Arion Bank

Financial Statements 31 March 2018

Investor presentation

2 May 2018

Q1 2018

Highlights

Mortgages and corporate loans continue to grow at a healthy pace with good asset quality

Large liquidity buffer and repricing of loans put pressure on Net Interest Income but Commission and Financial Income develop well

Valitor continues its growth strategy with good top line revenue growth but at increased costs

Release of surplus capital initiated in March with a share buy back and dividend payment

The Bank's capital base continues to be strong with continued dividend capacity going forward

Arion Bank

Changes in Arion Bank’s ownership structure

Arion Bank now 100% privately owned - Icelandic government exits the shareholders group

Icelandic funds invest in Arion Bank

24 funds managed by four Icelandic fund management companies acquired total stake of 2.54%

Arion Bank now 100% privately owned after Icelandic government sold its 13% holding

Trinity Investments (Attestor Capital LLP) and Goldman Sachs increased stake by a further 2.8%

Board authorized to propose dividend

Arion Bank issued 5-year bond in amount of €300 million

2018 AGM authorized the board to submit proposal on dividend or other disbursement of equity up until the next AGM

Arion Bank bought back 9.5% of its own shares

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New digital services launched

Short-term loans introduced which can be applied for online

Convenient banking

1 Every day banking made easier: Regular savings and short-cuts to pay bills, transfer money and pay off credit card bills

2 Enhanced start-up page in Online Banking – clearer overview of balance, transactions, savings and due repayments

3 Short-term loans – new type of loan, max. ISK 2 million, applied for online

4 Bills can be spread out for up to 12 months in Arion app

5 New and convenient way to buy a car – completely digital process

Changes in the branch network announced

96% of the Bank's contact with customers now through digital solutions

Changes to branch network announced

The goal is to better meet customers' needs as 96% of the Bank's contact with customers is through digital solutions such as app, online bank and ATM´s

Branches in Garðabær and Hafnarfjörður partly merging with service centre at Smáratorg, while new branch will open locally

Mosfellsbær branch will merge with Bank's service centre at Bildshöfði in Reykjavík

Branches in **Akureyri, Blönduós, Hella and Vík** will soon all be moving into new premises

Changes at board and regional management

Herdís Dröfn Fjeldsted elected on to the board of directors at the AGM

Ingi Steinar Ellertsson new regional manager for Northern and Eastern Iceland

Kristbjörg Héðinsdóttir new regional manager in the Reykjavík area (April)

Arion Bank recognized for excellence in corporate governance

Detailed reporting on environmental issues and non-financial performance indicators in annual report

Startup Reykjavík held for seventh time

238 applications received for Startup Reykjavík 2018, which will be held for seventh time this summer

Startup Reykjavík held seminar about shareholders’ agreements and stock options in startups

Startup Reykjavík, Young Professional Women in Iceland and Women Tech Iceland organized event Women in Innovation #NoObstacles

Corporate governance and reporting

Arion Bank recognized as company which has achieved excellence in corporate governance

Arion Bank published its annual report and pillar 3 risk disclosures digitally for the 4th year in succession

Detailed reporting on environmental issues and non-financial performance indicators in Bank’s annual report

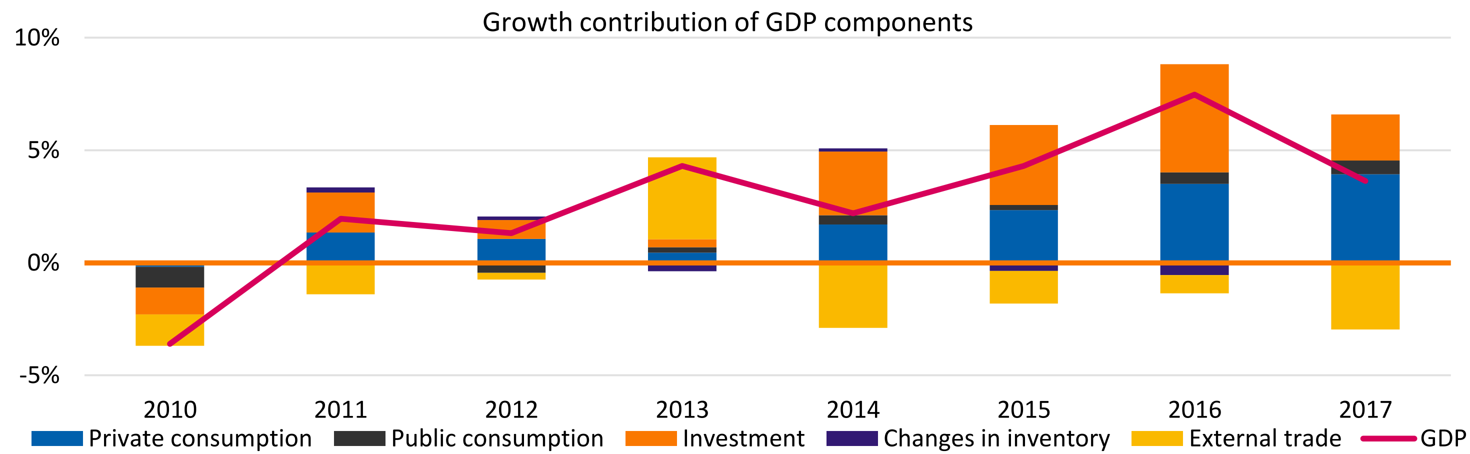
Arion Bank

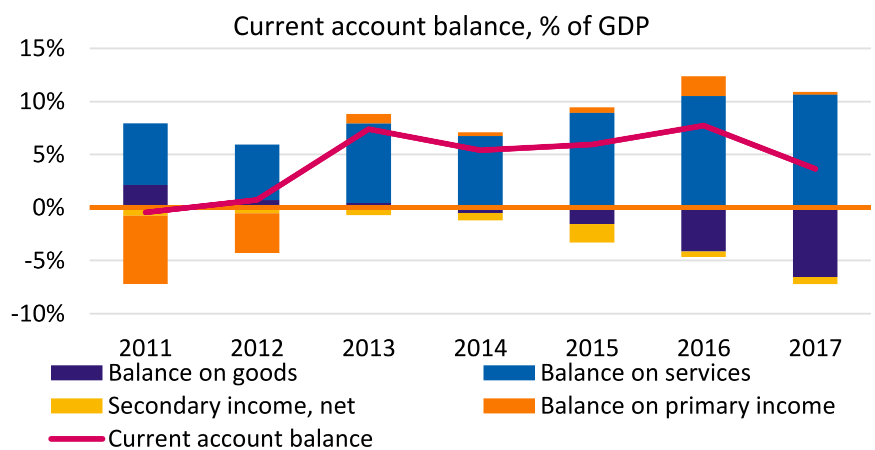
Macroeconomic environment

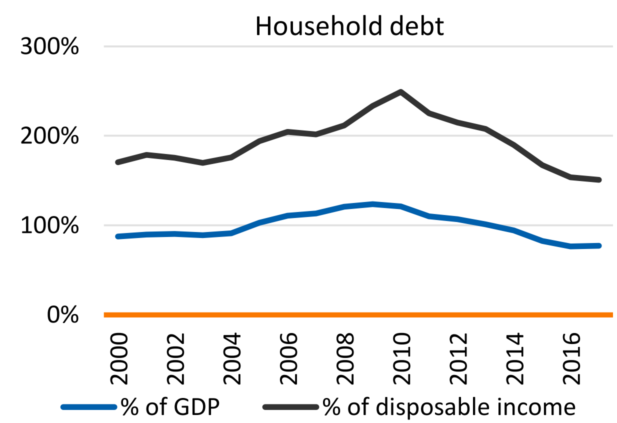
Continued economic growth at 3.6% in 2017

The output gap has narrowed after peaking in late-2016

- Economic growth in 2017 measured 3.6%. Growth was driven by private consumption while investment and service exports also played a role
- Domestic demand remains strong and shows no sign of easing. Rising housing investment and public investment offset slower growth in business investment
- Slower growth in tourism and other export sectors, coupled with growing goods trade deficit has reduced current account surplus





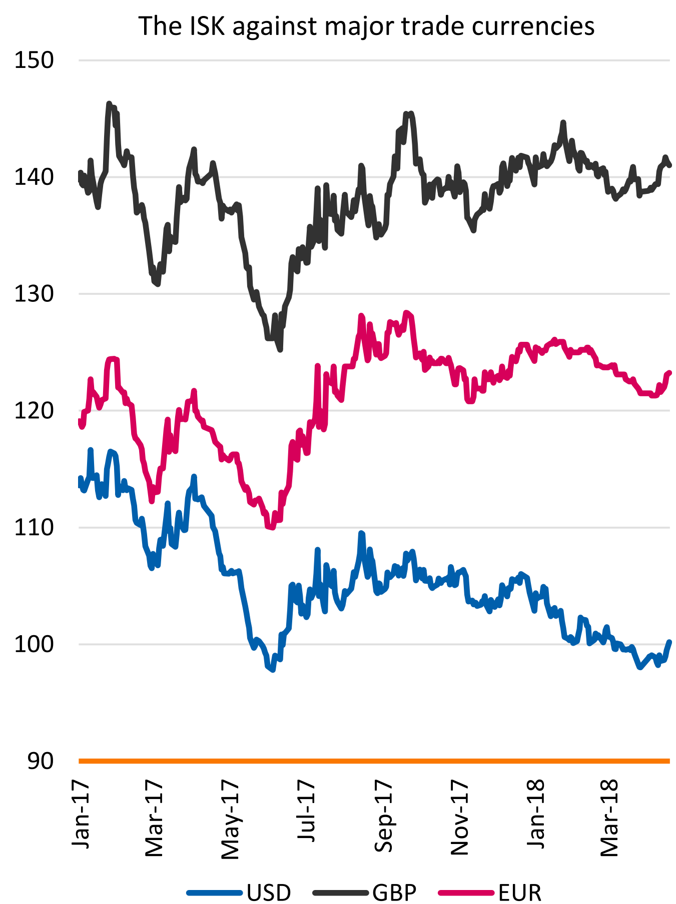


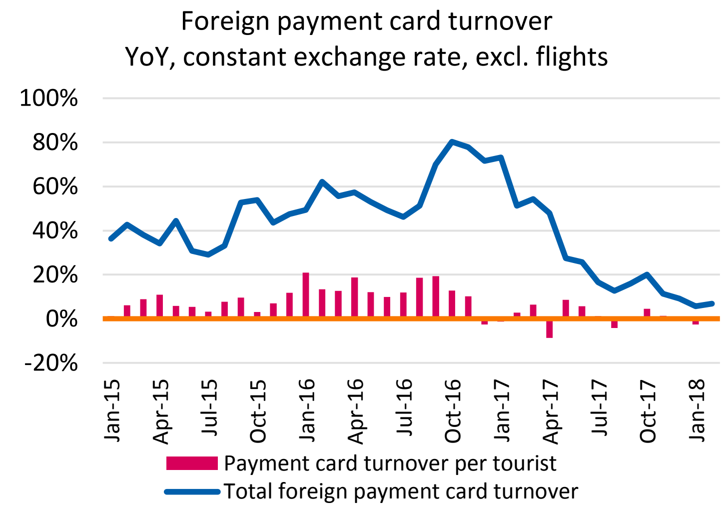
Sources: CBI, Statistics Iceland, Arion Research

