

Earnings Press Release, 8 May 2019

Arion Bank's Q1 2019 financial results

Positive development in core operations but irregular items affect net earnings

Arion Bank reported net earnings of ISK 1.0 billion for the first quarter of 2019, compared with ISK 1.9 billion for the same period of 2018. Return on equity was 2.1% for the first quarter of 2019, compared with 3.6% for the same period in 2018. Return on equity excluding the subsidiary Valitor, which is classified as held for sale, was 6.2% for the first quarter of 2019, compared with 4.8% for the same period in 2018.

Total assets amounted to ISK 1,223 billion at the end of March 2019, compared with ISK 1,164 billion at the end of 2018. Total equity amounted to ISK 193 billion, compared with ISK 201 billion at the end of 2018. During the first quarter of 2019 Arion Bank paid a dividend of ISK 10.0 billion, representing ISK 5.00 per share, or net ISK 9.1 billion taking into account the Bank's own shares. In April 2019 Arion Bank's share capital was reduced by ISK 186 million at nominal value, totalling 186 million shares, by cancelling the vast majority of the Bank's own shares. Arion Bank's share capital is ISK 1,814 million after the reduction. Both the dividend payment and reduction of share capital is a continuation of the strategy to optimize the Bank's capital structure.

In April 2019 Höskuldur H. Ólafsson resigned as CEO of Arion Bank. The CFO of Arion Bank, Stefán Pétursson, was appointed acting CEO as of 1 May 2019 until a new CEO has been hired. Stefán has been the CFO of Arion Bank since August 2010. He is also a member of the board of Valitor Holding hf.

The Bank's capital ratio at the end of March 2019 was 22.3%, compared with 22.0% at the end of 2018. The CET1 ratio was 21.3% at the end of March 2019, compared with 21.2% at the end of 2018.

Arion Bank is in the process of divesting the Bank's subsidiary Valitor Holding hf. Valitor is classified as held for sale in the Interim Financial Statements.

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

<i>In ISK millions</i>	Q1 2019	Q1 2018	% diff.
Net interest income	7,434	6,827	9%
Net commission income	2,218	2,205	1%
Net financial income	766	1,387	(45%)
Net insurance income	253	143	77%
Share of profit of associates	727	(20)	-
Other operating income	310	268	16%
Operating income	11,708	10,810	8%
Salaries and related expenses	(3,630)	(3,616)	0%
Other operating expenses	(3,232)	(3,143)	3%
Operating expenses	(6,862)	(6,759)	2%
Bank levy	(906)	(804)	13%
Net impairment	(1,081)	(135)	701%
Net earnings before income tax	2,859	3,112	(8%)
Income tax expense	(622)	(890)	(30%)
Discontinued operations, net of tax	(1,219)	(273)	347%
Net earnings	1,018	1,949	(48%)

KPI's

Return on equity	2.1%	3.6%
Earnings per share (in ISK)	0.56	1.01
Cost to income ratio	58.6%	62.5%



Highlights of the balance sheet and key performance indicators:

<i>In ISK million</i>	31.03.2019	31.12.2018	Diff.	% diff.
Loans to customers	829,246	833,826	(4,580)	(1%)
Other assets	393,450	330,500	62,950	19%
Liabilities	1,029,641	963,467	66,174	7%
Equity	193,054	200,859	(7,805)	(4%)
Loans to Deposits ratio	169.1%	178.9%		
RWA / Total assets	64.4%	68.4%		
CET 1 ratio	21.3%	21.2%		

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

STEFÁN PÉTURSSON, ACTING CEO OF ARION BANK

"Irregular items mean that the financial results for the first quarter were disappointing. Regular operations are, however, improving, and key sources of income such as interest and commission income and insurance income are higher than in the first quarter of 2018. The net interest margin remains stable despite lower inflation, and the effects of the Bank's measures to lower its funding costs have yet to materialize in full. The bankruptcy of WOW Air and the judgement by Reykjavík District Court against Valitor are the main irregular items negatively affecting the Bank's financial results, whereas the Bank's sale of its holding in Farice had a positive effect. The economic slowdown has affected revenue growth and increased general impairments, which are determined on the basis of the economic outlook at any given time.

