

# Arion Bank Factbook

(Unaudited)

31.12.2018

## KFI - 5 years

ISK million	2018	2017	2016	2015	2014
<b>Profitability</b>					
Return on equity	3.7%	6.6%	10.5%	28.1%	18.6%
Return on assets	0.7%	1.3%	2.1%	5.0%	3.0%
Return on risk-weighted-assets	1.0%	1.9%	2.9%	6.7%	4.0%
Earnings per share	3.86	7.20	10.57	20.98	14.23
Earnings per share from continuing operations	4.49	6.99	10.57	20.80	10.82
<b>Net interest margin</b>					
Net interest margin on interest bearing assets	2.7%	2.9%	3.1%	3.0%	2.8%
Net interest margin on total assets	2.5%	2.6%	2.9%	2.7%	2.6%
<b>Efficiency</b>					
Cost-to-income ratio	56.9%	48.9%	56.0%	32.4%	49.4%
Cost-to-total assets ratio	2.3%	2.1%	3.0%	2.9%	2.9%
Number of FTE´s at year end	904	941	1,239	1,147	1,120
<b>Asset quality</b>					
Share of stage 3 loans, gross*	2.6%	-	-	-	-
Problem loans <sup>1</sup>	-	1.0%	1.6%	2.5%	4.4%
Provision for losses/Gross impaired loans <sup>1</sup>	-	80.5%	77.4%	75.8%	62.9%
Gross impaired loans/Gross loans <sup>1</sup>	-	1.6%	3.2%	4.7%	5.3%
Past due loans but not impaired as % of gross loans <sup>1</sup>	-	4.2%	4.9%	6.2%	7.2%
Risk weighted assets / Total assets	68.4%	66.8%	72.7%	79.9%	74.5%
<b>Financial strength</b>					
Equity as % of total assets	17.3%	19.7%	20.4%	20.0%	17.4%
<b>Liquidity</b>					
Liquidity coverage ratio (LCR)	164.4%	221.0%	171.3%	134.5%	174.0%
Loans-to-deposits ratio	178.9%	165.5%	172.9%	145.0%	142.3%
Loans-to-deposits ratio (without covered bonds)	135.7%	129.0%	133.8%	116.0%	114.0%
Deposits from customers as % of total funding	52.2%	54.1%	53.9%	67.4%	64.4%
Covered bonds as % of total funding	22.5%	19.8%	21.1%	19.5%	18.3%
<b>Capital</b>					
CET 1 ratio	21.2%	23.6%	26.5%	22.3%	21.6%
Tier 1 ratio	21.2%	23.6%	26.6%	23.4%	21.8%
Tier 2 ratio	0.8%	0.4%	0.6%	0.8%	4.5%
Capital adequacy ratio	22.0%	24.0%	27.2%	24.2%	26.3%
Leverage ratio	14.2%	15.4%	18.0%	16.7%	15.4%

\* (Gross carrying value of stage 3 loans + gross carrying value of POCI loans in Risk class 4 or lower) / Gross carrying value of loans to customers

<sup>1</sup> Not available following implementation of IFRS 9 in January 2018

## Income statement - 5 year summary

ISK million	2018	2017	2016	2015	2014
Interest income	59,316	56,028	61,655	54,546	50,871
Interest expense	(29,997)	(27,108)	(31,755)	(27,554)	(26,651)
<b>Net interest income</b>	<b>29,319</b>	<b>28,920</b>	<b>29,900</b>	<b>26,992</b>	<b>24,220</b>
Fee and commission income	11,658	11,619	23,892	21,235	18,447
Fee and commission expense	(1,308)	(1,408)	(9,914)	(6,751)	(5,138)
<b>Net fee and commission income</b>	<b>10,350</b>	<b>10,211</b>	<b>13,978</b>	<b>14,484</b>	<b>13,309</b>
Net financial income	2,302	4,045	5,162	12,844	7,290
Net insurance income	2,589	2,093	1,395	760	664
Share of profit of associates	27	(927)	908	29,466	3,498
Other operating income	1,584	2,521	3,203	2,074	5,347
<b>Other net operating income</b>	<b>6,502</b>	<b>7,732</b>	<b>10,668</b>	<b>45,144</b>	<b>16,799</b>
<b>Operating income</b>	<b>45,561</b>	<b>46,863</b>	<b>54,546</b>	<b>86,620</b>	<b>54,328</b>
Salaries and related expense	(14,278)	(13,602)	(16,659)	(14,892)	(13,979)
Other operating expenses	(12,000)	(9,291)	(13,881)	(12,919)	(12,722)
<b>Operating expenses</b>	<b>(26,278)</b>	<b>(22,893)</b>	<b>(30,540)</b>	<b>(27,811)</b>	<b>(26,701)</b>
Bank Levy	(3,386)	(3,172)	(2,872)	(2,818)	(2,643)
Net impairment	(3,525)	312	7,236	(3,087)	2,135
<b>Earnings before tax</b>	<b>12,372</b>	<b>21,110</b>	<b>28,370</b>	<b>52,904</b>	<b>27,119</b>
Income tax expense	(4,046)	(5,966)	(6,631)	(3,225)	(4,815)
<b>Net earnings from continuing operations</b>	<b>8,326</b>	<b>15,144</b>	<b>21,739</b>	<b>49,679</b>	<b>22,304</b>
Net gain (loss) from discontinued operations, net of tax	(1,159)	(725)	-	-	6,290
<b>Net earnings</b>	<b>7,777</b>	<b>14,419</b>	<b>21,739</b>	<b>49,679</b>	<b>28,594</b>
<b>Attributable to</b>					
Shareholders of Arion Bank	7,116	14,400	21,147	41,968	28,465
Non-controlling interest	661	19	592	7,711	129
<b>Net earnings</b>	<b>7,777</b>	<b>14,419</b>	<b>21,739</b>	<b>49,679</b>	<b>28,594</b>
<b>Earnings per share from continuing operations</b>					
Basic and diluted earnings per share attributable to the shareholders of Arion Bank (ISK)	4.49	7.56	10.57	20.98	11.09

