

ARION BANK

INVESTOR PRESENTATION
1H 2017

Overview

- 1 Strong Economy
- 2 Leading Universal Banking Franchise in Iceland
- 3 Significant Improvement in Asset Quality and Positive Outlook
- 4 Strong Capital Position - Target Reduction of Excess Capital and Capacity for Ongoing Dividend Payment
- 5 Sound Funding Profile and Liquidity Position
- 6 Appendix



1 Strong Economy

Iceland at glance – strong and modern economy...

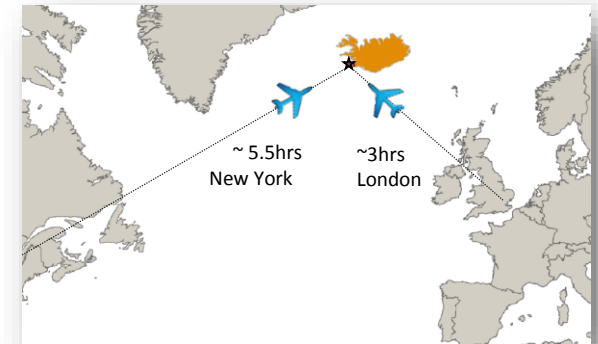
Strong economy with further upsides

- Iceland became fully independent from Denmark in 1944
- The second half of the 20th century saw substantial economic growth driven primarily by the fishing industry
- The economy diversified greatly after the country joined the EEA in 1994
- Iceland's Scandinavian-type social-market economy combines a capitalist structure and free-market principles with an extensive welfare system

State	Republic
Capital	Reykjavik
Life expectancy world rank 2016	8
Least corruption world rank 2016	14
Gender equality world rank 2016	1
Contribution of renewables to energy supply in OECD countries 2014	1

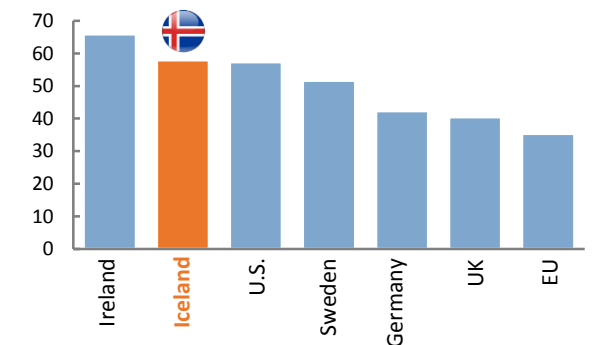
- 1944**
Full independence from Denmark
- 1946**
United Nations member
- 1948**
OECD founding member
- 1949**
NATO founding member
- 1970**
Joined EFTA
- 1994**
Access to European Economic Area (EEA)
- 1995**
WTO member

Central location



GDP per capita among highest in the world

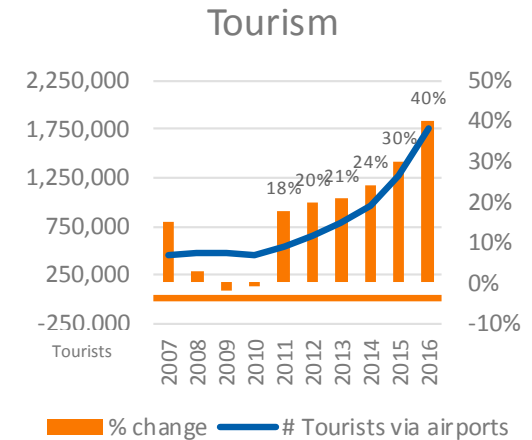
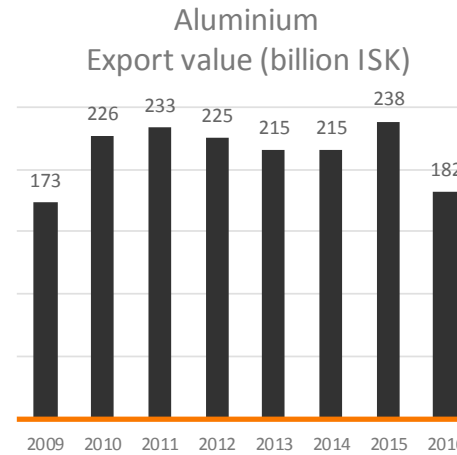
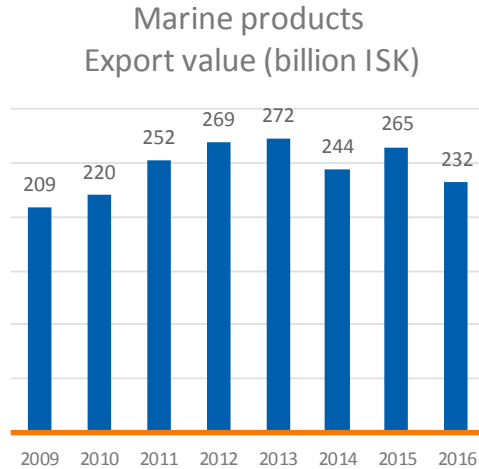
GDP per capita 2016, USD thousands¹



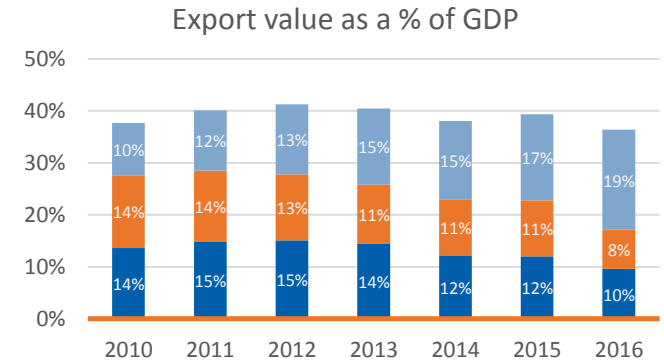
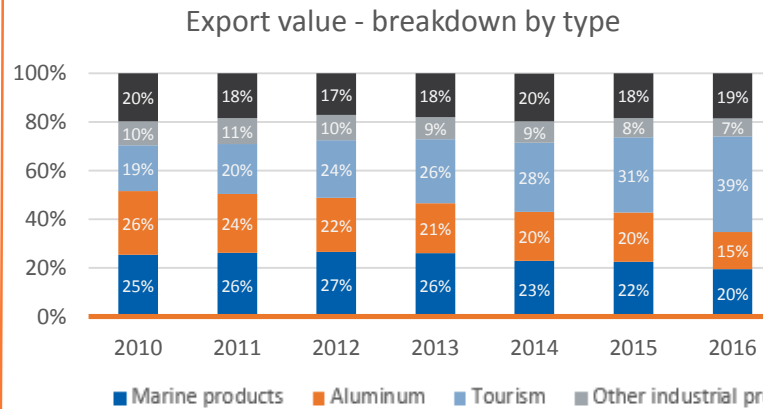
Development of key industries

Tourism sector driving growth

- Service exports have changed substantially in recent years
- 25% average increase in the number of tourists per year since 2011
- 2017 is set to be yet another record-breaking year in tourism