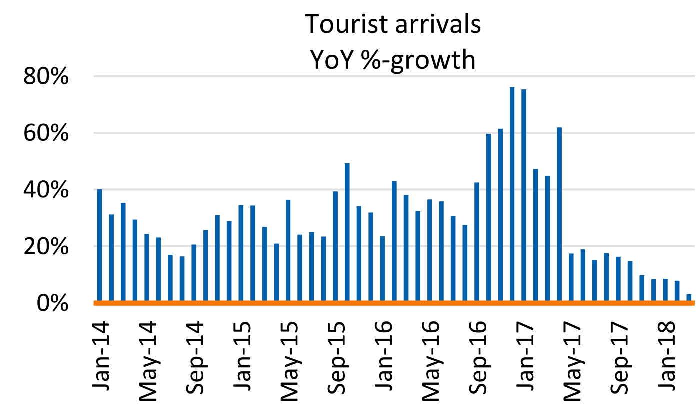
Tourism growth is rapidly slowing down

Forecasted to grow 6% yoy

- The krona has been relatively stable recently and the CBI has frequently mentioned a good balance on the FX market
- The CBI has almost completely stopped its FX market interventions and according to the Bank it will only intervene in order to stop excessive volatility
- There is increasing evidence that suggests that the tourism industry is over the peak of its growth spur. For example, growth in both foreign card turnover and tourist arrivals has decelerated rapidly. However, analysts still expect continued growth over the next years







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

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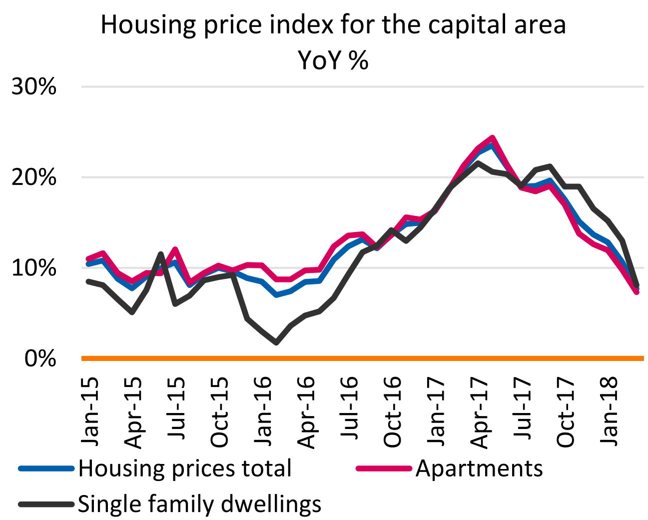
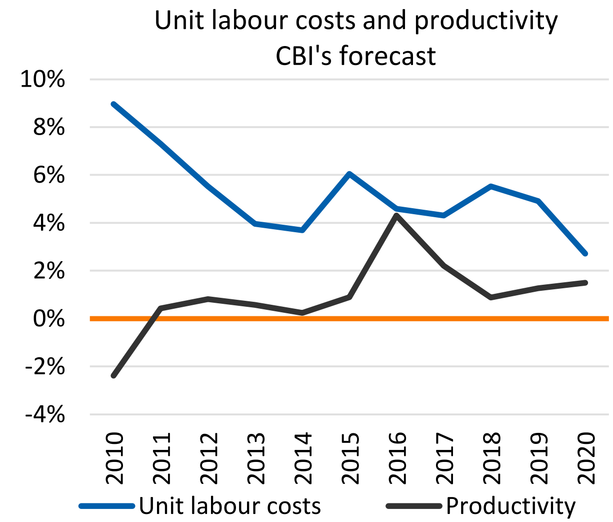
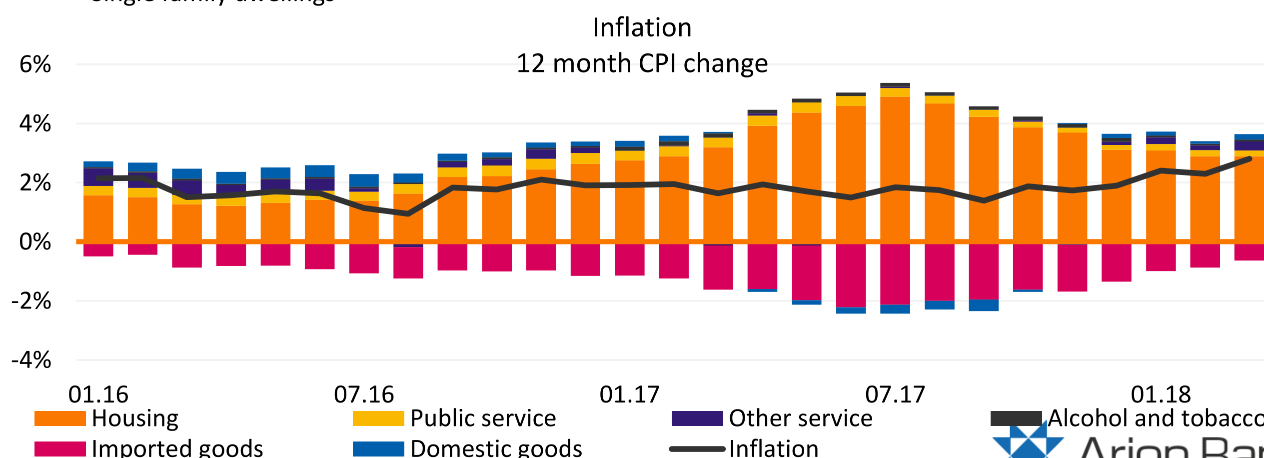
Inflation peaks above the inflation target

Further policy rate cuts look unlikely

- Inflation continues to be driven by rising house prices while being somewhat offset by lower import prices due to the strong krona. However, house price increases have been slowing down recently while the effects of the strong exchange rate are tapering off
- There are indications that house prices in the capital area have peaked, at least for now, and there the outlook for slower price increases outside the capital area in the coming quarters
- Whether or not the collective wage settlement framework holds throughout the forthcoming wage negotiations this year there is increased uncertainty about wage levels going forward. The CBI's forecast assumes that the wage settlement framework will hold







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Sources: Registers Iceland, Statistics Iceland, Arion Research

Q1 2018
Headline Figures

Net earnings
ISK 1.9 bn.
Q1 2017:
ISK 3.4 bn.

CET 1
23.6%
31.12.2017:
23.6%

Cost-to-income ratio
70.8%
Q1 2017:
63.5%

Share of stage 3 loans, gross
3.2%
31.12.2017:
Not available

Return on equity
3.6%
Q1 2017:
6.3%

Leverage ratio
15.4%
31.12.2017:
15.4%

Number of employees
1,299
31.12.2017:
1,284

Mortgages/Total loans
40.9%
31.12.2017:
40.6%

Arion Bank

Income statement

Income statement

All amounts in ISK million

A slightly more challenging quarter

- 4% decrease in net interest income from Q1 2017 mainly due to high liquidity buffer and competitive market environment
- Positive increase in net commission income driven by Valitor
- Net insurance income decreases due to unusually adverse seasonal factors
- Increase in salaries mostly due to increase of FTE's at Valitor which continues to pursue an ambitious growth strategy
- Net impairment normalizing from a high positive number in Q1 2017
- Bank levy has negative effect on effective income tax rate as it is not tax deductible

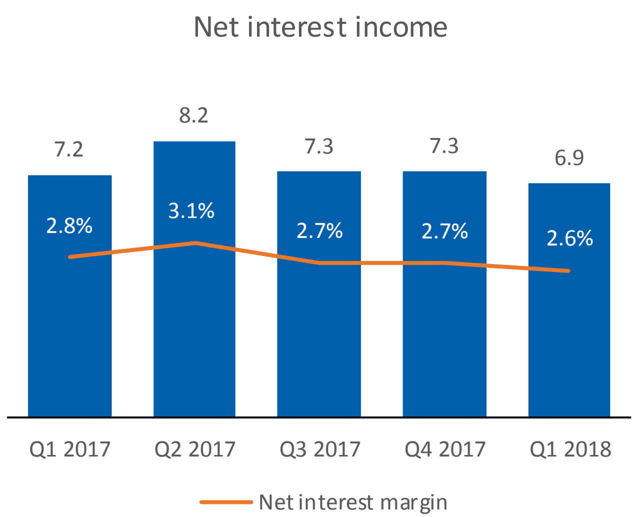
	Q1 2018	Q1 2017	Diff	Diff%
Net interest income	6,908	7,160	(252)	(4%)
Net commission income	3,542	3,331	211	6%
Net financial income	1,340	1,230	110	9%
Net insurance income	143	446	(303)	(68%)
Share of profit of associates	(18)	(35)	17	-
Other operating income	269	564	(295)	(52%)
Operating income	**12,184**	**12,696**	**(512)**	**(4%)**
Salaries and related expense	(4,636)	(4,222)	(414)	10%
Other operating expenses	(3,996)	(3,834)	(162)	4%
Bank levy	(804)	(797)	(7)	1%
Net impairment	(99)	880	(979)	-
Net earnings before taxes	**2,649**	**4,723**	**(2,074)**	**(44%)**
Income tax expense	(818)	(1,371)	553	(40%)
Discontinued operations, net of tax	118	-	118	-
Net earnings	**1,949**	**3,352**	**(1,403)**	**(42%)**

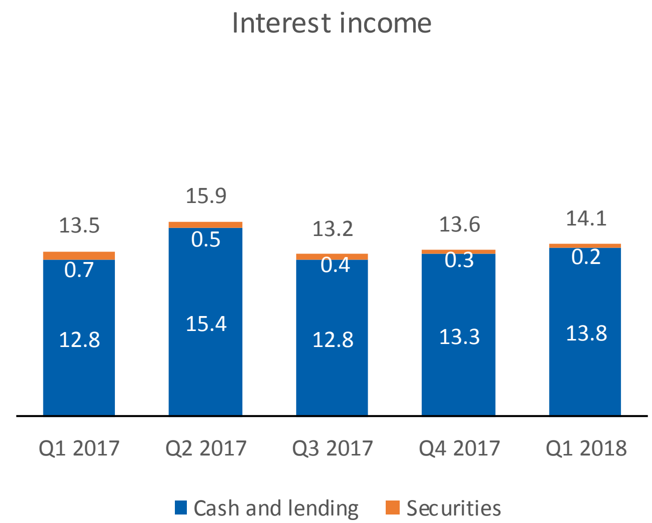
Net interest income

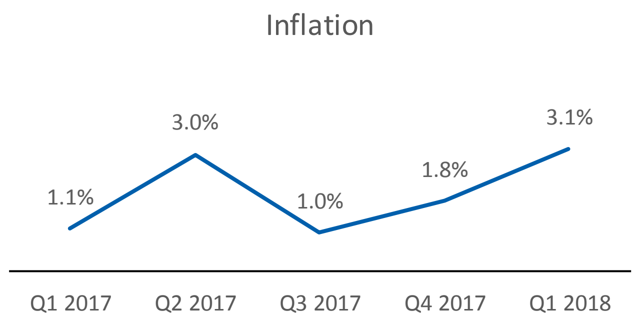
All amounts in ISK billion

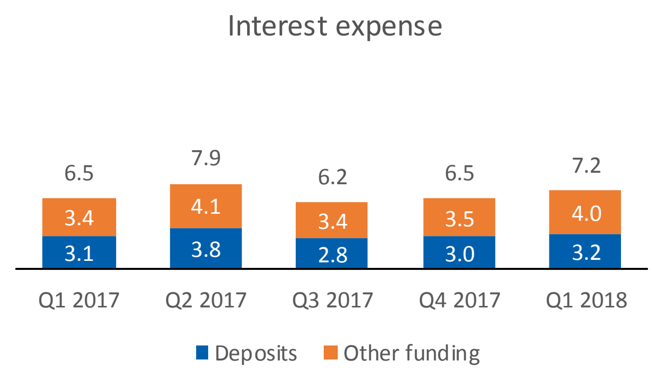
Increased liquidity position and a competitive lending market negatively affect Net interest margin

