

ARION BANK'S 9M 2017 FINANCIAL RESULTS

Arion Bank reported net earnings of ISK 10.4 billion for the first nine months of 2017, compared with ISK 17.3 billion for the same period of 2016. Return on equity was 6.3%, compared with 11.2% for the first nine months of 2016.

The Bank reported a net loss of ISK 0.1 billion during the third quarter of 2017, compared with a profit of ISK 7.5 billion for the same period of 2016. Return on equity during the quarter was negative by 0.2%, compared with a positive figure of 14.4% in 2016. The negative outcome in the third quarter is the result of the Bank's impairments of loans, receivables and other assets relating to United Silicon, collectively amounting to ISK 3.7 billion in the quarter and ISK 4.8 billion during the first nine months of the year. Net earnings in Q3 would have been ISK 2.6 billion without this one-off effect.

Total assets amounted to ISK 1,144.9 billion at the end of September, compared with ISK 1,036.0 billion at the end of 2016. Shareholders' equity totalled ISK 221.5 billion at the end of September 2017, compared with ISK 211.2 billion at the end of 2016. The Bank enjoys a strong financial position and the focus has been on maintaining good liquidity, both as the capital controls are lifted, and in preparation for the redemptions of public bonds in early 2018.

The Bank's capital ratio at the end of September was 27.1%, unchanged from the end of 2016. Tier 1 Capital increased during the period to 26.6%, compared with 26.5% at the end of 2016.

Highlights of the income statement and key income related performance indicators:

Income Statement

<i>In ISK million</i>	9M 2017	9M 2016	Q3 2017	Q3 2016
Net interest income	22,570	22,058	7,250	7,432
Net commission income	10,703	10,213	3,865	3,466
Other income	5,411	7,377	237	1,569
Operating income	38,684	39,648	11,352	12,467
Operating expenses	(21,380)	(22,331)	(7,540)	(7,175)
Bank levy	(2,388)	(2,190)	(814)	(705)
Net impairment	(1,262)	6,827	(2,551)	5,882
Net earnings before taxes	13,654	21,954	447	10,469
Income tax expense	(3,917)	(5,261)	(756)	(3,170)
Net gain from assets held for sale, net of tax	616	569	196	206
Net earnings	10,353	17,262	(113)	7,505

KPI's:

Return on equity (ROE)	6.3%	11.2%	-0.2%	14.4%
Earnings per share (ISK)	5.17	8.38	(0.06)	3.76
Net interest margin (int. bearing assets)	2.9%	3.1%	2.7%	3.1%
Cost-to-income ratio	55.3%	56.3%	66.4%	57.6%

Highlights of the balance sheet and key performance indicators:

<i>In ISK million</i>	30.09.2017	31.12.2016	Diff	Diff%
Loans to customers	750,947	712,422	38,524	5%
Other assets	393,906	323,602	70,304	22%
Liabilities	923,144	824,640	98,504	12%
Equity	221,708	211,384	10,324	5%
Loans to Deposits ratio	168.4%	172.9%		
RWA / Total assets	68.4%	72.7%		
Tier 1 ratio	26.6%	26.5%		

For detailed information on the accounts please refer to Arion Bank's Consolidated Interim Financial Statements for the period 1 January – 30 September 2017 on the Bank's website, www.arionbanki.is.



HÖSKULDUR H. ÓLAFSSON, CEO OF ARION BANK:

“The financial results for the first nine months of the year matched our expectations, although significant one-off items had both positive and negative impacts on earnings. Core operations are stable and interest income and commission income were close to what we anticipated. The Bank remains financially robust and the capital ratio is 27.1%. However, the financial results were negatively affected by the Bank’s loans to United Silicon and our shareholding in the company. The Bank has made impairments in respect of some of our loans to the company and our entire shareholding in the company. The United Silicon plant commenced operations about one year ago and a number of shortcomings soon came to light at the company. It has now emerged that the plant was not complete when it was opened and that the company was in general disarray. Arion Bank has therefore been increasingly required to intervene in the company and is now its largest shareholder. The loss relating to United Silicon during the period represents around 2% of the Bank's total equity and the loan impairment constitutes less than 0.4% of the loan portfolio. Outstanding liabilities in the Bank's accounts amounted to ISK 5.4 billion, which is approximately 0.5% of the balance sheet.

