



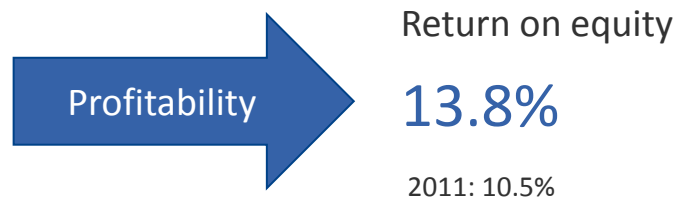
FINANCIAL STATEMENT  
2012

INVESTOR PRESENTATION



# HIGHLIGHTS

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# INCOME STATEMENT 2012



# INCOME STATEMENT

## DEVELOPMENT FROM 2010 - 2012

<b>Million ISK</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>
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
<b>Operating income</b>	<b>44.812</b>	<b>33.276</b>	<b>35.623</b>
Salaries and related cost	-12.459	-11.254	-9.272
Other operating expenses	-12.209	-10.762	-9.020
<b>Net earnings before taxes</b>	<b>20.144</b>	<b>11.260</b>	<b>17.331</b>
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
<b>Net earnings</b>	<b>17.056</b>	<b>11.094</b>	<b>12.557</b>
<b>Shareholders of Arion Bank</b>	<b>16.622</b>	<b>10.493</b>	<b>12.381</b>
Minority interest	434	601	176

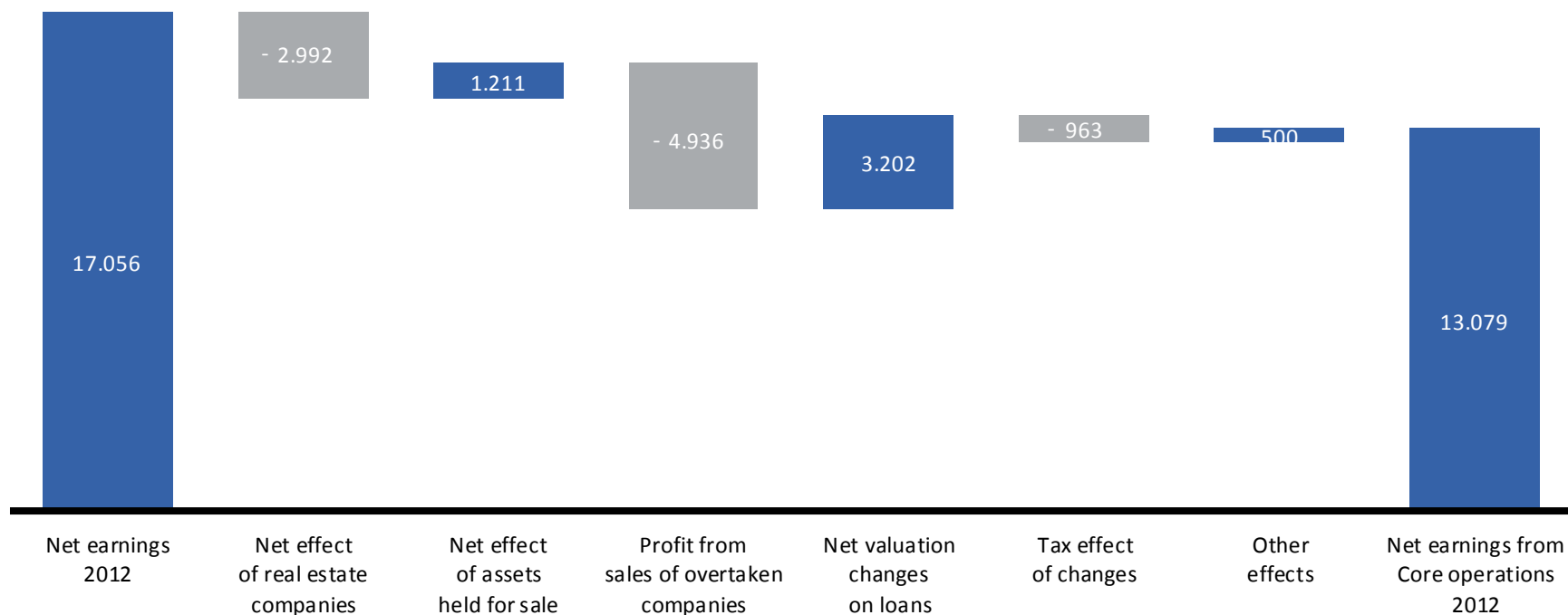
# INCOME STATEMENT

PER QUARTER 2012

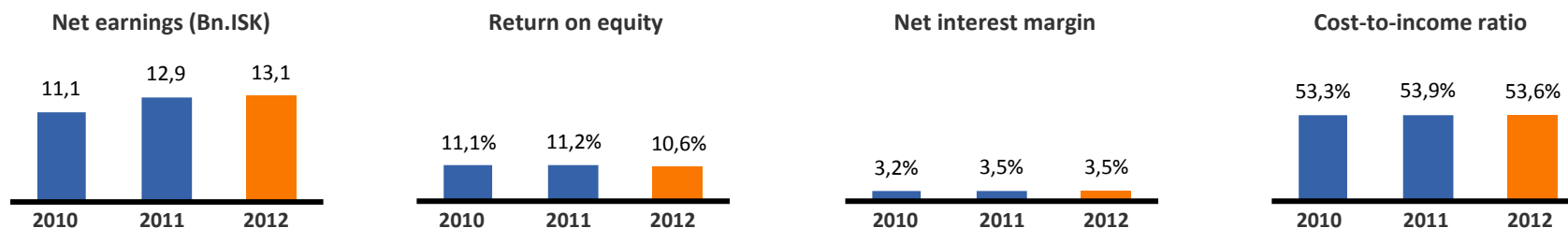
Million ISK	Q1 2012	Q2 2012	Q3 2012	Q4 2012	2012
Net interest income	6.214	7.666	6.254	7.008	27.142
Net change in valuation	-76	2.608	-2.053	-5.169	-4.690
Net commission income	2.336	3.002	2.715	2.695	10.748
Net financial income	1.429	-1.248	869	967	2.017
Other income	952	2.054	1.637	4.952	9.595
<b>Operating income</b>	<b>10.855</b>	<b>14.082</b>	<b>9.422</b>	<b>10.453</b>	<b>44.812</b>
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
<b>Net earnings before taxes</b>	<b>5.053</b>	<b>8.240</b>	<b>4.192</b>	<b>2.659</b>	<b>20.144</b>
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
<b>Net earnings</b>	<b>4.451</b>	<b>6.798</b>	<b>3.288</b>	<b>2.519</b>	<b>17.056</b>
<b>Shareholders of Arion Bank</b>	<b>4.311</b>	<b>6.741</b>	<b>3.124</b>	<b>6.757</b>	<b>16.622</b>
Minority interest	140	57	164	213	434

