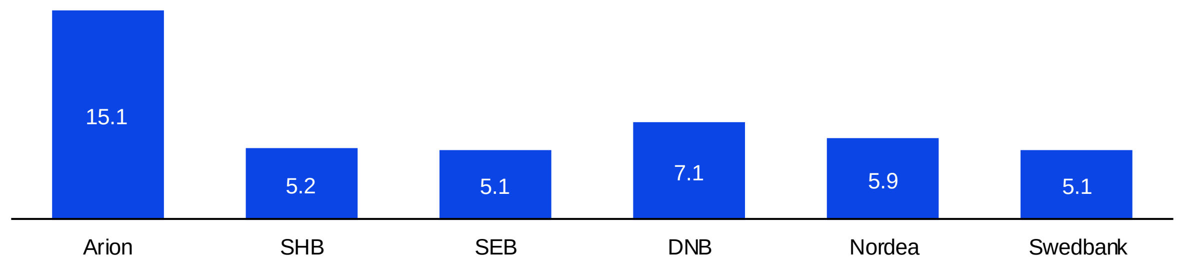
Leverage ratio is an unbiased measurement of financial strength

- Arion Bank is one of the best capitalized banks in the Nordic region
  - Total capital ratio of 27.0% is 190 bps above the second strongest bank
  - CET1 of 22.3% is 130 bps higher than the second strongest
- Capital ratios only show a limited version of capital strength as they can vary based on different treatment of Risk Exposure Amount (REA), which is the capital any bank is required to use to support the various elements of its business
  - The Nordic banks all use internal ratings based methods to determine capital needs
  - Arion Bank uses a standardized approach that calls for higher REA
- The leverage ratio excludes the effects of REA and is a more accurate measurement for comparing financial strength
  - Arion Bank's leverage ratio is more than twice as strong as the second-placed bank