Taking risks is central to what financial institutions do. Fortunately, most of the projects we undertake are brought to successful completion. We have carefully examined the preparations for the Bank’s participation in the development of the United Silicon plant. We concluded that the research and analysis on which the decision to make a loan was based was, in all key areas, sound. We based our decision on the company's business plans, which had been prepared with the input of Icelandic and highly experienced international specialists. Opinions and reports created by third-party experts were also consulted. All necessary permits were obtained and agreements on constructing the plant, buying power, supplies and the sale of products were signed and in place. Nevertheless it’s obvious that lessons need to be learnt from how things turned out and we fully intend to do so. We are continuing our efforts to bring operations at the plant into order and in harmony with the local community.

Standard & Poor’s recently upgraded the Bank’s credit rating to BBB+. This is clear testimony to the fact that the Bank and the Icelandic economy have both been going from strength to strength. Arion Bank has been an active participant in the international credit markets, and the upgrading of the credit rating further increases the number of potential investors, which in turn helps reduce the Bank’s funding costs in the future.

Arion Bank recently opened a new branch at the Kringlan Mall in Reykjavík and it provides a clear insight into how we envisage meeting our customers’ needs for service in the future. The new branch showcases the digital solutions we have launched to great acclaim in the last couple of years. This year Arion Bank has brought out 10 new digital solutions and more are in the pipeline. Customers at the Kringlan branch can get help from our employees to use the new solutions and can talk to financial advisors by video conference calls. Another innovation is that the branch now has the same opening hours as other services and stores at Kringlan, making it the branch with the most flexible opening hours in Iceland.”



INCOME STATEMENT

<i>In ISK million</i>	9M 2017	9M 2016	Diff	Diff%
Net interest income	22,570	22,058	512	2%
Net commission income	10,703	10,213	490	5%
Net financial income	2,471	4,339	(1,868)	(43%)
Net insurance income	1,769	663	1,106	167%
Share of profit of associates and impairment	(917)	710	(1,627)	(229%)
Other operating income	2,088	1,665	423	25%
Operating income	38,684	39,648	(964)	(2%)
Salaries and related expense	(12,624)	(12,252)	(372)	3%
Other operating expenses	(8,756)	(10,079)	1,323	(13%)
Bank Levy	(2,388)	(2,190)	(198)	9%
Net impairment	(1,262)	6,827	(8,089)	-
Net earnings before taxes	13,654	21,954	(8,300)	(38%)
Income tax expense	(3,917)	(5,261)	1,344	(26%)
Net earnings from continuing operation	9,737	16,693	(6,956)	(42%)
Net gain from assets held for sale, net of tax	616	569	47	8%
Net earnings	10,353	17,262	(6,909)	(40%)

Operating income amounted to ISK 38.7 billion for the first nine months of 2017, compared with ISK 39.6 billion for the same period in 2016. Arion Bank's write down of its investment in United Silicon had a considerable influence on operating income for the first nine months of 2017, affecting net financial income (shares and bonds) as well as the share of profit of associates, a total of ISK 1.9 billion. Net insurance income increased due to the acquisition of the subsidiary Vördur in late 2016. There was a positive change in other income, mainly related to fair value changes of investment property in the first nine months of 2017.

Net interest income increased by 2% from the previous year. The net interest margin as a percentage of average interest-bearing assets was 2.9% during the first six months of 2017, compared with 3.1% for the same period in 2016. The growth in net interest income is mainly due to increased interest-bearing assets compared with last year.

Net commission income increased by 5% for the first nine months of 2017 compared with the same period last year, primarily due to increased activity in cards and payment solutions as well as in Retail Banking, especially the new branch at Keflavik International Airport, which was opened in mid-2016. Commissions from other segments are similar or have decreased from last year.