# INCOME STATEMENT

## CORE OPERATIONS CONTINUE TO IMPROVE



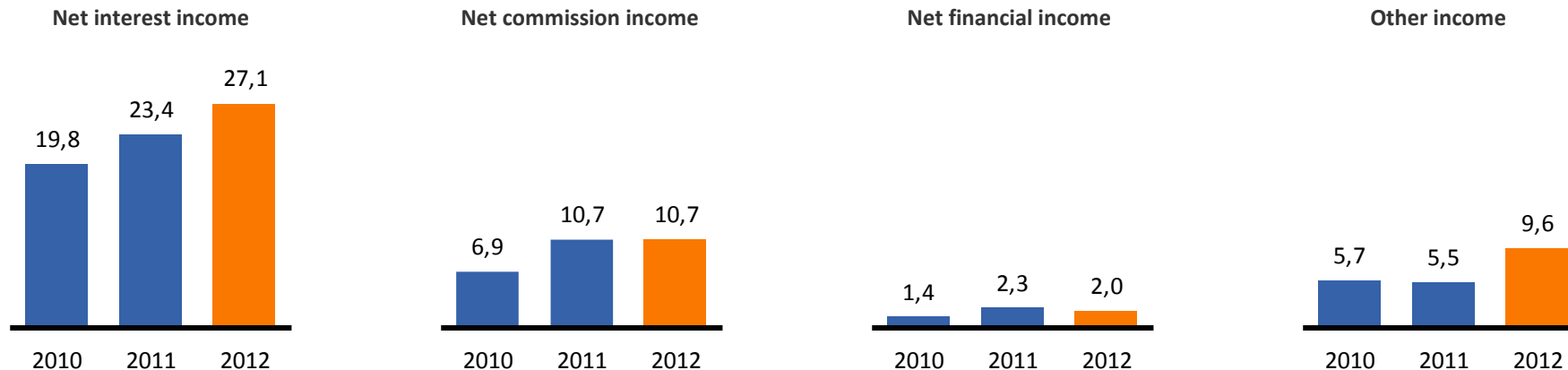
### Key figures and ratios from Core operation



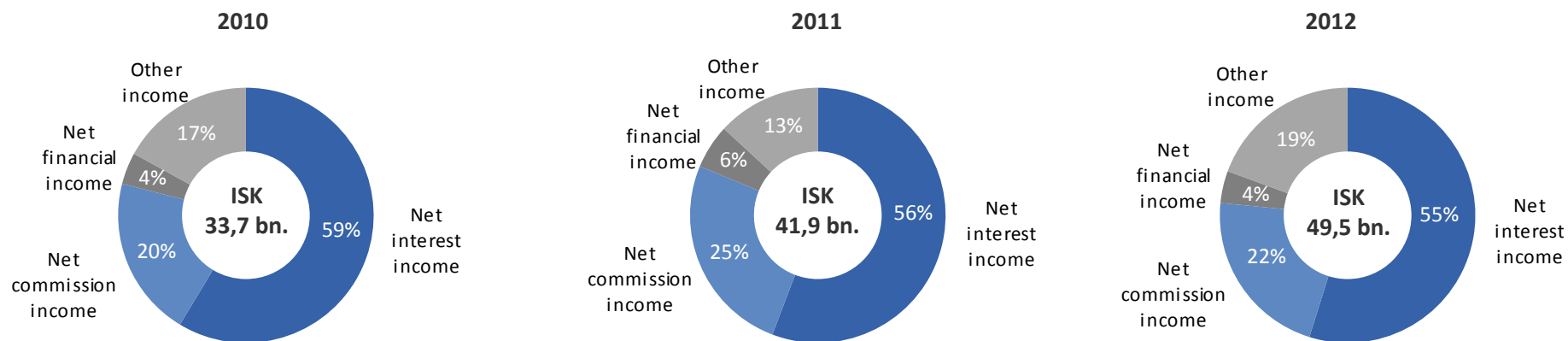
# OPERATING INCOME

## STRONG NET INTEREST INCOME

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



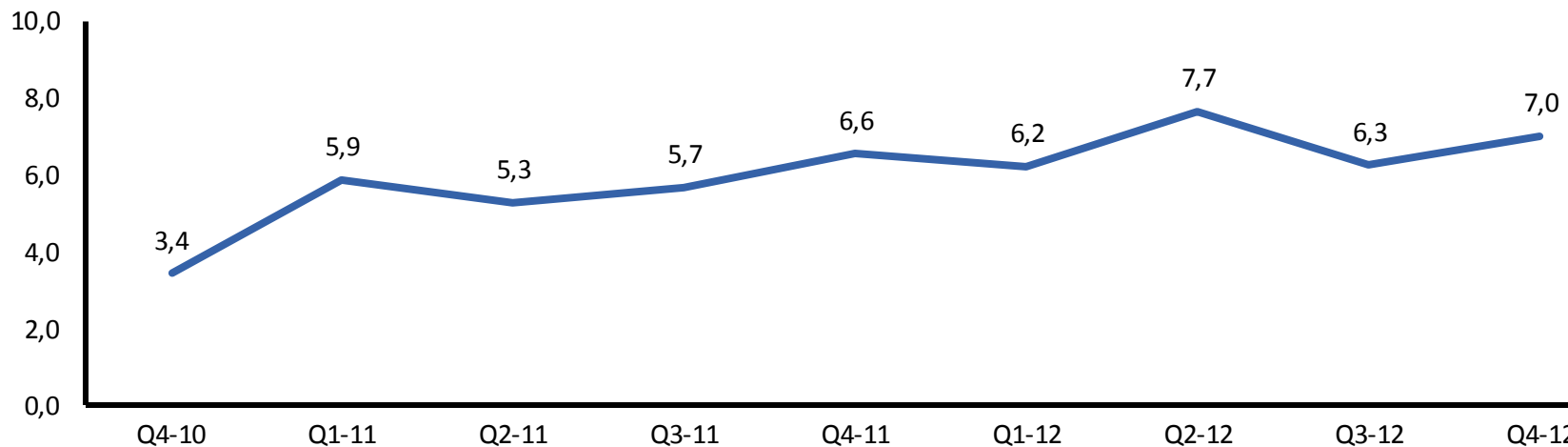
Development of operating income split, without net valuation change, from 2010 – 2012



