Arion Bank

Fourth quarter and full year results 2019

Investor presentation

12 February 2020

Highlights of the year 2019

Arion Bank is on a new trajectory after having undergone significant management and organizational changes and improvement measures in Q3

Earnings from continuing operations are ISK 14 billion and improve significantly. ROE from continuing operations improves YoY from 4.3% to 7.2%

Negative developments in businesses held for sale reduce net earnings to ISK 1 billion but are not reflective of future performance

The balance sheet was reduced strategically but at the same time the Bank continued to actively lend to new and existing customers

Return on assets under management was very good and the Bank has retained its number one position in equities trading for the 4th year in a row

The Bank adopted a new environmental policy and will put increased emphasis on sustainability both in operations and lending

The Bank has substantial surplus capital which allows it to pay a dividend of ISK 10.0 billion. This corresponds to a dividend yield of 6.4% on market cap year end 2019

Arion Bank Group

Diversified business model and strong market position

Retail Banking

- Digital leader in the retail market
- Large private provider of residential mortgages in Iceland
- ~ 29% market share[1]
- Wide range of financial services for individuals and SMEs[2]

CIB

- Corporate banking and strategic advisory
- Use of own capital and increased capital market intermediation
- Managed c. 2/3 of all IPOs in Iceland since 2011

Markets

- Largest asset manager in the Icelandic market
- A leading capital markets house
- Largest custody service provider in Iceland

STEFNIR

Arion Bank's subsidiary **Stefnir** is a leading fund management company in Iceland

ROE for 2019: 38.6%

Insurance

- The Bank's subsidiary Vördur is the largest life insurance and the 4th largest universal insurance company in Iceland
- Has been a growing contributor to Arion Bank's operating income mix in the last three years
- ROE for 2019: 24.9%

vördur

Business profile:	Retail Banking	CIB	Markets
Client lending	ISK 470 billion	ISK 303 billion	-
RWA allocation	ISK 266 billion	ISK 324 billion	ISK 14.4 billion
Assets under Management	-	-	ISK 1,013 billion

VALITOR

- Largest card payments company in Iceland based on operating revenues[3]
- **Valitor is currently in a sales process** and defined as held for sale in the accounts

1. Capacent. Based on monthly customer survey (individuals), year end 2019. Q: What is your main retail bank?
2. 31.12.2019 including subsidiary Stefnir
3. Based on 2018 annual accounts (Valitor, Borgun and Kortaþjónustustan)

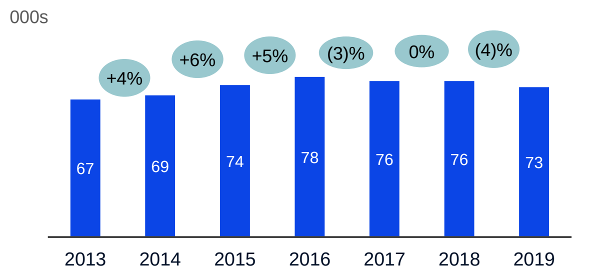
The subsidiaries (Vördur, Stefnir and Valitor) are independent entities regulated by the FME. Arion Bank exercises ownership through strategy and board memberships.

Digital services are changing customer behavior

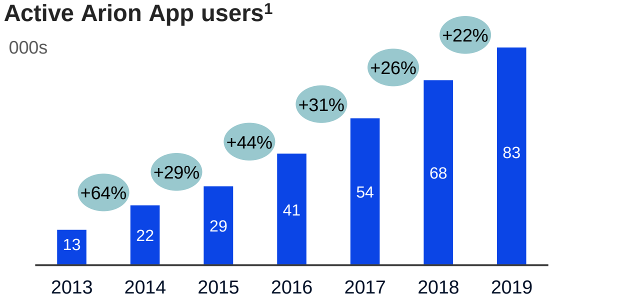
The Bank’s digital journey has increased revenues and reduced costs

- The growth in active Arion Bank app users was 22% in 2019
  - During the year active app users surpassed active online users
- Visits to traditional branches continue to trend down - decreased by 46% since 2013
- New digital branches continue to drive increased customer usage with more visits than traditional branches
- Total branch space decreased by almost half since 2014
- Digital sales ratio 68% for core products
  - Credit cards, current accounts and savings accounts
- Overdraft applications now 84% digital
- Car loans 100% digitally processed at the car dealers
- Mortgage credit assessments more than 94% digitally processed through Arion Bank’s website

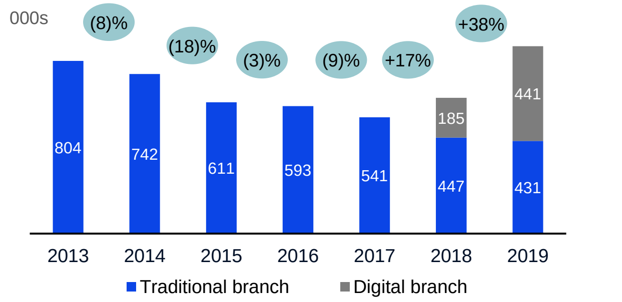
Active online bank users[1]



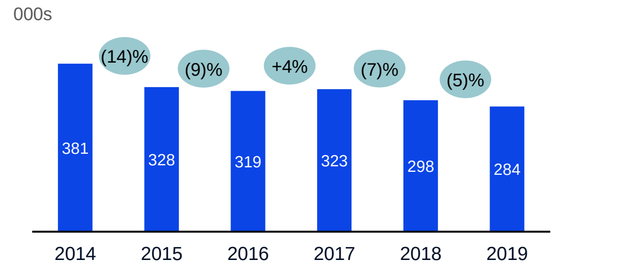
Active Arion App users[1]



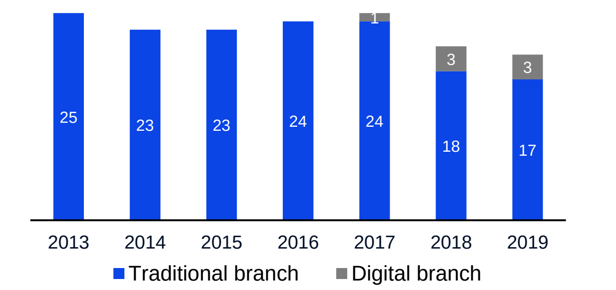
Number of visits to branches[2]



Number of calls to the call centre



Number of branches[2]



Source: Company information

1. 90 day active online users/individuals and 90 day active app users,
2. Data: Qmatic ticketing system for traditional branches and Mobotix camera counting system for digital branches. Two different methods.

Arion Bank focuses on sustainable and responsible banking

International and domestic commitments

- A founding signatory of the **UN PRB** and will strategically align its business with the **Sustainable Development Goals** and the **Paris Agreement** on Climate Change
- UN Principles for Responsible Investment, **UN PRI**
- UN **Global Compact**
- Festa and City of Reykjavík's **Declaration on Climate Change**

Arion Bank's Environment and Climate Policy

- Adopted in December 2019
- Contribute to Iceland's efforts to meet its **international agreements**
- Focus on financing projects on **sustainable development and green infrastructure**
- We will **evaluate our loan portfolio** according to green criteria, set ambitious targets and adopt a policy on loans to individual sectors **and evaluate our suppliers**

Gender Equality

- First bank in Iceland to gain the **equal pay symbol** from the Ministry of Welfare
- **UN Women and UN Global Compact** Women's Empowerment Principles
- **Albright:** In **25th place** out of 333 listed companies in Sweden which are setting a good example in terms of **gender diversity in management teams and at board level**

Corporate Governance

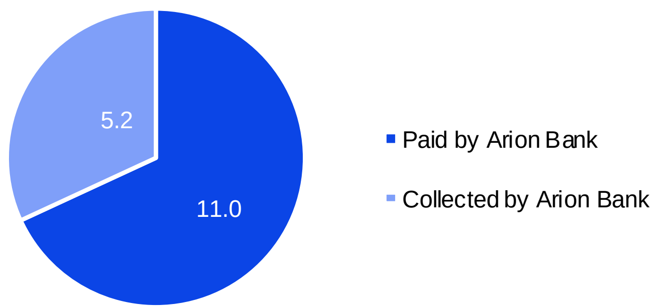
- Center for Corporate Governance's recognition of **Excellence in corporate governance**
- Since 2015 Arion Bank has been recognized as a company which has achieved excellence in corporate governance following a formal assessment based on **guidelines on corporate governance issued by the Icelandic Chamber of Commerce**

Reporting

- Global Reporting Initiative standard, **GRI Core**
- **ESG reporting guide** for the Nasdaq Nordic and Baltic exchanges
- UN Global Compact **progress report**
- Sustainalytics **ESG rating**
- UN **sustainable development goals**

Tax footprint 2019 (ISK billion)

Arion Bank's (parent company) total tax contribution in 2019 amounted to **ISK 16.2 billion** which equals around 2% of the government's total income in 2018[1]



[1]Source: Arion Bank data and Icelandic Government accounts 2018

Macroeconomic environment

Iceland is focused on sustainability

Committed to being carbon neutral by 2040

- Iceland ranks at the forefront when it comes to share of renewables in energy consumption, mostly through hydro and geothermal energy
- The second largest export industry in Iceland is fisheries. Most of the fisheries have MSC certification which supports eco-friendly fishing, stock strength and responsible and sustainable fisheries management
- The Icelandic population has grown by 9.5% in the last five years which equals an annual growth rate of 1.8%.
- Iceland is committed to being carbon neutral by 2040 according to government announcement

Gender equality world rank 2019	1
Global peace index rank 2018	1
Democracy index world rank 2018	2
Life expectancy world rank 2020	10

1946
Member of United Nations

1948
OECD founding member

1949
NATO founding member

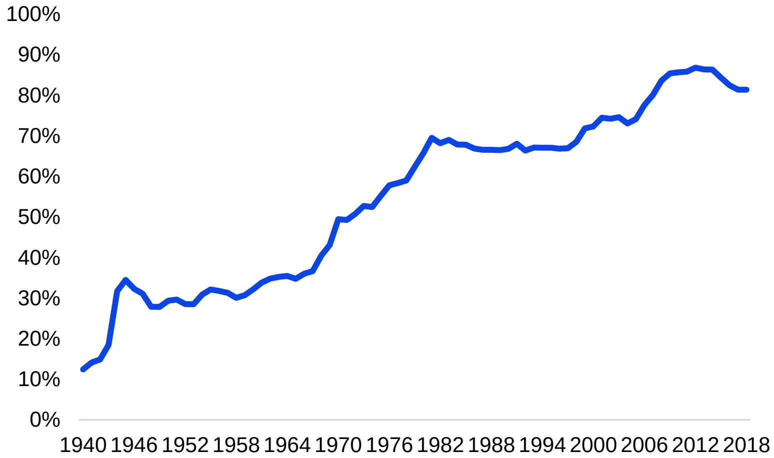
1994
Access to European Economic Area (EEA)