Net financial income amounted to ISK 2,471 million, compared with ISK 4,339 million for the first nine months of 2016. The main reason for the positive contribution from net financial income during the period was the relatively strong performance of listed shares and bonds, while the profit from the sale of the equity share in Visa Europe was the main reason behind last year's positive figures. Mark to market changes on hedging derivatives related to funding were unfavorable during the period. The Bank's investment in shares and bonds related to United Silicon had a negative effect on net financial income by ISK 965 million during the first nine months of 2017.

Net insurance income amounted to ISK 1,769 million, compared with ISK 663 million for the first nine months of 2016. The increase is primarily due to the acquisition of the insurance company Vördur at the end of September 2016 and the positive development of the insurance operation in general.

Share in the profit of associates and impairment was negative by ISK 917 million during the first nine months of 2017, compared with positive ISK 710 million for the same period in 2016. This change is mainly due to the ISK 907 million impairment of United Silicon in the first nine months of 2017, as the company was classified as an associated company for part of the year. In comparative figures for 2016 the Bank reported a profit from the sale of equity holdings in Bakkavor Group Ltd.

Other operating income increased by ISK 423 million from the previous year and amounted to ISK 2,088 million during the first nine months of 2017. A large part of the additional income in 2017 was due to fair value changes on investment property during the period.



Operating expenses amounted to ISK 21,380 million during the first nine months of 2017, compared with ISK 22,331 million for the same period of 2016. The Bank's cost-to-income ratio was 55.3%, compared with 56.3% for the first nine months of 2016. The reason for the lower ratio is mainly the reversal of a liability the Bank had recognized against the Depositors' and Investors' Guarantee Fund in the amount of ISK 2,669 million. The Bank has received confirmation from the Fund that the claim will not be collected. The reversal is partly off-set by higher operating expenses, compared with the previous year, relating to the subsidiary Vördur, which became part of the Group in late 2016, and higher expenses due to the growth of international operations at the subsidiary Valitor. The Cost-to-Total Assets ratio was 2.6% for the first nine months of 2017, compared with 2.9% for the same period of 2016.

Salaries and related expenses amounted to ISK 12,624 million during the period, an increase of 3% from the previous year. The increase is mainly due to the acquisition of Vördur and the increased number of employees at the subsidiary Valitor. The average salary per employee decreased by almost 2% from the same period in 2016, but at the same time the salary index in Iceland rose by approximately 7%. The reasons for this include changes in the set-up of employees with the arrival of new subsidiaries, and the strengthening of the ISK against foreign currencies, as Valitor, the Bank's largest subsidiary, has some of its operations abroad. Full-time equivalent positions at the end of September totalled 1,293 at the Group, 104 more than at the end of September 2016. The increase is largely a result of investments in new business opportunities in Iceland and abroad. Most significant in this respect are the acquisition of the insurance company Vördur and the growth of Valitor internationally, including the acquisition of new entities.

Other operating expenses amounted to ISK 8,756 million during the first nine months, a 13% decrease from the same period last year. As stated above, this decrease is mainly due to the reversal of a liability to the Depositors' and Investors' Guarantee Fund of ISK 2,669 million, but some of the increase is related to the new subsidiary Vördur, the growth of the international operations of Valitor and higher IT expenses due to the outsourcing of segments of the Bank's IT operation.

Net valuation change was negative by ISK 1,262 million during the first nine months of 2017, compared with ISK 6,827 million in the same period last year. Composition payments from corporate customers, final loan payments from bankrupt entities, which had previously been impaired, and prepayments of mortgage loans during the period had positive impacts, whereas impairment on loans to United Silicon amounting to ISK 2,962 million had a negative impact during the period, as described above.

