



Financial Statements 30 September 2017

Investor presentation
14 November 2017



9M 2017 highlights

- 1** Improvement in core revenues
- 2** First step in the sale of Arion Bank, largest equity portfolio investment by foreign parties in Icelandic history
- 3** Lifting of capital controls
- 4** Kaupthing facility repaid and Arion Bank is now fully market funded
- 5** Impairments and provisioning relating to United Silicon affect financial performance

Developments in the first nine months of 2017

Changes to the Bank's ownership a major milestone

Financial results heavily affected by one-off loan impairment in Q3

- Improved core revenue in net interest and net commission income
- One-off impairments and negative effects of investments in shares and bonds related to United Silicon have substantial effect
- Growth in net insurance income after Vördur joined the Group
- Operating expenses decreased due to one-off revised Depositors' and Investors' Guarantee Fund expense
- Full-time positions at Arion Bank (parent company) decreased by 27 from year end 2016, partly because of the outsourcing of IT projects to Nýherji

Managerial and organizational changes

- Lydur Thorgeirsson appointed managing director of Investment Banking and Ida Bra Benediktsdottir managing director of Retail Banking
- Eva Cederbalk took over as chairman of the board of directors

Sale process of Arion Bank

- In March approximately 30% of Arion Bank was sold to international investment funds. The shares were sold by Kaupthing via its subsidiary Kaupskil
- Represents the largest ever equity portfolio investment by foreign investors in Iceland
- Further decisions in regard to the Bank's sales process will not be taken until next year due to recent parliamentary elections

Developments in the first nine months of 2017

Together we make good things happen

Improved terms on international credit markets

- In June the bank issued bonds in euros at record low spread, 88 bps margin over interbank rates
- Arion Bank paid off the outstanding amount of Kaupthing's US dollar bond, which originally amounted to \$747 million
- In Iceland, the Bank has continued to successfully issue commercial paper and covered bonds and this remains an important component of the Bank's funding
- S&P on 25 October raised Arion Bank's long term credit rating to BBB+ with stable outlook

Making a difference

- Arion Bank is funding HS Orka and the Brúarvirkjun power plant
- Klappir Green Solutions listed on the First North market. Arion Bank advised on the process

Euromoney's bank of the year for 2017

- Arion Bank named bank of the year in Iceland by Euromoney
- The financial magazine Global Finance named Arion Bank as best investment bank in Iceland



Developments in the first nine months of 2017

Arion Bank – For the future

Leading digital bank

- Arion app is the best banking app in Iceland according to a survey by MMR
- New pension portal opened in Arion Online Bank, allowing a range of pension related functions
- Use of digital channels continues to gain popularity
- The app now allows you to close a payment card quickly and easily – and reopen it
- The Bank has launched 12 digital solutions during 2017



Convenient banking

- Renovated branch at Kringlan Mall was opened and now has the same opening hours as other stores in the mall
- Partnership with insurance company Vördur on selling insurance to customers of Arion Bank



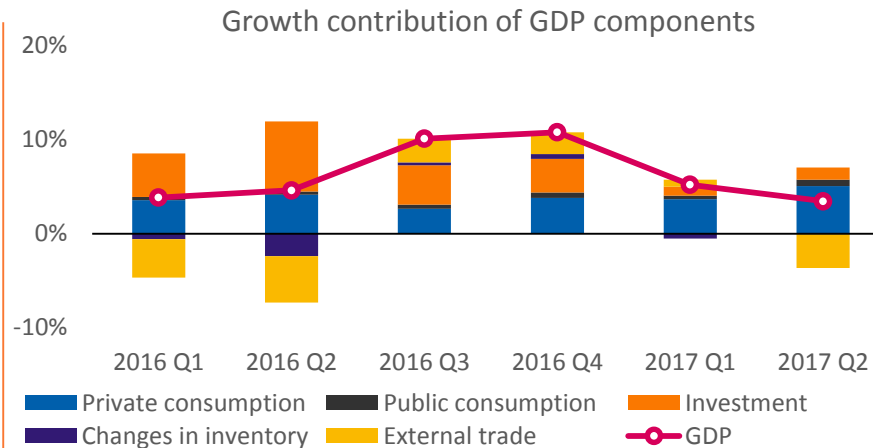
Macroeconomic environment



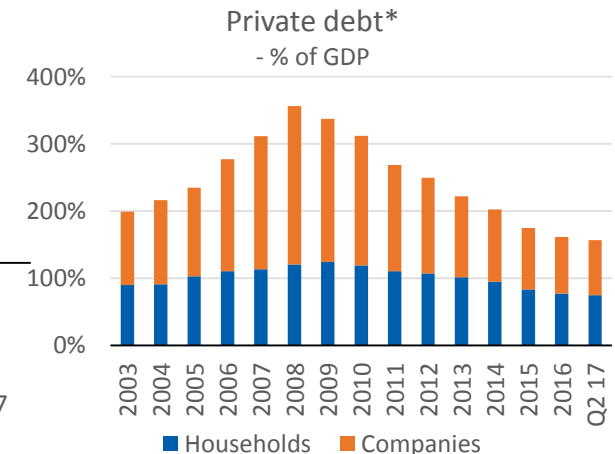
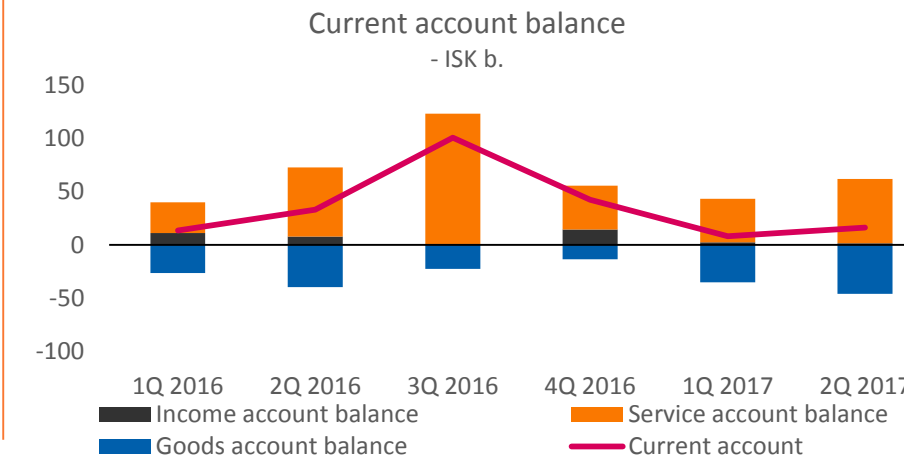
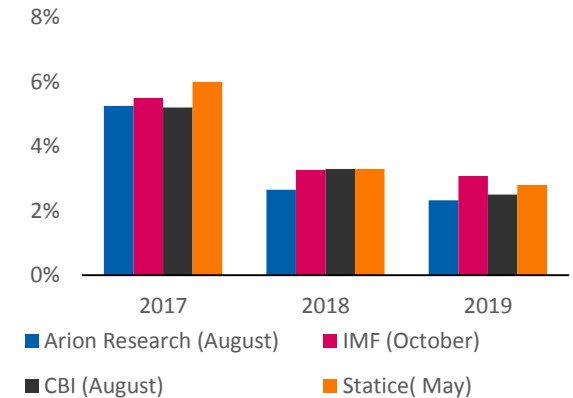
The economy continues to grow but at a slower pace

Pressure in the economy has begun to ease, affecting the output gap

- GDP growth in Q2 2017 measured 3.4%. Despite slower growth than previous quarters the economy is still healthy
- Private consumption is, and will be, the main driver behind economic growth, supported by service exports
- Slower growth in tourism and an increasing trade deficit has reduced the current account surplus. However, analysts expect a continued current account surplus over the next few years albeit at a lower level



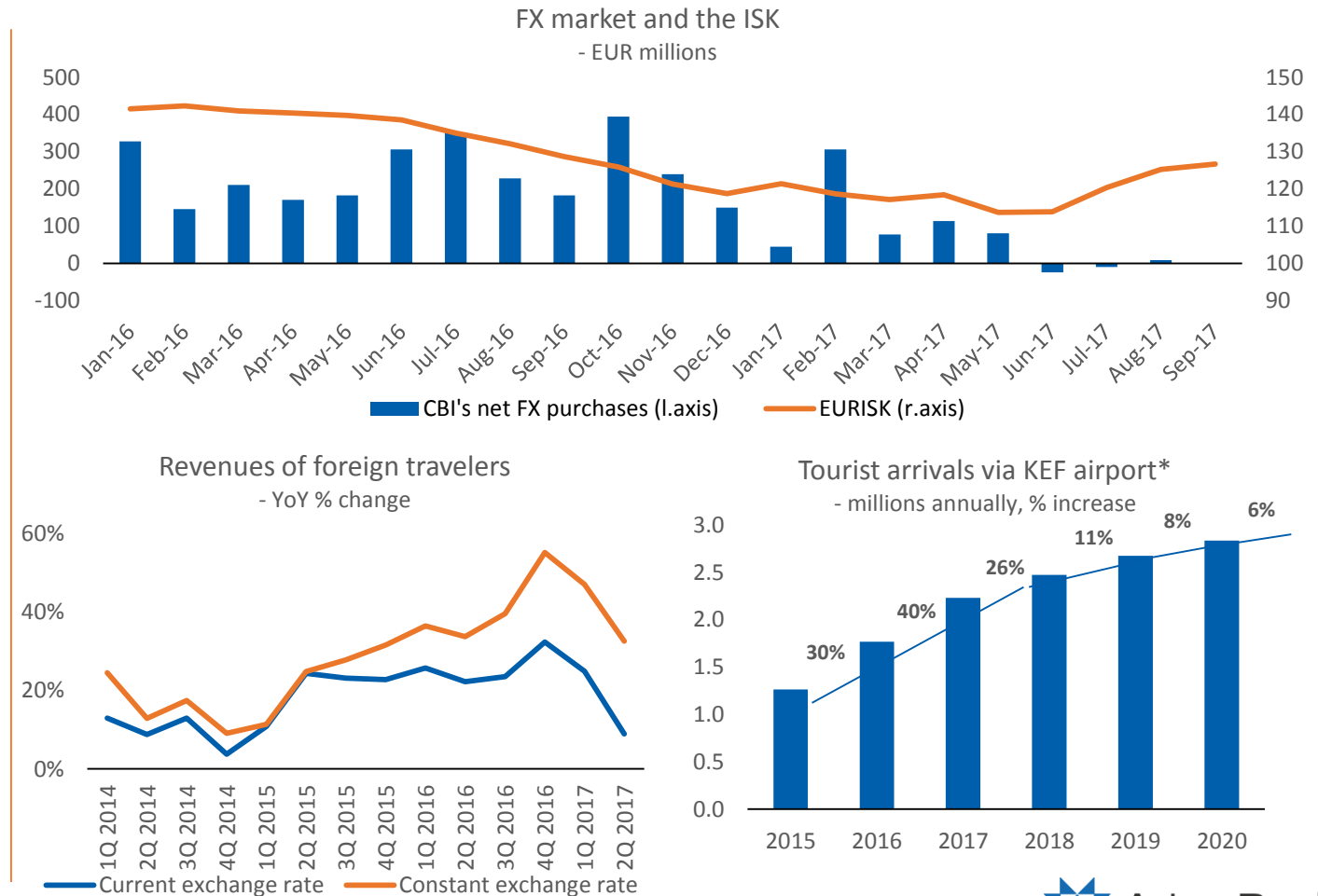
Economic growth forecasts



Volatile króna: The summer appreciation that became depreciation

Following the capital account liberalization in March, volatility in the ISK has increased