Capital ratio (%) *



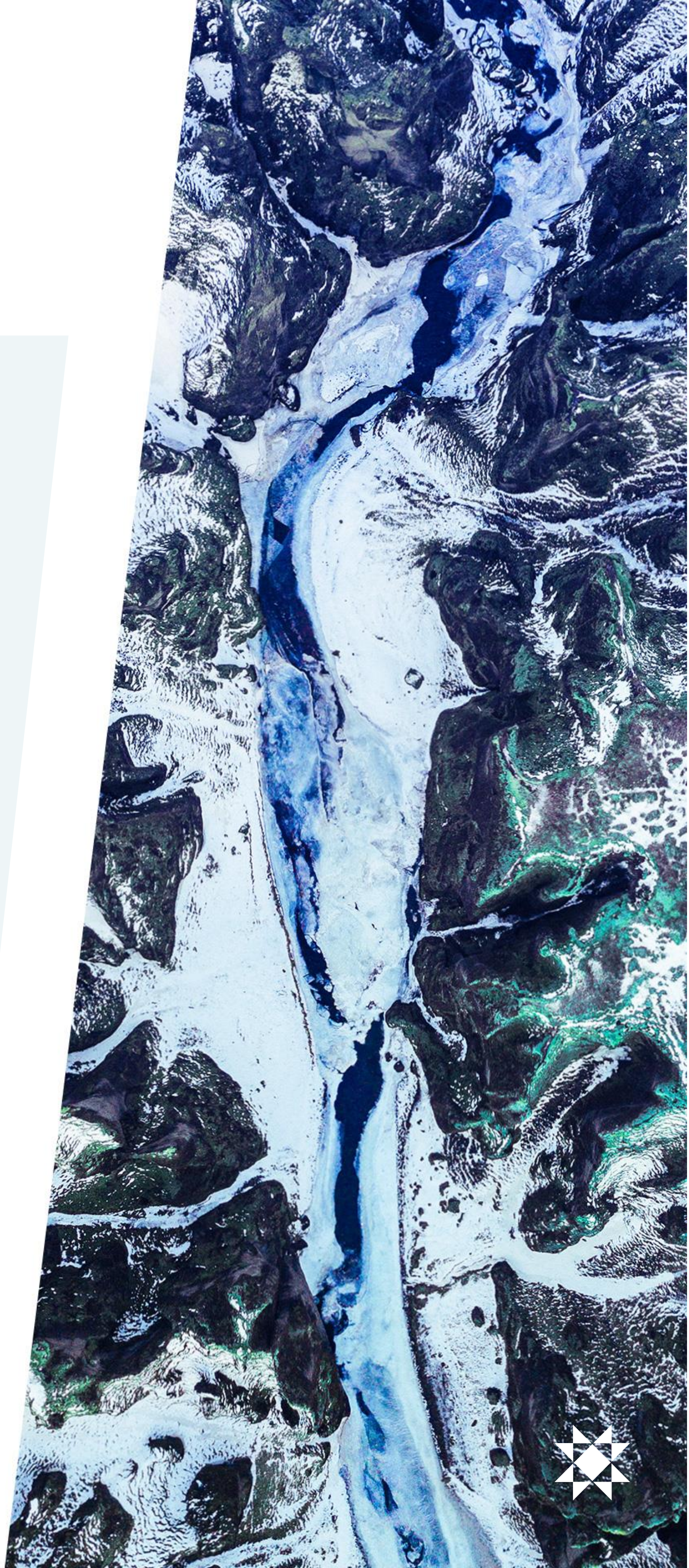
Leverage ratio (%) *



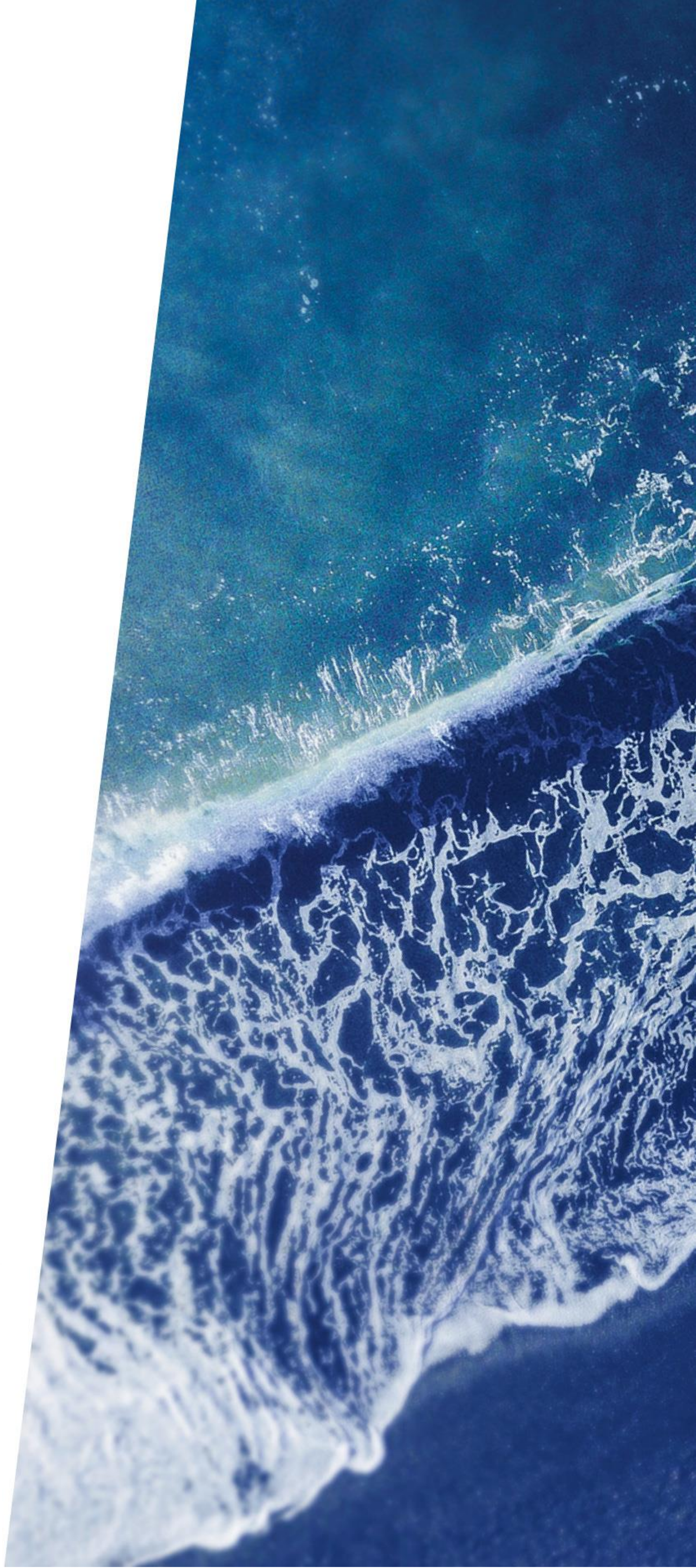
* Based on Q4 2020 published Financial Statements