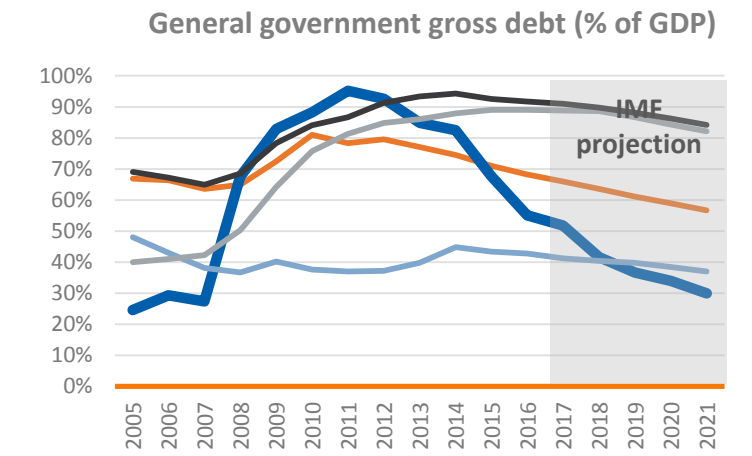
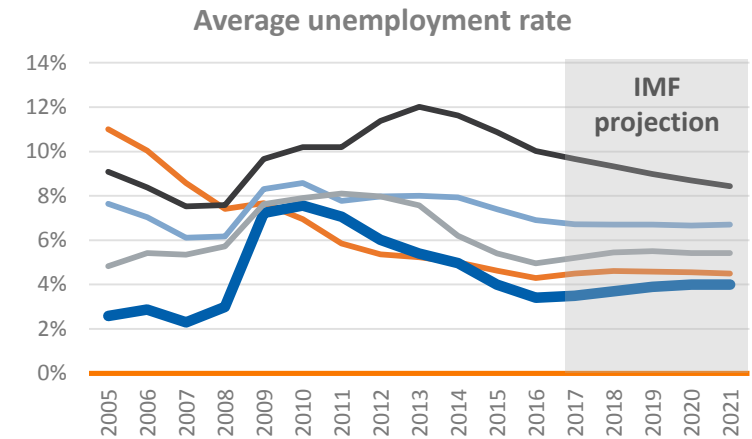
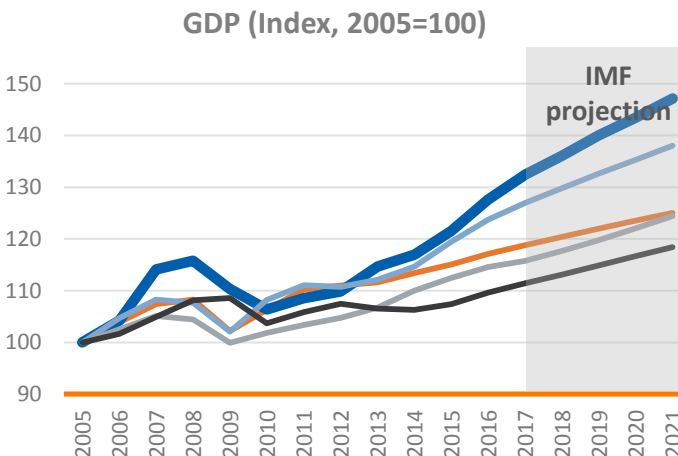
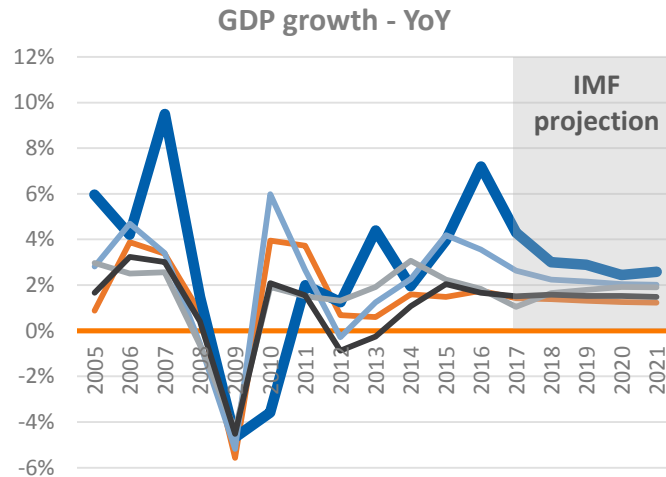
Composition and development of exports of goods and services



Economic progress compares well to other European Countries

All major indicators improving

- Strong economic growth in recent years
- Estimated GDP growth 6.3% in 2017
- Accumulated growth over 10-year period higher than in comparison countries despite 2008 turmoil
- Most economic indicators enjoy a favourable trend
- Effect of estates' contribution will have a positive effect on government debt



Executive summary

Exchange rate of Euro to ISK

- On March 14th 2017 capital controls on individuals, firms and pension funds were lifted and the CBI acquired a large part of offshore assets





2 Leading Universal Banking Franchise in Iceland

Strong local franchises

leading universal banking franchise in Iceland with consistent profitability

- Arion bank provides a full range of financial services around Iceland
- Arion bank runs a one brand policy but owns few independent and important subsidiaries



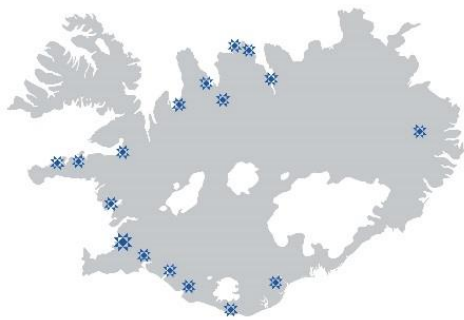
Retail
banking

Corporate
banking

Asset
management

Investment
banking

Arion branches



Key subsidiaries

VALITOR

- The largest online and e-commerce payment services company in Iceland
- Operations in Iceland, Denmark and the UK
- Member of VISA EU and MasterCard International



STEFNIR

- Iceland's largest fund management company
- Retail and professional clients
- Range of mutual, investment and institutional investment funds



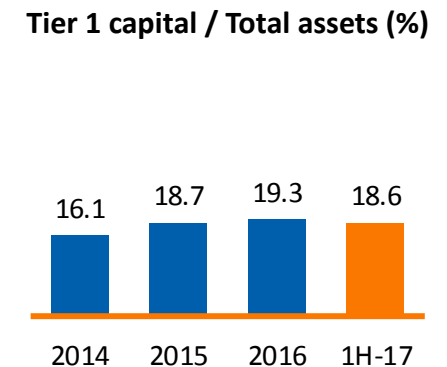
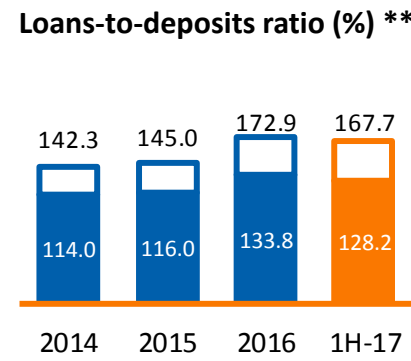
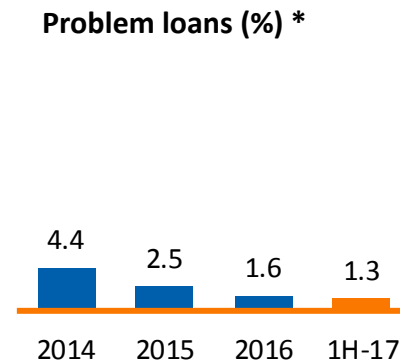
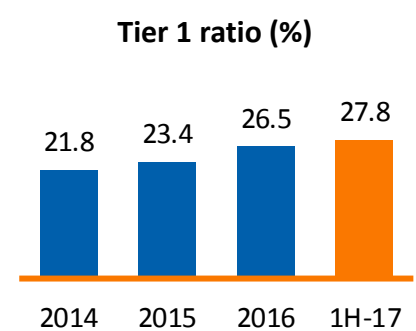
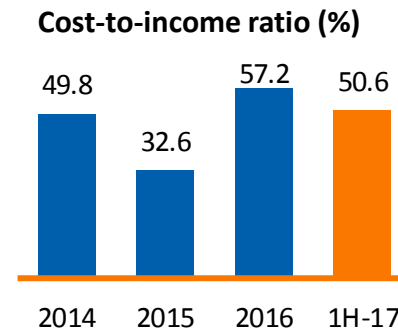
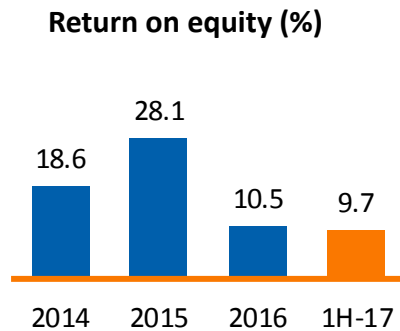
- Vörður is the 4th largest universal insurance company in Iceland
- Recently acquired with Okkar life insurance, a leading life insurance company in Iceland