Operating expenses are stable and we are continuing to target improved cost efficiency. One of the ways we seek to achieve this is by placing a greater focus on digital solutions. In the last few years the Bank has launched a range of digital solutions which have proven highly popular among our customers, making it easier for them to take care of their finances and easier for us to provide good service. In the first quarter a new version of the Arion App was launched which can be used by anyone wanting to do business with us. Today we are bringing Apple Pay to our customers. From today our customers can add their VISA cards to Apple Pay and use their iPhone, Apple Watch or Mac to make fast and secure purchases in stores, on websites, in apps and numerous other locations in Iceland and abroad. Doing your banking and paying for goods and services has never been so easy.

The Bank remains financially robust and several important steps were taken during the period to optimize the capital structure. The AGM approved a proposal to reduce the Bank's share capital by cancelling the Bank's own shares, 9.3% of share capital, and to pay dividends amounting to ISK 5 a share, or approximately net ISK 9 billion. These measures have already been taken and represent important steps towards the Bank's achieving its financial targets over the next 3-5 years.

Arion Bank recently signed a statement that it would endorse and adopt six new UNEP FI Principles for Responsible Banking. The United Nations Environment Programme Finance Initiative (UNEP FI) is a partnership between United Nations Environment and more than 240 financial institutions across the world. We will utilize this platform and the principles on our journey towards responsible banking and sustainability. The aim of the principles is to align the banking sector with international commitments including the UN's Sustainable Development Goals and the Paris Climate Agreement.

As we have communicated earlier, Arion Bank's subsidiary Valitor, an international payment solutions company with operations in Iceland, the United Kingdom and Denmark, is currently in the process of being sold and the goal is to sell part or the whole of the company. The necessary preparatory work is close to completion and marketing to potential investors will start in the coming weeks. We expect this process to be concluded this year. The recent judgment by Reykjavík District Court, which ordered the company to pay ISK 1.2 billion in damages, is not expected to affect the sales process. In April, Valitor entered into a new 2-year business agreement with Stripe, one of the leading Fintech companies in the world."



INCOME STATEMENT

<i>In ISK millions</i>	Q1 2019	Q1 2018	% diff.	Q4 2018	% diff.
Net interest income	7,434	6,827	9%	7,969	(7%)
Net commission income	2,218	2,205	1%	2,746	(19%)
Net financial income	766	1,387	(45%)	(774)	-
Net insurance income	253	143	77%	704	(64%)
Share of profit of associates	727	(20)	-	11	-
Other operating income	310	268	16%	294	5%
Operating income	11,708	10,810	8%	10,950	7%
Salaries and related expenses	(3,630)	(3,616)	0%	(3,584)	1%
Other operating expenses	(3,232)	(3,143)	3%	(3,015)	7%
Operating expenses	(6,862)	(6,759)	2%	(6,599)	4%
Bank levy	(906)	(804)	13%	(765)	18%
Net impairment	(1,081)	(135)	701%	(573)	89%
Net earnings before income tax	2,859	3,112	(8%)	3,013	(5%)
Income tax expense	(622)	(890)	(30%)	(881)	(29%)
Discontinued operations, net of tax	(1,219)	(273)	347%	(516)	136%
Net earnings	1,018	1,949	(48%)	1,616	(37%)

Operating income amounted to ISK 11.7 billion for the first quarter of 2019, compared with ISK 10.8 billion for the same period in 2018, an increase of 8%. Net interest income and share of profit of associates increased significantly, whereas net financial income decreased between years. Operating income increased by 7% compared with the fourth quarter of 2018, in particular net financial income and share of profit of associates.