2015
Iceland becomes a signatory to the Paris Agreement

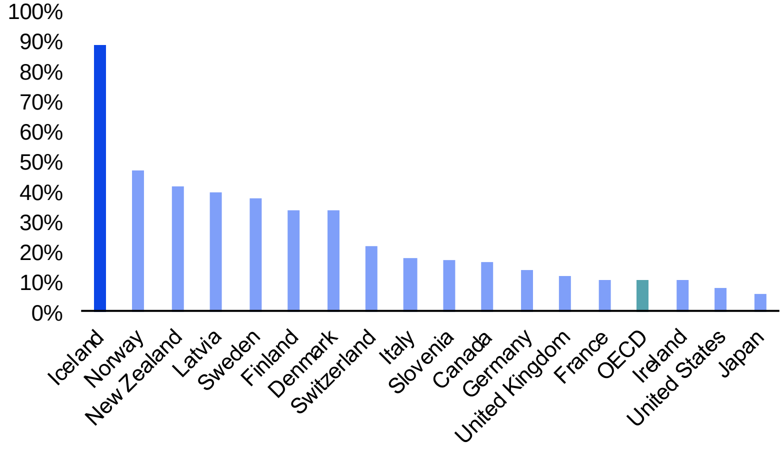
2018
Iceland prioritizes 65 UN sustainable development goals

2018
Government climate action plan launched for 2018-2030

Iceland: Share of Renewables in Primary Energy Use 1940-2018



Contribution of renewables to energy supply in selected OECD countries 2018



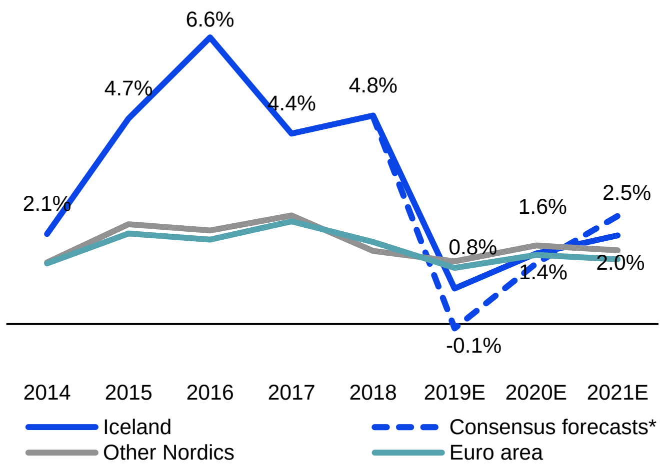
Source: Statistics Iceland, United Nations, IMF, The World Factbook, The World Economic Forum, The Institute of Economics and Peace
1 Based on real GDP national currency. Ireland 2015 GDP growth is in excess of 26% when including overseas companies in value of corporate sector.
2. Isavia 3. Defined as export if the industry is a source of foreign currency income

Soft landing, slow takeoff

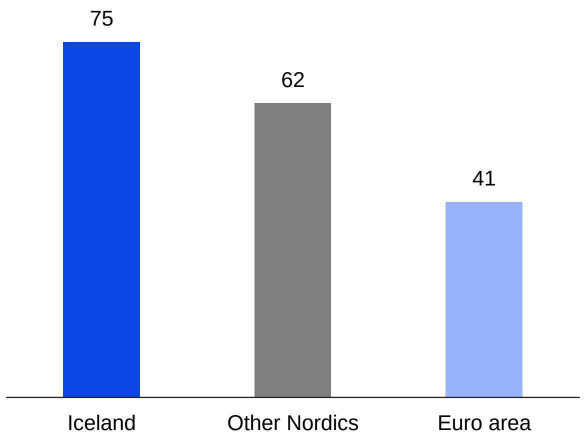
GDP growth measured 0.2% in the first nine months of 2019, indicating milder slowdown than expected

- Despite falling exports the contribution of foreign trade to GDP growth is positive due to an even larger drop in imports. This development has played a key role in sustaining GDP growth
- Even though most analysts expect a softer landing than before, the outlook for 2020 has deteriorated due to slower growth in the country's main export sectors. However, GDP per capita will remain high
- The economy is well equipped to handle a slow down, with the monetary policy having already lowered interest rates by 150 bps.
- The proposed fiscal easing sides with the monetary policy, further softening the blow to the economy
- Consumption, both private and public, is expected to drive GDP growth in 2020

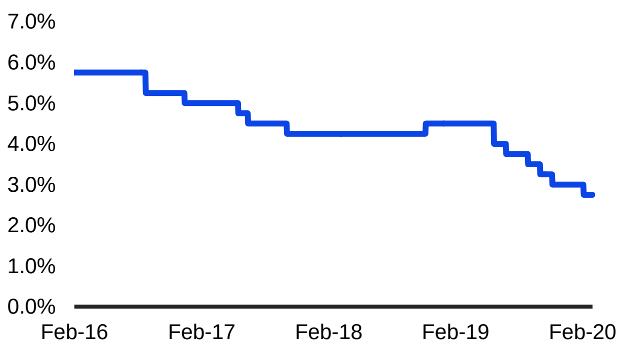
GDP growth



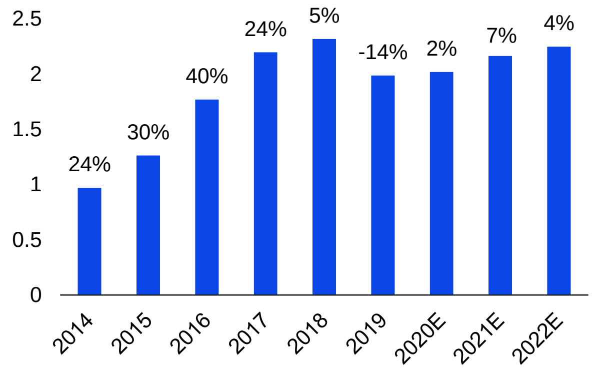
GDP per capita in 2018 (USD thousands)



Key interest rate – seven-day term deposit rate



Tourist arrivals via KEF airport (millions and YoY growth)



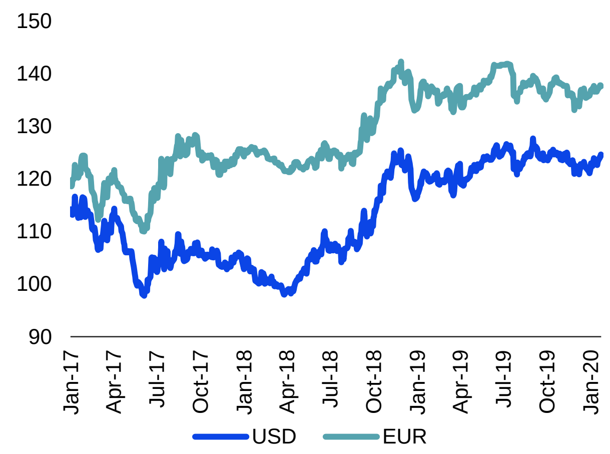
Sources: Icelandic Tourist Board, CBI, Statistics Iceland, Arion Research, IMF. * Domestic analysts

Unemployment expected to peak in 2020

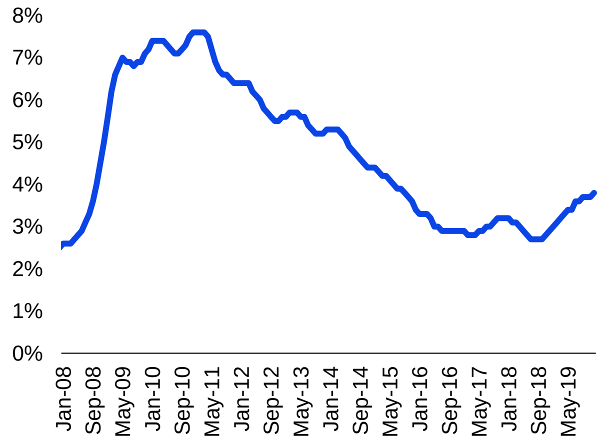
Economic adjustment through the labor market, not price levels

- Much larger drop in imports than anticipated and slower outflow into foreign assets supported the ISK in Q4, contributing to the modest appreciation.
- In former economic cycles the ISK has worked like a reset button for the economy, depreciating sharply when the export sectors have struggled causing inflation to spike.
- This time, however, inflation has remained low and is expected to stay below the CBI's inflation target in the coming months, largely due to the stable ISK.
- Collective wage agreements in April coincided with a softer economic outlook and reduced uncertainty in the economy.
- Reduced uncertainty is reflected in the payment card turnover, which has been showing positive signs in recent months.
- Although unemployment has continued to increase the climb hasn't been as steep as many feared. Unemployment is expected to peak in 2020.

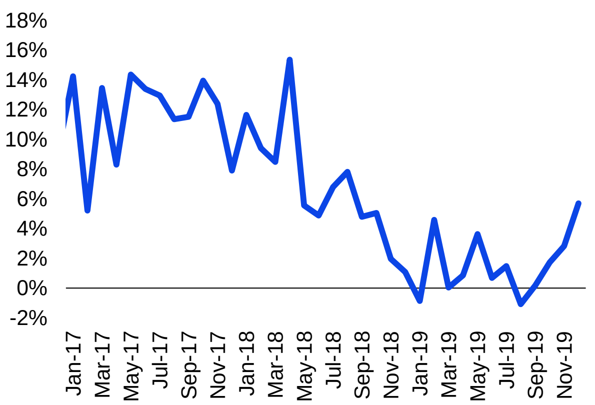
The ISK against major trade currencies



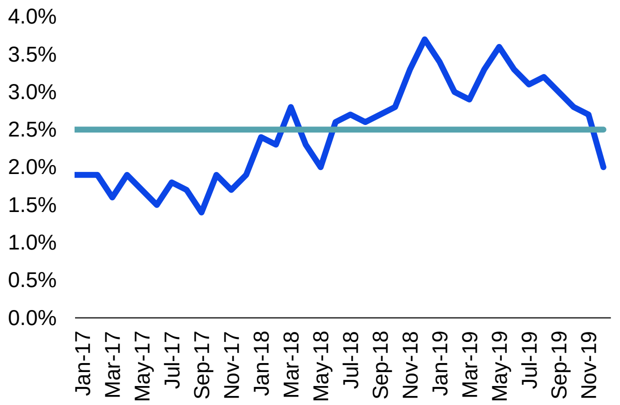
Unemployment– seasonally adjusted trend



Total payment card turnover



Inflation and inflation target



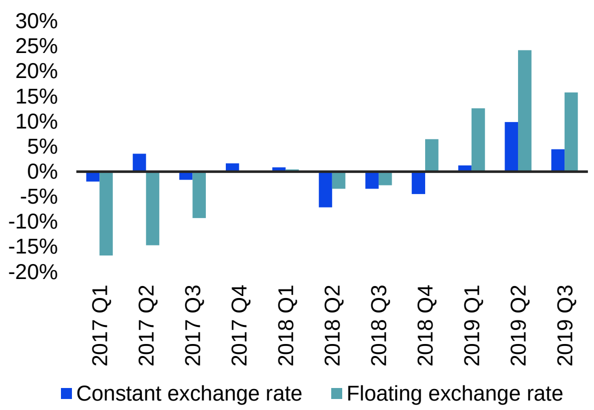
Sources: CBI, Statistics Iceland, Arion Research

Strong foundations

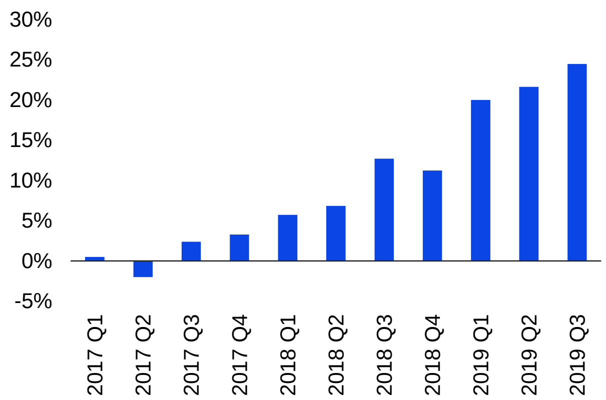
The export sectors, especially tourism, have proved to be resilient in the face of adversity

- Since WOW air's bankruptcy, spending per tourist has increased significantly, both in ISK and FX.
- A plausible explanation for this development is that each tourist is staying for longer, on average, than before.
- The drop in total overnight stays is mainly due to unlisted accommodation while hotels have mostly held their ground.
- The recent tourism figures are extremely positive for Icelandic tourism and the economy as a whole.
- The economy is well equipped to handle a short recession, with a positive net external position and historically low debt levels, both in the private and public sector.
- Recent economic development, coupled with monetary easing, has contributed to long-term ISK yields coming down and the Icelandic housing market holding its ground.

