

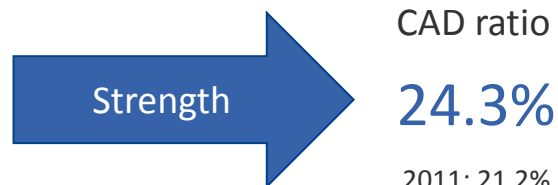
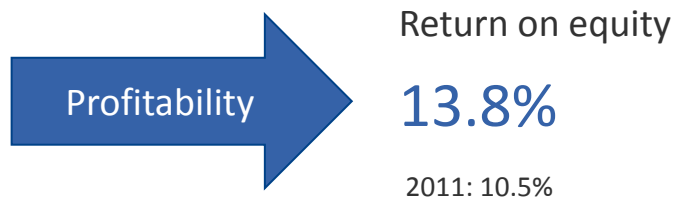


FINANCIAL STATEMENTS 2012

INVESTOR PRESENTATION



HIGHLIGHTS



INCOME STATEMENT 2012



INCOME STATEMENT

DEVELOPMENT FROM 2010 - 2012

Million ISK	2012	2011	2010
Net interest income	27.142	23.388	19.785
Net change in valuation	-4.690	-8.649	1.878
Net commission income	10.748	10.685	6.866
Net financial income	2.017	2.347	1.361
Other income	9.595	5.505	5.733
Operating income	44.812	33.276	35.623
Salaries and related cost	-12.459	-11.254	-9.272
Other operating expenses	-12.209	-10.762	-9.020
Net earnings before taxes	20.144	11.260	17.331
Income tax	-3.633	-1.912	-3.481
Bank Levy	-1.062	-1.046	-290
Net gain from discontinued operations, net of tax	1.607	2.792	-1.003
Net earnings	17.056	11.094	12.557
Shareholders of Arion Bank	16.622	10.493	12.178
Minority interest	434	601	176

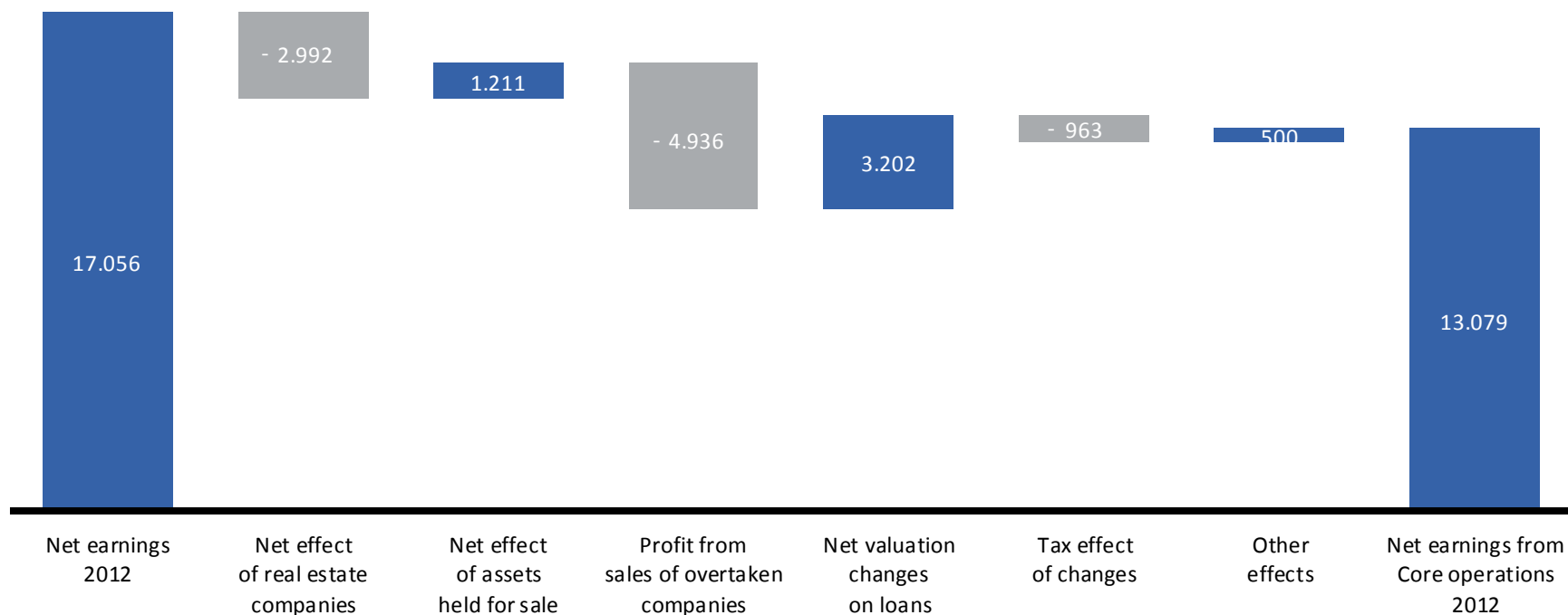
INCOME STATEMENT

PER QUARTER 2012

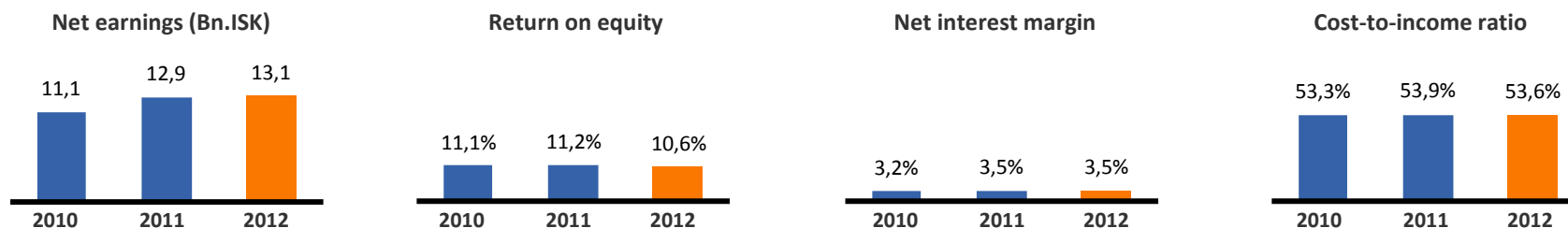
Million ISK	Q1 2012	Q2 2012	Q3 2012	Q4 2012	2012
Net interest income	6.214	7.666	6.254	7.008	27.142
Net change in valuation	-76	2.608	-2.053	-5.169	-4.690
Net commission income	2.336	3.002	2.715	2.695	10.748
Net financial income	1.429	-1.248	869	967	2.017
Other income	952	2.054	1.637	4.952	9.595
Operating income	10.855	14.082	9.422	10.453	44.812
Salaries and related cost	-3.045	-3.124	-2.644	-3.646	-12.459
Other operating expenses	-2.757	-2.718	-2.586	-4.148	-12.209
Net earnings before taxes	5.053	8.240	4.192	2.659	20.144
Income tax	-1.061	-1.852	-462	-258	-3.633
Bank Levy	-268	-242	-261	-291	-1.062
Net gain (loss) from disc. operations, net of tax	727	652	-181	409	1.607
Net earnings	4.451	6.798	3.288	2.519	17.056
Shareholders of Arion Bank	4.311	6.741	3.124	6.757	16.622
Minority interest	140	57	164	213	434

