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Arion Bank

Press release
Reykjavík 17 May 2018

Arion Bank intends to list on Nasdaq Iceland and Nasdaq Stockholm

- **Arion banki hf. ("Arion Bank", or the "Bank"), a leading Icelandic universal relationship bank, today announces its intention to launch an initial public offering and listing (the "IPO") of its shares on Nasdaq Iceland and Swedish Depository Receipts ("SDRs") representing its shares on Nasdaq Stockholm.**
- **Arion Bank is a well-balanced and diversified universal relationship bank, the revenue streams of which broadly reflect the growing Icelandic economy, and it continues to improve its business, with emphasis on digitalization, to meet the changing needs of its customers and the Icelandic society.**
- **Given Arion Bank's strong capital base, the planned offering will consist exclusively of existing shares from current shareholder Kaupskil ehf. and potentially Attestor Capital (through Trinity Investments Designated Activity Company).**
- **The Bank dividend policy is to pay out 50% of net earnings as dividends in the future with capacity for additional extraordinary dividends to be paid from excess capital going forward.**

The IPO and the listing on Nasdaq Iceland and Nasdaq Stockholm will expand the shareholder base and better enable Arion Bank to access the Icelandic, Swedish and other international capital markets. The Board of Directors and the Executive Committee of Arion Bank consider the IPO and listing on Nasdaq Iceland and Nasdaq Stockholm to be a logical and positive step for Arion Bank. Nasdaq Stockholm has, subject to certain conditions, approved the Bank's application for listing which is, subject to regulatory and market conditions. The Bank has also applied for listing on the Nasdaq Iceland, the application is expected to be approved subject to regulatory and market conditions. The listing on Nasdaq Stockholm and Nasdaq Iceland is expected to occur in the first half of 2018.

Höskuldur H. Ólafsson, CEO: "We are confident that now is the right time to take this important step in the evolution of our bank. Arion Bank has been fully restructured for several years now, and today is a strong, profitable and leading bank in Iceland. The Bank holds a strong position in all of its key markets and caters to a broad customer base with progressive and innovative solutions. With this step Arion Bank will be the first Icelandic bank to be listed on the Nasdaq Main Market in more than a decade.

Eva Cederbalk, Chairman of the Board of Directors: "On behalf of the whole Board of Directors we believe that this marks a new and important chapter in the history of the Bank. After years of dedication and ambitious work, becoming a public listed company both in Iceland and Sweden represents a great milestone and is also a stamp of quality for Arion Bank and the Icelandic economy.

About Arion Bank

Arion Bank is a leading, privately owned universal relationship bank in Iceland with a differentiated and innovative approach. Arion Bank has established itself as a broad and well-balanced bank that provides products and services which meet the needs of Icelandic households and companies. To ensure it is well-balanced and diversified in its product and services offering and expertise, Arion Bank has organised itself across four dedicated divisions, Retail Banking, Corporate Banking, Investment Banking and Asset Management. Arion Bank furthermore operates strategic subsidiaries that add valuable products and services to the business, such as payment processing, fund management and insurance. Arion Bank's diversified and balanced approach to its business also means that it has a broad revenue base and a balanced and diverse loan portfolio with moderate risk profile serving individuals and companies. As a result, Arion Bank enjoys a strong position within domestic financial markets in terms of its return on equity, operational efficiency and product and services offering.

Arion Bank's focus is on building and strengthening long-term customer relationships by delivering excellent products and services and tailored solutions. With the aim of making life easier for its customers the Bank's strategy is to be market leader in terms of innovation and digital solutions. Its main customers are corporations and individuals who seek a wide variety of financial solutions and, as a universal relationship bank with a wide product and services offering, Arion Bank seeks to meet those needs. While Arion Bank considers itself to be an Icelandic bank, it is also increasingly but selectively providing financial services outside of Iceland, mainly to companies related to the seafood industry in Europe and North America.

