



## STANDARD & POOR'S

### Standard & Poor's upgrades Arion Bank's credit rating

In October Standard & Poor's upgraded Arion Bank's long-term credit rating from BBB to BBB+ with a stable outlook. The Bank's short-term credit rating remains A-2.

Arion Bank continues to be strong and has a robust capital position in the opinion of Standard & Poor's. The rating agency regards the Bank's reductions in equity positions as positive. Standard & Poor's also takes into account continued strong economic growth in Iceland, with improving economic resilience and falling private sector leverage.

Höskuldur H. Ólafsson, CEO of Arion Bank, said he was pleased with this upgrade, although it was not unexpected. "Arion Bank is in an excellent position, not least with regard to key factors such as the Bank's capital position. In addition Iceland has been experiencing stronger economic growth than the rest of Europe. The upgrading of the credit rating is therefore a logical step and is wholly consistent with the positive developments at the Bank and in Iceland in general." Mr. Ólafsson added that he could clearly feel growing interest from international investors, both in Arion Bank and the Icelandic business sector, and the improved credit rating would serve to heighten this interest.

## EUROMONEY

### Arion Bank named Iceland's best bank by Euromoney

The international financial publication Euromoney named Arion Bank as Iceland's best bank. Arion Bank received one of Euromoney's Awards for Excellence at a ceremony at the Tower of London.

In awarding the prize the jury said that Arion Bank best encapsulated the revival of Iceland's economic fortunes. It was noted that in 2010 only 25% of loans had been to individual customers, but by 2016 this figure had risen to 47%. At the same time, problem loans had fallen from more than half of Arion Bank's loan book to 1.6%. Euromoney also cited the restructuring of Arion Bank's business mix which has involved numerous sales of unrelated businesses, and the consolidation of its financial services holdings, including Valitor, Stefmir and Vördur.

The award is not only confirmation of Arion Bank's strong performance over the last few years but also provides incentive to continue to build on these achievements. At Arion Bank we strive to provide outstanding financial advice and develop state-of-the-art digital solutions, with a focus on convenient banking for the future.

## Arion Bank's 9M 2017 financial results

In November Arion Bank reported net earnings of ISK 10.4 billion for the first nine months of 2017, compared with ISK 17.3 billion for the same period of 2016. Due to one-offs, related to the Bank's funding of a new silicon smelter plant in Iceland, United Silicon, the Bank reported a net loss of ISK 0.1 billion during the third quarter of 2017, compared with a profit of ISK 7.5 billion for the same period of 2016. Impairments of loans, receivables and other assets relating to United Silicon, collectively amounted to ISK 3.7 billion in the quarter and ISK 4.8 billion during the first nine months of the year. Net earnings in Q3 would have been ISK 2.6 billion without this one-off effect.

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

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

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

### Income Statement

<i>In ISK million</i>	9M 2017	9M 2016	Q3 2017	Q3 2016
Net interest income	22,570	22,058	7,250	7,432
Net commission income	10,703	10,213	3,865	3,466
Other income	5,411	7,377	237	1,567
<b>Operating income</b>	<b>38,684</b>	<b>39,648</b>	<b>11,352</b>	<b>12,465</b>
Operating expenses	(21,380)	(22,331)	(7,540)	(7,175)
Bank levy	(2,388)	(2,190)	(814)	(705)
Net impairment	(1,262)	6,827	(2,551)	5,882
<b>Net earnings before taxes</b>	<b>13,654</b>	<b>21,954</b>	<b>447</b>	<b>10,467</b>
Income tax expense	(3,917)	(5,261)	(756)	(3,170)
Net gain from assets held for sale, net of tax	616	569	196	206
<b>Net earnings</b>	<b>10,353</b>	<b>17,262</b>	<b>(113)</b>	<b>7,505</b>

### KPI's:

Return on equity (ROE) continuing operations	6.3%	11.2%	(0.2%)	14.4%
Earnings per share (ISK)	4.87	8.10	(0.15)	3.65
Net interest margin (int. bearing assets)	2.9%	3.1%	2.7%	3.1%
Cost-to-income ratio	55.3%	56.3%	66.4%	57.6%

Highlights of the balance sheet and key performance indicators:

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



## Changes in management and Board of Directors

At a shareholders' meeting of Arion Bank held on Thursday 30 November a new director was elected, Steinunn Kristín Thórdardóttir. Guðrún Johnsen, who had been vice chairman of Arion Bank's Board of Directors since 2010, stepped down from the Board.

Steinunn Kristín Thórdardóttir held the position of interim CEO of Beringer Finance in Iceland and global head of food and seafood until earlier this year. From 2015 to 2017 she was partner and CEO of Beringer Finance Norway. In 2010 she founded Akton AS, Management Consulting in Norway and was managing director until 2015. Steinunn worked at Íslandsbanki/Glitrir in Iceland from 2001 until 2005 when she became the managing director and head of the bank's UK operations and remained there until 2008. Steinunn has a master of international management from Thunderbird, Arizona and a BA in international business and politics from the University of South Carolina.



In October Lýður Thór Thorgeirsson was appointed managing director of Investment Banking at Arion Bank. The managing director of Investment Banking reports directly to the CEO and Lýður has a place on the Bank's Executive Committee.

Lýður has a BSc in electronic and computer engineering from the University of Iceland and an MBA from MIT Sloan School of Management, and he is also a certified stock broker. Since 2010 he has been with GAMMA Capital Management hf, first as a fund manager of institutional investor funds and since 2013 as managing director of alternative investments.

## Economic Update

Each month the Arion Research sends out an economic update with the latest economic developments in Iceland.

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## Contacts

**Haraldur Guðni Eidsson**  
Head of Corporate  
Communications and FI  
CEO Office  
Tel: +354 444 7108  
[haraldur.eidsson@arionbanki.is](mailto:haraldur.eidsson@arionbanki.is)

**Gunnlaugur Bragi Björnsson**  
Corporate Communications  
CEO Office  
Tel: +354 444 7784  
[gunnlaugur.bragi.bjornsson@arionbanki.is](mailto:gunnlaugur.bragi.bjornsson@arionbanki.is)

**Delia Howser**  
SWIFT Services  
/ Relationship management  
Back Office  
Tel: +354 444 6620  
[delia.howser@arionbanki.is](mailto:delia.howser@arionbanki.is)

**Eiríkur Magnús Jónsson**  
Head of Funding  
Finance  
Tel: + 354 444 7468  
[eirikur.jensson@arionbanki.is](mailto:eirikur.jensson@arionbanki.is)

**María Norðdahl**  
FX / Capital Markets  
Tel: + 354 444 7141  
[maria.norddahl@arionbanki.is](mailto:maria.norddahl@arionbanki.is)

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