Going forward

- Arion Bank, armed with an updated strategic vision which follows on the back of extensive organizational changes from September 2019, will strive to build on the positive operational progress from the last quarters
- Growth of mortgage lending is expected to continue and further steps will be taken in both ESG related lending and funding. The growth of corporate loans will be based on the Bank’s focus on return on REA and best execution for corporate clients
- Economic uncertainty has declined and there is improved visibility on asset quality. Arion Bank impairments through Covid-19 have been in line with Scandinavian banks
- The Bank is committed to its capital release strategy. Based on guidance from the Regulator, the Bank will pay a dividend amounting to ISK 2,990 million or ISK 1.74 pr. share, which is equivalent to 24% of net earnings. The Bank will furthermore, buy-back approx. ISK 15 billion of own shares on the basis of new approval. The Bank still has substantial excess capital and the BoD reserves the right to call an extraordinary shareholders meeting later in the year to propose additional dividends and/or share buy-backs
- In light of its strong capital position and earnings generation the Bank expects to pay dividend and/or buy-back own shares amounting to over ISK 50 billion over the next years
- The Bank does not rule out the possibility that the current economic environment, coupled with the Bank’s very strong capital and liquidity position, might open opportunities to efficiently use some of these resources for either internal or external growth

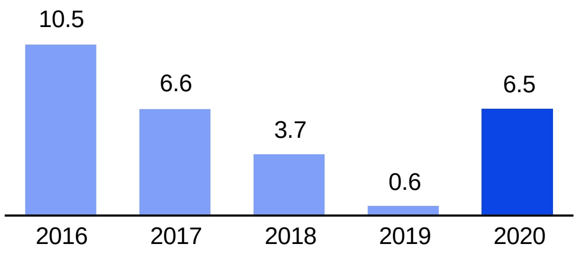


Appendix

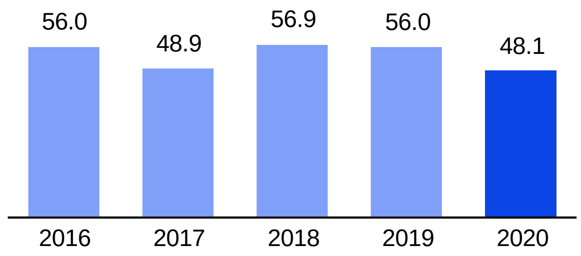


Key financial indicators - annual

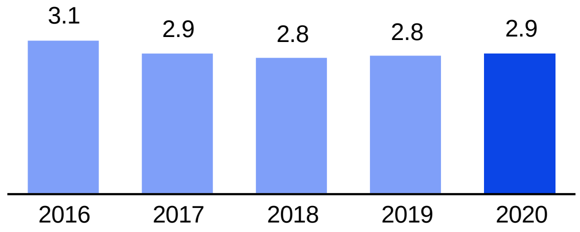
Return on equity (%)



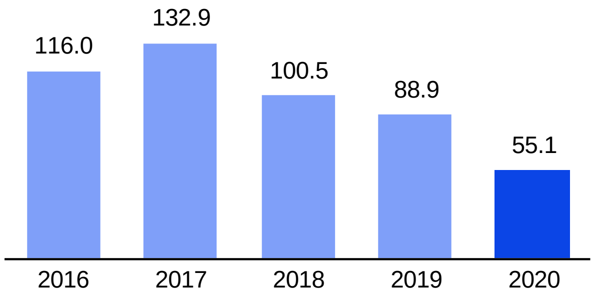
Cost-to-income ratio (%)



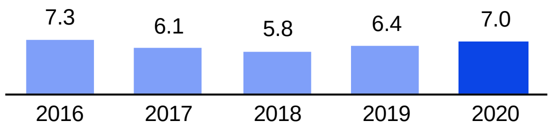
Net interest margin (%)



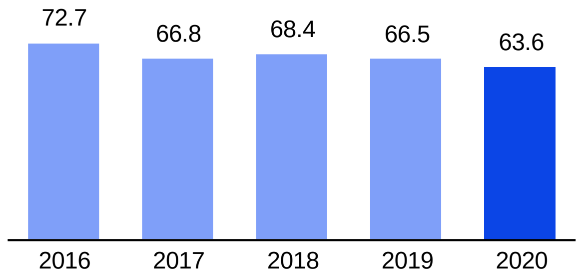
CPI imbalance (ISK billion)



Operating income / REA (%)

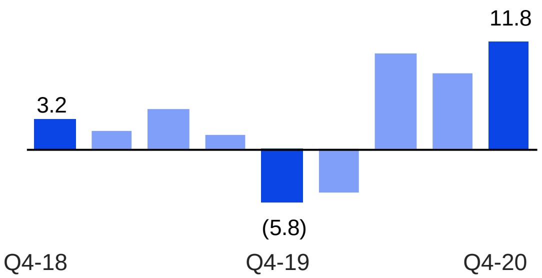


Risk weighted assets / Total assets (%)

