

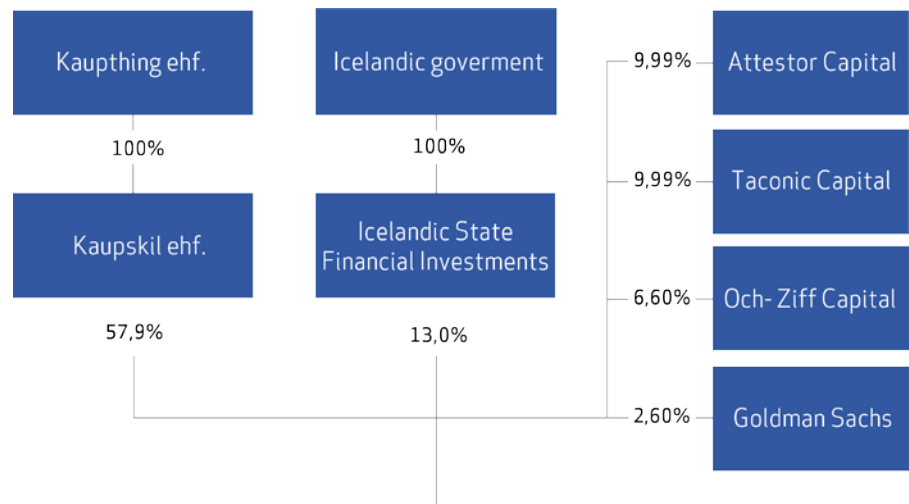


New shareholders join Arion Bank

In March 2017, Arion Bank and its majority shareholder Kaupthing announced the private placement of approximately 30% in Arion Bank by four international investors: Taconic Capital, Och-Ziff Capital, Goldman Sachs International and Attestor Capital. The investors are also all shareholders in Kaupthing. This deal is the single largest equity portfolio investment by foreign parties in Iceland and comes immediately after the lifting of capital controls. The proceeds from the transaction will be used to prepay the ISK 84 billion secured note held by the Icelandic Treasury, as part of Kaupthing's stability contribution agreed when composition was negotiated with creditors.

We believe that this shift in Arion Bank's ownership marks a key milestone, representing an important step for the Bank with regards to its future ownership as the only privately owned, systemically important bank in Iceland. We fully expect to see further changes to the Bank's ownership. The majority shareholders in the Bank have stated that they will continue to reduce their share in the Bank. The private placement agreements additionally grant the investors options on 21.9% of the issued share capital in Arion Bank, which are exercisable at a premium to the price paid in the private placement and expire prior to any potential offering of Arion Bank's shares to the public.

The table below shows the shareholders of Arion Bank following the private placement.





Höskuldur H. Ólafsson

At the time of sale Höskuldur H. Ólafsson, CEO of Arion Bank, said:

“We have long been of the opinion that it would be a positive move for the Bank to bring on board international shareholders. We have met numerous international investors over the last few years and have detected a keen interest in Iceland and the Bank. We can sense this interest in other fields in Iceland too, for example in tourism and retail, where renowned international brands are giving the country unprecedented attention. We are not particularly surprised that these investors, who have been involved with the Bank indirectly for several years, have now elected to invest directly by becoming shareholders. They know the Bank well, have monitored our progress and the positive developments which have taken place in the Icelandic economy and they are now underlining their belief that the future is bright for Arion Bank. Attracting new shareholders, international investors, marks the beginning of a new era.”

Eva Cederbalk new chairman of the board of Arion Bank

Eva Cederbalk was elected chairman of the board of directors of Arion Bank at a board meeting on Monday 26 June. Eva, who was elected on to the Board at a shareholders’ meeting on 23 June, has extensive management experience from many years in the Swedish financial sector. Eva replaces Monica Caneman, who has been the chairman of the board of Arion Bank for seven years, and recently stepped down from the board of directors.



Eva Cederbalk worked at Skandinaviska Enskilda Banken AB from 1975 to 1998 where she held various management positions. She was the CEO of Netgiro Systems AB from 2002 to 2003 and SBAB Bank AB from 2004 to 2011. Today Eva is the CEO of Cederbalk Consulting AB. Eva has been a member of various boards and was the chairman of the board of directors of Klarna AB from 2009 to 2016 and a member of the board of Íslandsbanki 2015-2016. Currently Eva is a member of the boards of Bilia AB and National Bank of Greece Group, amongst others. Eva holds a master’s degree in economics from Stockholm School of Economics.