- Net Interest Income slightly down from Q1 last year despite loan book growth
- Net Interest Margin decreases slightly from Q1 last year mainly due to:
  - High level of liquidity in foreign currency with a negative carry mainly relating to benchmark bond maturities
  - Increased proportion of mortgages in the loan portfolio
  - Competitive lending market
  - Partial repricing of current loan books as both mortgages and corporate loans to an extent reprice faster than the Bank's wholesale funding









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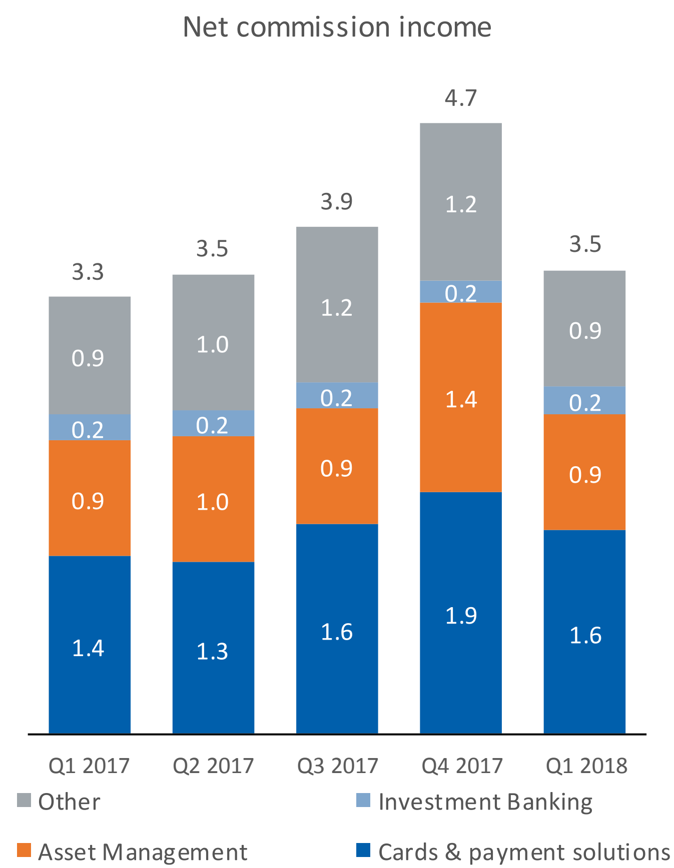
Net commission income

All amounts in ISK billion

Positive development in net commission income compared to Q1 2017

- Net commission income increases compared to Q1 2017 driven by card and payment solutions
  - Compares unfavourably to Q4 2017 as expected due to seasonality
- Net commission income from cards and payment solutions increases from Q1 2017 mostly due to increased foreign operations in Valitor
  - Acquisition of Chip & Pin and IPS in 2017 is positively affecting income from cards
  - Strong Icelandic krona affects income from Valitor's foreign operations
- Other commission income in Retail Banking have a seasonal effect linked to tourist volumes
- Asset Management occupies a strong position in the Icelandic market but income is somewhat seasonal
- Capital Markets is performing well and the Bank is no. 1 in equities and no 3 in bond trading in the domestic market whilst activity remains at a lower level externally in Corporate Finance

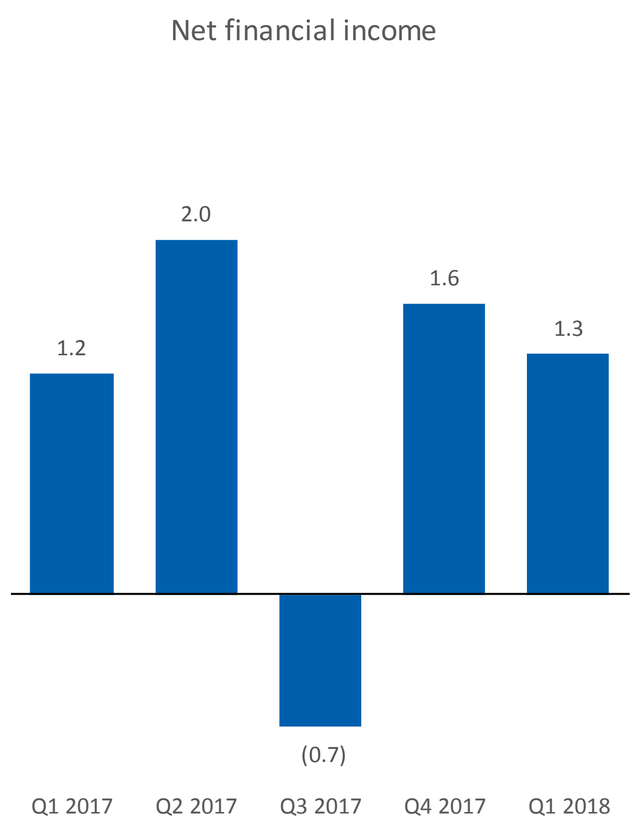


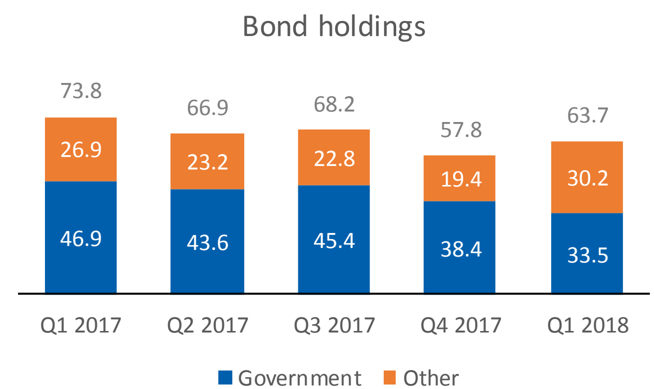
Net financial income

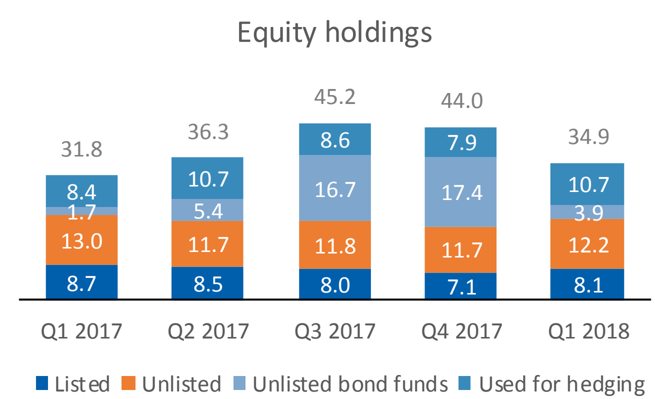
All amounts in ISK billion

Normalizing after a period of volatility in recent years

- Net financial income is mostly due to fair value changes in equity holdings
- Holdings in unlisted bond funds relating to the Bank's management of FX liquidity, was reduced but is now reflected in bond holdings







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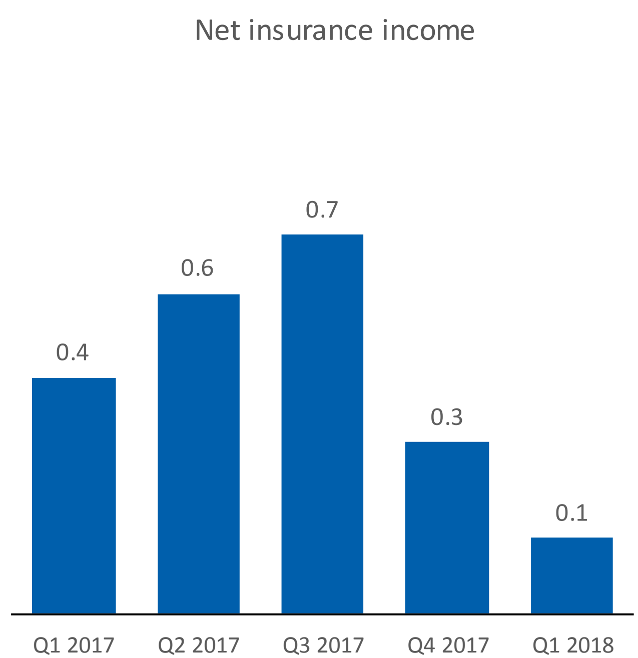
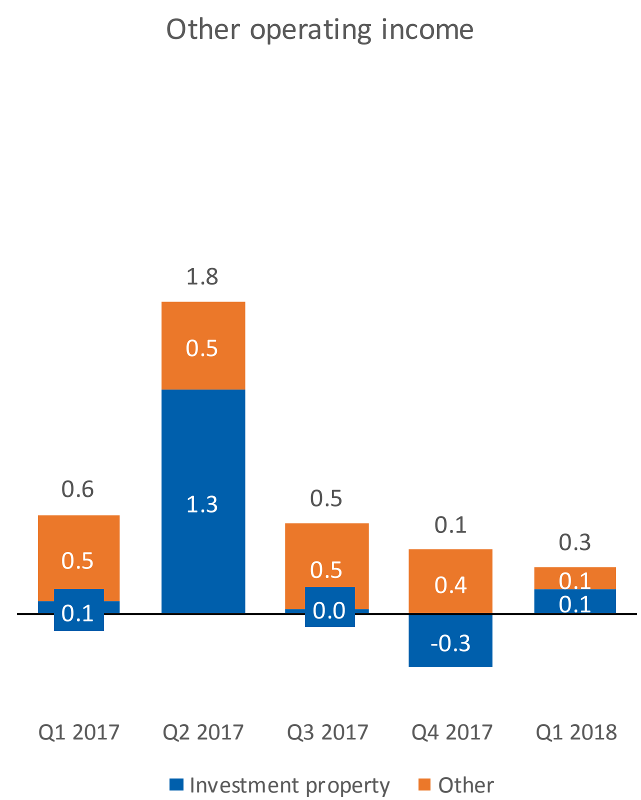
Net insurance income and other operating income

All amounts in ISK billion

Insurance income negatively affected by difficult winter conditions

- Sharp decrease in net insurance income in Q1 attributable to high levels in car insurance claims, the highest in ten years
- The average claim has increased relating to a newer car fleet and increasing wage levels
- All other insurance products at Vördur are performing well
- Income from investment property under other operating income in Q1 is almost entirely due to valuation changes





