Financial Statements 2017

Investor presentation

14 February 2018

Arion Bank

2017
Highlights

Operating environment strong and capital controls were lifted

First step in the sale of Arion Bank, largest equity portfolio investment by foreign parties in Icelandic history

Improvement in core revenues – 7% increase in loans to customers

Kaupthing facility repaid and **Arion Bank is now fully market funded**

Impairments and provisioning relating to **United Silicon affect financial performance of the year**

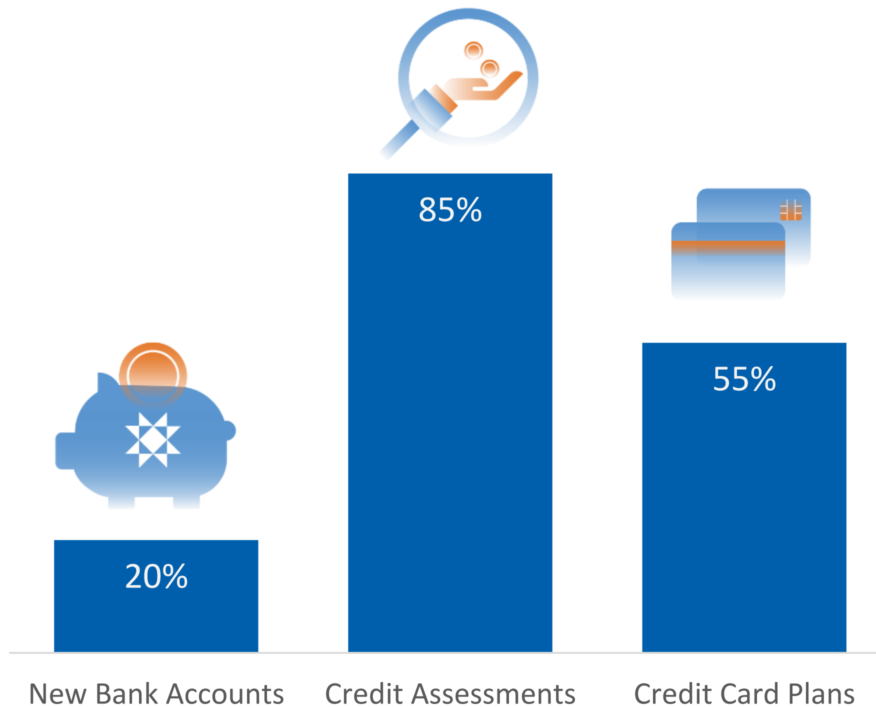
Success in digitalization of services

The Bank's mortgage application process is now fully digitalized – best banking app in Iceland*

Convenient Banking

1. Digital credit assessment and mortgage application – quick and straightforward
2. New pension portal opened allowing a range of pension related functions
3. Easy to start new services such as new bank accounts or credit cards
4. The app allows you to close a payment card quickly and easily – and reopen it
5. The Einkaklúbbur discount app released – highly popular and been downloaded over 40,000 times

Digital services change behaviour (increase in 2017)



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*According to a survey done in June 2017 by MMR

Accessible services and open communication

120,000
customers

560,000
branch visits

70,000
e-mails from customers

330,000
phone calls from customers

2,500
conversations on Facebook and webchat

696
publications by Arion Research

Strong position in key markets

Digital focus in retail services

Renovated branch at Kringlan Mall was opened – an experimental branch with focus on digital services

10 new digital solutions introduced in 2007 – continued focus on convenient banking

Partnership with insurance company Vördur on selling insurance to customers of Arion Bank

Continued market success

Number 1 in equities trading on the stock exchange

Arion Bank advised on the Klappir Green Solutions listing on the First North market – only listing in Iceland in 2017

S&P raised Arion Bank's long term credit rating to BBB+ with stable outlook

Arion Bank

Bank of the year in Iceland

Euromoney named Arion Bank bank of the year in Iceland

Global Finance named Arion Bank as investment bank of the year in Iceland

Investment Pension Europe named Frjálsi Pension Fund as best fund in European countries with fewer than one million inhabitants

Managerial and board of directors changes

- **Eva Cederbalk** took over as chairman of the Board of Directors in June
- **Steinunn Kristin Thordardottir** elected to the Board of Directors in November
- **Ida Bra Benediktsdottir** appointed managing director of Retail Banking in June
- **Lydur Thorgeirsson** appointed managing director of Investment Banking in October

Arion Bank

Sustainability for the Future

Innovation and Financial Literacy

Startup Reykjavik held for the sixth year in row and the Bank has now invested in 80 startups through its business accelerators

A range of seminars on finance, including topics such as saving for your first home

Arion Research’s macroeconomic forecast and a report on the residential property market were presented

Active in the Community

Sponsorship of DesignMarch plus special events

Sponsor and participant in Plastic Free September

Continued support and cooperation with the Icelandic Handball Association

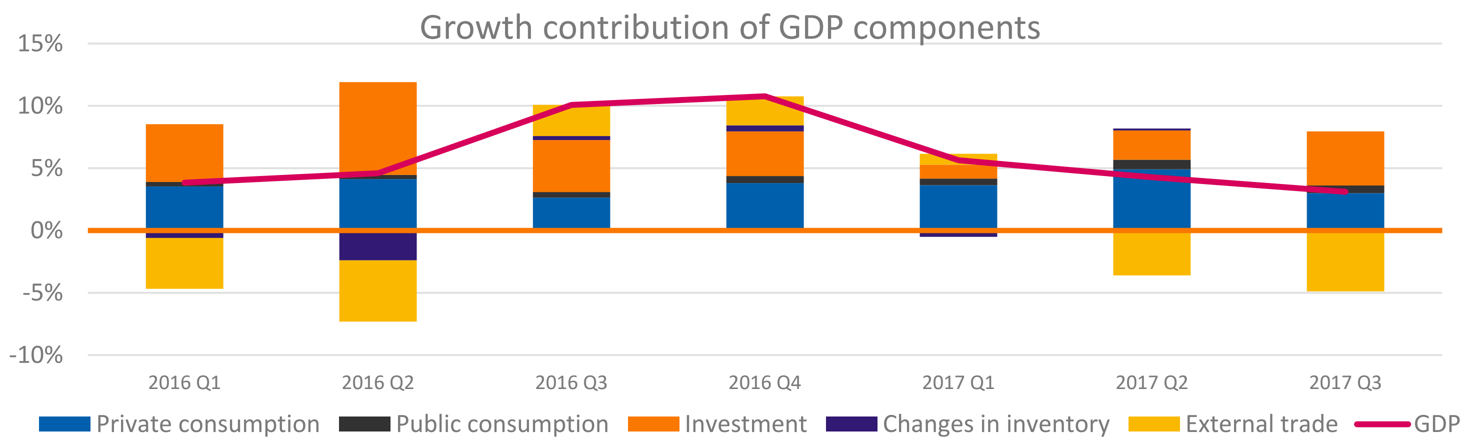
Arion Bank

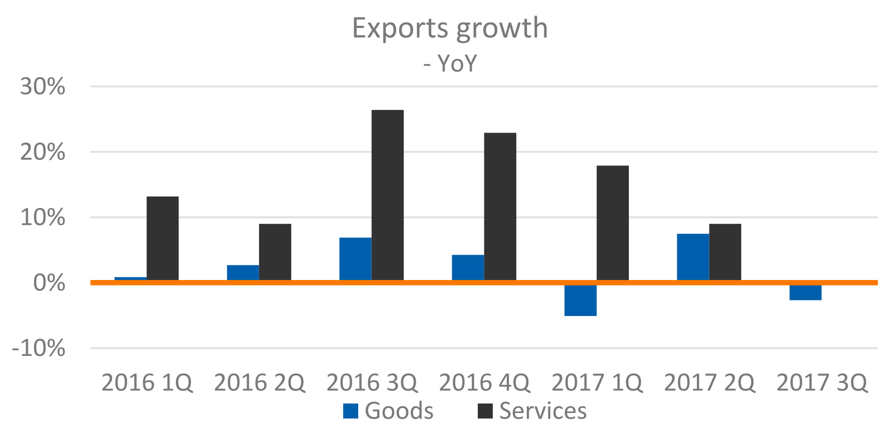
Macroeconomic Environment

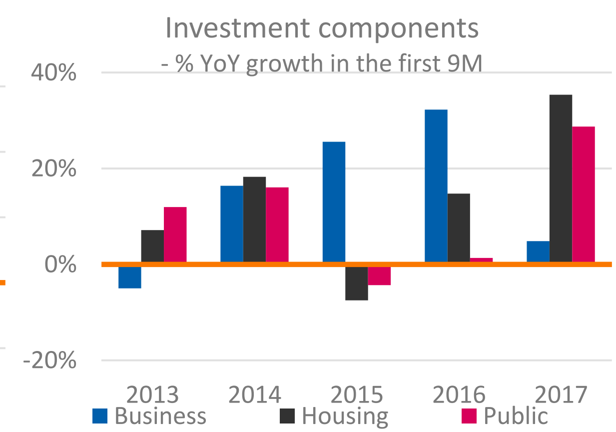
The economy continues to grow but at a slightly slower pace

Pressure in the economy has begun to ease, resulting in a diminishing output gap

- GDP growth in Q3 2017 measured 3.1%. Despite slower growth than previous quarters the economy is still developing well
- Private consumption is, and will be, the main driver behind economic growth, while investment and service exports will play a role to a lesser extent
- Significantly slower growth in tourism and other export sectors, as well as an increasing trade deficit has reduced the current account surplus







Sources: Statistics Iceland, Arion Research

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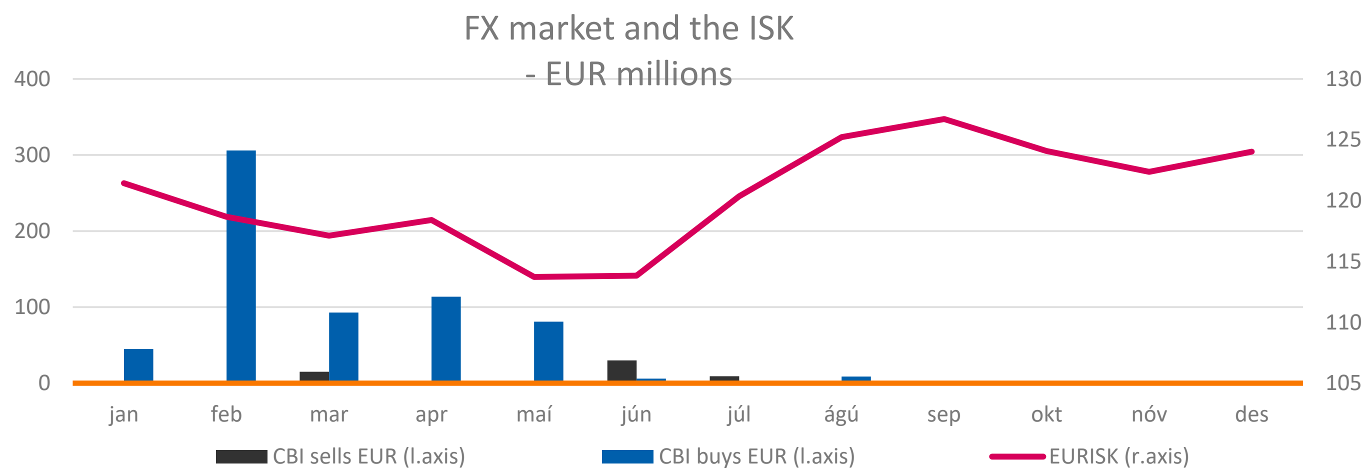
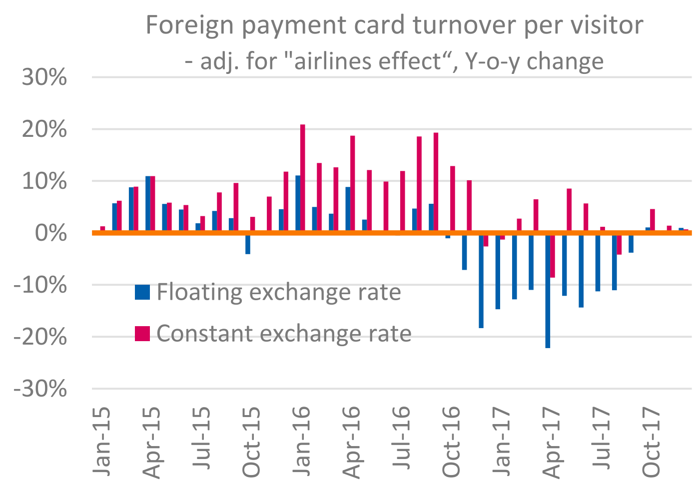
Tourism growth is slowing down

The ISK has been relatively steady following the summer depreciation

- After a volatile summer that was characterized by an exchange rate depreciation, the ISK has become more stable
- The CBI has gradually reduced its interventions in the FX market and now only steps in with aim of stopping spiral formation
- More and more evidence suggests that the tourism industry has passed the greatest growth period. As an example growth in foreign payment card turnover and the number of visitors has been slowing down. However, analysts expect continued growth in tourism