Net interest income increased by 9% compared with the same period in 2018. The net interest margin (NIM) as a percentage of average interest-bearing assets was 2.7% during the first quarter of 2019, the same as for the first quarter of 2018. The NIM was 2.9% during the fourth quarter of 2018. Average interest-bearing assets increased by 0.9% during the first quarter of 2019 but increased by 6.0% from the same period of 2018. Despite significantly lower inflation in the first quarter of 2019 compared with the same period of 2018, the NIM remains stable due to an increased focus on return on lending, improved liquidity management and funding profile.

Net commission income in the first quarter of 2019 was similar to what it was in the same period in 2018 but decreased by 19% from the fourth quarter of 2018. The decrease from the fourth quarter is mainly due to seasonality in the operation.

Net financial income is positive by ISK 766 million, compared with positive ISK 1,387 million for the first quarter of 2018, but it has improved compared with the negative net financial income of ISK 774 million for the fourth quarter of 2018. The capital markets were rather favorable in the first quarter 2019, reversing the unfavorable development in the fourth quarter of 2018. The Group also holds preferred shares in Visa International which performed well during the quarter. The negative effect of the bankruptcy of WOW air at the end of March 2019 resulted in ISK 222 million loss on bond holdings. In general, returns on bonds and equity holdings have been positive through the years.

Net insurance income amounted to ISK 253 million, compared with ISK 143 million for the same period of 2018, and ISK 704 million during the fourth quarter of 2018. The increase from the first quarter of 2018 is primarily due to increased insurance premiums earned at the insurance company Vördur and a lower claim rate, whereas the decrease from the fourth quarter 2018 is mainly due to seasonality in non-life insurance. The combined ratio for the first quarter of 2019 was 109.6% compared with 111.9% for the same period in 2018.

Other operating income was ISK 310 million during the first quarter, compared with ISK 268 million during the same period in 2018 and ISK 294 million during the fourth quarter of 2018. Fair value changes on investment property are the main reason for the fluctuations between quarters.

Operating expenses amounted to ISK 6,862 million during the first quarter, compared with ISK 6,759 million in the same period in 2018 and ISK 6,599 million during the fourth quarter of 2018. The Bank's cost-to-income ratio was 58.6% for the first quarter, compared with 62.5% for the same period in 2018 and 60.3% during the fourth quarter of 2018. The cost-to-total assets ratio was 2.3% for the first quarter, compared with 2.4% during the first quarter of 2018 and 2.2% for the fourth quarter of 2018.

Salaries and related expenses amounted to ISK 3,630 million for the first quarter of 2019, mostly unchanged compared with both the first and the fourth quarters of 2018. The average salary per employee increased by 5.7% from the first quarter of 2018, in line with the increase in the general salary index in Iceland. Full-time equivalent positions at the end of the period totalled 917 at the Group, 21 fewer than in the same period in 2018 but 13 more than at year-end 2018. The decrease from the first quarter of 2018 is mainly due to an increased emphasis on process automation, reflected by the digital strategy.



Other operating expenses amounted to ISK 3,232 million during the first quarter of 2019, compared with ISK 3,143 million during the same period in 2018 and ISK 3,015 million during the fourth quarter of 2018. There is a slight increase between years, mainly in IT expenses, but the increase of 7% from fourth quarter 2018 is mainly due to seasonal fluctuations.

Net impairment was negative by ISK 1,081 million during the first quarter of 2019, compared with a negative net impairment of ISK 135 million in the same period in 2018 and ISK 573 million in the fourth quarter of 2018. Impairment related to the bankruptcy of WOW air was ISK 1.1 billion and general impairments were made due to slightly more cautious macroeconomic expectations.

Income tax amounted to ISK 622 million during the first quarter of 2019, compared with ISK 890 million in the same period in 2018 and ISK 881 million during the fourth quarter of 2018. Income tax, as reported in the financial statements, comprises 20% income tax on earnings and a special 6% financial tax on the earnings of financial undertakings of more than ISK 1 billion. The effective income tax rate was 21.8% for the first quarter of 2019, compared with 28.6% during the same period of 2018. This high tax rate in 2018 was mainly due to the fact that the bank levy is not deductible from the tax base and therefore taxes weigh heavily as net earnings are low.