All key financial indicators performing

Arion bank has consistently delivered a strong financial performance

- Solid level of capitalization due to strong profit generation
- Steadily improving asset quality
- Continued improvement in problem loans



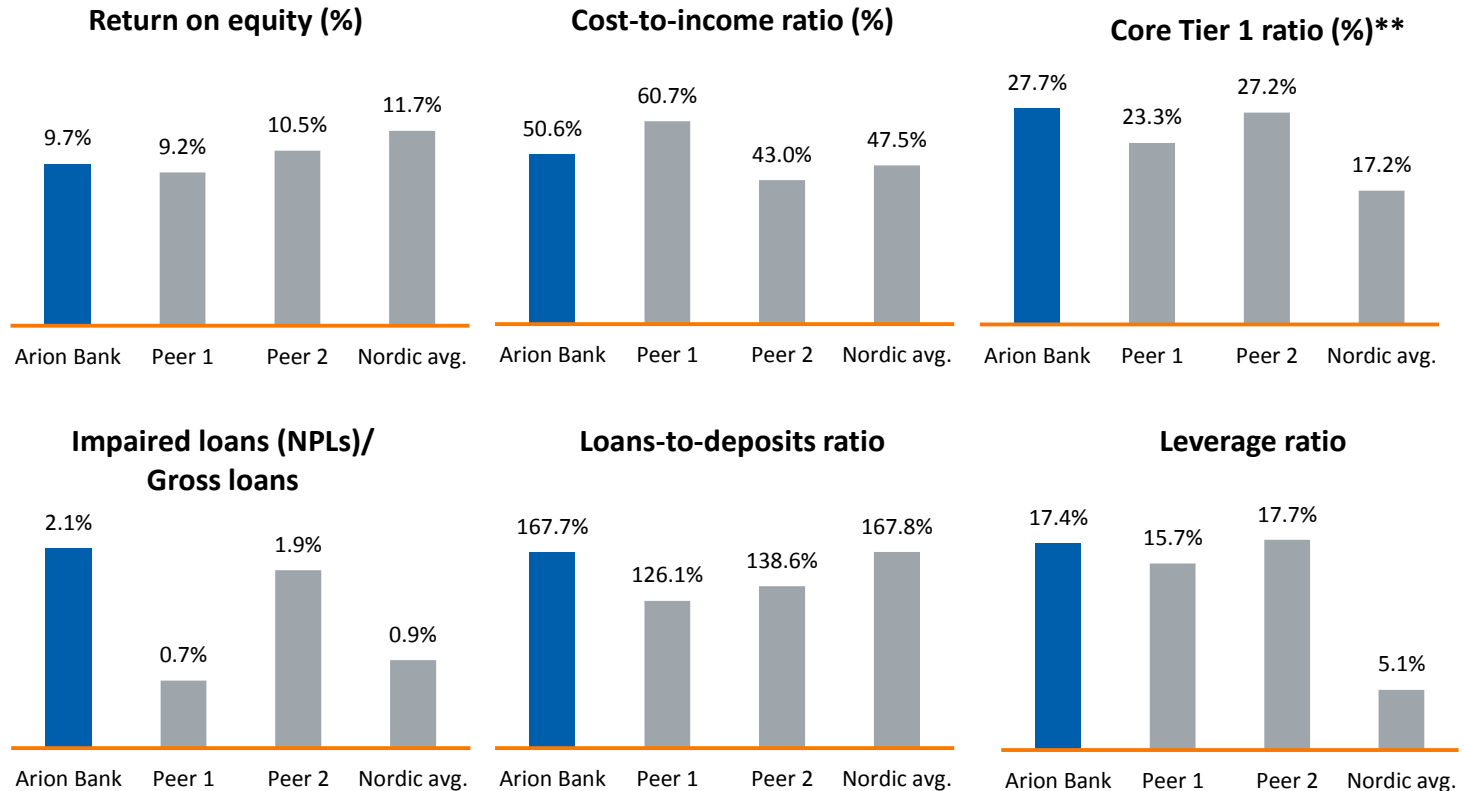
* Problem loans (past due but not impaired loans over 90 days + individually impaired loans) as % of loans to customers

** The lower ratio is loans-to-deposits excluding mortgages funded with long term covered bonds

Comparison with peer group (H1 2017)

Arion bank compares well with local competitors and Nordic banks*

- Strong capitalization compared to Nordic peers
- RWA calculated according to standardized approach
- Strong Leverage ratio
- Focus on efficiency in line with Nordic banks
- Loans to deposit ratio conservative compared to peer group



* Nordic banks = Handelsbanken, SEB, Nordea, DNB and Danske Bank

** The Icelandic Banks are using the Standardized Approach for calculating the Credit Risk capital requirement

A relationship bank strategy

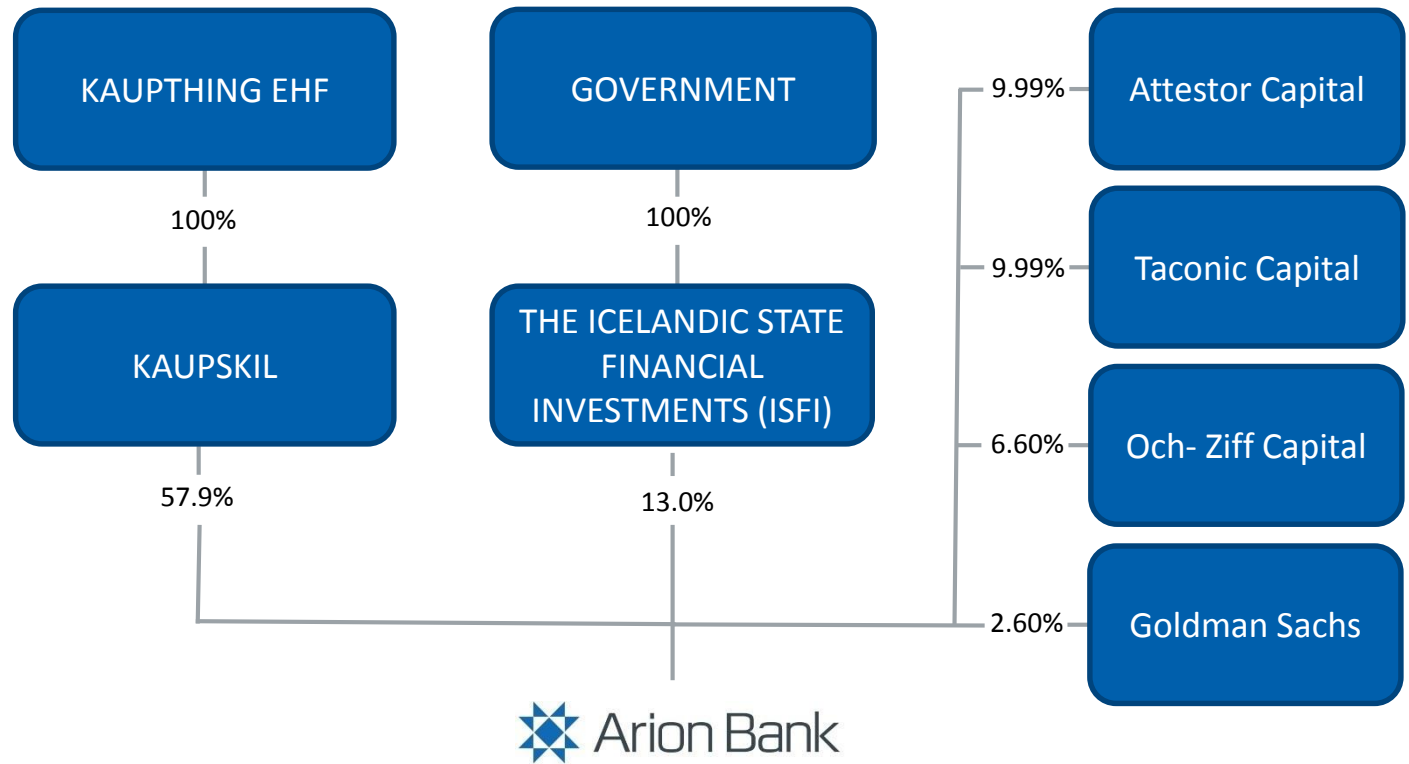
leading universal banking franchise in Iceland with consistent profitability