INCOME STATEMENT

CORE OPERATIONS CONTINUE TO IMPROVE



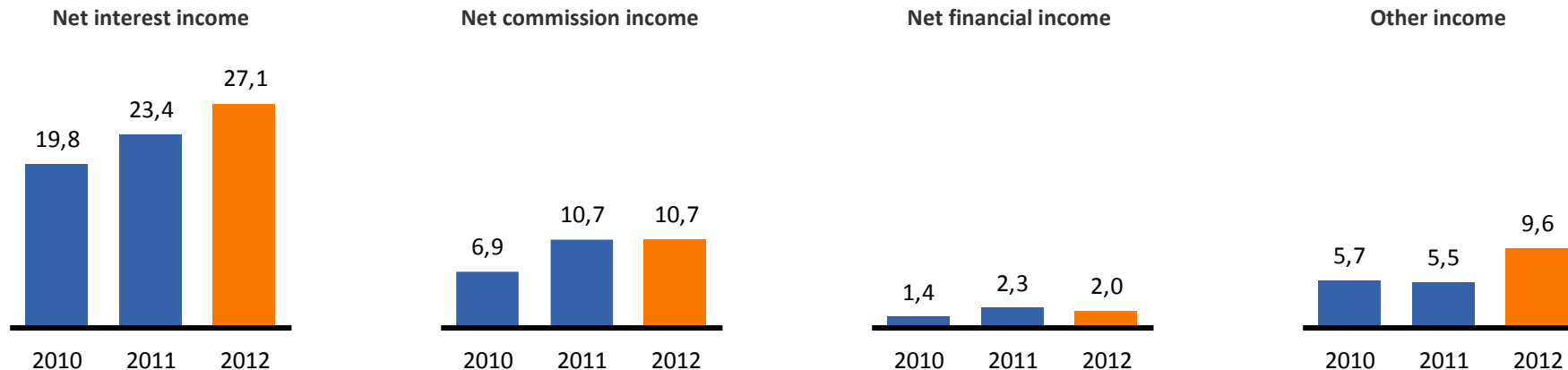
Key figures and ratios from Core operation



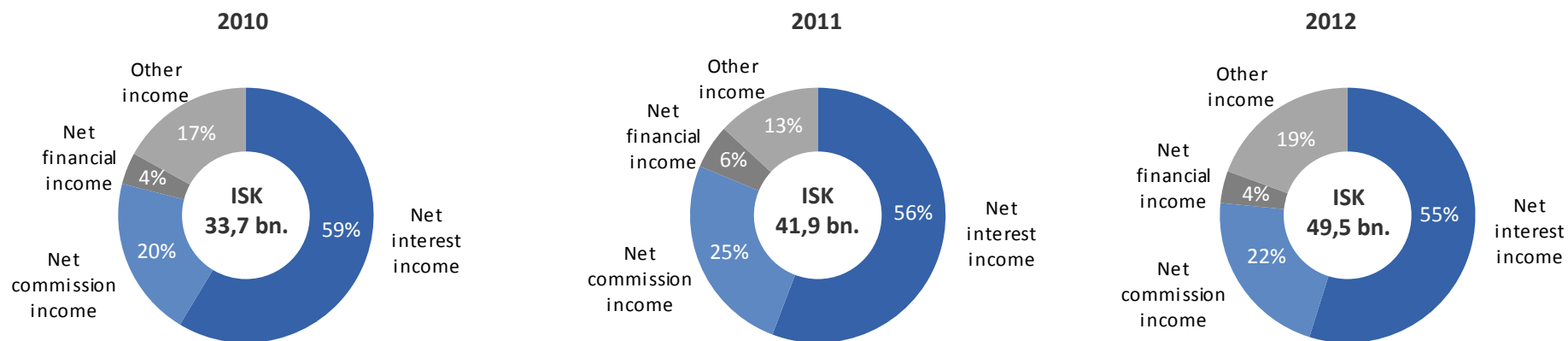
OPERATING INCOME

STRONG NET INTEREST INCOME

Development of operating income, without net valuation change, by type from 2010 – 2012 (ISK bn.)



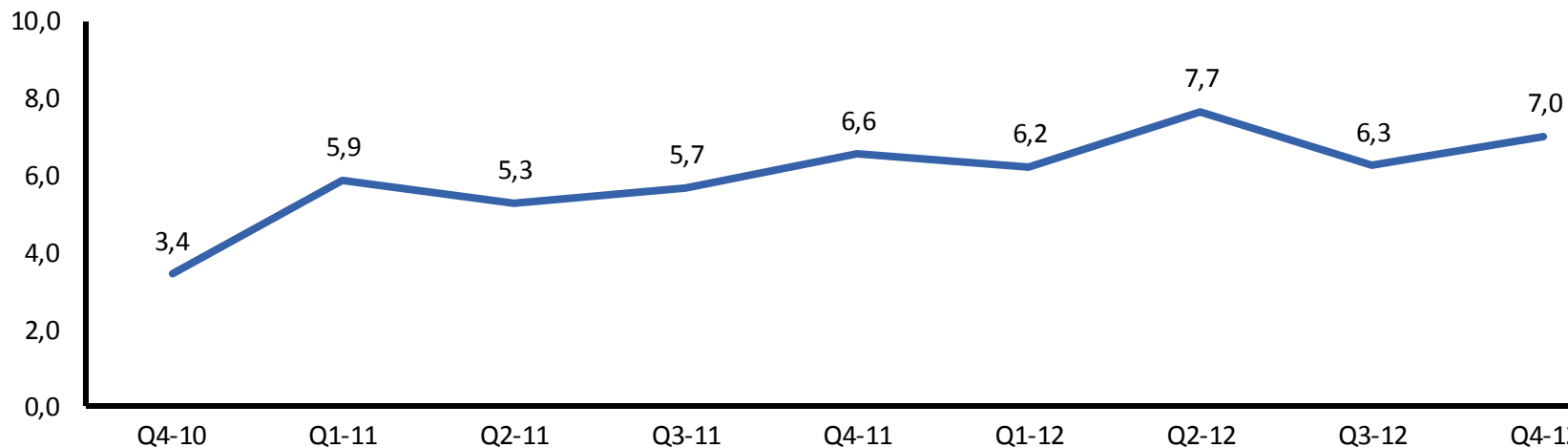
Development of operating income split, without net valuation change, from 2010 – 2012



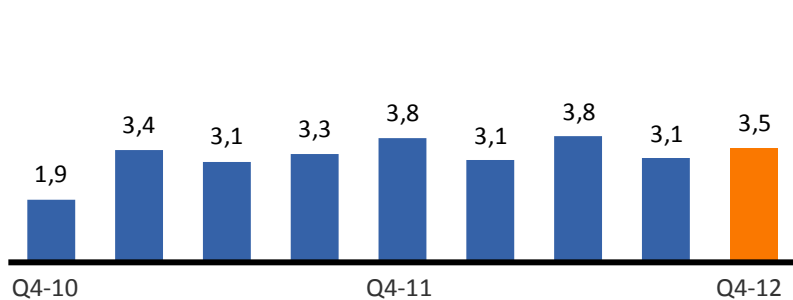
NET INTEREST INCOME

NET INTEREST MARGIN 3,4% FOR 2012

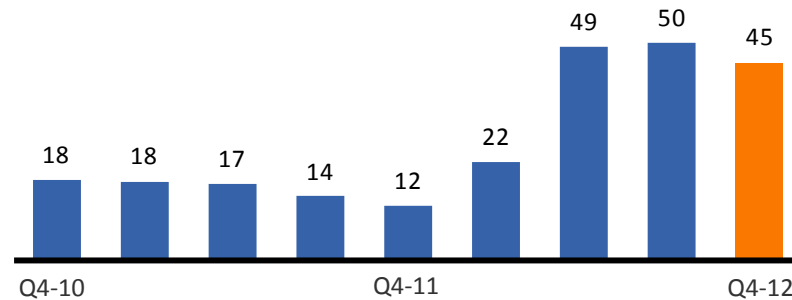
Net interest income from Q4 2010 – Q4 2012 (ISK bn.)