## Balance sheet - 5 year summary

ISK million	2018	2017	2016	2015	2014
<b>Assets</b>					
Cash and balances with Central Bank	83,139	139,819	87,634	48,102	21,063
Loans to credit institutions	56,322	86,609	80,116	87,491	108,792
Loans to customers	833,826	765,101	712,422	680,350	647,508
Financial instruments	114,557	109,450	117,456	133,191	101,828
Investment property	7,092	6,613	5,358	7,542	6,842
Investments in associates	818	760	839	27,299	21,966
Intangible assets	6,397	13,848	11,057	9,285	9,596
Tax assets	90	450	288	205	655
Assets and disposal groups held for sale	48,584	8,138	4,418	5,082	3,958
Other assets	13,502	16,966	16,436	12,496	11,528
<b>Total assets</b>	<b>1,164,327</b>	<b>1,147,754</b>	<b>1,036,024</b>	<b>1,011,043</b>	<b>933,736</b>
<b>Liabilities</b>					
Due to credit institutions and Central Bank	9,204	7,370	7,987	11,387	22,876
Deposits	466,067	462,161	412,064	469,347	454,973
Financial liabilities at fair value	2,320	3,601	3,726	7,609	9,143
Tax liabilities	5,119	6,828	7,293	4,922	5,123
Liabilities associated with disposal groups held for sale	26,337	-	-	-	-
Other liabilities	30,107	57,062	54,094	49,461	47,190
Borrowings	417,782	384,998	339,476	256,058	200,580
Subordinated liabilities	6,532	-	-	10,365	31,639
<b>Total liabilities</b>	<b>963,468</b>	<b>922,020</b>	<b>824,640</b>	<b>809,149</b>	<b>771,524</b>
<b>Equity</b>					
Share capital and share premium	59,010	75,861	75,861	75,861	75,861
Other reserves	14,822	16,774	19,761	4,547	1,632
Retained earnings	126,897	132,971	115,590	112,378	83,218
<b>Total shareholders equity</b>	<b>200,729</b>	<b>225,606</b>	<b>211,212</b>	<b>192,786</b>	<b>160,711</b>
Non-controlling interest	130	128	172	9,108	1,501
<b>Total equity</b>	<b>200,859</b>	<b>225,734</b>	<b>211,384</b>	<b>201,894</b>	<b>162,212</b>
<b>Total liabilities and equity</b>	<b>1,164,327</b>	<b>1,147,754</b>	<b>1,036,024</b>	<b>1,011,043</b>	<b>933,736</b>

## Net interest income - 5 year summary

ISK million	2018	2017	2016	2015	2014
<b>Interest income</b>					
Cash and balances with Central bank	4,625	6,315	4,584	736	703
Loans	53,811	47,547	51,910	49,415	45,810
Securities	607	1,964	4,347	3,532	3,664
Other	273	202	814	863	694
<b>Interest income</b>	<b>59,316</b>	<b>56,028</b>	<b>61,655</b>	<b>54,546</b>	<b>50,871</b>
<b>Interest expense</b>					
Deposits	(13,323)	(12,605)	(16,284)	(15,452)	(15,983)
Borrowings	(16,524)	(14,449)	(14,851)	(11,344)	(9,269)
Subordinated liabilities	(19)	-	(529)	(701)	(1,292)
Other	(131)	(54)	(91)	(57)	(107)
<b>Interest expense</b>	<b>(29,997)</b>	<b>(27,108)</b>	<b>(31,755)</b>	<b>(27,554)</b>	<b>(26,651)</b>
<b>Net interest income</b>	<b>29,319</b>	<b>28,920</b>	<b>29,900</b>	<b>26,992</b>	<b>24,220</b>
<b>Interest bearing assets</b>					
Cash and balances with Central Bank	83,139	139,819	87,634	48,102	21,063
Loans	890,148	851,710	792,539	767,841	756,300
Securities	87,701	65,402	82,042	82,715	70,704
<b>Interest bearing assets</b>	<b>1,060,989</b>	<b>1,056,931</b>	<b>962,214</b>	<b>898,657</b>	<b>848,067</b>
<b>Interest bearing liabilities</b>					
Due to credit institutions and Central Bank	9,204	7,370	7,987	11,387	22,876
Deposits	466,067	462,161	412,064	469,347	454,973
Financial liabilities at fair value	2,320	3,601	3,727	7,609	9,143
Borrowings	417,782	384,998	339,476	256,058	200,580
Subordinated liabilities	6,532	-	-	10,365	31,639
<b>Interest bearing liabilities</b>	<b>901,905</b>	<b>858,130</b>	<b>763,252</b>	<b>754,766</b>	<b>719,210</b>
<b>Interest Gap</b>	<b>159,084</b>	<b>198,801</b>	<b>198,962</b>	<b>143,891</b>	<b>128,857</b>
<b>Net interest margin on interest bearing assets</b>	<b>2.8%</b>	<b>2.9%</b>	<b>3.1%</b>	<b>3.0%</b>	<b>2.8%</b>

## Loans to customers - 5 year summary

ISK million	2018	2017	2016	2015	2014
<b>Loans to customers</b>					
Individuals	400,483	365,287	337,416	324,619	321,311
Corporates	433,343	399,814	375,006	355,731	326,197
<b>Total loans to customers</b>	<b>833,826</b>	<b>765,101</b>	<b>712,422</b>	<b>680,350</b>	<b>647,508</b>
<b>Loans to individuals</b>					
Overdrafts	14,536	14,469	14,805	16,840	17,955
Credit cards	12,958	11,133	11,363	10,842	11,065
Mortgage loans	343,119	311,507	285,784	271,895	271,639
Other loans	33,560	33,629	34,777	38,058	33,763
Provision on loans	(3,690)	(5,451)	(9,313)	(13,016)	(13,111)
<b>Total loans to individuals</b>	<b>400,483</b>	<b>365,287</b>	<b>337,416</b>	<b>324,619</b>	<b>321,311</b>
Neither past due nor impaired <sup>1</sup>	-	344,829	312,259	291,277	277,859
Past due but not impaired <sup>1</sup>	-	18,929	21,854	26,532	32,847
Individually impaired (gross) <sup>1</sup>	-	5,539	10,372	17,403	21,621
Impairment amount <sup>1</sup>	-	(4,010)	(7,069)	(10,593)	(11,016)
<b>Total loans to individuals</b>	<b>-</b>	<b>365,287</b>	<b>337,416</b>	<b>324,619</b>	<b>321,311</b>
<b>Ratios:</b>					
Share of stage 3 loans, gross*	2.6%	-	-	-	-
Provision for losses/Gross impaired loans <sup>1</sup>	-	98.4%	89.8%	74.8%	60.6%
Past due loans but not impaired as % of gross loans <sup>1</sup>	-	5.1%	6.3%	7.9%	9.9%
Gross impaired loans/Gross loans <sup>1</sup>	-	1.5%	3.0%	5.2%	6.5%