Income tax amounted to ISK 3,917 million, compared with ISK 5,261 million for the first nine months 2016. Income tax, as reported in the annual financial statements, comprises 20% income tax on earnings and a special 6% financial tax on the earnings of financial undertakings in excess of ISK 1 billion. The effective income tax rate was 28.7%, compared with 24.0% for the same period last year. The high tax rate during the period is due to the high proportion of income from the parent company, which calculates an additional 6% tax on income above ISK 1 billion and thus the effective income tax rate is higher.



Third quarter of 2017

The financial results for the third quarter of 2017 were significantly affected by United Silicon. Return on equity was negative by 0.2%, compared with a return of 14.4% for the same period last year.

	Q3 2017	Q3 2016	Diff	Diff%
Net interest income	7,250	7,432	(182)	(2%)
Net commission income	3,865	3,466	399	12%
Net financial income	(734)	845	(1,579)	(187%)
Net insurance income	716	272	444	164%
Share of profit of associates	17	16	1	6%
Other operating income	238	435	(197)	(45%)
Operating income	11,352	12,465	(1,114)	(9%)
Salaries and related expense	(3,841)	(3,826)	(15)	0%
Other operating expenses	(3,699)	(3,349)	(350)	10%
Bank levy	(814)	(705)	(109)	15%
Net impairment	(2,551)	5,882	(8,433)	(143%)
Net earnings before taxes	447	10,467	(10,020)	(96%)
Income tax expense	(756)	(3,170)	2,414	(76%)
Net gain from assets held for sale, net of tax	196	206	(10)	(5%)
Net earnings	(113)	7,503	(7,616)	(102%)

Operating income in the third quarter was ISK 11,352 million, which is 9% lower than in 2016, mainly as a result of a net loss in financial income due to challenging market conditions and the impairment of bonds related to United Silicon. Net interest income decreased by 2% between years, while net commission income increased by 12%. Net financial income was negative by ISK 734 million as a result of negative returns on securities in general, particularly after the resignation of the government at the beginning of September. Income from insurance operations increased considerably due to the subsidiary Vördur, which was acquired in late 2016, and other operating income increased due to fair value changes in investment properties.

Total *Operating expenses* increased by 5% between quarters as a result of a growth in activities, especially at subsidiaries.

Net change in valuation was negative in the third quarter and amounted to ISK 2,551 million, compared with a positive net change in valuation of ISK 5,882 million during the same period in 2016. The main reason for negative net impairment during the period was the impairment of loans and receivables of United Silicon of ISK 2,962 million. Comparable figures for 2016 were affected by the positive outcome of an evaluation of a mortgage loan portfolio that the Bank acquired in 2011.



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.

All of the Bank's profit centers made a profit before income tax during the first nine months of 2017.

<i>1.1.-30.9.2017</i> <i>In ISK million</i>	Asset Management	Corporate Banking	Investment Banking	Retail Banking	Treasury	Other div., headq. and subsidiaries	Total
Net interest income	399	4,777	182	11,818	4,626	768	22,570
Net commission income	2,643	771	928	3,406	(248)	3,203	10,703
Other income	138	1,336	(59)	33	(335)	4,298	5,411
Operating income	3,180	6,884	1,051	15,257	4,043	8,269	38,684
Operating expenses	(753)	(239)	(558)	(3,319)	209	(16,720)	(21,380)
Bank levy	0	0	0	0	0	(2,388)	(2,388)
Net impairment	0	(2,436)	(18)	1,206	55	(69)	(1,262)
Net earnings before taxes	2,427	4,209	475	13,144	4,307	(10,908)	13,654

<i>1.1.-30.9.2016</i> <i>In ISK million</i>							
Net interest income	415	4,915	1,031	11,444	3,818	435	22,058
Net commission income	2,864	739	1,072	2,528	(258)	3,268	10,213
Other income	(74)	187	831	103	(93)	6,423	7,377
Operating income	3,205	5,841	2,934	14,075	3,467	10,126	39,648
Operating expenses	(1,039)	(451)	(747)	(4,577)	(151)	(15,366)	(22,331)
Bank levy	0	0	0	0	0	(2,190)	(2,190)
Net impairment	(1)	60	1,601	5,250	3	(86)	6,827
Net earnings before taxes	2,165	5,450	3,788	14,748	3,319	(7,516)	21,954