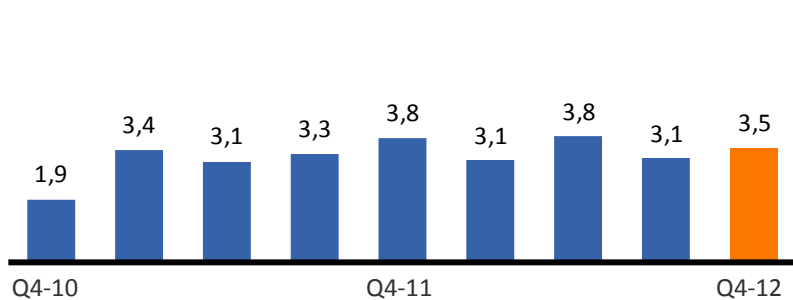
# NET INTEREST INCOME

NET INTEREST MARGIN 3,4% FOR 2012

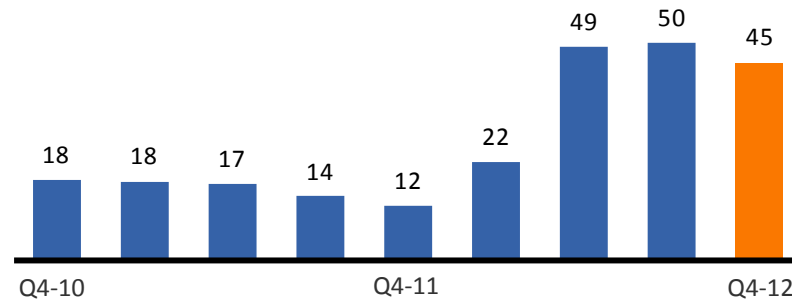
Net interest income from Q4 2010 – Q4 2012 (ISK bn.)



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



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

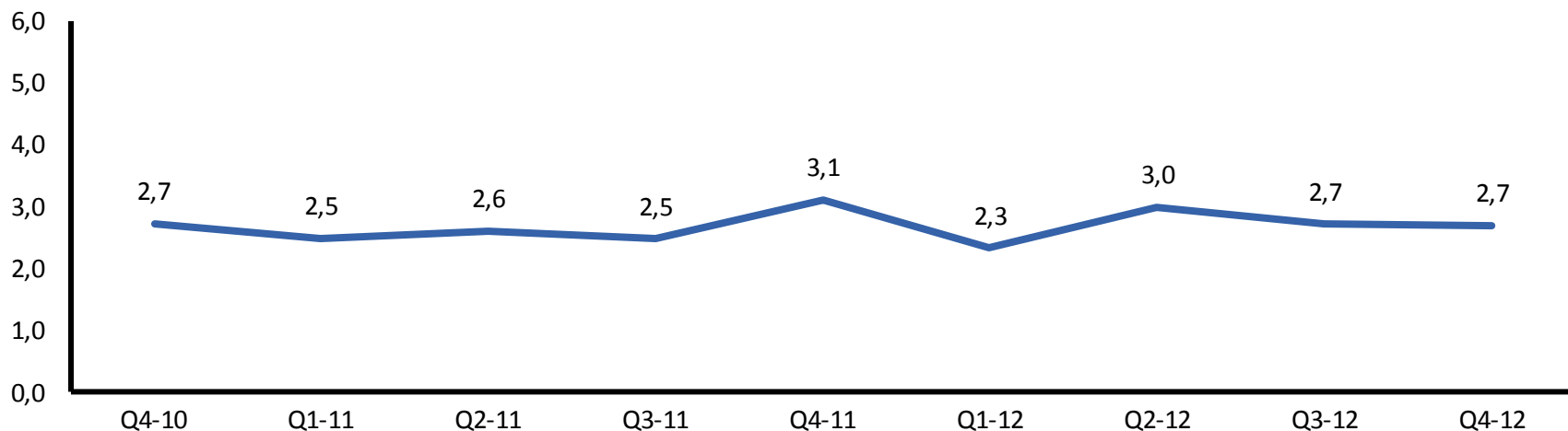




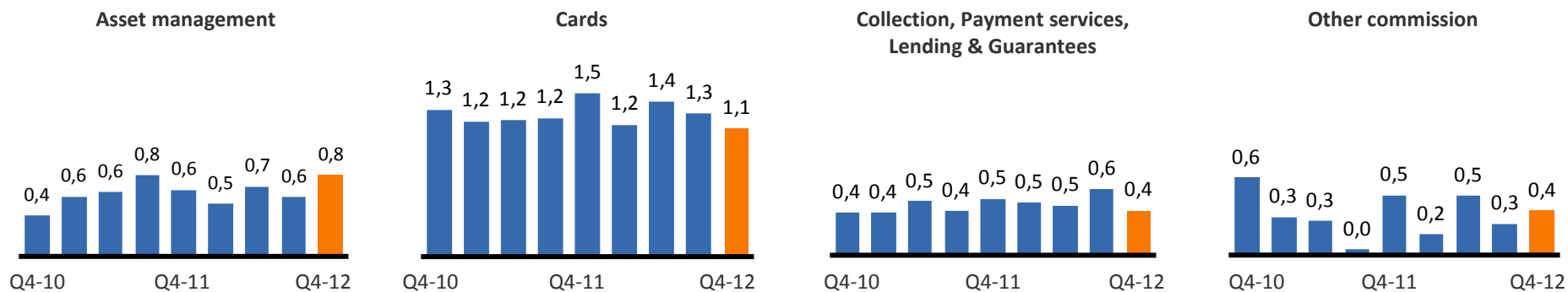
# NET COMMISSION INCOME

## STABLE NET COMMISSION INCOME

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



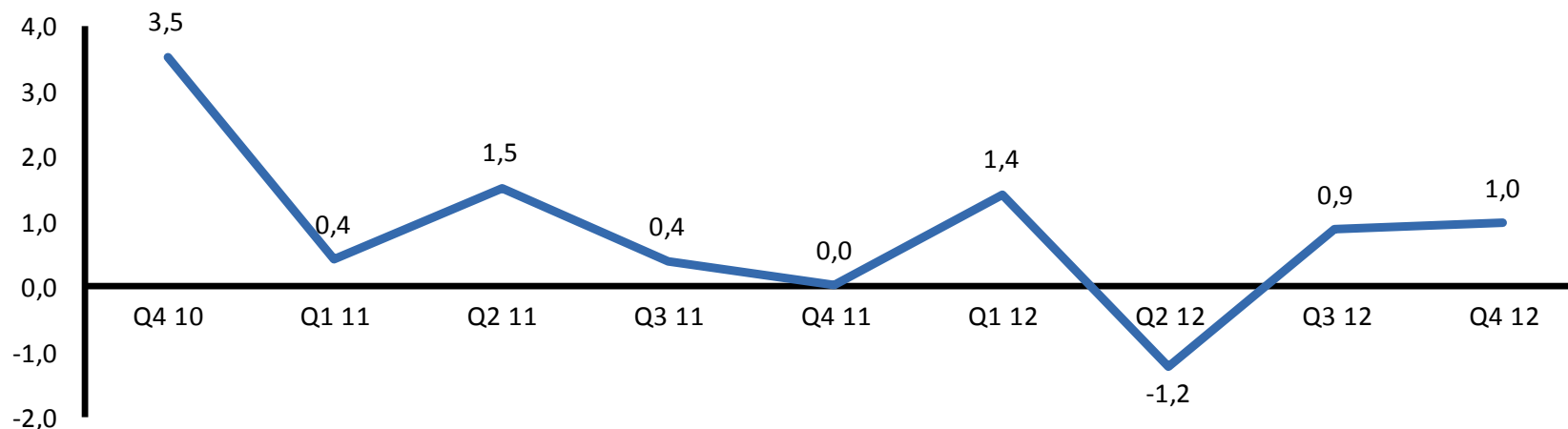
Net commission income by type from Q4 2010 – Q4 2012 (ISK bn.)