\* (Gross carrying value of stage 3 loans + gross carrying value of POCI loans in Risk class 4 or lower) / Gross carrying value of loans to customers

<sup>1</sup> Not available following implementation of IFRS 9 in January 2018

## Loans to customers - 5 year summary

ISK million	2018	2017	2016	2015	2014
<b>Loans to corporates</b>					
Overdrafts	19,200	18,778	19,314	24,248	24,420
Credit cards	1,348	1,123	1,180	1,054	943
Mortgage loans	23,417	19,632	16,298	12,889	10,406
Other loans	395,579	368,312	351,739	334,849	303,998
Provision on loans	(6,201)	(8,031)	(13,525)	(17,309)	(13,570)
<b>Total loans to corporates</b>	<b>433,343</b>	<b>399,814</b>	<b>375,006</b>	<b>355,731</b>	<b>326,197</b>
Neither past due nor impaired <sup>1</sup>	-	385,197	358,709	337,153	308,588
Past due but not impaired <sup>1</sup>	-	13,655	14,251	17,302	15,114
Individually impaired (gross) <sup>1</sup>	-	7,239	13,258	16,024	13,693
Impairment amount <sup>1</sup>	-	(6,277)	(11,212)	(14,748)	(11,198)
<b>Total loans to individuals</b>	<b>-</b>	<b>399,814</b>	<b>375,006</b>	<b>355,731</b>	<b>326,197</b>
<b>Ratios:</b>					
Provision for losses/Gross impaired loans <sup>1</sup>	-	110.9%	102.0%	108.0%	99.1%
Past due loans but not impaired as % of gross loans <sup>1</sup>	-	3.4%	3.7%	4.7%	4.5%
Gross impaired loans/Gross loans <sup>1</sup>	-	1.8%	3.4%	4.3%	4.1%
<b>Loans to corporates specified by sector:</b>					
Agriculture and forestry	1.7%	1.6%	1.6%	1.6%	1.7%
Services	3.8%	4.5%	4.6%	5.6%	5.6%
Financial and insurance activities	8.7%	8.5%	9.3%	9.4%	8.5%
Industry, energy and manufacturing	8.2%	7.4%	7.6%	6.0%	7.8%
Information and communication technology	4.8%	5.5%	7.6%	8.7%	7.1%
Public administration, human health and social activities	1.6%	2.0%	2.3%	2.3%	2.4%
Real estate activities and construction	33.9%	32.1%	30.6%	28.8%	24.9%
Fishing industry	19.4%	19.7%	20.4%	21.3%	23.4%
Transportation	2.8%	4.3%	1.7%	1.7%	1.7%
Wholesale and retail trade	15.2%	14.4%	14.1%	14.6%	16.9%
	100.0%	100.0%	100.0%	100.0%	100.0%

<sup>1</sup> Not available following implementation of IFRS 9 in January 2018

## Capital and Risk Weighted Assets

ISK million

	2018	2017	2016	2015	2014
<b>Capital base:</b>					
Total equity	200,859	225,734	211,384	201,895	162,212
Deductions related to the consolidated situation <sup>1</sup>	(8,986)	(8,635)	(8,126)	-	-
Non-controlling interest not eligible for inclusion in CET 1 capital	(130)	(128)	(172)	(9,108)	(1,501)
<b>Common Equity Tier 1 capital before regulatory adjustments</b>	<b>191,743</b>	<b>216,971</b>	<b>203,086</b>	<b>192,786</b>	<b>160,711</b>
Intangible assets	(12,152)	(11,125)	(8,201)	(9,285)	(9,596)
Tax assets	(191)	(357)	(198)	(205)	(655)
Foreseeable dividend	(1,537)	(25,000)	-	-	-
Other statutory deductions	(9,069)	146	(149)	(3,151)	(111)
<b>Common equity Tier 1 capital</b>	<b>168,794</b>	<b>180,635</b>	<b>194,538</b>	<b>180,145</b>	<b>150,349</b>
Non-controlling interest not eligible for inclusion in CET1 capital	130	128	172	9,108	1,501
<b>Tier 1 capital</b>	<b>168,924</b>	<b>180,763</b>	<b>194,710</b>	<b>189,254</b>	<b>151,850</b>
Subordinated liabilities	6,532	-	-	10,365	31,639
Regulatory adjustment to Tier 2 capital	-	-	-	(771)	-
Other statutory deductions	-	-	-	(3,118)	(101)
General credit risk adjustments	-	3,195	4,557	-	-
<b>Tier 2 Capital</b>	<b>6,532</b>	<b>3,195</b>	<b>4,557</b>	<b>6,476</b>	<b>31,538</b>
<b>Total Capital base</b>	<b>175,456</b>	<b>183,958</b>	<b>199,267</b>	<b>195,729</b>	<b>183,388</b>
<b>Risk weighted assets</b>					
Credit Risk, loans	639,788	605,058	577,470	681,034	591,994
Credit Risk, securities and other <sup>2</sup>	50,112	56,979	55,036	-	-
Counterparty credit risk <sup>2</sup>	4,405	5,844	5,550	-	-
Market Risk due to currency imbalance	4,280	4,895	5,449	38,401	18,915
Market Risk Other	8,928	5,473	12,966	7,035	2,890
Credit valuation adjustment <sup>2</sup>	2,228	2,506	2,678	-	-
Operational Risk	86,858	86,013	86,490	81,441	82,211
<b>Total risk weighted assets</b>	<b>796,599</b>	<b>766,768</b>	<b>745,639</b>	<b>807,911</b>	<b>696,010</b>
<b>Capital ratios</b>					
CET 1 ratio	21.2%	23.6%	26.1%	22.3%	21.6%
Tier 1 ratio	21.2%	23.6%	26.1%	23.4%	21.8%
Capital adequacy ratio	22.0%	24.0%	26.7%	24.2%	26.3%
<b>Leverage ratio</b>					
On-balance sheet exposures	1,106,368	1,074,207	995,063	982,348	912,303
Derivative exposures	8,239	10,957	8,226	3,789	1,348
Securities financing transaction exposures	8,194	8,925	9,330	16,287	10,044
Off-balance sheet exposures	68,316	83,058	83,156	127,675	59,922
<b>Total exposure</b>	<b>1,191,117</b>	<b>1,177,147</b>	<b>1,095,775</b>	<b>1,130,099</b>	<b>983,617</b>
<b>Tier 1 capital</b>	<b>168,924</b>	<b>180,763</b>	<b>194,710</b>	<b>189,254</b>	<b>151,850</b>
<b>Leverage ratio</b>	<b>14.2%</b>	<b>15.4%</b>	<b>17.8%</b>	<b>16.7%</b>	<b>15.4%</b>
<b>Related ratios</b>					
RORWA	1.0%	1.9%	2.9%	6.7%	4.0%
RWA/Total assets	68.4%	66.8%	72.7%	79.9%	74.5%