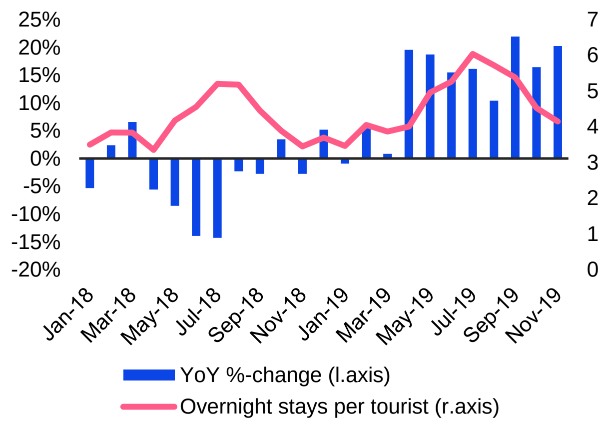
Consumption per tourist - YoY %-change



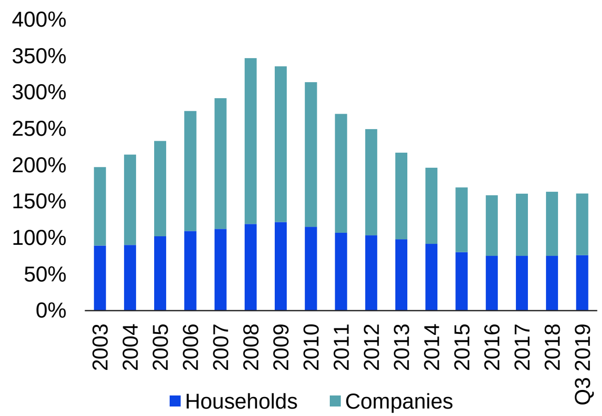
Net international investment position - % of GDP



Total overnight stays per tourist

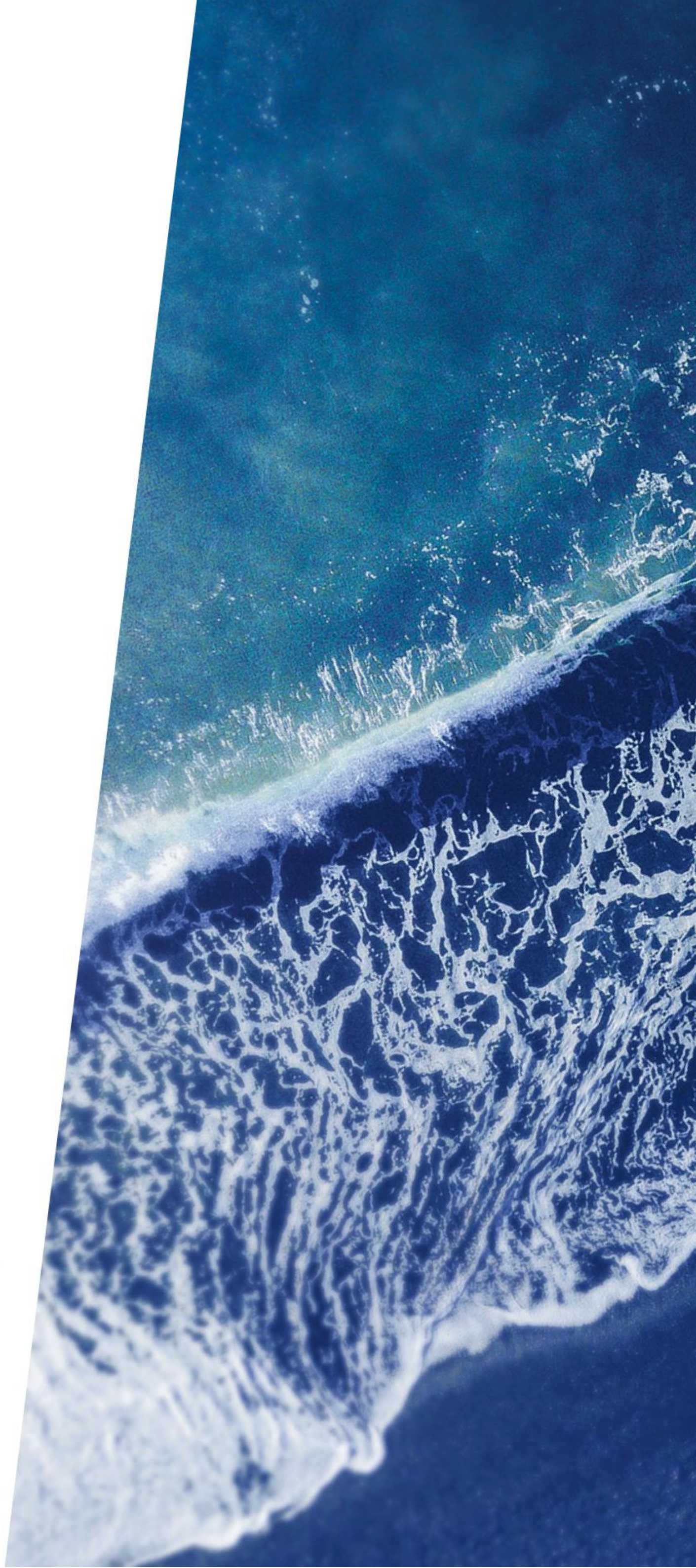


Household and non-financial corporate debt - % of GDP



Sources: CBI, Centre for Retail Studies, Statistics Iceland, Arion Research

Financials



Highlights of the fourth quarter 2019

Arion Bank's revised strategy and organizational changes are already showing results as earnings from continuing operations continue to improve, yielding 10.8% ROE in Q4

- NIM improves to 3%
- OPEX trends lower on the back of actions in Q3
- Revenues / RWA's at 6.4% in Q4

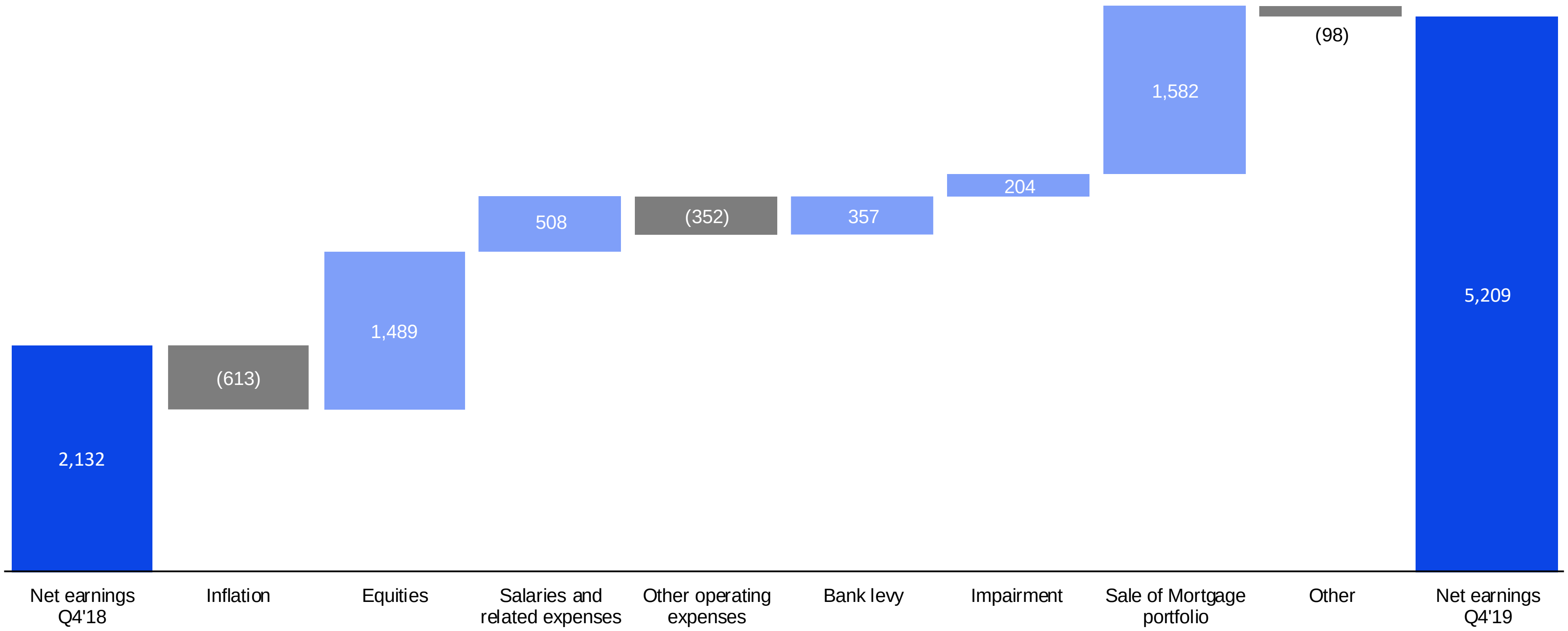
Robust balance sheet management lowers RWA's, funding costs and bank levy

- Sale of a ISK 48 billion mortgage portfolio to the Housing Financing Fund completed and the corresponding prepayment of CB2
- Buy-back of outstanding senior bonds
- Share buy-back initiated in October

Developments in discontinued operations of ISK 8 billion results in negative net earnings of ISK 2.8 billion and negative ROE of 5.8% in Q4

Considerable restructuring at Valitor at year end with the aim of generating positive EBITDA. Sale process of the company continues

Net earnings from continuing operations Q4'18 vs. Q4'19



Income statement Q4 2019

Net earnings from continued operations improve markedly but discontinued operations have significant negative effect

