Earnings Press Release, 12 February 2020

Arion Bank's financial results for Q4 2019 and for the year 2019

Net earnings from continuing operations improve markedly from previous year

Arion Bank reported negative net earnings of ISK 2,775 million for the fourth quarter of 2019 as impairment of assets and operational difficulties at subsidiaries held for sale negatively affected the Banks results. The Bank reported net earnings of ISK 1,616 million for the same period of 2018. Return on equity was negative by 5.8% for the fourth quarter of 2019, compared with a positive return of equity of 3.2% in 2018. Net earnings for the year 2019 amounted to ISK 1,100 million, compared with ISK 7,777 million in 2018. Return on equity was 0.6% in 2019, compared with 3.7% in 2018.

Net earnings from continuing operations amounted to ISK 5,209 million for the fourth quarter and ISK 14,055 million for 2019, compared with ISK 2,132 million for the fourth quarter of 2018 and ISK 8,938 million for 2018. Earnings in the fourth quarter of 2019 are positively affected by ISK 1.1 billion by the sale of a mortgage portfolio to the Housing Financing Fund. Return on equity from continuing operations measured 10.8% for the fourth quarter of 2019 and 7.2% for the year 2019, compared with 4.3% for both the fourth quarter and the year 2018.

Total assets amounted to ISK 1,082 billion at the end of 2019, compared with ISK 1,164 billion at the end of 2018, which is in line with the Bank's strategy of increased revenues on risk weighted assets rather than loan growth. Loans to customers decreased by ISK 59.9 billion, or 7%, during the year which is largely due to the sale of the aforementioned mortgage loan portfolio of ISK 48 billion in October. In spite of the decrease the Bank was actively supporting its customers as ISK 24 billion of new loans were granted to corporates and individuals in the fourth quarter. Borrowings decrease by ISK 113.0 billion in 2019 or 27% mainly due to prepayments of structured covered bonds and the repurchase of EMTN bonds. Total equity amounted to ISK 190 billion, compared with ISK 201 billion at the end of 2018.

An important aspect of the Bank's capital optimizing process is the reduction of surplus capital. In line with the Bank's medium-term target of reducing its CET 1 ratio to circa 17%, the Bank paid dividends and bought back own shares in 2019 for the total amount of ISK 12.4 billion. The Board proposes a dividend payment in 2020 of ISK 10.0 billion equaling ISK 5.5 per share.

The Bank's capital ratio at the end of 2019 was 24.0%, compared with 22.0% at the end of 2018. The CET 1 ratio was 21.2% at the end of 2019, the same as it was at the end of 2018. The capital ratios take into account the proposal for ISK 10 billion dividend payment in 2020 and the on-going ISK 4.2 billion share buy-back program.

Highlights of the Income Statement and key income related performance indicators:

In ISK millions	Q4 2019	Q4 2018	% diff.	2019	2018	% diff.
Net interest income	7,693	7,969	(3%)	30,317	29,319	3%
Net commission income	2,615	2,746	(5%)	9,950	10,350	(4%)
Net insurance income	723	704	3%	2,886	2,589	11%
Net financial income	489	(774)	-	3,212	2,301	40%
Share of profit of associates	7	11	(36%)	756	27	-
Other operating income	201	294	(32%)	877	1,584	(45%)
Operating income	**11,728**	**10,950**	**7%**	**47,998**	**46,170**	**4%**
Salaries and related expenses	(3,076)	(3,584)	(14%)	(14,641)	(14,278)	3%
Other operating expenses	(3,366)	(3,015)	12%	(12,222)	(12,000)	2%
Operating expenses	**(6,442)**	**(6,599)**	**(2%)**	**(26,863)**	**(26,278)**	**2%**
Bank levy	(357)	(765)	(53%)	(2,984)	(3,385)	(12%)
Net impairment	1,203	(573)	-	(382)	(3,524)	(89%)
Net earnings before income tax	**6,132**	**3,013**	**104%**	**17,769**	**12,984**	**37%**
Income tax expense	(923)	(881)	5%	(3,714)	(4,046)	(8%)
Net earnings from continuing operations	**5,209**	**2,132**	**144%**	**14,055**	**8,938**	**57%**
Discontinued operations, net of tax	(7,981)	(516)	-	(12,955)	(1,161)	-
Net earnings	**(2,772)**	**1,616**	**-**	**1,100**	**7,777**	**(86%)**
KPI's						
Return on equity	(5.8%)	3.2%		0.6%	3.7%	
Earnings per share (in ISK)	(1.53)	4.29		0.61	3.86	
Cost to income ratio	54.9%	60.3%		56.0%	56.9%	