1) Calculations restated for 2016 using the Group's consolidated situation which excludes insurance companies. The effective capital position of the Group is unaffected as the Pillar 2 capital requirement is adjusted accordingly. Their solvency requirements of insurance companies should be viewed separately.

2) Not disclosed separately in 2015, 2014 and 2013



## KFI - 9 Quarters

ISK million

	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017	Q1 2017	Q4 2016
<b>Profitability</b>									
Return on equity	3.2%	2.3%	5.9%	3.6%	7.3%	(0.2%)	13.0%	6.3%	8.6%
Return on assets	0.5%	0.4%	1.1%	0.7%	1.4%	(0.0%)	2.6%	1.2%	1.7%
Return on risk-weighted-assets	0.8%	0.6%	1.6%	1.0%	2.1%	(0.1%)	3.8%	1.8%	2.4%
Earnings per share	0.87	0.63	1.35	1.01	2.02	(0.06)	3.56	1.68	2.18
Earnings per share from continuing operations	1.56	0.63	1.36	0.95	2.13	(0.06)	3.56	1.68	2.18
<b>Net interest margin</b>									
Net interest margin on interest bearing assets	2.9%	2.7%	2.8%	2.7%	2.7%	2.7%	3.1%	2.8%	3.2%
Net interest margin on total assets	2.7%	2.4%	2.5%	2.4%	2.5%	2.5%	2.8%	2.6%	3.0%
<b>Efficiency</b>									
Cost-to-income ratio	60.3%	50.3%	55.4%	62.5%	53.0%	59.9%	30.1%	56.8%	57.9%
Cost-to-total assets ratio	2.2%	2.0%	2.4%	2.4%	2.2%	2.1%	1.4%	2.4%	3.2%
Number of FTE´s at year end	904	933	966	956	941	950	924	939	1,239
<b>Asset quality</b>									
Share of stage 3 loans, gross*	2.6%	2.9%	3.0%	3.3%	-	-	-	-	-
Problem loans <sup>1</sup>	-	-	-	-	1.0%	1.4%	1.3%	1.5%	1.6%
Provision for losses/Gross impaired loans <sup>1</sup>	-	-	-	-	80.5%	74.6%	76.0%	72.4%	77.4%
Gross impaired loans/Gross loans <sup>1</sup>	-	-	-	-	1.6%	2.1%	2.1%	2.4%	3.2%
Past due loans but not impaired as % of gross loans <sup>1</sup>	-	-	-	-	4.2%	5.0%	4.8%	5.6%	4.9%
Risk weighted assets / Total assets	68.4%	66.2%	67.8%	68.8%	66.8%	68.4%	67.0%	66.4%	72.7%

\* (Gross carrying value of stage 3 loans + gross carrying value of POCI loans in Risk class 4 or lower) / Gross carrying value of loans to customers

<sup>1</sup> Not available following implementation of IFRS 9 in January 2018

## KFI - 9 Quarters

ISK million

	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017	Q1 2017	Q4 2016
<b>Financial strength</b>									
Equity as % of total assets	17.3%	16.4%	17.7%	18.0%	19.7%	19.4%	19.7%	19.2%	20.4%
<b>Liquidity</b>									
Liquidity coverage ratio (LCR)	164.4%	169.1%	231.7%	209.9%	221.0%	228.6%	266.2%	163.5%	171.3%
Loans-to-deposits ratio	178.9%	169.2%	168.8%	172.7%	165.5%	168.4%	167.7%	151.4%	172.9%
Loans-to-deposits ratio (without covered bonds)	135.7%	130.2%	130.3%	134.4%	129.0%	129.4%	128.2%	116.5%	133.8%
Deposits from customers as % of total funding	52.2%	52.4%	53.3%	52.6%	54.1%	52.3%	53.0%	56.2%	53.9%
Covered bonds as % of total funding	22.5%	20.4%	20.5%	20.1%	19.8%	20.4%	20.9%	19.6%	21.1%
<b>Capital</b>									
Official CET 1 ratio	21.2%	21.6%	21.8%	23.6%	23.6%	26.6%	27.7%	27.3%	26.1%
Tier 1 ratio	21.2%	21.7%	21.9%	23.6%	23.6%	26.9%	27.8%	27.3%	26.6%
Tier 2 ratio	0.8%	0.0%	0.0%	0.0%	0.4%	0.5%	0.6%	0.6%	0.6%
Official capital adequacy ratio	22.0%	21.7%	21.9%	23.6%	24.0%	27.4%	28.4%	27.9%	27.2%
Leverage ratio	14.2%	13.8%	14.3%	15.4%	15.4%	16.8%	17.4%	17.0%	18.0%

