

AGM 2019

Financial statements 2018



Arion Bank is a leading universal relationship bank which focuses on developing long-term business relationships with its customers and takes a differentiated and innovative approach.



Arion Bank's diversified and balanced approach to its business also means that it has a broad revenue base and a diverse loan portfolio which is well balanced between individuals, corporates and sectors, resulting in a moderate risk profile.



Arion Bank – a market leader



FTEs
1,322



Branches
20



Customers
120,000



Total assets
ISK 1,164 bn.



Equity
ISK 201 bn.



Assets under management
ISK 971 bn.



2018 Highlights



Stable income from core banking, e.g. interest and commission income – insurance income growing



Impairments and challenging equity and bond markets had a negative effect



Consolidation of leading position in digital services, with 9 new solutions launched during the year



Valitor categorized as discontinued operations held for sale as of Q4. The company continues its international growth strategy



Successful IPO and listing on Nasdaq Iceland and Nasdaq Stockholm



Arion Bank listed on Nasdaq Iceland and Nasdaq Stockholm 15 June 2018

Highly successful IPO – heavily oversubscribed

70% of investors in IPO were international



28.7% of share capital sold in IPO –
70% investors were international



Market capitalization of ISK 135
billion when Bank listed



First bank listed on main list in Iceland
and first dual listing on Nasdaq Nordic
for more than a decade

Shareholders at year-end 2018



Shareholders by country*

Iceland	47.1%
UK	25.2%
US	15.5%
Germany	2.2%
Sweden	1.9%
Other	8.1%



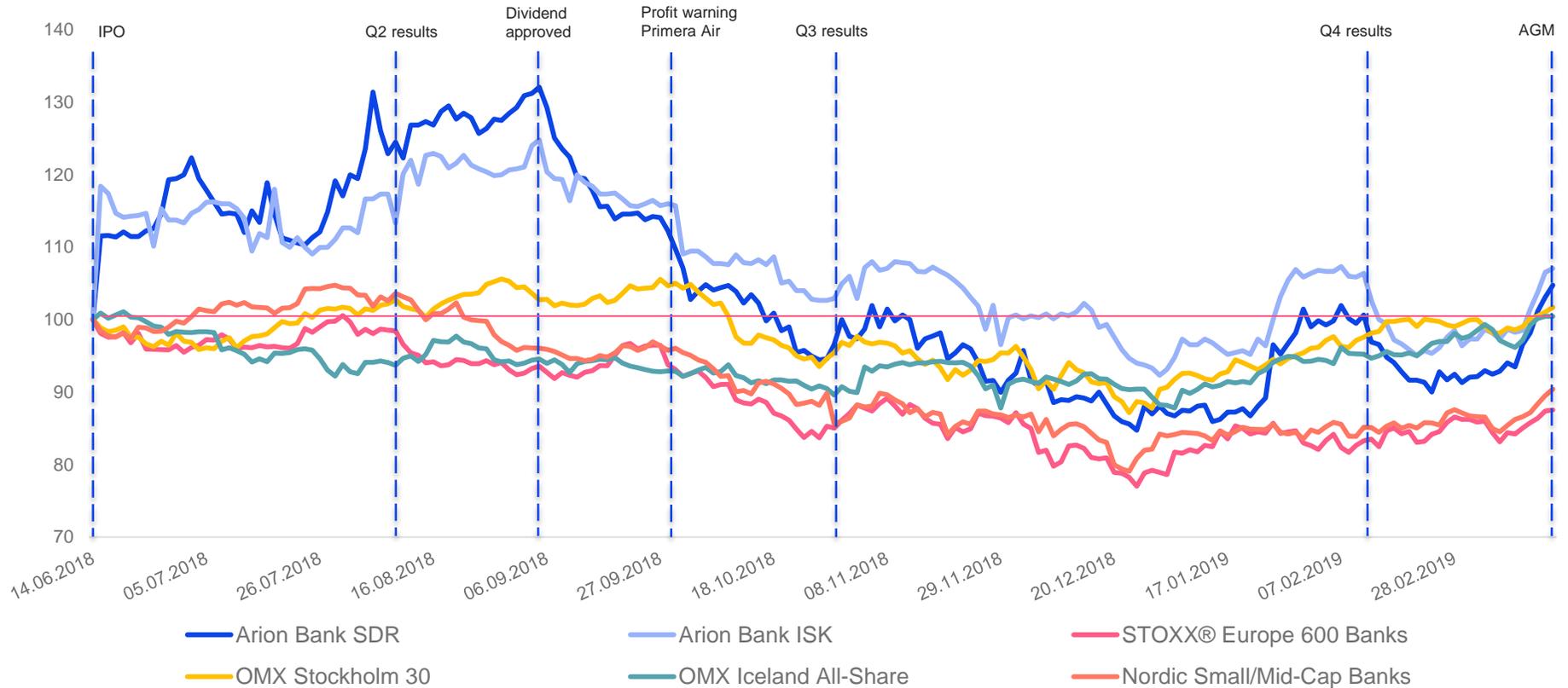
Only 12 shareholders out of a total
of more than 6,000 own 1.0% or
more in the Bank