Ida Brá Benediktsdóttir appointed managing director of Retail Banking at Arion Bank

Ida Brá Benediktsdóttir has been appointed managing director of Retail Banking at Arion Bank. She will take up the position on 1 July. Ida Brá has been on the executive committee of Arion Bank since February 2016, when she became managing director of Investment Banking. Freyr Thórdarson, managing director of Corporate Banking, will temporarily also take on the role of managing director of Investment Banking.



Ida Brá has a BSc in business administration from the University of Iceland. She also has an MSc in finance from the Erasmus Graduate School of Business in the Netherlands and is a certified stockbroker. Ida Brá has been at Arion Bank and its predecessors since 1999 when she joined the Bank’s Research division. In this time she has held various positions at the Bank, including head of Communications, Private Banking and Treasury. 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 fisheries company HB Grandi hf.

String of new digital solutions popular with customers

We have been very successful in implementing our digital strategy at Arion Bank. This was confirmed when Finalta ranked Arion Bank 3rd globally in terms of 90-day active online customers. But our journey has just begun. At Arion Bank our ambition is to be the leading digital bank in Iceland and we rapidly respond to changing circumstances, new technology and shifting customer demand by providing solutions designed to make life easier for our customers.

We have established a digital banking development accelerator, named Digital Future. We are very proud of our success since its establishment in 2016 and a string of products and services have now been fully digitized. The first process to be reshaped was the on-boarding of new customers. Only a year ago it took up to 3 or 4 visits to a branch, printing and signing documents and a few phone calls to become a customer of ours. Now it only takes a few minutes on our website.

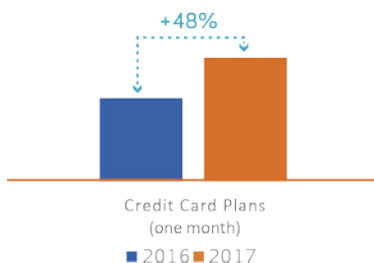
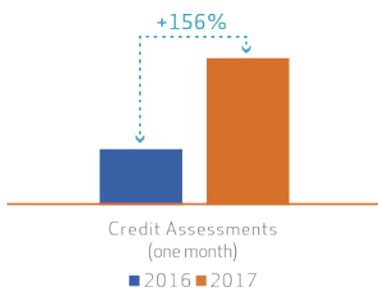
Our next projects were two complex and time consuming processes – credit assessments and mortgage applications. To gain a credit assessment our customers had to gather numerous documents, visit our branches and sign applications before having to wait for up to 10 days for an outcome. By reshaping the process we were able to introduce a fully digital credit assessment which only takes 3 minutes to perform. Only a few weeks later we launched digital mortgage applications, dramatically reducing customers' waiting time for their mortgage approval. Customers can now get a credit assessment and a mortgage without entering our branches if they so please.

Other manual processes we have already reshaped into fully digital flows include opening new bank accounts, applying for payment cards, managing credit card limits online, online corporate on-boarding and online credit card payment plans. This month we will launch our digital mortgage refinancing and online bond applications and signing. All our digital innovations are unique in the Icelandic banking sector and some even globally.

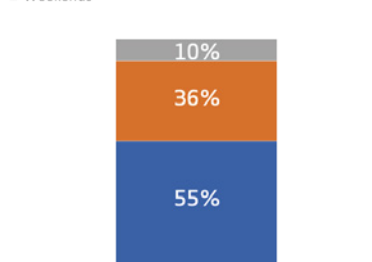
Our new digital services have already caused a shift in customer behaviour. We have more than doubled the number of credit assessments calculated every month. The number of customers who choose to bank with us outside of regular banking hours is growing and already almost half of online credit assessment are made during evenings or weekends.

It is not our intention to rush the customer through any process or big decisions which is why we place great emphasis on financial education and advice. Therefore we are pleased to see a strong increase in the number of booked appointments with our professional financial advisers, while calls to our customer service centre and visits to branches are decreasing dramatically.

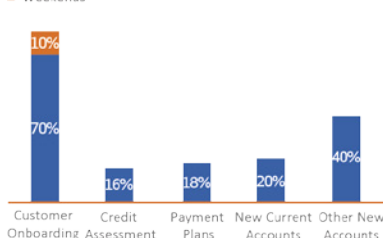
Our new solutions not only represent a transition in our service offering and how customers can bank with us anywhere but also signal a huge change in how we provide service in our branches. It is not only about providing a digital platform for customers but also a new and easier way for our employees to serve customers who choose to seek advice and assistance at our branches. The ratio of customers using digital channels for banking has increased fast, which we believe is confirmation of our success so far.