## Income statement - 9 quarter summary

ISK million	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017	Q1 2017	Q4 2016
Interest income	16,349	14,933	13,990	14,044	13,545	13,199	15,862	13,422	15,409
Interest expense	(8,380)	(7,724)	(6,676)	(7,217)	(6,481)	(6,166)	(7,942)	(6,518)	(7,567)
<b>Net interest income</b>	<b>7,969</b>	<b>7,209</b>	<b>7,314</b>	<b>6,827</b>	<b>7,064</b>	<b>7,033</b>	<b>7,920</b>	<b>6,904</b>	<b>7,842</b>
Fee and commission income	3,064	2,991	3,028	2,575	3,475	2,843	2,793	2,508	6,451
Fee and commission expense	(318)	(304)	(316)	(370)	(351)	(364)	(383)	(310)	(2,686)
<b>Net fee and commission income</b>	<b>2,746</b>	<b>2,687</b>	<b>2,712</b>	<b>2,205</b>	<b>3,124</b>	<b>2,479</b>	<b>2,410</b>	<b>2,198</b>	<b>3,765</b>
Net financial income	(774)	570	1,119	1,387	1,555	(687)	1,744	1,433	823
Net insurance income	704	984	758	143	324	716	606	447	731
Share of profit of associates	11	34	2	(20)	(10)	17	(900)	(34)	198
Other operating income	294	422	600	268	90	345	1,629	456	826
<b>Operating income</b>	<b>10,950</b>	<b>11,906</b>	<b>12,505</b>	<b>10,810</b>	<b>12,147</b>	<b>9,903</b>	<b>13,409</b>	<b>11,404</b>	<b>14,185</b>
Salaries and related expense	(3,584)	(3,129)	(3,949)	(3,616)	(3,461)	(3,054)	(3,650)	(3,437)	(4,407)
Other operating expenses	(3,015)	(2,864)	(2,978)	(3,143)	(2,982)	(2,877)	(391)	(3,041)	(3,803)
<b>Operating expenses</b>	<b>(6,599)</b>	<b>(5,993)</b>	<b>(6,927)</b>	<b>(6,759)</b>	<b>(6,443)</b>	<b>(5,931)</b>	<b>(4,041)</b>	<b>(6,478)</b>	<b>(8,210)</b>
Bank Levy	(765)	(938)	(879)	(804)	(784)	(814)	(777)	(797)	(682)
Net impairment	(573)	(2,651)	(166)	(135)	1,504	(2,500)	401	907	409
<b>Earnings before tax</b>	<b>3,013</b>	<b>2,324</b>	<b>4,533</b>	<b>3,112</b>	<b>6,424</b>	<b>658</b>	<b>8,992</b>	<b>5,036</b>	<b>5,702</b>
Income tax expense	(881)	(973)	(1,302)	(890)	(1,957)	(713)	(1,891)	(1,405)	(1,227)
<b>Net earnings from continuing operations</b>	<b>2,132</b>	<b>1,351</b>	<b>3,231</b>	<b>2,222</b>	<b>4,467</b>	<b>(55)</b>	<b>7,101</b>	<b>3,631</b>	<b>4,475</b>
Net gain (loss) from discontinued operations, net of tax	(516)	(201)	(169)	(273)	(401)	(58)	12	(278)	-
<b>Net earnings</b>	<b>1,616</b>	<b>1,150</b>	<b>3,062</b>	<b>1,949</b>	<b>4,066</b>	<b>(113)</b>	<b>7,113</b>	<b>3,353</b>	<b>4,475</b>
<b>Attributable to</b>									
Shareholders of Arion Bank	1,567	1,151	2,449	1,949	4,049	(114)	7,112	3,352	4,369
Non-controlling interest	49	(1)	613	-	17	1	1	1	106
<b>Net earnings</b>	<b>1,616</b>	<b>1,150</b>	<b>3,062</b>	<b>1,949</b>	<b>4,066</b>	<b>(113)</b>	<b>7,113</b>	<b>3,353</b>	<b>4,475</b>
<b>Earnings per share from continuing operations</b>									
Basic and diluted earnings per share attributable to the shareholders of Arion Bank (ISK)	1.56	0.64	1.34	0.95	2.13	(0.15)	3.42	1.60	2.03

## Balance sheet - 9 quarter summary

ISK million	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017	Q1 2017	Q4 2016
<b>Assets</b>									
Cash and balances with Central Bank	83,139	99,525	112,996	97,934	139,819	132,316	151,354	178,593	87,634
Loans to credit institutions	56,322	123,446	113,546	94,961	86,609	94,242	78,250	68,149	80,116
Loans to customers	833,826	819,965	803,694	782,255	765,101	750,947	733,649	720,198	712,422
Financial instruments	114,557	109,374	95,265	106,415	109,450	121,041	109,353	110,673	117,456
Investment property	7,092	7,044	7,027	6,749	6,613	6,903	7,166	5,911	5,358
Investments in associates	818	862	743	743	760	842	825	818	839
Intangible assets	6,397	14,039	13,858	13,498	13,848	12,755	11,639	11,121	11,057
Tax assets	90	623	603	611	450	286	413	462	288
Non-current assets and disp. groups held for sale	48,584	8,351	8,295	8,496	8,138	7,352	3,443	4,058	4,418
Other assets	13,502	36,300	18,817	20,107	16,966	18,169	30,319	19,664	16,436
<b>Total assets</b>	<b>1,164,327</b>	<b>1,219,529</b>	<b>1,174,844</b>	<b>1,131,769</b>	<b>1,147,754</b>	<b>1,144,853</b>	<b>1,126,411</b>	<b>1,119,648</b>	<b>1,036,024</b>
<b>Liabilities</b>									
Due to credit institutions and Central Bank	9,204	15,370	6,336	7,880	7,370	7,097	7,644	9,689	7,987
Deposits	466,067	484,569	476,182	453,059	462,161	445,981	437,494	475,641	412,064
Financial liabilities at fair value	2,320	3,381	3,895	3,130	3,601	3,551	5,029	3,922	3,726
Tax liabilities	5,119	6,376	6,503	6,885	6,828	9,303	9,342	8,305	7,293
Liabilities associated with disposal groups held for sale	26,337								
Other liabilities	30,107	84,176	63,524	55,715	57,062	56,813	65,073	51,678	54,094
Borrowings	417,782	425,601	410,773	400,855	384,998	400,400	380,061	355,633	339,476
Subordinated liabilities	6,532	-	-	-	-	-	-	-	-
<b>Total liabilities</b>	<b>963,468</b>	<b>1,019,473</b>	<b>967,213</b>	<b>927,524</b>	<b>922,020</b>	<b>923,144</b>	<b>904,645</b>	<b>904,868</b>	<b>824,640</b>
<b>Equity</b>									
Share capital and share premium	59,010	59,014	59,017	58,722	75,861	75,861	75,861	75,861	75,861
Other reserves	14,822	15,648	14,436	14,880	16,774	15,001	13,565	20,197	19,761
Retained earnings	126,897	124,655	133,437	130,515	132,971	130,673	132,167	118,549	115,590
<b>Total shareholders equity</b>	<b>200,729</b>	<b>199,317</b>	<b>206,890</b>	<b>204,117</b>	<b>225,606</b>	<b>221,535</b>	<b>221,593</b>	<b>214,607</b>	<b>211,212</b>
Non-controlling interest	130	739	741	128	128	174	174	173	172
<b>Total equity</b>	<b>200,859</b>	<b>200,056</b>	<b>207,631</b>	<b>204,245</b>	<b>225,734</b>	<b>221,709</b>	<b>221,766</b>	<b>214,779</b>	<b>211,384</b>
<b>Total liabilities and equity</b>	<b>1,164,327</b>	<b>1,219,529</b>	<b>1,174,844</b>	<b>1,131,769</b>	<b>1,147,754</b>	<b>1,144,853</b>	<b>1,126,411</b>	<b>1,119,648</b>	<b>1,036,024</b>