Discontinued operations, net of tax was negative by ISK 1,219 million during the first quarter of 2019, compared with a loss of ISK 273 million for the same period in 2018 and a loss of ISK 516 million in the fourth quarter of 2018. Discontinued operations are mainly due to the operating results of the subsidiary Valitor, which was reclassified as a disposal group held for sale at year-end 2018. In April 2019 Reykjavík District Court issued a decision on the case Datacell ehf. and Sunshine Press Production ehf. vs. Valitor hf. Valitor was ordered to pay the plaintiffs a total of ISK 1.2 billion in damages, with a net effect for Arion Bank Group of ISK 0.6 billion, net of income tax, during the first quarter of 2019.



Earnings of operating segments

Arion Bank divides its operations into five profit centers plus subsidiaries and support units. The Bank's profit centers are Asset Management, Corporate Banking, Investment Banking, Retail Banking and Treasury.

Asset Management, Investment Banking and Retail Banking made a profit before income tax in the first quarter of 2019.

1st Quarter 2019 <i>In ISK millions</i>	Asset Management	Corporate Banking	Investment Banking	Retail Banking	Treasury	Other div., headq. and subsid.	Total
Net interest income	205	2,144	63	4,562	574	(114)	7,434
Net commission income	757	320	475	1,092	(95)	(331)	2,218
Other income	135	(474)	6	98	(223)	2,514	2,056
Operating income	1,097	1,990	544	5,752	256	2,069	11,708
Operating expenses	(733)	(1,107)	(426)	(3,346)	(343)	(907)	(6,862)
Bank levy	(46)	(190)	(11)	(339)	(320)	0	(906)
Net impairment	(5)	(1,032)	0	(43)	(1)	0	(1,081)
Earnings before income tax	313	(339)	107	2,024	(408)	1,162	2,859

1st Quarter 2018 <i>In ISK millions</i>	Asset Management	Corporate Banking	Investment Banking	Retail Banking	Treasury	Other div., headq. and subsid.	Total
Net interest income	148	1,314	38	4,333	979	15	6,827
Net commission income	866	236	465	1,092	(82)	(372)	2,205
Other income	18	(161)	2	81	268	1,570	1,778
Operating income	1,032	1,389	505	5,506	1,165	1,213	10,810
Operating expenses	(601)	(888)	(392)	(3,451)	(329)	(1,098)	(6,759)
Bank levy	(46)	(170)	(10)	(278)	(300)	0	(804)
Net impairment	0	(376)	0	268	(29)	2	(135)
Earnings before income tax	385	(45)	103	2,045	507	117	3,112

4th Quarter 2018 <i>In ISK millions</i>	Asset Management	Corporate Banking	Investment Banking	Retail Banking	Treasury	Other div., headq. and subsid.	Total
Net interest income	196	1,717	93	4,636	1,258	69	7,969
Net commission income	825	366	535	1,323	(92)	(211)	2,746
Other income	(16)	(672)	9	178	(262)	998	235
Operating income	1,005	1,411	637	6,137	904	856	10,950
Operating expenses	(611)	(912)	(415)	(3,402)	(334)	(925)	(6,599)
Bank levy	(36)	(155)	(10)	(273)	(291)	0	(765)
Net impairment	0	(292)	0	(274)	(22)	15	(573)
Earnings before income tax	358	52	212	2,188	257	(54)	3,013

Asset Management

<i>In ISK millions</i>	Q1 2019	Q1 2018	% diff	Q4 2018	% diff
Net interest income	205	148	38.5%	196	4.6%
Net commission income	757	866	(12.6%)	825	(8.2%)
Other income	135	18	650.0%	(16)	-
Operating income	1,097	1,032	6.3%	1,005	9.2%
Operating expenses	(733)	(601)	22.0%	(611)	20.0%
Bank levy	(46)	(46)	-	(36)	27.8%
Net impairment	(5)	0	-	0	-
Earnings before income tax	313	385	(18.7%)	358	(12.6%)

The operations of Asset Management have been relatively stable and net earnings are good. Lower income compared with the same period last year is mainly due to major clients who insourced some of their asset



management in 2018, affecting the assets under management and fee income of the division. Operating expenses increased compared with the first and fourth quarters of 2018 partly due to a change in the method of allocating expenses. Assets under management at the end of the period amounted to ISK 1,046 billion and increased by 7.7% from year-end 2018 and 9.5% from the end of the first quarter of 2018.