Highlights of the Balance Sheet and key performance indicators:

In ISK millions	**31.12.2019**	**31.12.2018**	**Diff.**	**% diff.**
Loans to customers	773,955	833,826	(59,871)	(7%)
Other assets	307,899	330,500	(22,600)	(7%)
Liabilities	892,029	963,468	(71,439)	(7%)
Equity	189,825	200,859	(11,034)	(5%)
Loans to Deposits ratio	157.0%	178.9%		
RWA / Total assets	66.5%	68.4%		
CET1 ratio	21.2%	21.2%		

Benedikt Gíslason, CEO of Arion Bank

"During the fourth quarter we saw clear indications that the organizational and strategic changes made at the end of the third quarter are delivering results, as Arion Bank reported earnings of ISK 5.2 billion from continuing operations during the quarter, the strongest quarter in 2019. The net interest margin increased and operating expenses decreased at the same time as customers repaid low yielding loans and the Bank prepaid expensive funding. Insurance activities delivered strong growth and we have high hopes for our continuing partnership with Vördur and the benefits it will bring to our customers. The outlook is therefore bright in many areas of operations.

However, companies held for sale weighed heavily during the year. Taking into account the negative impact of these companies, net earnings for 2019 only amounted to ISK 1.1 billion, and there was a net loss of ISK 2.8 billion in the fourth quarter. One of these companies is Valitor and towards the end of the year its board of directors decided to implement extensive organizational changes with the aim of consolidating the company's core operations and reducing its investment need. Valitor's budget for 2020 assumes that the company will be EBITDA positive during the year.

The Bank remains strongly capitalized and one of our key priorities now is to optimize our capital structure through the issuance of Tier 2 and Additional Tier 1 capital, by using capital more efficiently in operations and by placing greater emphasis on financial activities which require less capital. Equity represents the Bank's debt to its owners and is the most expensive source of funding. It is therefore important not to have more equity than necessary. A share buy-back program was initiated in the second half of 2019 and dividends were paid during the year. It will also be proposed at the Bank's AGM in March to pay extraordinary dividends. Reducing core equity is a vital in order for the Bank to achieve its target of 10% return on equity as growth opportunities offering satisfactory profitability are limited in an environment where interest rates are declining.

Another key factor in achieving satisfactory return on equity has to do with lending to major corporations. As a result of high capital requirements and extensive taxation the Bank is in actual fact unable to compete effectively with pension funds and international banks when it comes to lending to large companies. Therefore the focus at Arion Bank will be on providing these companies with expert advice and helping them find the most effective financing at any given time, as well as of course providing credit when required. Our strategy on lending to individuals and SMEs remains unchanged. Despite our emphasis on the profitability of the loan portfolio rather than loan growth, the fourth quarter did see a healthy increase in new lending, totalling ISK 24 billion, of which loans to individuals amounted to ISK 10 billion.

In December the Board of Directors adopted an ambitious environmental and climate policy and targets for the next few years. The policy dictates that Arion Bank is committed to contributing to efforts to ensure that Iceland can meet its obligations under the Paris Climate Agreement and other local and international environmental and climate agreements. Our goal in 2020 is to evaluate the Bank's loan portfolio according to green criteria and establish targets in this respect. We will also increasingly turn our focus on to financing projects which relate to sustainable development and green infrastructure. Furthermore, we will require our suppliers to take into account the environmental and climate impact of their activities."