* Excluding own shares of 9.3% held by the Bank



Arion Bank's share price

Arion Bank share price performance in Iceland and Sweden



Headline Figures



Net earnings

ISK 7.8 bn.

2017
ISK 14.4 bn.



CET 1

21.2%

31.12.2017
23.6%



Cost-to-income ratio

56.9%

2017
48.9%



Share of stage 3 loans, gross*

2.6%

01.01.2018:
3.5%



Return on equity

3.7%

2017
6.6%



Leverage ratio

14.2%

31.12.2017
15.4%



Number of employees

904

31.12.2017
949



Mortgages/Total loans

41.1%

31.12.2017
40.6%



Income statement 2018

Net earnings decrease from 2017 due to one-off items

- Core operating income trends positive from 2017
- Net financial income was unusually high in 2017 due to sales of a share in Refresco and other items, but rather low in 2018, both in bonds and equities
- Operating expenses are up 15% from last year mainly due to the reversal of ISK 2.7 billion obligation to the Depositors Guarantee Fund in 2017 and, to a lesser extent, wage increases
- Net impairment increased from last year, primarily due to Primera and positive effects of prepayment of mortgages in 2017
- Discontinued operations affected by reclassification of Valitor
 - Valitor is investing and building for the future to enhance shareholder value

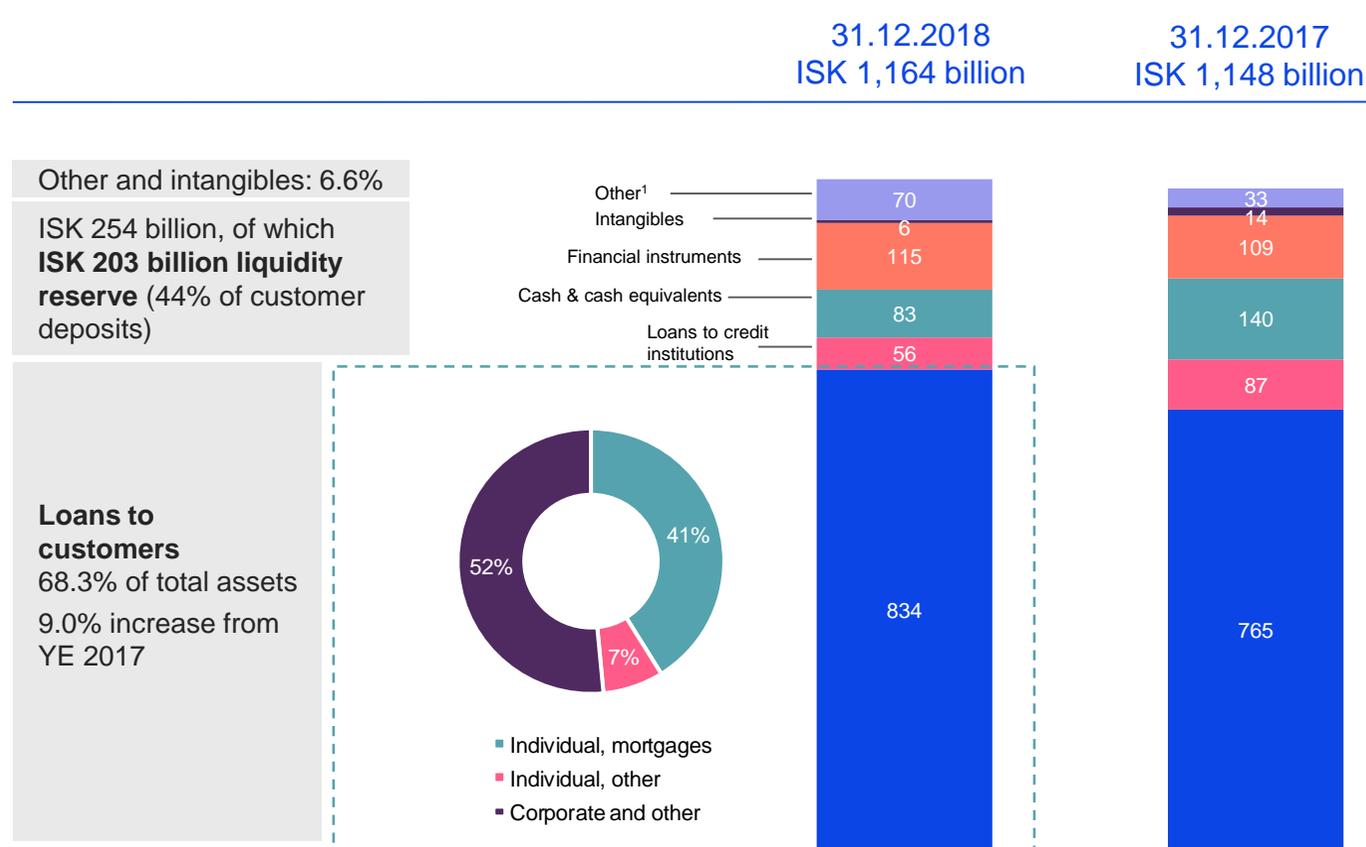
	2018	2017	Diff	Diff%
Net interest income	29,319	28,920	399	1%
Net commission income	10,350	10,211	139	1%
Net financial income	2,302	4,045	(1,743)	(43%)
Net insurance income	2,589	2,093	496	24%
Share of profit of associates	27	(927)	954	-
Other operating income	1,584	2,521	(937)	(37%)
Operating income	46,171	46,863	(692)	(1%)
Salaries and related expenses	(14,278)	(13,602)	(676)	5%
Other operating expenses	(12,000)	(9,291)	(2,709)	29%
Operating expenses	(26,278)	(22,893)	(3,385)	15%