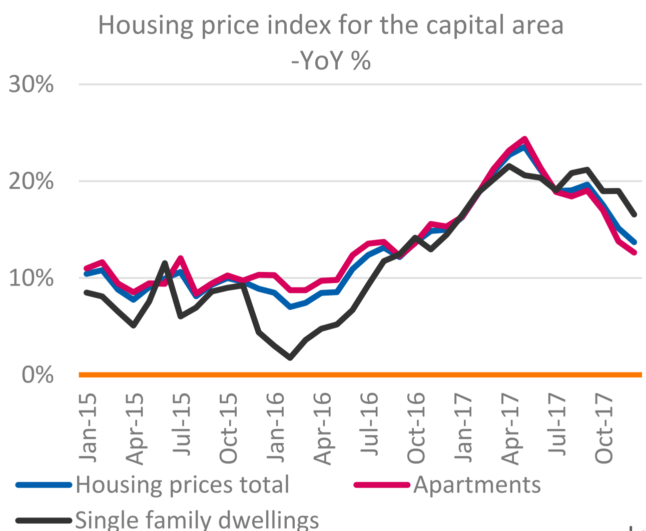


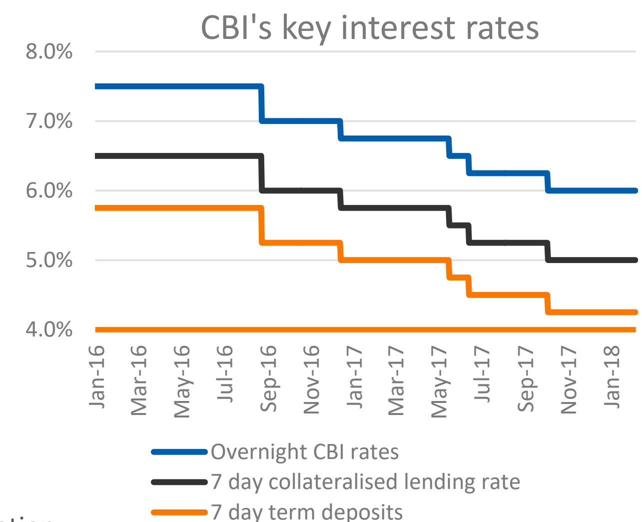
Sources: Central Bank of Iceland, The Icelandic Tourist Board, The Centre for Retail Studies, Arion Research

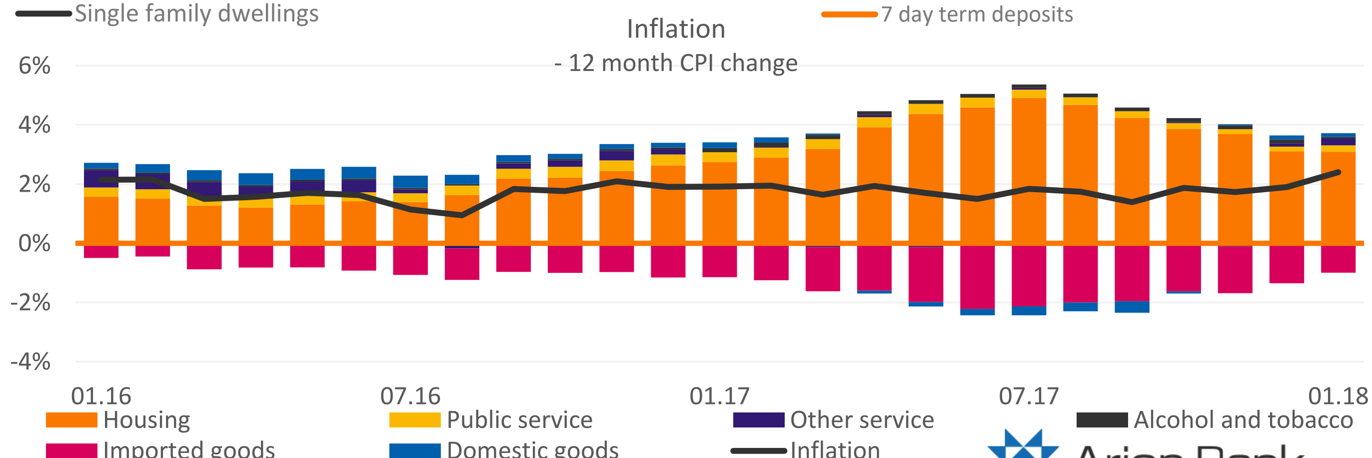
Inflationary pressures on the rise

Hurdle on the path to lower interest rates

- Currently housing prices are still the main factor behind inflation while imported goods partly offset the pressure. However, these two subcomponents are converging, as house price increases are slowing down and the exchange rate effects are ebbing out
- High frequency indicators suggest that house price increases in the capital area have peaked, at least for the time being, and prices will rise slower in the coming quarters
- GDP growth in Q3 exceeded the CBI's expectations, wage agreements are on the horizon and fiscal slack in 2017 was more than previously expected. The interplay between these three factors has curbed expectations of continued interest rate cuts







Sources: Registers Iceland, Statistics Iceland, Arion Research

2017
Headline Figures

Net earnings	CET 1	Cost-to-income ratio	Gross impairment / gross loans
ISK 14.4 bn.	**23.6%**	**56.1%**	**1.6%**
2016:	31.12.2016:	2016:	31.12.2016:
ISK 21.7 bn.	26.1%	56.0%	3.2%

Return on equity	Leverage ratio	Number of employees	Mortgages/Total loans
6.6%	**15.4%**	**1,284**	**40.6%**
2016:	31.12.2016:	31.12.2016:	31.12.2016:
10.5%	17.8%	1,239	39.2%

Arion Bank

Income statement

Income statement

All amounts in ISK million

Improvements in core operations

- Net interest income at the same level as in 2016
  - Increase in interest bearing assets offset by low inflation and cost of pre-financing
- Increase in net commission income mainly due to new subsidiaries at Valitor and increased lending activity
- Acquisition of Vördur in late 2016 transforms net insurance income
- Salaries are stable despite the Vördur acquisition and new Valitor subsidiaries
- Other OPEX decreases mainly due to revised Depositors' and Investors' Guarantee Fund provision
- United Silicon has a negative effect on several line items

	2017	2016	Diff	Diff%
Net interest income	29,835	29,899	(64)	(0%)
Net commission income	15,357	13,978	1,379	10%
Net financial income	4,091	5,162	(1,071)	(21%)
Net insurance income	2,093	1,396	697	50%
Share of profit of associates	(925)	908	(1,833)	-
Other operating income	2,927	3,203	(276)	(9%)
Operating income	**53,378**	**54,546**	**(1,168)**	**(2%)**
Salaries and related expense	(17,189)	(16,659)	(530)	3%
Other operating expenses	(12,772)	(13,881)	1,109	(8%)
Bank levy	(3,172)	(2,872)	(300)	10%
Net impairment	186	7,236	(7,050)	-
Net earnings before taxes	**20,431**	**28,370**	**(7,939)**	**(28%)**
Income tax expense	(5,806)	(6,631)	825	(12%)
Discontinued operations, net of tax	(206)	0	(206)	-
Net earnings	**14,419**	**21,739**	**(7,320)**	**(34%)**

Income statement

All amounts in ISK million

Growth in net commission income – high liquidity affects net interest income

- Net interest income decreases compared to the same period last year mainly due to high liquidity buffer in foreign currencies
- Significant increase in net commission income mainly due to the impact of new subsidiaries under Valitor
- Estimated claims in insurance operation during Q4 higher than Q4 last year
- Salaries and related expense and other operating expenses increase slightly
- Positive net impairment in Q4 2017 due to continued prepayments and favorable external factors

	Q4 2017	Q4 2016	Diff	Diff%
Net interest income	7,265	7,842	(577)	(7%)
Net commission income	4,654	3,764	890	24%
Net financial income	1,620	823	797	97%
Net insurance income	324	733	(409)	(56%)
Share of profit of associates	(8)	198	(206)	(104%)
Other operating income	69	826	(757)	(92%)
Operating income	**13,924**	**14,186**	**(262)**	**(2%)**
Salaries and related expense	(4,565)	(4,406)	(159)	4%
Other operating expenses	(4,016)	(3,803)	(213)	6%
Bank levy	(784)	(682)	(102)	15%
Net impairment	1,448	410	1,038	253%
Net earnings before taxes	**6,007**	**5,705**	**302**	**5%**
Income tax expense	(1,735)	(1,227)	(508)	41%
Discontinued operations, net of tax	(206)	0	(206)	-
Net earnings	**4,066**	**4,478**	**(412)**	**(9%)**

United Silicon

All amounts in ISK million

Effects of United Silicon (USi) on 2017 figures

- Arion Bank has fully provisioned for ISK 1,164 million in equity investments in USi and ISK 708 million in bonds related to USi operation. Net impairment on loans and receivables to USi amounted to ISK 2,962 million
- Further investment is needed for the factory to be fully operational and meet environmental requirements to the maximum extent
- Total exposure remaining at year end amounted to approx. ISK 6.3 billion, including loan commitments and guarantees or 0.5% of the Banks balance sheet
- USi is a recovery case that the Bank aims to conclude in the near term

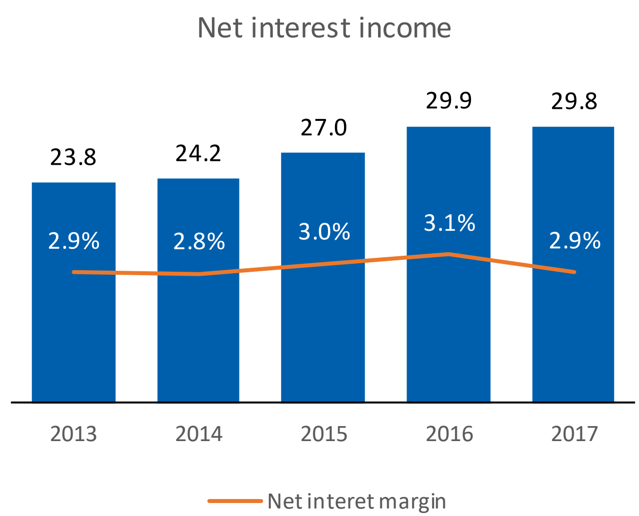
	2017	Effects of United Silicon	2017 without USi
Net interest income	29,835	-	29,835
Net commission income	15,357	-	15,357
Net financial income	4,091	(965)	5,056
Net insurance income	2,093	-	2,093
Share of profit of associates	(925)	(907)	(18)
Other operating income	2,927	-	2,927
Operating income	**53,378**	**(1,872)**	**55,250**
Salaries and related expense	(17,189)	-	(17,189)
Other operating expenses	(12,772)	-	(12,772)
Bank levy	(3,172)	-	(3,172)
Net impairment	186	(2,962)	3,148
Net earnings before taxes	**20,431**	**(4,834)**	**25,265**
Income tax expense	(5,806)	954	(6,760)
Discontinued operations, net of tax	(206)	(206)	0
Net earnings	**14,419**	**(4,086)**	**18,505**

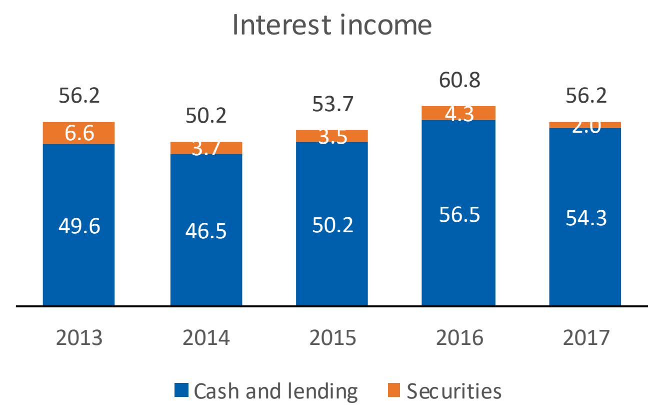
Net interest income

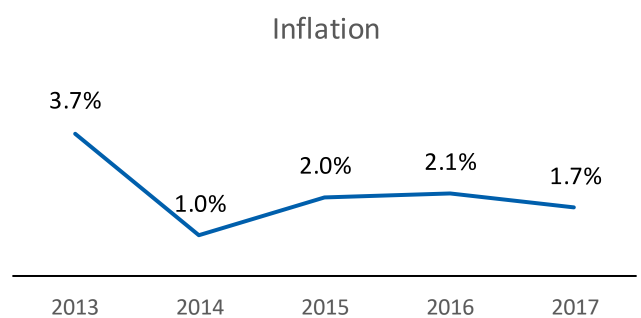
All amounts in ISK billion

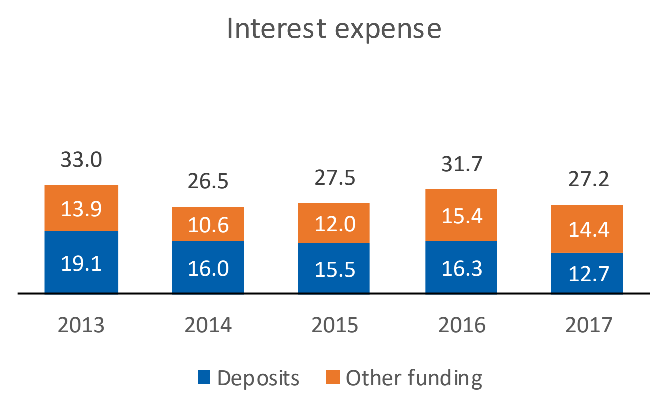
Increased liquidity and low inflation affects net interest margin