Income statement

In ISK millions	Q4 2019	Q4 2018	% diff.	Q3 2019	% diff.
Net interest income	7,693	7,969	(3%)	7,382	4%
Net commission income	2,615	2,746	(5%)	2,639	(1%)
Net insurance income	723	704	3%	1,087	(33%)
Net financial income	489	(774)	-	934	(48%)
Share of profit of associates	7	11	(36%)	29	-
Other operating income	201	294	(32%)	271	(26%)
Operating income	**11,728**	**10,950**	**7%**	**12,342**	**(5%)**
Salaries and related expenses	(3,076)	(3,584)	(14%)	(4,130)	(26%)
Other operating expenses	(3,366)	(3,015)	12%	(2,811)	20%
Operating expenses	**(6,442)**	**(6,599)**	**(2%)**	**(6,941)**	**(7%)**
Bank levy	(357)	(765)	(53%)	(809)	(56%)
Net impairment	1,203	(573)	-	484	-
Net earnings before income tax	**6,132**	**3,013**	**104%**	**5,076**	**21%**
Income tax expense	(923)	(881)	5%	(1,278)	(28%)
Net earnings from continuing operations	**5,209**	**2,132**	**144%**	**3,798**	**37%**
Discontinued operations, net of tax	(7,981)	(516)	-	(3,040)	-
Net earnings	**(2,772)**	**1,616**	**-**	**758**	**-**

Operating income amounted to ISK 11.7 billion for the fourth quarter of 2019, compared with ISK 11.0 billion for the same period in 2018, an increase of 7%. Net financial income and net insurance income developed positively whereas net interest income, net commission income and other operating income decreased between years.

Net interest income decreased by 3% compared with the same period in 2018, but increased by 4% compared with the third quarter of 2019. The net interest margin (NIM) as a percentage of average interest-bearing assets was 3.0% during the fourth quarter of 2019, compared with 2.9% for the fourth quarter of 2018. The main reason for the decrease in net interest income from the fourth quarter of 2018 is lower inflation, with effective inflation of 2.3% in the fourth quarter of 2019, compared with 4.2% in the fourth quarter of 2018, and lower interest-bearing assets, following the sale of the mortgage portfolio to HFF in October 2019.

Average interest-bearing assets decreased by 6.5% during the fourth quarter of 2019 but increased by 1.8% from the end of 2018.

Net commission income decreased by 5% in the fourth quarter of 2019 compared with the same period in 2018 and decreased by 1% from the third quarter of 2019. The fluctuation in net commission income is mainly due to seasonality in the operation and less activity in the market, especially in corporate finance and capital markets divisions.

Net insurance income amounted to ISK 723 million, compared with ISK 704 million for the same period of 2018, and ISK 1,087 million during the third quarter of 2019. Insurance premiums earned at the insurance company Vördur have been increasing, but seasonal fluctuations in net insurance income are due to fluctuations in the claim rate. The combined ratio for the fourth quarter of 2019 was 94.4%, compared with 90.0% for the fourth quarter of 2018 and 80.0% for the third quarter of 2019 and are highly competitive in the domestic market.

Net financial income is positive by ISK 489 million, compared with ISK 774 million negative net income for the fourth quarter of 2018 and ISK 934 million for the third quarter of 2019. Net financial income was positively affected by favorable market conditions in the fourth quarter and realized gain on FX bond holdings sold in connection with prepayment of borrowings but negatively affected by premium paid in relation to the prepayments of borrowings and net loss of fair value hedge of interest swaps.

Other operating income was ISK 200 million during the fourth quarter of 2019, compared with ISK 294 million during the same period in 2018 and ISK 271 million during the third quarter of 2019. Profit from sale of real estate in operation was the main source of income in the fourth quarter of 2019 while fair value changes on investment property was the main source in the same quarter of 2018.

Operating expenses amounted to ISK 6,443 million during the fourth quarter of 2019, compared with ISK 6,599 million in the same period in 2018 and ISK 6,941 million during the third quarter of 2019. The Bank's cost-to-income ratio was 54.9% for the fourth quarter, compared with 60.3% for the same period in 2018 and 56.2% for the third quarter of 2019. The cost-to-total assets ratio was 2.2% for the fourth quarter, compared with 2.2% during the fourth quarter of 2018 and 2.3% for the third quarter of 2019.