- Fluctuations in the exchange rate have increased after capital controls for individuals, firms and pension funds were lifted. Appreciation is no longer a certainty even though an ever growing number of foreign tourists visits the country
- The CBI has gradually reduced its interventions in the FX market and now only steps in to stop spiral formation
- Strong growth in tourism expected to continue albeit at a “healthier” level than what has been seen over the last two years

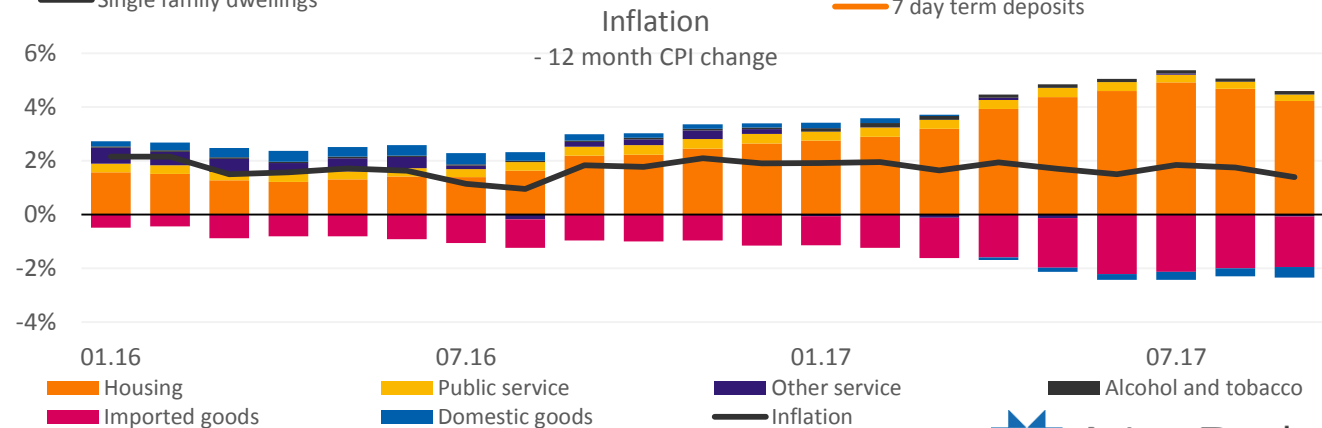
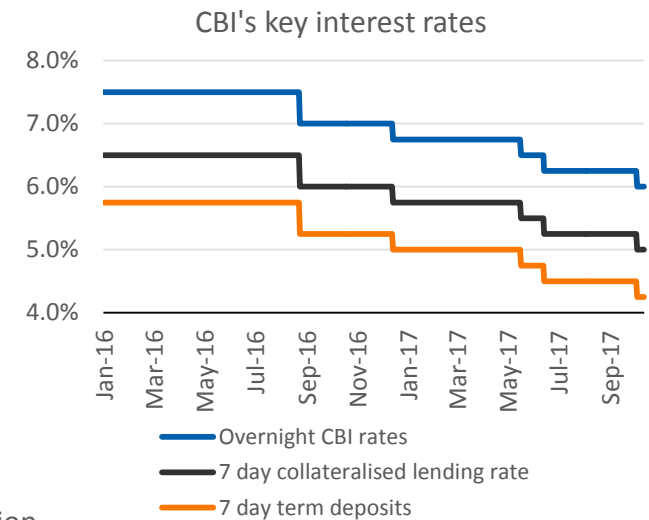
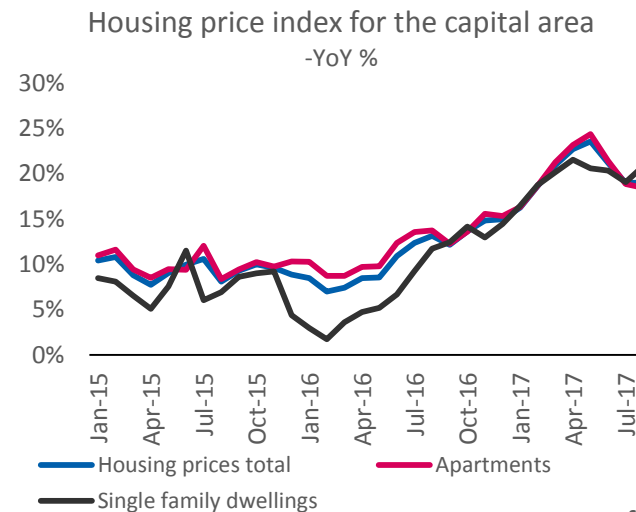


* Arion Research forecast
Sources: Central Bank of Iceland, Statistics Iceland, The Icelandic Tourist Board, Arion Research

Reduced inflationary pressures bring along rate cuts

The CBI has lowered its interest rates by a total of 150 bps. in just over a year

- Currently increasing house prices are the main driving factor behind inflation while imported goods partly offset the pressure. Considerable deflation measures when excluding house prices, suggesting that underlying domestic inflationary pressures are moderate
- Indicators suggest that house price increases in the capital area have peaked, at least for the time being, and prices will rise more slowly in the coming quarters
- In response to the improved inflation outlook, mostly attributable to the exchange rate appreciation, and a stronger anchor for inflation expectations at target the CBI has lowered its interest rates considerably. The Bank's main interest rates, rates on 7 day term deposits, now stand at 4.25%



Headline figures for 9M 2017

Net earnings
ISK 10,353
million
9M 2016:
ISK 17,262 million

CET 1
26.6%
31.12.2016:
26.5%

Cost-to-
income ratio
55.3%
9M 2016:
56.3%

Problem
loans
1.4%
31.12.2016:
1.6%

Return on
equity
6.3%
9M 2016:
11.2%

Leverage
ratio
16.9%
31.12.2016:
18.0%

Number of
employees
1,293
31.12.2016:
1,239

Mortgages/
Total loans
40.0%
31.12.2016:
39.2%

Income statement



Income statement

All amounts in ISK million

Core revenues improve from last year but one-offs relating to United Silicon have a negative effect

- United Silicon has a significant effect on multiple line items as stated in slide 14
- Slight increase in net interest income mainly due to an increase in interest bearing assets
- Increase in net commission income mainly due to increased activity in Q3 and acquisition of new subsidiaries at Valitor
- Acquisition of Vördur in late 2016 and good performance of Vördur in 9M 2017 transforms net insurance income
- Salaries are stable despite Vördur and Valitor acquisitions
- Other OPEX decreases due to revised Depositors' and Investors' Guarantee Fund provision

	9M 2017	9M 2016	Diff	Diff%
Net interest income	22,570	22,057	513	2%
Net commission income	10,703	10,214	489	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	(917)	710	(1,627)	-
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 gain from assets held for sale, net of tax	616	569	47	8%
Net earnings	10,353	17,262	(6,909)	(40%)

Income statement

All amounts in ISK million

Provision relating to United Silicon have a major effects on Q3 results

- Net interest income slightly lower than for the same period last year
- Net commission income increases from Q3 2016
- Net financial income negative due to provision of bond holdings in United Silicon and unfavorable stock market
- Increase in net insurance income due to acquisition and positive performance of Vördur
- Salaries unchanged from Q3 2016 despite acquisitions
- Other operating expense increases from Q3 2016 due to outsourcing of IT services and professional services
- Net impairment of ISK 3.0 billion due to United Silicon in Q3 2017

	Q3 2017	Q3 2016	Diff	Diff%
Net interest income	7,250	7,431	(181)	(2%)
Net commission income	3,865	3,467	398	11%
Net financial income	(734)	844	(1,578)	(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	(1,113)	(9%)
Salaries and related expense	(3,841)	(3,825)	(16)	0%
Other operating expenses	(3,699)	(3,349)	(350)	10%
Bank levy	(814)	(705)	(109)	15%
Net impairment	(2,551)	5,883	(8,434)	(143%)
Net earnings before taxes	447	10,469	(10,022)	(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)	7,505	(7,618)	(102%)

United Silicon

All amounts in ISK million

Effects of United Silicon on 9M and Q3 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 during Q3 amounted to ISK 2,962 million
- Further investment is needed for the factory to be fully operational and meet environment requirements to the maximum extent
- Total exposure remaining at period end amounted to approx. ISK 5.4 billion, including loan commitments and guarantees or 0.5% of the Banks balance sheet

	9M 2017	United Silicon	Without USi	Q3 2017	United Silicon	Without USi
Net interest income	22,570	-	22,570	7,250	-	7,250
Net commission income	10,703	-	10,703	3,865	-	3,865
Net financial income	2,471	(965)	3,436	(734)	(708)	(26)
Net insurance income	1,769	-	1,769	716	-	716
Share of profit of associates	(917)	(907)	(10)	17	-	17
Other operating income	2,088	-	2,088	238	-	238
Operating income	38,684	(1,872)	40,556	11,352	(2,716)	14,068
Salaries and related expense	(12,624)	-	(12,624)	(3,841)	-	(3,841)
Other operating expenses	(8,756)	-	(8,756)	(3,699)	-	(3,699)
Bank levy	(2,388)	-	(2,388)	(814)	-	(814)
Net impairment	(1,262)	(2,962)	1,700	(2,551)	(2,962)	411
Net earnings before taxes	13,654	(4,834)	18,488	447	(3,670)	4,117
Income tax expense	(3,917)	954	(4,871)	(756)	954	(1,710)
Net gain from assets held for sale, net of tax	616	-	616	196	-	196
Net earnings	10,353	(3,880)	14,233	(113)	(2,716)	2,603
Cost-to-income ratio	55.3%		52.7%	66.4%		62.5%

Net interest income

All amounts in ISK billion

Increased liquidity affects net interest margin

- Decrease in net interest income from previous period and the same period last year