Digital Credit Assessments



Increased ratio of self service



Arion Bank's 3M 2017 financial results in line with expectations

Arion Bank reported net earnings of ISK 3.4 billion for the first three months of 2017, compared with ISK 2.9 billion for the same period of 2016. Return on equity was 6.3%, compared with 5.7% for the first three months of 2016.

Höskuldur H. Ólafsson, CEO of Arion Bank, stated in the Bank's press release that operations during the period were stable and that the Bank was financially robust, as indicated by a capital ratio of 28%.

"The Bank's investments last year had a positive impact on operations. This includes increased commission income after Arion Bank became the sole provider of financial services at Keflavík International Airport in May 2016. Income from insurance activities also grew and now represent a larger share of the Bank's revenue stream following the acquisition of the insurance company Vördur last year. The impact of this acquisition will become clearer as the companies further collaborate on selling insurance products."

Total assets amounted to ISK 1,119.7 billion at the end of March, compared with ISK 1,036.0 billion at the end of 2016. Shareholders' equity totalled ISK 214.6 billion at the end of March 2017, 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 as the capital controls are lifted, a process which is now largely at an end.

The Bank's capital ratio at the end of March was 28.0%, compared with 27.1% at the end of 2016. Tier 1 Capital increased during the period to 27.3%, compared with 26.5% at the end of 2016.



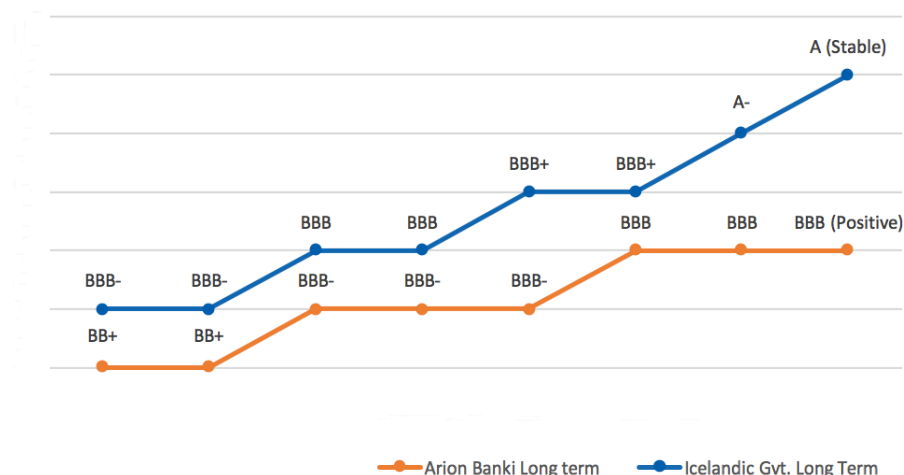
Arion Bank's 3M 2017 financial results



Success on international bond markets

Arion Bank has led the way in Iceland by actively seeking funding on the international credit markets. In 2016 the Bank issued bonds in euros to a broad group of investors on two occasions during the year. At the beginning of 2017 the Bank tapped the second issue, bringing the issue to 500 million euros. The Bank's terms on this market have improved markedly recently, a clear testament to the growing confidence of bond investors in Arion Bank and the Icelandic economy.

The progress made by the Bank and the improved performance of the Icelandic economy, as well as the vital steps towards lifting the capital controls have all made a major contribution in this regard. These factors led Standard & Poor's to upgrade the Bank's credit rating from BBB- to BBB in 2016, with a positive outlook.





Popular business accelerators – Startup Reykjavík starts its sixth year

One of our main focuses at Arion Bank in terms of sustainability is to help stimulate a creative economy. We firmly believe that cultivating innovation has a positive impact on society and we are therefore dedicated to supporting innovators. One way we do that is by providing them with access to advice and funding and by helping companies in product development. We operate two business accelerators; Startup Reykjavík and Startup Energy Reykjavík, which is operated with some of Iceland's largest energy players.

Startup Reykjavík is our main seed investment programme and is wholly owned by Arion Bank but the business accelerator is run in collaboration with Icelandic Startups. Its objective is to create an environment where entrepreneurs can receive advice and guidance from experienced mentors in order to realize their ideas and thereby create new business opportunities. Participating teams are offered seed funding from Arion Bank in the form of equity, training and working facilities, where entrepreneurs have the opportunity to meet and exchange ideas. Startup Reykjavík just started its sixth year with 10 eager teams starting their 10-week program.

Startup Reykjavík was named the best business accelerator in the Nordic region in 2015 and the best one in Iceland in 2015 and 2016 by the Nordic Startup Awards.

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Economic Update

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