Strengths

- Attractive banking market with stable market shares supported by a strongly growing economy
- Experienced management team with a proven track record of strategy execution
- A leading, universal relationship bank in Iceland with a differentiated and innovative approach
- Track record of significant and growing income from core banking operations
- Strong balance sheet with scope for significant dividends

Strategy

The Board of Directors has adopted a strategic plan for Arion Bank, the key points of which are summarised below:

- Build long-term business relationships
- Increase operational efficiency
- Strengthen the core business
- Pursue value creation opportunities

Financial targets

The Board of Directors has adopted the following medium-term financial targets for Arion Bank.

- Profitability: Arion Bank's target is to achieve a competitive return on equity (post-tax) with a target of exceeding 10%.
- Capital Targets: Based on the current regulatory framework and economic outlook, Arion Bank's target is to reduce its CET1 ratio to approximately 17% from its CET1

ratio of 23.6% as of 31 March 2018.

- Loan Growth: Prudent lending to be in line with nominal Icelandic GDP growth in the coming years.
- Costs: Arion Bank's target is to reduce its cost-to-income ratio to approximately 50%
- The Bank dividend policy is to pay out 50% of net earnings as dividends in the future with capacity for additional extraordinary dividends to be paid from excess capital going forward.

Key financials

	As of and for the three months ended 31 March		As of and for the year ended 31 December		
	2018	**2017**	**2017**	**2016**	**2015**
		(%, unless otherwise indicated)			
Net earnings (in ISK millions)	1,949	3,353	14,419	21,739	49,679
Total equity (in ISK billions)	204.2	211.4	225.7	211.4	201.9
Total assets (in ISK billions)	1,131.8	1,119.6	1,147.8	1,036.0	1,011.0
Return on equity(1)	3.6	6.3	6.6	10.5	28.1
Net interest margin on interest-earning assets(2)	2.6	2.8	2.9	3.1	3.0
Net interest margin on total assets(3)	2.4	2.7	2.7	2.9	2.7
Cost-to-income ratio(4)	70.8	63.5	56.1	57.2	32.3
Coverage ratio(5)	n/a	72.4	80.5	77.4	75.8
Cost of risk (in bps)(6)	5.0	(49.1)	(2.5)	(103.0)	46.5

(1) Return on equity is net earnings for the period as a percentage of average total equity, which is calculated as the average of the opening, quarter-end and closing balances for the applicable period.

(2) Net interest margin on interest-earning assets is net interest income on interest-earning assets for the period less interest expense on interest-bearing liabilities as a percentage of average interest-earning assets. Average interest-earning assets are calculated as the average of the opening, quarter-end and closing balances for the applicable period. The table below sets forth the average interest-earning assets for the periods indicated.

	Three months ended 31 March		Year ended 31 December		
	2018	**2017**	**2017**	**2016**	**2015**
			(ISK in millions)		
Cash and balances with Central Bank	118,876	133,113	137,943	73,741	47,844
Loans to credit institutions	90,785	74,133	81,473	82,628	103,813
Loans to customers	773,678	716,310	736,463	703,164	664,577
Bonds and debt instruments	54,226	75,357	68,704	75,385	69,890
Derivatives	7,637	5,096	6,351	3,583	1,914
Interest-bearing securities used for economic hedging	6,587	7,832	7,090	3,932	2,594
Other interest-earning assets	9,769	8,815	11,290	7,480	7,033
Average interest-earning assets	**1,061,558**	**1,020,656**	**1,049,314**	**949,913**	**897,665**

Net interest margin on interest-earning assets is a measure of the difference in the interest income generated by the Bank's interest-earning assets and its interest expense by reference to the average interest-earning assets for the relevant period. The higher this figure, the greater the returns from the Bank's interest-earning assets for such period.