- Net Interest Income (NII) stable between years
- Net Interest Margin (NIM) decreases from 3.1% to 2.9%
- NIM impacted by increase in Interest-bearing assets by ISK 96 billion from year end 2016 or by 10%, mainly liquidity in low yielding foreign currency
- Higher liquidity buffer in foreign currency due to pre-financing of upcoming payments of public bond issues and in ISK due to anticipated dividend payments
- Low inflation affects interest income as the Bank has ISK 133 billion more of CPI linked assets than liabilities at the end of the year









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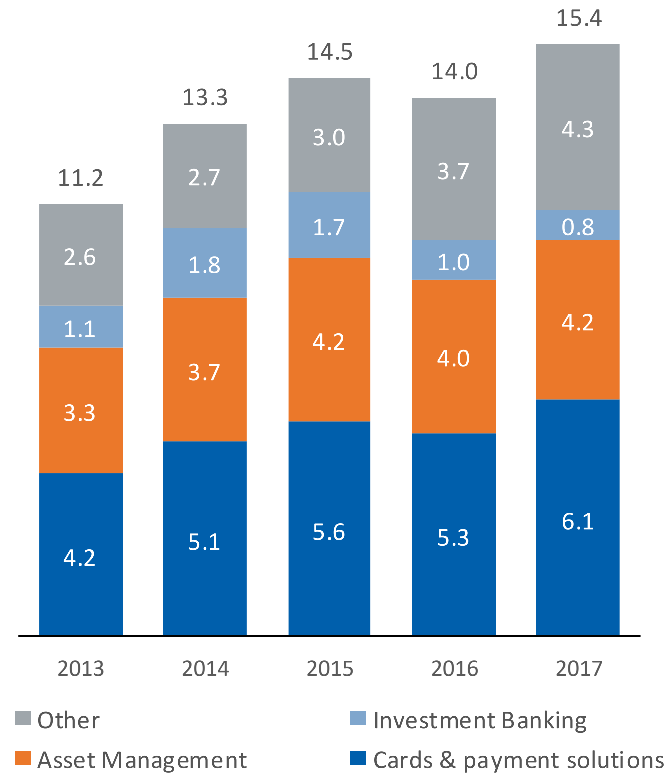
Net commission income

All amounts in ISK billion

Solid growth in commission income from last year

- Net commission income from cards and payment solutions increased by 16% in 2017 mostly due to successful acquisitions within Valitor
    - Acquisition of Chip & Pin and IPS in the UK is already positively affecting income from cards and will further strengthen Valitor's position
- Stable commission base in Asset Management which has a strong position in the Icelandic market
- Capital Markets is performing well and the Bank is no 1 in equities and no 3 in bond trading in the domestic market. Income from Corporate Finance activities is down from previous years, partially due to extensive work on internal projects
    - Corporate Finance managed the only equity listing in Iceland in 2017 which was on the Nasdaq First North Market
- Other commission income increased by 15.8% from 2016, mostly due to increased lending activity in corporate and mortgage lending and tourism connected income
    - The branch at Keflavík Airport is showing a strong performance linked to the increased tourism in Iceland

Net commission income



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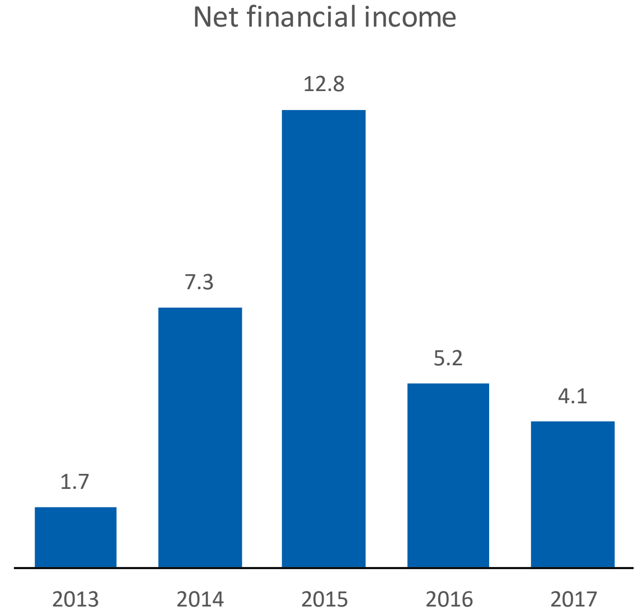
Net financial income

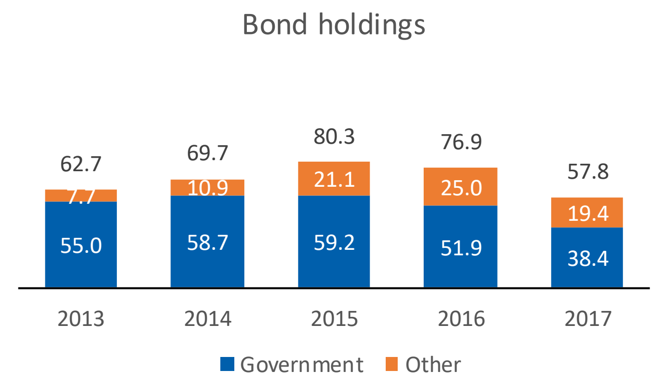
All amounts in ISK billion

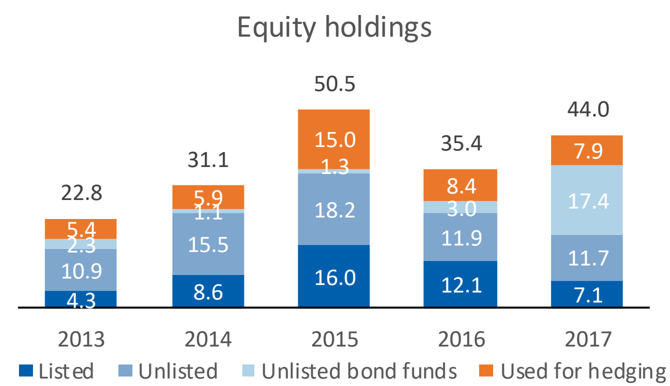
Normalizing after a period of one-off gains in recent years

- Provision of bonds relating to United Silicon of ISK 708 million and ISK 257 million of equity
- Derivative gains are mainly MTM positions in the Bank's funding activities as the Bank does not use hedge accounting for all funding
- Increase in unlisted equity holdings due to holdings in high grade bond funds as a part of liquidity management
- Listed equities held by Vördur amounted to ISK 1.5 billion at year end 2017



In ISK million	2013	2014	2015	2016	2017
Equity	2,968	7,039	12,560	6,335	3,671
Bonds	627	(263)	162	30	166
Derivaties	(154)	(299)	304	50	132
Currency exchange	(1,766)	813	(182)	(1,253)	122
Net financial income	**1,675**	**7,290**	**12,844**	**5,162**	**4,091**





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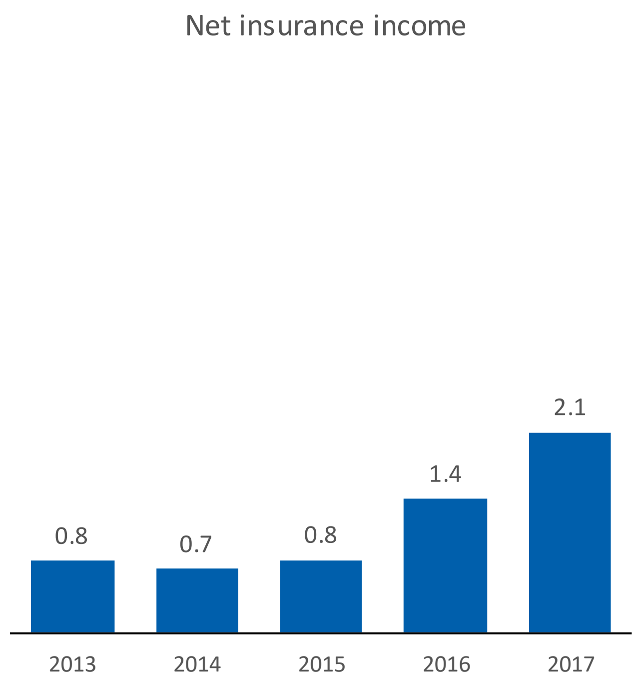
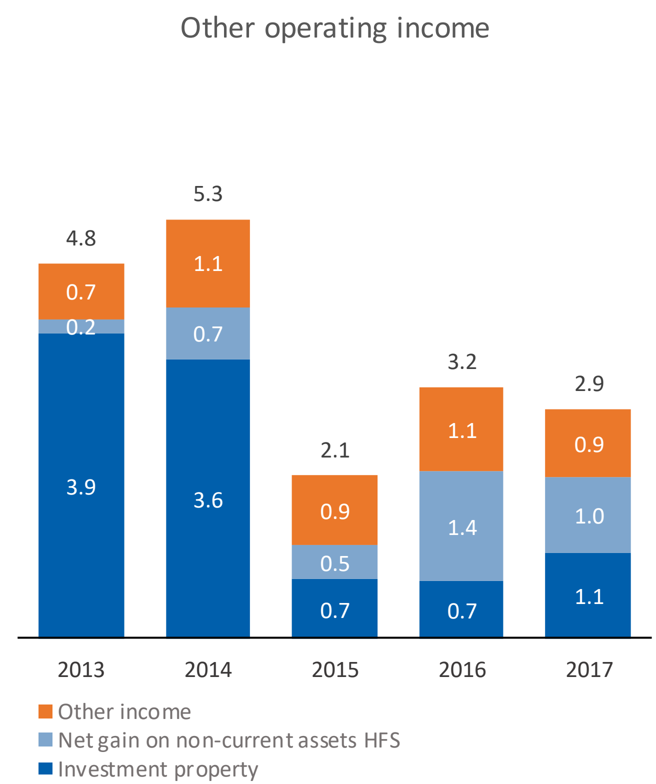
Net insurance income and other income

All amounts in ISK billion

Insurance has become a key part of the Bank's service offering

- Increase in insurance income from previous years due to acquisition of Vördur in late 2016
- Insurance income is expected to increase going forward as insurance products become part of the retail service offering
- Income from investment property in 2017 is almost entirely due to valuation changes. Decrease from 2014 due to the sale of Landfestar (real estate company specializing in rental earning investment properties)



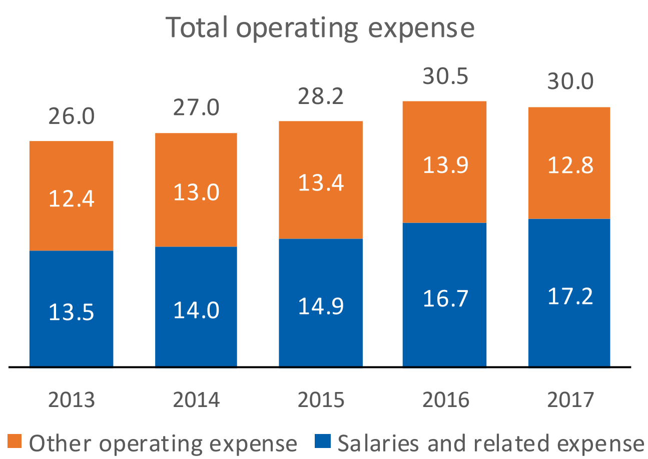


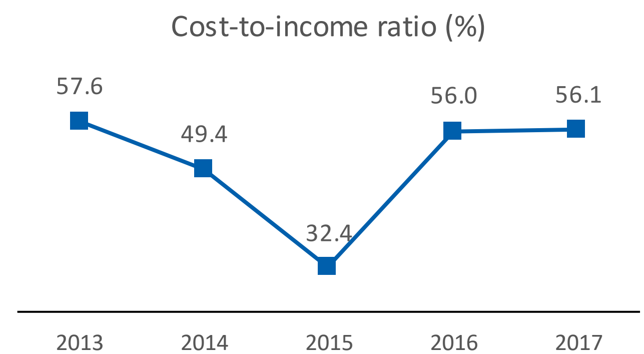
Total operating expenses

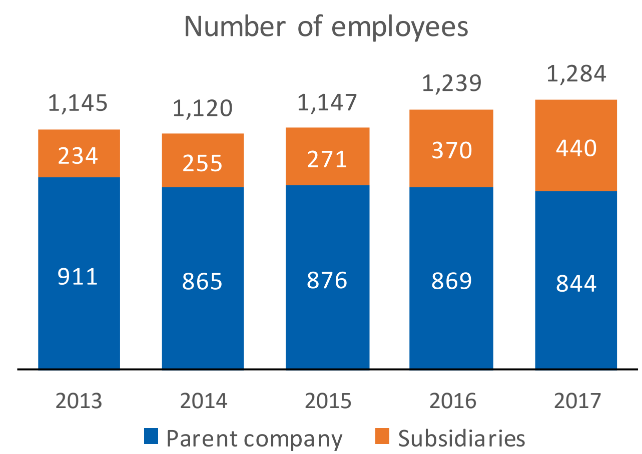
All amounts in ISK billion

The cost-to-income ratio is stable year on year

- Decrease in number of full-time employees (FTE's) at Parent company from last year is mainly due to outsourcing and digitalization of IT operations
- FTE's at the group increased by 45 from last year mostly due to the acquisitions at Valitor
- Salaries remain stable from 2016 despite a general salary increase in the market and increase in FTE's
- Decrease in other operating expense from 2016 is mainly due to reversal of expense with Depositors' and Investors' Guarantee Fund of ISK 2.7 billion. IT outsourcing and professional services increase from 2016
- Vördur and new subsidiaries in Valitor increase operating expenses