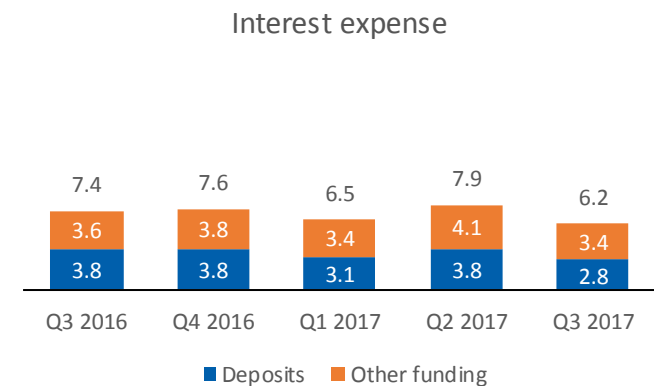
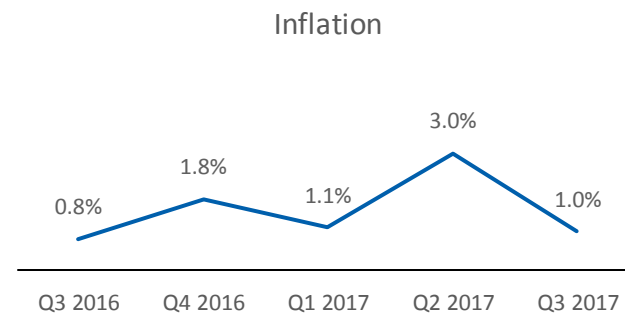
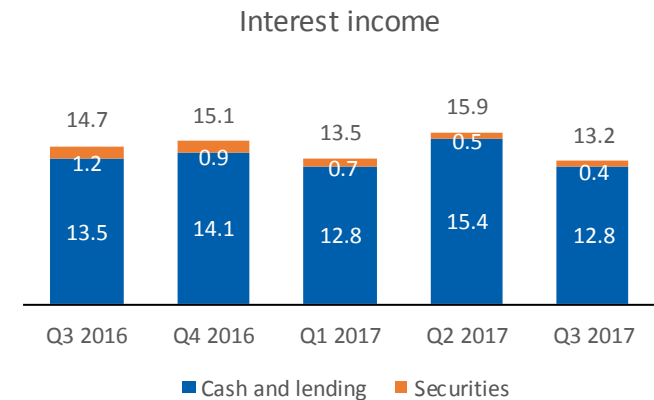
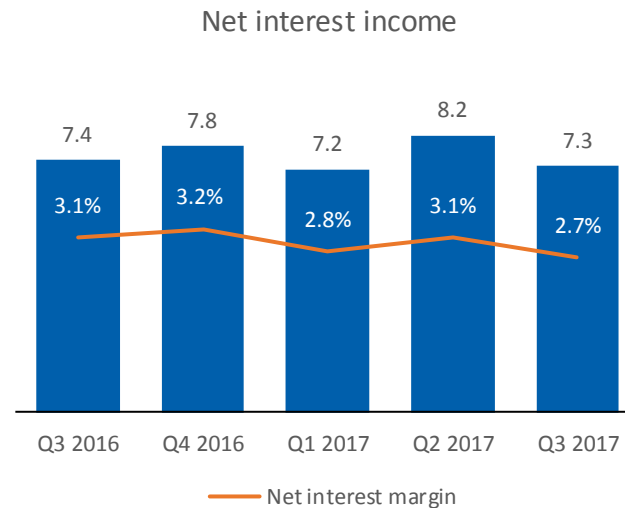
- Interest-bearing assets increase by ISK 93 billion from year end 2016 or 10%, mainly short term assets

- Low inflation affecting interest income as the Bank has ISK 124 billion CPI imbalance at period end

- The decrease in net interest margin due to

- Decrease in inflation which remained very low during the period and has been under the Central Bank's target for some time

- Higher liquidity buffer due to pre-financing of upcoming bond payments

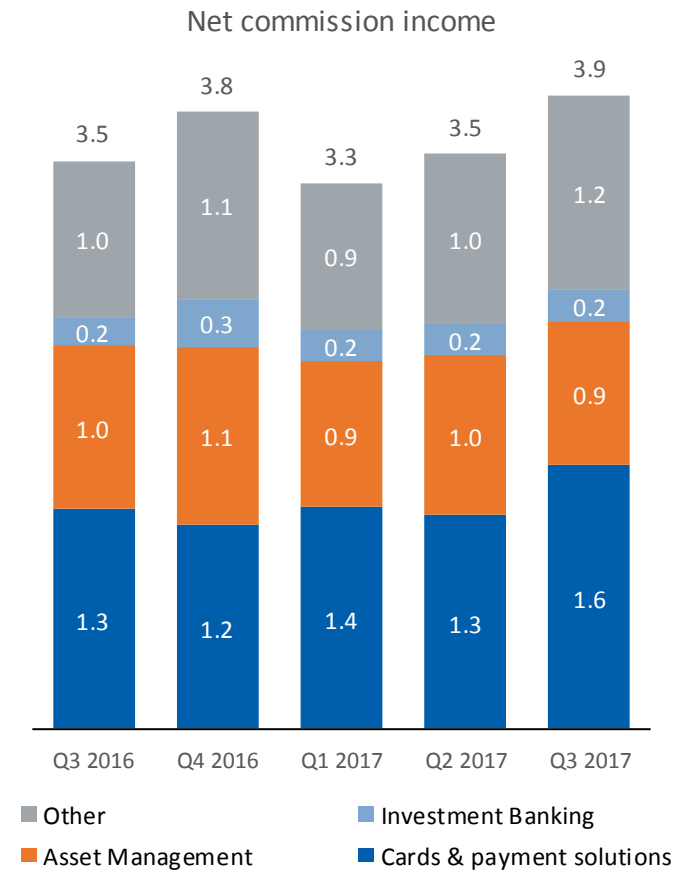


Net commission income

All amounts in ISK billion

Commission income up from last year – mainly in cards and payment solutions

- Net commission income from cards and payment solutions increased by 23% from Q2 2017
- Acquisition of Chip & Pin and IPS already affecting income from cards and will further strengthen Valitor's position
- Asset Management has a strong position with a stable commission base
- Capital Markets is performing well with the Bank no 1 in equities and no 3 in bond trading in Iceland. Income from Corporate Finance activities remains volatile and focus has been on internal and long term projects
- Other commission income include retail fees and commission which have been increasing. The new branch at Keflavik International Airport has had a positive effect

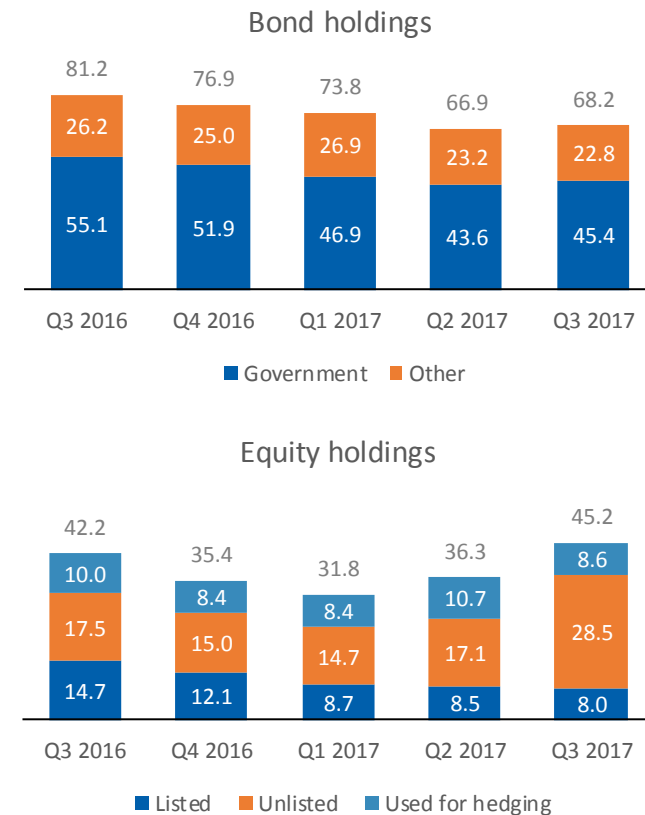
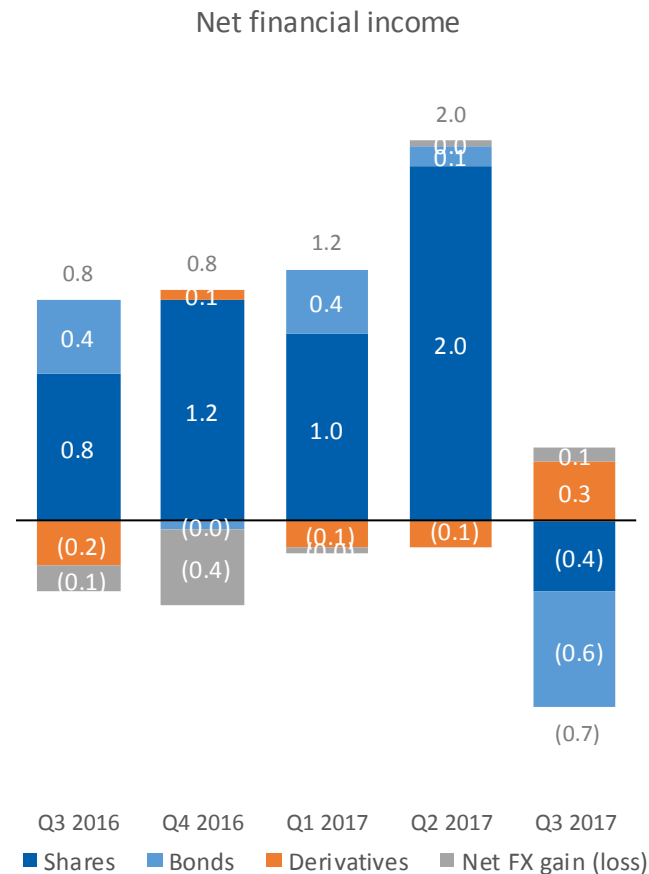


Net financial income

All amounts in ISK billion

Volatility is high despite sales of listed equity positions

- The Icelandic equity and bond markets were both negatively affected by the resignation of the Icelandic government in September
- The Icelandic stock market index OMXI8 dropped by 6.3% during the quarter and has lost 3.4% during the first nine months
- Provision of bonds relating to United Silicon of ISK 708 million
- Derivative gains (losses) 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 bond funds as a part of liquidity management

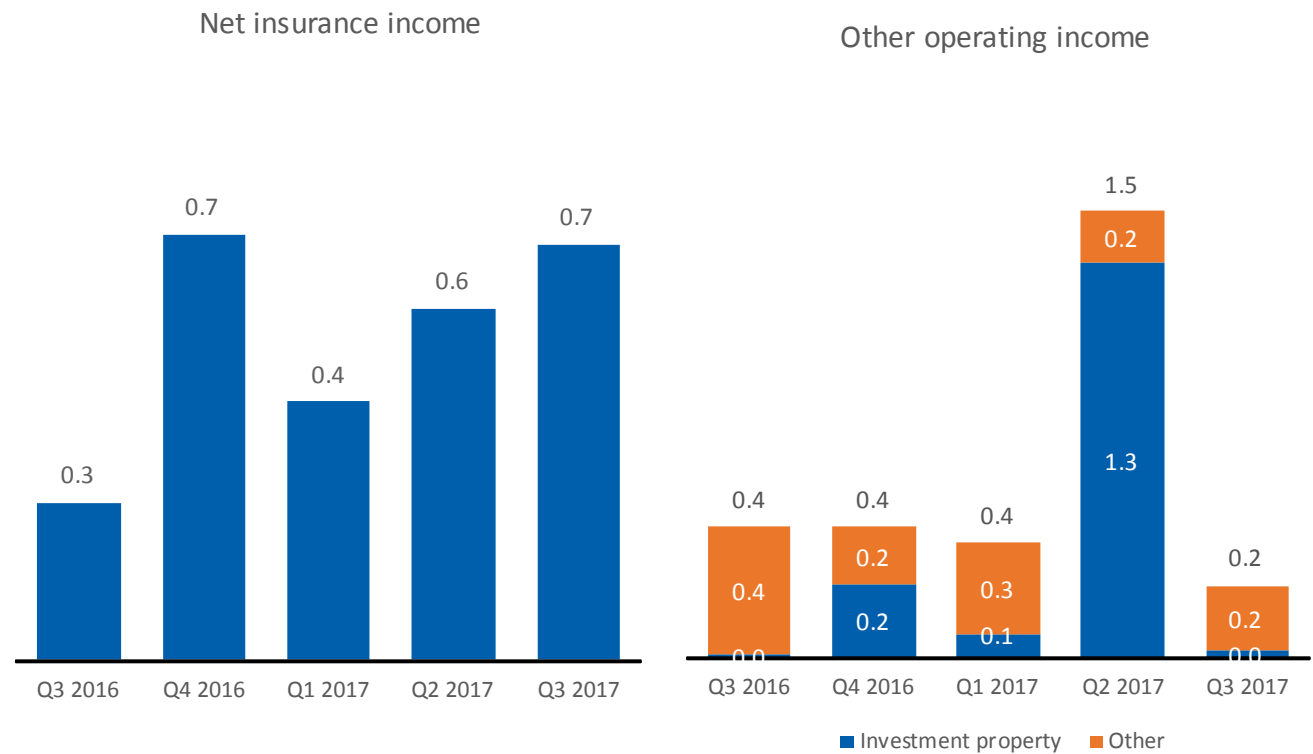


Net insurance income and other income

All amounts in ISK billion

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

- Increase in insurance income from Q3 2016 due to acquisition of Vördur in Q4 2016
- Insurance income is expected to increase going forward as insurance products become part of the retail service offering
- Sharp increase in other operating income in Q2 2017 from investment property due to valuation changes