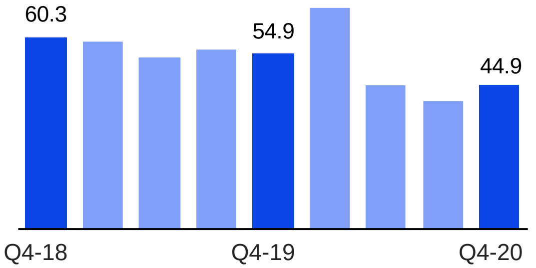


Key financial indicators - quarterly

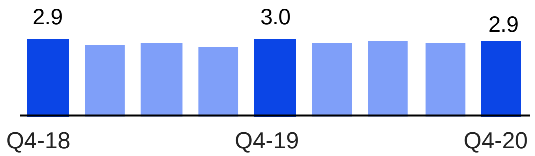
Return on equity (%)



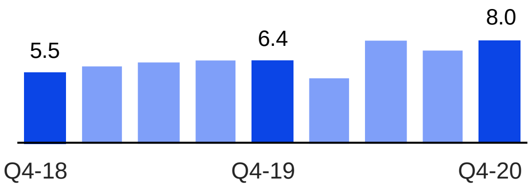
Cost-to-income ratio (%)



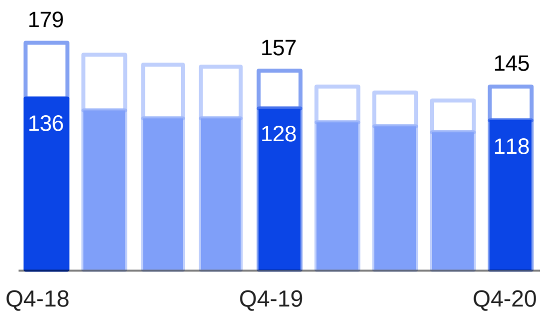
Net interest margin (%)



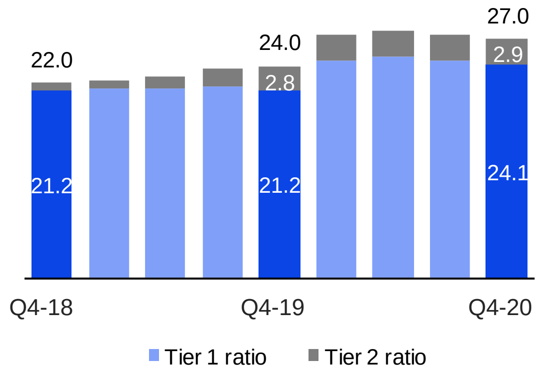
Operating income / REA (%)



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



Capital ratio (%)