Corporate Banking

<i>In ISK millions</i>	Q1 2019	Q1 2018	% diff	Q4 2018	% diff
Net interest income	2,144	1,314	63.2%	1,717	24.9%
Net commission income	320	236	35.6%	366	(12.6%)
Other income	(474)	(161)	194.4%	(672)	(29.5%)
Operating income	1,990	1,389	43.3%	1,411	41.0%
Operating expenses	(1,107)	(888)	24.7%	(912)	21.4%
Bank levy	(190)	(170)	11.8%	(155)	22.6%
Net impairment	(1,032)	(376)	174.5%	(292)	253.4%
Earnings before income tax	(339)	(45)	653.3%	52	-

Net interest income in Corporate Banking increased significantly between years and from the fourth quarter of 2018, partly due to the transfer of loans to SMEs from Retail Banking and an increased focus on return rather than growth in the corporate lending book. Operating expenses increased compared with the first and the fourth quarters of 2018, partly due to the transfer of employees from Retail Banking to Corporate Banking and a change in the method of allocating expenses. The negative net valuation changes in the loan portfolio during the first quarter of 2019 can be primarily attributed to loans and guarantees to WOW air, and impairments in first and the fourth quarters of 2018 were made against a number of customers.

Investment Banking

<i>In ISK millions</i>	Q1 2019	Q1 2018	% diff	Q4 2018	% diff
Net interest income	63	38	65.8%	93	(32.3%)
Net commission income	475	465	2.2%	535	(11.2%)
Other income	6	2	200.0%	9	(33.3%)
Operating income	544	505	7.7%	637	(14.6%)
Operating expenses	(426)	(392)	8.7%	(415)	2.7%
Bank levy	(11)	(10)	10.0%	(10)	10.0%
Net impairment	0	0	-	0	-
Earnings before income tax	107	103	3.9%	212	(49.5%)

Investment Banking operations have been relatively stable during the last few quarters. Corporate Finance has continued to be engaged in internal projects at the Bank, such as resolving complex recovery cases and arranging the sale of the associate Farice. Revenues from equities and fixed income brokerage at Capital Markets continued to be strong, with the Bank being a leader in terms of turnover on Nasdaq Iceland in recent years.

Retail Banking

<i>In ISK millions</i>	Q1 2019	Q1 2018	% diff	Q4 2018	% diff
Net interest income	4,562	4,333	5.3%	4,636	(1.6%)
Net commission income	1,092	1,092	0.0%	1,323	(17.5%)
Other income	98	81	21.0%	178	(44.9%)
Operating income	5,752	5,506	4.5%	6,137	(6.3%)
Operating expenses	(3,346)	(3,451)	(3.0%)	(3,402)	(1.6%)
Bank levy	(339)	(278)	21.9%	(273)	24.2%
Net impairment	(43)	268	-	(274)	(84.3%)
Earnings before income tax	2,024	2,045	(1.0%)	2,188	(7.5%)

Operating income increased by 5% between the first quarter of 2019 and the first quarter of 2018 but decreased by 6% compared with the fourth quarter of 2018. The decrease is partly due to the transfer of assets from Retail Banking to Corporate Banking but variances in net commission income are mainly seasonal. Operating expenses decreased compared with the first and the fourth quarters of 2018, partly due to the transfer of employees from Retail Banking to Corporate Banking.