- Primary emphasis on **corporations** and **individuals** seeking a **variety of financial solutions**
- Focus on building and strengthening **long-term customer relationships** by delivering **excellent service and tailored solutions**
- Operations in the Greater Reykjavík area as well as the largest urban areas around the country
- Contributes to a positive development of the Icelandic economy and society
- A leading position within the domestic financial market in terms of **return on equity, operational efficiency** and **service offerings**
- Provides financial **services outside of Iceland**, mainly to companies related to the **seafood industry in Europe and North America**

Current ownership structure

Recent changes in the ownership structure

- On the 19th of March, 2017, Kaupskil sold a 29% share in Arion Bank in a private placement
- In addition, the private placement agreements grant the investors options on 21.9% of the issued share capital in Arion Bank

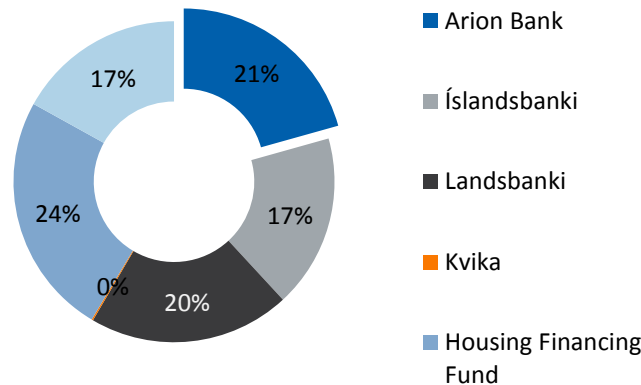


Strong market share across important product areas

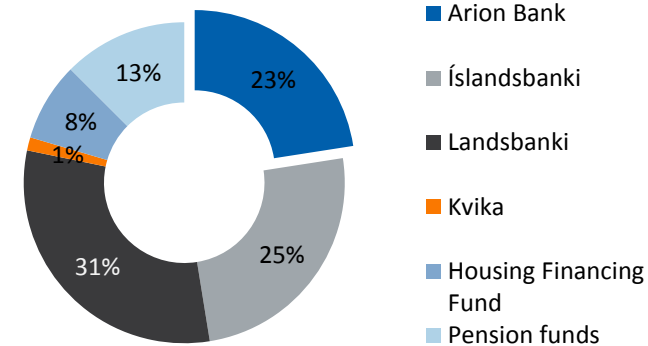
Strong market share across important product areas

- Strong overall position in the retail market
- Arion remains the largest provider of mortgages besides government-owned HFF
- Increased competition from pensions funds in mortgage loans
- Competition in the corporate loan market

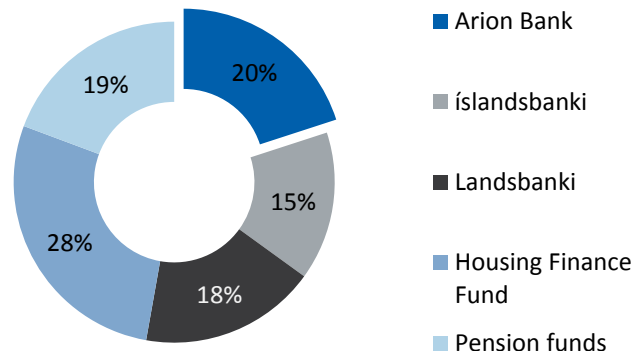
Loans to households in 1H 2017



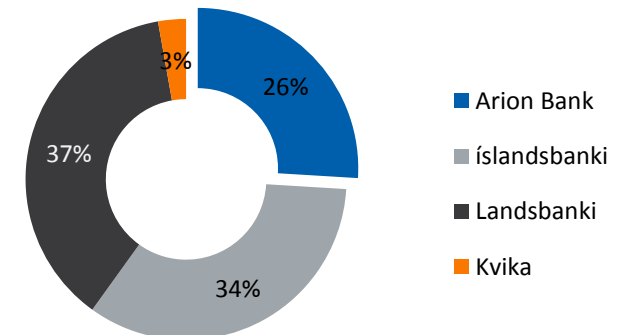
Loans to corporates in 1H 2017



Mortgage loans in 1H 2017



Deposits from customers in 1H 2017

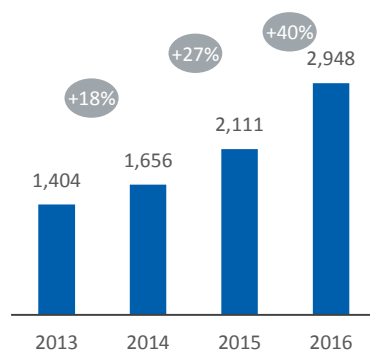


Channel diversification

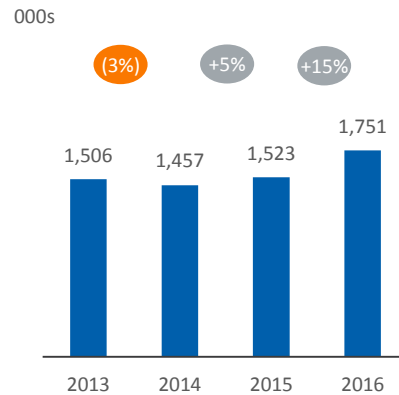
Digitalisation driving efficiency

- Focus on using digital channels to further increase efficiency
- The new generation of ATMs is enabling customers to save time by depositing and withdrawing cash as well as paying bills themselves
- New digital initiatives launched in Q4 2016, i.e., mortgage process