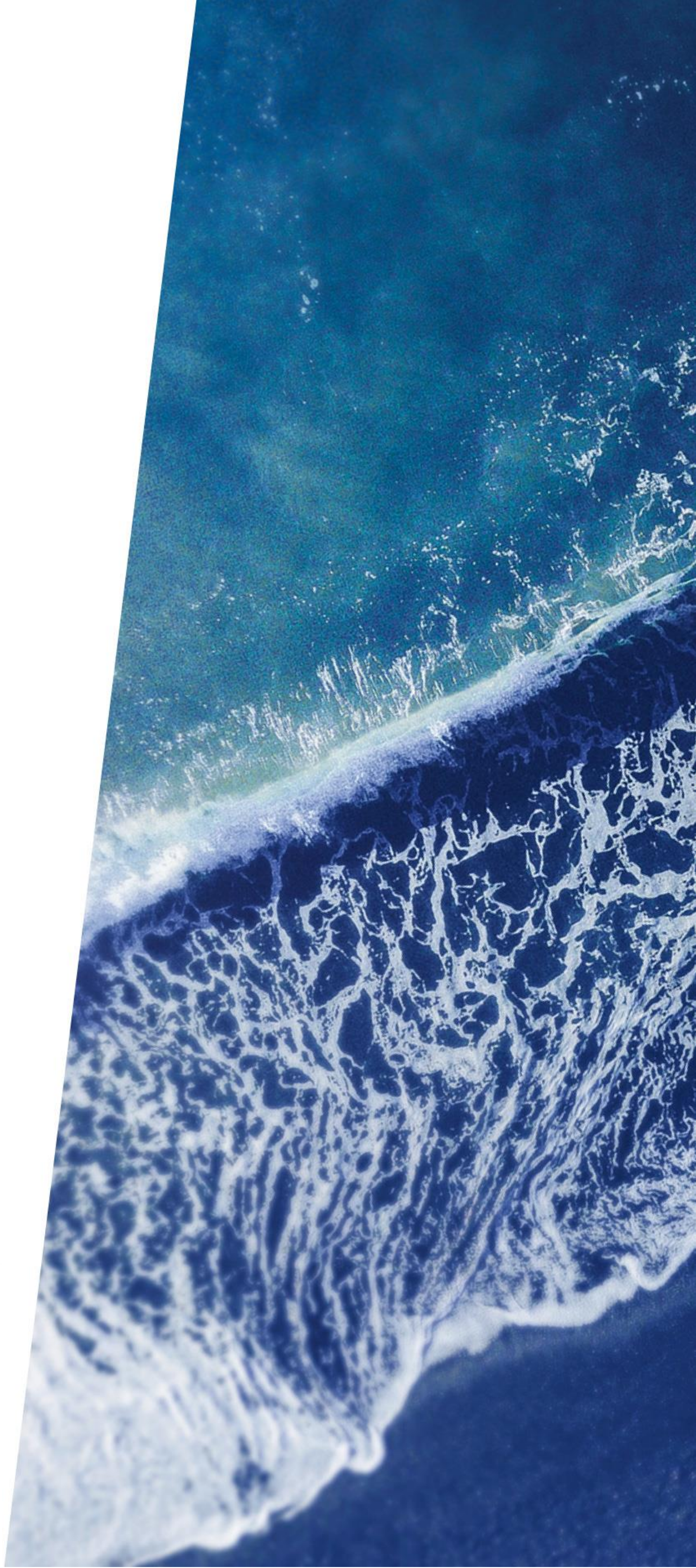


Key figures

Operations	2020	2019	2018	2017	2016	Q4 2020	Q3 2020	Q2 2020	Q1 2020	Q4 2019
Net interest income	31,158	30,317	29,319	28,920	29,900	8,059	7,989	7,857	7,253	7,693
Net commission income	11,642	9,950	10,349	10,211	13,978	3,116	2,762	2,688	3,076	2,615
Operating income	50,764	47,998	46,169	46,863	54,546	14,713	13,012	14,063	8,976	11,726
Operating expenses	24,441	26,863	26,278	22,893	30,540	6,607	5,232	6,395	6,207	6,443
Net earnings (loss)	12,469	1,100	7,778	14,418	21,739	5,761	3,966	4,913	(2,171)	(2,775)
Return on equity	6.5%	0.6%	3.7%	6.6%	10.5%	11.8%	8.3%	10.5%	(4.6%)	(5.8%)
Net interest margin	2.9%	2.8%	2.8%	2.9%	3.1%	2.9%	2.9%	2.9%	2.8%	3.0%
Return on assets	1.1%	0.1%	0.7%	1.3%	2.1%	1.9%	1.3%	1.7%	(0.8%)	(1.0%)
Cost-to-income ratio	48.1%	56.0%	56.9%	48.9%	56.0%	44.9%	40.2%	45.5%	69.2%	54.9%
Cost-to-total assets	2.1%	2.3%	2.3%	2.1%	3.0%	2.2%	1.7%	2.2%	2.2%	2.2%
Balance Sheet										
Total assets	1,172,706	1,081,854	1,164,326	1,147,754	1,036,024	1,172,706	1,236,217	1,182,250	1,187,820	1,081,854
Loans to customers	822,941	773,955	833,826	765,101	712,422	822,941	807,866	779,902	778,823	773,955
Mortgages	409,641	333,406	365,820	329,735	190,008	409,641	387,271	356,312	340,235	333,406
Share of stage 3 loans, gross	2.6%	2.7%	2.6%	-	-	2.6%	3.2%	3.4%	2.9%	2.7%
REA/ Total assets	63.6%	66.5%	68.4%	66.8%	72.7%	63.6%	58.9%	60.6%	60.0%	66.5%
CET 1 ratio	22.3%	21.2%	21.2%	23.6%	26.1%	22.3%	22.5%	22.9%	22.5%	21.2%
Leverage ratio	15.1%	14.1%	14.2%	0.0%	0.0%	15.1%	14.3%	14.9%	14.5%	14.1%
Liquidity coverage ratio	188.5%	188.3%	164.4%	221.0%	171.3%	188.5%	212.6%	206.3%	224.2%	188.3%
Loans to deposits ratio	144.8%	157.0%	178.9%	165.5%	172.9%	144.8%	134.0%	140.3%	144.4%	157.0%