Net interest margin from Q4 2010 – Q4 2012 (%)



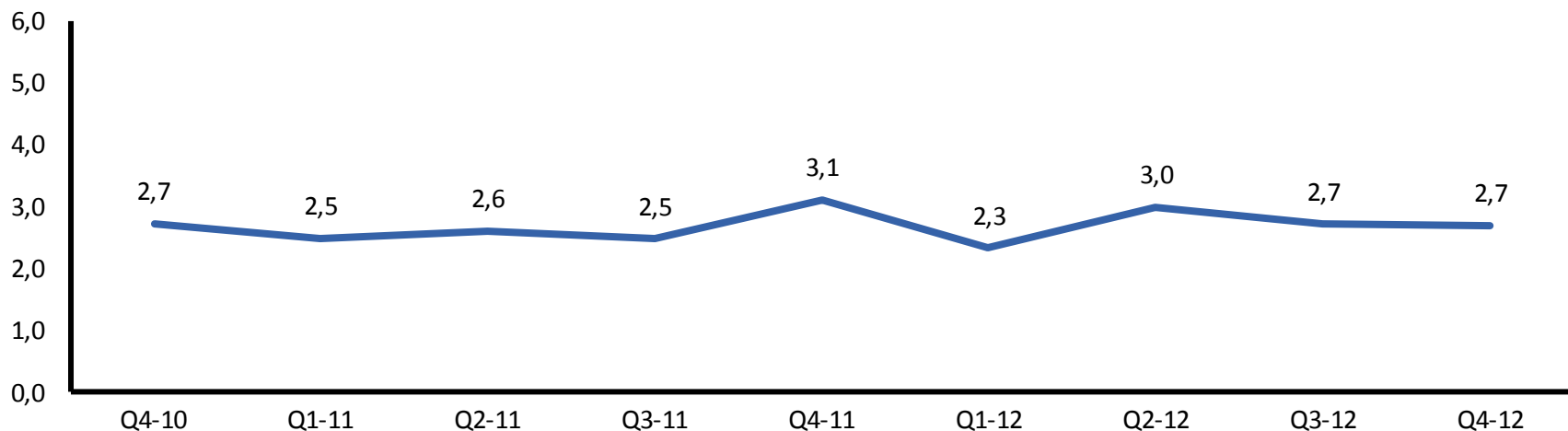
CPI imbalance from Q4 2010 – Q4 2012 (ISK bn.)



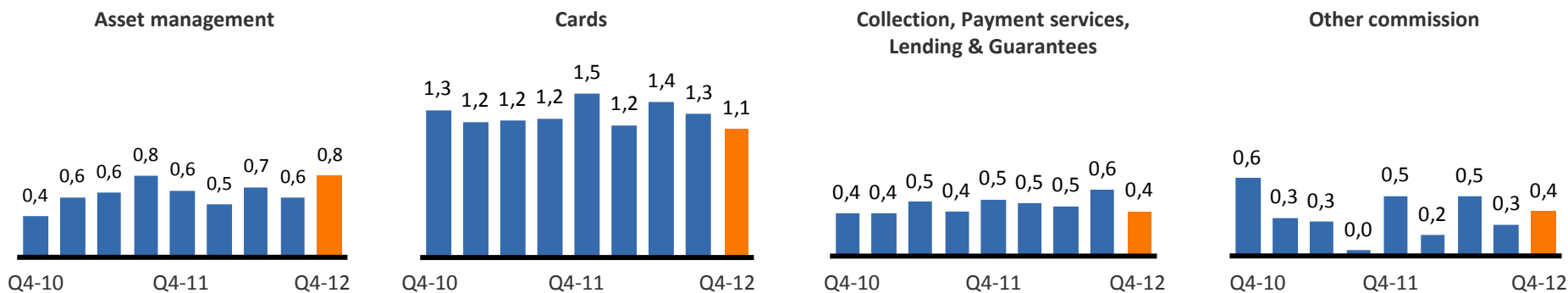
NET COMMISSION INCOME

STABLE NET COMMISSION INCOME

By quarters from Q4 2010 – Q4 2012 (ISK bn.)



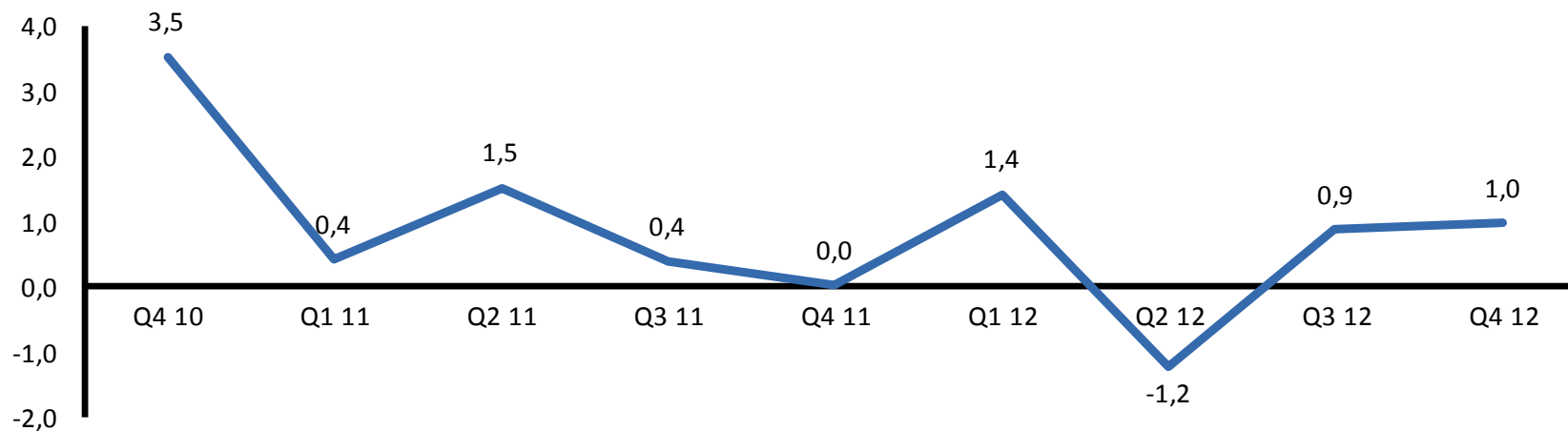
Net commission income by type from Q4 2010 – Q4 2012 (ISK bn.)