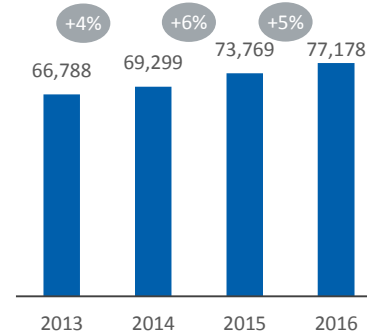
Opening account – digital sales



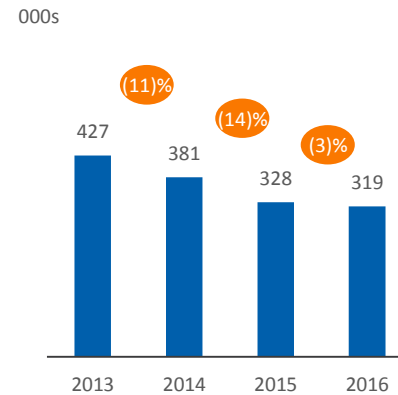
Number of interactions through ATMs



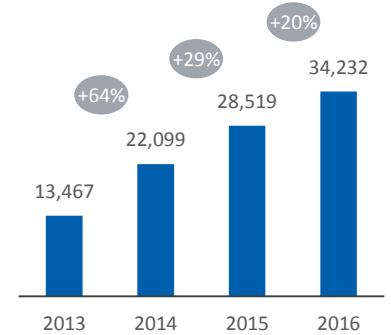
Active online bank users¹



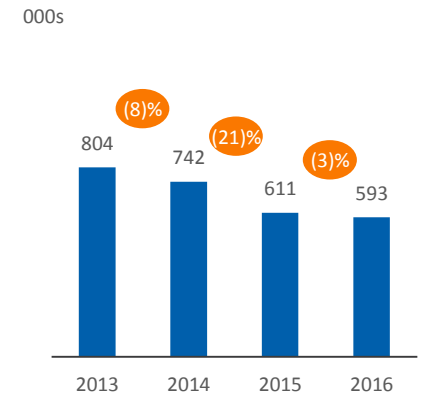
Number of calls to the call centre



Active Arion Bank app users¹



Number of visits to branches

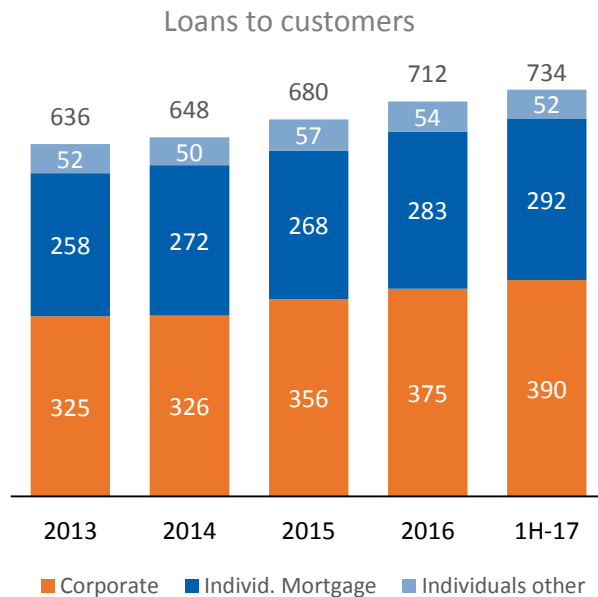
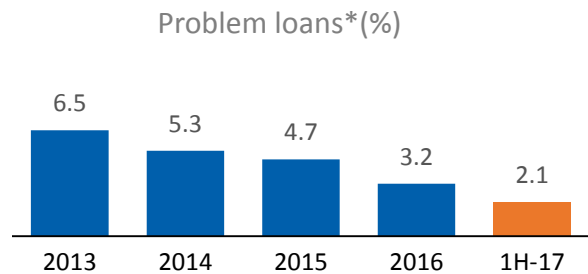


An aerial photograph of a city, likely Reykjavik, Iceland, showing a mix of modern and traditional architecture. A prominent blue glass skyscraper stands out among the white and grey buildings. The city is situated along a waterfront with a large body of water in the foreground. In the background, there are mountains under a cloudy sky. A semi-transparent blue banner is overlaid on the top left of the image, containing the text.

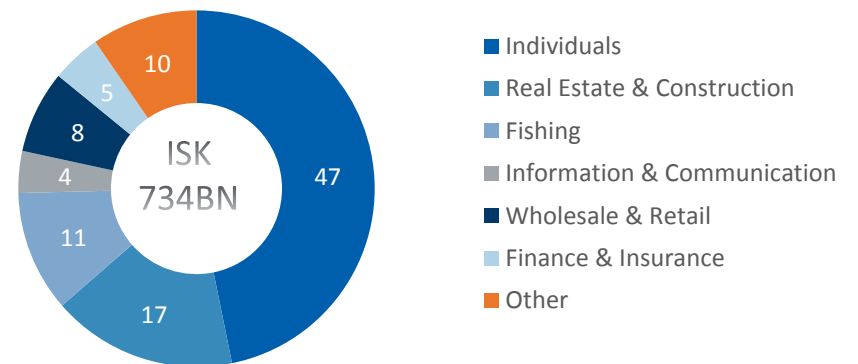
3 Significant Improvement in Asset Quality and Positive Outlook

Low risk business model – well diversified loan portfolio

Significant improvement in asset quality and positive outlook



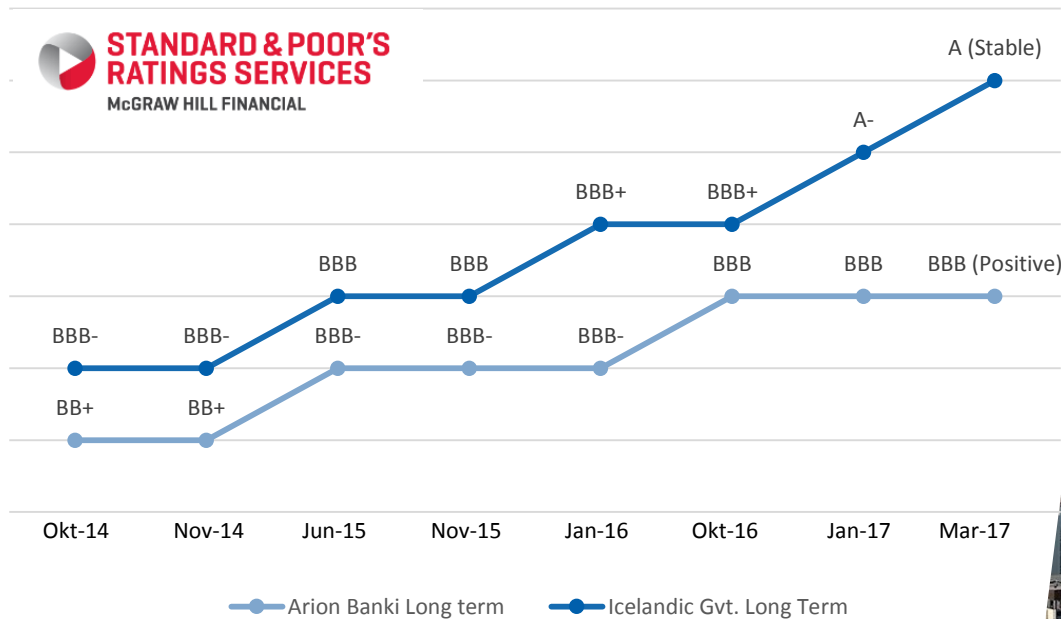
- Continued good balance in loans to corporates and individuals
- Increase in loans to customers during the year both corporate and individuals
- Good diversification in the corporate loan book
- Continued improvement in problem loans



Improving rating and positive outlook

Rating fundamentals

- ▶ Strong capital position
- ▶ Strong liquidity position
- ▶ Largely restructured loan book
- ▶ Strong earnings
- ▶ Improved access to foreign debt capital markets