All amounts in ISK million

Macroeconomic environment

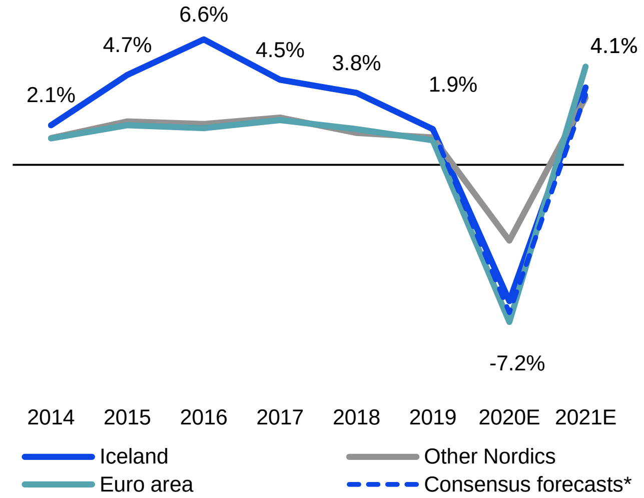


Uncertain short-term outlook while the future should be bright

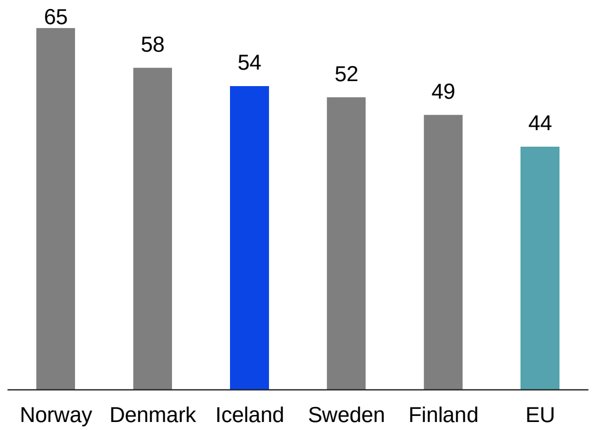
The year is off to a slow start, with the economic contraction set to extend into the year

- The Coronavirus Crisis has heavily impacted the Icelandic economy due to its dependency on foreign trade, especially tourism
- According to IMF's October forecast Iceland's GDP could shrink by 7.2% in 2020, followed by a rebound in 2021. Domestic analysts are much more pessimistic, with the consensus at 8.2% contraction followed by a softer and more fragile recovery. Despite larger contraction than in other Nordics, GDP per capita will remain high
- With the resurgence in new Covid-19 cases worldwide and new highly contagious strings of the virus emerging, neighboring countries have responded swiftly, implementing strict measurements and travel restrictions. At the same time Iceland has managed to quell the spread, thus enjoying fewer restrictions
- However, strict travel restrictions will be in place until May 1st, dampening hopes for a strong high-season in tourism and reflected in unemployment forecasts
- When borders open anew Iceland should be able to enjoy strong growth in tourism, as the country is sparsely populated, clean, safe and has solid and reliable data in the battle against Covid-19

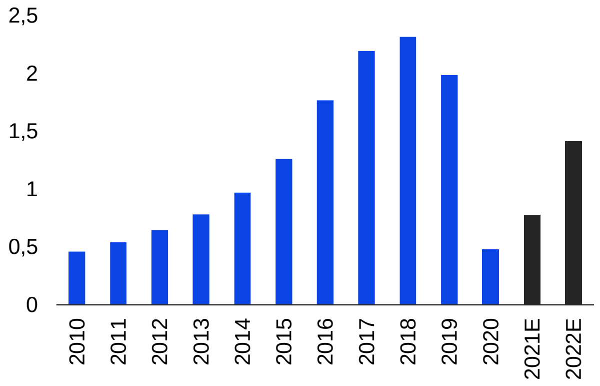
GDP growth



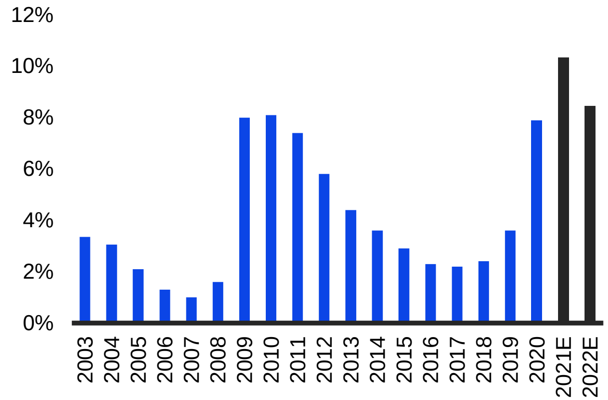
GDP per capita in 2020 (PPP, International dollars, thous. IMF's estimates)



Tourist arrivals via KEF airport (millions, Arion Bank's October 2020 estimates)



Registered unemployment, excluding the reduced employment ratio scheme (Arion Bank's estimates



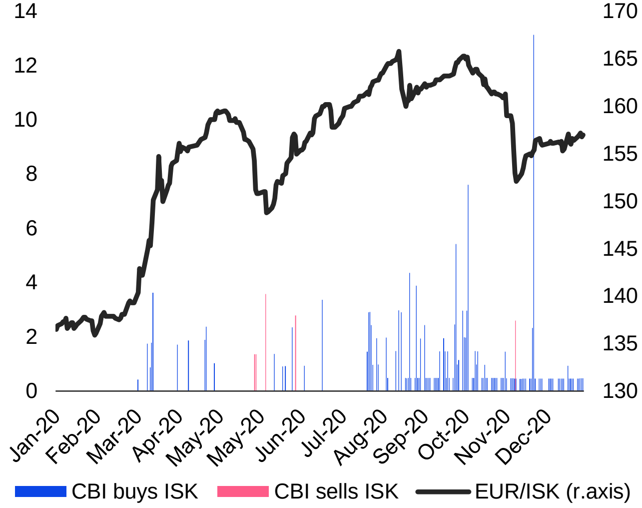
Sources: IMF, Icelandic Tourist Board, Directorate of Labor, Arion Bank. * Based on domestic analysts, both in the public and private sector.