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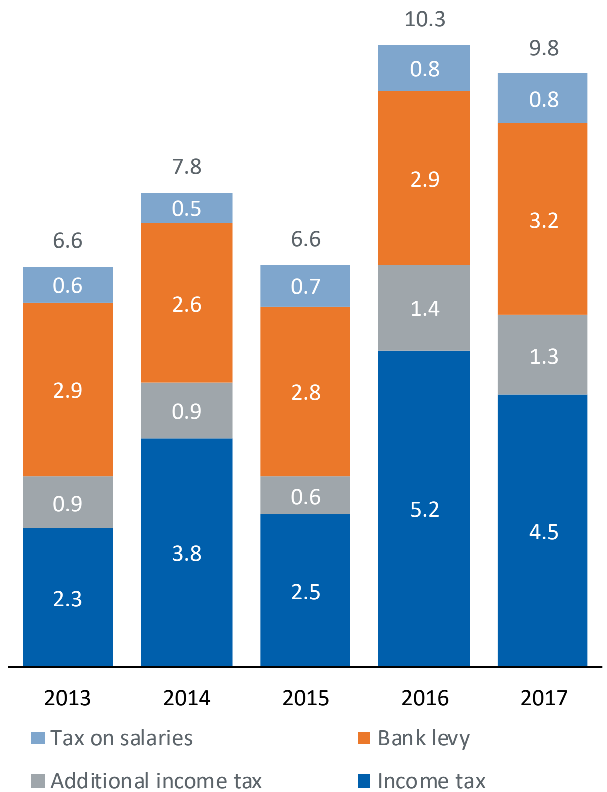
* Cost-to-income ratio (salaries and related expenses + other operating expenses/operating income)

Taxation

All amounts in ISK million

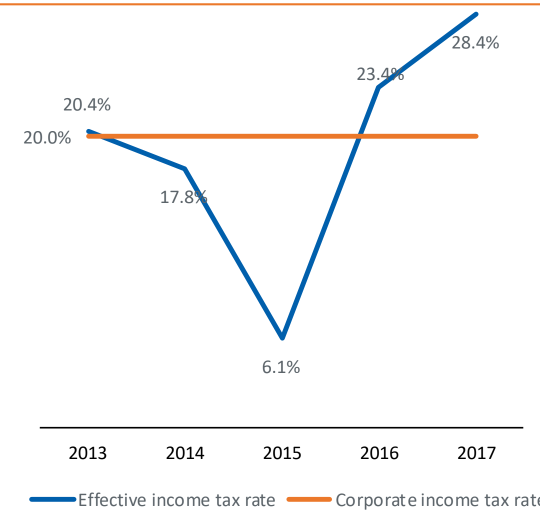
Bank specific taxes have a significant effect on ROE

- Icelandic corporate income tax rate is 20%
- Financial institutions pay additional taxes:
  - Additional income tax which is 6% on taxable income above ISK 1.0 billion
  - Bank levy which is 0.376% of total debt above ISK 50 billion
  - Special tax on salaries 5.5% (6.75% in 2013)
- Arion Bank (parent company) was the highest corporate tax payer in Iceland in respect of operations in 2016 with total tax amounting to ISK 10.5 billion, thereof additional taxes amounted to ISK 4.9 billion



Effects of bank levy and additional income tax on ROE

	Official		Excluding bank levy and additional income tax
2016	10.5%	➡	12.6%
2017	6.6%	➡	8.2%



Balance sheet

Arion Bank

Balance sheet - Assets

All amounts in ISK billion

Robust loan growth in line with economic growth

- The balance sheet grew by 10.8% in 2017
- Strong growth in loans to customers, specially in the second half of the year
- Strong liquidity position partially due to pre-financing of upcoming bond maturities

31.12.2017
ISK 1,148 billion

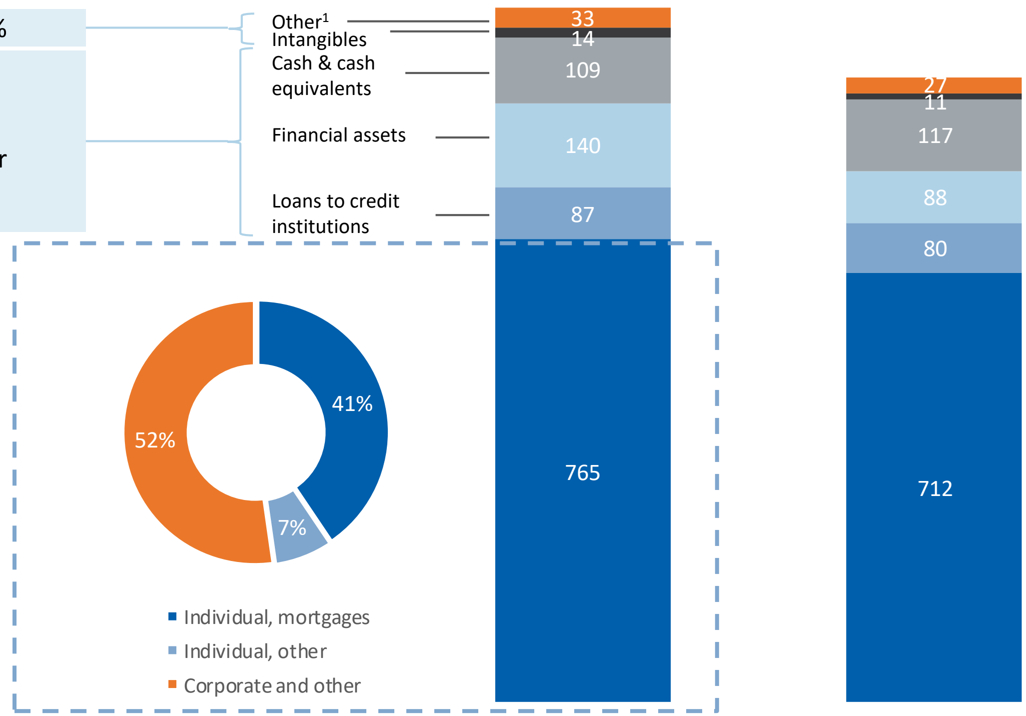
31.12.2016
ISK 1,036 billion

Other and intangibles: 4%

ISK 336 billion, of which **ISK 229 billion liquidity reserve** (50% of customer deposits)

Loans to customers
67% of total assets

7.4% Increase from YE 2016



[1]Other assets include investment property, investment in associates, tax assets and other assets

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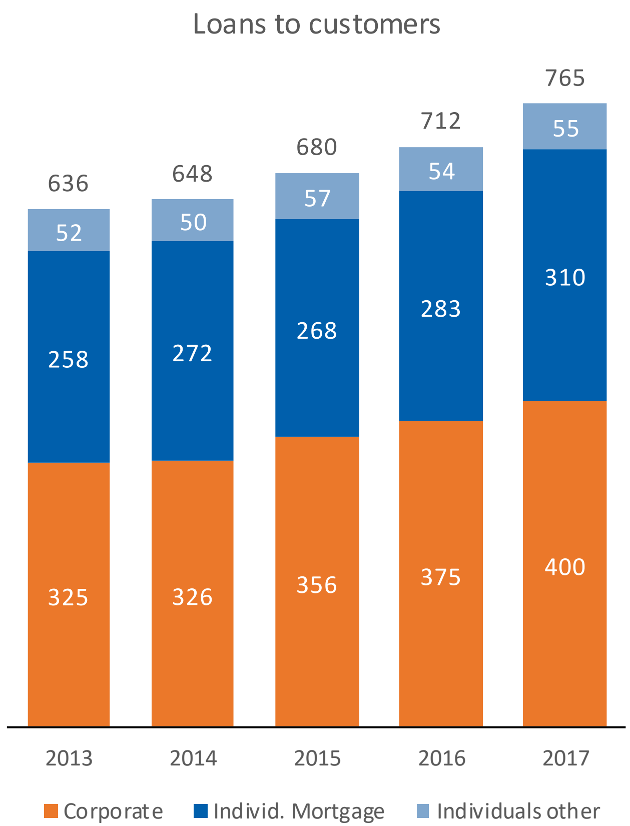
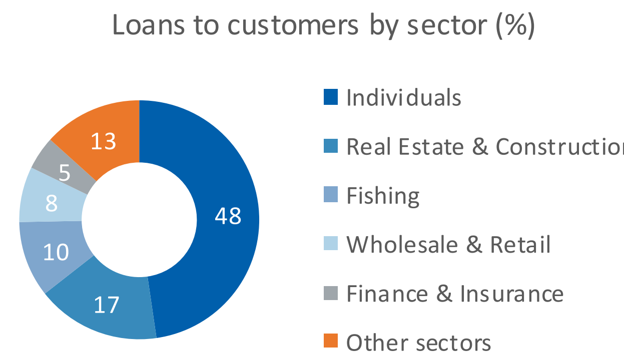
Loans to customers

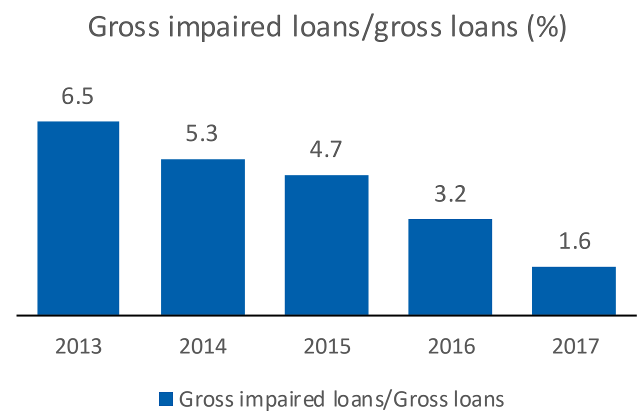
All amounts in ISK billion

Well balanced loan portfolio between corporates and individuals

- Loans to customers increased by 7.4% in 2017
    - The mortgage portfolio grew by 9.7%, driven by new digital solutions and a strong housing market
    - The corporate loan portfolio grew by 6.6%, mainly in real estate, construction and transportation
- Good diversification in the corporate loan book
- The ratio of gross impaired loans/gross loans continues to improve
- Outlook for new lending is strong







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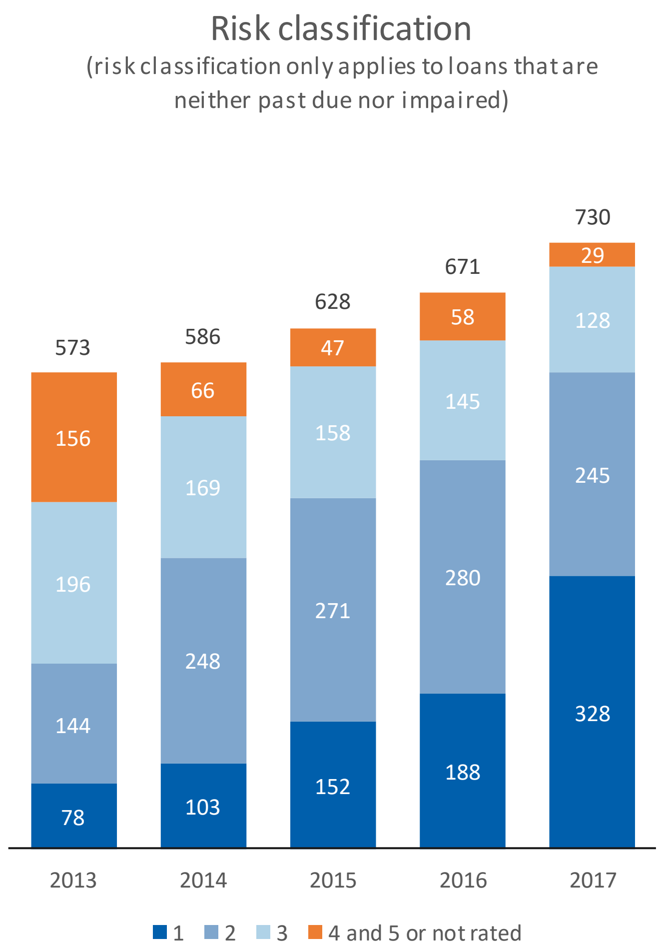
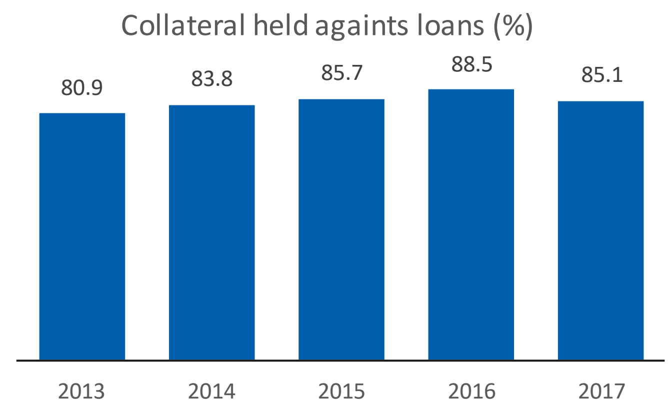
Loans to customers