4

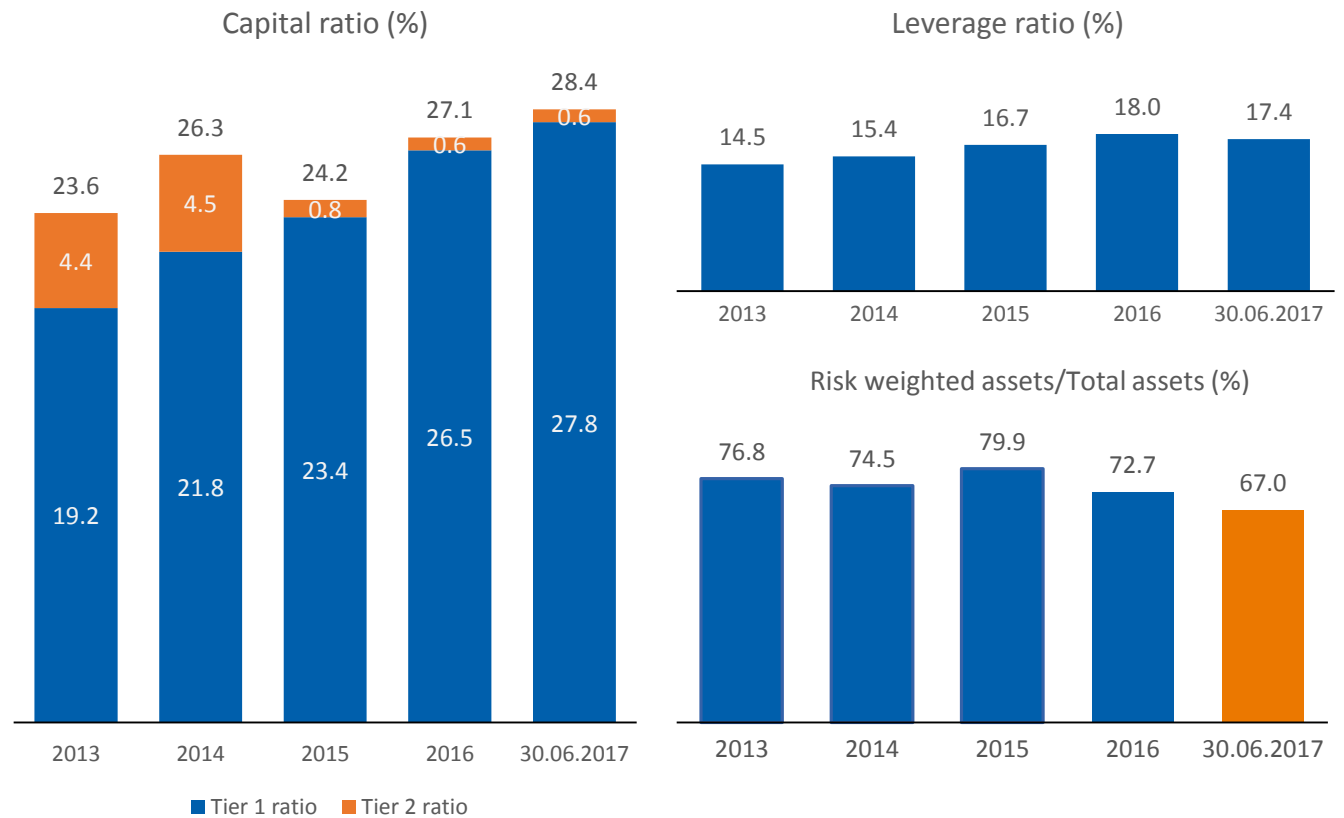
Strong Capital Position with Room for Further Optimisation

Capital base

All amounts in ISK billion

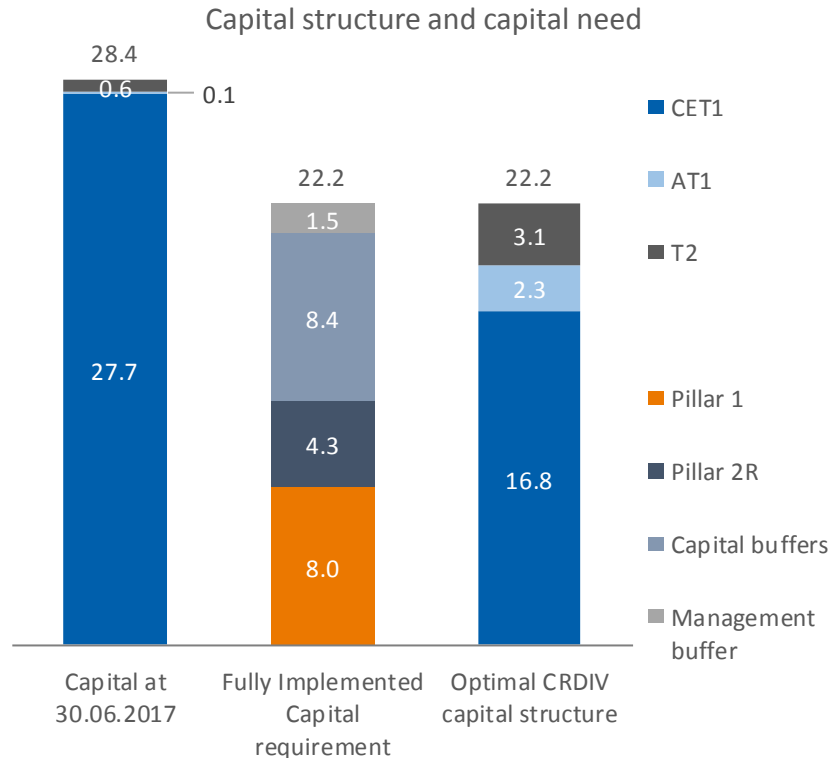
Continued strong capital base

- Strong capitalization compared to Nordic peers
- RWA calculated according to standardized approach
- Strong Leverage ratio



Executive summary

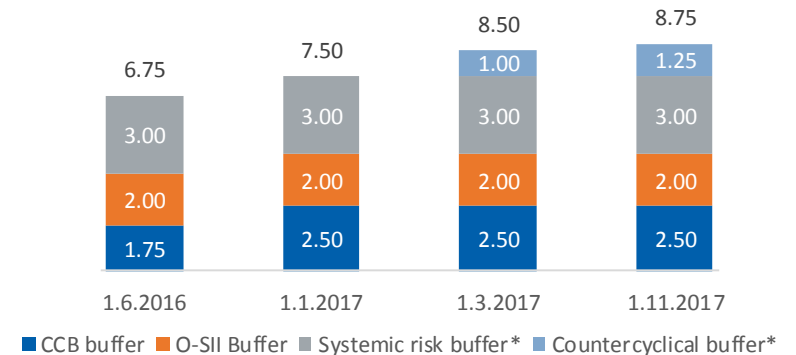
Capital structure and requirements



- The Group's capital calculations are based on the Icelandic adoption of the EU Capital Requirement Directive and Regulation (CRD IV/CRR). Article 501 of the CRR, on capital requirement relief for small and medium enterprises, is temporarily excluded in the Icelandic regulation. The Group applies the standardized approach for all risk types

- In Q4 of 2017, the combined capital buffer requirement will reach 8.4%, based on the Group's current risk profile
- The FME's SREP result based on the Group's balance sheet as at 31 December 2015, indicates a total regulatory capital requirement of 20.7%, including fully-implemented buffers
- Including a management buffer of 1.5%, the Group had a surplus capital of ISK 46 billion at 30 June 2017

Capital Buffer Implementation for systemically important banks in Iceland (%)



* The effective buffers are calculated using the capital buffer level of each country of exposure, weighted using the corresponding credit risk RWA.