NET FINANCIAL INCOME

EARNINGS VOLATILITY REDUCED DUE TO LOWER FX IMBALANCE

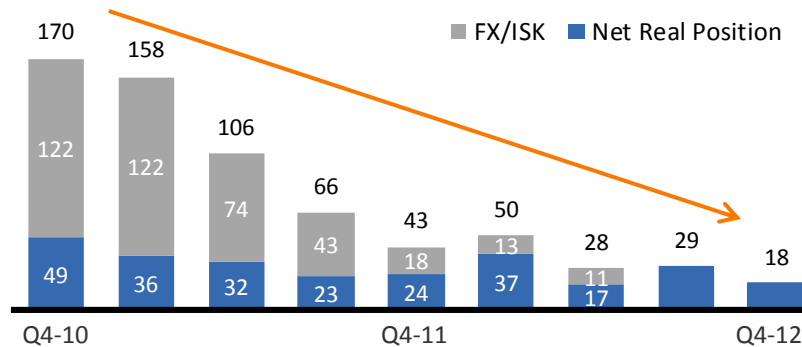
Net financial income from Q4 2010 – Q4 2012 (ISK bn.)



Movement of the Icelandic krona from Q4 2010 – Q4 2012



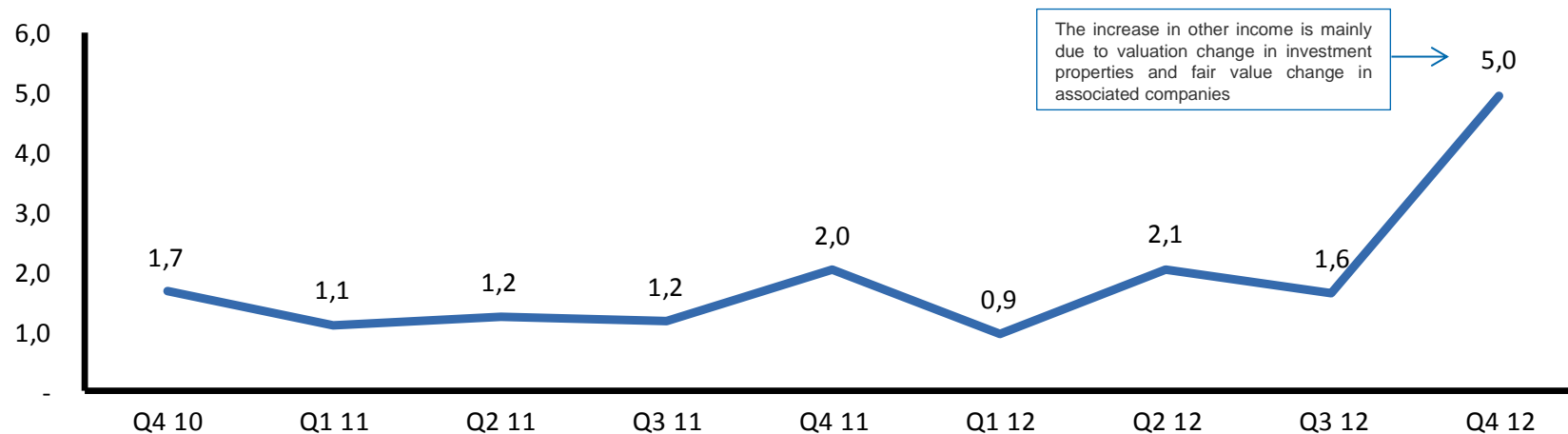
FX imbalance from Q4 2010 – Q4 2012 (ISK bn.)



OTHER INCOME

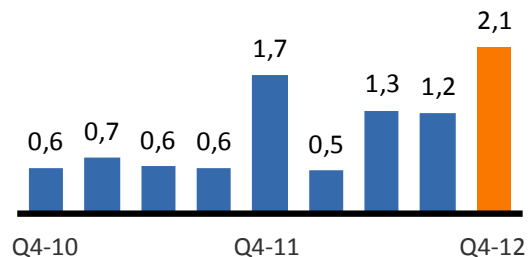
INCREASING OTHER INCOME DRIVEN BY VALUATION CHANGES

Other income from Q4 2010 – Q4 2012 (ISK bn.)

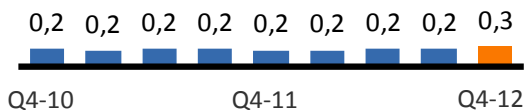


Other income by type from Q4 2010 – Q4 2012 (ISK bn.)