# NET FINANCIAL INCOME

EARNINGS VOLATILITY REDUCED DUE TO LOWER FX IMBALANCE

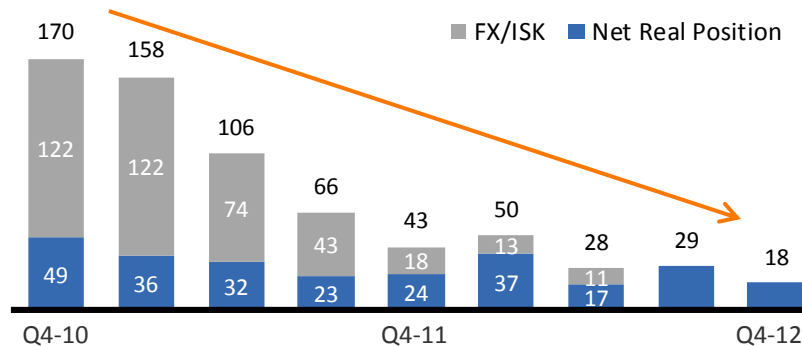
Net financial income from Q4 2010 – Q4 2012 (ISK bn.)



Movement of the Icelandic krona from Q4 2010 – Q4 2012



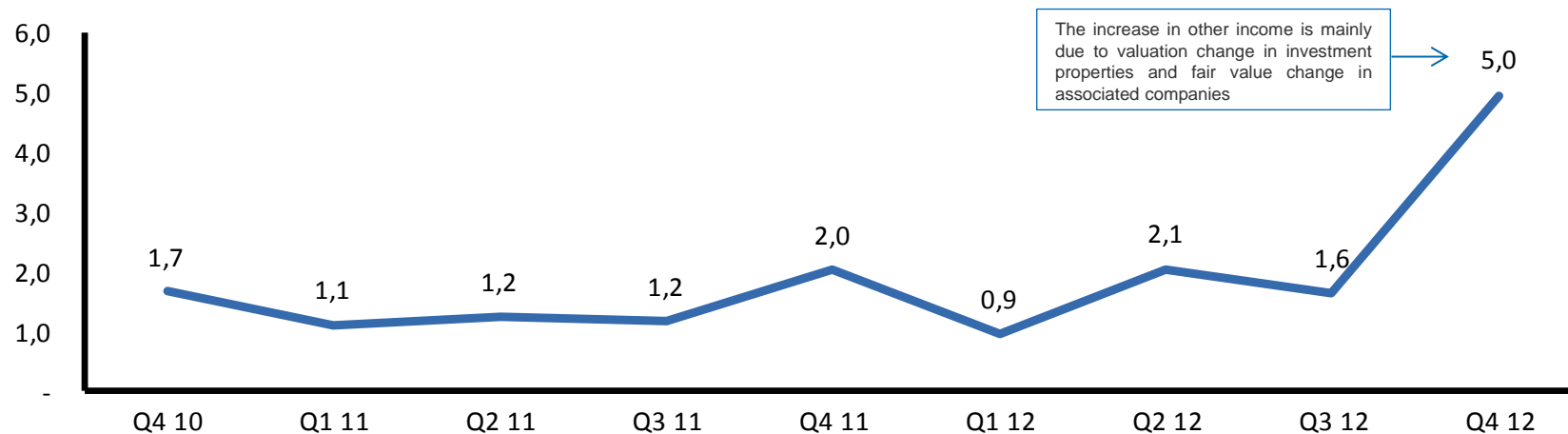
FX imbalance from Q4 2010 – Q4 2012 (ISK bn.)