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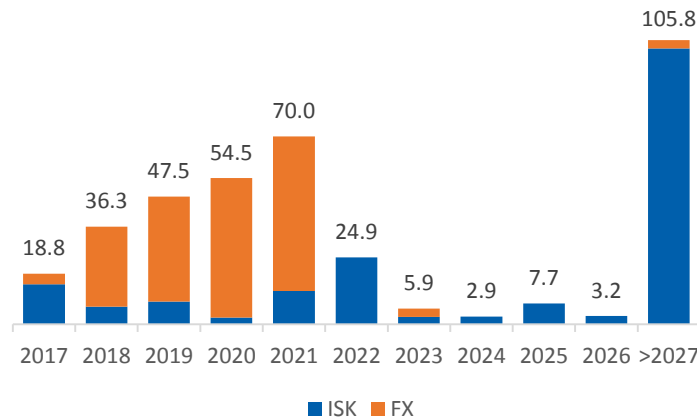
Sound Funding Profile and Liquidity Position

Limited refinancing need

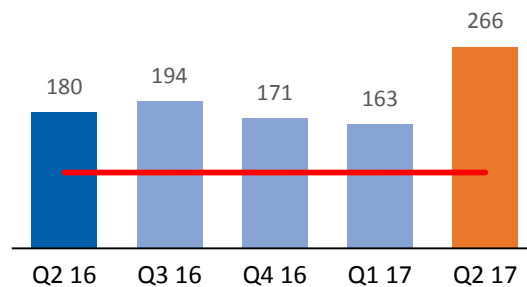
Balanced funding – Strong liquidity position

- Arion's liquidity position is strong, based on moderate refinancing needs in coming years and a solid deposit base
- High LCR due to recent funding activities and refinancing of 2018 maturities. The bank is also prepared for a dividend payment of up to ISK 25 billion
- Less sticky deposits have been withdrawn due to the lifting of the capital controls
- 7 year bond issue to Kaupthing of USD 747 million has been replaced by market funding

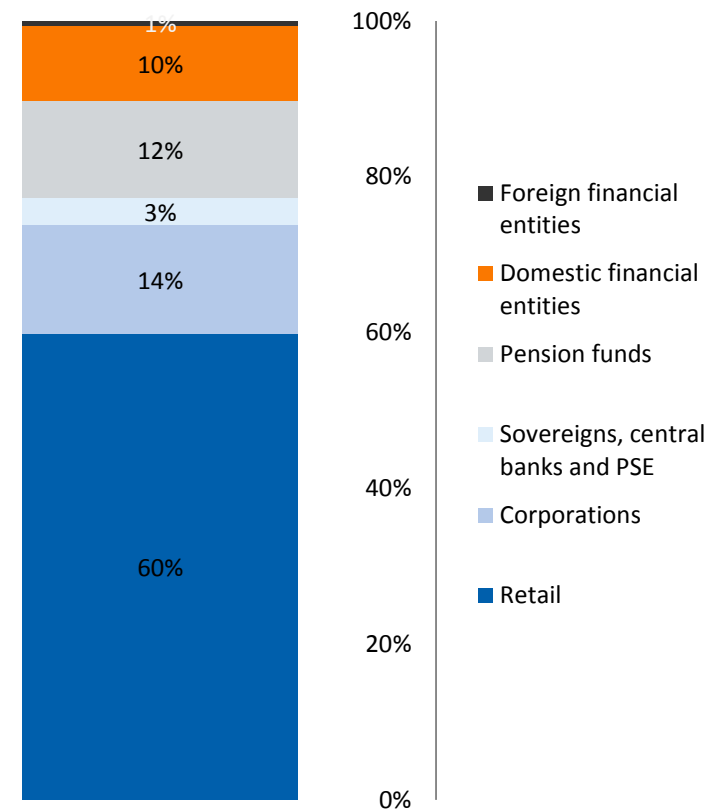
Maturity profile 1H 2017 (ISK bn)



LCR ratio (%)



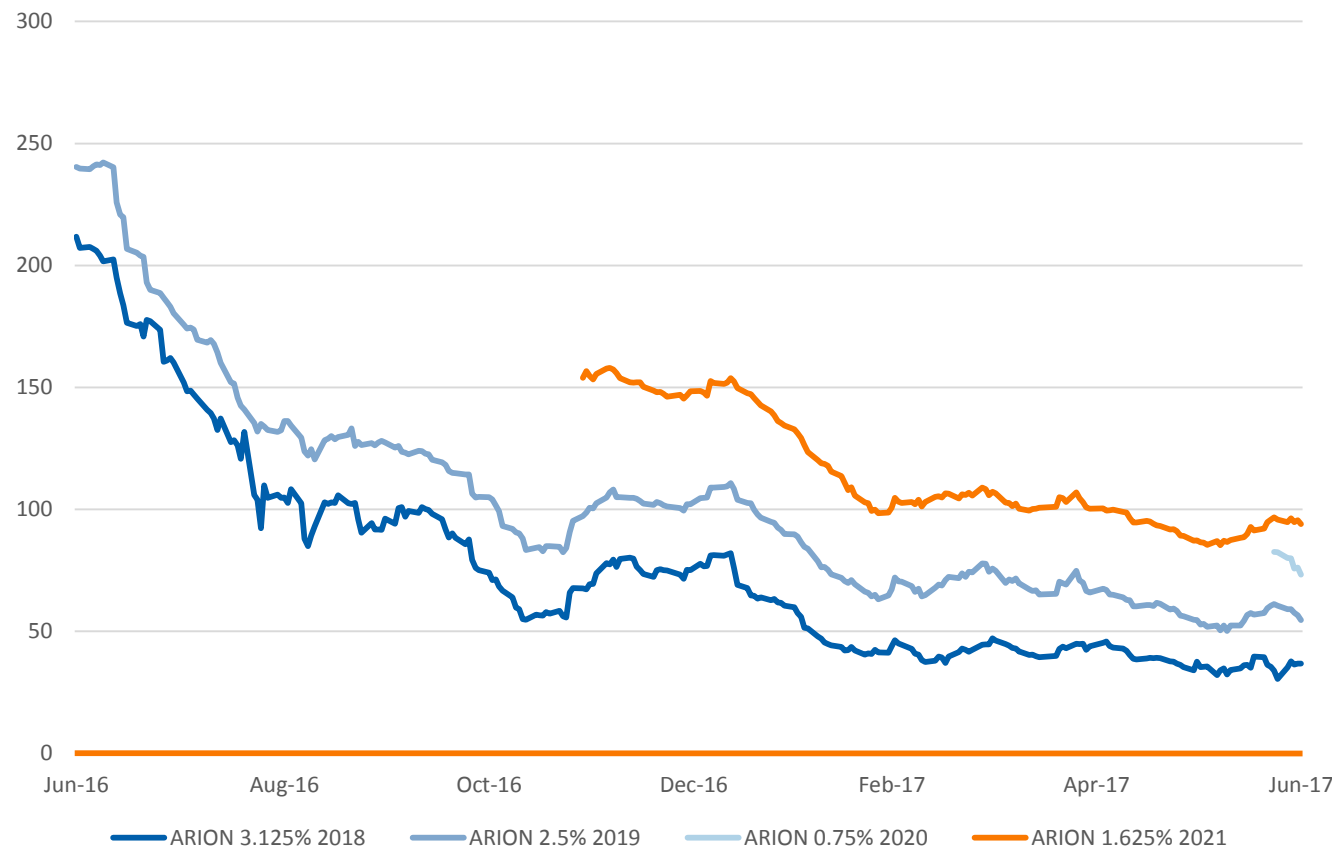
Deposits from Customers by LCR categories 30.06.2017



Funding

Good performance in the international bond market – Spreads continue to tighten

- In January the Bank issued an additional EUR 200 million tap of the euro benchmark bond issued in December 2016 bringing the total to EUR 500 million or approx. ISK 60 billion
- 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





Going forward >>>

Arion Bank operates in strong
and growing economy

Growth in loan portfolio on the back of the
underlying growth in the Icelandic economy

Focus on digitalization across both clientfacing offerings
and automation to further increase efficiency