- Net interest income decreases slightly as inflation is low and loan book is reduced in line with strategy
- Other revenue items holding up well and operating income 7% up from last year
- Operating expenses are 2% down from last year as the restructuring in Q3 is yielding results
- The Bank levy is unusually low in Q4 as the Bank was able to decrease the liability side of the Balance sheet before year end
- Positive net impairments are mostly due to the release of discount on mortgage portfolio which was sold during the quarter
- Negative effects from discontinued operations
  - Impairment on intangible assets at Valitor of ISK 4 billion in addition to operating loss and cost in the sale process of the company during 2019 of ISK 1.6 billion
  - Valuation change in assets at Stakksberg of ISK 2.4 billion, due to difficult market conditions with lower market price resulting in some plant closures internationally

	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%)	30	-
Other operating income	201	294	(32%)	272	(26%)
Operating income	**11,728**	**10,950**	**7%**	**12,344**	**(5%)**
Salaries and related expenses	(3,076)	(3,584)	(14%)	(4,130)	(26%)
Other operating expenses	(3,366)	(3,015)	12%	(2,810)	20%
Operating expenses	**(6,442)**	**(6,599)**	**(2%)**	**(6,940)**	**(7%)**
Bank levy	(357)	(765)	(53%)	(809)	(56%)
Net impairment	1,203	(573)	-	484	149%
Net earnings before income tax	**6,132**	**3,013**	**104%**	**5,079**	**21%**
Income tax expense	(923)	(881)	5%	(1,278)	(28%)
Net earnings from continuing operations	**5,209**	**2,132**	**144%**	**3,801**	**37%**
Discontinued operations, net of tax	(7,981)	(516)	-	(3,040)	163%
Net earnings	**(2,772)**	**1,616**	**(272%)**	**761**	**(464%)**

All amounts in ISK million

Income statement 2019

The positive effect of the Bank's revised strategy in Q3 is not fully reflected in the full year numbers

- Strong growth in net interest income despite lower inflation mostly due to higher (average) interest bearing assets (1.8%) during most of 2019
- Other revenue items relatively strong and operating income increases by 4% from last year
- Operating expenses are under control as increase in salaries and related expenses is primarily due to redundancies in Q3 (ISK 1.1. billion)
- The impairment line is volatile YoY. Impairments are modest in 2019 as the release of discount relating to a sale of a mortgage portfolio in Q4 partially offsets the loss from the bankruptcy of WOW air in Q1 and TravelCo in Q2. Impairments in 2018 were high, mainly due to bankruptcy of Primera Air in Q3 2018
- Effective tax rate is 21% compared with 31% in 2018, due to more favorable revenue distribution
- Net effects of discontinued operations are unusually extensive, mainly due to valuation changes at Stakksberg and operation and changes at Valitor. The effect of these on the Bank's capital position is minimal

	2019	2018	Diff	Diff%
Net interest income	30,317	29,319	998	3%
Net commission income	9,950	10,349	(399)	(4%)
Net insurance income	2,886	2,590	296	11%
Net financial income	3,212	2,302	910	40%
Share of profit of associates	756	27	729	-
Other operating income	877	1,584	(707)	(45%)
Operating income	**47,998**	**46,171**	**1,827**	**4%**
Salaries and related expenses	(14,641)	(14,278)	(363)	3%
Other operating expenses	(12,222)	(12,000)	(222)	2%
Operating expenses	**(26,863)**	**(26,278)**	**(585)**	**2%**
Bank levy	(2,984)	(3,386)	402	(12%)
Net impairment	(382)	(3,525)	3,143	-
Net earnings before income tax	**17,769**	**12,982**	**4,787**	**37%**
Income tax expense	(3,714)	(4,046)	332	(8%)
Net earnings from continuing operations	**14,055**	**8,936**	**5,119**	**57%**
Discontinued operations, net of tax	(12,955)	(1,159)	(11,796)	-
Net earnings	**1,100**	**7,777**	**(6,677)**	**(86%)**

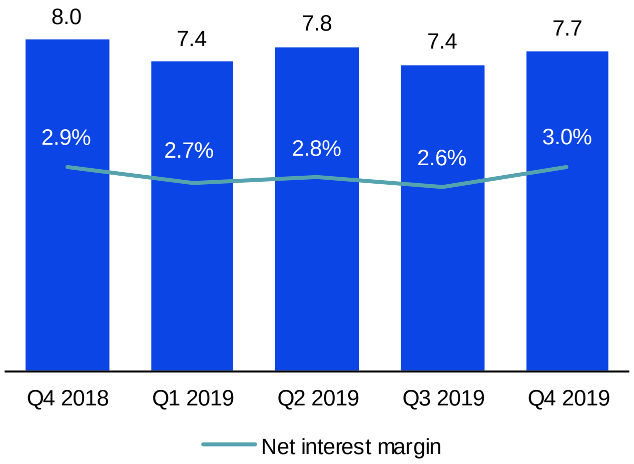
All amounts in ISK million

Net interest income

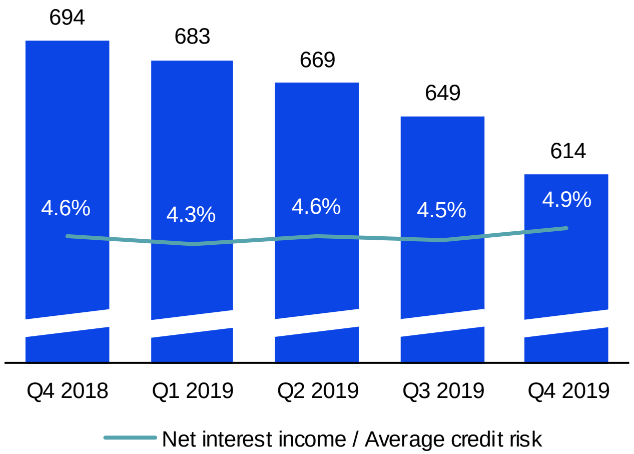
Revised strategy reflected in positive development in NIM as well as ratio of net interest income to credit risk

- Net interest margin increases to 3% in Q4 in line with revised strategy of increased focus on returns rather than loan growth. Strong performance in light of:
  - Historically low policy rate
  - Lower inflation during the quarter (2.3% vs 4.2% in Q4 2018)
  - Issuance of Tier 2 subordinated bonds in 2019
- Reduction of wholesale funding in ISK and FX have positive effect on NIM as well as increased proportion of ISK in liquidity buffer
- Net interest income decreases 3% from Q4 2018 mainly due to 8% decrease in interest bearing assets
- Favorable development in Net interest income to average credit risk following increased focus on capital management and return on loan book
- Lower interest income from loans to customers and lower effect from inflation on Net interest income is largely offset by lower funding cost in deposits and borrowings
  - Prepayment of expensive funding and strong liquidity management supports NIM

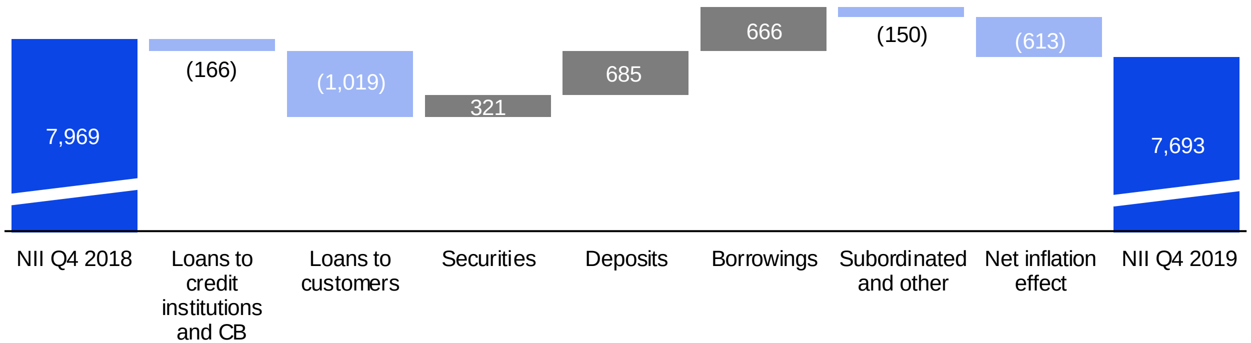
Net interest income



Credit risk



Net interest income Q4 2018 vs Q4 2019 (ISK million)

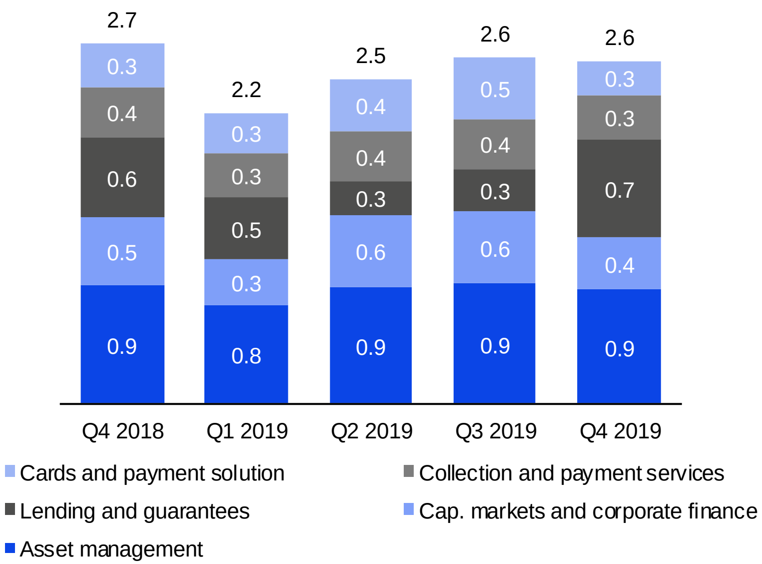


All amounts in ISK billion

Net fee and commission and net insurance income

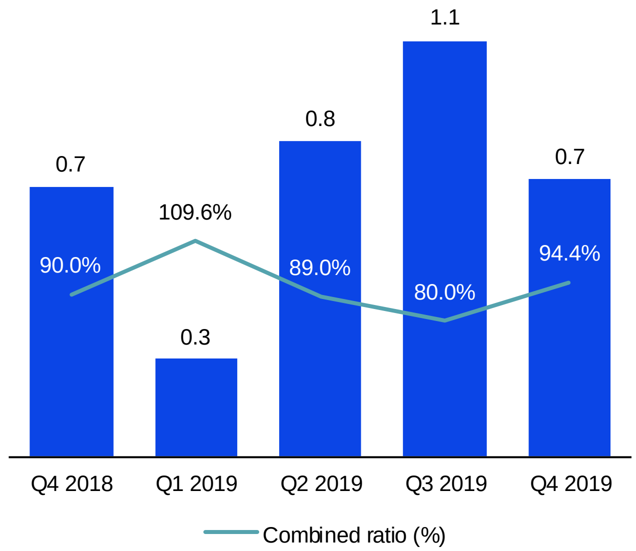
Stable net commission income with scope for improvement - net insurance income continues to trend positively

Net fee and commission income



- Income from lending and guarantees increase from prior quarters, partly due to prepayment of loans and as capital velocity increases
- Income from asset management is very stable. Assets under management were ISK 1,013 billion at 31 December, an increase of 4.4% between years
- Revised strategy should support base for increased fee and commission income