Asset Management comprises Institutional Asset Management, Private Banking, Investment Services and Pension Fund Administration. Asset Management manages financial assets on behalf of its customers according to a pre-determined investment strategy. In addition, the division is the main distributor of funds managed by Stefir hf. to individuals, companies and institutional investors as well as distributing funds managed by international fund management companies. Asset Management also administers pension funds. Stefir hf. is an independently operating financial company owned by Arion Bank. Stefir manages a broad range of mutual funds, investment funds and institutional investor funds.

<i>In ISK million</i>	9M 2017	9M 2016	Difference
Net interest income	399	415	(3.9%)
Net commission income	2,643	2,864	(7.7%)
Other income	138	(74)	-
Operating income	3,180	3,205	(0.8%)
Operating expenses	(753)	(1,039)	(27.5%)
Net earnings before taxes	2,427	2,166	12.0%

The decrease in operating income from the same period of 2016 is mainly related to changes in the market environment. However, operations are stable and assets under management have been developing positively during the last few years.



Corporate Banking provides comprehensive financial services and integrated solutions across the Bank's divisions to larger corporate clients in Iceland. Corporate Banking provides a full range of lending products, deposit accounts, payment solutions as well as value-added digital corporate solutions to meet the needs of each customer.

<i>In ISK million</i>	9M 2017	9M 2016	Difference
Net interest income	4,777	4,915	(2.8%)
Net commission income	771	739	4.3%
Other income	1,336	187	614.4%
Operating income	6,884	5,841	17.9%
Operating expenses	(239)	(451)	(47.0%)
Net impairment	(2,436)	60	-
Net earnings before taxes	4,209	5,450	(22.8%)

The net interest margin at Corporate Banking is slightly lower than in the same period in 2016 as a result of increasing competition in the corporate market. Net commission income is mainly connected with activity in the market. Other income is mainly from valuation change in Investment properties. The negative net valuation changes in the loan portfolio can be primarily attributed to impairments on loans and claims against United Silicon in the third quarter, totalling approximately ISK 3 billion.

Investment Banking is divided into Corporate Finance, Capital Markets and Research. Corporate Finance arranges the buying and selling of companies and advises on other major financial decisions undertaken by companies and investors such as financial restructuring, IPOs and stock market listings. Capital Markets buys and sells securities and FX on behalf of Arion Bank's clients. Capital Markets manages securities issuance for clients and advises on hedges used in business operations, often in co-operation with Corporate Finance. Research is an independent research team covering the Icelandic economy and financial markets.

<i>In ISK million</i>	9M 2017	9M 2016	Difference
Net interest income	182	1,031	(82.3%)
Net commission income	928	1,072	(13.4%)
Other income	(59)	831	(107.1%)
Operating income	1,051	2,934	(64.2%)
Operating expenses	(558)	(747)	(25.3%)
Net impairment	(18)	1,601	(101.1%)
Net earnings before taxes	475	3,788	(87.5%)

Changes were made in Investment Banking in 2016 when a large part of the division's assets were transferred to other divisions, mainly to the CEO's Office, which is classed as a part of the headquarters in the segment reporting. Therefore changes in Net interest income and Other income are quite significant between years. Net fee and commission income, which is the main source of income for the segment, were lower, mainly due to a reduction in activity in Corporate Finance compared with last year.



Retail Banking provides a comprehensive range of services, including deposits and loans, savings, payment cards, pension savings, insurance, securities and funds. To maximize operational efficiency the branch network is divided into five clusters, with the smaller branches capitalizing on the strength of larger units within each cluster. Retail Banking's 24 branches all around Iceland have a total of more than 100,000 customers. Arion Bank Mortgages Institutional Investor Fund is a part of Arion Bank's retail operations.