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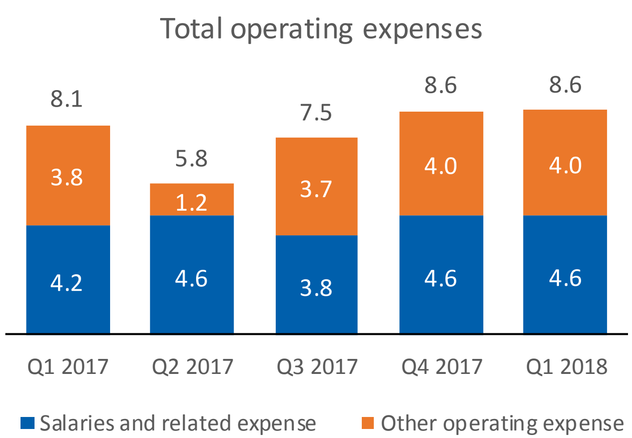
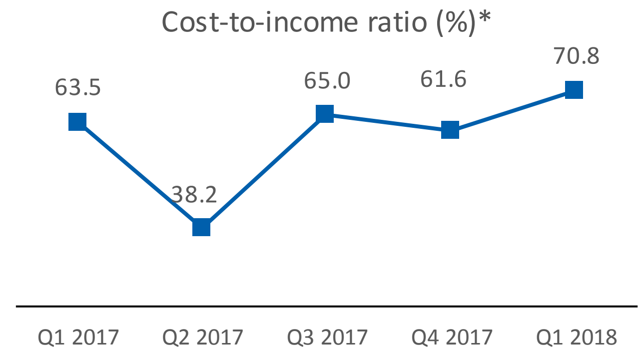
Total operating expenses

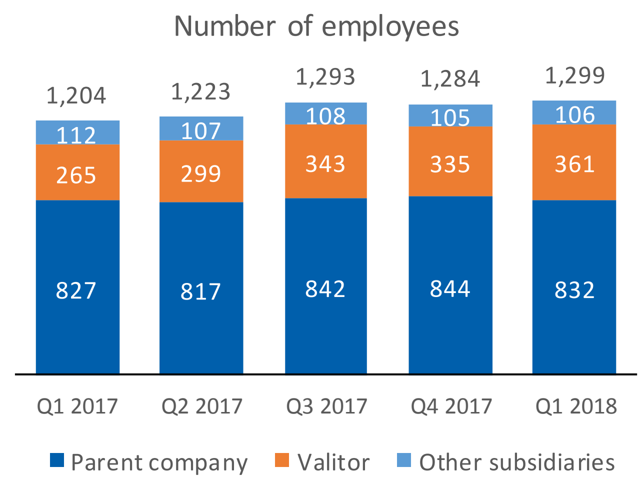
All amounts in ISK billion

Efficiency measures continue with the announcement of closures of 3 of 24 branches later in the year

- The cost-to-income ratio significantly affected by Valitor's growth strategy
- FTE's at group level increased by 8% from Q1 last year due to expanding operations at Valtior
    - FTE's at Valitor increased by 36% from Q1 2017 whilst other parts of the Group remained stable
    - Cost-to-income ratio excluding Valitor from the Group would have been 63.0% in Q1 (59.6% Q1 2017)
- Salaries are below the wage level index taking into account the increase in FTE's
- Other operating expenses relatively stable from Q1 last year







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

Balance sheet

Balance sheet - Assets

All amounts in ISK billion

A stable balance sheet after capital release

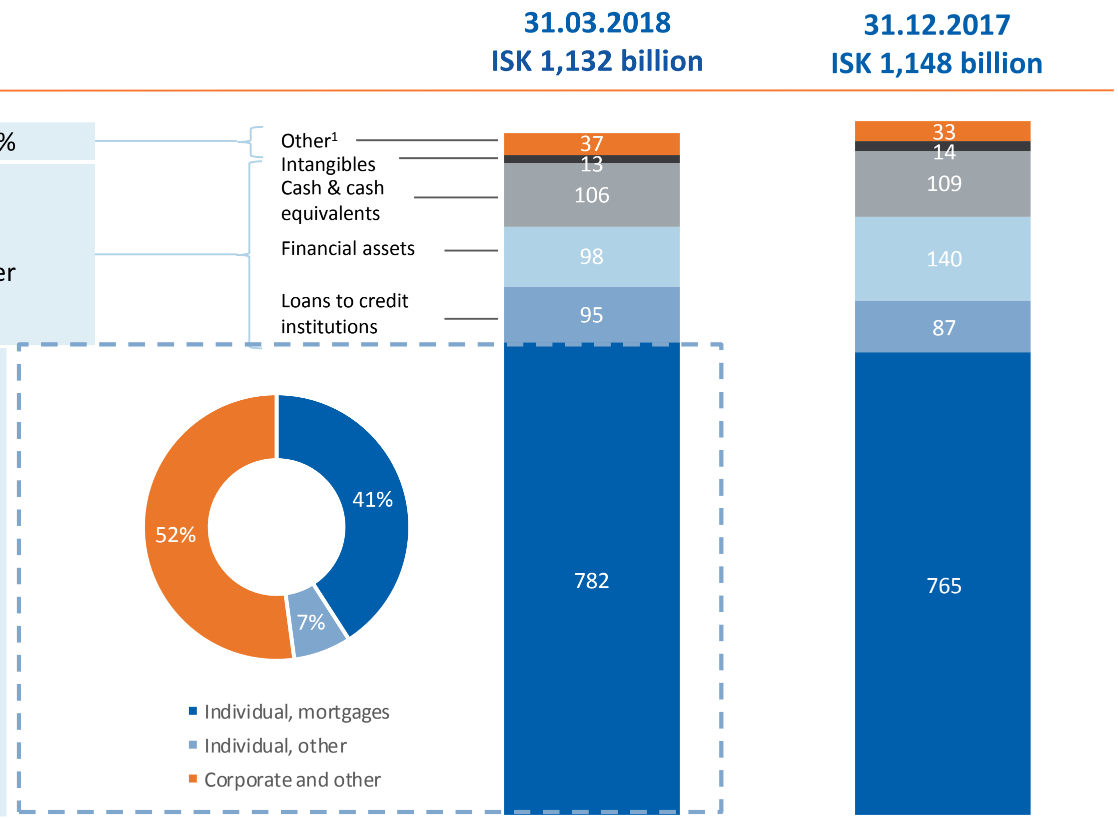
- The loan portfolio grew at a healthy pace during the first quarter
- The loan portfolio continues to be well balanced
- Strong liquidity position despite substantial capital release

Other and intangibles: 4%

ISK 299 billion, of which **ISK 205 billion liquidity reserve** (45% of customer deposits)

Loans to customers
69% of total assets

2.2% increase from YE 2017



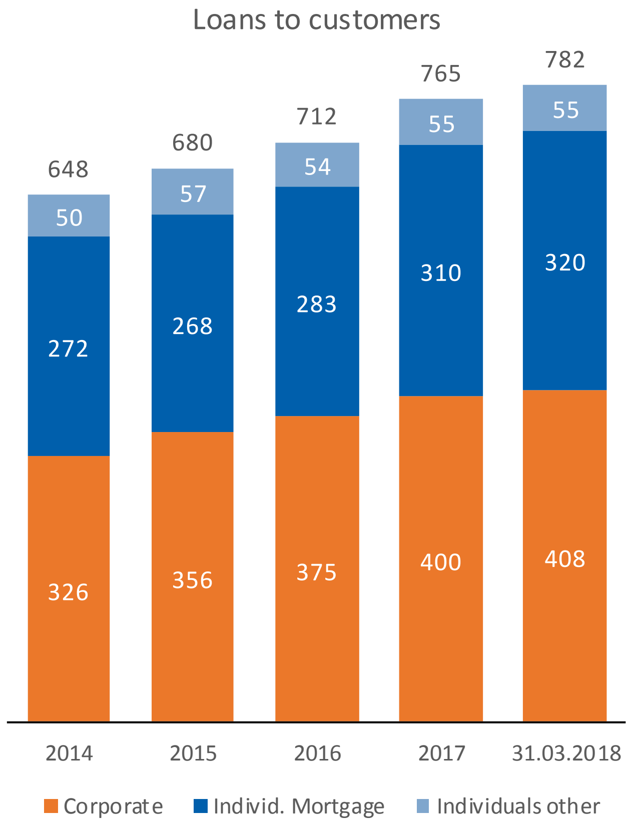
[1]Other assets include investment property, investment in associates, tax assets and other assets

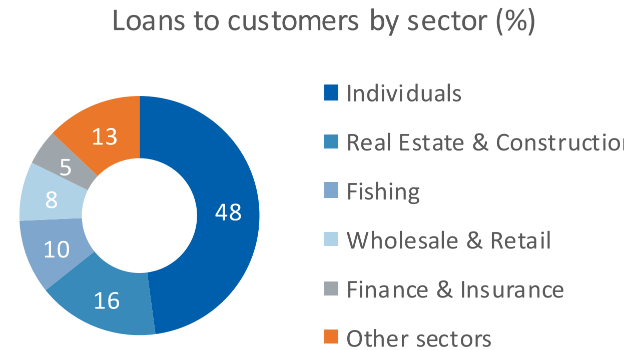
Loans to customers

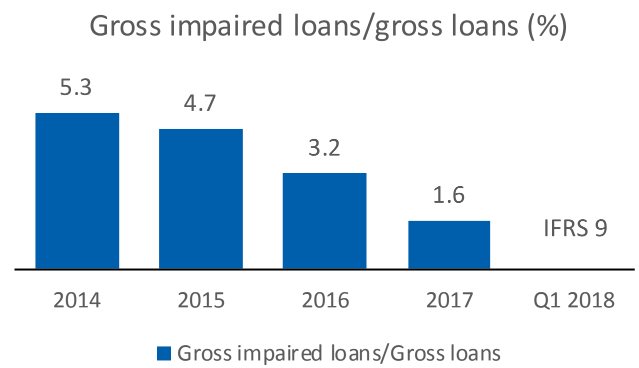
All amounts in ISK billion

Well balanced loan portfolio between corporates and individuals

- Loans to customers increased by 2.2 % in Q1
  - The mortgage portfolio grew by 3.1%, driven by new digital solutions and a strong housing market despite strong competition
  - The corporate loan portfolio grew by 2.0%, mainly in wholesale and retail trade and financial and insurance activities
- Good diversification in the corporate loan book
- Outlook for new lending is positive
- Credit quality indicators change due to IFRS 9 implementation (see next slide)