## Net interest income - 9 quarter summary

ISK million	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017	Q1 2017	Q4 2016
<b>Interest income</b>									
Cash and balances with Central bank	989	1,270	1,120	1,246	1,358	1,620	1,990	1,347	1,335
Loans	15,148	13,573	12,573	12,517	11,805	11,098	13,313	11,333	12,813
Securities	152	23	199	257	340	427	515	682	946
Other	38	66	100	47	41	55	45	61	315
<b>Interest income</b>	<b>16,327</b>	<b>14,932</b>	<b>13,990</b>	<b>14,067</b>	<b>13,544</b>	<b>13,199</b>	<b>15,863</b>	<b>13,422</b>	<b>15,409</b>
<b>Interest expense</b>									
Deposits	(3,599)	(3,413)	(3,114)	(3,198)	(2,924)	(2,772)	(3,804)	(3,106)	(3,763)
Borrowings	(4,739)	(4,240)	(3,556)	(3,988)	(3,537)	(3,379)	(4,120)	(3,413)	(3,797)
Subordinated loans	(19)	-	-	-	-	-	-	-	-
Other	(23)	(71)	(7)	(31)	(20)	(15)	(18)	(0)	(7)
<b>Interest expense</b>	<b>(8,380)</b>	<b>(7,724)</b>	<b>(6,676)</b>	<b>(7,217)</b>	<b>(6,481)</b>	<b>(6,166)</b>	<b>(7,942)</b>	<b>(6,518)</b>	<b>(7,567)</b>
<b>Net interest income</b>	<b>7,946</b>	<b>7,209</b>	<b>7,314</b>	<b>6,850</b>	<b>7,063</b>	<b>7,033</b>	<b>7,921</b>	<b>6,904</b>	<b>7,842</b>
<b>Interest bearing assets</b>									
Cash and balances with Central Bank	83,139	95,274	110,872	96,649	135,393	129,321	146,938	176,653	87,634
Loans	890,147	914,462	886,750	853,135	823,462	814,987	785,337	764,630	792,539
Securities	87,701	79,852	64,188	71,409	65,389	75,877	73,077	78,232	82,042
<b>Interest bearing assets</b>	<b>1,060,987</b>	<b>1,089,588</b>	<b>1,061,810</b>	<b>1,021,193</b>	<b>1,024,245</b>	<b>1,020,185</b>	<b>1,005,352</b>	<b>1,019,515</b>	<b>962,214</b>
<b>Interest bearing liabilities</b>									
Due to credit institutions and Central Bank	9,204	15,370	6,336	7,880	7,370	7,097	7,644	9,270	7,987
Deposits	466,067	484,569	476,182	453,059	462,161	445,981	437,494	475,641	412,064
Financial liabilities at fair value	2,320	3,348	3,886	3,127	3,515	3,433	4,990	3,922	3,727
Borrowings	417,782	425,591	410,762	399,338	383,151	398,055	377,824	355,633	339,476
Subordinated liabilities	6,532	-	-	-	-	-	-	-	-
<b>Interest bearing liabilities</b>	<b>901,905</b>	<b>928,879</b>	<b>897,167</b>	<b>863,404</b>	<b>856,198</b>	<b>854,565</b>	<b>827,953</b>	<b>844,466</b>	<b>763,252</b>
<b>Interest Gap</b>	<b>159,083</b>	<b>160,710</b>	<b>164,644</b>	<b>157,789</b>	<b>168,047</b>	<b>165,620</b>	<b>177,399</b>	<b>175,050</b>	<b>198,962</b>
<b>Net interest margin on interest bearing assets</b>	<b>3.0%</b>	<b>2.7%</b>	<b>2.8%</b>	<b>2.7%</b>	<b>2.8%</b>	<b>2.8%</b>	<b>3.1%</b>	<b>2.8%</b>	<b>3.2%</b>

## Loans to customers - 9 quarter summary

ISK million

### Loans to customers

	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017	Q1 2017	Q4 2016
Individuals	400,483	397,661	382,550	374,452	365,287	354,004	343,402	338,686	337,416
Corporates	433,343	422,304	421,144	407,803	399,814	396,943	390,247	381,512	375,006
<b>Total loans to customers</b>	<b>833,826</b>	<b>819,965</b>	<b>803,694</b>	<b>782,255</b>	<b>765,101</b>	<b>750,947</b>	<b>733,649</b>	<b>720,198</b>	<b>712,422</b>