Bank levy	(3,386)	(3,172)	(214)	7%
Net impairment	(3,525)	312	(3,837)	-
Net earnings before income tax	12,982	21,110	(8,128)	(39%)
Income tax expense	(4,046)	(5,966)	1,920	(32%)
Discontinued operations, net of tax	(1,159)	(725)	(434)	60%
Net earnings	7,777	14,419	(6,642)	(46%)



Balance sheet – Assets

The balance sheet is strong and simple

- The balance sheet grew by 1.4% during the year
- Loans to customers grew by 9.0% during the
 - Lower ISK exchange rate amplifies loan growth which is measured in ISK
 - The loan portfolio is well balanced
- Strong liquidity position despite capital release/dividends during 2018
- Total assets of Valitor now classified as assets and disposal groups held for sale at 31.12.2018. Mostly affecting Loans to credit institutions (ISK 25 billion at 31.12.2017) and Intangible assets (ISK 7 billion at 31.12.2017)
- The assets of Stakksberg (United Silicon) are included in Other. The sales process of the company has been delayed due to regulatory complications



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



Balance sheet – Liabilities and equity

Strong equity position and well balanced funding

- A share buyback in Q1 and dividend payments in Q1 and Q3 totalling ISK 33.3 billion reduces the equity of the Bank
- Deposits remain stable but combination is better with higher portion from individuals, SMEs and corporates
- Active wholesale funding both in Iceland and in the international markets
- Strong equity position and a very high leverage ratio despite capital release

Equity

CET1 ratio 21.2%
Leverage ratio 14.2%

Borrowings (in ISK)

ISK 205 billion
EUR 180 billion
Other currencies 40 billion

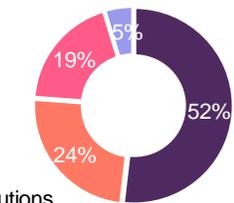
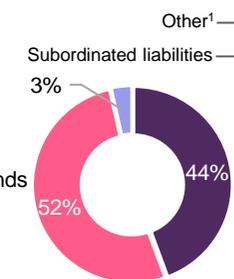
Deposits