Net insurance income



- Decrease from Q3 mainly due to seasonality in non-life insurance. 2.7% increase in NII from Q4 2018
  - Earned premiums increased by 8% in Q4 YoY
- Volatility in non-life, often affected by weather conditions over the winter
- Strong Combined ratio is competitive in the domestic market

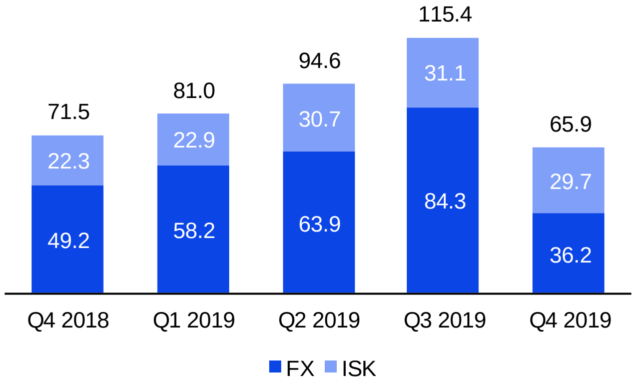
All amounts in ISK million

Net financial income

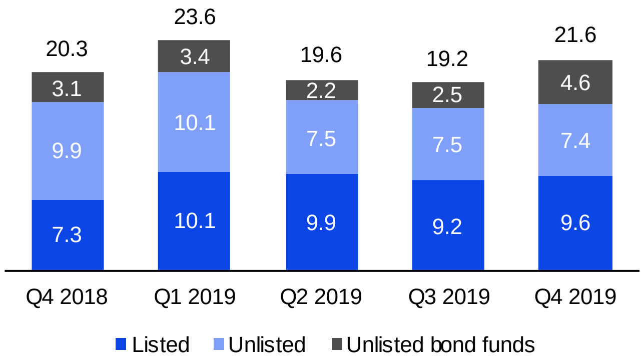
Decrease in bond holdings as the Bank is managing liquidity and tax at year end

- Net financial income in Q4 was positively affected by:
  - Equity holdings measured at fair value as markets were favorable during the quarter
  - Realized gain on FX bond holdings sold in connection with prepayment of borrowings
- It was negatively affected by:
  - Premium on prepayments of borrowings
  - Net loss of fair value hedge of interest swap
- Bond holdings are mainly used for liquidity management
  - Decrease significantly due to prepayments of borrowings, both in ISK (CB 2) and FX (EMTN issued bond due in Q2 2020)
- Equity holdings are mainly strategic positions
- Total portfolio of Vördur is ISK 18.1 billion; ISK 11.4 billion of bonds and ISK 6.7 billion in equity instruments

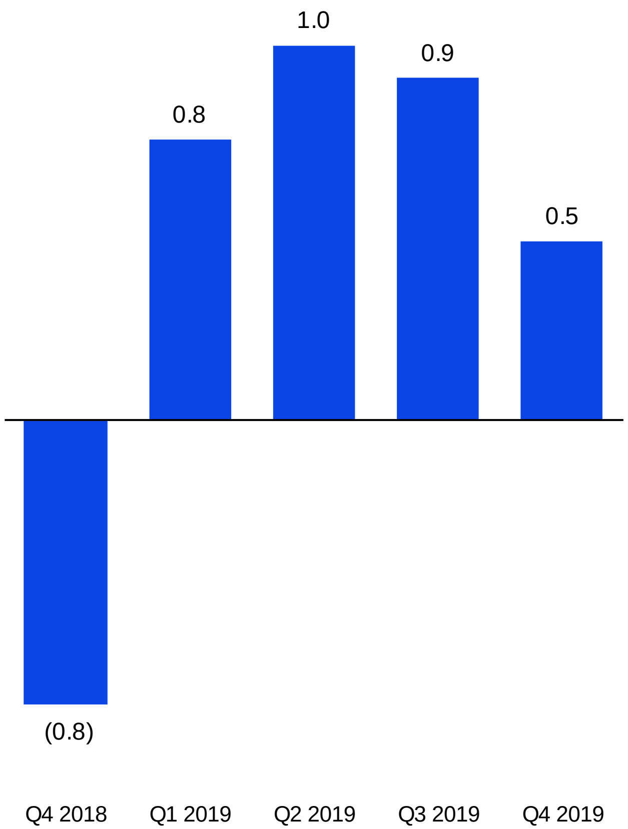
Bond holdings



Equity holdings



Net financial income



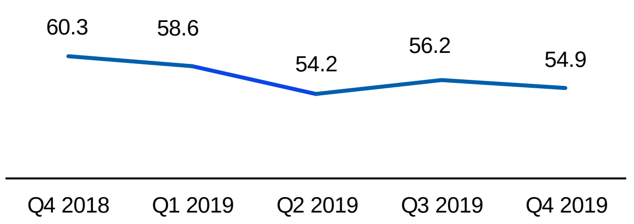
All amounts in ISK billion

Total operating expenses

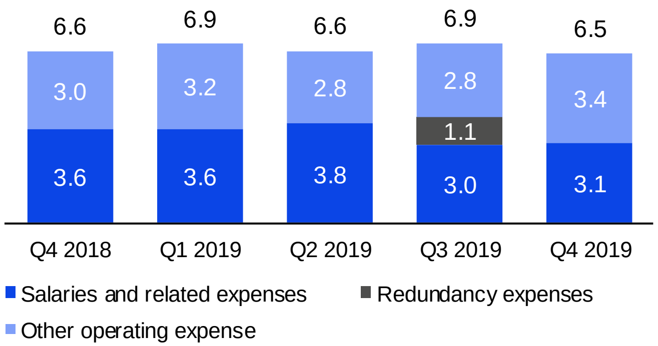
Cost-to-income is trending towards target

- Number of FTE's reduced by 13.5% at the parent company from Q4 2018, mostly due to organizational changes at the end of Q3 with cost savings materializing in Q4
- Salaries and related expenses reduced by 14% from Q4 2018 while number of FTE's reduced by 11%. General wage inflation was 4.9% in the same period
  - Salaries and related expenses were affected by capitalized salaries which amounted to ISK 142 million in Q4 (nil in Q4 2018) relating to investment in the Sopra core system
- Other operating expenses increase year on year, due to IT and depreciation. Other items such as housing and office costs decrease

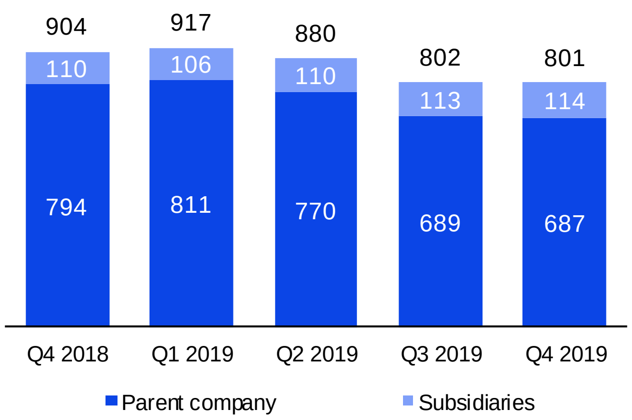
Cost-to-income ratio (%)



Total operating expenses



Number of employees

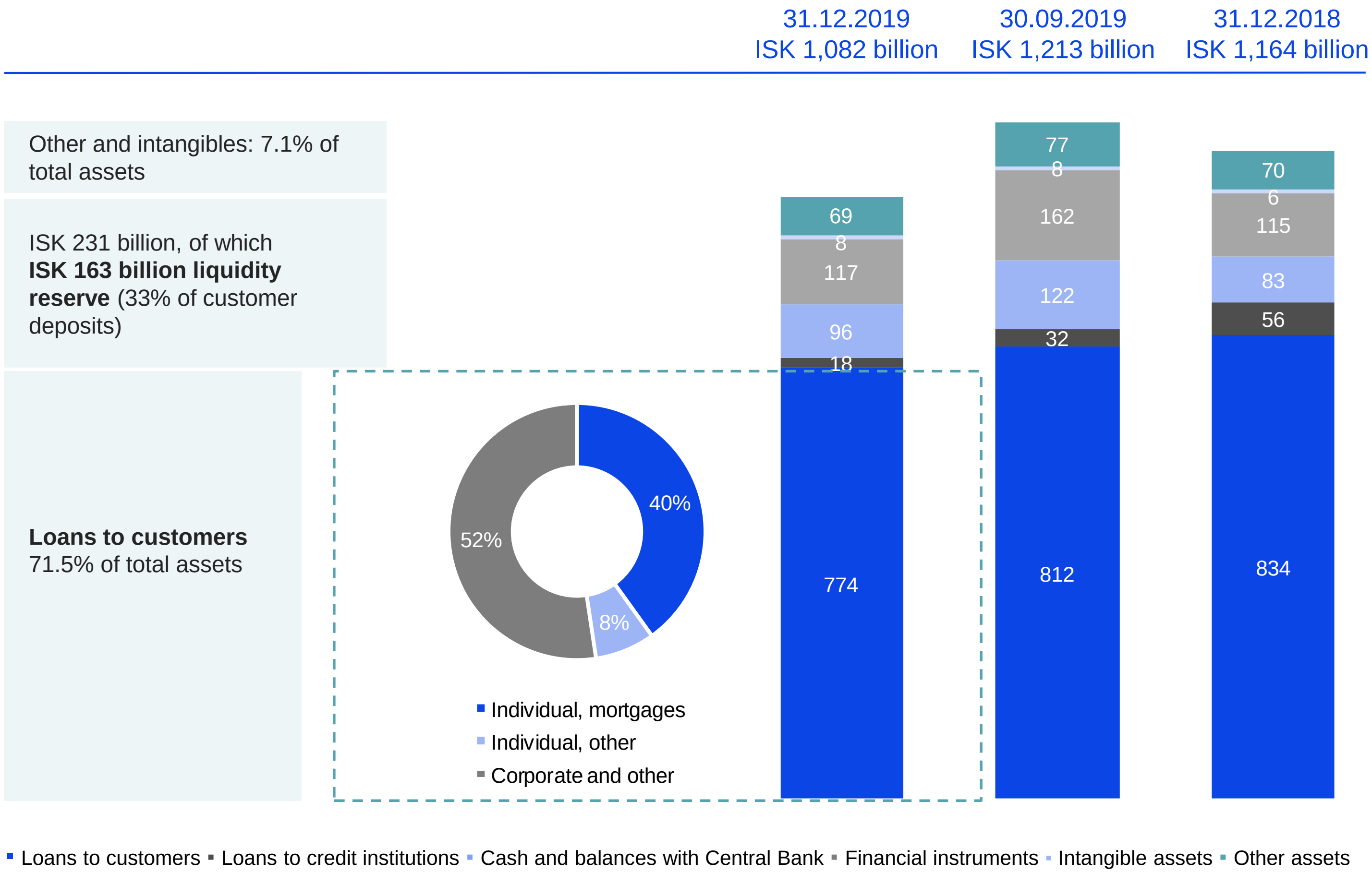


All amounts in ISK billion

Balance sheet - Assets

Balance sheet brought down in line with strategy as both loans and liquidity decrease