Going forward >>>

Continued focus on increasing
commission income

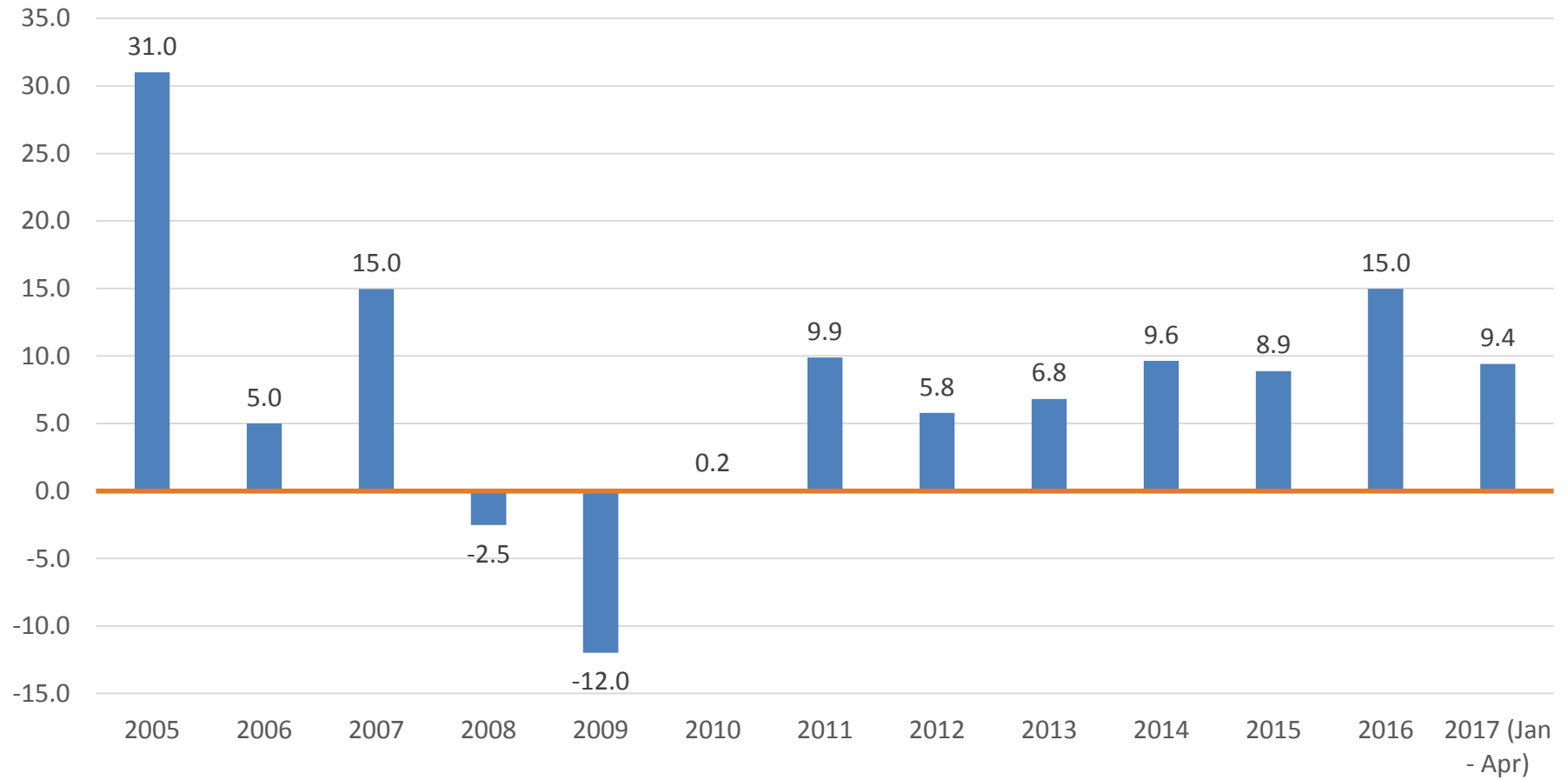
Arion Bank will seek to optimize equity by
paying dividends and acquiring own shares



Appendix

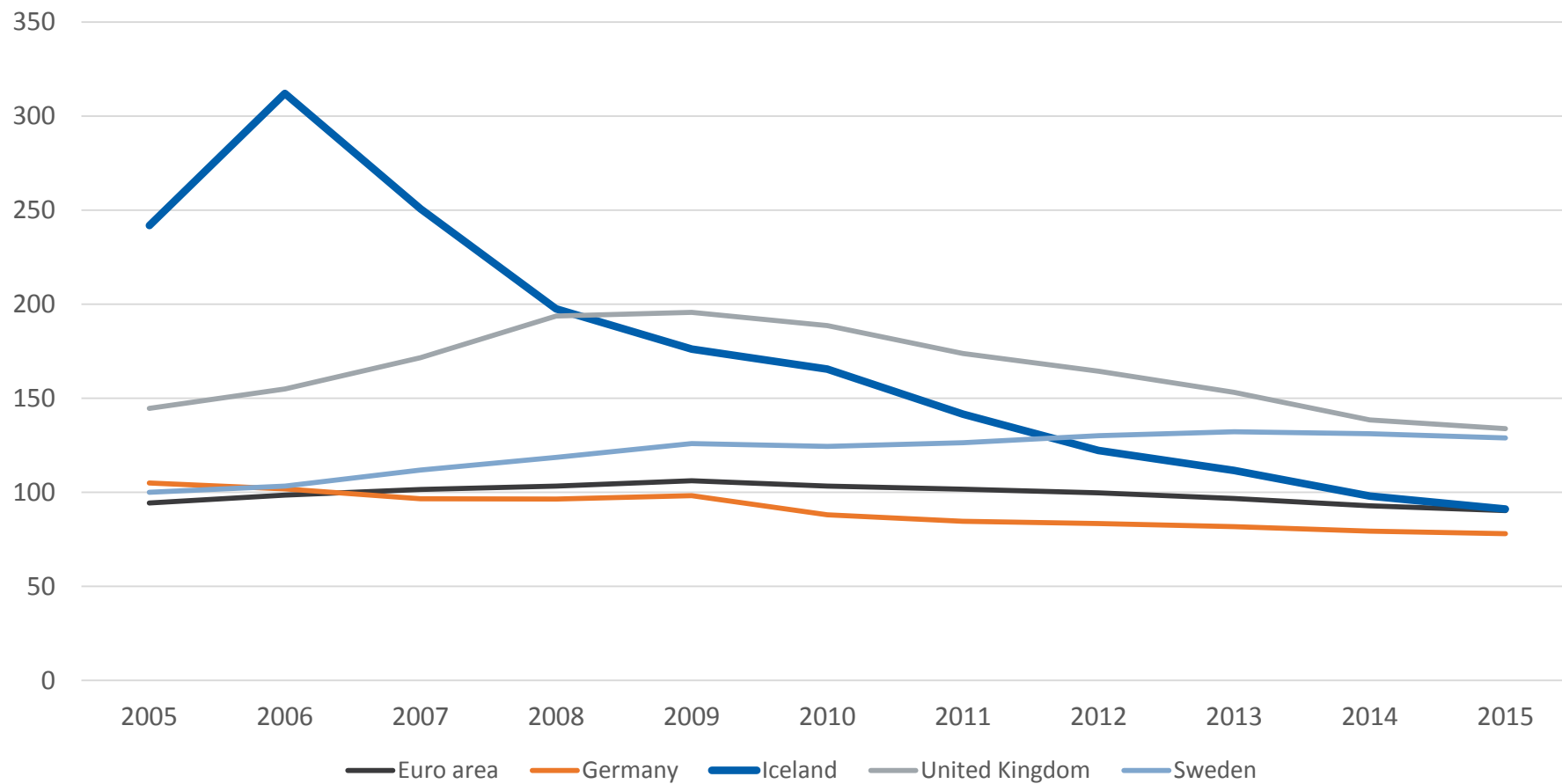
HOUSING PRICES

HOUSING PRICES IN THE GREATER REYKJAVÍK AREA (YOY CHANGE %)



MODESTLY SIZED BANKING SYSTEM

DOMESTIC CREDIT TO PRIVATE SECTOR BY BANKS (% OF GDP)



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