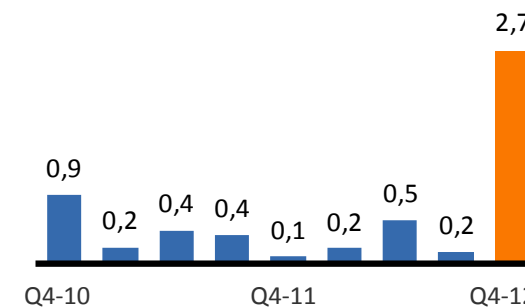
Income from investment properties



Income from insurance



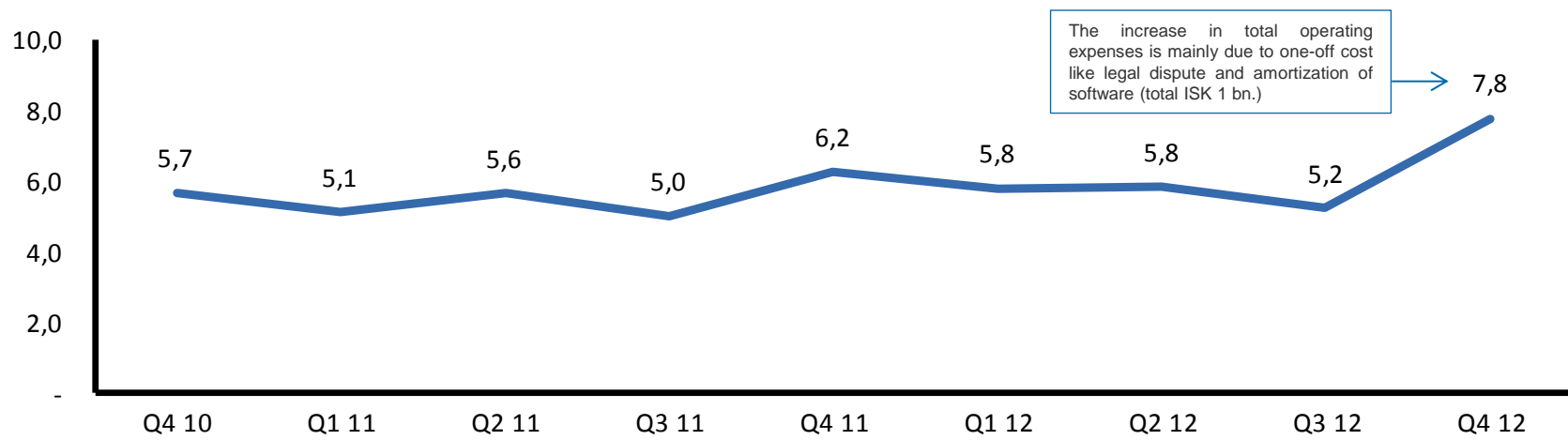
Other income



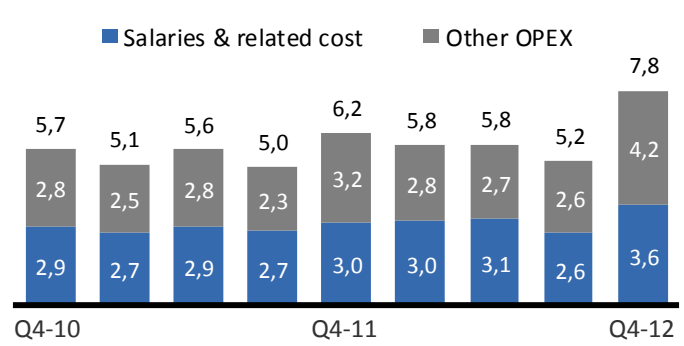
OPERATING EXPENSES

LOW COST-TO-INCOME RATIO

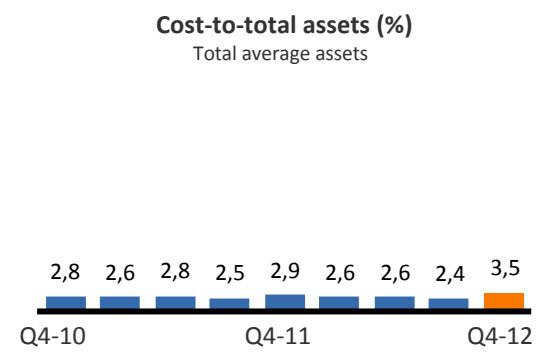
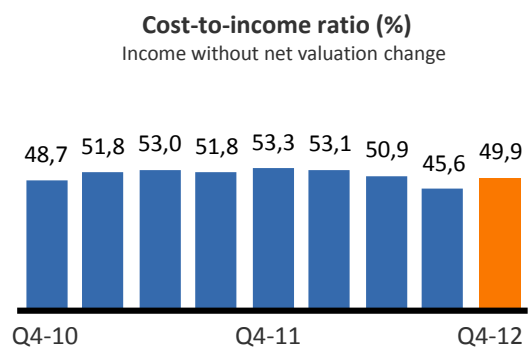
Total operating expenses from Q4 2010 – Q4 2012 (ISK bn.)



Operating expenses from Q4 2010 – Q4 2012



Key cost ratios from Q4 2010 – Q4 2012



TAXES AND EXPENSE PAID TO GOVERNMENT INSTITUTIONS

TAX BURDEN ON BANKS HAS INCREASED CONSIDERABLY AND IS MORE THEN IN OTHER SECTOR

ISK millions	2010	2011	2012
Income tax, payable *	3.518	1.683	2.539
Additional income tax **	0	0	621
Bank Levy	290	712	723
Additional Bank Levy ***	0	334	339
Special tax on salaries ****	0	0	545
Expense paid to FME	192	214	275
The Debtor's Ombudsman	32	133	142
Depositors' and investors' guarantee fund	324	1.200	899
Total	4.356	4.276	6.084

* Calculated income tax was 3.481 m.ISK for the year 2010, 1.912 m.ISK for the year 2011 and 3.633 m.ISK for the year 2012

** Additional income tax, calculated as 6% of taxable profits above ISK 1 billion

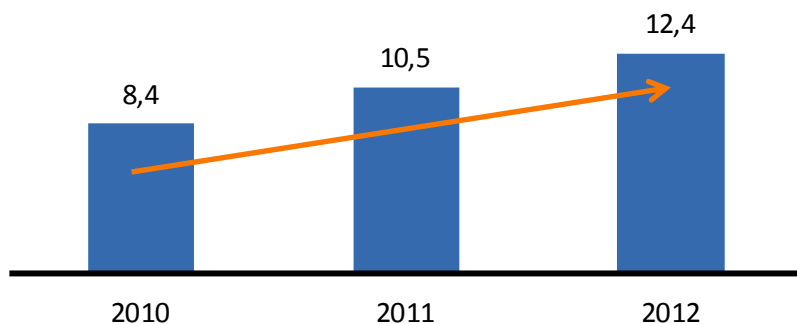
*** Additional 0.0875% special tax on liabilities for the years 2011 and 2012

**** Additional special tax on salaries, calculated as 5.45% on wages

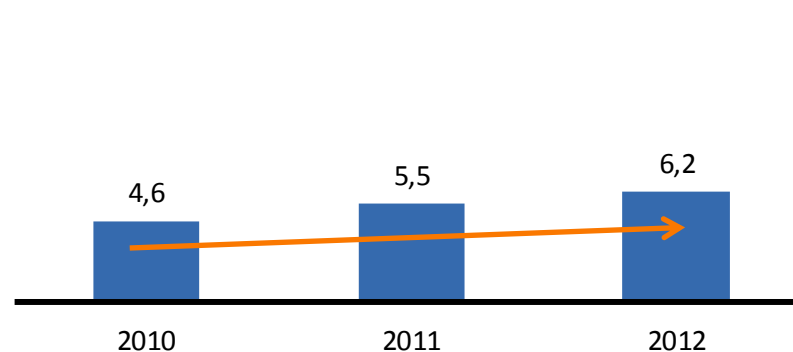
OPERATING PROFIT

INCREASED OPERATING PROFIT

Average quarterly total operating income (ISK bn.)
without net valuation change

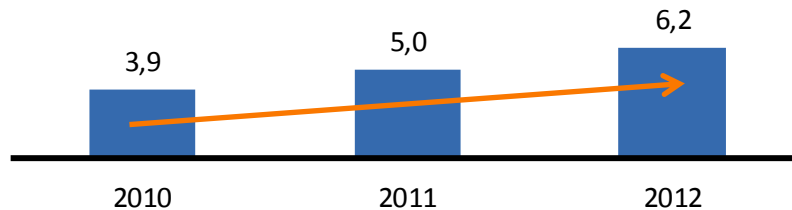


Average quarterly total operating expense (ISK bn.)