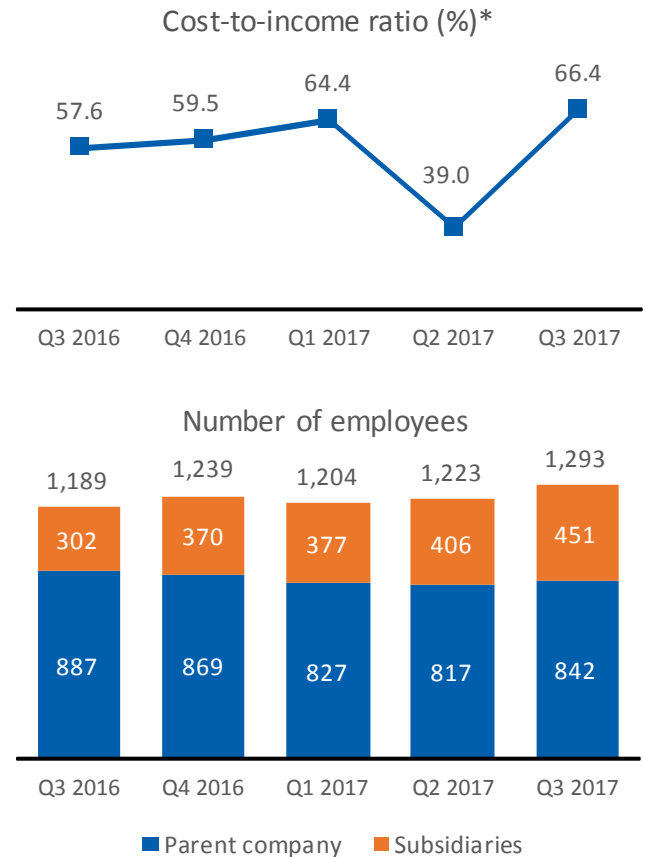
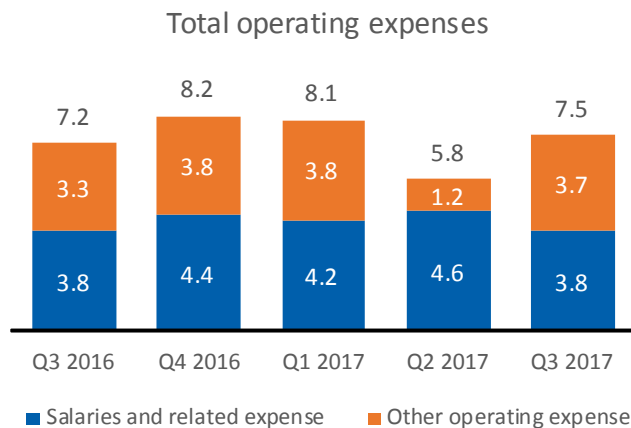


Total operating expenses

All amounts in ISK billion

The cost-to-income ratio is positively affected by one-off items in Q2

- Decrease in number of full-time employees (FTE's) at Parent company from the same period last year is mainly due to digitalization and outsourcing of IT operations
- FTE's at the group increased by 104 from the same period last year mostly due to the acquisition of Vördur in Q4 2016 and acquisitions at Valitor
- Salaries are stable from Q3 2016 despite a general salary increase in the market
- Changes in other operating expense from Q3 2016 are mainly due to Vördur, IT outsourcing and professional services
- Increase from Q2 2017 due to reversal of expense with Depositors' and Investors' Guarantee Fund of ISK 2.7 billion in Q2



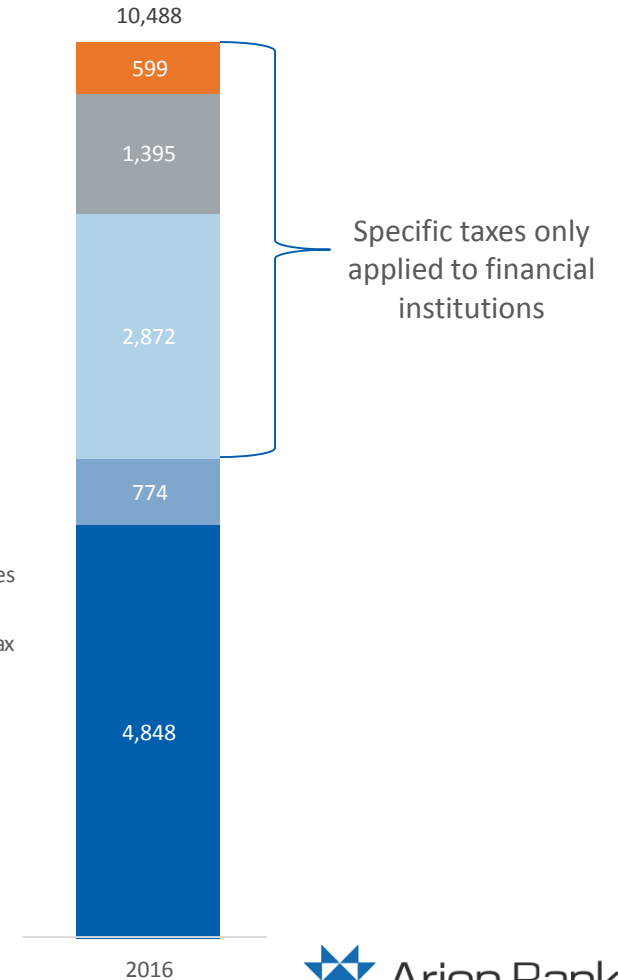
Taxation

All amounts in ISK million

Specific taxes on banks have a significant effect on ROE

- In November 2017 the Icelandic Tax Authorities published figures on official fees relating to 2016 operations
- 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
- ISK 4.9 billion was paid in taxes only applicable to financial institutions
- Specific taxes are:
 - Bank levy which is 0.376% of total debt above ISK 50 billion
 - Special income tax which is 6% on taxable income above ISK 1.0 billion
 - Special tax on salaries 5.5%

	Official	➔	Excluding bank levy and additional income tax
2016	10.5%	➔	12.6%
9M 2017	6.3%	➔	8.4%



Balance sheet

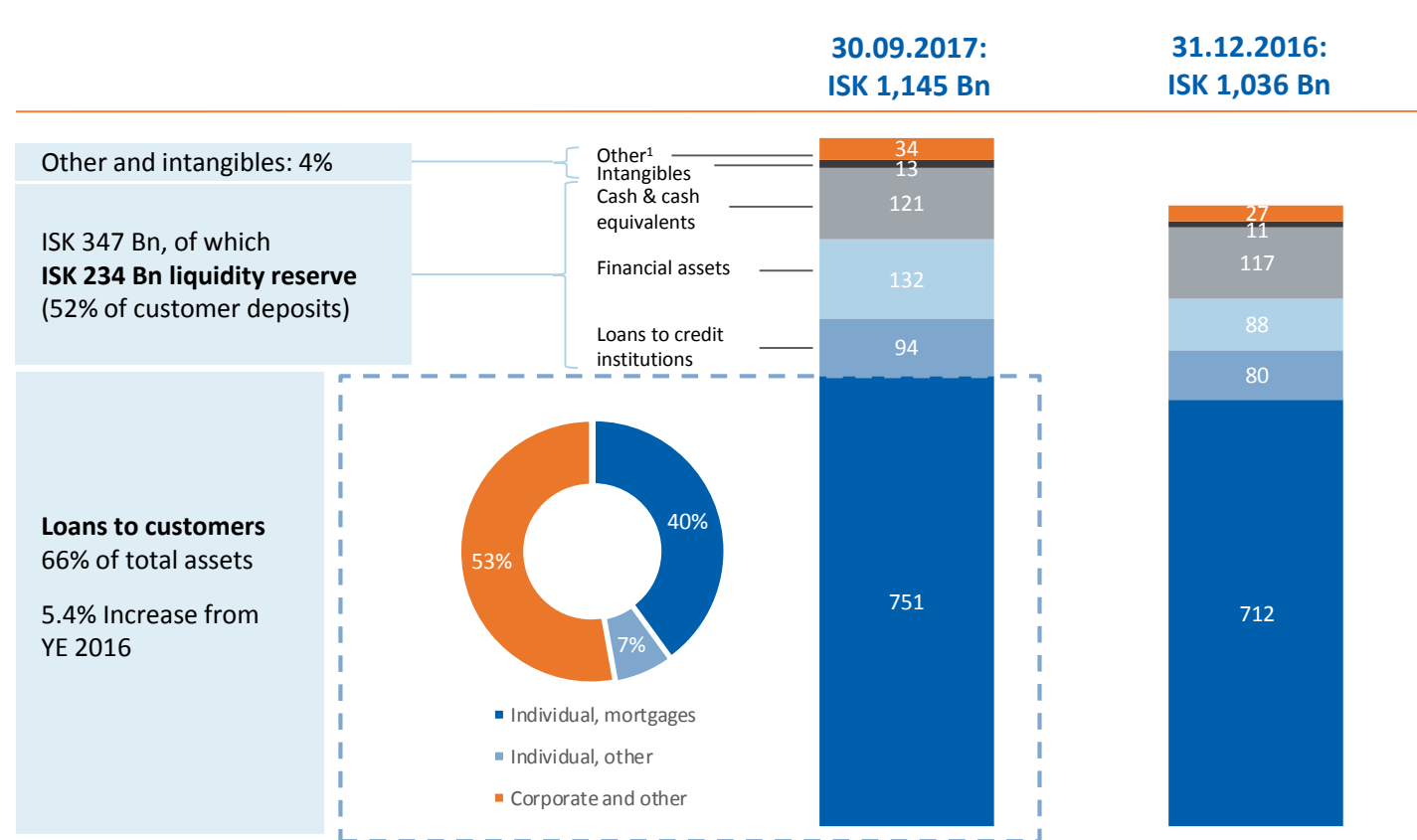


Balance sheet - Assets

All amounts in ISK billion

Robust loan growth – strong liquidity position

- The balance sheet grew by 10.5% during the first nine months, partially due to pre-financing for upcoming bond maturities
- Strong growth in loans to customers during the period
- The pension funds continued aggressive mortgage lending to their policy holders in the period, limiting mortgage lending growth
- Strong liquidity position due to pre-financing of upcoming bond maturities