### Loans to individuals

Overdrafts	14,536	15,783	14,231	14,821	14,469	14,863	13,855	15,218	14,805
Credit cards	12,958	11,585	11,190	10,164	11,133	10,078	10,245	10,080	11,363
Mortgage loans	343,119	338,059	327,612	320,681	311,507	302,406	294,273	288,660	285,784
Other loans	33,560	36,351	33,736	33,274	33,629	33,116	32,609	33,480	34,777
Provision on loans	(3,690)	(4,117)	(4,219)	(4,488)	(5,451)	(6,459)	(7,580)	(8,752)	(9,313)
<b>Total loans to individuals</b>	<b>400,483</b>	<b>397,661</b>	<b>382,550</b>	<b>374,452</b>	<b>365,287</b>	<b>354,004</b>	<b>343,402</b>	<b>338,686</b>	<b>337,416</b>

Share of stage 3 loans, gross*	2.6%	2.9%	3.0%	3.3%	-	-	-	-	-
Neither past due nor impaired <sup>1</sup>	-	-	-	-	344,829	333,828	323,075	313,416	312,259
Past due but not impaired <sup>1</sup>	-	-	-	-	18,929	18,108	18,473	22,815	21,854
Individually impaired (gross) <sup>1</sup>	-	-	-	-	5,539	6,754	7,221	8,708	10,372
Impairment amount <sup>1</sup>	-	-	-	-	(4,010)	(4,686)	(5,367)	(6,253)	(7,069)
<b>Total loans to individuals</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>365,287</b>	<b>354,004</b>	<b>343,402</b>	<b>338,686</b>	<b>337,416</b>

### Ratios:

Provision for losses/Gross impaired loans <sup>1</sup>	-	-	-	-	98.4%	95.6%	105.0%	100.5%	89.8%
Past due loans but not impaired as % of gross loans <sup>1</sup>	-	-	-	-	5.1%	5.0%	5.3%	6.6%	6.3%
Gross impaired loans/Gross loans <sup>1</sup>	-	-	-	-	1.5%	1.9%	2.1%	2.5%	3.0%

\* (Gross carrying value of stage 3 loans + gross carrying value of POCI loans in Risk class 4 or lower) / Gross carrying value of loans to customers

<sup>1</sup> Not available following implementation of IFRS 9 in January 2018

## Loans to customers - 9 quarter summary

ISK million	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017	Q1 2017	Q4 2016
<b>Loans to corporates</b>	-	-	-	-	-	-	-	-	-
Overdrafts	19,200	18,101	21,125	20,909	18,778	20,745	22,174	21,091	19,314
Credit cards	1,348	1,270	1,262	1,178	1,123	1,177	1,199	1,179	1,180
Mortgage loans	23,417	22,598	21,549	20,448	19,632	18,300	17,810	17,069	16,298
Other loans	395,579	388,299	384,178	373,256	368,312	366,226	357,882	351,129	351,739
Provision on loans	(6,201)	(7,964)	(6,970)	(7,988)	(8,031)	(9,505)	(8,818)	(8,956)	(13,525)
<b>Total loans to corporates</b>	<b>433,343</b>	<b>422,304</b>	<b>421,144</b>	<b>407,803</b>	<b>399,814</b>	<b>396,943</b>	<b>390,247</b>	<b>381,512</b>	<b>375,006</b>
Neither past due nor impaired <sup>1</sup>	-	-	-	-	385,197	375,121	370,693	360,993	358,709
Past due but not impaired <sup>1</sup>	-	-	-	-	13,655	19,801	17,636	18,130	14,251
Individually impaired (gross) <sup>1</sup>	-	-	-	-	7,239	9,349	8,477	8,858	13,258
Impairment amount <sup>1</sup>	-	-	-	-	(6,277)	(7,328)	(6,559)	(6,469)	(11,212)
<b>Total loans to individuals</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>399,814</b>	<b>396,943</b>	<b>390,247</b>	<b>381,512</b>	<b>375,006</b>
<b>Ratios:</b>									
Provision for losses/Gross impaired loans <sup>1</sup>	-	-	-	-	110.9%	101.7%	104.0%	101.1%	102.0%
Past due loans but not impaired as % of gross loans <sup>1</sup>	-	-	-	-	3.4%	4.9%	4.4%	4.7%	3.7%
Gross impaired loans/Gross loans <sup>1</sup>	-	-	-	-	1.8%	2.3%	2.1%	2.3%	3.4%
<b>Loans to corporates specified by sector:</b>									
Agriculture and forestry	1.7%	1.7%	1.7%	1.7%	1.6%	1.6%	1.6%	1.5%	1.6%
Services	3.8%	4.2%	4.5%	4.3%	4.5%	4.4%	4.5%	4.5%	4.6%
Financial and insurance activities	8.7%	8.6%	8.7%	9.2%	8.5%	8.9%	8.5%	9.2%	9.3%
Industry, energy and manufacturing	8.2%	7.8%	7.4%	7.3%	7.4%	7.4%	7.6%	7.6%	7.6%
Information and communication technology	4.8%	5.5%	5.6%	5.1%	5.5%	6.7%	6.9%	7.2%	7.6%
Public administration, human health and social activities	1.6%	1.3%	1.7%	2.2%	2.0%	1.9%	1.9%	2.3%	2.3%
Real estate activities and construction	33.9%	32.0%	32.2%	31.5%	32.1%	31.7%	31.6%	31.3%	30.6%
Fishing industry	19.4%	19.4%	18.3%	19.2%	19.7%	20.0%	20.7%	20.2%	20.4%
Transportation	2.8%	4.1%	4.6%	4.2%	4.3%	3.6%	2.7%	1.8%	1.7%
Wholesale and retail trade	15.2%	15.4%	15.3%	15.3%	14.4%	13.7%	14.0%	14.6%	14.1%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