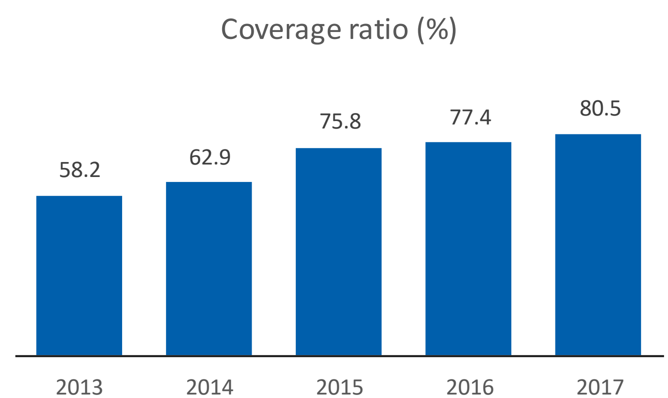
All amounts in ISK billion

Quality of the loan book continues to improve

- Internal credit rating has improved significantly during the year:
  - 51% of loans to individuals rated in risk class 1 at YE 2017 (22% at YE 2016)
  - 85% of loans to individuals rated in either risk class 1 or 2 at YE 2017 (74% at YE 2016)
  - 39% of loans to corporates rated in risk class 1 at YE 2017 (33% at YE 2016)
  - 73% of loans to corporates rated in either risk class 1 or 2 at YE 2017 (66% at YE 2016)
- Collateral held against loans stable at a healthy level
- Coverage ratio continues to improve







Arion Bank

Balance sheet – Liabilities and Equity

All amounts in ISK billion

Strong equity position and well balanced funding

- Increase in deposits, mainly from retail customers
- Successful wholesale funding activities both in Iceland and in the international markets
- Strong equity position and a very high leverage ratio despite foreseeable dividend payment of ISK 25 billion

31.12.2017
ISK 1,148 billion

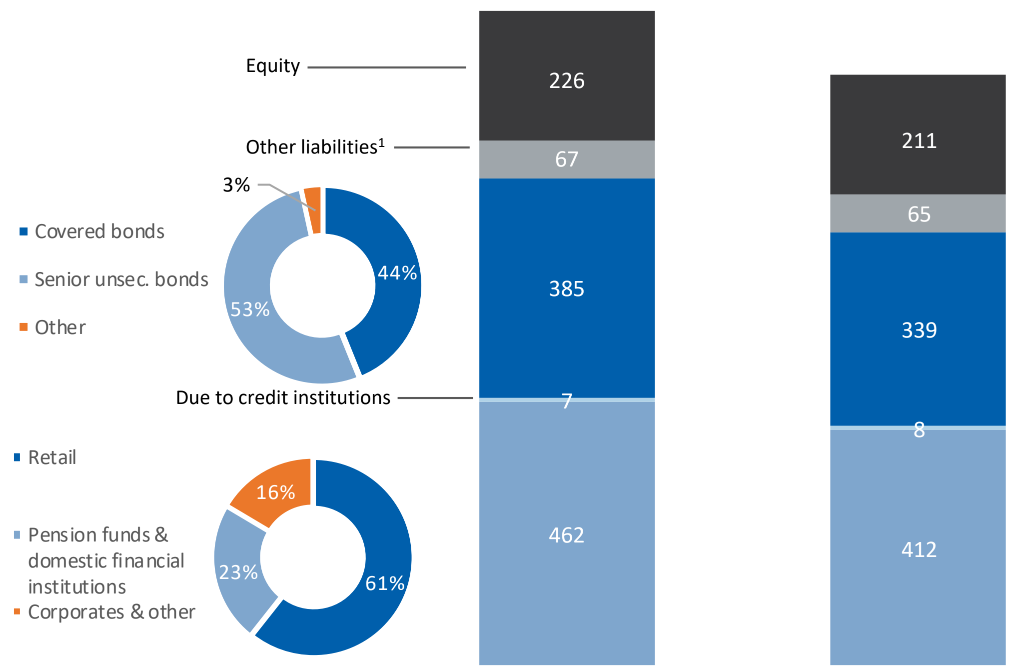
31.12.2016
ISK 1,036 billion

Equity
CET1 ratio 23.6%
Leverage ratio 15.4%

Borrowings (in ISK)
ISK 182 billion
EUR 162 billion
Other currencies 41 billion

Deposits
On demand 72%
Up to 3M 18%
More than 3M 10%

12.2% increase from YE2016



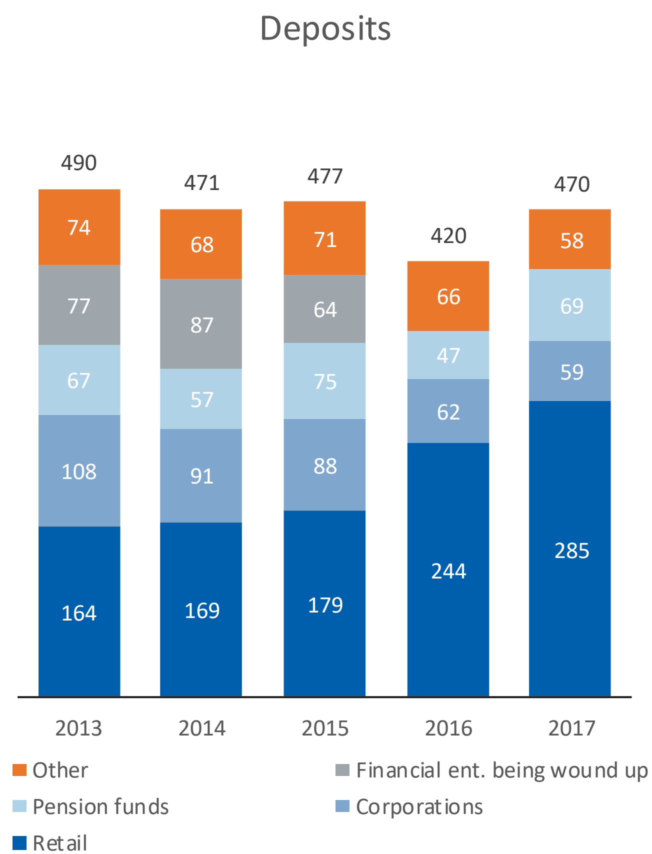
¹ Other liabilities include Financial liabilities at fair value, tax liabilities and Other liabilities

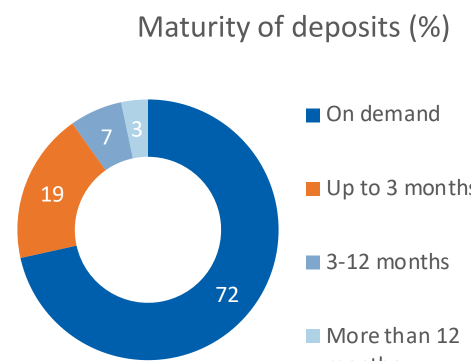
Deposits

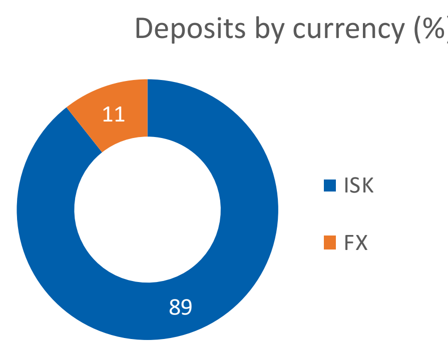
All amounts in ISK billion

Deposits from retail customers growing at a fast pace in the last two years

- Deposits represent approx. 40% of the Bank's funding
- Deposits from retail customers have grown 26% (compound annual growth rate) in the last two years
    - Improved macro economic conditions reflected in growth in deposits from retail customers
- Deposits at the same level as previous years after drop in 2016 when deposits from Kaupthing were changed to a long term EMTN resettable note
- Deposits from Pension funds are less stable and tend to fluctuate







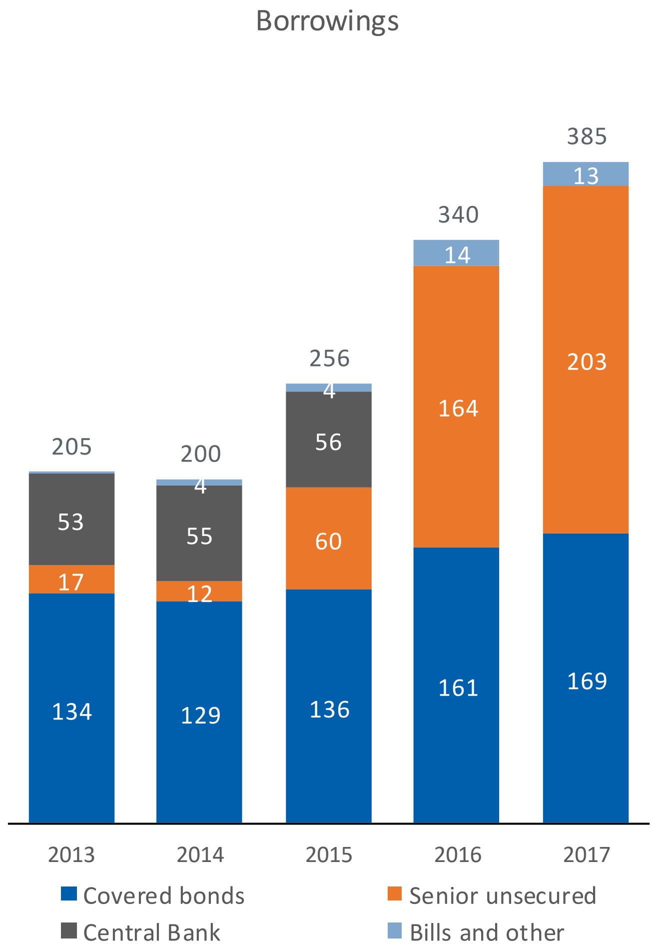
Arion Bank

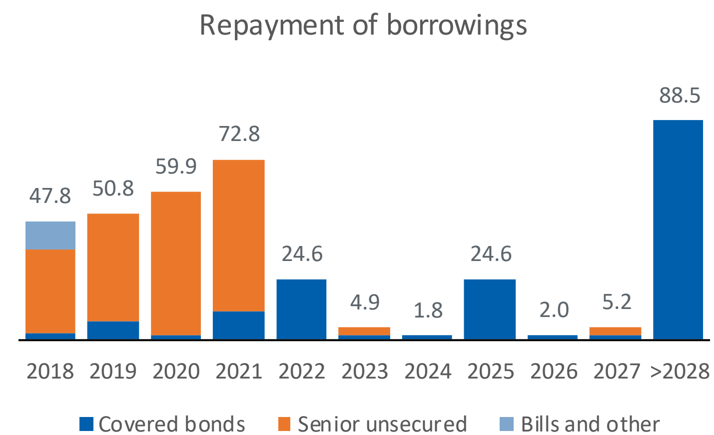
Borrowings

All amounts in ISK billion

Success in the international and domestic bond markets

- In June the Bank issued new 3 year, EUR 300 million senior unsecured bond or approx. ISK 37 billion at interest cost equal to 0.88% over interbank rates
- Domestic covered bonds used to finance mortgages. The Bank issued covered Bonds in the Icelandic market, total of ISK 29.9 billion during 2017.
- The Bank issued private placements in the international market of ISK 19.6 billion
- The Bank made the final repayment of the USD 747 million resettable note issued to Kaupthing in the beginning of 2016
- All legacy funding that was originally provided by the government and Kaupthing has now been repaid