Operating profit

Average quarterly operating profit (ISK bn.)
without net valuation change



BALANCE SHEET
31.12.2012

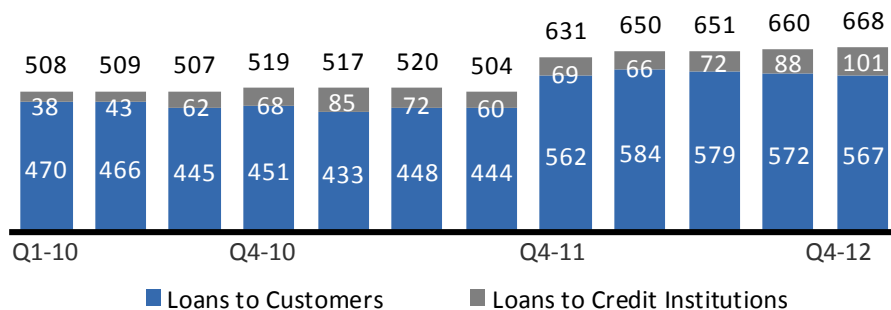


BALANCE SHEET

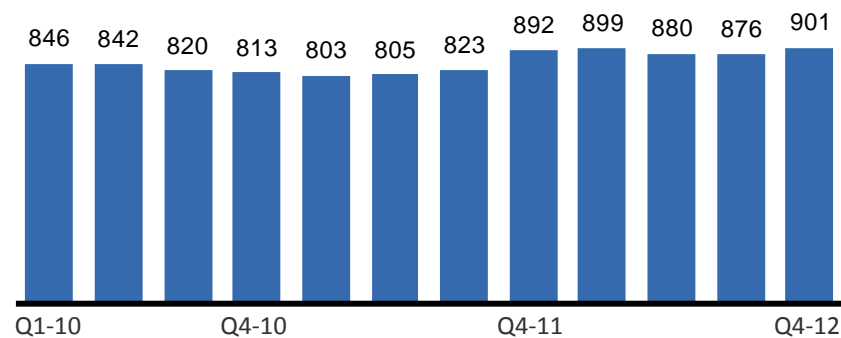
TOTAL ASSETS

Billion ISK	31.12.12	31.12.11	Diff%	31.12.10	Diff%
Cash & balances with CB	30	29	2%	31	-3%
Loans to credit institutions	101	69	46%	68	49%
Loans to customers	567	562	1%	451	26%
Financial assets	138	158	-13%	135	2%
Investments properties	29	27	7%	28	5%
Non current assets & disp.groups HFS	12	24	-50%	44	-73%
Other assets	25	24	4%	56	-56%
Total assets	901	892	1%	813	11%

Total loans (ISK bn.)



Total assets (ISK bn.)

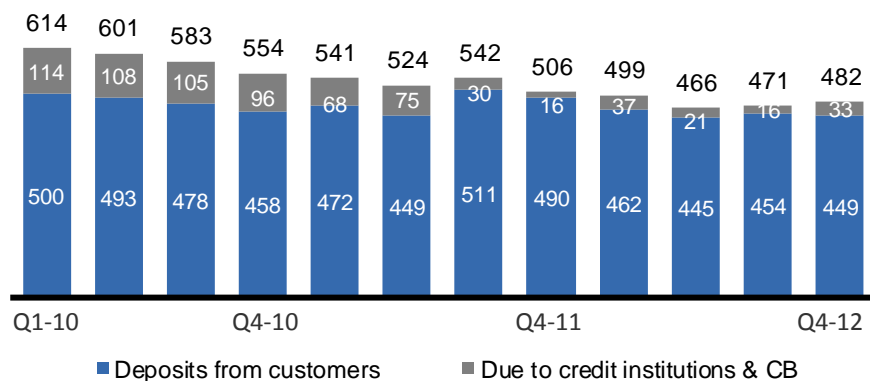


BALANCE SHEET

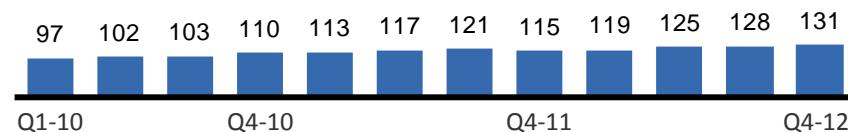
TOTAL LIABILITIES AND EQUITY

Billion ISK	31.12.12	31.12.11	Diff%	31.12.10	Diff%
Due to credit institutions & CB	33	16	104%	96	-66%
Deposits from customers	449	490	-8%	458	-2%
Non current liab. & disp.groups HFS	2	5	-64%	14	-87%
Other liabilities	57	47	21%	45	28%
Borrowings	195	187	4%	65	199%
Subordinated loans	34	32	7%	26	30%
Equity	131	115	14%	110	19%
Total liabilities and equity	901	892	1%	813	11%

Total deposits (ISK bn.)



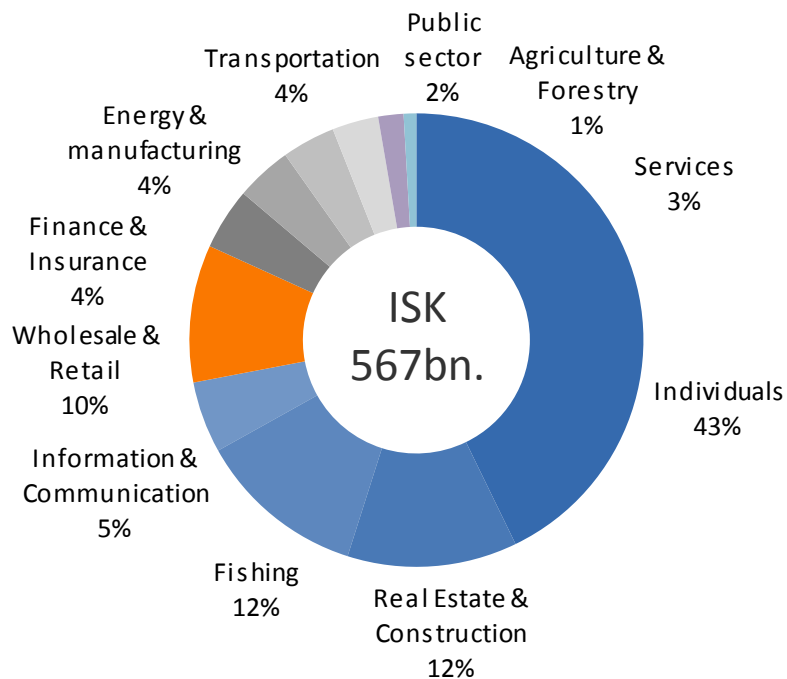
Total equity (ISK bn.)