(3) Net interest margin on total assets is net interest income for the period as a percentage of average total assets, which is calculated as the average of the opening, quarter-end and closing balances for the applicable period. Net interest margin on total assets is a measure of the difference in the interest income generated by the Bank's total assets and its interest expense by reference to the average total assets for the relevant period. The higher this figure, the greater the returns from the Bank's total assets for that period.

(4) With respect to cost-to-income ratio, "cost" means salaries and related expense and other operating expense for the period. "Income" means operating income for the period. Cost-to-income ratio is a measure of the Bank's costs as compared with its income. The lower this figure, the lower the Bank's costs relative to its income.

(5) Coverage ratio is a measure of the provision for losses on loans to customers at the end of the period as a percentage of the gross carrying amount of impaired loans to customers at the end of the period. The coverage ratio represents the portion of the face value of problem loans for which the Bank has made provisions. The Bank may not make a provision for the entire

face value of the problem loan, if the Bank holds collateral or has information indicating that a provision for entire face value of the problem loan is not required. The higher this ratio, the more conservative is the Bank's valuation of the customer loan portfolio for the relevant period. Following the implementation of IFRS 9 as of 1 January 2018, other measurements are used for loan quality, such as share of loans with specific provision.

(6) Cost of risk is calculated using the net impairment charges for the period as a percentage of average loans to customers which is calculated as the average of the opening, quarter-end and closing balances for the applicable period. Because the Bank's loan portfolio is comprised largely of loans that have been acquired, the Bank believes that cost of risk does not present a reliable measure of the cost of risk for the Bank for the periods under review, but rather reflects the price that the Bank paid for the loans.

Information on Valitor

Valitor Holding is a subsidiary of Arion Bank and its International payment platform, with operations in Iceland, the United Kingdom and Denmark, and comprises both card acquiring services and card issuing services. Valitor provides e-commerce and card-present card acquiring services to merchants and corporate customers and provides card issuing services and payment processing solutions to domestic and international partners. The revenue growth of Valitor has mostly been in the international markets over the last years. The Board of Directors has resolved to examine the structural options with a view to disposing of Valitor in the medium term. However, no firm decision has been taken at this point in time with respect to a disposal of all or part of Valitor or with respect to the form or timing of any such transaction

Overview of the Public Offering and Listing

The IPO is being made by way of a public offering to Icelandic investors in accordance with Article 43(1) of the Securities Transactions Act, a public offering to Swedish investors and an institutional offer.

In connection with the IPO, Arion Bank will not receive any proceeds from any sale of the shares by Kaupskil ehf. ("Kaupskil"), the selling shareholder and a wholly owned subsidiary of Kaupthing. The size of the offering has not been decided and will be communicated at the time of the prospectus publication, but is expected to be at least 25% of total shares outstanding plus green shoe to be sold by Kaupthing. Attestor Capital's participation in the offering will also be communicated at the time of the prospectus publication, subject to a certain minimum ongoing holding.

As of today, Kaupthing (via Kaupskil) holds 55.57% of the share capital, Attestor Capital 12.44%, Taconic Capital 9.99%, Och-Ziff Capital 6.58% and Goldman Sachs International 3.37%. Arion Bank holds 9.50% of shares in treasury today. Kaupskil and Attestor Capital, along with the other Shareholders noted above, intend to agree to lock-up arrangements not to divest their remaining shares in Arion for a period of 180 days after the first day of trading in the Offer Securities on NASDAQ Iceland or NASDAQ Stockholm, subject to certain exceptions. In respect of Attestor Capital and Goldman Sachs International, such lock-up arrangement shall not apply to any shares each holds in excess of 10.44% and 2.57%, respectively, of the issued share capital of the Bank. Arion Bank will also enter into a customary 180-day lock-up.

Arion Bank Investment Banking, Carnegie, Citigroup and Morgan Stanley are acting as Joint Global Coordinators, Deutsche Bank and Goldman Sachs International as Joint Bookrunners and Fossar, Islandsbanki, Landsbankinn and Svenska Handelsbanken, as Co-Lead Managers in the IPO.