On demand 70%
Up to 3M 18%
More than 3M 12%

5.6% increase from YE2017

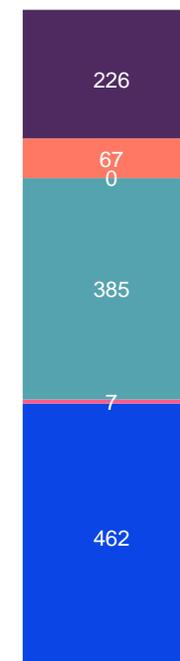
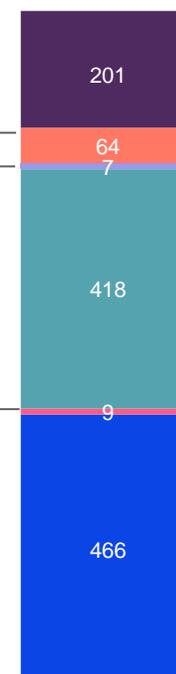
- Covered bonds
- Senior unsec. bonds
- Other

- Individuals
- Corporates
- Pension funds & domestic fin. institutions
- Other



31.12.2018
ISK 1,164 billion

31.12.2017
ISK 1,148 billion



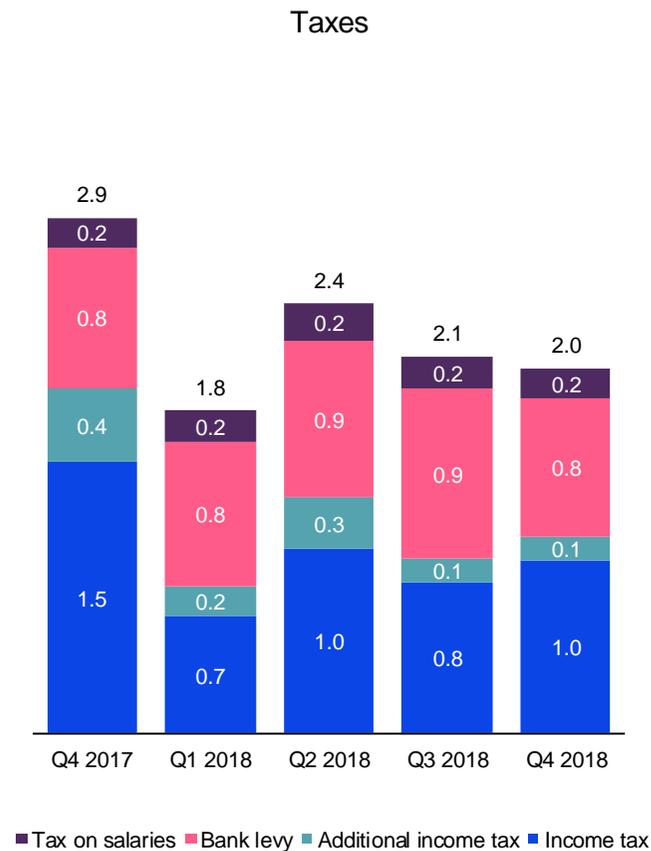
¹ Other includes Financial liabilities at fair value, tax liabilities, Liabilities associated with disposal groups held for sale and Other liabilities



Taxes

Bank specific taxes in Iceland are extraordinarily high and have a negative effect on ROE

- Icelandic corporate income tax rate is 20%
 - Financial institutions pay additional taxes:
 - Additional income tax which is 6% on taxable income above ISK 1.0 billion
 - Bank levy which is 0.376% of total debt above ISK 50 billion
 - Special tax on salaries 5.5%
- Bank specific taxes represent more than half of Arion Bank tax bill
- *A government-appointed committee has just submitted a white paper on the future of the Icelandic financial system. The committee acknowledges that the government plans to reduce the bank levy linearly from 0.376% to 0.145% from 2020-2023. The white paper does not make precise proposals but states that the reduction of bank specific taxes are the best opportunity to lower interest margins in Iceland, taxes which are many times higher than in the neighbouring countries*



Sustainability in action in 2018

Arion Bank was recognized by the Center for Corporate Governance at the University of Iceland as a company which had achieved excellence in corporate governance



In 1st place of companies named model companies by Keldan and Viðskiptablaðið



Awarded Equal Pay Symbol – verification that employees are not subject to gender discrimination in salaries