Salaries and related expenses amounted to ISK 3,076 million for the fourth quarter of 2019, a decrease of 14% compared with the same period of 2018 and 26% decrease compared with the third quarter of 2019. At the end of September 2019 organizational changes were introduced resulting in a 12% reduction in the number of employees, or approximately 100 people. Salary and salary related expenses of ISK 1,079 million were expensed in the third quarter of 2019 in respect of the redundancies. Full-time equivalent positions (FTEs) at the end of 2019 totalled 801 for the Group, a decrease of 11% from year-end 2018. FTEs at the end of the period totalled 687 at the Bank, 13% fewer than at year-end 2018.

Other operating expenses amounted to ISK 3,367 million during the fourth quarter of 2019, compared with ISK 3,015 million during the same period in 2018 and ISK 2,811 million during the third quarter of 2019. The increase between years is mainly due to IT expenses and depreciation.

Net impairment was positive by ISK 1,203 million during the fourth quarter of 2019, compared with a negative net impairment of ISK 573 million in the same period in 2018 and ISK 484 million positive net impairment in the third quarter of 2019. Positive net impairment in the fourth quarter of 2019 is mainly due to realization of discounts when the Bank sold a mortgage loan portfolio amounting to ISK 48 billion to the Housing Financing Fund (HFF) at the same time as the Bank paid in full a structured covered bond issuance in the amount of ISK 62 billion, which was largely owned by the HFF. The sale of the loan portfolio initiated the discount realization of ISK 1.6 billion (ISK 1.1 billion, net of income tax) that would otherwise have been recognized following a prepayment of the mortgages or during their time until maturity.

Income tax amounted to ISK 923 million during the fourth quarter of 2019, compared with ISK 881 million in the same period in 2018 and ISK 1,278 million during the third quarter of 2019. Income tax, as reported in the financial statements, comprises 20% income tax on earnings and a special 6% financial tax on the earnings of financial undertakings of more than ISK 1 billion. The effective income tax rate was 20.9% for the year 2019, compared with 31.2% for 2018. The combination of income is the main driver for the reduction in the effective tax rate.

Discontinued operations, net of tax, were negative by ISK 7,981 million during the fourth quarter of 2019, compared with a loss of ISK 516 million for the same period in 2018 and a loss of ISK 3,040 million in the third quarter of 2019. The main reasons for the significant negative results of discontinued operations in the fourth quarter of 2019 are chiefly twofold: negative operational results of Valitor, including impairment of Valitor's intangible assets of ISK 4.0 billion, and ISK 2.3 billion impairment of Stakksberg's silicon plant, net of tax.

The operating results of the subsidiaries Valitor Holding hf., Stakksberg ehf. and Sólbjarg ehf. are presented as discontinued operations as they are all held for sale.

- Valitor Holding is an international payments company, with operations primarily in Iceland, the UK and the Nordic countries, and comprises both card acquiring services and card issuing services. Valitor became a subsidiary of Arion Bank in 2010. The sale process of Valitor is ongoing. At the end of 2019 the net book value of Valitor was ISK 6.5 billion.
- Stakksberg's operations comprises a silicon production plant which commenced operations in 2016. In 2017 Arion Bank acquired the company, United Silicon, as a result of a loan restructuring process and at a later stage Arion Bank's subsidiary, Stakksberg, took over the operations of United Silicon and the silicon plant. At the end of 2019 the net book value of Stakksberg was ISK 2.7 billion.
- Sólbjarg is the holding company of TravelCo, which was established following the collapse of Primera Air in 2018 and owns and runs tour operators in Scandinavia and Iceland. In June 2019 Arion Bank acquired all shares in TravelCo following the enforcement of pledges. At the end of 2019 the net book value of Sólbjarg was ISK 2.1 billion.