Arion Bank

Loans to customers

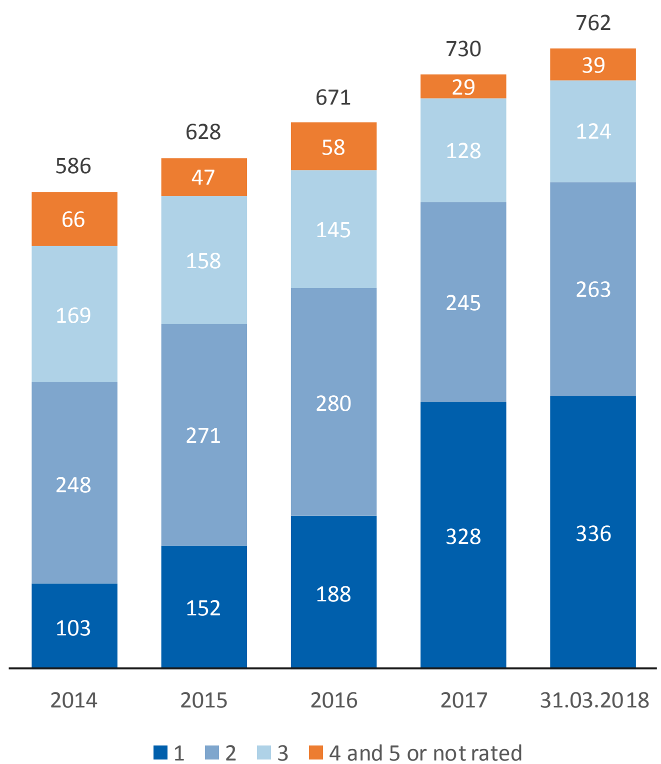
All amounts in ISK billion

IFRS 9 fully implemented resulting in different methodology on credit quality

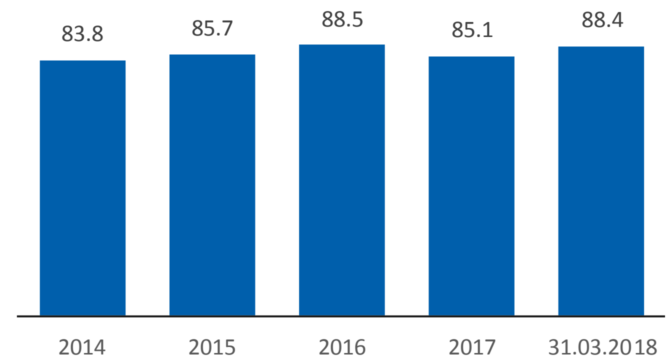
- Quality of the loan book continues to improve
- Internal credit rating has improved significantly in recent years:
  - 76% of gross loans to customers in either risk class 1 or 2 at 31.03.2018 (74% at YE 2017)
- Collateral held against loans stable at a healthy level

Risk classification

(risk classification only applies to loans that are neither past due nor impaired until YE 2017. Figures for 31.03.2018 include only loans classified as stage 1 and stage 2)



Collateral held against loans (%)



IFRS 9 credit quality

Share of stage 3 loans, gross	3.2%
Share of stage 3 loans, net	1.9%
Share of stage 3 loans mortgages, gross	1.9%
Share of stage 3 loans mortgages, net	1.7%
Credit impairment provision ratio Stage 1 loans	0.2%
Credit impairment provision ratio Stage 2 loans	1.6%
Credit impairment provision ratio Stage 3 loans	40.2%
Total credit impairment provision ratio	1.6%

Arion Bank

Balance sheet – Liabilities and Equity

All amounts in ISK billion

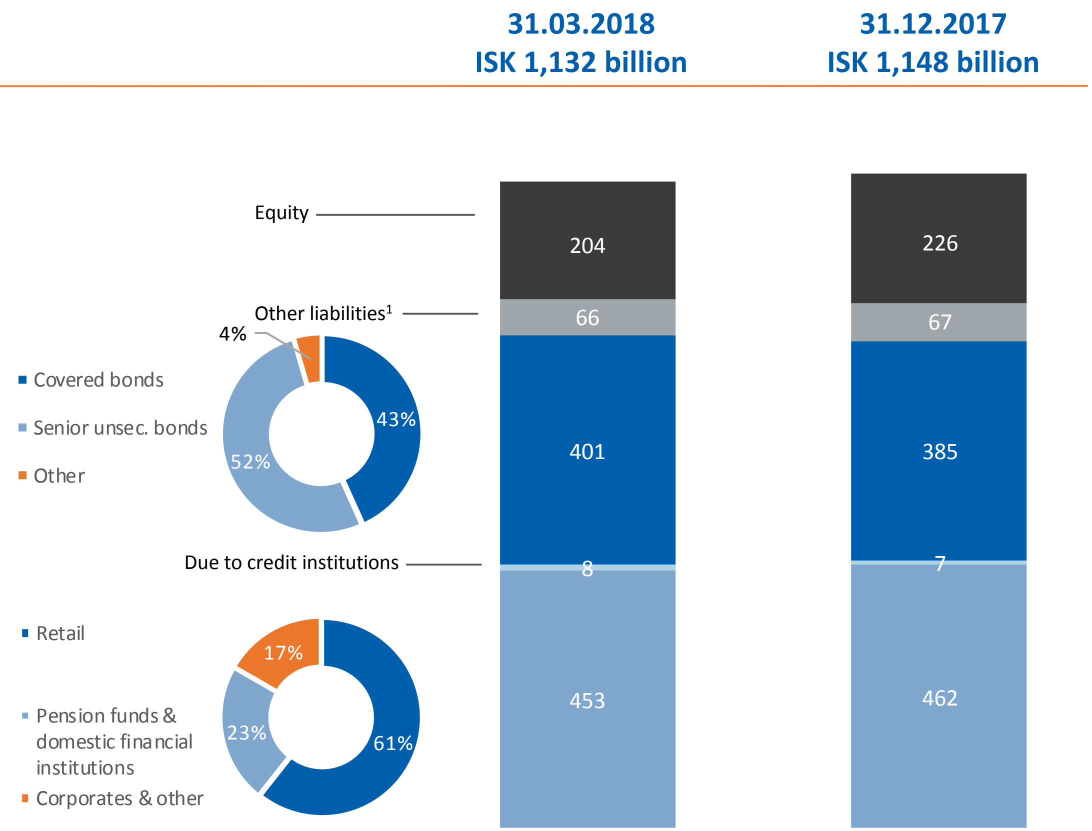
Strong equity position and well balanced funding

- Stable deposits from year end
- Successful wholesale funding activities both in Iceland and in the international markets
- Strong equity position and a very high leverage ratio despite capital release

Equity
CET1 ratio 23.6%
Leverage ratio 15.4%

Borrowings (in ISK)
ISK 191 billion
EUR 170 billion
Other currencies 39 billion

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



[1] Other liabilities include financial liabilities at fair value, tax liabilities and other liabilities

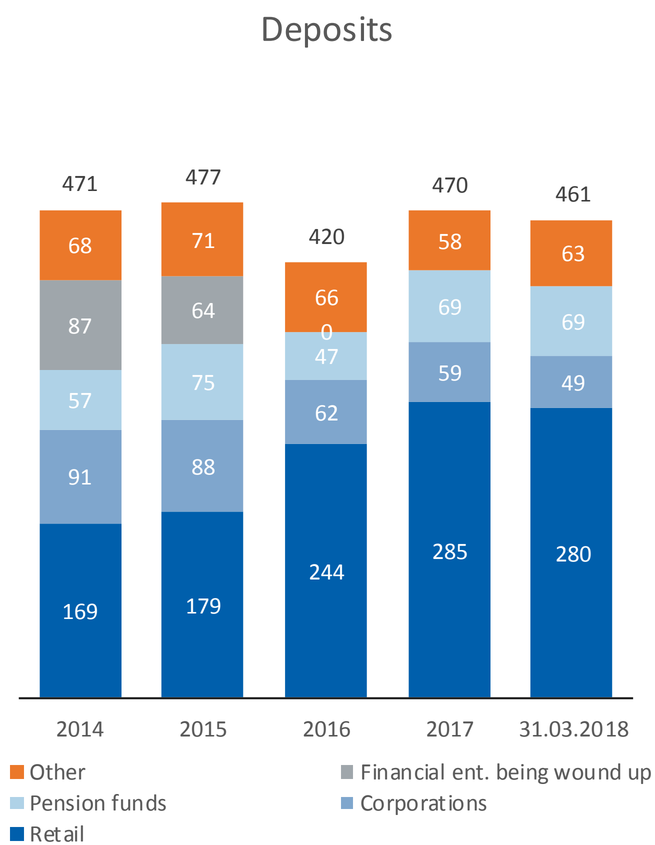
Arion Bank

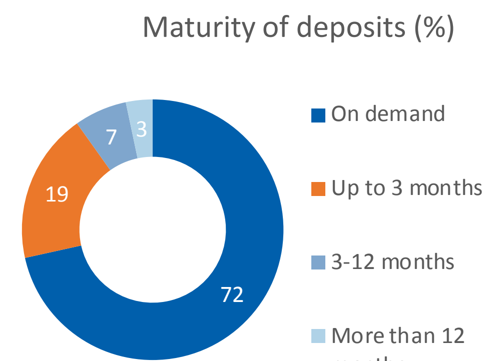
Deposits

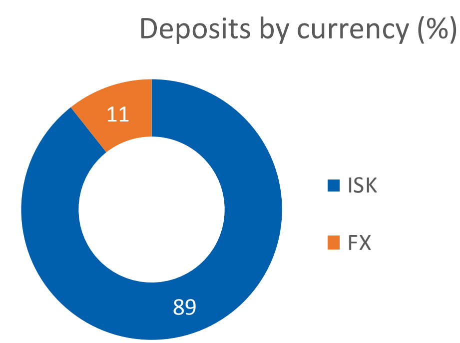
All amounts in ISK billion

Deposit base is stable from year end

- Deposits represent 41% 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





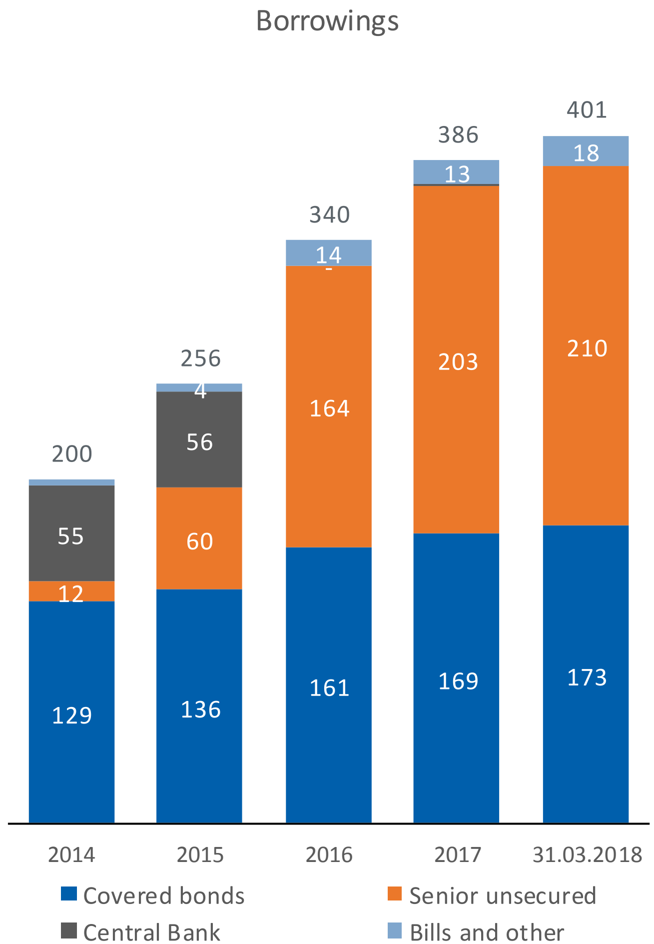


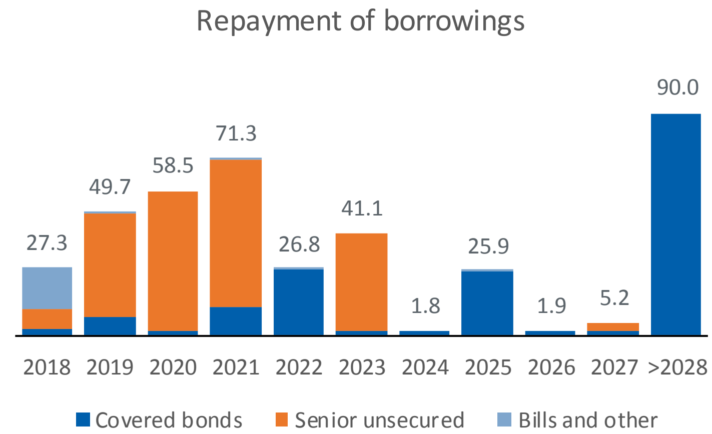
Borrowings

All amounts in ISK billion

Maturity schedule of wholesale funding is evenly spread out

- In March the Bank issued new 5 year, EUR 300 million senior unsecured bond or approx. ISK 37 billion at interest cost equal to 0.65% over interbank rates. The bond issue was oversubscribed, orders were received from over 40 investors with total demand around EUR 375 million.
- The Bank issued covered bonds to finance mortgages in the Icelandic market, total of ISK 6.7 billion during Q1 2018
- Bills issued amounted to ISK 10.7 billion during the period





