



# FINANCIAL RESULTS

JANUARY - SEPTEMBER 2013



# FINANCIAL SUMMARY



## HIGHLIGHTS

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1 Solid performance in Q3

2 Further improvement  
in asset quality

3 Increasing new mortgage  
loans

4 Strong capital base



# FINANCIAL SUMMARY

## STRONG PROFITABILITY AND CAPITAL BASE

	9M 2013	9M 2012	3Q 2013	Q2 2013	Q1 2013
<b>Income Statement</b>	Operating income (ISK bn)	31,5	34,4	10,6	12,1
	Net earnings (ISK bn)	10,1	14,5	4,2	4,5
<b>Profitability</b>	Return on equity	10,0%	15,9%	12,2%	13,4%
	Net interest margin	2,9%	3,3%	2,7%	3,1%
<b>Efficiency</b>	Cost-to-income ratio	57,6%	49,8%	48,4%	54,4%
	Total employees	1.139	1.177	1.139	1.153
	30.09.13	30.06.13	31.03.13	31.12.12	31.12.11
<b>Balance Sheet</b>	Total assets (ISK bn)	936,9	929,0	907,5	900,7
	Loans to customers (ISK bn)	576,2	567,3	565,5	566,6
	Deposits from customers (ISK bn)	471,8	466,8	462,3	448,7
	Total equity (ISK bn)	140,9	136,8	132,3	130,9
<b>Liquidity</b>	Loans-to-deposits ratio	122,1%	121,5%	122,3%	126,3%
	Liquidity ratio	35,5%	38,0%	35,3%	32,9%
<b>Asset quality</b>	Problem loans	8,2%	8,5%	10,2%	12,5%
	Loans in >90 days default	5,8%	5,6%	5,6%	6,0%
<b>Financial strength</b>	Tier 1 ratio	19,5%	19,5%	19,1%	19,1%
	CAD ratio	24,2%	24,3%	23,9%	24,3%



# INCOME STATEMENT

9M 2013



# INCOME STATEMENT

## GOOD PERFORMANCE IN Q3 2013

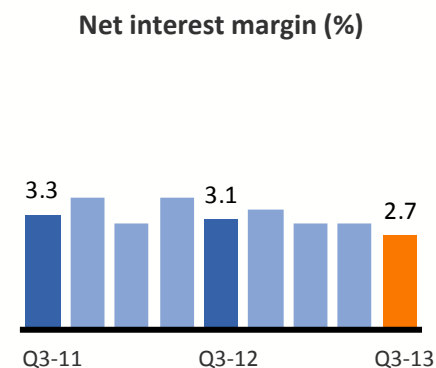
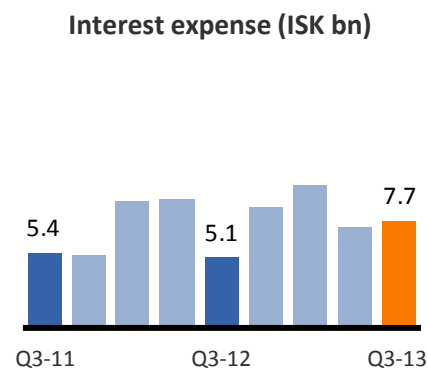
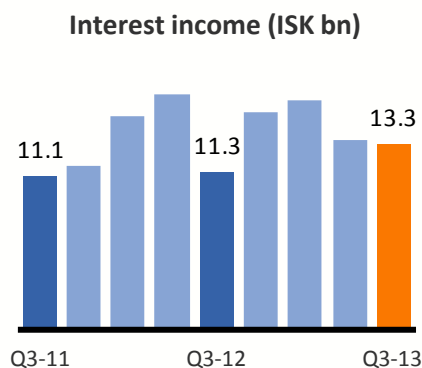
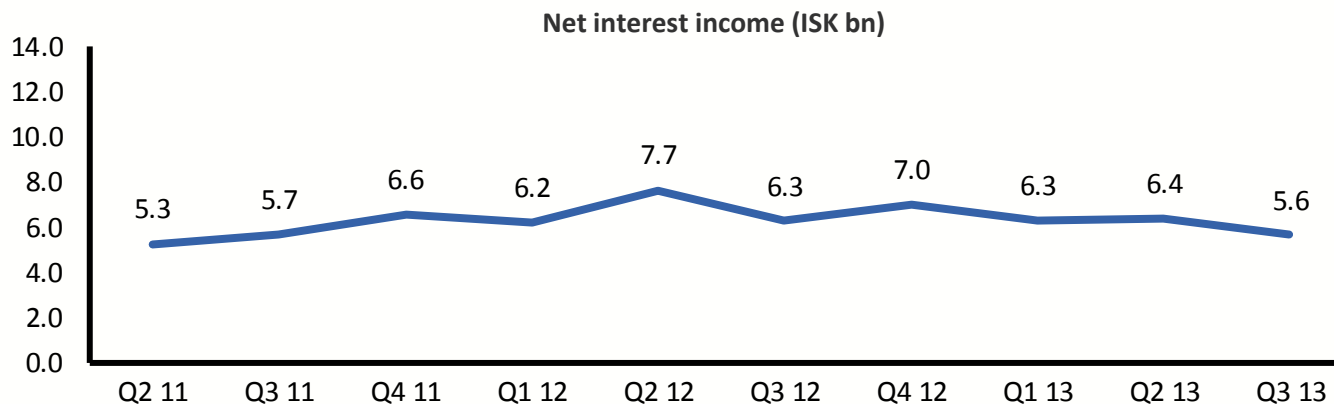
Million ISK	Q3 2013	Q2 2013	Q1 2013	9M 2013	9M 2012
Net interest income	5.646	6.379	6.288	18.313	20.134
Net change in valuation	(253)	456	(322)	(119)	479
Net commission income	2.986	2.849	2.449	8.284	8.053
Net financial income	658	1.123	(827)	954	1.050
Other income	1.610	1.249	1.176	4.035	4.643
<b>Operating income</b>	<b>10.647</b>	<b>12.056</b>	<b>8.764</b>	<b>31.467</b>	<b>34.359</b>
Salaries and related cost	(2.760)	(3.357)	(3.322)	(9.439)	(8.813)
Other operating expenses	(2.516)	(2.951)	(3.277)	(8.744)	(8.061)
<b>Net earnings before taxes</b>	<b>5.371</b>	<b>5.748</b>	<b>2.165</b>	<b>13.284</b>	<b>17.485</b>
Income tax	(1.102)	(1.163)	(586)	(2.851)	(3.375)
Bank Levy	(112)	(97)	(91)	(300)	(771)
Net gain from discontinued operations, net of tax	62	14	(79)	(3)	1.198
<b>Net earnings</b>	<b>4.219</b>	<b>4.502</b>	<b>1.409</b>	<b>10.130</b>	<b>14.537</b>
<b>Shareholders of Arion Bank</b>	<b>3.557</b>	<b>4.440</b>	<b>1.697</b>	<b>10.230</b>	<b>14.176</b>
Minority interest	126	62	(288)	(100)	361