# OTHER INCOME

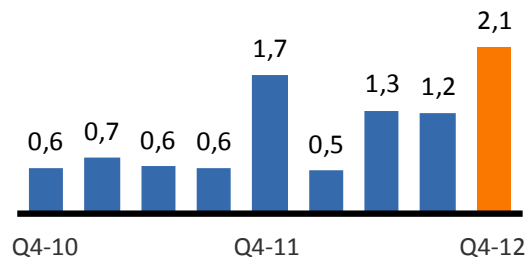
## INCREASING OTHER INCOME DRIVEN BY VALUATION CHANGES

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



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

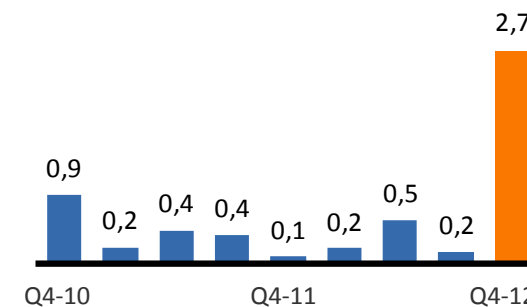
Income from investment properties



Income from insurance



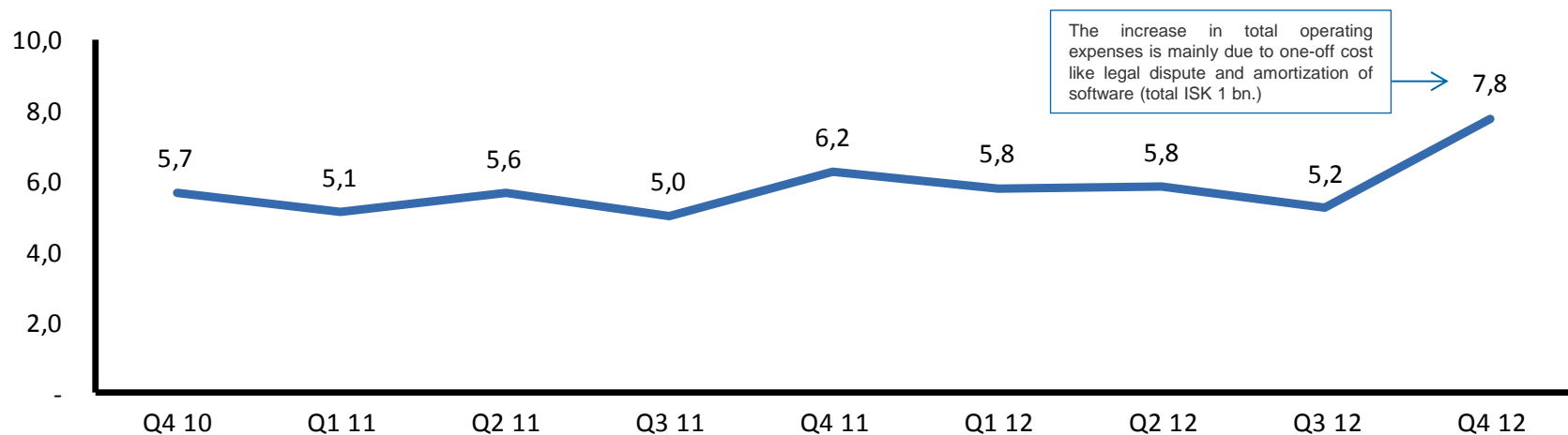
Other income



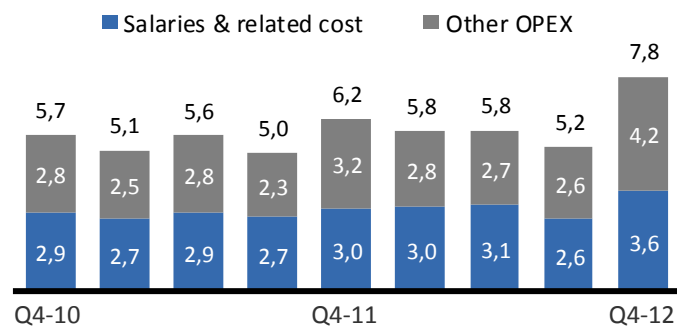
# OPERATING EXPENSES

## LOW COST-TO-INCOME RATIO

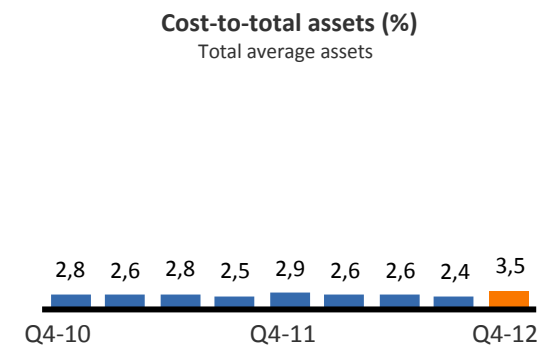
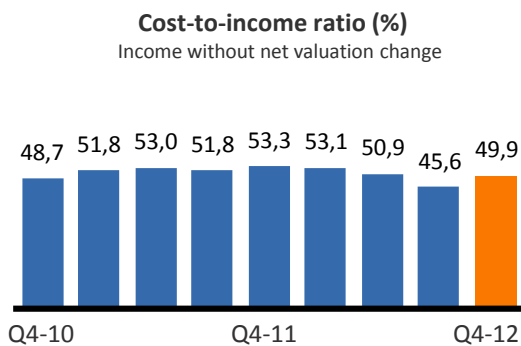
Total operating expenses from Q4 2010 – Q4 2012 (ISK bn.)



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
<b>Total</b>	<b>4.356</b>	<b>4.276</b>	<b>6.084</b>

\* 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

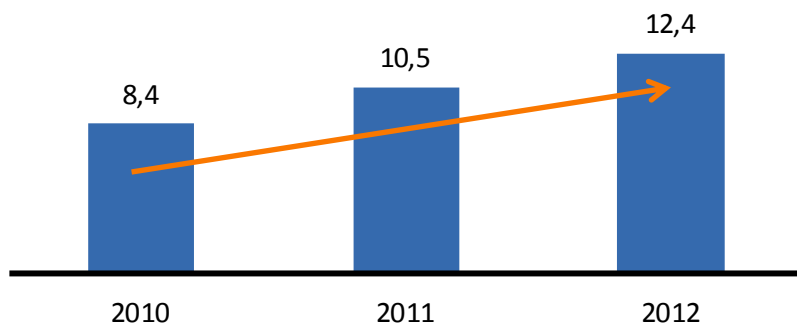
\*\*\* Additional 0.0875% special tax on liabilities for the years 2011 and 2012