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 decreasing

Euro Senior Unsecured Bonds – Spread (bps) over mid-swaps

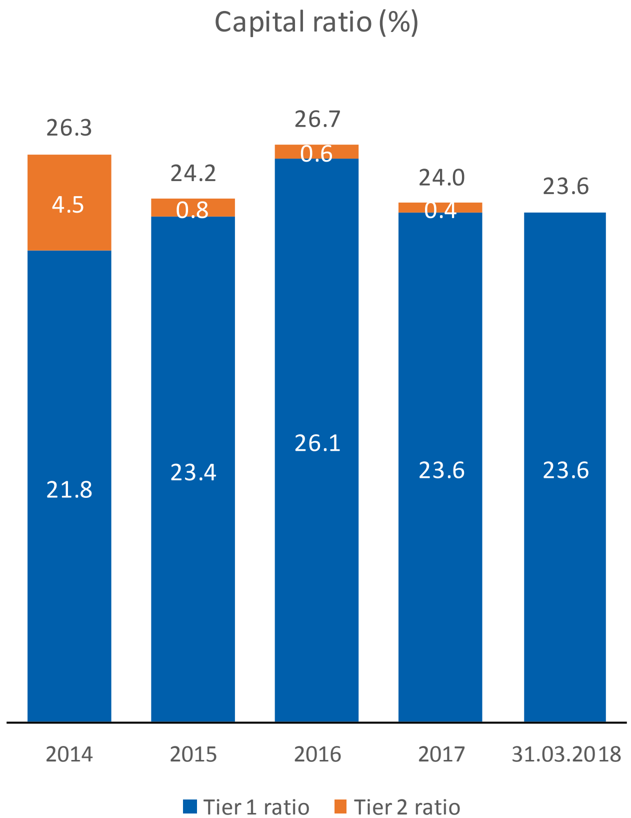
Source: Bloomberg

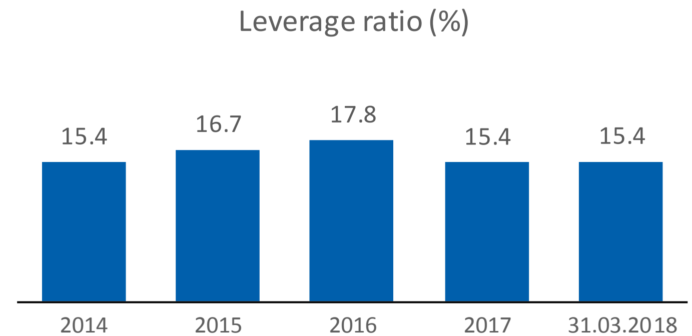
Capital base

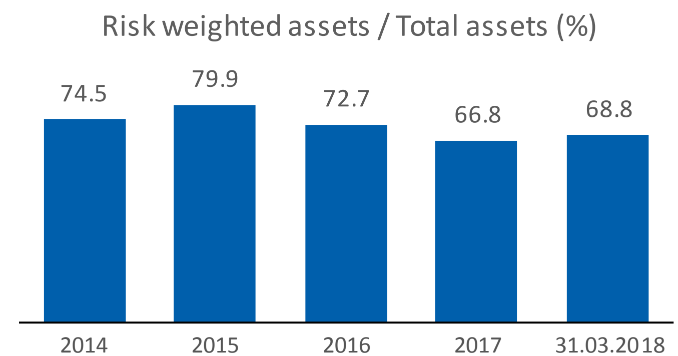
All amounts in ISK billion

Release of surplus capital initiated in Q1 with a share buy back and dividend payment

- Reduction in capital base due to share buy back and dividend payment in Q1
- Solid level of capital due to strong profit generation over recent years and limited dividend payments
- Risk-weighted assets of 68.8% are calculated on the basis of the standardized approach resulting in a leverage ratio of 15.4%

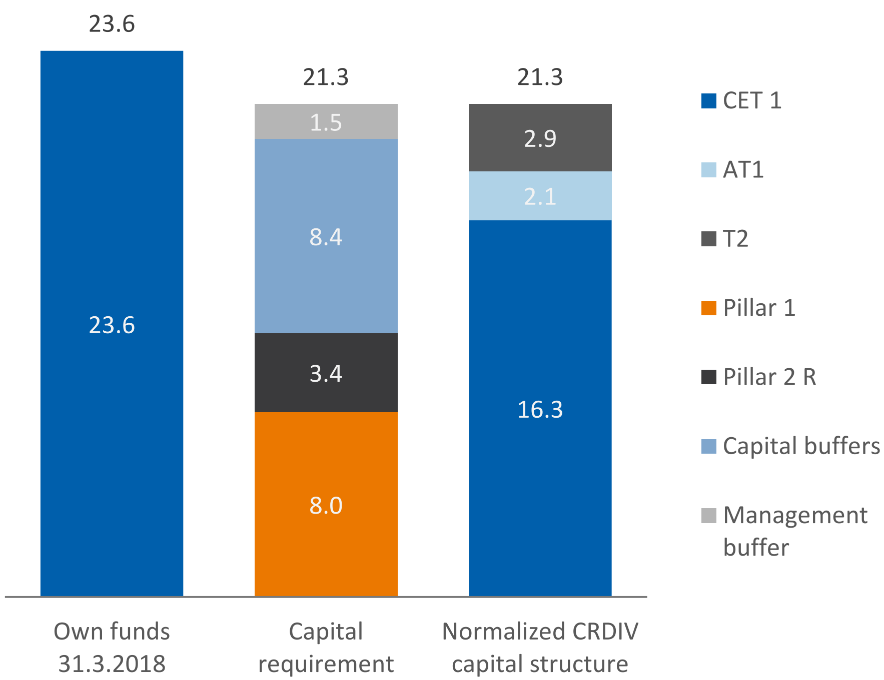






Capital adequacy

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 hf. should be viewed separately.
- Based on the SREP result determined by the Financial Supervisory Authority (FME) 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 18 billion on 31 March 2018.
- The decrease in total capital ratio, compared to YE 2017, is primarily due to the exclusion of general provisions as Tier 2 capital, as all provisions are considered specific under IFRS 9. Market risk also contributes to the decrease through increased trading book positions and a higher currency imbalance.
- In April 2018, the Financial Stability Council proposed a 0.5% increase to the countercyclical capital buffer, which would take effect on 1 May 2019 if confirmed by FME.

Arion Bank

IFRS 9 implemented on 1 January 2018

All amounts in ISK million

Total adjustments due to IFRS 9 implementation on the Shareholders' equity

Classification

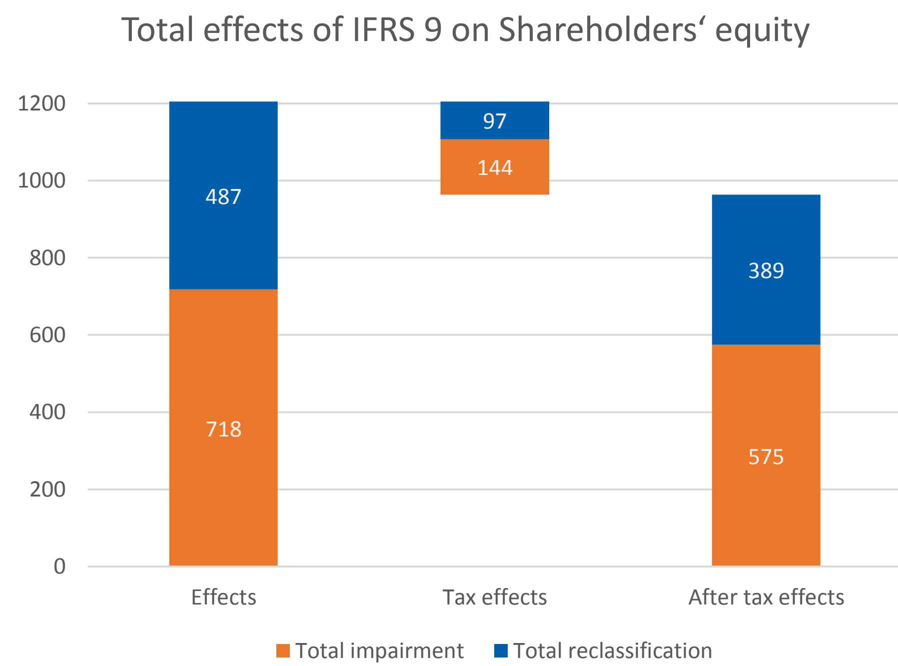
- Following the implementation of the new classification requirements of IFRS 9 and review of the business model assessment and payment of principal and interest criteria, some assets were reclassified from amortized cost to fair value through profit and loss. The total impact of the new classification requirements results in an increase in equity reserves in the amount of ISK 389 million 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 impact of implementing the new impairment requirements is an increase in equity reserves, and lowering in the impairment reserve of ISK 553 million 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

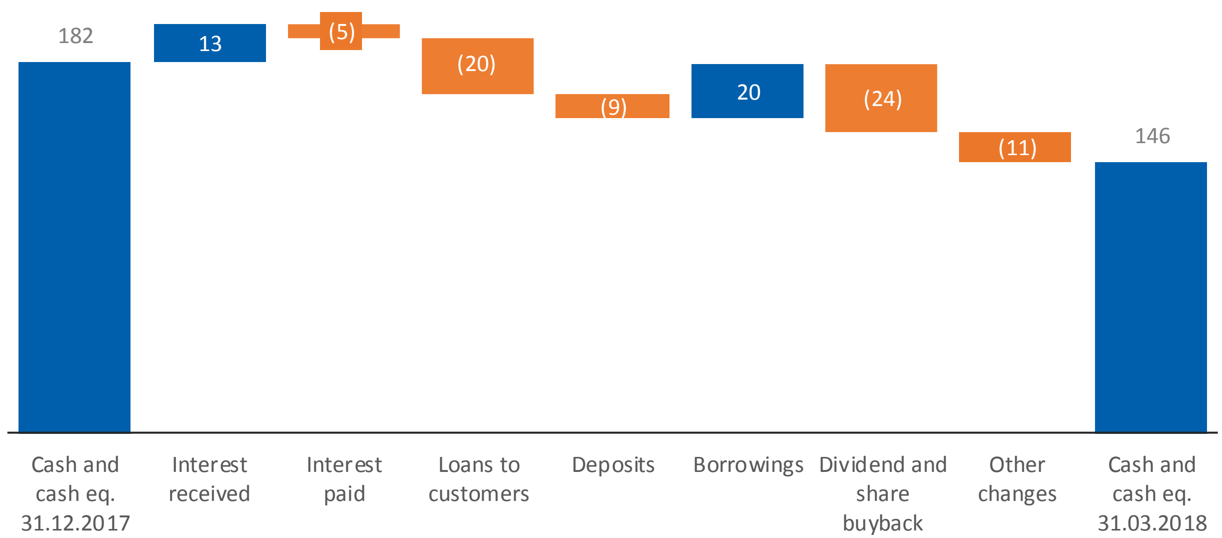
- The application of the IFRS 9 impairment requirements might increase volatility in profit and loss of the Group going forward.



