



Ida Brá Benediktsdóttir, Managing Director of Investment Banking, accepted the awards on behalf of Arion Bank.

Arion Bank chosen Best Investment bank in Iceland 2016 by Euromoney



The Euromoney magazine has chosen Arion Bank as the best Investment bank in Iceland in 2016. Euromoney's decision was based on a strong rise in Arion Bank's Investment banking divisions operating revenue and its healthy bond, equity and foreign exchange brokerage volumes. It was also noted that Arion Bank has made repeated use of the local stock exchange to restructure the Bank's business and at the same time develop the local capital market. In 2015 Arion Bank managed the IPO's of the real estate firms Eik and Reitir and telecoms firm Síminn. The division additionally managed bond issuance for Eik, Reitir, the municipality of Garðabær and the national power company Landsvirkjun.

In fact Arion Bank's financial results for 2015, which were the Bank's best annual results to date, were heavily influenced by the completion of major corporate recovery cases in which significant interests were at stake for the Bank. The IPO's of Reitir, Eik and Síminn in addition to the sale of the Bank's shares in Refresco Gerber and Bakkavor Group, had the greatest impact. Bakkavor Group Ltd. was sold following an open sales process and Refresco Gerber was listed in the Netherlands.

The listing of Reitir, Eik and Síminn were the only new stock market listings in Iceland in 2015. Arion Bank has managed more than 60% of all new listings in Iceland since 2008 and has therefore played a major role in the regeneration of the Icelandic stock market.

Receiving the Euromoney Awards for Excellence is a welcomed recognition of the success of Arion Bank's investment banking division in recent years.

REITIR



Síminn

Refresco · gerber

BAKKAVOR

Arion Bank's Q1 2016 financial results – strong regular operations

Arion Bank reported net earnings of ISK 2.9 billion for the first three months of 2016. Return on equity was 5.7% and earnings from regular operations amounted to ISK 2.6 billion. Return on equity from regular operations was 5.1%, compared with 9.8% for the same period last year.

The Bank performed well in its regular operations, particularly in terms of interest income, which was up on last year, mainly due to rising inflation, higher interest rates and lower interest expenses. However, the Bank's operating expenses increased during the quarter, not least as a result of collective wage agreements and a rise in the number of employees, chiefly at Valitor, a subsidiary of the Bank which is expanding internationally. Conditions on the Icelandic securities market were also negative for the Bank.

Earnings in Q1 2016 were substantially lower than in the same period of 2015 due to the impact of irregular items in the first quarter of 2015. Earnings in Q1 2015 were ISK 14.9 billion and return on equity was 35.1%, due to sale of shares that the Bank had acquired in the financial restructuring process of companies following the financial crisis. Going forward the impact of irregular items will be limited compared to recent years.

Highlights of the income statement:

	Q1 2016	Q1 2015	Diff	Diff%
Net interest income	7,273	5,783	1,490	26%
Net commission income	3,219	3,757	(538)	-14%
Net financial income	(301)	7,539	(7,840)	-
Share of profit of associates	677	4,211	(3,534)	-84%
Other income	1,235	491	744	152%
Operating income	12,103	21,781	(9,678)	-44%
Salaries and related expense	(4,108)	(3,492)	(616)	18%
Other operating expenses	(3,234)	(2,896)	(338)	12%
Bank levy	(742)	(730)	(12)	2%
Net impairment	(503)	1,782	(2,285)	-
Net earnings before taxes	3,516	16,445	(12,929)	-79%
Income tax	(737)	(1,720)	983	-57%
Net gain from disc. operations	104	183	(79)	-43%
Net earnings	2,883	14,908	(12,025)	-81%

Arion Bank's second euro benchmark issue

In recent years we have had a strong focus on diversifying our funding profile. In March 2015 Arion Bank became the first Icelandic bank since 2008 to issue a public bond in a major currency when we issued €300 million fixed rate 3-year notes. In April 2016 Arion Bank issued its second benchmark bond in euros at improved terms over last year's issue. The senior unsecured bonds amount to €300 million. Orders received totalled over €500 million from more than 70 investors. The 3-year bonds have a fixed coupon of 2.50% and were sold at rates corresponding to a 2.70% margin over interbank rates. Arion Bank had previously mandated Barclays, J.P. Morgan and Nomura for the transaction, which followed a 3-day roadshow with European investors.