Treasury

<i>In ISK millions</i>	Q1 2019	Q1 2018	% diff	Q4 2018	% diff
Net interest income	574	979	(41.4%)	1,258	(54.4%)
Net commission income	(95)	(82)	15.9%	(92)	3.3%
Other income	(223)	268	-	(262)	-
Operating income	256	1,165	(78.0%)	904	(71.7%)
Operating expenses	(343)	(329)	4.3%	(334)	2.7%
Bank levy	(320)	(300)	6.7%	(291)	10.0%
Net impairment	(1)	(29)	(96.6%)	(22)	(95.5%)
Earnings before income tax	(408)	507	-	257	-

Operating income from Treasury decreased significantly during the first quarter of 2019 compared with the same period of 2018 and the fourth quarter of 2018. The decrease is mainly due to lower inflation, reflected in net interest income and negative net financial income, mainly foreign exchange loss and loss from derivatives.

BALANCE SHEET

Arion Bank's **total assets** increased by 5% from year-end 2018.

<i>In ISK millions</i>	31.03.2019	31.12.2018	Diff.	% diff.
Cash & balances with CB	94,124	83,139	10,986	13%
Loans to credit institutions	84,978	56,322	28,656	51%
Loans to customers	829,246	833,826	(4,580)	(1%)
Financial assets	128,103	114,557	13,546	12%
Investment property	7,101	7,092	9	0%
Investments in associates	807	818	(11)	(1%)
Intangible assets	7,081	6,397	684	11%
Assets and disposal groups held for sale	51,321	48,584	2,737	6%
Other assets	19,934	13,592	6,342	47%
Total assets	1,222,695	1,164,327	58,368	5%

Cash and balances with the Central Bank and *Loans to credit institutions* increased in total by ISK 39,641 million from year-end 2018. The liquidity position at period end is exceptionally high due to repayments of borrowings in April 2019, both EMTN of ISK 20 billion and structured covered bonds prepayments of ISK 7 billion.

Loans to customers totalled ISK 829,246 million at the end of the period, representing a 1% decrease from year-end 2018. The focus on return rather than growth is the main reason for this decrease, and the Icelandic economy is also stabilizing following a significant period of growth during the last few years. The decrease was mainly related to corporates in the seafood industry and financial and insurance activities. During the first quarter of 2019 the Bank had to make impairments in relation to the bankruptcy of WOW air, a total of ISK 1.1 billion, and the slightly more negative economic outlook in Iceland was also reflected in higher impairments.

Financial assets amounted to ISK 128,103 million at the end of the period, compared with ISK 114,557 million at the end of 2018. The combination of securities held by the Bank is closely related to the liquidity position at any given time.

<i>In ISK millions</i>	31.03.2019	31.12.2018	Diff.	% diff.
Bonds	81,027	71,451	9,576	13%
Shares and instruments w. variable income	23,595	20,265	3,330	16%
Derivatives	6,024	6,241	(217)	(3%)
Securities used for hedging	17,457	16,600	857	5%
Securities total	128,103	114,557	13,546	12%

Assets and disposal groups held for sale amounted to ISK 51,321 million at the end of the period, compared with ISK 48,584 million at year-end 2018. The subsidiaries Valitor Holding ehf. and Stakksberg ehf. are classified as disposal groups held for sale. The total assets of Valitor at the end of the period were ISK 42,490 million.



Liabilities increased by 5% from year-end 2018. **Equity** decreased due to a dividend payment in 2019, totalling ISK 9.1 billion, net of own shares. Net earnings for the period partly offset the decrease.