Full year 2019

In ISK millions	**2019**	**2018**	**% diff.**
Net interest income	30,317	29,319	3%
Net commission income	9,950	10,350	(4%)
Net insurance income	2,886	2,589	11%
Net financial income	3,212	2,301	40%
Share of profit of associates	756	27	-
Other operating income	877	1,584	(45%)
Operating income	**47,998**	**46,170**	**4%**
Salaries and related expenses	(14,641)	(14,278)	3%
Other operating expenses	(12,222)	(12,000)	2%
Operating expenses	**(26,863)**	**(26,278)**	**2%**
Bank levy	(2,984)	(3,385)	(12%)
Net impairment	(382)	(3,524)	(89%)
Net earnings before income tax	**17,769**	**12,984**	**37%**
Income tax expense	(3,714)	(4,046)	(8%)
Net earnings from continuing operations	14,055	8,938	57%
Discontinued operations, net of tax	(12,955)	(1,161)	-
Net earnings	**1,100**	**7,777**	**(86%)**
KPI's			
Return on equity	0.6%	3.7%	
Earnings per share (in ISK)	0.61	3.86	
Cost to income ratio	56.0%	56.9%	

Net earnings in 2019 were significantly lower than in 2018, with return on equity 0.6%, compared with 3.7% in 2018. Earnings from continuing operations, however, improved by 57%, with return on equity measuring 7.2%.

Net interest income for 2019 increased by 3% compared with 2018. *Net interest margin* was equal for the years 2018 and 2019, or 2.8%. *Net financial income* increased by 40% compared with last year but net financial income for 2019 was positively affected by market changes in equity holdings. *Share of profit of associates* is positively affected by the sale of the associate Farice in 2019. *Other operating income* decreased between years mainly because of higher fair value changes in 2018.

Operating expenses increased by 2% between years and are affected by the organizational changes in September 2019 and the corresponding staff reduction. *Net impairment* was significant for the first half of 2019 but was partly offset by positive net impairment in the second half of 2019. Net impairment was negatively affected by the bankruptcy of WOW Air as well as the operational difficulties at TravelCo but positively affected by the release of a discount on a mortgage portfolio which was sold during the fourth quarter 2019.

Income tax expense was 8% lower in 2019 than 2018, mainly due to the different combination of income.

The loss from *discontinued operations* was ISK 12,955 million in 2019. The main reason for significant negative results of discontinued operations in 2019 is negative operational results of Valitor of ISK 8.6 billion, including impairment of Valitor’s intangible assets of ISK 4.0 billion and ISK 1.2 billion damages in the case against Datacell and Sunshine Press Production, ISK 3.8 billion impairment of Stakksberg’s silicon plant and ISK 0.6 billion impairment of Sólbjarg’s assets.

Balance sheet

Arion Bank's ***total assets*** decreased by 7% from year-end 2018.

In ISK millions	31.12.2019	31.12.2018	Diff.	% diff.	30.09.2019	% diff.
Cash & balances with CB	95,717	83,139	12,578	15%	121,554	(21%)
Loans to credit institutions	17,947	56,322	(38,375)	(68%)	31,766	(44%)
Loans to customers	773,955	833,826	(59,871)	(7%)	812,481	(5%)
Financial assets	117,406	114,557	2,849	2%	161,781	(27%)
Investment property	7,119	7,092	27	0%	7,121	(0%)
Investments in associates	852	818	34	4%	848	0%
Intangible assets	8,367	6,397	1,970	31%	8,088	3%
Assets and disposal groups held for sale	43,626	48,584	(4,958)	(10%)	52,164	(16%)
Other assets	16,866	13,592	3,274	24%	17,352	(3%)
Total assets	**1,081,855**	**1,164,327**	**(82,472)**	**(7%)**	**1,213,155**	**(11%)**

Cash and balances with the Central Bank and *Loans to credit institutions* decreased in total by ISK 25,797 million or 21% from year-end 2018 and decreased by ISK 39,656 million from the end of the third quarter of 2019. The liquidity position has mainly been affected by prepayments of borrowings, dividend payment and share buy-back in 2019 but apart from that liquidity management is the main reason for changes.