The proceeds from the euro benchmark issue were to a large extent used to partially prepay \$253 million of the \$747 million bond owned by Kaupthing and issued at the beginning of the year.

Additionally Arion Bank has been active in Scandinavia and the domestic market. With an investment grade rating, BBB- with positive outlook, from S&P we will continue on this path and further lower our funding costs.

Changes in management – Ida Brá Benediktsdóttir appointed managing director of Investment Banking

In February Ida Brá Benediktsdóttir was appointed managing director of Investment Banking at Arion Bank. She takes over the position from Halldór Bjarkar Lúdvígsson.

Ida Brá has a BSc in business administration from the University of Iceland and an MSc in finance from the Rotterdam School of Management in the Netherlands. She is also a certified stockbroker. Ida Brá has been at Arion Bank and its predecessor since 1999 when she joined the Bank's Research division. She has held a number of positions at the Bank and was long head of department in the Bank's Treasury division. During the past few years Ida Brá has been head of Private Banking at Arion Bank and prior to that she was head of Corporate Communications. Ida Brá has been a director on the boards of several companies, including the savings banks Sparisjóður Ólafsfjardar and AFL, the real estate company Landfestar and the seafood company HB Grandi hf.

Arion Bank now the sole provider of financial services at Keflavik International Airport

In 2015 Arion Bank won the tender to provide financial services at Keflavik International Airport. On 1 May the Bank opened three service points at the airport.

In addition there will be 13 ATMs at Keflavik, a considerable increase from the previous facilities. The Bank will offer services around the clock at peak times during the summer.

This is a really exciting prospect for Arion Bank, especially given the huge growth in tourism in Iceland. The main focus will be on currency related services as well as tax refunds.

In order to build on this focus the Bank has launched a new service for visitors to Iceland, a currency card. It is a prepaid international VISA card that travellers can use for all purchases where VISA cards are accepted. The card also offers various discounts with local retailers and service providers.



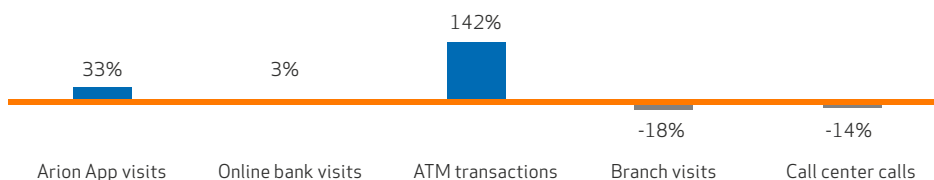
We place high importance on digital service channels

At Arion Bank we place great emphasis on digital banking as it is increasingly becoming our customers' preferred choice for attending to their basic financial needs.

We are seeing a fundamental change in customer behavior, with 95% of our customers using the online bank and 50% the Arion app. In fact app sessions per month overtook online bank sessions in 2015. Surveys also show that we are leading the way as our customers are the most satisfied when it comes to banking apps.

In recent years we extensively promoted our digital channels and invested in new features in the mobile app and in the online bank as well as in a new generation of ATMs. One of our aims was to reduce the need for basic banking services within our branch network with digital services replacing them. Simultaneously the aim was to increase value-added services in our branch network, such as financial consultancy. We see clear results from our efforts as the number of branch visits is down as are calls to our call centre. At the same time we saw the popularity of our banking app as well as ATM transactions grow fast in 2015. More importantly visits to our financial consultants grew from 4.1% of visits to 8.6% between Q1 2015 and Q1 2016.

Retail service channels development in 2015



Arion Bank won the Most Successful Marketing Campaign awards in Iceland for 2015 with our campaign to promote our digital service channels. Digital channels will play an even more pivotal role in our product development and operations in the future.