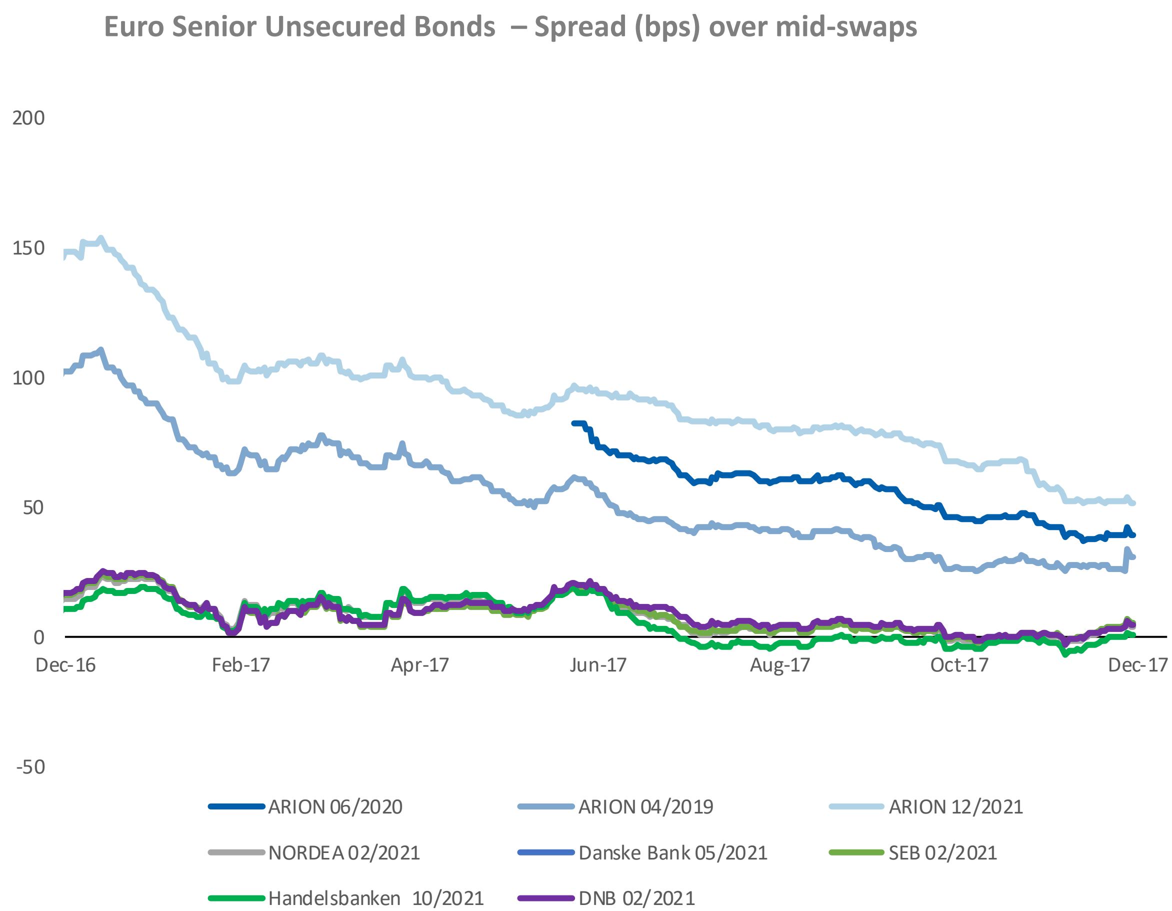
Ratings - S&P

Senior unsecured	BBB+	A
Short term debt	A-2	A-1
Outlook	Stable	Stable

Arion Bank

Good performance in the secondary bond market

The spread between Arion Bank and large Nordic banks continues to decrease



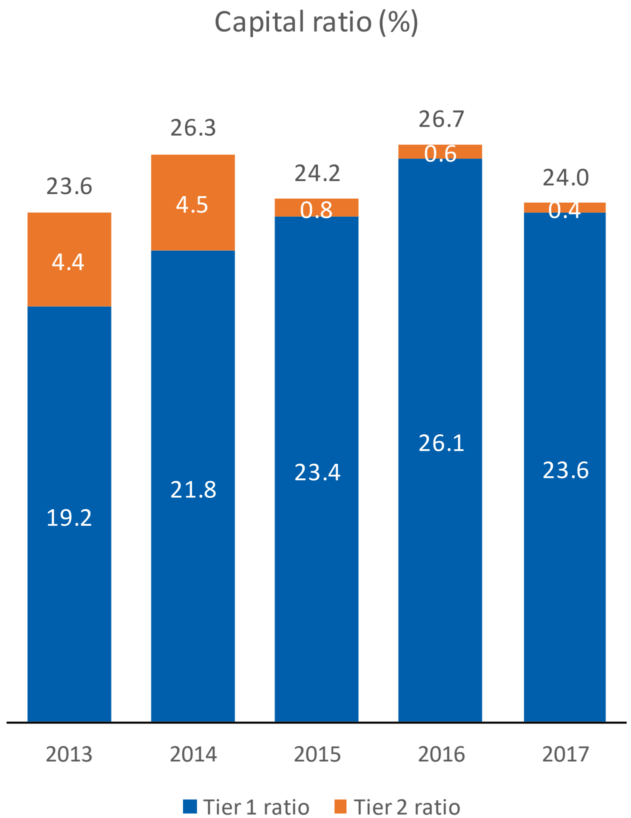
 Source: Bloomberg

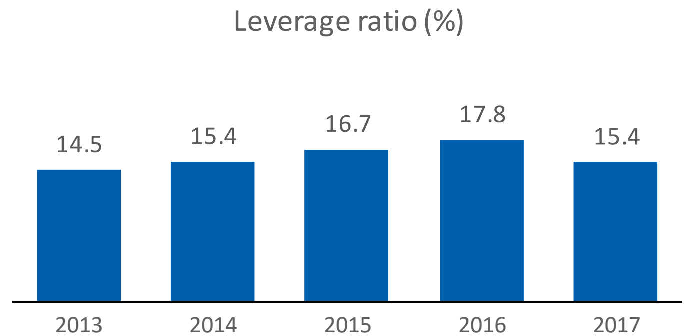
Capital base

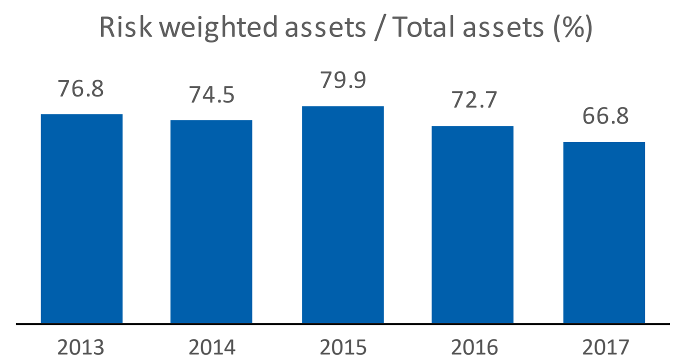
All amounts in ISK billion

Optimizing of equity started with foreseeable dividend of ISK 25 billion

- Reduction in capital base due to foreseeable dividend payment of ISK 25 billion
- Solid level of capital due to strong profit generation over recent years
- Risk-weighted assets of 66.8% are calculated on the basis of the standardized approach resulting in a leverage ratio of 15.4%
- The Bank's cash position with the Central Bank increased considerably during the year, resulting in a lower leverage ratio and lower risk-weight density
- Tier 2 capital at YE 2016 and 2017 consisted only of collective credit risk adjustment

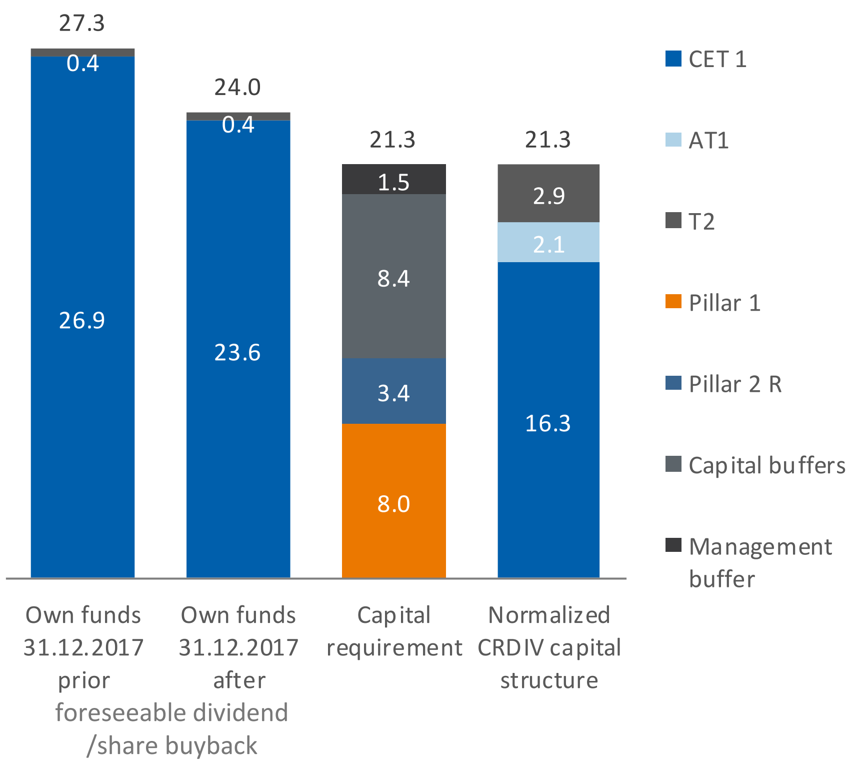






Capital adequacy

Own funds and capital requirements



- The Group's capital adequacy is based on Arion Bank's consolidated situation under CRR, which excludes insurance subsidiaries. The capital position and solvency requirement of Vördur Insurance hf. should be viewed separately.
- Based on the SREP result determined by the Financial Supervisory Authority and based on the Group's financial statement as at 31 December 2016, and taking into account the combined buffer requirement, the Group's total regulatory capital requirement is 19.8% of risk-weighted assets.
- Including a management buffer of 1.5%, surplus capital for the consolidated situation was ISK 21 billion at 31 December 2017 following the foreseeable dividend distribution.
- The IFRS 9 accounting standard comes into effect on 1 January 2018. According to FME all provisions under IFRS 9 shall be treated as specific provisions. Therefore as of 1 January 2018 the Group's estimated future expected losses will no longer be eligible as Tier 2 capital in the form of general credit risk adjustments. This is offset by a decrease in provisions under IFRS 9. The Group's total capital ratio will decrease from 24.0% to 23.7% as a result.

IFRS 9 implementation

All amounts in ISK billion

Total estimated up to date adjustments of ISK 1 billion due to IFRS 9 implementation

Classification

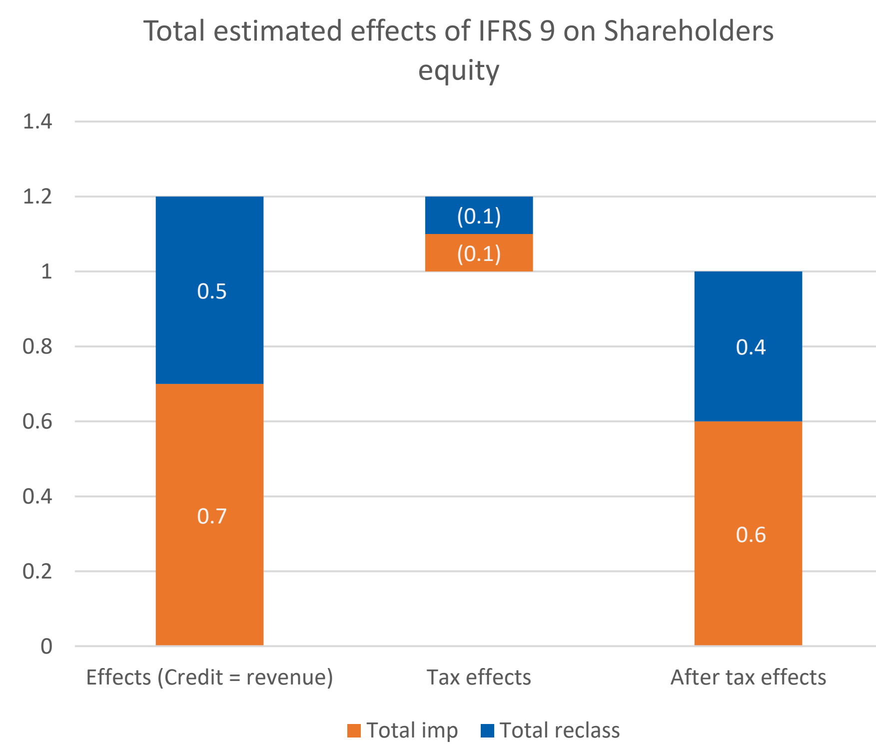
- The implementation of the new classification requirements of IFRS 9 and review of the business model assessment and solely payment of principal and interest criteria, some assets were reclassified from amortized cost to fair value through profit and loss. The total estimated impact of the new classification requirements results in an increase in equity reserves in the amount of ISK 0.4 billion net of tax

Impairment calculation

- IFRS 9 effectively replaces the “incurred credit loss” model used under IAS 39 with an “expected credit loss” (ECL) model. The changes from incurred to expected losses requires professional judgement over various factors used in the calculation of ECLs. Such as, how macroeconomic scenarios affect the ECL calculation. The new “expected loss” impairment models apply to financial assets that are debt instruments (including loans to customers) measured at amortised cost or FVOCI, lease receivables, loan commitments and financial guarantee contracts. Equity instruments are not subject to impairment