- The Balance sheet decreases by 10.8% from 30.09.2019
- Loans to customers decrease by 4.7% from 30.09.2019 and 7.2% from year-end 2018 in line with strategy of focus on returns over loan growth
  - ISK 48 billion mortgage portfolio sold during the quarter
- Decrease in financial instruments due to sale of bonds with proceeds used to prepay wholesale funding
- Very strong liquidity position despite dividend payment during Q1 2019, share buyback during Q4 and large prepayments of borrowings
  - Total LCR ratio is 188% and ISK LCR ratio is 158%
- The Bank is very well positioned to 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

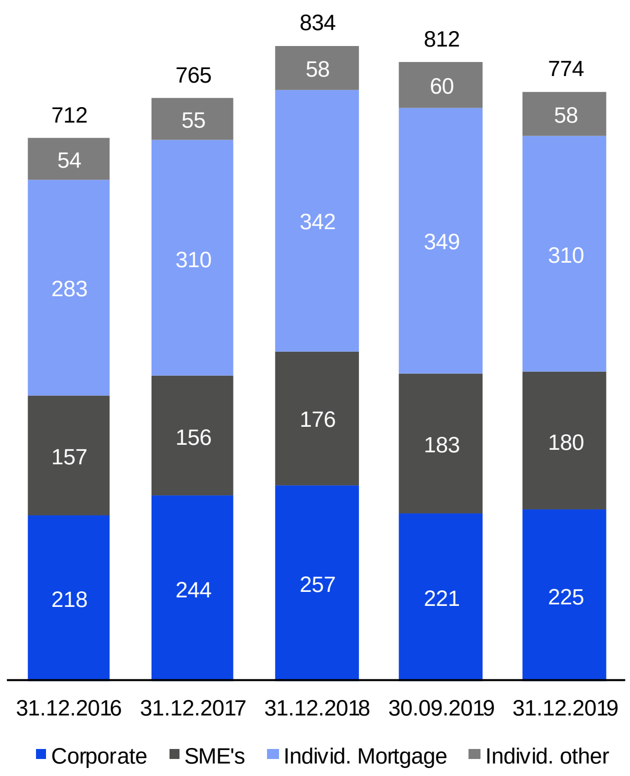
All amounts in ISK billion

Loans to customers

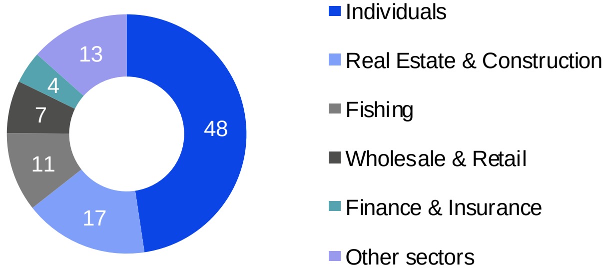
Focus on profitability results in the loan book trending lower thus releasing RWA's

- Loans to customers decrease by 7.2% during 2019
- The loan book continues to be well balanced between individuals and corporates
- Loans to individuals decrease 8.0% during the year due to sale of ISK 48 billion mortgage portfolio
  - Loans to individuals increase slightly from YE 2018 taking into account sale of mortgage portfolio
- The corporate loan book reduction has released approx. ISK 45 billion of RWA's since YE 2018
  - Loans to corporates decrease by 6.5% from YE 2018 but stable from 30.09.2019
  - Good diversification between sectors in the corporate loan book
- Demand for new lending affected by temporary economic slowdown
  - Reflected in loan commitments, 32% decrease from YE 2018
- 87% of the loan book was classified as stage 1 at YE 2019 compared with 92% at YE 2018
- The loan book is collateralized 89.8%, compared with 90.6%, at YE 2018

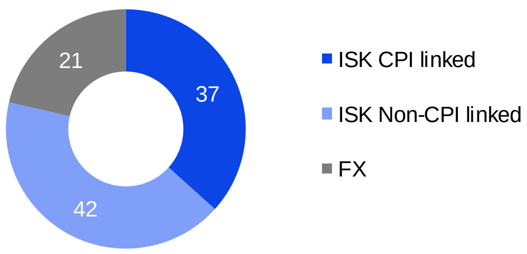
Loans to customers



Loans to customers by sector (%)



Loans to customers by currency (%)



All amounts in ISK billion

Balance sheet – Liabilities and equity

Deposits are increasing in the funding mix

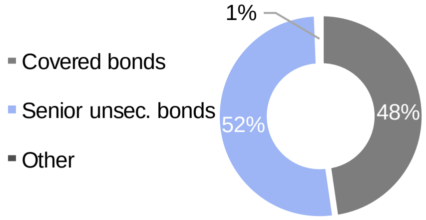
- Strong equity position and a very high leverage ratio despite capital release
  - Dividend payments of ISK 9.1 billion in Q1 2019
  - Share-buy back up to ISK 8.0 billion from 31 October
  - Proposed dividend payment of ISK 10.0 billion in March 2020, ISK 5.5 per share
- The Bank is a frequent issuer of covered bonds in the domestic market and a regular issuer of senior unsecured in the international market
  - Bank levy is calculated on year end position of liabilities and the Bank strategically seeks to limit large MM deposits at year end
- Deposits increased by 5.8% from YE 2018 but decrease 3.0% during the fourth quarter – continued focus on deposits going forward
- The Bank has issued a number of Tier 2 subordinated bonds in line with its capital strategy
- The funding mix is well balanced between deposits, covered bonds and senior unsecured bonds

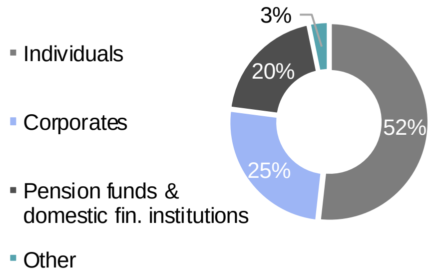
Equity
CET1 ratio 21.2% Capital adequacy ratio 24.0%
Leverage ratio 14.1%

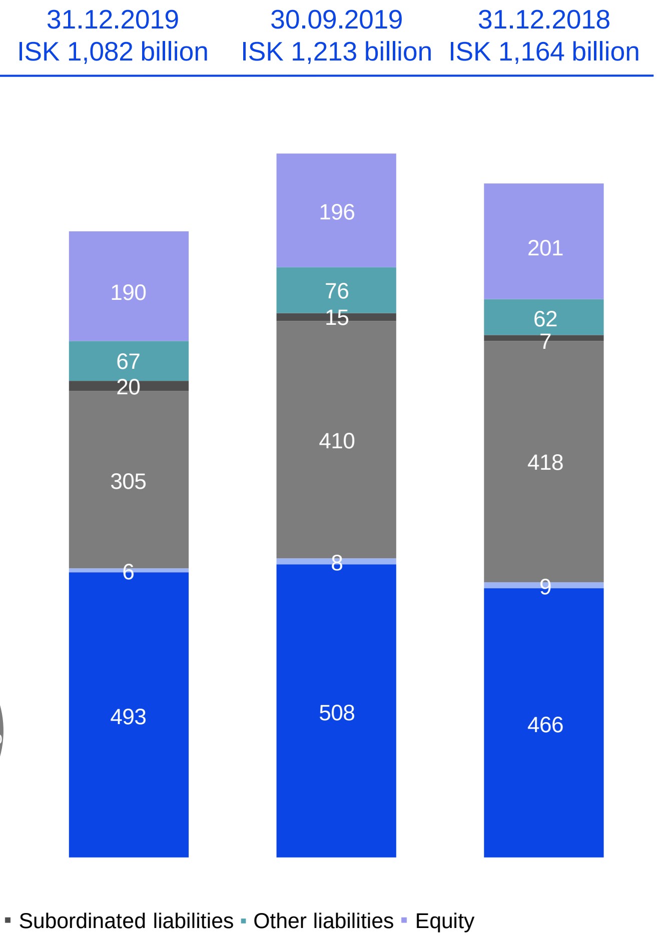
Borrowings (in ISK)
ISK 147 billion
EUR 117 billion
Other currencies 41 billion

Deposits
On demand 71%
Up to 3M 16%
More than 3M 13%

8.3% increase from YE 2018







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

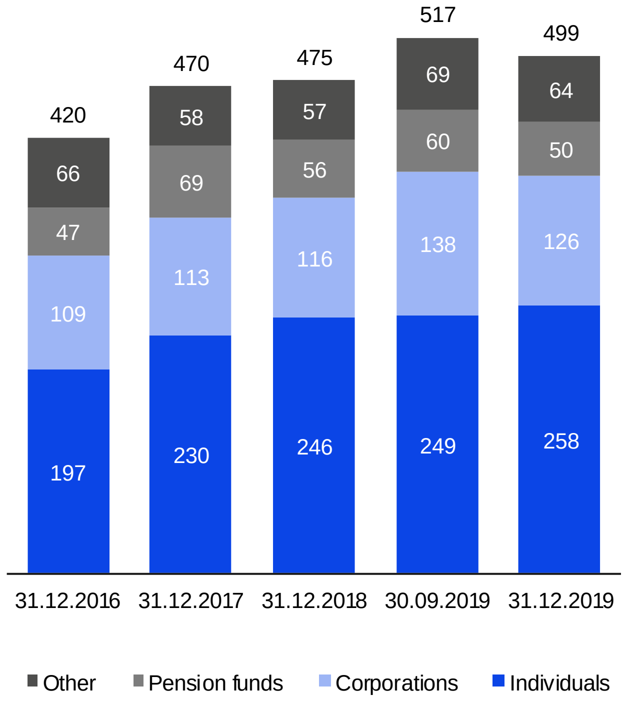
All amounts in ISK billion

Deposits

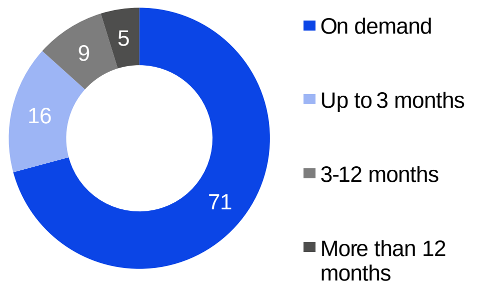
Continued focus on deposits both from individuals and corporates

- Deposits represent 46% of the Bank's funding
- Deposits from individuals have grown significantly over the last few years
  - 4.8% growth from YE 2018
- Special emphasis on corporate deposits
  - 8.6% growth from YE 2018
- FX deposits increased significantly in the first 9M 2019 but decreased back to YE2018 level in Q4
  - The Bank was able to reprice large FX deposits during Q4
- The Bank will continue focusing on deposits from individuals and corporates as they provide long term stable funding

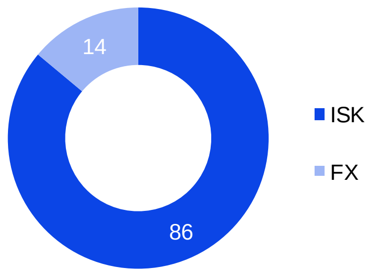
Deposits and due to credit institutions and Central Bank



Maturity of deposits (%)