<i>In ISK million</i>	9M 2017	9M 2016	Difference
Net interest income	11,818	11,444	3.3%
Net commission income	3,406	2,528	34.7%
Other income	33	103	(68.0%)
Operating income	15,257	14,075	8.4%
Operating expenses	(3,319)	(4,577)	(27.5%)
Net impairment	1,206	5,250	(77.0%)
Net earnings before taxes	13,144	14,748	(10.9%)

Operating income from the period increased by 8.4% between years and the strong focus over the last few years on fee generating operations is resulting in higher income. The positive outcome in Net impairment is mainly due to prepayments of mortgages as the interest environment is favorable for customers, while the high positive valuation change on loans in 2016 was due to the revaluation of the mortgage portfolio that was acquired at year-end 2011.

Treasury is responsible for the Bank's liquidity, currency and interest rate management. Other functions of Treasury are funds' transfer pricing and hedging and pricing of financial products.

<i>In ISK million</i>	9M 2017	9M 2016	Difference
Net interest income	4,626	3,818	21.2%
Net commission income	(248)	(258)	(3.9%)
Other income	(335)	(93)	260.2%
Operating income	4,043	3,467	16.6%
Operating expenses	209	(151)	(238.4%)
Net impairment	55	3	1,733.3%
Net earnings before taxes	4,307	3,319	29.8%

Operating income from Treasury increased between years, mainly due to higher interest income from cash balances at Central Bank and other liquidity but there was a loss from Other income, mainly due to mark to market changes on derivatives which are used for hedging but are not in hedge accounting.



BALANCE SHEET

Arion Bank's **total assets** increased by 11% from year-end 2016. The main reason for the increase is the growth in cash and balances with the Central Bank and loans to customers. Loans to credit institutions and financial assets increased, mainly due to increased cash.

<i>In ISK million</i>	30.09.2017	31.12.2016	Diff	Diff%	30.09.2016	Diff%
Cash & balances with CB	132,316	87,634	44,683	51%	85,645	54%
Loans to credit institutions	94,242	80,116	14,126	18%	68,257	38%
Loans to customers	750,947	712,422	38,524	5%	715,907	5%
Financial assets	121,040	117,456	3,584	3%	128,358	(6%)
Investment property	6,903	5,358	1,546	29%	5,113	35%
Investments in associates	842	839	3	0%	869	(3%)
Intangible assets	12,755	11,057	1,698	15%	11,077	15%
Other assets	25,807	21,142	4,665	22%	23,256	11%
Total assets	1,144,852	1,036,024	108,828	11%	1,038,480	10%

Cash and cash balances with Central Bank amounted to ISK 132,316 million at the end of September, compared with ISK 87,634 million at the end of 2016. The increase is mainly due to increased deposits, primarily in Retail Banking but new borrowings during the period also had a positive effect on liquidity.

Loans to customers totalled ISK 750,947 million at the end of September 2017, representing a 5% increase from year-end 2016. Loans to corporates increased by 6.0%, mainly in the real estate sector and transportation. Loans to individuals increased by 5% during the first nine months 2017. The quality of loans to customers continues to improve.

Financial assets amounted to ISK 121,040 million at the end of September, compared with ISK 117,456 million at the end of 2016. The composition of financial assets has changed as shares have been sold, for example the entire shareholdings in Fasteignafélagið Reitir hf. and Síminn hf. have been sold, but the increase is related to new investment in international funds as a part of liquidity management.

Liabilities increased from year-end, which is primarily a result of deposits and new borrowings. **Equity** increased as a result of the positive financial results in the first nine months of 2017.

<i>In ISK million</i>	30.09.2017	31.12.2016	Diff	Diff%
Due to credit institutions & CB	7,097	7,987	(890)	(11%)
Deposits from customers	445,981	412,064	33,917	8%
Financial liabilities at fair value	3,551	3,726	(175)	(5%)
Other liabilities	66,115	61,387	4,728	8%
Borrowings	400,400	339,476	60,924	18%
Shareholders equity	221,534	211,212	10,322	5%
Non-controlling interest	174	172	2	1%
Total liabilities and equity	1,144,852	1,036,024	108,828	11%

Deposits from customers amounted to ISK 445,981 million at the end of September 2017, compared with ISK 412,064 million at the end of 2016. The increase is mainly due to new deposits from retail customers.