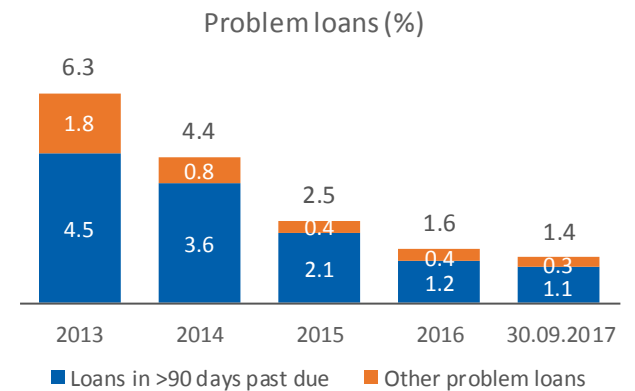
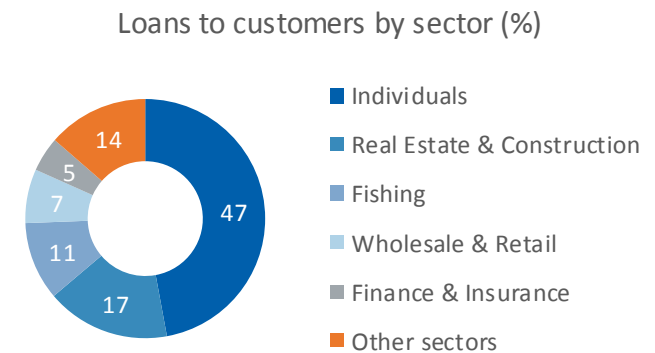
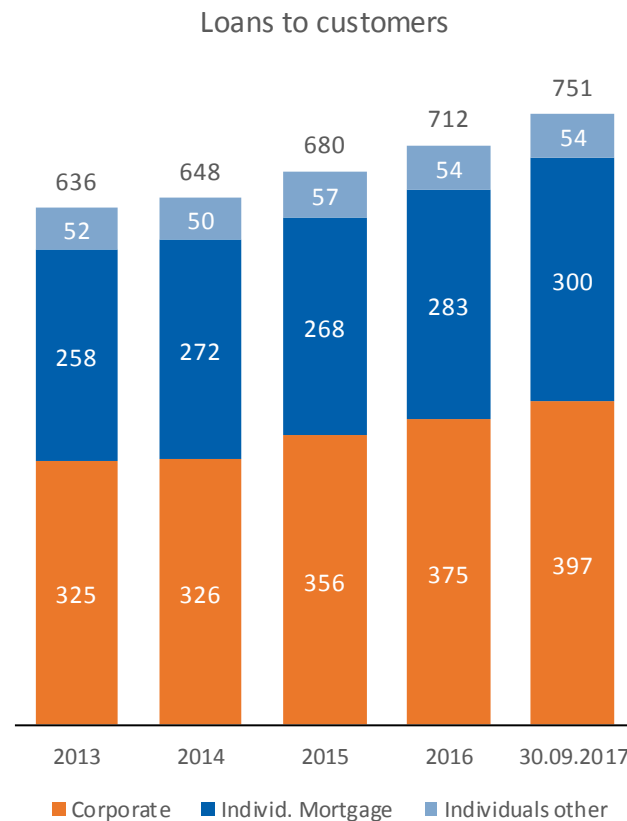
1. Other assets include investment property, investment in associates, tax assets and other assets

Loans to customers

All amounts in ISK billion

Good balance in loans to corporates and individuals

- Loans to customers increased by 5.4% during the first nine months
 - The mortgage portfolio grew by 6% despite strong competition from pension funds
 - The corporate loan portfolio grew by 6%
- Good diversification in the corporate loan book
- Problem loans continue to decrease
- Loan commitments of ISK 92 billion at the end of the period mostly corporate loans

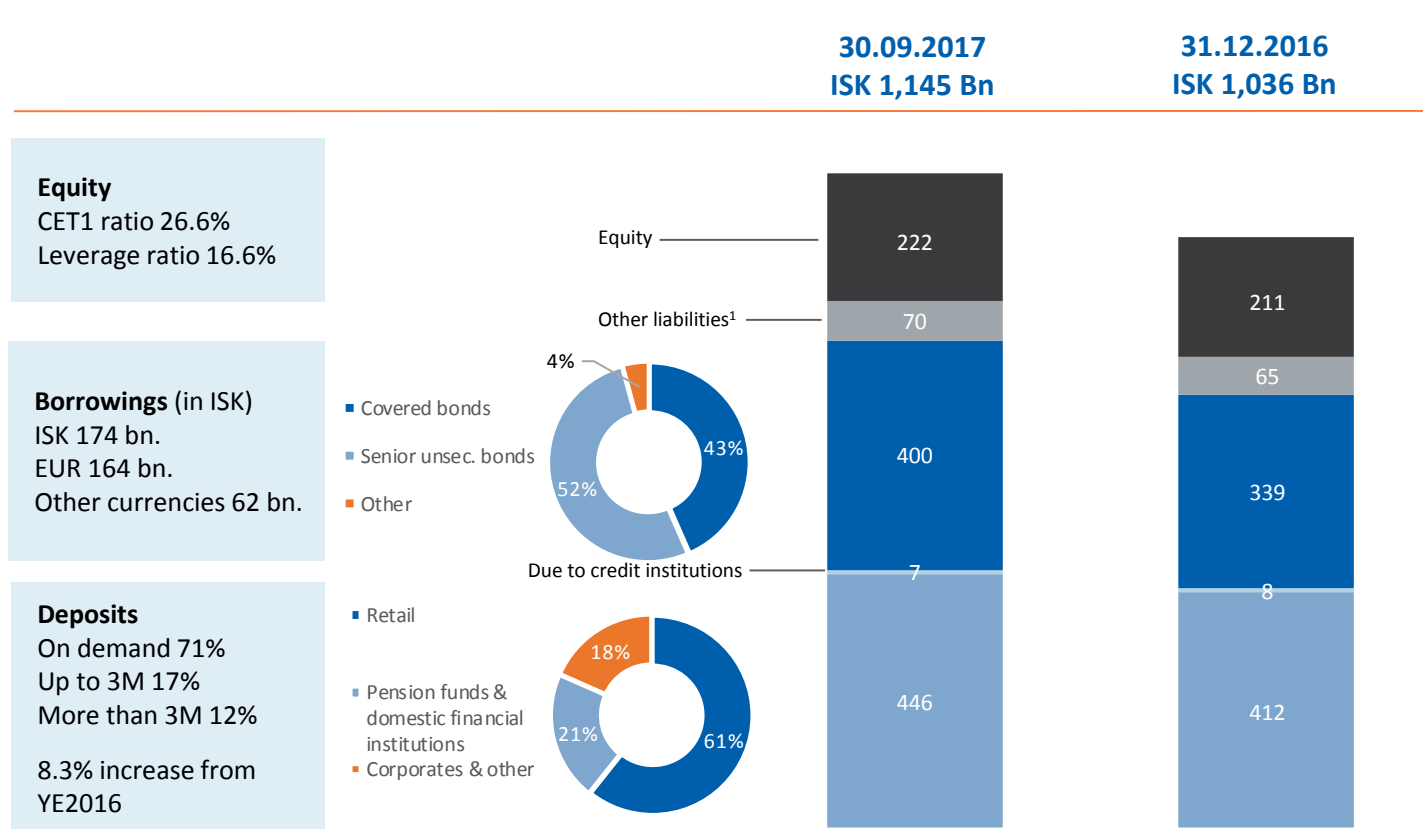


Balance sheet – Liabilities and Equity

All amounts in ISK billion

Successful international bond issues – Strong equity position

- Increase in deposits, mainly from retail customers
- New and successful international bond issues during the first nine months
- Strong equity position



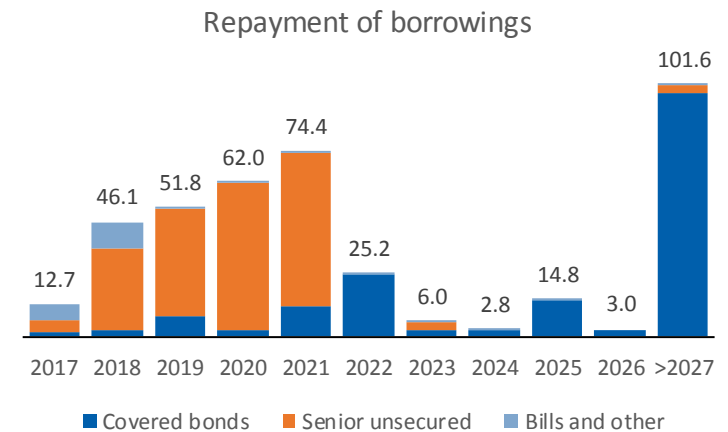
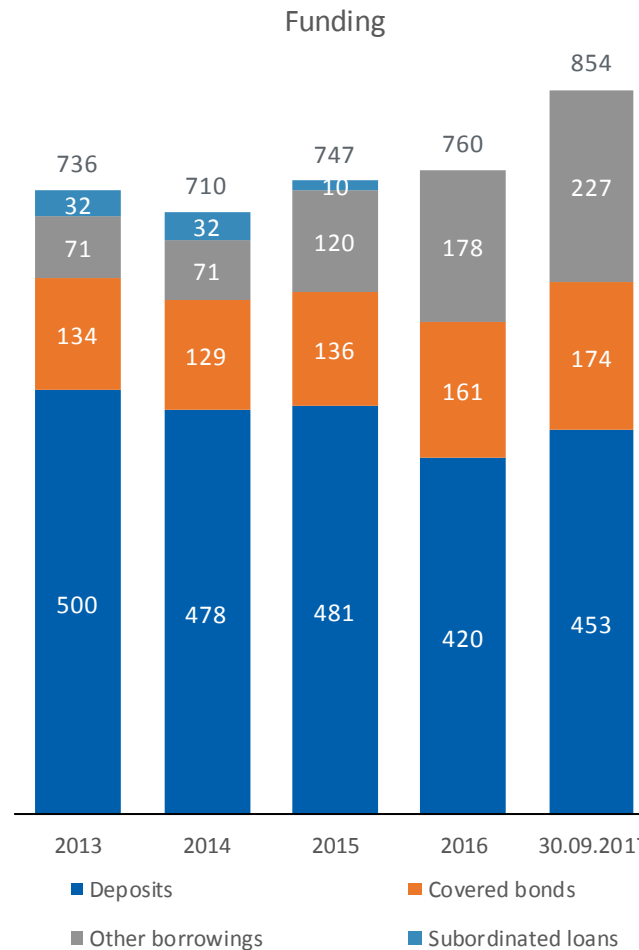
1. Other liabilities include Financial liabilities at fair value, tax liabilities and Other liabilities

Funding



All amounts in ISK billion

Success on the international bond market – Kaupthing facility fully prepaid

- 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
- The Bank made the final repayment of the USD 747 million resettable note issued to Kaupthing in the beginning of 2016
- 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
- The Bank continued to issue covered Bonds in the Icelandic market, total of ISK 19.1 billion during 9M 2017 and issued smaller private placements in the international market of approx. ISK 19.6 billion