Loans to customers totalled ISK 773,955 million at the end of 2019, representing a 7.0% decrease from year-end 2018 and a 5.0% decrease from the end of the third quarter of 2019. In October, Arion Bank paid in full the structured covered bond issuance (Arion CB2) in the amount of ISK 62 billion, which was largely owned by the Housing Financing Fund (HFF). At the same time, the Bank sold a mortgage loan portfolio amounting to ISK 48 billion to the HFF. The strategic focus on returns rather than growth also partly explains the decrease as well as the fact that the Icelandic economy is stabilizing following a significant period of growth during the last few years. The decrease was mainly related to mortgage loans and corporates in real estate and wholesale and retail trade sectors and lower level of financial and insurance activities. New lending during the fourth quarter was ISK 24 billion, mainly to individuals, the fishing industry and the financial and insurance sector.

Financial assets amounted to ISK 117,406 million at the end of the year, compared with ISK 114,557 million at the end of 2018. The combination of securities held by the Bank, especially bond holdings, is closely related to the liquidity position at any given time.

In ISK millions	31.12.2019	31.12.2018	Diff.	% diff.	30.09.2019	% diff.
Bonds	65,874	71,451	(5,577)	(8%)	115,386	(43%)
Shares and instruments w. variable income	21,600	20,265	1,335	7%	19,182	13%
Derivatives	6,617	6,241	376	6%	6,244	6%
Securities used for hedging	23,315	16,600	6,715	40%	20,969	11%
Securities total	**117,406**	**114,557**	**2,849**	**2%**	**161,781**	**(27%)**

Assets and disposal groups held for sale amounted to ISK 43,626 million at the end of the year, compared with ISK 48,584 million at year-end 2018 and ISK 52,164 million at the end of the third quarter. The subsidiaries Valitor Holding ehf., Stakksberg ehf. and Sólbjarg ehf. are classified as held for sale. The total assets of Valitor were ISK 30,657 million at the end of 2019.

Liabilities decreased by 9% from year-end 2018. ***Equity*** decreased due to a dividend payment and purchase of own shares. Net earnings for the year partly offset the decrease.

In ISK millions	31.12.2019	31.12.2018	Diff.	% diff.	30.09.2019	% diff.
Due to credit institutions & CB	5,984	9,204	(3,220)	(35%)	8,292	(28%)
Deposits from customers	492,916	466,067	26,849	6%	508,254	(3%)
Financial liabilities at fair value	2,570	2,320	250	11%	2,295	12%
Other liabilities	37,101	35,226	1,875	5%	43,976	(16%)
Borrowings	304,745	417,782	(113,037)	(27%)	409,563	(26%)
Subordinated liabilities	20,083	6,532	13,551	207%	15,042	34%
Liabilities associated w. disposal groups HFS	28,631	26,337	2,294	9%	29,677	(4%)
Total liabilities	**892,030**	**963,468**	**(71,438)**	**(7%)**	**1,017,099**	**(12%)**
Shareholders equity	189,644	200,729	(11,085)	(6%)	195,159	(3%)
Non-controlling interest	181	130	51	39%	130	39%
Total equity	**189,825**	**200,859**	**(11,034)**	**(5%)**	**195,289**	**(3%)**
Total liabilities and equity	**1,081,855**	**1,164,327**	**(82,472)**	**(7%)**	**1,212,388**	**(11%)**

Deposits from customers amounted to ISK 492,916 million at the end of 2019 and had increased by 6% from year-end 2018 but decreased by 3% from the end of the third quarter of 2019. The loans to deposit ratio was 178.9% at the end of 2018 and decreased to 157.0% following the sale of the mortgage portfolio. Deposits remain the most important source of funding for Arion Bank.

Borrowings amounted to ISK 304,745 million at the end of 2019, a 27% decrease from year-end 2018 and a 26% decrease from the end of the third quarter of 2019. In October 2019 the Bank prepaid in full the structured covered bond issuance (Arion CB2) in the amount of ISK 62 billion as well as repurchase of ISK 35 billion of EMTN issuance from 2017 with maturity in June 2020. The Bank issued covered bonds to finance mortgages in the Icelandic market, totalling ISK 32 billion during the year and commercial papers of ISK 14.5 billion.