Divided domestic market

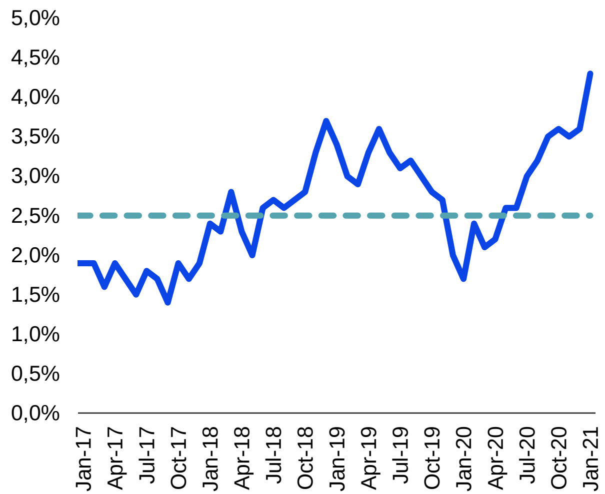
While unemployment continues to climb wages are on the rise. Despite inflation inching upwards purchasing power has increased, pushing housing prices higher.

- With the largest export sectors struggling, it's no surprise that the ISK has depreciated. The CBI has intervened in the FX market on the most volatile of days, supporting the ISK and keeping the exchange rate relatively stable. In order to deepen the market, the CBI has begun a regular program of foreign currency sales
- Inflation has risen in the past months due to the pass-through from the ISK depreciation and climbing housing prices. Although the rapidness of the rise has come as a surprise, most analysts expect that inflation has peaked, inching below the upper tolerance limit (4%) as the first quarter progresses
- Rising housing prices have stoked inflationary pressures in the past months following hefty rate cuts. At the same time housing investment is decreasing, causing many to worry that a housing bubble is in the works
- At the same time as unemployment reaches new heights, real wages are increasing, as reflected in stronger than expected private consumption, and housing prices on the rise, creating a divide in the labor market. This is uncharted territory in Iceland

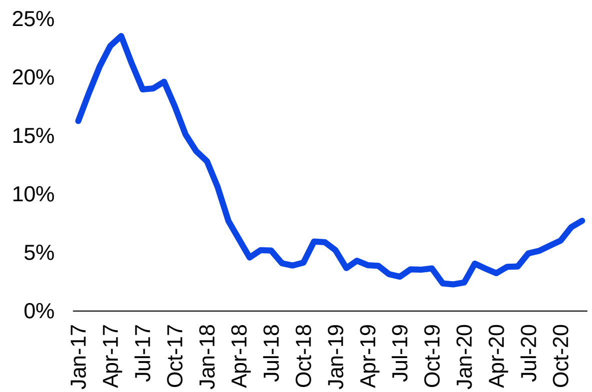
EUR/ISK and CBI's intervention in the FX market (bn.



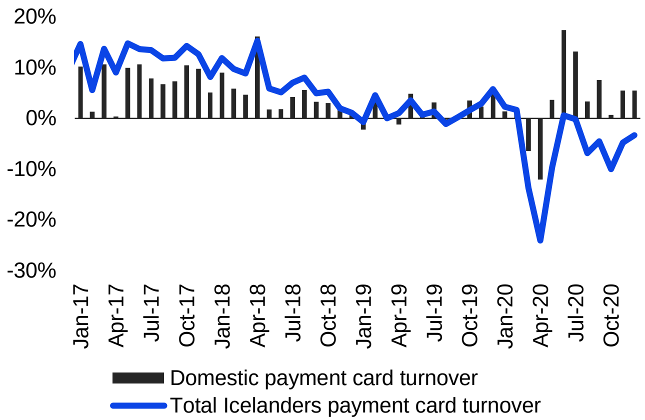
Inflation and inflation target



Housing prices in the Capital Area (YoY %-change)



Payment card turnover



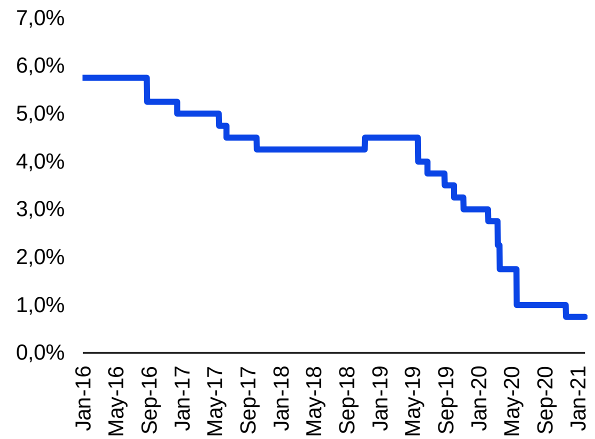
Sources: CBI, Statistics Iceland, Registers Iceland, Arion Bank.