# STABLE NET INTEREST INCOME

LOWER MARGINS BUT MORTGAGES AND LONGER TERM FUNDING REDUCE RISK

Net interest income affected by

- Lower inflation
- Increased cost of terming out deposits and long-term funding
- Increased mortgage portfolio
- Competition in corporate lending



# REDUCED IMPACT OF VALUATION CHANGES

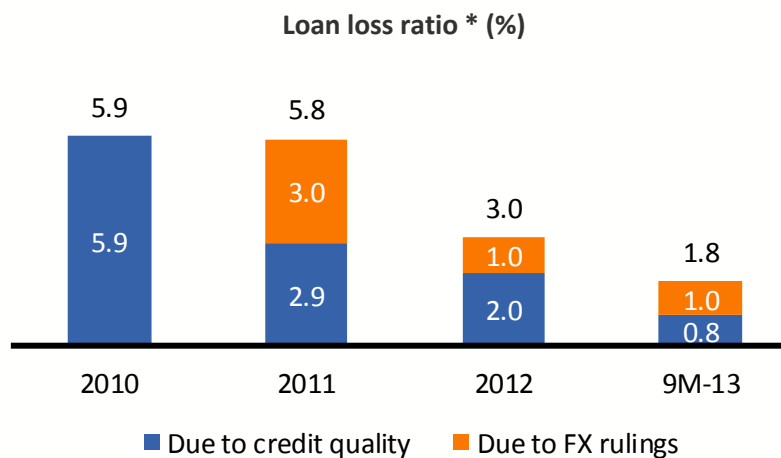
## IMPAIRMENT DRIVEN BY FX COURT RULINGS

Less impact from increase in book value of loans as restructuring is close to being completed

Impairment still mainly driven by FX court rulings

Decreasing loan loss ratio in line with higher asset quality

Net change in valuation (ISK m)	9M 2013	2012	2011	2010
Increase in book value of loans	7.632	12.824	38.368	40.269
Impairment due to credit quality on loans to cust.	(3.583)	(11.700)	(13.402)	(26.155)
Impairment due to FX rulings on loans to cust.	(4.168)	(5.744)	(13.823)	-
Impairment on loans to credit inst.	-	(70)	(199)	(632)
Changes in compensation instrument	-	-	(19.593)	(11.604)
<b>Total net change in valuation</b>	<b>(119)</b>	<b>(4.690)</b>	<b>(8.649)</b>	<b>1.878</b>