Subordinated liabilities amounted to ISK 20,083 million at the end of 2019, compared with ISK 6,532 million at the end of 2018. The Bank issued Tier 2 subordinated bonds for the total amount of ISK 13.6 billion in 2019, both in ISK and foreign currencies. The total issued Tier 2 bonds reflects 2.8% additional capital. In June 2019 the Bank received a tax ruling from the Icelandic tax office stating that coupons on AT1 issuance will not be tax deductible. The Bank is aiming for issuance of AT1 in the first quarter of 2020 and is optimistic that tax issues will be resolved with changed legislation early this year.

Shareholders' equity amounted to ISK 189,644 million at the end of 2019, compared with ISK 200,729 million at the end of 2018. The decrease is explained by a dividend payment of ISK 9.1 billion and purchase of own shares for the amount of ISK 3.3 billion, which is partly offset by an increase in equity due to the financial results for the year. The CET 1 ratio was 21.2% at the end of 2019, the same as it was at the end of 2018 and the leverage ratio was 14.1% at the end of 2019, compared with 14.2% at the end of 2018, which is very high in all comparison in the international banking market. At year-end 2019 the Bank had bought 41 million shares in a share buy-back program, with 18 million shares remaining from the program. In January 2020 the FSA approved further buy-back of own shares for up to ISK 3.5 billion. The dividend payment and share buy-back are in line with the Bank's strategy to work towards the optimization of its capital structure.

For detailed information on the accounts please refer to Arion Bank's Consolidated Financial Statements for the year 2019 on the Bank's website, www.arionbanki.is.

Key performance indicators

	Q4 2019	Q4 2018	2019	2018
Return on equity (ROE)	(5.8%)	3.2%	0.6%	3.7%
Return on equity from continuing operations	8.5%	6.0%	6.5%	10.0%
Return on total assets (ROA)	(1.0%)	0.5%	0.1%	0.7%
Net interest margin (int. bearing assets)	3.0%	2.9%	2.8%	2.8%
Net interest margin (total assets)	2.7%	2.7%	2.6%	2.5%
Cost-to-income ratio	54.9%	60.3%	56.0%	56.9%
Cost-to-Total assets ratio	2.2%	2.2%	2.3%	2.3%
Effective tax rate	15.1%	29.2%	20.9%	31.2%
CAD ratio	24.0%	22.0%	24.0%	22.0%
CET1 ratio	21.2%	21.2%	21.2%	21.2%
Share of stage 3 loans, gross	2.7%	2.6%	2.7%	2.6%
RWA/Total assets	66.5%	68.4%	66.5%	68.4%
Loans to deposit ratio	157.0%	178.9%	157.0%	178.9%
The Group's employees at the end of the period	801	904	801	904
The Parent's employees at the end of the period	687	794	687	794

Financial targets

Arion Bank’s medium-term targets are as follows:

Return on Equity	Exceed 10%
Revenues / RWA’s	Exceed 6.5%
Cost to Income Ratio	Decrease to circa 50%
Loan growth	The loan book will grow in line with economic growth. However, the corporate loan book will continue to decrease at the current rate over the next few quarters as non-core portfolio is reduced.
CET 1 Ratio	Decrease to circa 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.

Investor meeting / Webcast in English on 13 February at 9:30 CET (8:30 GMT)

Arion Bank will be hosting a meeting / webcast on Thursday 13 February at 8:30 GMT (9:30 CET) where CEO Benedikt Gíslason, CFO Stefán Pétursson, deputy CFO Eggert Teitsson and Head of Investor Relations Theodór Fridbertsson will present the results and answer questions from participants. The meeting will take place in English at the Bank’s headquarters, Borgartún 19, and will be streamed live.

Those attending the meeting in Borgartún 19 need to register here. To participate in the webcast via telephone and put forward questions please call in using the relevant number indicated below before the start of the webcast:

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The webcast will be accessible live on financialhearings.com and a link will also be made available on the Bank’s website under Investor Relations.

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Financial calendar 2019

The Bank’s Financial Statements are scheduled for publication as stated below. The calendar may be subject to change.

AGM	17 March 2020
First quarter 2020	6 May 2020
Second quarter 2020	29 July 2020
Third quarter 2020	28 October 2020

This is information that Arion Bank hf. is obliged to make public pursuant to the EU Market Abuse Regulation. The information was submitted for publication through the agency of the contact persons set out above.

Forward-looking statements