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

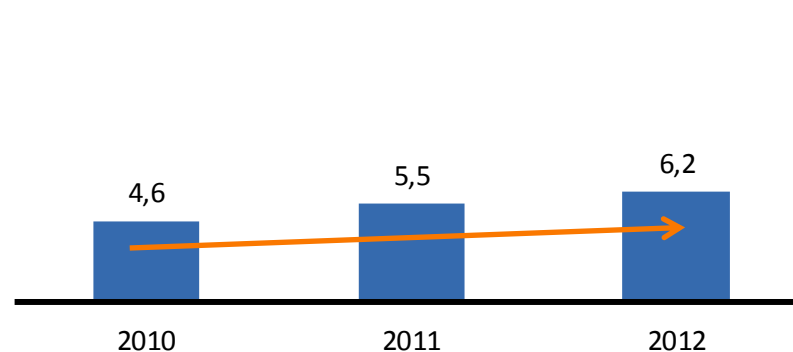
# OPERATING PROFIT

## INCREASED OPERATING PROFIT

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

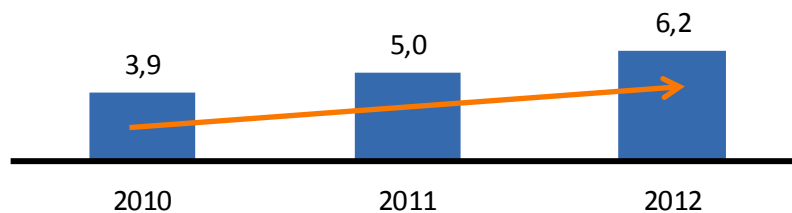


**Average quarterly total operating expense (ISK bn.)**



Operating profit

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



BALANCE SHEET  
31.12.2012

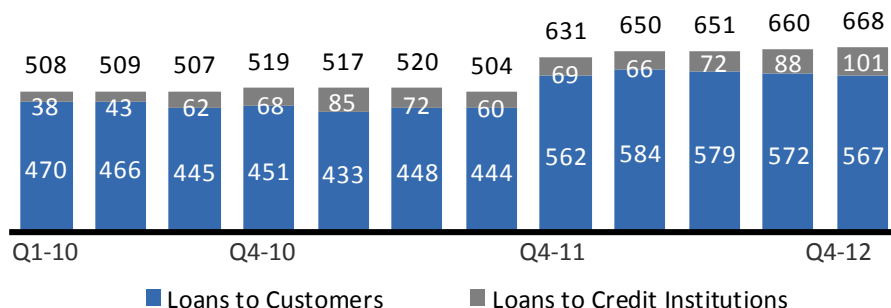


# BALANCE SHEET

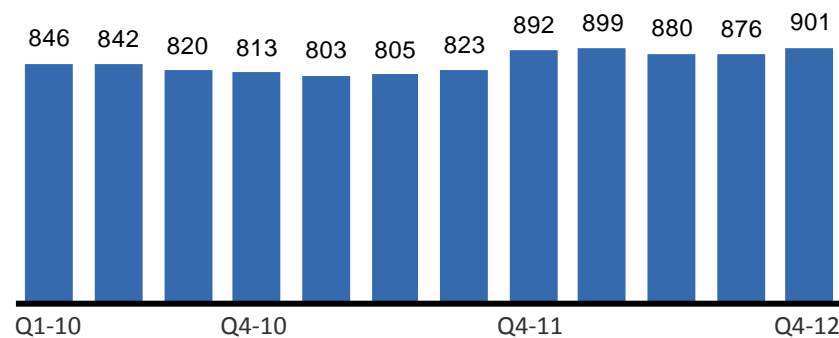
## TOTAL ASSETS

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%
<b>Total assets</b>	<b>901</b>	<b>892</b>	<b>1%</b>	<b>813</b>	<b>11%</b>

Total loans (ISK bn.)



Total assets (ISK bn.)



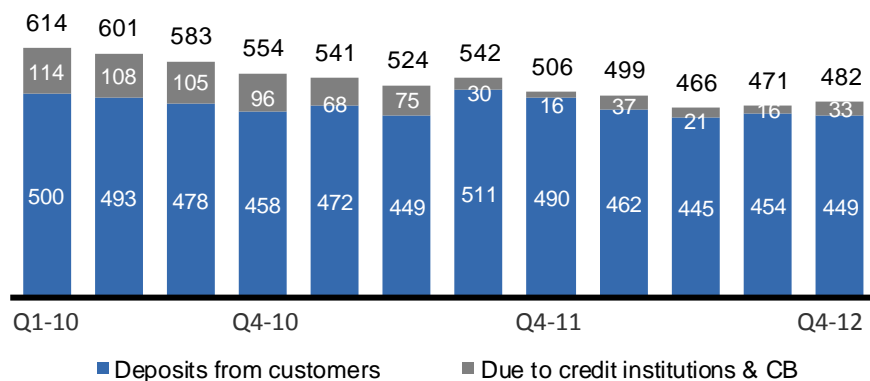


# BALANCE SHEET

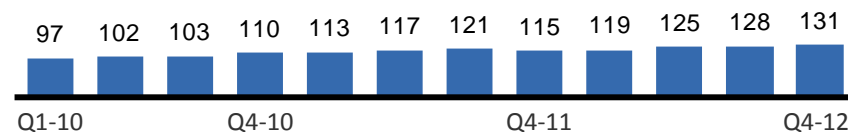
## TOTAL LIABILITIES AND EQUITY

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%
<b>Total liabilities and equity</b>	<b>901</b>	<b>892</b>	<b>1%</b>	<b>813</b>	<b>11%</b>

Total deposits (ISK bn.)



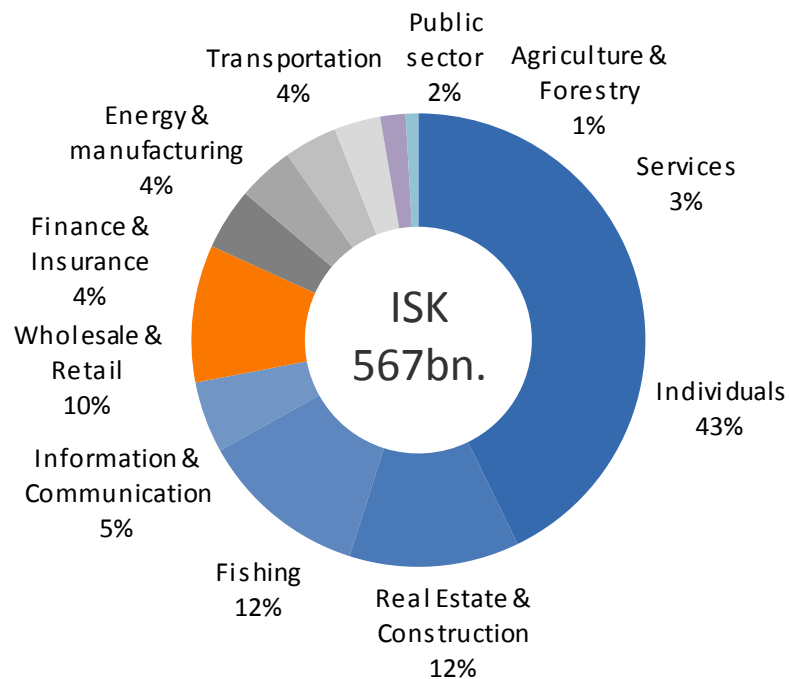
Total equity (ISK bn.)