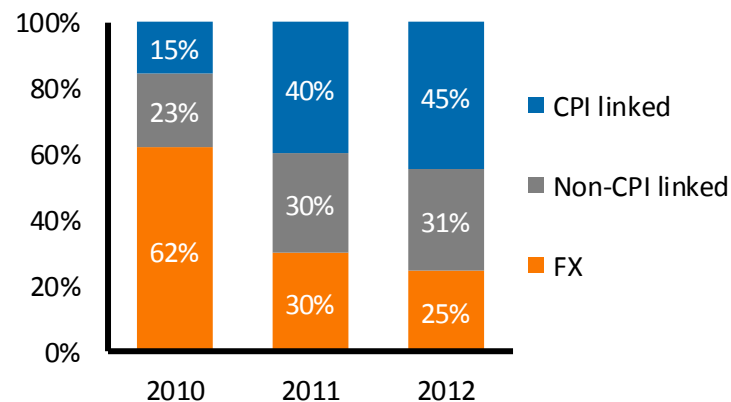
LOAN PORTFOLIO

WELL DIVERSIFIED LOAN PORTFOLIO

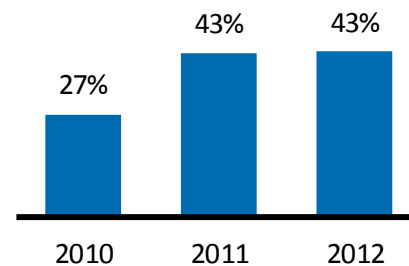
Loans to customers by sector 31.12.2012



Development of loans to customers by currency



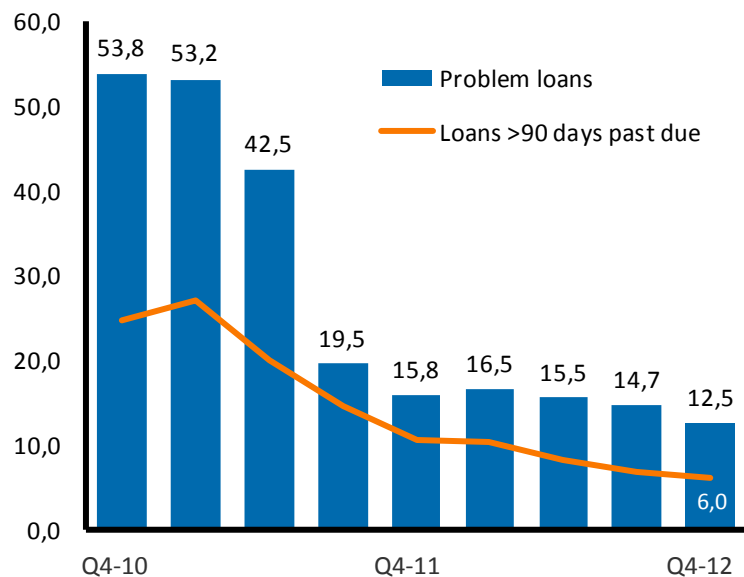
Development of loans to individuals



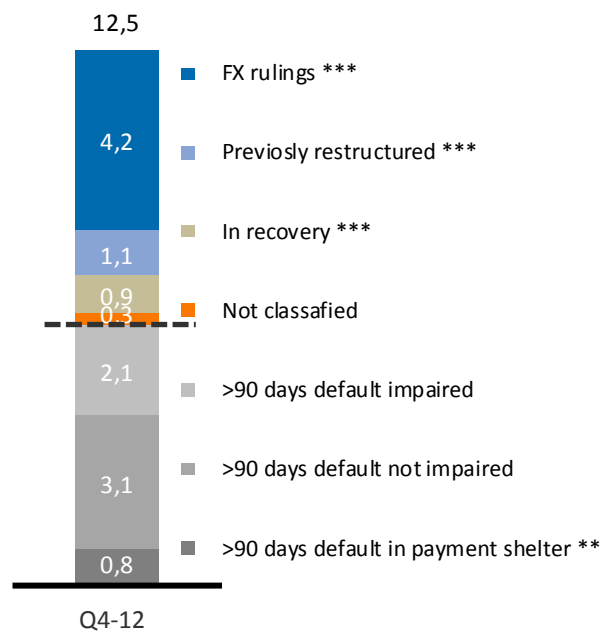
ASSET QUALITY

ASSET QUALITY STILL IMPROVING BUT PROGRESS HAS SLOWED

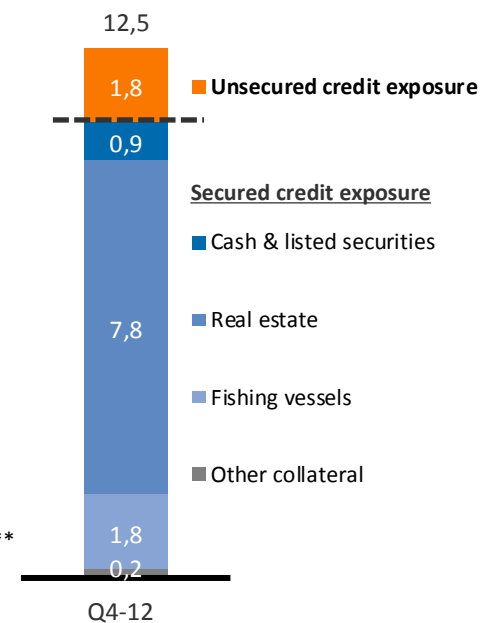
Problem loans * (%)
thereof 6,0% in over 90 days default



Problem loans by status (%)
4,2% is due to FX rulings



Collateral behind problem loans (%)
with coverage ratio of 86%



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

** Loans in payment shelter at the Debtor's Ombudsman

*** Loans not past due more than 90 days

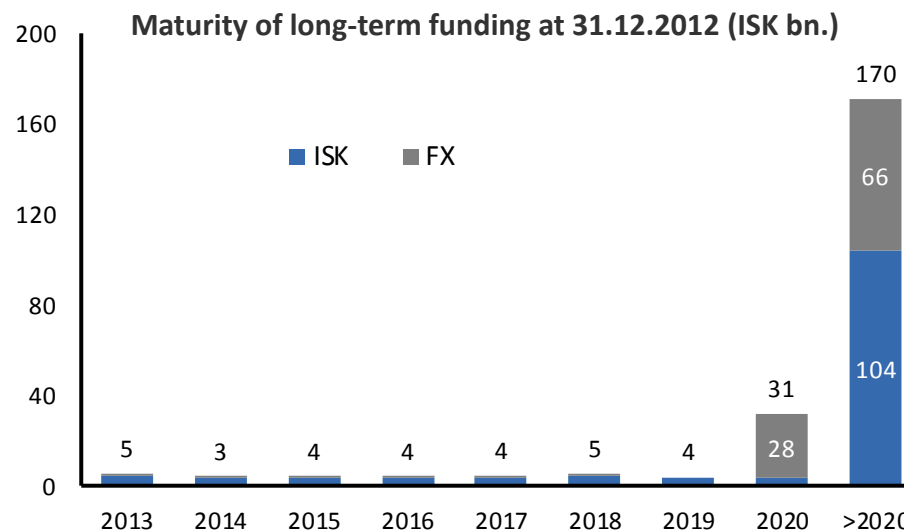
FUNDING

NO SIGNIFICANT REDEMPTION OF LONG-TERM FUNDING

Long-term funding

Strong funding profile

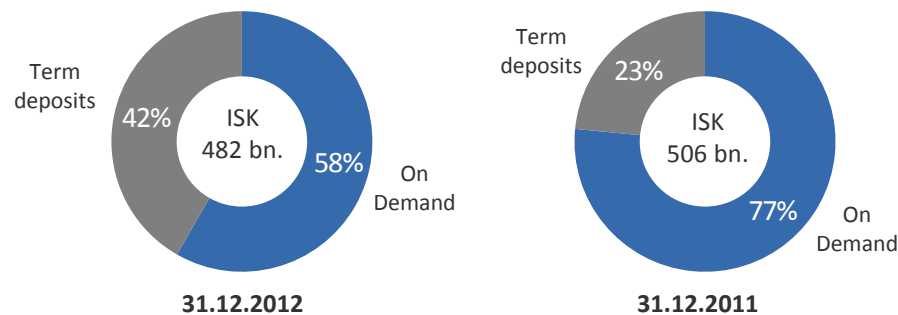
- First Icelandic bank to access international funding markets in February 2013
- International credit rating in progress
- No significant redemption of long-term funding until 2020
- Continued issuance of domestic covered bonds



Deposit funding (total deposits)

Increased focus on term deposits

- Successfully increased terms deposits in 2012
- New +6 month term deposit product well received by institutional investors
- Further product development on new term deposits with regards to Basel 3 requirements



LIQUIDITY

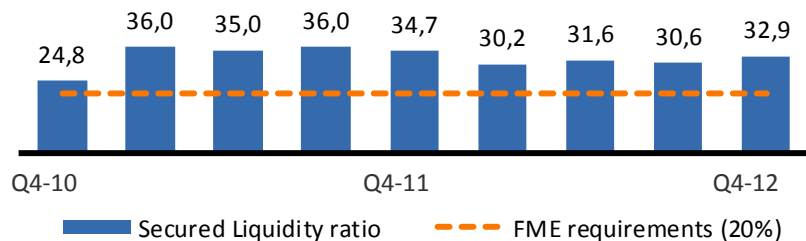
THE BANK EXCEEDS REGULATORY LIQUIDITY REQUIREMENTS

Deposit coverage ratio 31.12.2012 (ISK bn.)