Credit rules now state that social and environmental issues should be considered when evaluating new lending



In 17th place on AllBright's list of 329 listed companies in Sweden in terms of gender ratio in management teams



Arion Bank has decided to become a signatory to UNEP Finance Initiative



The Bank is already a signatory to:

- UN Principles for Responsible Investment (2017)
- UN Global Compact (2016)
- CEO Statement of Support for the Women's Empowerment Principles - UN Women and UN Global Compact (2014)



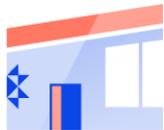
Convenient and award-winning banking

Arion Bank named marketing company of the year in Iceland by ÍMARK – for development and success of digital services



Winner of three international awards for digital solutions and development

Awards from *BAI Global Innovation Awards* and *Retail Banker International*



Changes to branches – two service facilities open / six branches close

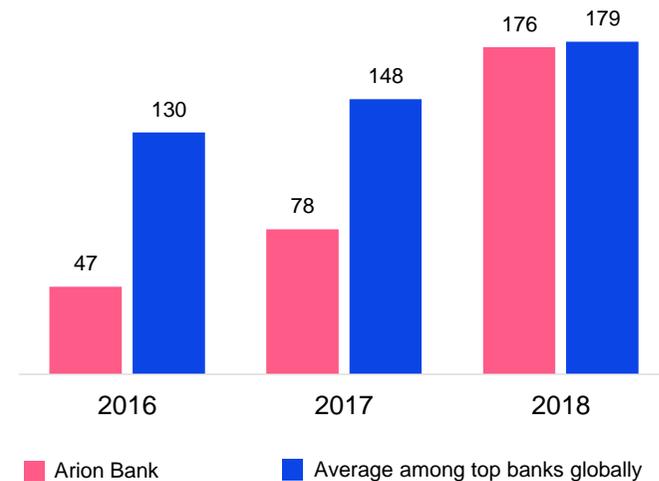
New service facilities in more strategic locations and focus is on digital solutions



New service strategy and training

Comprehensive service training – integrating digital and personal service

125% increase in digital sales in 2018 – similar to best banks globally



Digital sales per 1.000 customers over 12-month period. According to survey by Finalta

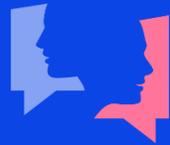
Arion participates in an annual benchmarking study provided by Finalta (by McKinsey) which objectively assesses our performance against approx. 210 peers worldwide. The study is focused on digital and multichannel benchmarking.



Digital journey has produced outstanding results



Mortgages applied for digitally
51%



Video conference meetings with customers
20,000



Digital car loans – YoY increase
20%



Total number of customer touchpoints
34 million



Percentage of digital credit appraisals
92%



Percentage of digital applications for cards
45%



Digital consumer loans – YoY increase
62%



Percentage of digital service touchpoint
97%

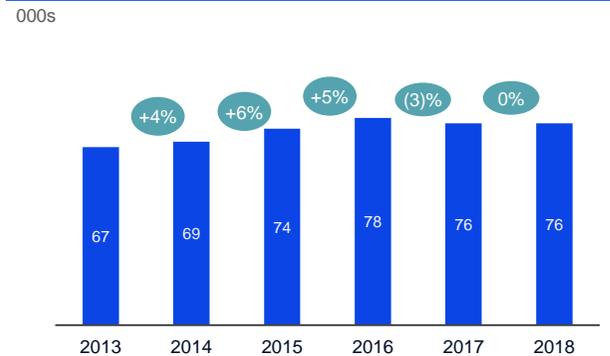


Digital services and the change in customer behavior

Customers prefer more convenient banking services – Number of Arion app users increase at steady pace

- New digital services introduced have resulted in the number of active app users increasing at a steady pace while number of calls to the call center have decreased
- New digital branches where the focus is on digital solutions and strategic locations have proven popular and have resulted in increase in shorter branch visits
- Our digital journey focuses on reshaping end-to-end customer journeys into fully digital flows, accessible online 24/7
- In 2019 the journey continues with three new digital solutions launching in H1.