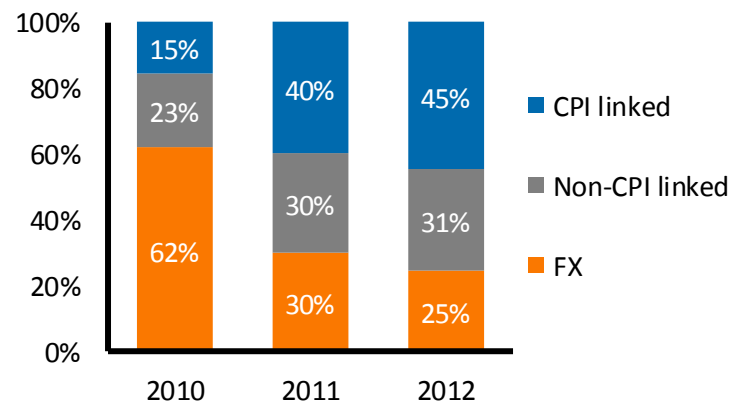
# LOAN PORTFOLIO

## WELL DIVERSIFIED LOAN PORTFOLIO

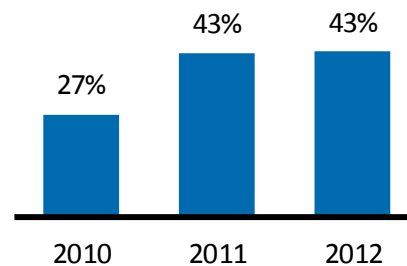
Loans to customers by sector 31.12.2012



Development of loans to customers by currency



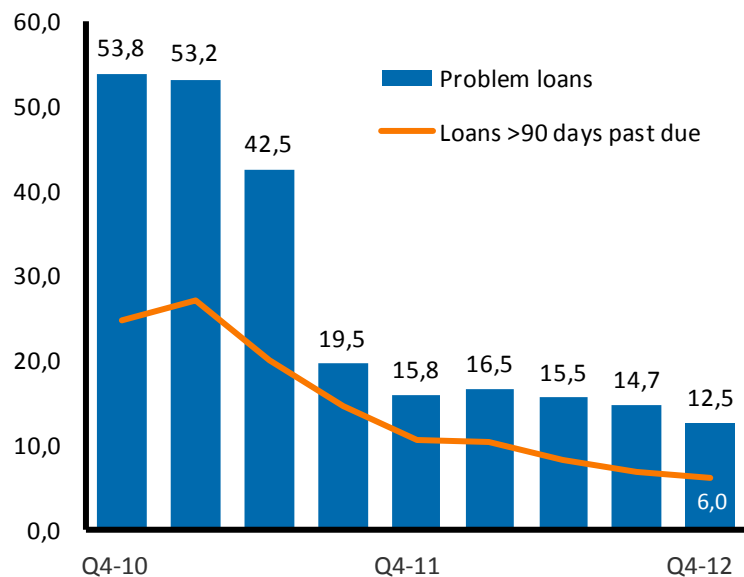
Development of loans to individuals



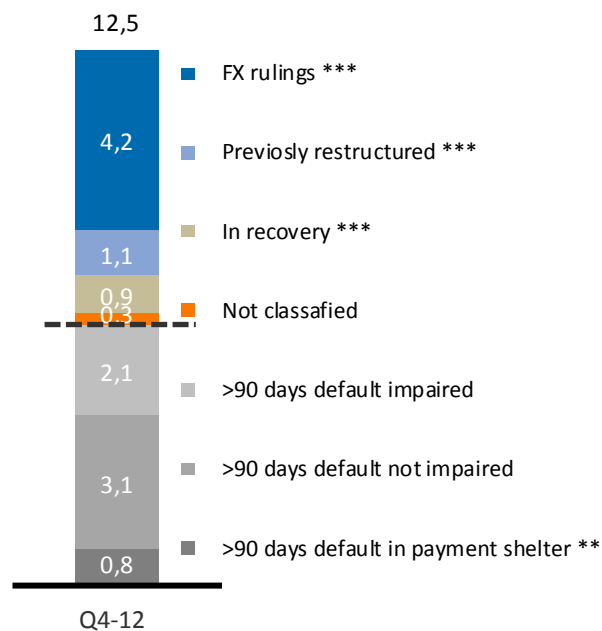
# ASSET QUALITY

## ASSET QUALITY STILL IMPROVING BUT PROGRESS HAS SLOWED

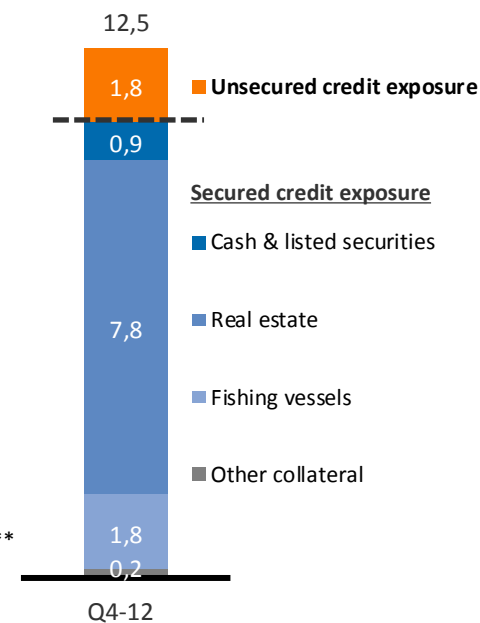
**Problem loans \* (%)**  
thereof 6,0% in over 90 days default



**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

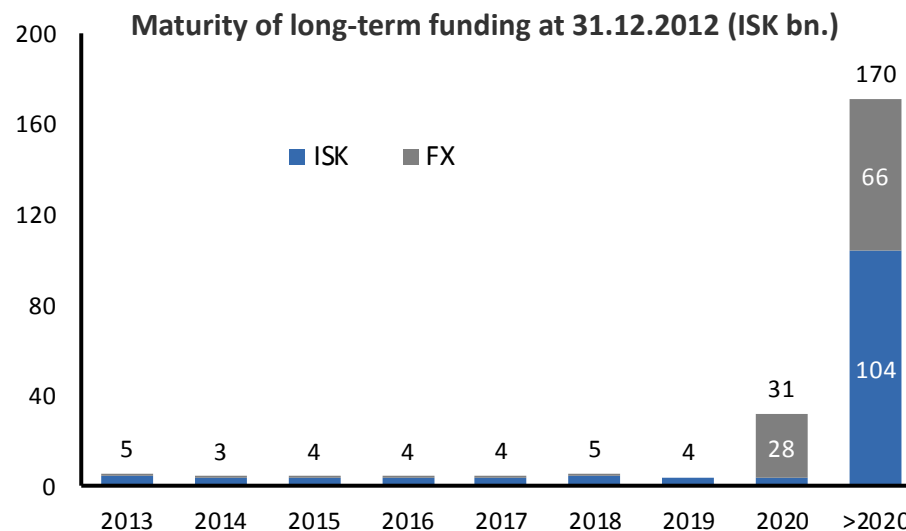
# FUNDING

## NO SIGNIFICANT REDEMPTION OF LONG-TERM FUNDING

### Long-term funding

#### Strong funding profile

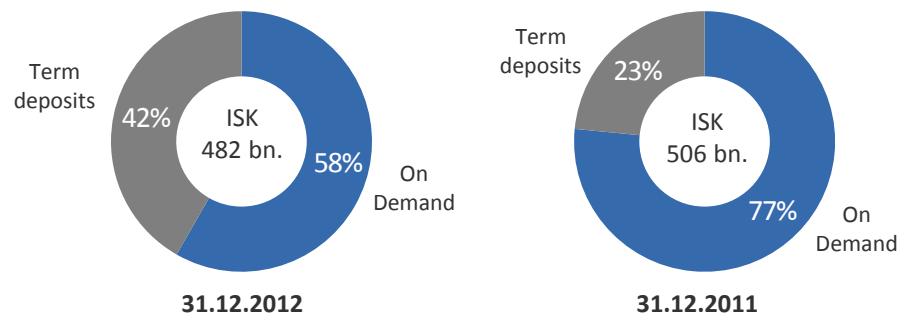
- First Icelandic bank to access international funding markets in February 2013
- International credit rating in progress
- No significant redemption of long-term funding until 2020
- Continued issuance of domestic covered bonds