<i>In ISK millions</i>	31.03.2019	31.12.2018	Diff.	% diff.
Due to credit institutions & CB	9,183	9,204	(21)	(0%)
Deposits from customers	490,474	466,067	24,407	5%
Financial liabilities at fair value	2,286	2,320	(34)	(1%)
Other liabilities	45,840	35,226	10,614	30%
Borrowings	445,077	417,782	27,295	7%
Subordinated loans	7,283	6,532	751	11%
Liabilities associated w . disposal groups HFS	29,498	26,337	3,161	12%
Shareholders equity	192,924	200,729	(7,805)	(4%)
Non-controlling interest	130	130	0	0%
Total liabilities and equity	1,222,695	1,164,327	58,368	5%

Deposits from customers amounted to ISK 490,474 million at the end of March 2019 and had increased by 5% from year-end 2018. The continuing focus on deposits, especially from individuals and SMEs through Retail Banking, has been a success and deposits from pension funds have also increased but are more volatile. Deposits remain the most important source of funding for Arion Bank.

Borrowings amounted to ISK 445,077 million at the end of March 2019. In January 2019 Arion Bank issued NOK 750 million bonds on the international markets (ISK 11 billion). The Bank has also continued to issue covered bonds on the Icelandic market, a total of ISK 14.1 billion during the first quarter of 2019, as well as other smaller issuances.

Subordinated liabilities amounted to ISK 7,283 million at the end of March 2019, compared with ISK 6,532 million at the end of 2018. The increase is mainly due to Tier 2 issuance of EUR 5 million bonds.

Shareholders' equity amounted to ISK 192,924 million at the end of March 2019, compared with ISK 200,729 million at the end of 2018. The decrease is explained by a dividend payment of ISK 9.1 billion, which is partly offset by an increase in equity due to the financial results for the period. The CET 1 ratio was 21.3% at the end of March, compared with 21.2% at year-end 2018.

KEY PERFORMANCE INDICATORS

	Q1 2019	Q1 2018
Return on equity (ROE)	2.1%	3.6%
Return on total assets (ROA)	0.3%	0.7%
Net interest margin (int. bearing assets)	2.7%	2.7%
Net interest margin (total assets)	2.5%	2.4%
Cost-to-income ratio	58.6%	62.5%
Cost-to-Total assets ratio	2.3%	2.4%
Effective tax rate	21.8%	30.9%
CAD ratio	22.3%	23.6%
CET 1 ratio	21.3%	23.6%
Share of stage 3 loans, gross*	2.5%	-
RWA/Total assets	64.4%	68.8%
Loans to deposit ratio	169.1%	172.7%
The Group's employees at the end of the period	917	938
The Parent's employees at the end of the period	811	832

* (Gross loans in stage 3 + POCI loans in RISK class 5) / Gross carrying amount of loans to customers



FINANCIAL TARGETS

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

RoE	Exceed 10%
CET 1	Reduce to circa 17%
Loan growth	Prudent lending in line with economic growth
Cost to Income ratio	Reduce to circa 50%
Dividend policy	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 limitations set by regulators in addition to the Bank's Management Buffer.

CONFERENCE CALL IN ENGLISH

Arion Bank will be hosting a meeting / webcast on Thursday 9 May at 8:30 GMT (10:30 CET) where acting CEO Stefán Pétursson, Deputy CFO Eggert Teitsson and Head of Investor Relations Sture Stölen will present the results and answer questions from participants. The meeting will take place in English at the Bank's headquarters, Borgartún 19, and will be streamed live.

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

IS: +354 800 7508
SE: +46 856 642 706
UK: +44 33 3300 9260
US: +1 83 3526 8347

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

For further information please contact Arion Bank's Investor Relations at ir@arionbanki.is, Sture Stölen, head of investor relations, +46 72 368 6507 or Theódór Fridbertsson, investor relations, +354 444 6760.

Media enquiries: Haraldur Gudni Eidsson, head of corporate communications, haraldur.eidsson@arionbanki.is, +354 444 7108.

FINANCIAL CALENDAR 2019

The Bank's Financial Statements are scheduled for publication as stated below.

Second quarter 2019	8 August 2019
Third quarter 2019	30 October 2019

This calendar may be subject to change.

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

Forward-looking statements

This release contains forward-looking statements that reflect management's current views with respect to certain future events and potential financial performance. The information in the release is based on company data available at the time of the release. 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 release 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 release 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 release without Arion Bank's prior written consent.