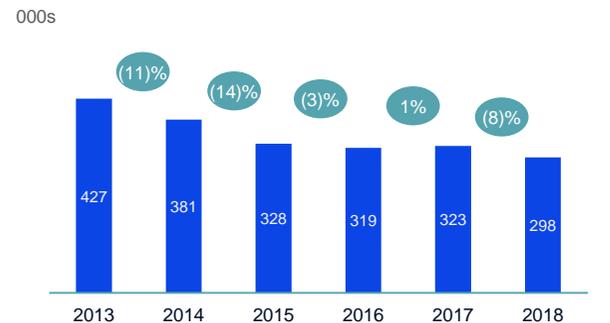
Active online bank users¹



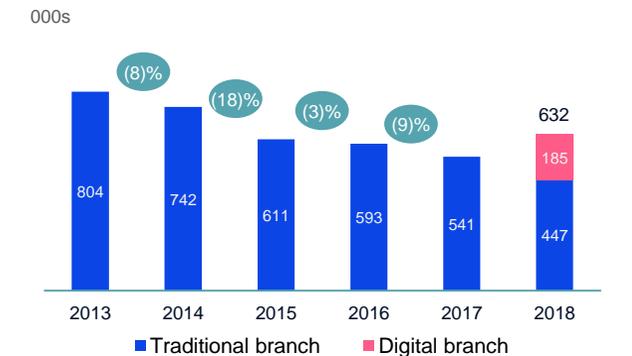
Active Arion App users¹



Number of calls to the call centre



Number of visits to branches



Going forward



Continued focus on net interest income, net interest margin and return on capital employed in the Bank's operations



Cost control continues to be one of the key focus points, supported by cost cutting initiatives and effects of the digital strategy



The intended divestment of Valitor enters a new phase and the aim is to start soon to marketing the company to potential investors

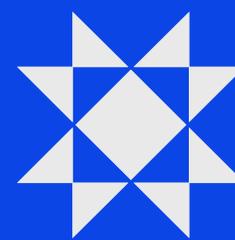


Arion Bank will continue to explore optimizing capital and will look to issue AT1 or further T2 subject to market conditions. The Bank aims to establish a share buy-back program



The Bank continues its digital journey with 3 products being launched in H1 2019. The Bank's focus will also be on the integration of a new core banking system, for deposits and payments





Disclaimer

- This document has been prepared for information purposes only and should not be relied upon, or form the basis of any action or decision, by any person. Nothing in this document is, nor shall be relied on as, a promise or representation as to the future. In supplying this document, Arion Bank does not undertake any obligation to provide the recipient with access to any additional information or to update this document or to correct any inaccuracies herein which may become apparent.
- The information relating to Arion Bank, its subsidiaries and associates and their respective businesses and assets contained in, or used in preparing, this document has not been verified or audited. Further, this document does not purport to provide a complete description of the matters to which it relates.
- Some information may be based on assumptions or market conditions and may change without notice. Accordingly, no representation or warranty, express or implied, is made as to the fairness, accuracy, completeness or correctness of the information, forecasts, opinions and expectations contained in this document and no reliance should be placed on such information, forecasts, opinions and expectations. To the extent permitted by law, none of Arion Bank or any of their affiliates or advisers, any of their respective directors, officers or employees, or any other person, accepts any liability whatsoever for any loss howsoever arising from any use of this document or its contents or otherwise arising in connection with this document.
- This presentation contains forward-looking statements that reflect management's current views with respect to certain future events and potential financial performance. The information in the presentation is based on company data available at the time of the presentation. Although Arion Bank believes that the expectations reflected in such forward-looking statements are reasonable, no assurance can be given that such expectations will prove to have been correct. Accordingly, results could differ materially from those set out in the forward-looking statements as a result of various factors. The most important factors that may cause such a difference for Arion Bank include, but are not limited to: a) the macroeconomic development, b) change in inflation, interest rate and foreign exchange rate levels, c) change in the competitive environment and d) change in the regulatory environment and other government actions. This presentation does not imply that Arion Bank has undertaken to revise any forward-looking statements, beyond what is required by applicable law or applicable stock exchange regulations if and when circumstances arise that will lead to changes after the date when this presentation was made. Arion Bank assumes no responsibility or liability for any reliance on any of the information contained herein. It is prohibited to distribute or publish any information in this presentation without Arion Bank's prior written consent.
- This presentation shall not be regarded as investment advisory by the Bank
- By accepting this document you agree to be bound by the foregoing instructions and limitations.