Deposits by currency (%)



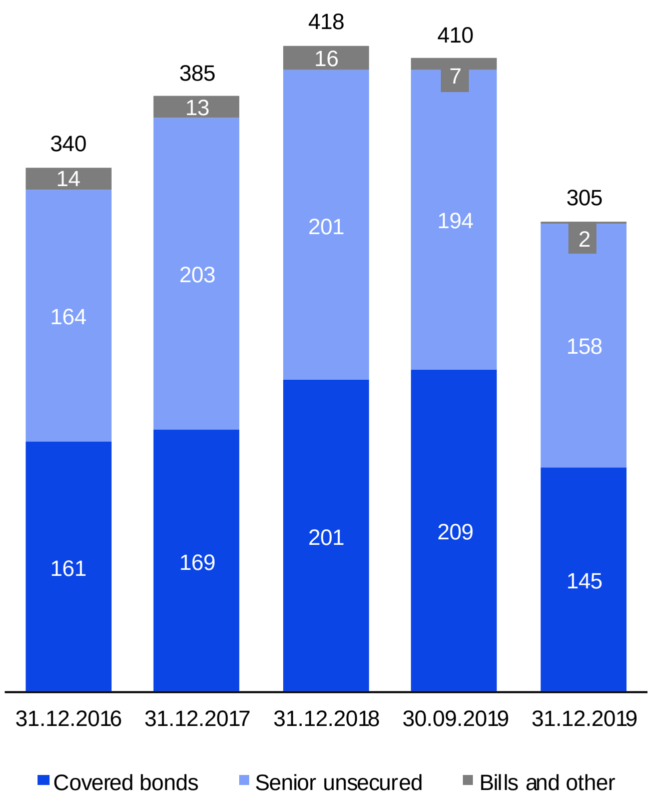
All amounts in ISK billion

Borrowings

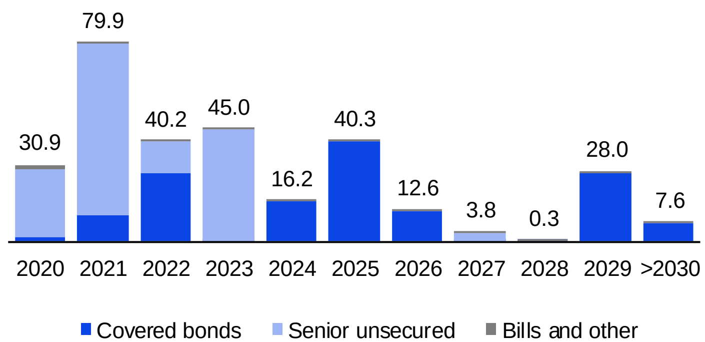
Reduced wholesale activity in line with changed focus on the asset side

- Continued emphasis on reduction of funding cost both through prepayments, buy-backs or other activities
- The Bank fully prepaid ISK 62 billion of its structured covered bond issuance in 2019, yielding 3.75% indexed in Q4
- In November 2019 the Bank repurchased EUR 258 million of EMTN bonds (ISK 35 billion) of EUR 300 million bond issue, maturing in June 2020.
- The Bank intends to issue EUR 300-500 million internationally through its EMTN program subject to funding needs and market conditions. The Bank will also issue smaller issues in other currencies
- Strong credit rating but outlook recently changed from stable to negative across Icelandic banks
- The Bank issued covered bonds to finance mortgages in the Icelandic market, total of ISK 32.2 billion in 2019
  - Arion Bank aims to issue approximately ISK 15-20 billion of benchmark covered bonds in 2020
- Total commercial paper issuance in 2019 amounted to ISK 14.5 billion
  - The Bank does not plan to issue commercial paper in 2020

Borrowings by type



Maturities of borrowings (%)



Ratings - S&P (July 2019)

	Arion Bank	Iceland
Senior unsecured	BBB+	A
Short term debt	A-2	A-1
Outlook	Negative	Stable

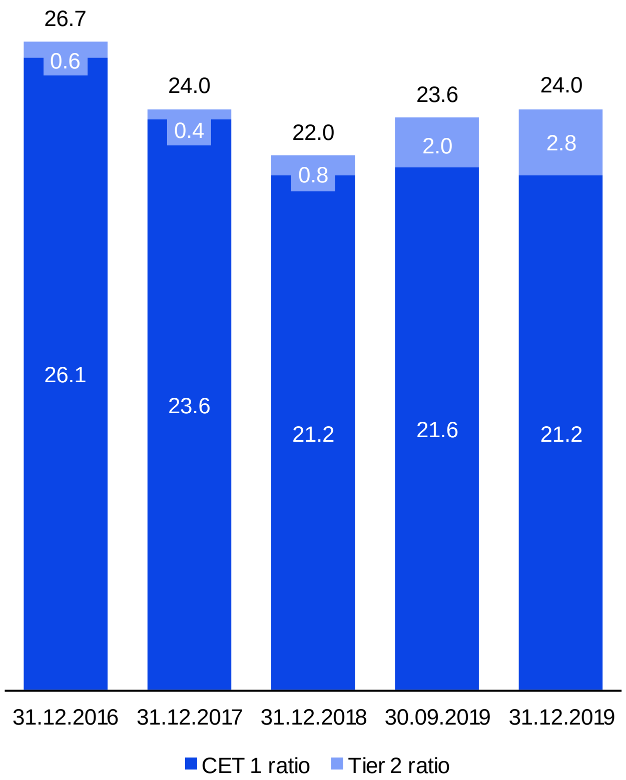
All amounts in ISK billion

Own funds

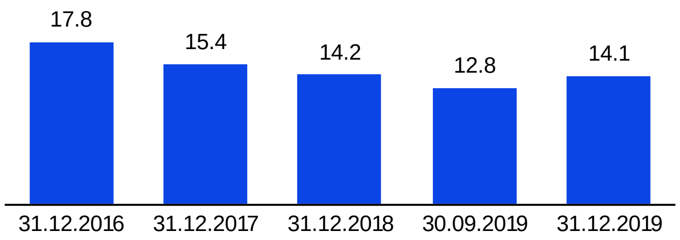
Capital ratio very strong despite dividends, buy-back of own shares and impairment of held for sale assets

- CET 1 ratio decreases from 21.6% to 21.2% due to proposed dividend of ISK 10.0 billion and buy-back of the Bank's shares amounting to ISK 4.7 billion
  - Effects from significant impairments on held for sale assets minimal as these assets are largely intangibles
- Tier 2 ratio increased by 80 bps from Q3 2019 and 200 bps from 31.12.2018
  - In Q4 the Bank issued SEK 225 million 10NC5 (ISK 2.9 billion) as well as further ISK 1.7 billion issuance in ISK
- Leverage ratio remains very strong in all respects
- Arion Bank is considering its options regarding the issuance of Additional Tier 1 (AT1) notes
  - A bill has been proposed in the Icelandic parliament that interest on AT1 notes will be tax deductible. Arion Bank's estimate is that it's likely the bill will be approved

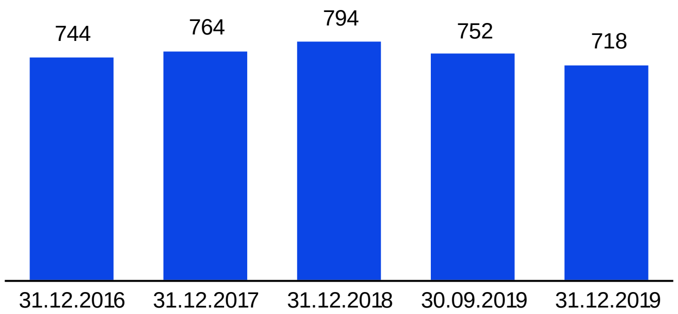
Capital ratio (%)



Leverage ratio (%)



Risk weighted assets



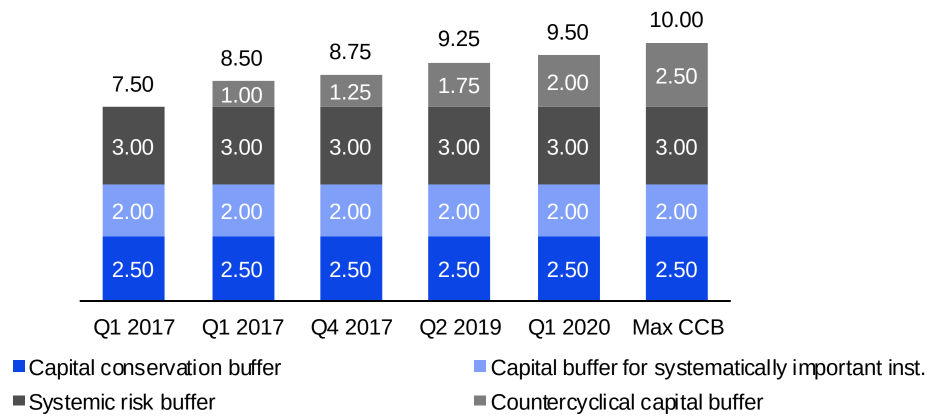
All amounts in ISK billion

Capital adequacy

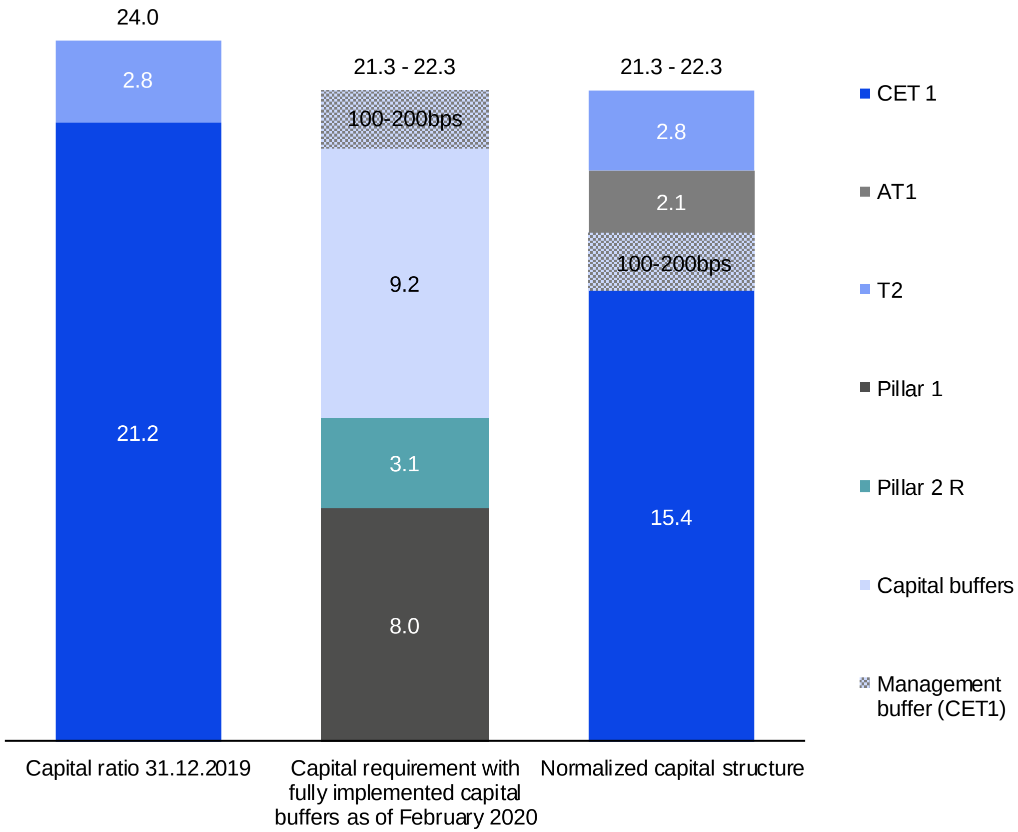
The Bank's management buffer now communicated as a range from 100 to 200bps