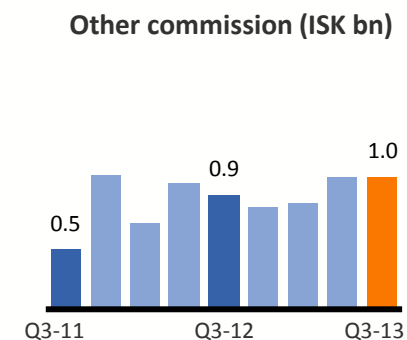
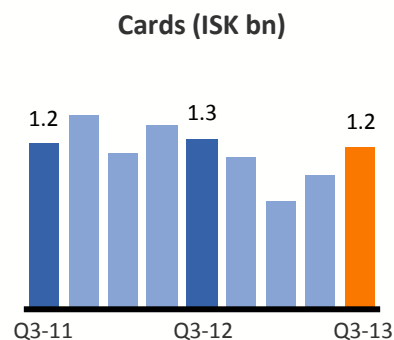
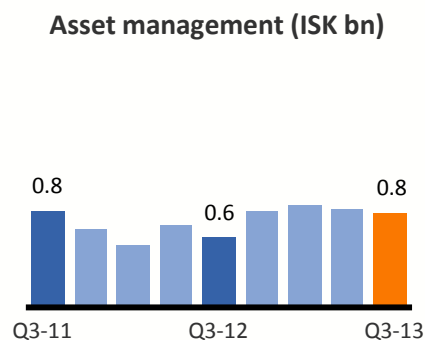
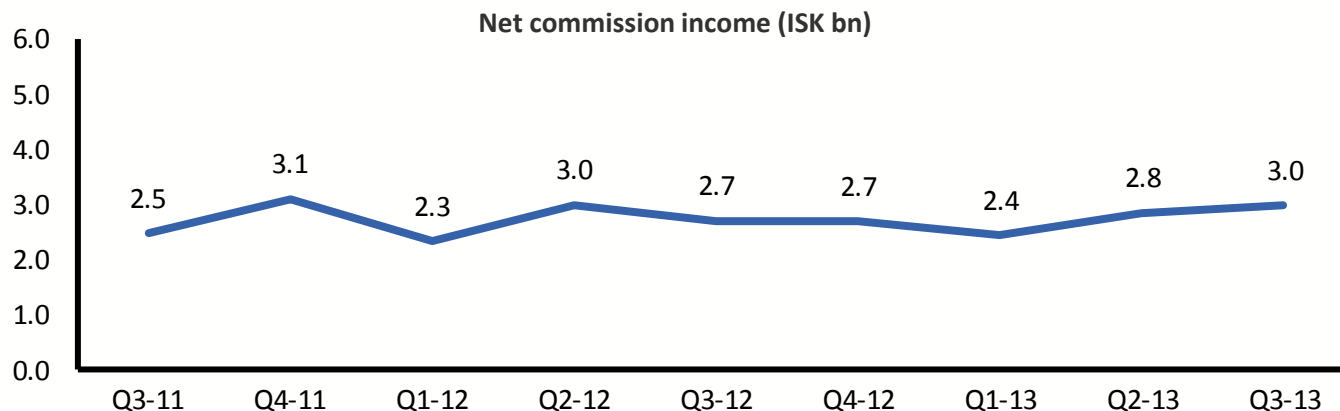
# STRONG NET COMMISSION INCOME