<sup>1</sup> Not available following implementation of IFRS 9 in January 2018

## Capital and Risk Weighted Assets

ISK million

	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017	Q1 2017	Q4 2016
<b>Capital base:</b>									
Total equity	200,859	200,056	207,631	204,245	225,734	221,709	221,767	214,780	211,384
Deductions related to the consolidated situation <sup>1</sup>	(8,986)	(8,573)	(8,067)	(7,870)	(8,635)	(8,505)	(8,407)	(8,057)	(8,126)
Non-controlling interest not eligible for inclusion in CET1 capital	(130)	(739)	(741)	(128)	(128)	(174)	(174)	(173)	(172)
<b>Common Equity Tier 1 capital before regulatory adjustments</b>	<b>191,743</b>	<b>190,744</b>	<b>198,823</b>	<b>196,247</b>	<b>216,971</b>	<b>213,030</b>	<b>213,186</b>	<b>206,550</b>	<b>203,086</b>
Intangible assets	(12,152)	(11,445)	(11,230)	(10,834)	(11,125)	(9,987)	-8,820	-8,263	-8,201
Tax assets	(191)	(564)	(509)	(425)	(357)	(204)	-309	-372	-198
Other statutory deductions	(1,537)	(1,314)	(1,216)	(430)	146	(684)	(106)	(98)	(149)
Foreseeable dividend	(9,069)	(2,775)	(12,199)	(975)	(25,000)	-	0	0	0
<b>Common equity Tier 1 capital</b>	<b>168,794</b>	<b>174,646</b>	<b>173,669</b>	<b>183,583</b>	<b>180,635</b>	<b>202,155</b>	<b>203,951</b>	<b>197,817</b>	<b>194,538</b>
Non-controlling interest not eligible for inclusion in CET1 capital	130	739	741	128	128	174	174	173	172
<b>Tier 1 capital</b>	<b>168,924</b>	<b>175,385</b>	<b>174,410</b>	<b>183,711</b>	<b>180,763</b>	<b>202,329</b>	<b>204,125</b>	<b>197,990</b>	<b>194,710</b>
Subordinated liabilities	6,532	-	-	-	-	-	-	-	-
General credit risk adjustments	-	-	-	-	3,195	3,950	4,471	4,987	4,557
<b>Tier 2 Capital</b>	<b>6,532</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3,195</b>	<b>3,950</b>	<b>4,471</b>	<b>4,987</b>	<b>4,557</b>
<b>Total Capital base</b>	<b>175,456</b>	<b>212,751</b>	<b>174,410</b>	<b>183,711</b>	<b>183,958</b>	<b>206,279</b>	<b>208,596</b>	<b>202,977</b>	<b>199,267</b>
<b>Risk weighted assets</b>									
Credit Risk, loans	639,788	646,016	630,789	610,623	605,058	609,235	584,838	571,483	577,470
Credit Risk, securities and other <sup>2</sup>	50,112	51,133	50,131	52,976	56,979	56,280	51,636	50,404	55,036
Counterparty credit risk <sup>2</sup>	4,405	4,461	4,172	6,009	5,844	6,268	6,721	6,708	5,550
Market Risk due to currency imbalance	4,280	7,305	12,608	8,695	4,895	4,250	2,272	1,709	5,449
Market Risk Other	8,928	9,717	9,666	11,522	5,473	8,237	10,390	15,603	12,966
Credit valuation adjustment <sup>2</sup>	2,228	2,235	2,699	3,148	2,506	2,583	2,770	2,391	2,678
Operational Risk	86,858	86,013	86,013	86,013	86,013	86,490	86,490	86,490	86,490
<b>Total risk weighted assets</b>	<b>796,599</b>	<b>806,880</b>	<b>796,078</b>	<b>778,986</b>	<b>766,768</b>	<b>773,343</b>	<b>745,118</b>	<b>734,788</b>	<b>745,639</b>



## Capital and Risk Weighted Assets

ISK million

	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017	Q1 2017	Q4 2016
<b>Capital ratios</b>									
CET 1 ratio	21.2%	21.6%	21.8%	23.6%	23.6%	26.1%	27.4%	26.9%	26.1%
Tier 1 ratio	21.2%	21.4%	21.9%	23.6%	23.6%	26.2%	27.4%	26.9%	26.1%
Capital adequacy ratio	22.0%	21.4%	21.9%	23.6%	24.0%	26.7%	28.0%	27.6%	26.7%
<b>Leverage ratio</b>									
On-balance sheet exposures	1,106,368	1,167,238	1,116,222	1,081,484	1,074,207	1,114,525	1,100,729	1,094,640	1,011,735
Derivative exposures	8,239	8,279	8,544	10,931	10,957	12,802	9,934	7,450	8,226
Securities financing transaction exposures	8,194	9,382	7,974	8,542	8,925	10,987	9,014	10,115	9,330
Off-balance sheet exposures	68,316	82,415	86,975	88,456	83,058	97,323	86,171	80,142	83,156
<b>Total exposure</b>	<b>1,191,117</b>	<b>1,267,314</b>	<b>1,219,715</b>	<b>1,189,413</b>	<b>1,177,147</b>	<b>1,235,637</b>	<b>1,205,848</b>	<b>1,192,347</b>	<b>1,112,447</b>
<b>Tier 1 capital</b>	<b>168,924</b>	<b>175,385</b>	<b>174,410</b>	<b>180,763</b>	<b>180,763</b>	<b>202,329</b>	<b>204,125</b>	<b>197,990</b>	<b>194,966</b>
<b>Leverage ratio</b>	<b>14.2%</b>	<b>13.8%</b>	<b>14.3%</b>	<b>15.4%</b>	<b>15.4%</b>	<b>16.6%</b>	<b>17.2%</b>	<b>16.9%</b>	<b>17.8%</b>
<b>Related ratios</b>									
RORWA	0.99%	1.04%	1.28%	1.01%	1.91%	1.84%	2.82%	1.81%	2.87%
RWA/Total assets	68.42%	66.16%	67.76%	68.83%	66.81%	68.37%	67.02%	66.42%	72.71%

1) Calculations restated from Q3 2016 using the Group's consolidated situation which excludes insurance companies. The effective capital position of the Group is unaffected as the Pillar 2 capital requirement is adjusted accordingly. Their solvency requirements of insurance companies should be viewed separately.

2) Not disclosed separately in Q2 2016, Q1 2016, Q4 2015

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