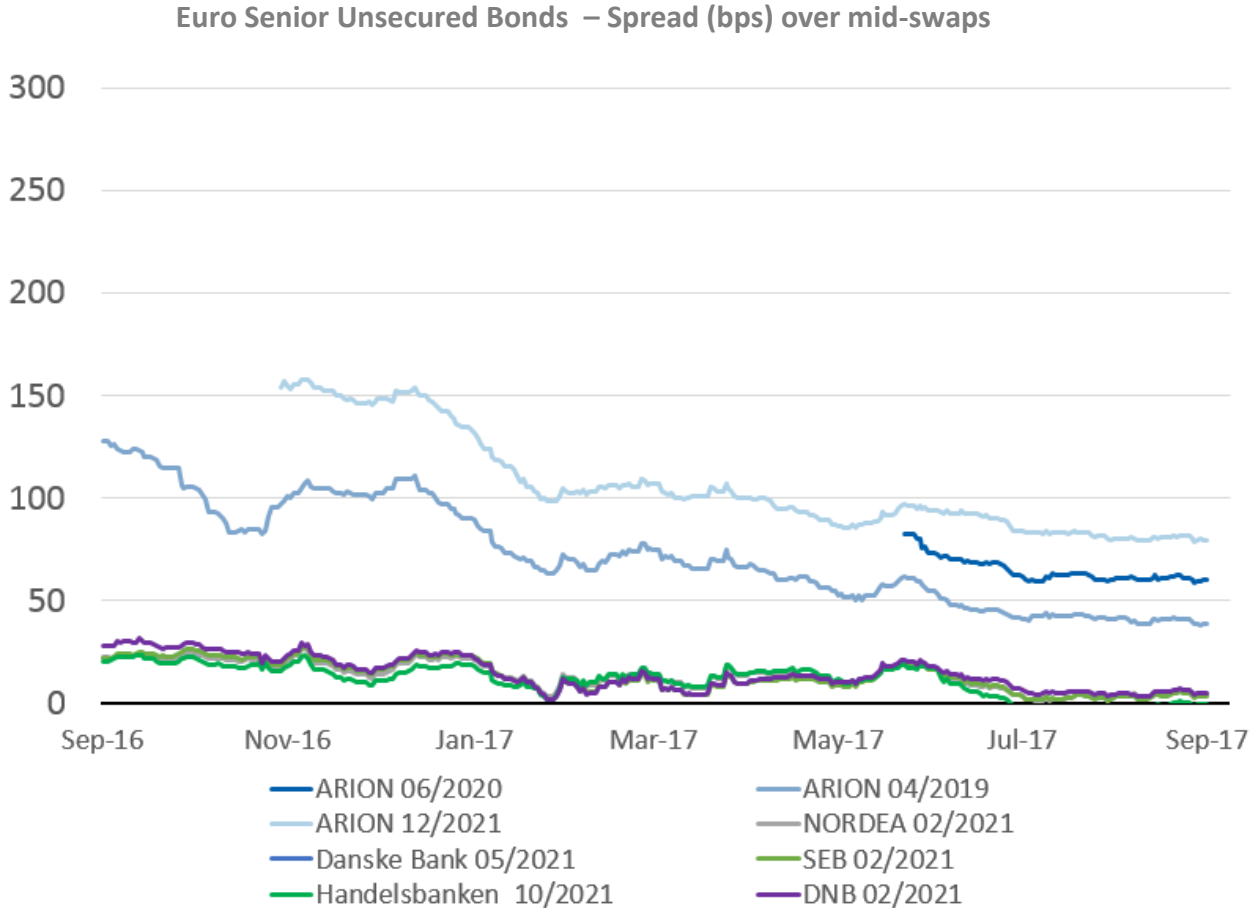


Ratings - S&P (25 October 2017)

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

Good performance in the secondary bond market

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

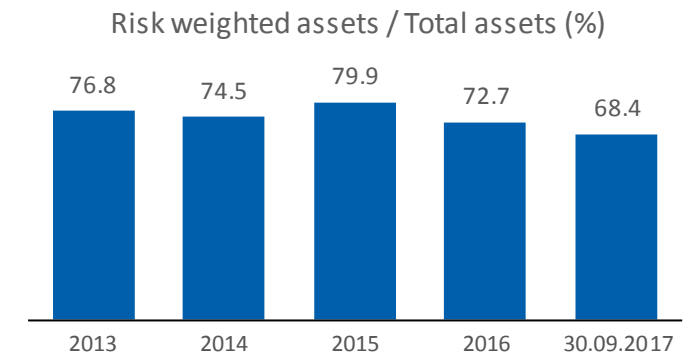
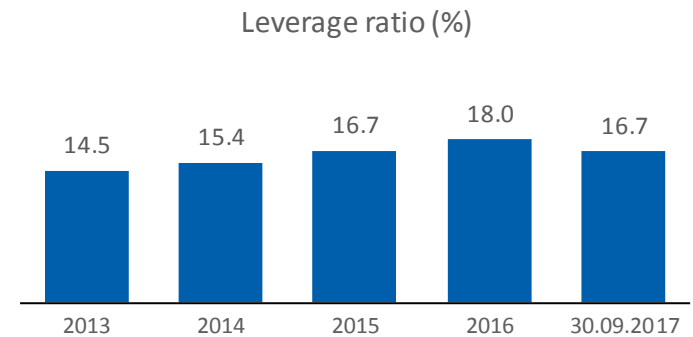
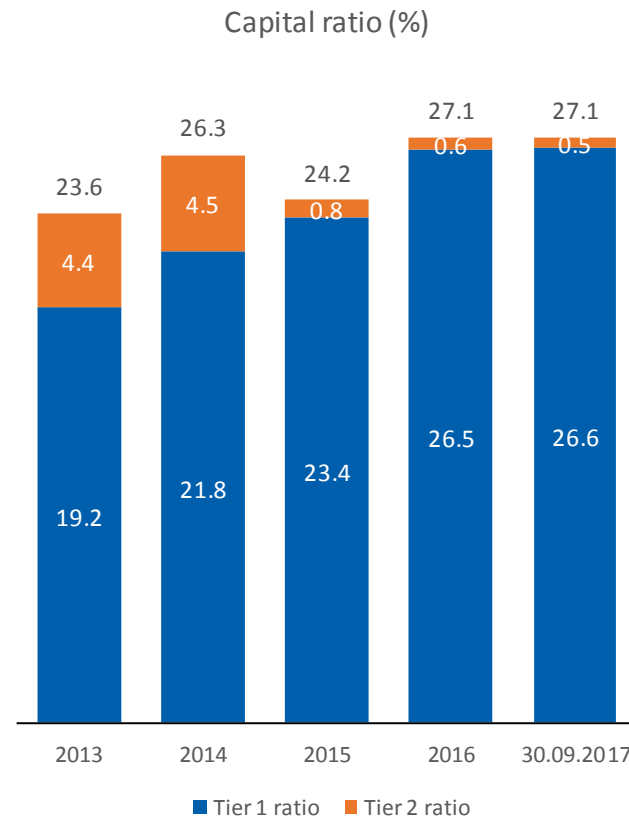


Capital base

All amounts in ISK billion

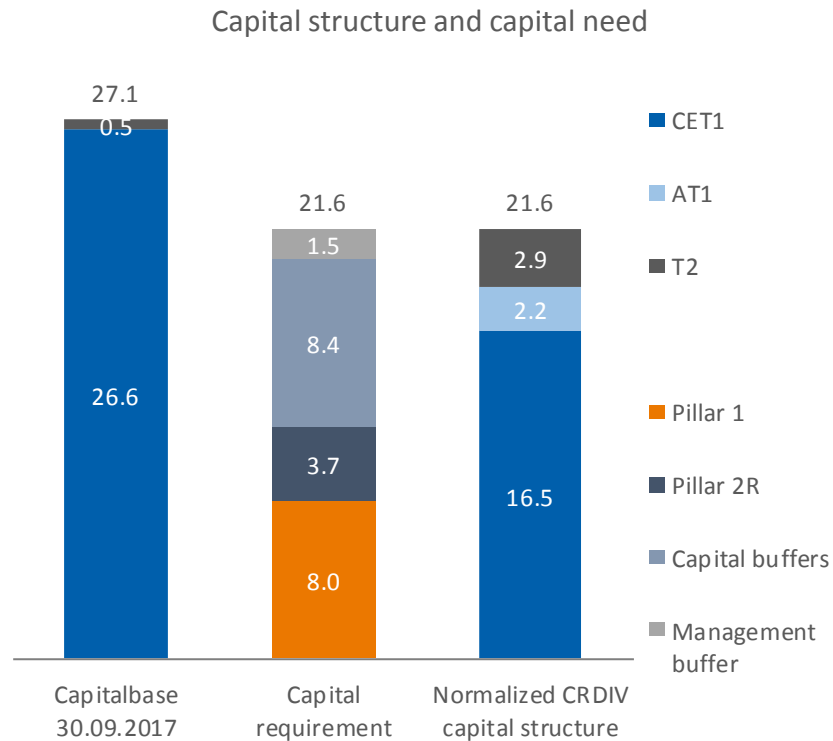
Continued strong capital position

- Solid level of capital due to strong profit generation
- Risk-weighted assets of 68.4% are calculated on the basis of standardized approach
- The Bank's cash position with the Central Bank has increased considerably in 9M 2017. This results in lower leverage ratio and lower risk-weight density
- Tier 2 capital at 30 September 2017 consisted only of collective credit risk adjustment



Capital base

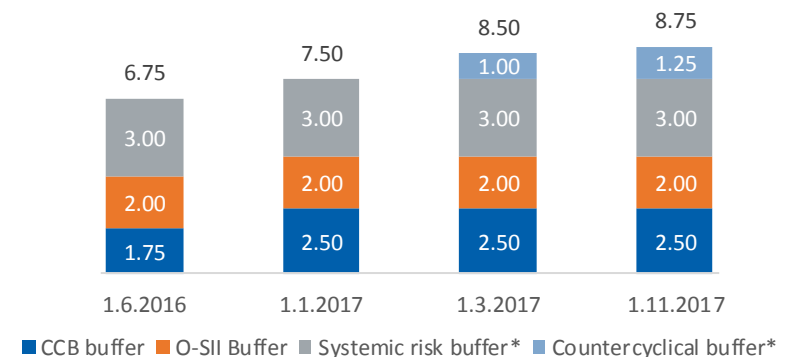
Capital structure and requirements



- 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 2016, indicates a total regulatory capital requirement of 20.1%, including fully-implemented buffers
- Including a management buffer of 1.5%, the Group had surplus capital of ISK 43 billion at 30 September 2017

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

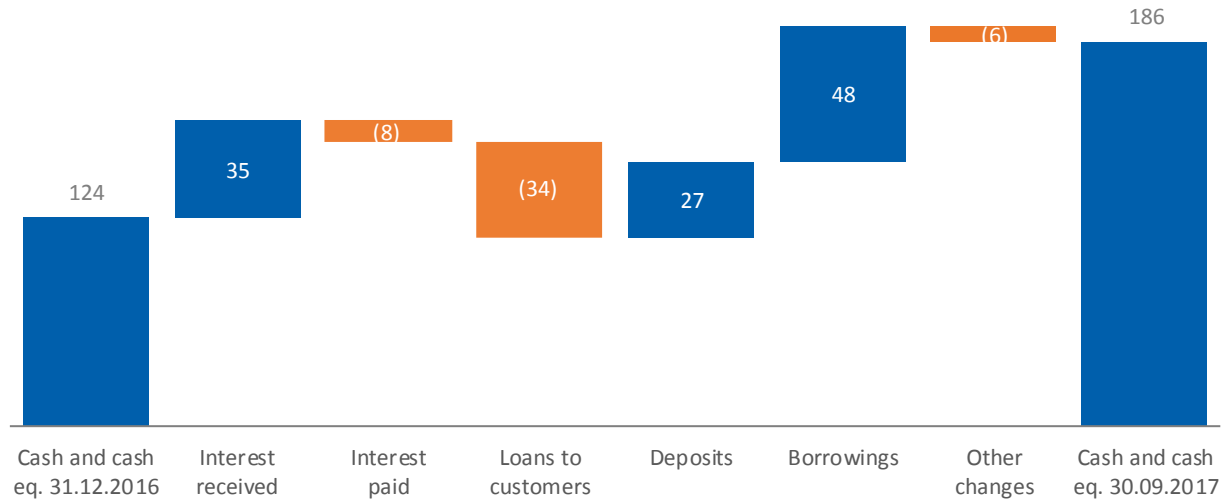


* The effective buffers are calculated using the capital buffer level of each country of exposure, weighted using the corresponding credit risk RWA.