Borrowings amounted to ISK 400,400 million at the end of the period. In January, Arion Bank tapped its EUR 300 million November 2016 issue for a further EUR 200 million. The proceeds of the tap were partially used to repay the resettable EMTN held by Kaupthing, which were fully repaid and replaced with market funding in June. At the end of June, Arion Bank issued new senior unsecured bonds for a total of EUR 300 million. The bonds are 3-year instruments and were sold at rates corresponding to a 0.88% margin over interbank rates. The proceeds from the issue were used to buy back EUR 100 million of notes maturing in 2018. The Bank participated in eight international private placement issues, amounting to ISK 19.6 billion in NOK and SEK, during the first nine months of 2017. The Bank has also continued to issue covered bonds in the Icelandic market, a total of ISK 19.1 billion during the first nine months of 2017.

Shareholders' equity amounted to ISK 221,534 million at the end of September 2017, compared with ISK 211,212 million at the end of 2016. The increase is explained by the financial results for the period, but no dividend



payment will be made in 2017. The Tier 1 ratio was 26.6% at the end of September, compared with 26.5% at the end of 2016. According to the FME's rules on calculating capital ratios, it is not permitted to take financial results into account unless they are endorsed by an auditor. The capital ratio according to the FME's rules was, as stated above, 26.6% at the end of September, compared with 26.5% at the end of 2016.



KEY PERFORMANCE INDICATORS

	9M 2017	2016	9M 2016
Return on equity (ROE)	6.3%	10.5%	11.2%
Return on total assets (ROA)	1.2%	2.1%	2.2%
Net interest margin (int. bearing assets)	2.9%	3.1%	3.1%
Net interest margin (total assets)	2.7%	2.9%	2.9%
Cost-to-income ratio	55.3%	57.2%	56.3%
Cost-to-Total assets ratio	2.6%	3.0%	2.9%
Effective tax rate	28.7%	23.5%	24.0%
CAD ratio	27.1%	27.1%	26.1%
Tier 1 ratio	26.6%	26.5%	25.5%
Problem loans	1.4%	1.6%	2.0%
Gross impaired loans/Gross loans	2.1%	3.2%	3.6%
RWA/Total assets	68.4%	72.7%	73.2%
Loans to deposit ratio	168.4%	172.9%	165.7%
The Group's average number of employees	1,235	1,201	1,185
The Group's employees at the end of the period	1,293	1,239	1,189
The Parent's average number of employees	826	889	893
The Parent's employees at the end of the period	842	869	887

FINANCIAL TARGETS

In late 2016 Arion Bank approved the following medium-term targets, for the next four to five years.

- *CET 1 Ratio* Reduce to approximately 17%
- *Loan Growth* Prudent lending to outpace economic growth in the next few years
- *RoE* Reach double digit returns
- *Dividend Policy* Payout ratio of circa 50% of net earnings attributable to shareholders
- *Cost to Income Ratio* Reduce to approximately 50%

CONFERENCE CALL IN ENGLISH

Arion Bank will be hosting a conference call in English on Wednesday 15 November at 1:00 pm GMT (2:00 pm CET), where Stefán Pétursson, Chief Financial Officer, will discuss the highlights of the Bank's financial results. People interested in participating can contact ir@arionbanki.is to obtain dial-in information.

For further information please contact Haraldur Gudni Eidsson of Arion Bank's Communications division at haraldur.eidsson@arionbanki.is, or tel. +354 444 7108.

FINANCIAL CALENDAR FOR 2017-18

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

Financial Statements for 2017	14 February 2018
Annual Report for 2017	1 March 2018
Annual General Meeting	15 March 2018
First quarter 2018	2 May 2018
Second quarter 2018	1 August 2018
Third quarter 2018	31 October 2018

This calendar may be subject to change.