- The estimated impact of implementing the new impairment requirements is an increase in equity reserves, and lowering in the impairment reserve of ISK 0.6 billion net of tax. Among factors effecting the impairment calculations are, the level of exposures in each stage, lifetime expected losses for exposures in stage 2 and consideration of multiple forward-looking scenarios and better data around various inputs into the calculations

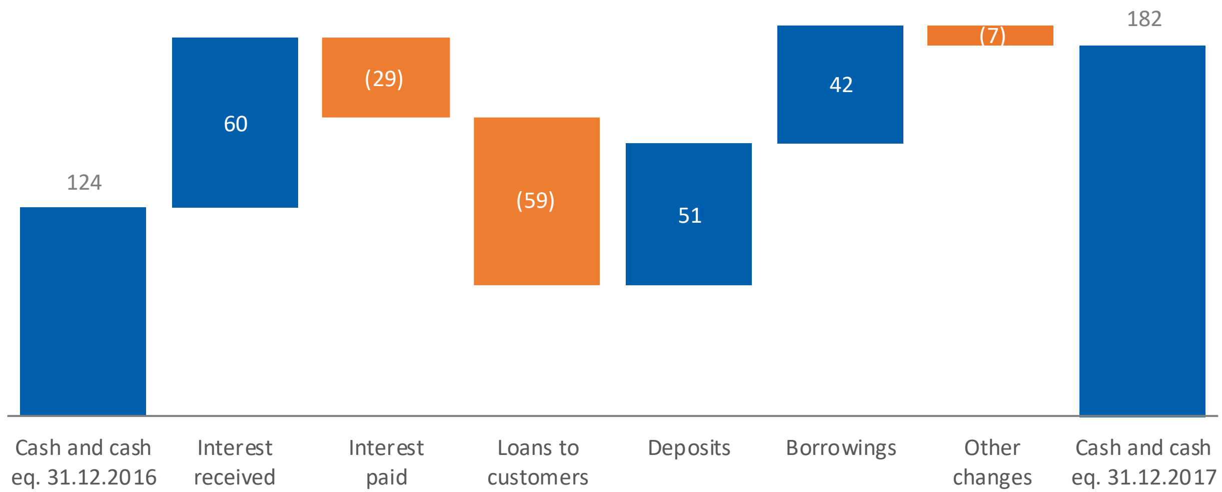
- The application of the IFRS 9 impairment requirements might increase volatility in profit and loss of the Group



Cash flow

All amounts in ISK billion

Increased deposits and borrowings increase cash position



- Lending activities increased during the second half the year
- New funding mostly from borrowings but deposits increased as well

Going forward

Arion Bank operates in a **strong and growing economy**

Growth in loan portfolio exceeds the underlying growth in the Icelandic economy

Focus on digitalization across both client-facing offerings and automation to further increase efficiency

Arion Bank will seek to **optimize capital** by paying out dividends and acquiring own shares

Medium Term Targets

CET 1 Ratio
(Subject to regulatory requirements)
Decrease to circa **17%**

Return on Equity
Exceed **10%**

Cost to Income Ratio
Decrease to circa **50%**

Loan Growth
Prudent lending to **outpace economic growth**

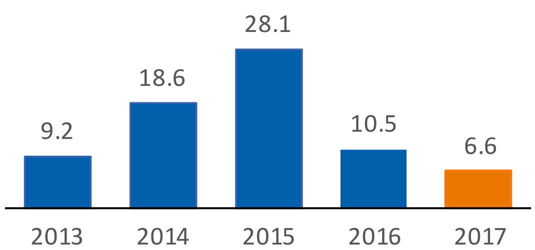
Dividend Policy
Payout ratio of circa **50%** of net earnings attributable to shareholders

Arion Bank

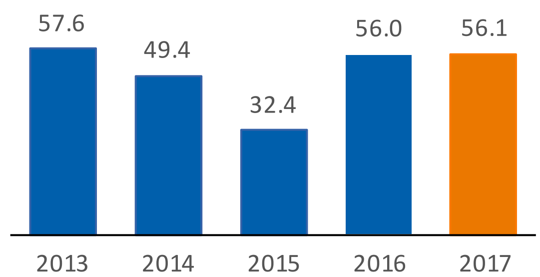
KFI's, adjusted income and other information

Key financial indicators - annual

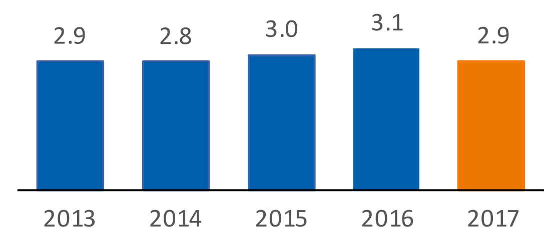
Return on equity (%)



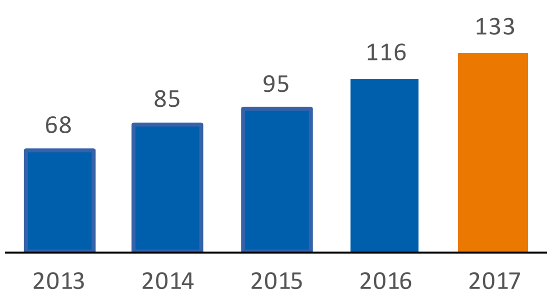
Cost-to-income ratio (%)



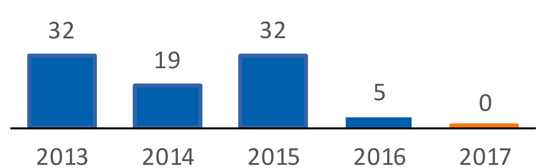
Net interest margin (%)



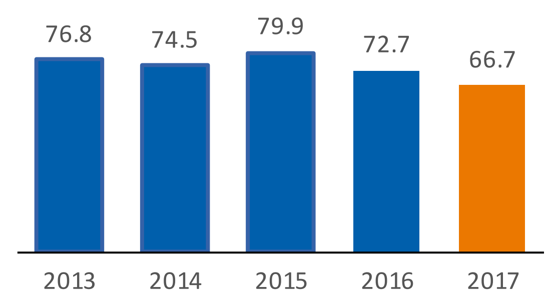
CPI Imbalance – ISK bn.



FX Imbalance – ISK bn.

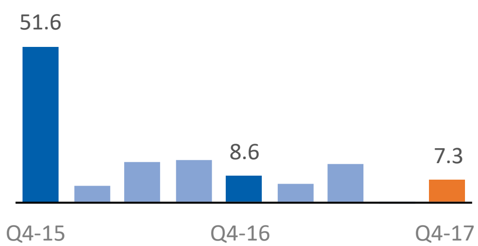


Risk weighted assets / Total assets (%)

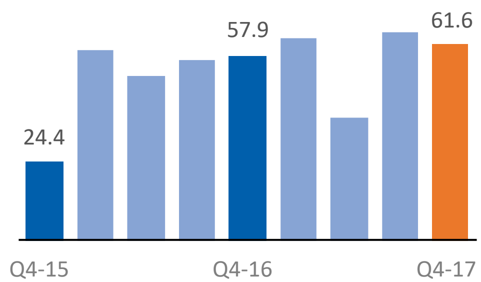


Key financial indicators - quarterly

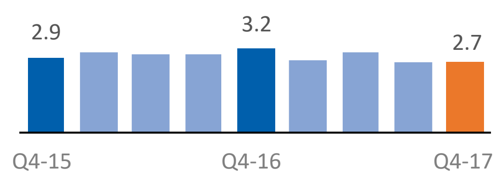
Return on equity (%)



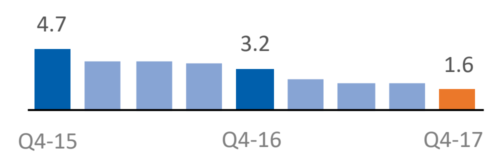
Cost-to-income ratio (%)



Net interest margin (%)

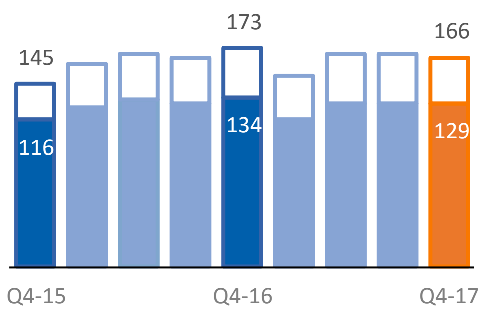


Gross impaired loans / Gross loans (%)

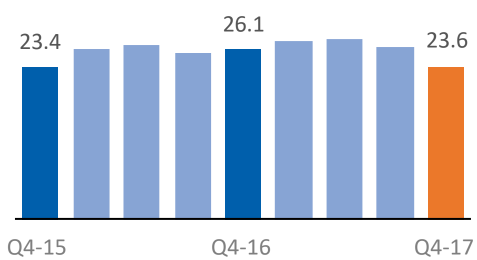


Loans-to-deposits ratio (%)

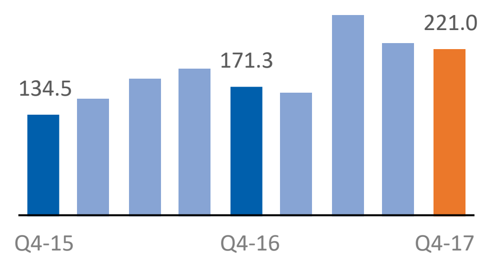
without loans financed with covered bonds



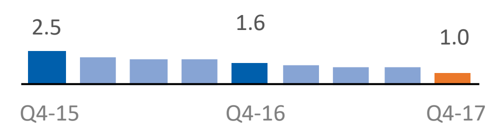
Tier 1 ratio (%)



Liquidity coverage ratio (LCR) (%)



Problem loans* (%)



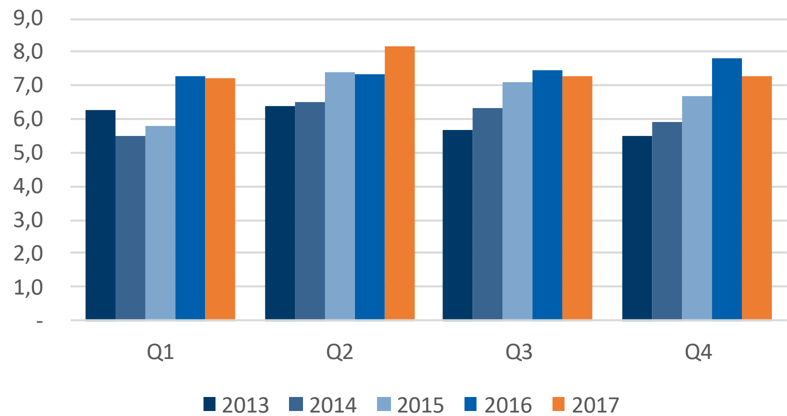
* Problem loans (past due but not impaired loans over 90 days + individually impaired loans) as % of loans to customers