Cash flow

All amounts in ISK billion

Decrease in cash and cash equivalents mainly due to capital release



Going forward

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

Prudent lending in line with economic growth

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 **in line with economic growth**

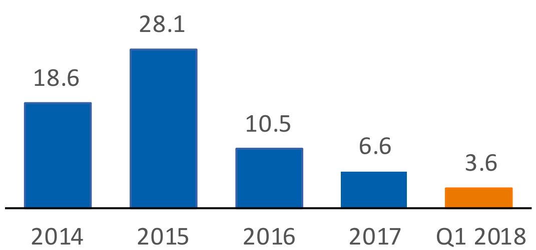
Dividend Policy
Pay-out ratio of circa **50%** of net earnings attributable to shareholders

Arion Bank

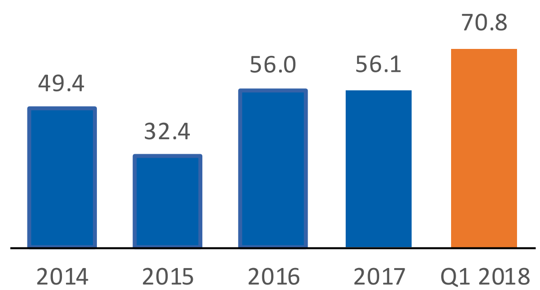
KFI’s, adjusted income and other information

Key financial indicators - annual

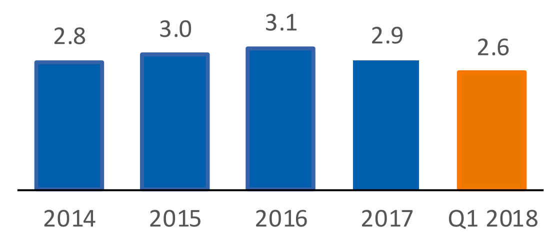
Return on equity (%)



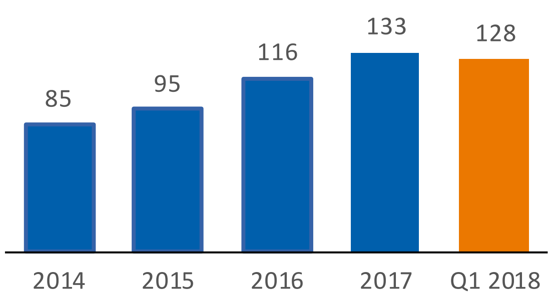
Cost-to-income ratio (%)



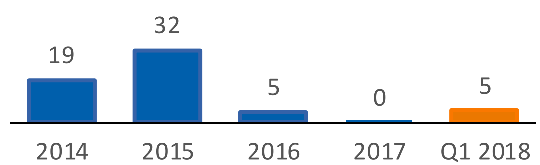
Net interest margin (%)



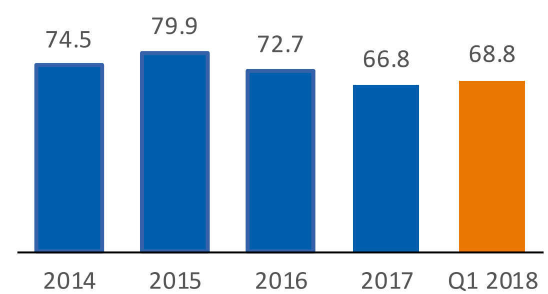
CPI Imbalance – ISK bn.



FX Imbalance – ISK bn.



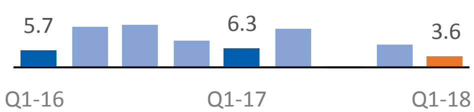
Risk weighted assets / Total assets (%)



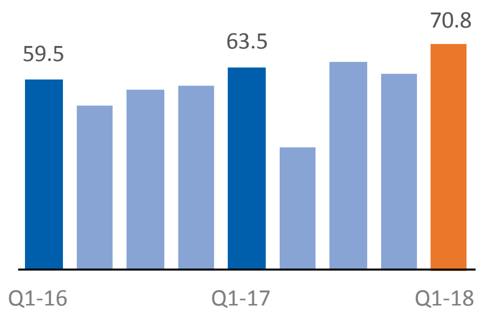
Arion Bank

Key financial indicators - quarterly

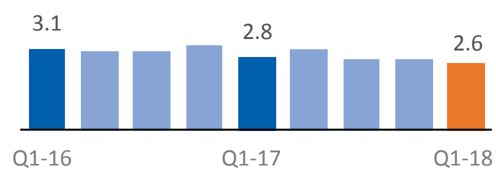
Return on equity (%)



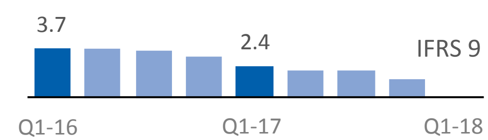
Cost-to-income ratio (%)



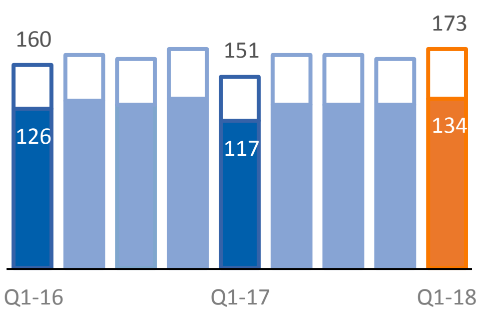
Net interest margin (%)



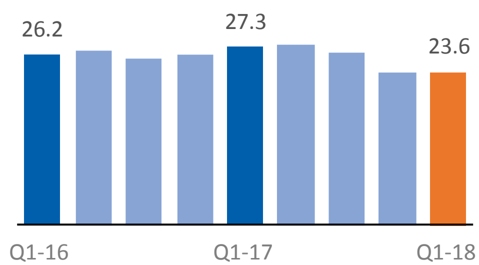
Gross impaired loans / Gross loans (%)



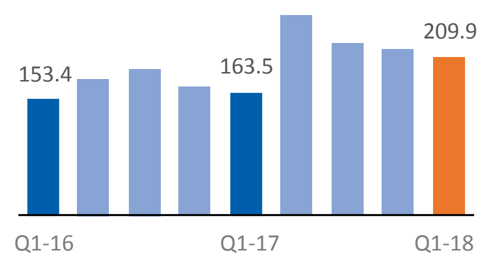
Loans-to-deposits ratio (%)
without loans financed with covered bonds



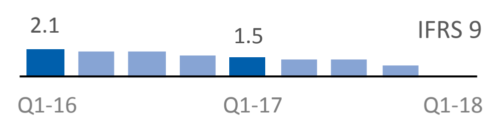
Tier 1 ratio (%)



Liquidity coverage ratio (LCR) (%)



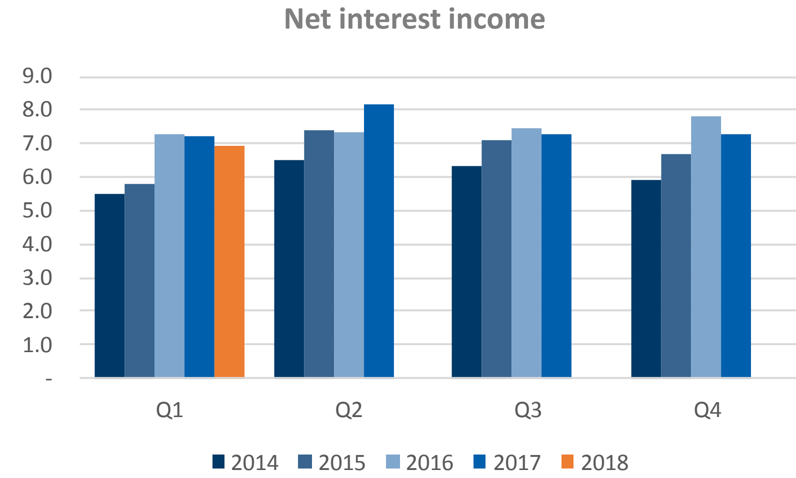
Problem loans* (%)

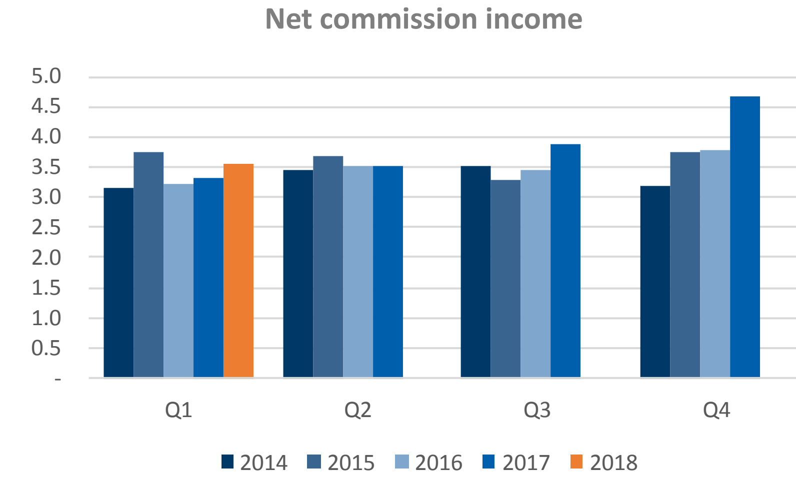


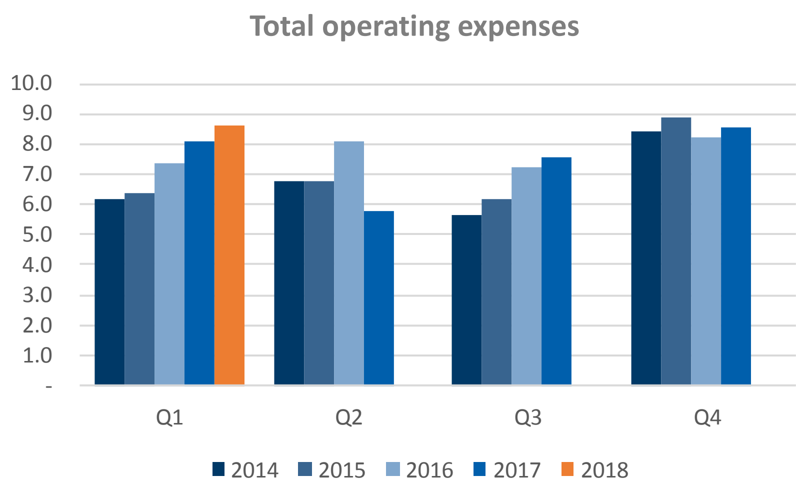
* Problem loans (past due but not impaired loans over 90 days + individually impaired loans) as % of loans to customers