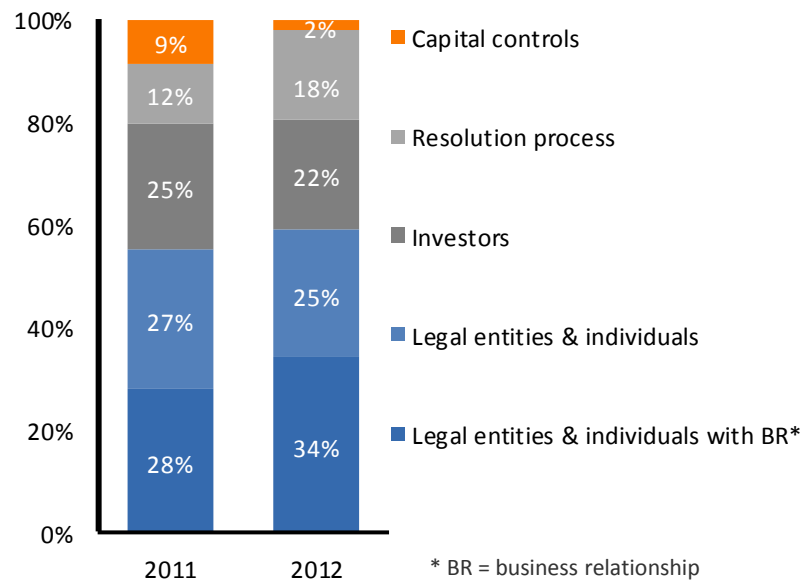
Asset type	ISK	FX	Total
Cash and balances with Central Bank	23	5	28
Balances with Credit institutions	0	62	62
Repo eligible bonds and Liquid Facility	80	0	80
Total liquid assets	102	67	170
Liquid assets to total deposits	24%	76%	33%
Cash to total on demand deposits	9%	143%	31%

- Arion Bank holds excessive liquidity reserve in foreign currency
- Domestic liquidity reserve are mainly Treasury notes and a Government liquidity facility

Development of liquid ratio (%)



Deposits from customers by stickiness rating

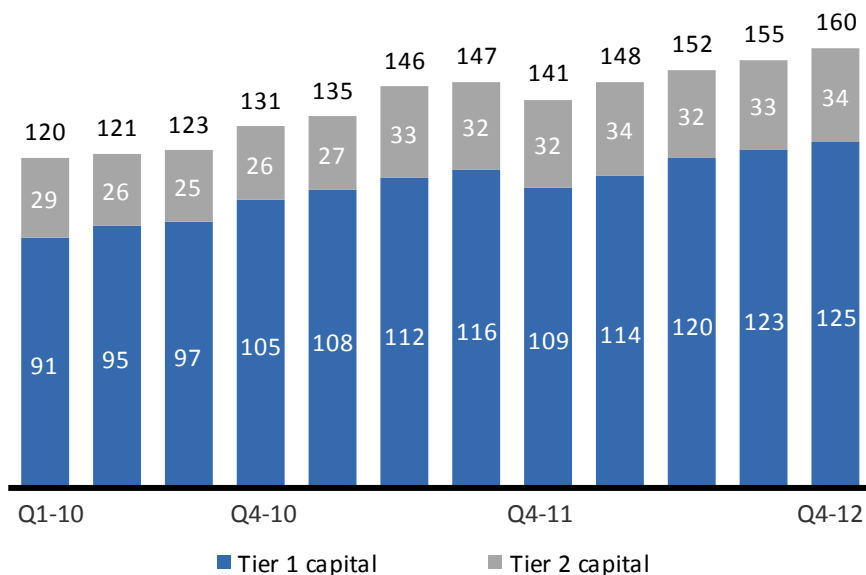


- Legal entities and retail individuals deposits are categorized as the most sticky and are the Bank's core deposits

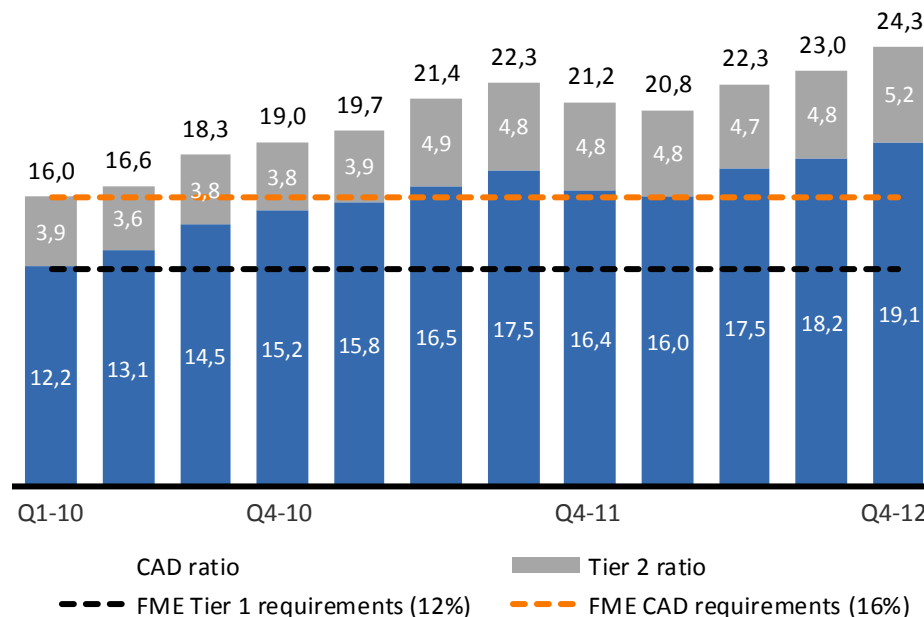
CAPITAL BASE

STRONG CAPITAL BASE AND HIGH CAD RATIO

Total Capital Base (ISK bn.)



CAD ratio (%)



KEY FINANCIAL INDICATORS



KEY FINANCIAL INDICATORS

	2012	2011	2010
Return on equity (ROE)	13,8%	10,5%	13,4%
Return on assets (ROA)	1,9%	1,4%	1,5%
Net interest margin (int.bearing assets)	3,4%	3,4%	2,7%
Net interest margin (total assets)	3,1%	2,9%	2,4%
Cost-to-Income ratio *	49,8%	52,5%	54,2%
Cost-to-Total assets ratio	2,8%	2,7%	2,2%
Effective tax rate	18,0%	17,0%	20,1%
CAD ratio	24,3%	21,2%	19,0%
Tier 1 ratio	19,1%	16,4%	15,2%
Problem loans **	12,5%	15,8%	53,8%
Non-performing loans ***	6,1%	10,6%	24,7%
RWA / Total assets	73,0%	74,5%	84,7%
Loans to deposits ratio	126,3%	114,6%	98,5%
Secured liquidity ratio	32,9%	34,7%	24,8%
Cash ratio	30,8%	15,3%	11,2%
The Group's employees	1.190	1.158	1.241
The Parent company's employees	949	858	936

* Total operating expense / Total operating income without net valuation change

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

*** Loans more than 90 days past due as % of loans to customers

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