Cash flow

All amounts in ISK billion

Increased deposits and borrowings increase cash position



- Lending activities increased during Q3
- New funding mostly from borrowings but deposits increase as well

Going forward

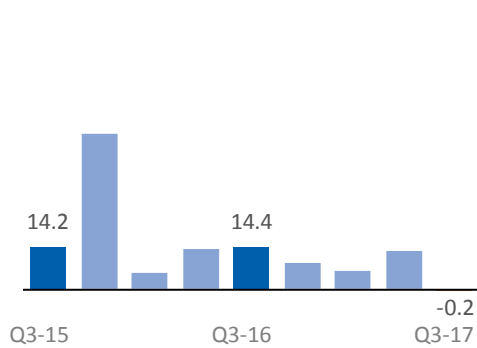
- 1 **Arion Bank** operates in a strong and growing economy
- 2 **Growth in loan portfolio** reflects the underlying growth in the Icelandic economy
- 3 **Focus on** digitalization across both client-facing offerings and automation to further increase efficiency
- 4 **Arion Bank** will seek to optimize equity by paying out dividends and acquiring own shares

KFI's and adjusted income

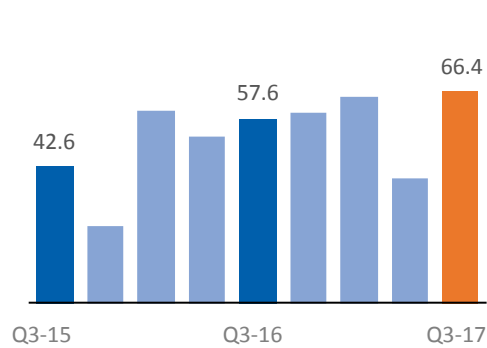


Key financial indicators - quarterly

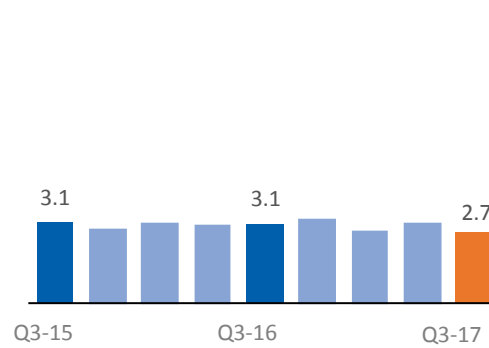
Return on equity (%)



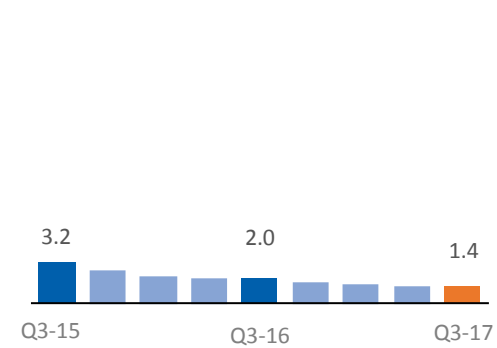
Cost-to-income ratio (%)



Net interest margin (%)

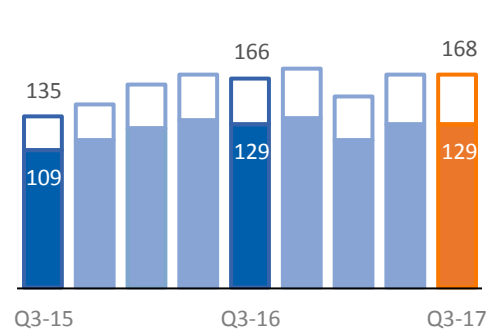


Problem loans* (%)

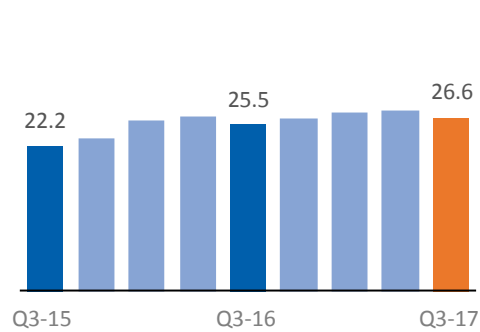


Loans-to-deposits ratio (%)

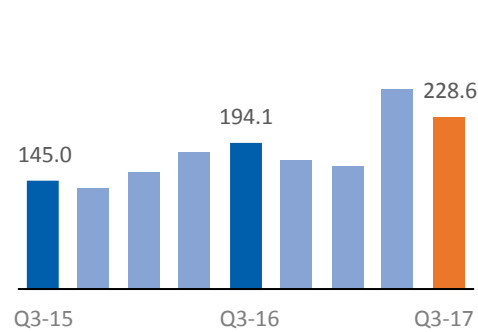
without loans financed with covered bonds



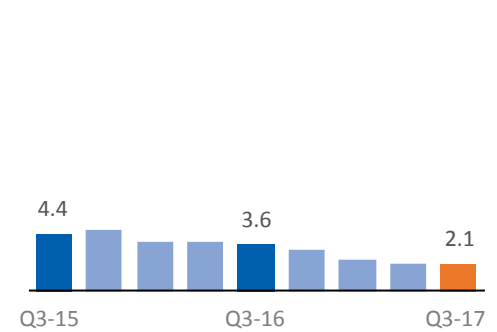
Tier 1 ratio (%)



Liquidity coverage ratio (LCR) (%)



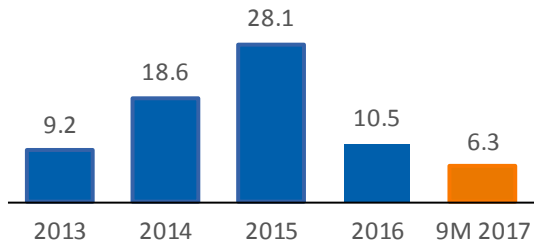
Gross impaired loans/Gross loans (%)



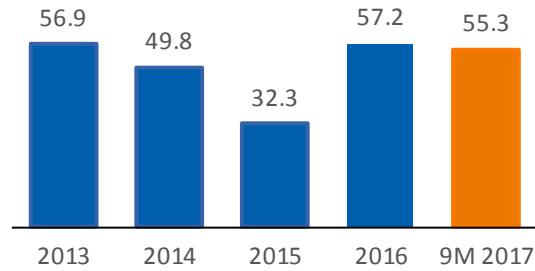
* Problem loans (past due but not impaired loans over 90 days + individually impaired loans) as % of loans to customers

Key financial indicators - annual

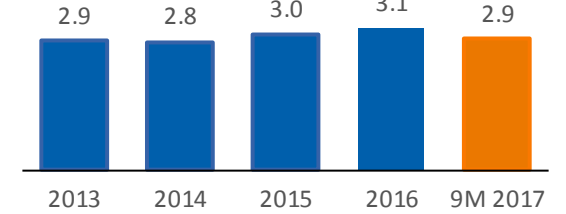
Return on equity (%)



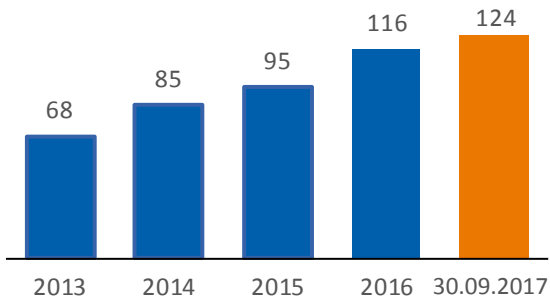
Cost-to-income ratio (%)



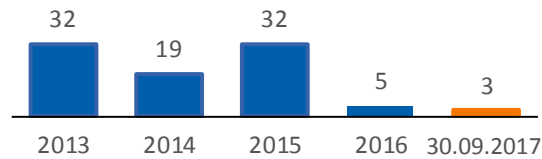
Net interest margin (%)



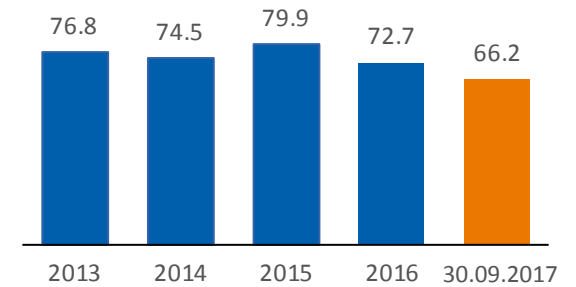
CPI Imbalance – ISK bn.



FX Imbalance – ISK bn.