Further information on Arion Bank can be found at www.arionbank.com/ipo or under Investor Relations.

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The Securities have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the "**Securities Act**") and may not be offered or sold within the United States absent registration or an exemption from the registration requirements under the Securities Act. The Bank does not intend to register any portion of the offering in the United States or to conduct a public offering of Securities in the United States.
The Bank has not authorised any offer to the public of Securities in any Member State of the European Economic Area, except in Iceland and Sweden. With respect to any Member State of the European Economic Area which has implemented the Prospectus Directive other than Iceland and Sweden (each a "**Relevant Member State**"), no action has been undertaken or will be undertaken to make an offer to the public of Securities requiring publication of a prospectus in any Relevant Member State. As a result, the Securities may only be offered in Relevant Member States:
(i) to any legal entity which is a "qualified investor" as defined in the Prospectus Directive; or
(ii) in any other circumstances falling within Article 3(2) of the Prospectus Directive.
For the purpose of this paragraph, the expression "offer of securities to the public" means the communication in any form and by any means of sufficient information on the terms of the offer and the Securities to be offered so as to enable the investor to decide to exercise, purchase or subscribe for the Securities, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression "**Prospectus Directive**" means Directive 2003/71/EC (as amended, including by Directive 2010/73/EU), and includes any relevant implementing measure in the Relevant Member State.
Any such investor will also be deemed to have represented and agreed that any Securities acquired by it in the contemplated offering of Securities have not been acquired on behalf of persons other than such investor. This announcement is not an advertisement within the meaning of the Prospectus Directive and does not constitute a prospectus.

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In connection with the IPO, Citigroup Global Markets Limited (the "**stabilisation manager**"), or any of its agents, may (but will be under no obligation to), to the extent permitted by applicable law, over-allot Shares and SDRs or effect other transactions with a view to supporting the market price of the Shares and SDRs at a higher level than that which might otherwise prevail in the open market. The stabilisation manager is not required to enter into such transactions and such transactions may be effected on any stock market, over-the-counter market, stock exchange or otherwise and may be undertaken at any time during the period commencing on the date of the commencement of conditional dealings of the Shares and the SDRs on NASDAQ Iceland and NASDAQ Stockholm, respectively, and ending no later than 30 calendar days thereafter. However, there will be no obligation on the stabilisation manager or any of its agents to effect stabilising transactions and there is no assurance that stabilising transactions will be undertaken. Such stabilising measures, if commenced, may be discontinued at any time without prior notice. In no event will measures be taken to stabilise the market price of the Shares and SDRs above the offer price in the IPO. Save as required by law or regulation, neither the stabilisation manager nor any of its agents intends to disclose the extent of any over-allotments made and/or stabilisation transactions conducted in relation to the IPO.

In connection with the IPO, the stabilisation manager may, for stabilisation purposes, over-allot Shares and SDRs up to a maximum of 15% of the total number of Shares and SDRs comprised in the IPO. For the purposes of allowing it to cover short positions resulting from any such over-allotments and/or from sales of Shares and SDRs effected by it during the stabilisation period, the stabilisation manager is expected to enter into over-allotment arrangements pursuant to which the stabilisation manager may purchase or procure purchasers for additional Shares and SDRs up to a maximum of 15% of the total number of Shares and SDRs comprised in the IPO (the "**Over Allotment Securities**") at the offer price. The over-allotment arrangements will be exercisable in whole or in part, upon notice by the stabilisation manager, at any time on or before the 30th calendar day after the commencement of conditional dealings of the Shares and the SDRs on NASDAQ Iceland and NASDAQ Stockholm, respectively. Any Over-allotment Securities made available pursuant to the over-allotment arrangements, including for all dividends and other distributions declared, made or paid on the Shares and SDRs, will be purchased on the same terms and conditions as the Shares and SDRs being issued or sold in connection with the IPO and will form a single class for all purposes with the other Shares and SDRs, respectively.