Fiscal and monetary responses soften the economic blow

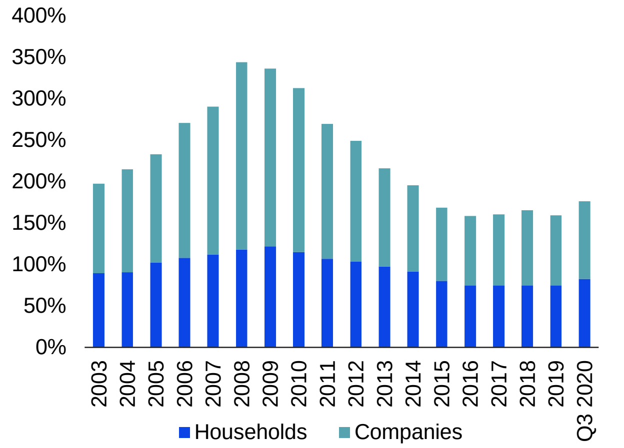
The government and the CBI Governor have underlined that all necessary measures will be taken to support the economy through the crisis.

- Unlike many neighboring countries the Icelandic authorities had plenty of firepower at their disposal to support the economy. The CBI has cut interest rates by 2.25 percentage points, eased the countercyclical capital buffer and launched a QE program to name a few. In addition, the CBI has ample FX reserves at its disposal, surely supporting investor confidence
- The CBI's FX reserves, well balanced external trade, despite everything, and the positive NIIP of the economy mean that concerns over the balance of payments are limited
- More importantly, both the public and private sectors used the last upswing to deleverage, pushing debt levels to historic lows
- The Treasury bears the brunt when it comes to protecting the economy. So far numerous fiscal policy measures have been introduced, both aimed at mitigating the revenue shock suffered by households and companies and protecting jobs and companies
- Direct fiscal measures are similar in scope to those put in place in other Nordic countries, but smaller than on average in advanced economies. However, various other fiscal measures have been implemented, though they do not have the same direct impact on the Treasury outcome

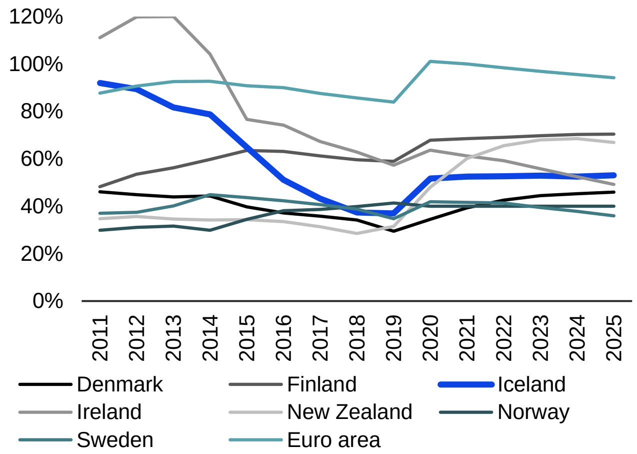
Key interest rates (seven-day term deposit rate)



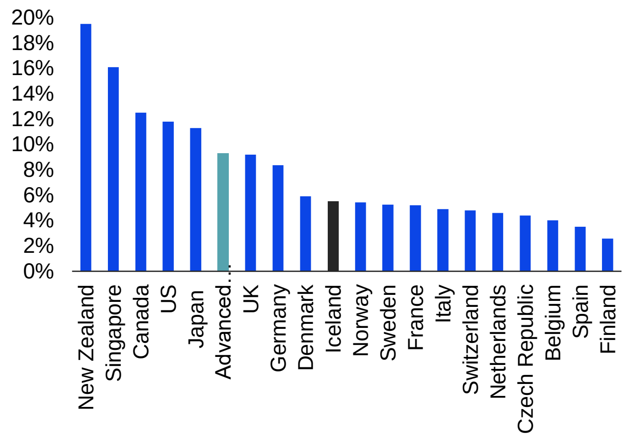
Household and non-financial corporate debt (% of GDP)



General government gross debt (% of GDP)



Direct COVID-19 fiscal measures (% of GDP)



Sources: CBI, Statistics Iceland, IMF

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