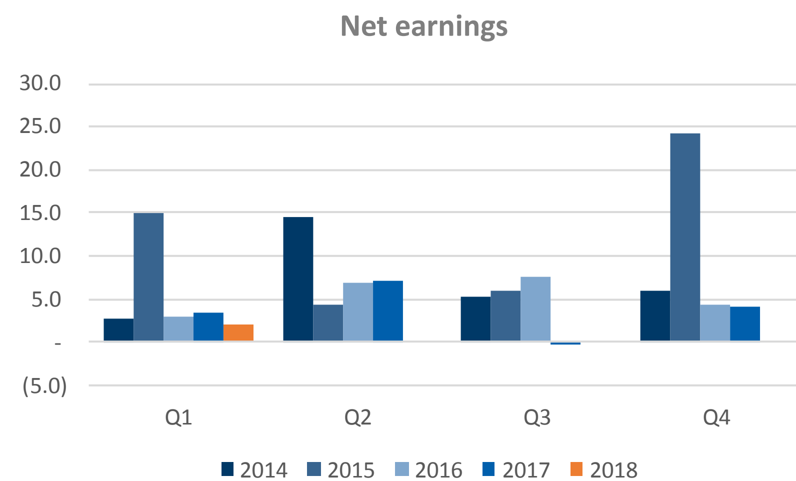
Development of key figures

All amounts in ISK billion









Arion Bank

Key figures

All amounts in ISK million

Operations	Q1 2018	Q1 2017	Q1 2016	Q1 2015	Q1 2014	Q1 2018	Q4 2017	Q3 2017	Q2 2017	Q1 2017
Net interest income	6,908	7,160	7,273	5,783	5,483	6,908	7,265	7,250	8,160	7,160
Net commission income	3,542	3,330	3,219	3,757	3,148	3,542	4,654	3,865	3,508	3,330
Operating income	12,184	12,697	12,090	22,019	9,088	12,184	13,924	11,597	15,160	12,697
Operating expenses	8,632	8,056	7,198	6,399	6,192	8,632	8,581	7,540	5,784	8,056
Net earnings	1,949	3,353	2,886	14,905	2,865	1,949	4,066	(113)	7,113	3,353
Return on equity	3.6%	6.3%	5.7%	35.1%	7.8%	3.6%	7.3%	(0.2%)	13.0%	6.3%
Net interest margin	2.6%	2.8%	3.1%	2.6%	2.6%	2.6%	2.7%	2.7%	3.1%	2.8%
Return on assets	0.7%	1.2%	1.1%	6.2%	1.2%	0.7%	1.4%	0.0%	2.6%	1.2%
Cost-to-income ratio	70.8%	63.5%	59.5%	29.1%	68.1%	70.8%	61.6%	65.0%	38.2%	63.5%
Cost-to-total assets	3.0%	3.0%	2.8%	2.6%	2.6%	3.0%	3.0%	2.7%	2.1%	3.0%
Balance Sheet										
Total assets	1,131,768	1,119,648	1,028,606	1,004,324	933,144	1,131,768	1,147,754	1,144,853	1,126,411	1,119,648
Loans to customers	782,255	720,198	694,004	649,089	642,341	782,255	765,101	750,947	733,649	720,198
Mortgages	340,202	302,679	285,886	274,484	190,008	340,202	329,735	318,403	309,339	302,679
Share of stage 3 loans, gross	3.2%	-	-	-	-	3.2%	-	-	-	-
Problem loans	-	1.5%	2.1%	3.2%	6.1%	-	1.0%	1.4%	1.3%	1.5%
RWA/ Total assets	68.8%	66.4%	71.5%	72.5%	77.3%	68.8%	66.8%	68.4%	67.0%	66.4%
Tier 1 ratio	23.6%	27.3%	26.2%	21.2%	18.6%	23.6%	23.6%	26.6%	27.8%	27.3%
Leverage ratio	15.4%	17.0%	17.3%	-	-	15.4%	15.4%	16.8%	17.4%	17.0%
Liquidity coverage ratio	209.9%	163.5%	153.4%	192.0%	130.0%	209.9%	221.0%	228.6%	266.2%	163.5%

Arion Bank

Balance sheet

All amounts in ISK billion

5 year overview

Assets	Q1 2018	2017	2016	2015	2014
Cash & balances with CB	98	140	88	48	21
Loans to credit institutions	95	87	80	87	109
Loans to customers	782	765	712	680	648
Financial assets	106	109	117	133	102
Investment property	7	7	5	8	7
Investments in associates	1	1	1	27	22
Other assets	43	39	32	27	26
Total Assets	**1,132**	**1,148**	**1,036**	**1,011**	**934**

Liabilities and Equity					
Due to credit institutions & CB	8	7	8	11	23
Deposits from customers	453	462	412	469	455
Other liabilities	66	67	65	62	61
Borrowings	401	385	339	256	201
Subordinated loans	-	-	-	10	32
Shareholders Equity	204	226	211	193	161
Non-controlling interest	0	0	0	9	2
Total Liabilities and Equity	**1,132**	**1,148**	**1,036**	**1,011**	**934**

Arion Bank

Adjusted income

All amounts in ISK million

Adjustments on impairment have greatest affect

	Q1 2018	Adjustment	Adjusted	
Net interest income	6,908	0	6,908	
Net commission income	3,542	0	3,542	
Net financial income	1,340	0	1,340	
Net insurance income	143	0	143	
Share of profit of associates and net imp.	(18)	0	(18)	
Other operating income	269	0	269	
Operating income	12,184	0	12,184	
Salaries and related expenses	(4,636)	0	(4,636)	
Other operating expenses	(3,996)	239	(3,757)	1)
Bank levy	(804)	0	(804)	
Net impairment	(99)	(1,023)	(1,122)	2)
Earnings before tax	2,649	(784)	1,865	
Income tax	(818)	204	(614)	3)
Discontinued operations, net of tax	118	0	118	
Net earnings	**1,949**	**(580)**	**1,369**	
Key financial indicators:				
Return on equity	3.6%		2.6%	
Cost to income ratio	70.8%		68.9%	
NIM - interest bearing assets	2.6%		2.6%	

1) One-off professional service expense of ISK 239 million
2) Net impairment fully removed and 0.58% impairment calculated on total loans to customers
3) Calculated income tax effect on adjustments

Arion Bank

Segment information

Arion Bank

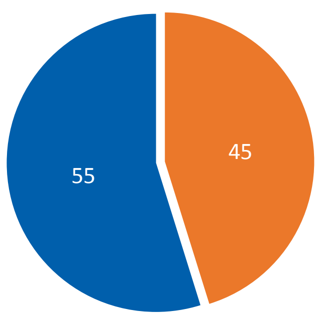
Retail Banking

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:

	Q1 2018	Q1 2017	Diff.
Net interest income	4,333	3,974	9%
Net fee and commission income	1,092	996	10%
Other operating income	81	179	(55%)
Operating income	**5,506**	**5,149**	**7%**
Operating expense	(1,791)	(1,681)	7%
Allocated expense	(1,660)	(1,475)	13%
Bank levy	(278)	(271)	3%
Net impairment	268	20	-
Earnings before tax	**2,045**	**1,742**	**17%**

	31.03.2018	31.12.2017	Diff.
Total assets	545,300	527,652	3%
Total liabilities	477,386	461,724	3%
Allocated equity	67,914	65,928	3%

- Increase in net interest income due to growth in loans to customers
- Continued strong growth in net fee and commission income

Arion Bank

Corporate Banking

All amounts in ISK million

Strong corporate loan book, somewhat affected by stronger ISK

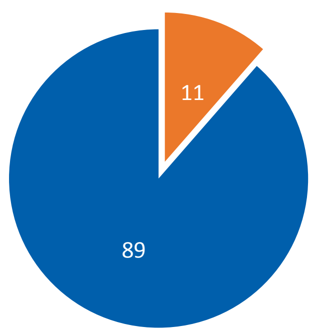
- Corporate Banking provides comprehensive financial services and integrated solutions across the Bank's divisions, to larger corporate clients in Iceland
- Corporate Banking provides a full range of lending products, deposit accounts, payment solutions as well as value added electronic corporate solutions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

Income statement and key figures:

	Q1 2018	Q1 2017	Diff.
Net interest income	1,314	1,656	(21%)
Net fee and commission income	236	176	34%
Other operating income	(161)	236	(168%)
Operating income	**1,389**	**2,068**	**(33%)**
Operating expense	(126)	(188)	(33%)
Allocated expense	(762)	(595)	28%
Bank levy	(170)	(167)	2%
Net impairment	(376)	819	-
(Loss) earnings before tax	**(45)**	**1,937**	**(102%)**

	31.03.2018	31.12.2017	Diff.
Total assets	269,324	274,917	(2%)
Total liabilities	212,716	218,243	(3%)
Allocated equity	56,608	56,674	(0%)

Share of operating income (%)



- Significant decrease in net interest income, mainly due to margin pressure
- Increase in net fee and commission income
- Negative net impairment mostly due to one large customer

Asset Management

All amounts in ISK million

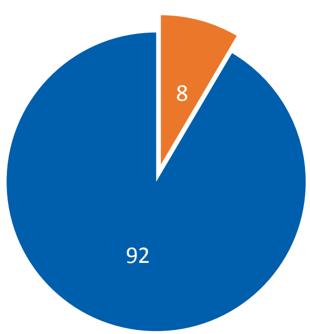
Largest asset management operation in Iceland

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:

	Q1 2018	Q1 2017	Diff.
Net interest income	148	146	1%
Net fee and commission income	866	838	3%
Other operating income	18	48	(63%)
Operating income	**1,032**	**1,032**	**0%**
Operating expense	(382)	(405)	(6%)
Allocated expense	(219)	(259)	(15%)
Bank levy	(46)	(48)	(4%)
Earnings before tax	**385**	**320**	**20%**

	31.03.2018	31.12.2017	Diff.
Allocated equity	5,534	5,331	4%
Assets under management	954,795	984,653	(3%)

- Slight increase in net fee and commission income from Q1 2017
- Strong market position in competitive environment

Arion Bank

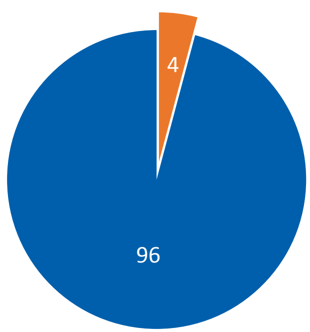
Investment Banking

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:

	Q1 2018	Q1 2017	Diff.
Net interest income	38	69	(45%)
Net fee and commission income	465	333	40%
Other operating income	2	(31)	-
Operating income	**505**	**371**	**36%**
Operating expense	(210)	(194)	8%
Allocated expense	(182)	(168)	8%
Bank levy	(10)	(12)	(17%)
Net impairment	0	14	(100%)
Earnings before tax	**103**	**11**	**836%**

	31.03.2018	31.12.2017	Diff.
Total assets	22,435	16,165	39%
Allocated equity	826	1,001	(17%)

- Net fee and commission income main source of operating income
  - Capital Markets performing well while Corporate Finance has focused on internal and long term projects

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