### 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

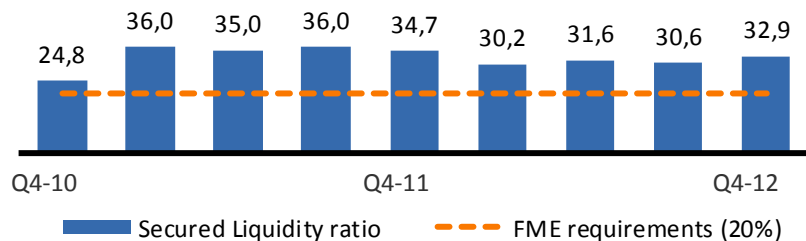
## THE BANK EXCEEDS REGULATORY LIQUIDITY REQUIREMENTS

### Deposit coverage ratio 31.12.2012 (ISK bn.)

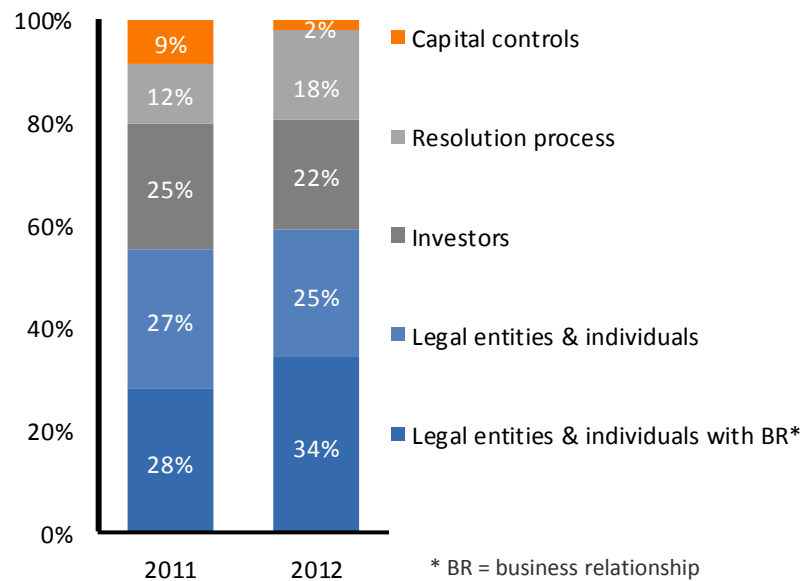
Asset type	ISK	FX	Total
Cash and balances with Central Bank	23	5	28
Balances with Credit institutions	0	62	62
Repo eligible bonds and Liquid Facility	80	0	80
<b>Total liquid assets</b>	<b>102</b>	<b>67</b>	<b>170</b>
Liquid assets to total deposits	24%	76%	<b>33%</b>
Cash to total on demand deposits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

- 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

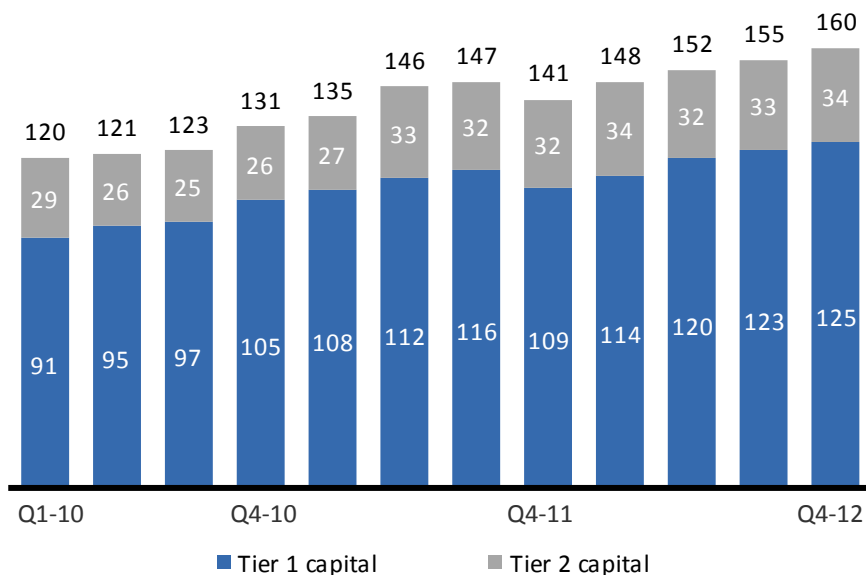


- Legal entities and retail individuals deposits are categorized as the most sticky and are the Bank's core deposits

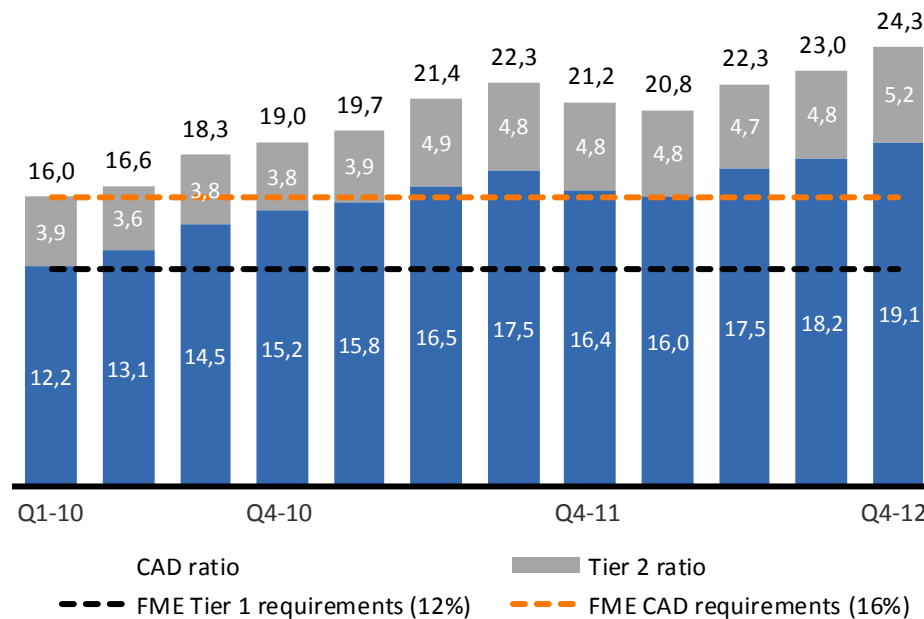
# CAPITAL BASE

## STRONG CAPITAL BASE AND HIGH CAD RATIO

Total Capital Base (ISK bn.)



CAD ratio (%)



# KEY FINANCIAL INDICATORS



## KEY FINANCIAL INDICATORS

	<b>2012</b>	<b>2011</b>	<b>2010</b>
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	33,0%	34,7%	24,8%
Cash ratio	31,0%	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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