Arion Bank

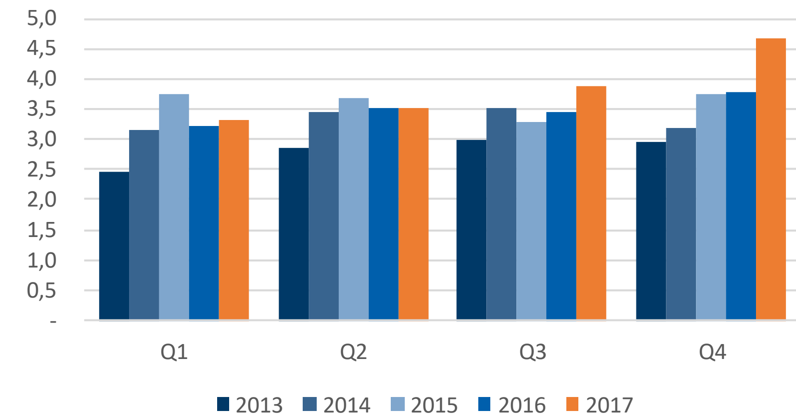
Development of key figures

All amounts in ISK billion

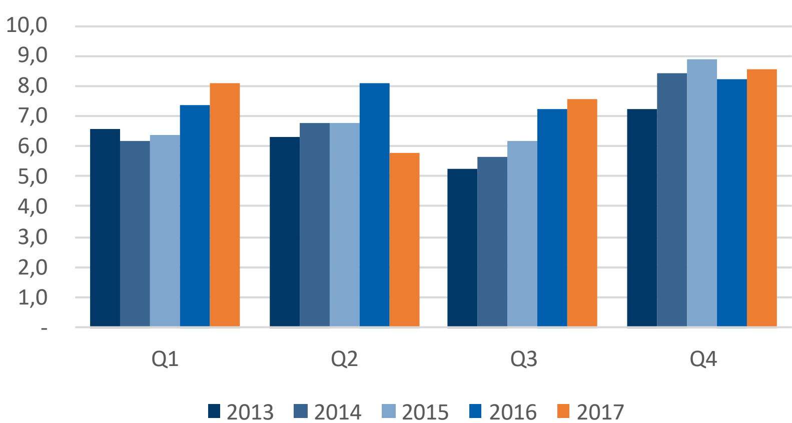
Net interest income



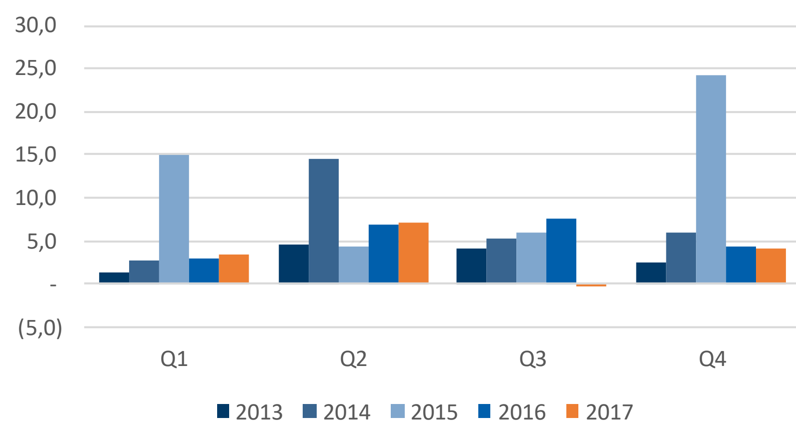
Net commission income



Total operating expenses



Net earnings



Key figures

All amounts in ISK million

Operations	2017	2016	2015	2014	2013	Q4 2017	Q3 2017	Q2 2017	Q1 2017	Q4 2016
Net interest income	29,835	29,900	26,992	24,220	23,800	7,265	7,250	8,160	7,160	7,842
Net commission income	15,357	13,978	14,484	13,309	11,223	4,654	3,865	3,508	3,330	3,765
Operating income	53,378	54,546	86,620	54,328	44,211	13,924	11,597	15,160	12,697	14,185
Operating expenses	29,961	30,540	27,811	26,701	25,072	8,581	7,540	5,784	8,056	8,210
Net earnings	14,419	21,739	49,679	28,594	12,657	4,066	(113)	7,113	3,353	4,475
Return on equity	6.6%	10.5%	28.1%	18.6%	9.2%	7.3%	-0.2%	13.0%	6.3%	8.6%
Net interest margin	2.9%	3.1%	3.0%	2.8%	2.9%	2.7%	2.7%	3.1%	2.8%	3.2%
Return on assets	1.3%	2.1%	5.0%	3.0%	1.4%	1.4%	0.0%	2.6%	1.2%	1.7%
Cost-to-income ratio	56.1%	56.0%	32.1%	49.1%	56.7%	61.6%	65.0%	38.2%	63.5%	57.9%
Cost-to-total assets	2.7%	3.0%	2.9%	2.9%	2.8%	3.0%	2.7%	2.1%	3.0%	3.2%
Balance Sheet										
Total assets	1,147,754	1,036,024	1,011,043	933,736	938,850	1,147,754	1,144,853	1,126,411	1,119,648	1,036,024
Loans to customers	765,101	712,422	680,350	647,508	635,774	765,101	750,947	733,649	720,198	712,422
Mortgages	329,735	298,971	284,784	282,045	190,008	329,735	318,403	309,339	302,679	298,971
Problem loans	1.0%	1.6%	2.5%	4.4%	6.3%	1.0%	1.4%	1.3%	1.5%	1.6%
RWA/ Total assets	66.8%	72.7%	79.9%	74.5%	76.8%	66.8%	68.4%	67.0%	66.4%	72.7%
Tier 1 ratio	23.6%	26.1%	23.4%	21.8%	19.2%	23.6%	26.6%	27.8%	27.3%	26.1%
Leverage ratio	15.4%	17.8%	-	-	-	15.4%	16.8%	17.4%	17.0%	17.8%
Liquidity coverage ratio	221.0%	171.3%	134.5%	174.0%	-	221.0%	228.6%	266.2%	163.5%	171.3%
Loans to deposits ratio	165.5%	172.9%	145.0%	142.3%	134.7%	165.5%	168.4%	167.7%	151.4%	172.9%

Arion Bank

Balance sheet

All amounts in ISK billion

5 year overview

Assets	2017	2016	2015	2014	2013
Cash & balances with CB	140	88	48	21	38
Loans to credit institutions	87	80	87	109	102
Loans to customers	765	712	680	648	636
Financial assets	109	117	133	102	87
Investment property	7	5	8	7	29
Investments in associates	1	1	27	22	18
Other assets	39	32	27	26	30
Total Assets	**1,148**	**1,036**	**1,011**	**934**	**939**

Liabilities and Equity					
Due to credit institutions & CB	7	8	11	23	28
Deposits from customers	462	412	469	455	472
Other liabilities	67	65	62	61	58
Borrowings	385	339	256	201	205
Subordinated loans	-	-	10	32	32
Shareholders Equity	226	211	193	161	140
Non-controlling interest	0	0	9	2	5
Total Liabilities and Equity	**1,148**	**1,036**	**1,011**	**934**	**939**

Arion Bank

Adjusted income

All amounts in ISK million

Adjustments on impairment have greatest affect

	2017	Adjustment	Adjusted	
Net interest income	29,835	17	29,852	1)
Net commission income	15,357	0	15,357	
Net financial income	4,091	0	4,091	
Net insurance income	2,093	0	2,093	
Share of profit of associates and net imp.	(925)	0	(925)	
Other operating income	2,927	0	2,927	
Operating income	53,378	17	53,395	
Salaries and related expense	(17,189)	0	(17,189)	
Other operating expenses	(12,772)	(1,490)	(14,262)	2)
Bank levy	(3,172)	0	(3,172)	
Net impairment	186	(4,071)	(3,885)	3)
Earnings before tax	20,431	(5,544)	14,887	
Income tax	(5,806)	1,501	(4,305)	4)
Discontinued operations, net of tax	(206)	0	(206)	
Net earnings	**14,419**	**(4,043)**	**10,376**	
Key financial indicators:				
Return on equity	6.6%		4.8%	
Cost to income ratio	56.1%		58.9%	
NIM - interest bearing assets	2.9%		2.9%	

1) Interest income from non-core subsidiaries eliminated and interest income calculated on book value of non-core assets
2) One-off revised Depositors' and Investors' Guarantee Fund contribution of ISK 2,669 million, one-off professional service expense of ISK 626 million and calculated expense on non-core operation
3) Net impairment fully removed and 0.58% impairment calculated on total loans to customers
4) Calculated income tax effect on adjustments

Arion Bank

Segment information

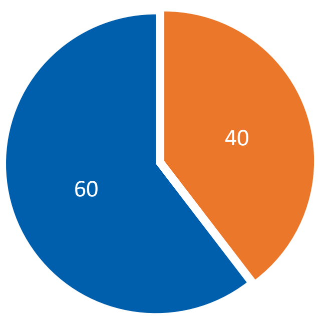
Retail Banking

All amounts in ISK million

Positive development in Retail Banking

- Retail Banking provides a comprehensive range of services. This includes deposits and loans, savings, payment cards, pension savings, insurance, securities and funds. Arion Bank Mortgages Institutional Investor Fund is part of the Retail Banking operations
- 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

Share of operating income (%)



Income statement and key figures:

	2017	2016	Diff.
Net interest income	15,502	14,992	3%
Net fee and commission income	4,703	3,537	33%
Other operating income	927	1,173	(21%)
Operating income	**21,151**	**19,702**	**7%**
Operating expense	(5,134)	(6,134)	(16%)
Allocated expense	(5,905)	(6,149)	(4%)
Bank levy	(1,097)	(980)	12%
Net impairment	2,489	5,557	(55%)
Earnings before tax	**11,504**	**11,996**	**(4%)**

	31.12.2017	31.12.2016	Diff.
Loans to customers	477,494	460,420	4%
Deposits from customers	307,552	295,628	4%
Allocated equity	65,928	73,409	(10%)

- Slight increase in net interest income despite strong competition
- Strong growth in net fee and commission income
- Operating expense affected by revised contribution to Depositors' and Investors' Guarantee Fund of ISK 1,733 million

Arion Bank

Corporate Banking

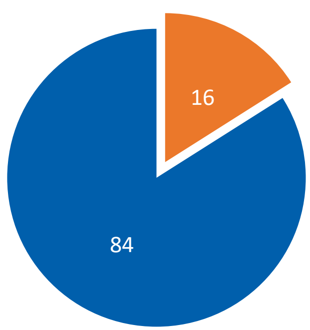
All amounts in ISK million

Strong corporate loan book, somewhat affected by stronger ISK

- 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 electronic corporate solutions to meet the needs of each customer

Share of operating income (%)



Income statement and key figures:

	2017	2016	Diff.
Net interest income	6,002	6,436	(7%)
Net fee and commission income	1,171	1,082	8%
Other operating income	1,370	356	285%
Operating income	**8,543**	**7,874**	**8%**
Operating expense	(357)	(605)	(41%)
Allocated expense	(2,424)	(2,386)	2%
Bank levy	(671)	(609)	10%
Net impairment	(1,794)	33	-
Earnings before tax	**3,297**	**4,307**	**(23%)**

	31.12.2017	31.12.2016	Diff.
Loans to customers	247,306	242,634	2%
Deposits from customers	23,287	12,223	91%
Allocated equity	56,674	59,263	(4%)

- Increase in net fee and commission income
- Negative net impairment due to United Silicon
- Operating expense affected by revised contribution to Depositors' and Investors' Guarantee Fund of ISK 198 million

Asset Management

All amounts in ISK million

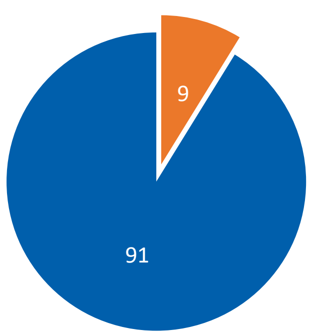
Largest asset management operation in Iceland

Comprises Institutional Asset Management, Private Banking, Investment Services and Pension Fund Administration.

- Discretionary and non-discretionary portfolio management
- Main distributor of funds managed by Stefnir
- Distributor of international funds
- Administration of pension funds

The subsidiary Stefnir hf., which is an independently operated fund management company is included in figures for the asset management operations

Share of operating income (%)



Income statement and key figures:

	2017	2016	Diff.
Net interest income	502	535	(6%)
Net fee and commission income	4,011	3,863	4%
Other operating income	164	(53)	(409%)
Operating income	**4,677**	**4,345**	**8%**
Operating expense	(1,138)	(1,422)	(20%)
Allocated expense	(1,019)	(882)	16%
Bank levy	(182)	(209)	(13%)
Earnings before tax	**2,338**	**1,832**	**28%**

	31.12.2017	31.12.2016	Diff.
Allocated equity	5,331	5,574	(4%)
Assets under management	984,653	1,054,759	(7%)

- Net fee and commission approx. 90% of segment operating income
- Slight increase in net fee and commission income from last year
- Operating expense affected by revised contribution to Depositors' and Investors' Guarantee Fund of ISK 360 million

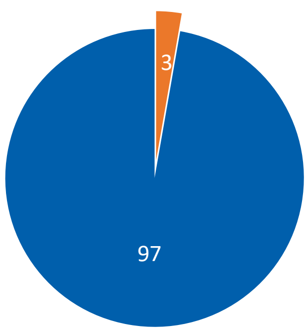
Investment Banking

All amounts in ISK million

Continued focus on fee and commission development

- Investment Banking is divided into Corporate Finance, Capital Markets and Research.
- Corporate Finance is active in supporting clients in deals with investments and divestments of companies and advisory on all other major transactions
- Capital Markets buys and sells securities and FX on behalf of Arion Bank's clients.
- Research is an independent research team covering the Icelandic economy and financial markets.

Share of operating income (%)



Income statement and key figures:

	2017	2016	Diff.
Net interest income	240	1,104	(78%)
Net fee and commission income	1,298	1,808	(28%)
Net financial income	(71)	(100)	(29%)
Share of profit of associates	0	613	-
Other operating income	0	321	-
Operating income	**1,467**	**3,746**	**(61%)**
Operating expense	(780)	(939)	(17%)
Allocated expense	(652)	(827)	(21%)
Bank levy	(39)	(41)	(5%)
Net impairment	(53)	1,704	(103%)
Earnings before tax	**(57)**	**3,643**	**(102%)**

	31.12.2017	31.12.2016	Diff.
Total assets	16,165	16,344	(1%)
Allocated equity	1,001	1,300	(23%)

- Net fee and commission income main source of operating income
  - Capital Markets performing well but decrease in net fee and commission due to internal and long term projects in Corporate Finance
- Decrease in operating income from 2016 mainly due to decrease in interest bearing assets and transfer of assets to CEO's office at the beginning of Q2 2016

Arion Bank

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