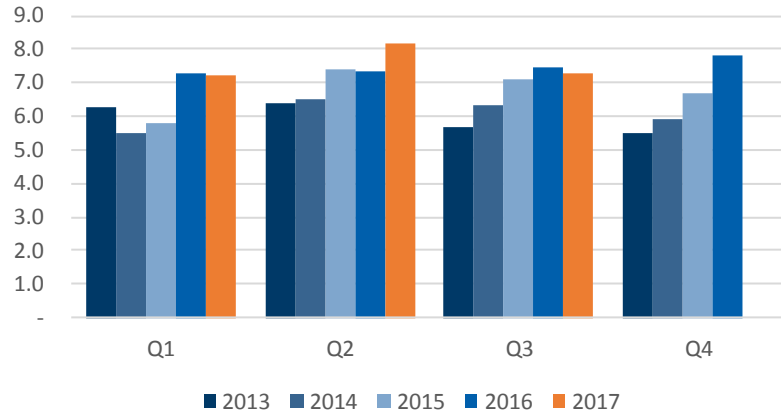
Risk weighted assets/Total assets (%)



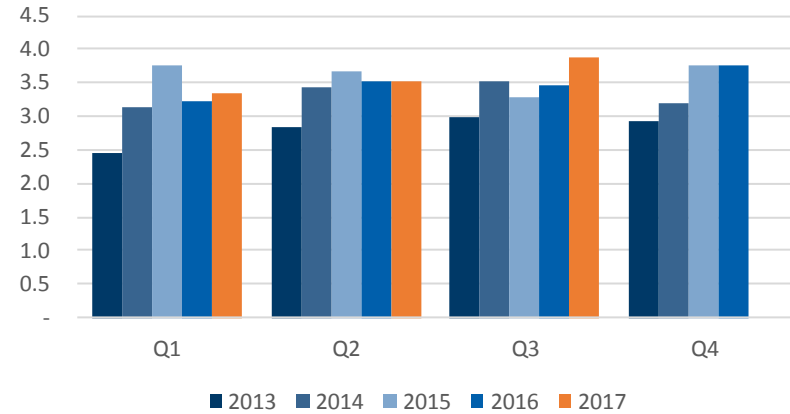
Development of key figures

All amounts in ISK billion

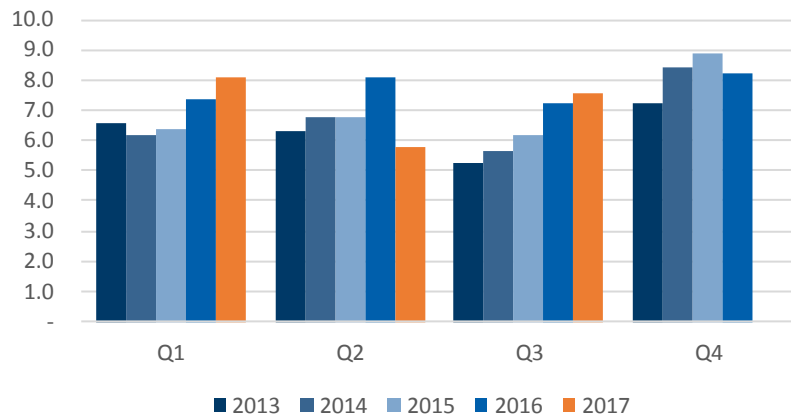
Net interest income



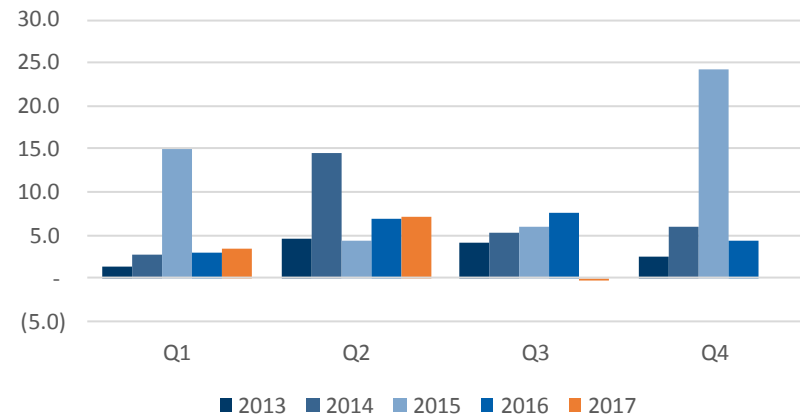
Net commission income



Total operating expenses



Net earnings



Key figures

All amounts in ISK million

	9M 2017	9M 2016	9M 2015	9M 2014	9M 2013	Q3 2017	Q2 2017	Q1 2017	Q4 2016	Q3 2016
Operations										
Net interest income	22,570	22,057	20,287	18,309	18,313	7,250	8,160	7,160	7,842	7,431
Net commission income	10,703	10,213	10,727	10,119	8,284	3,865	3,508	3,330	3,764	3,467
Operating income	38,684	39,648	50,112	37,996	31,349	11,352	14,819	12,513	13,790	12,465
Operating expenses	21,380	22,331	19,073	18,368	17,946	7,540	5,784	8,056	8,209	7,175
Net earnings	10,353	17,262	25,394	22,634	10,130	(112)	7,113	3,352	4,477	7,503
Return on equity	6.3%	11.2%	19.8%	19.9%	10.0%	-0.2%	13.0%	6.3%	8.6%	14.4%
Net interest margin	2.9%	3.1%	3.0%	2.9%	2.9%	2.7%	3.1%	2.8%	3.2%	3.1%
Return on assets	1.2%	2.2%	3.5%	3.2%	1.5%	0.0%	2.6%	1.2%	1.7%	2.9%
Cost-to-income ratio	55.3%	56.3%	38.1%	48.3%	57.2%	66.4%	39.0%	64.4%	59.5%	57.6%
Cost-to-total assets	2.6%	2.9%	2.6%	2.6%	2.6%	-0.1%	0.0%	0.0%	0.0%	0.0%
Balance Sheet										
Total assets	1,144,852	1,038,479	1,009,475	942,172	936,944	1,144,853	1,126,411	1,119,648	1,036,024	1,038,479
Loans to customers	750,947	715,907	678,807	652,598	576,204	750,947	733,649	720,198	712,422	715,907
Mortgages	318,403	294,954	285,357	266,062	190,008	318,403	309,339	302,679	298,971	294,954
Problem loans	1.4%	2.0%	3.2%	4.6%	8.2%	1.4%	1.3%	1.5%	1.6%	2.0%
RWA/ Total assets	68.4%	73.2%	73.3%	77.4%	73.7%	68.4%	67.0%	66.4%	72.7%	73.2%
Tier 1 ratio	26.6%	25.5%	22.2%	21.1%	19.5%	26.6%	27.8%	27.3%	26.5%	25.5%
Leverage ratio	16.7%	17.4%	-	-	-	16.7%	17.4%	17.0%	18.0%	17.4%
Liquidity coverage ratio	228.6%	194.1%	145.0%	137.1%	-	228.6%	266.2%	163.5%	171.3%	194.1%
Loans to deposits ratio	168.4%	165.7%	134.9%	135.2%	122.1%	168.4%	167.7%	151.4%	172.9%	165.7%

Adjusted income

All amounts in ISK million

Adjustments on impairment has most affect

	9M 2017	Adjustment	Adjusted	
Net interest income	22,570	10	22,580	1)
Net commission income	10,703	0	10,703	
Net financial income	2,471	0	2,471	
Net insurance income	1,769	0	1,769	
Share of profit of associates and net imp.	(917)	0	(917)	
Other operating income	2,088	0	2,088	
Operating income	38,684	10	38,694	
Salaries and related expense	(12,624)	0	(12,624)	
Other operating expenses	(8,756)	(1,707)	(10,463)	2)
Bank levy	(2,388)	0	(2,388)	
Net impairment	(1,262)	(1,921)	(3,183)	3)
Earnings before tax	13,654	(3,618)	10,036	
Income tax	(3,917)	939	(2,978)	4)
Net gain from assets held for sale, net of tax	616	0	616	
Net earnings	10,353	(2,679)	7,674	
Key financial indicators:				
Return on equity	6.3%		4.8%	
Cost to income ratio	55.3%		59.7%	
NIM - interest bearing assets	2.9%		3.0%	

- 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 547 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

Segment information



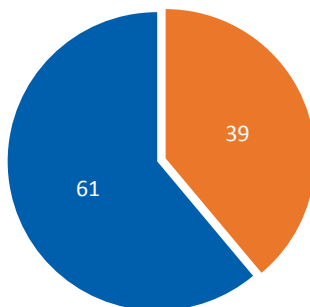
Retail Banking

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:

	9M 2017	9M 2016	Diff.
Net interest income	11,818	11,444	3%
Net fee and commission income	3,406	2,528	35%
Other operating income	14	16	(13%)
Operating income	15,257	14,075	8%
Operating expense	(3,319)	(4,577)	(27%)
Net impairment	1,206	5,250	-
Earnings before tax	13,144	14,748	(11%)

	30.09.2017	31.12.2016	Diff.
Loans to customers	477,494	460,420	4%
Deposits from customers	307,552	295,628	4%
Allocated equity	65,640	70,861	(7%)

- Slight increase in net interest income despite strong competition
- Strong growth in net fee and commission income
- Interest income approx. 80% of segment operating income
- Operating expense affected by revised contribution to Depositors' and Investors' Guarantee Fund of ISK 1,733 million

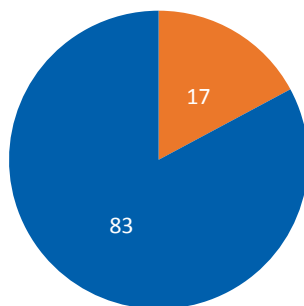
Corporate Banking

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:

	9M 2017	9M 2016	Diff.
Net interest income	4,777	4,915	(3%)
Net fee and commission income	771	739	4%
Other operating income	1,091	69	1,481%
Operating income	6,639	5,723	16%
Operating expense	(239)	(451)	(47%)
Net impairment	(2,436)	60	-
Earnings before tax	3,964	5,332	(26%)

	30.09.2017	31.12.2016	Diff.
Loans to customers	247,306	242,634	2%
Deposits from customers	23,287	12,223	91%
Allocated equity	56,533	56,441	0%

- Slight 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

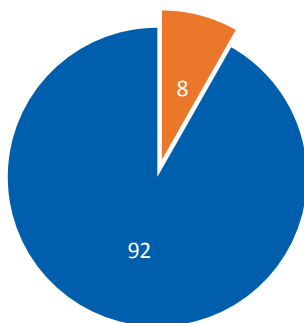
Asset Management

All amounts in ISK million

Largest asset management operation in Iceland

- Comprises Institutional Asset Management, Private Banking, Investment Services and Pension Fund Administration. The subsidiary Stefmir hf., which is an independently operated fund management company is included in figures for asset management
- Main distributor of funds managed by Stefmir
- Distributor of international funds
- Administration of pension funds

Share of operating income (%)



Income statement and key figures:

	9M 2017	9M 2016	Diff.
Net interest income	399	415	(4%)
Net fee and commission income	2,643	2,864	(8%)
Other operating income	17	12	42%
Operating income	3,180	3,205	(1%)
Operating expense	(753)	(1,039)	(28%)
Earnings before tax	2,427	2,165	12%

	30.09.2017	31.12.2016	Diff.
Allocated equity	4,693	6,109	(23%)
Assets under management	1,029,267	1,065,321	(3%)

- Net fee and commission approx. 90% of segment operating income
- Changes in the market environment are negatively affecting net fee and commission income
- Operating expense affected by revised contribution to Depositors' and Investors' Guarantee Fund of ISK 360 million

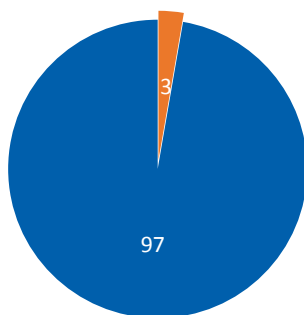
Investment Banking

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:

	9M 2017	9M 2016	Diff.
Net interest income	182	1,031	(82%)
Net fee and commission income	928	1,072	(13%)
Net financial income	(59)	(103)	(43%)
Share of profit of associates	0	613	(100%)
Other operating income	0	321	(100%)
Operating income	1,051	2,934	(64%)
Operating expense	(558)	(747)	(25%)
Net impairment	(18)	1,601	(101%)
Earnings before tax	475	3,788	(87%)

	30.09.2017	31.12.2016	Diff.
Total assets	16,344	18,723	(13%)
Allocated equity	1,300	3,900	(67%)

- Net fee and commission income main source of operating income
- Decrease in operating income from 9M 2016 mainly due to decrease in interest bearing assets and transfer of assets to CEO's office at the beginning of Q2 2016

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