- Improved capital ratios in Q4
  - Risk-weighted assets decreased by 5%
  - ISK 5.4 bn. issuance of Tier 2 capital instruments
- Distribution of ISK 14.2 bn in Q1 2020 deducted from own funds
  - Dividend ISK 10.0bn (ISK 9.4 when adjusted for own shares)
  - Share buy back ISK 4.7 billion
- Surplus capital of ISK 16.0 billion
  - in excess of aforementioned distributions
  - using the mid-point of the 100-200bps management buffer
- The Bank's capital ratios increased by 0.4% on 1.1.2020
  - Introduction of SME supporting factor into prudential requirements in Iceland
  - Evidence to support that Iceland specific implementation of bank regulation is eased in light of the softer economic conditions

Development of capital buffers (%)



Own funds and capital requirements (%)



Arion Bank is committed to its medium-term targets

New revenue target introduced and loan growth target amended

Return on Equity

Exceed **10%**

Revenues / RWA's

Exceed **6.5%**

Cost to Income Ratio

Reduce 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 (Subject to regulatory requirements)

Reduce 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

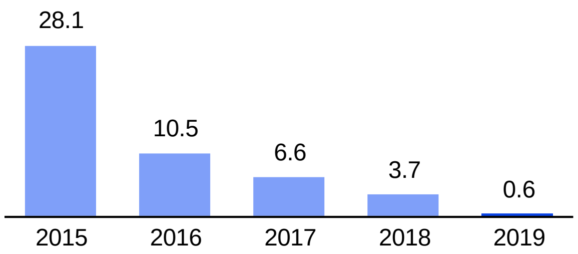
Going forward

- Continued emphasis on measures to reach financial targets
- The macroeconomic developments are of concern both domestically and internationally
- Continued decrease in RWA's
- Increased focus on other operating expenses
- Sale process of Valitor continues but is taking more time than originally anticipated
- The Bank aims to issue AT1 in Q1

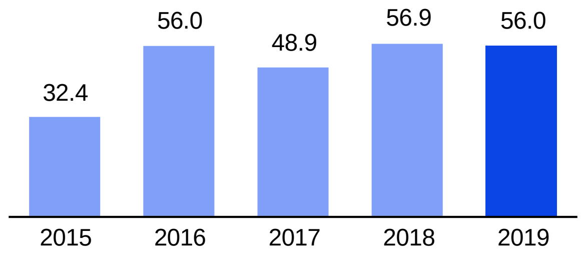
KFI’s and other information

Key financial indicators - annual

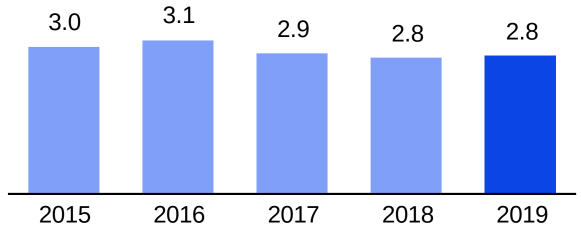
Return on equity (%)



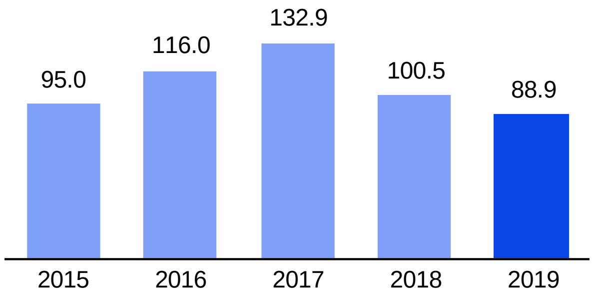
Cost-to-income ratio (%)



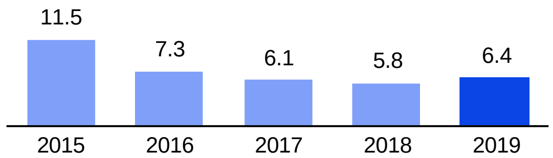
Net interest margin (%)



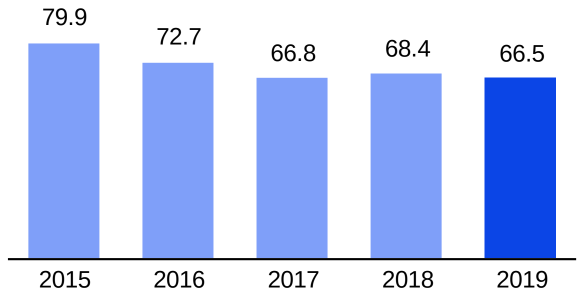
CPI imbalance (ISK billion)



Operating income / RWA (%)

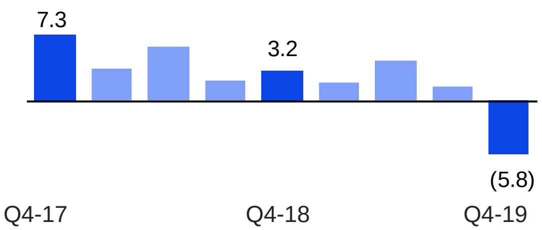


Risk weighted assets / Total assets (%)

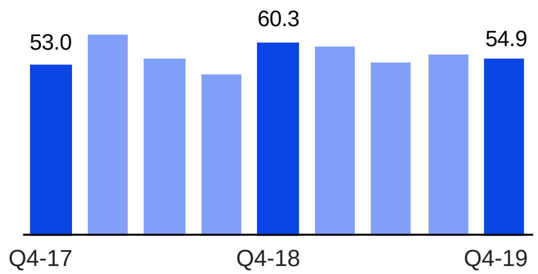


Key financial indicators - quarterly

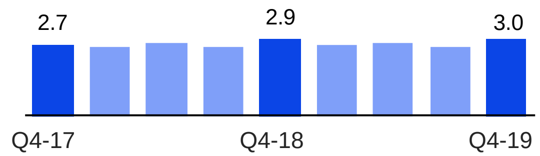
Return on equity (%)



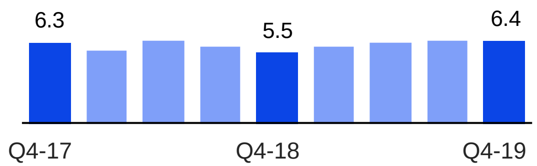
Cost-to-income ratio (%)



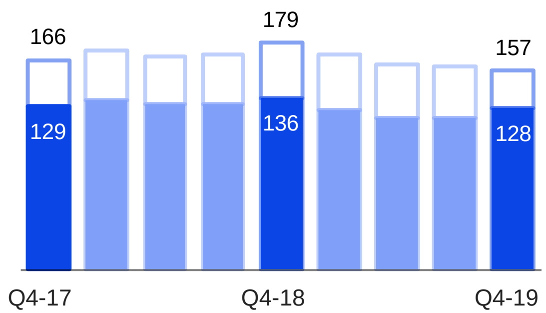
Net interest margin (%)



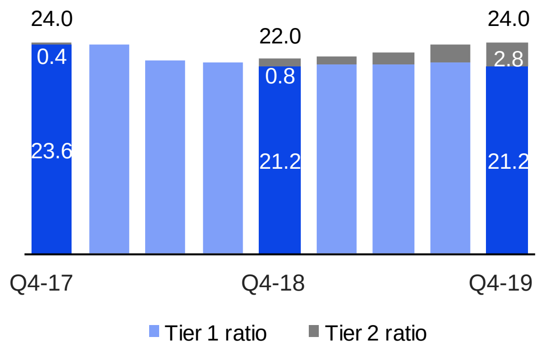
Operating income / RWA (%)



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



Capital ratio (%)



Key figures

Operations	2019	2018	2017	2016	2015	Q4 2019	Q3 2019	Q2 2019	Q1 2019	Q4 2018
Net interest income	30,317	29,319	28,920	29,900	26,992	7,693	7,382	7,808	7,434	7,969
Net commission income	9,950	10,349	10,211	13,978	14,485	2,615	2,639	2,478	2,218	2,746
Operating income	47,998	46,169	46,863	54,546	87,055	11,726	12,344	12,220	11,708	10,950
Operating expenses	26,863	26,278	22,893	30,540	28,247	6,443	6,940	6,618	6,862	6,599
Net earnings	1,100	7,776	14,421	21,738	49,677	(2,775)	761	2,096	1,018	1,616
Return on equity	0.6%	3.7%	6.6%	10.5%	28.1%	-5.8%	1.6%	4.3%	2.1%	3.2%
Net interest margin	2.8%	2.8%	2.9%	3.1%	3.0%	3.0%	2.6%	2.8%	2.7%	2.9%
Return on assets	0.1%	0.7%	1.3%	2.1%	5.0%	-1.0%	0.2%	0.7%	0.3%	0.5%
Cost-to-income ratio	56.0%	56.9%	48.9%	56.0%	32.4%	54.9%	56.2%	54.2%	58.6%	60.3%
Cost-to-total assets	2.3%	2.3%	2.1%	3.0%	2.9%	2.2%	2.3%	2.2%	2.3%	2.2%
Balance Sheet										
Total assets	1,081,854	1,164,326	1,147,754	1,036,024	1,011,043	1,081,854	1,213,155	1,233,419	1,222,695	1,164,326
Loans to customers	773,955	833,826	765,101	712,422	680,350	773,955	812,481	821,731	829,246	833,826
Mortgages	333,406	365,820	329,735	298,971	190,008	333,406	372,938	369,583	366,381	365,820
Share of stage 3 loans, gross	2.7%	2.6%	-	-	-	2.7%	2.5%	2.4%	2.5%	2.6%
Problem loans	-	-	1.0%	1.6%	2.5%	-	-	-	-	-
RWA/ Total assets	66.5%	68.4%	66.8%	72.7%	79.9%	66.5%	62.2%	63.1%	64.4%	68.4%
Tier 1 ratio	21.2%	21.2%	23.6%	26.1%	23.4%	21.2%	21.6%	21.4%	21.3%	21.2%
Leverage ratio	14.1%	14.2%	15.4%	0.0%	0.0%	14.1%	12.8%	13.3%	13.5%	14.2%
Liquidity coverage ratio	188.3%	164.4%	221.0%	171.3%	134.5%	188.3%	246.4%	198.0%	213.0%	164.4%
Loans to deposits ratio	157.0%	178.9%	165.5%	172.9%	145.0%	157.0%	159.9%	162.8%	169.1%	178.9%

All amounts in ISK million

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