Well-balanced loan portfolio

In recent years great efforts have been invested in financially restructuring companies. One of the consequences is that the debt levels of companies and households have been reduced, which in turn has a highly positive impact on the economy.

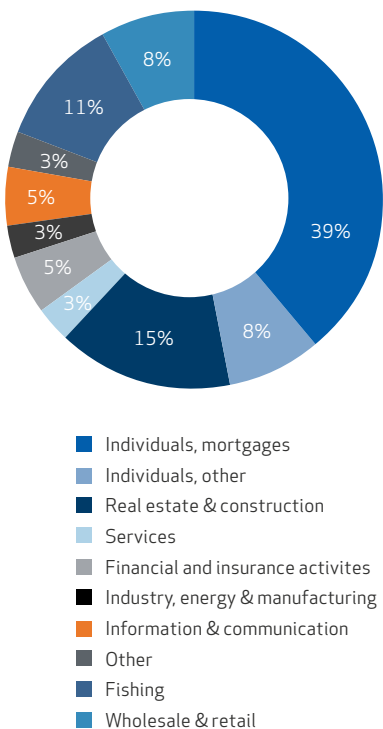
A second consequence has been that Arion Bank has gained a far more in-depth understanding of its loan portfolio. It is of paramount importance for the future of the Bank that it has this solid foundation to build on.

Problem loans have continued to decrease and were at 2.1% at 31 March 2016. Loans more than 90 days past due were at 1.6%.

It has been our aim to have a well-balanced loan portfolio and have equal focus on individuals and corporates. Our balance sheet shows this as our loans to individuals represent around half of our loans to customers, growing from around 25% in only six years, organically and through acquisitions. Arion Bank is Iceland's largest private mortgage provider, second only to the government housing fund. Loans to corporate clients are well diversified by sector and closely reflect the structure of the Icelandic economy.

Continued investment in innovation

Arion Bank has devoted a great deal of energy to nurturing innovation in Iceland. Arion Bank is a pioneer in Iceland in business accelerators. We have run the business accelerators Startup Reykjavík since 2012 and Startup Energy Reykjavík in cooperation with leading energy companies since 2013.



Arion Bank has invested in all 54 companies to have gone through the accelerators. In 2015 Startup Reykjavík was named the best business accelerator in the Nordic region at the Nordic Startup Awards. The fact that the companies which have passed through the business accelerators have raised more than ISK 2 billion, either in the form of equity or grants, is clear evidence of the success yielded by the business accelerators.

Arion Bank also invested ISK 1 billion in the fund Eyrir Sprotar in early 2015. Eyrir Sprotar is an investment fund which specializes in new companies which have strong international growth potential. The advent of business accelerators and investment funds such as Eyrir Sprotar has transformed the startup environment in Iceland in just a few years and we are proud of the contribution we have made.



Arion Bank is a model company in terms of good corporate governance

The Center for Corporate Governance at the University of Iceland recently recognized Arion Bank as a model company in terms of good corporate governance.

The Icelandic Chamber of Commerce, the Confederation of Icelandic Employers, Nasdaq Iceland and the Center for Corporate Governance at the University of Iceland are responsible for granting this recognition. According to the Center for Corporate Governance, KPMG's survey of corporate governance at Arion Bank, conducted in September 2015, gives a clear picture of corporate governance at the company and indicates that the company could in many ways be an example to other companies in terms of good corporate governance.

Arion Bank and Kaupthing released a formal announcement regarding the sales process of Arion Bank

The following announcement was released on 15 June 2016 by Arion Bank and Kaupthing and marks the formal start of Arion bank's sales processes:

In the context of the continued strong development of the Icelandic economy, Arion Bank and Kaupthing, its majority owner, are currently assessing a range of strategic alternatives with regards to Kaupthing's shares held in the bank.

This may include a possible IPO; however, no decision has been made at this point in time with respect to any specific transaction and timing thereof.

Economic Update

Each month the Arion Research sends out an economic update with the latest economic developments in Iceland. To subscribe to mailing list or to read the latest economic updates please visit our website.

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