DRIVEN BY RETAIL BANKING, ASSET MANAGEMENT AND INCREASED ACTIVITY IN INVESTMENT BANKING

Strong commission income in both retail banking and asset management

Assets under management continue to increase

Other commissions are mainly from investment banking



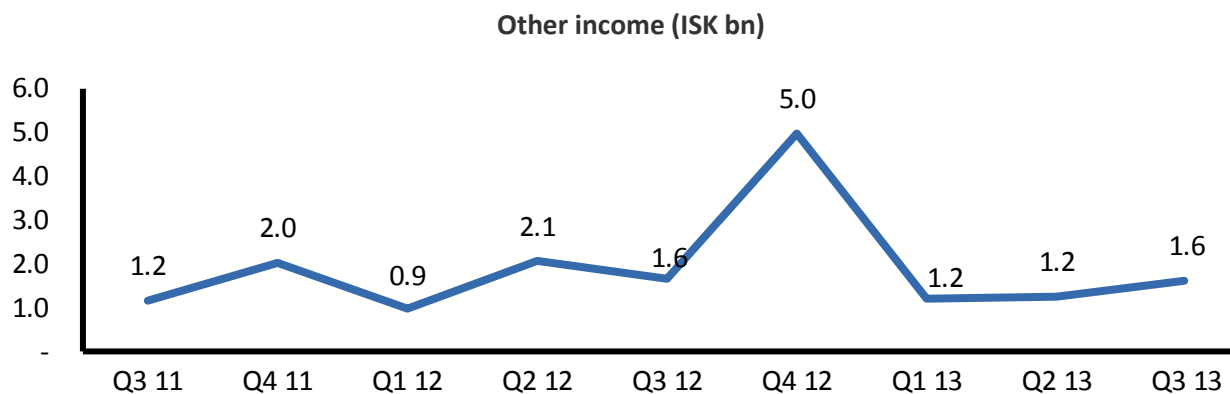
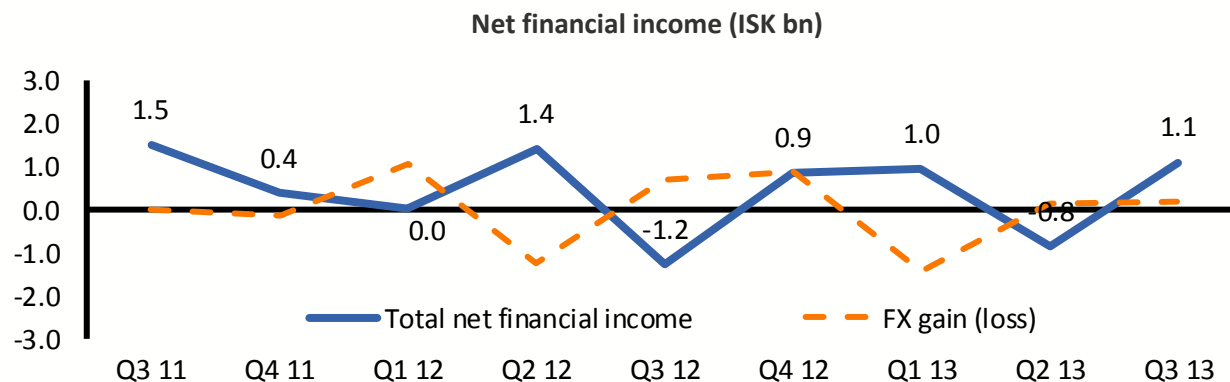
# NET FINANCIAL INCOME AND OTHER INCOME

## INCREASING NET FINANCIAL INCOME

Low FX volatility in Q3 2013

Good activity in bond and equity markets during 2013

Other income is mainly from investment properties and life insurance



# DECREASING TOTAL OPERATING EXPENSES FROM PEAK IN Q4-12

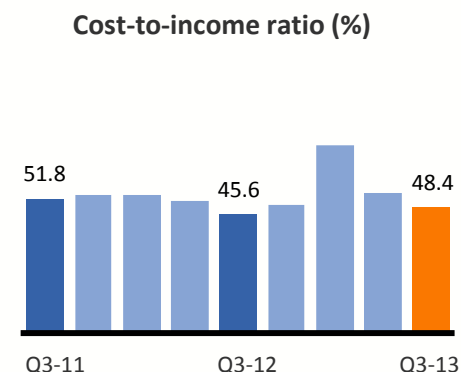
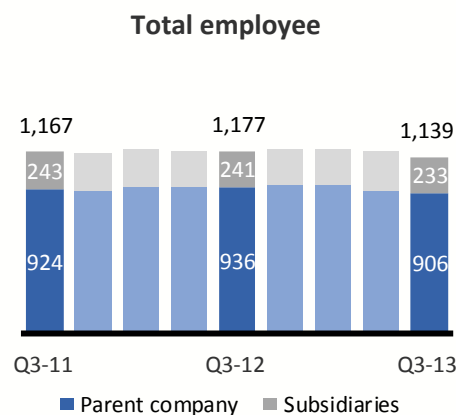
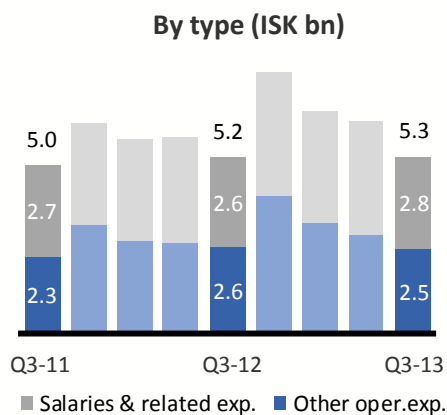
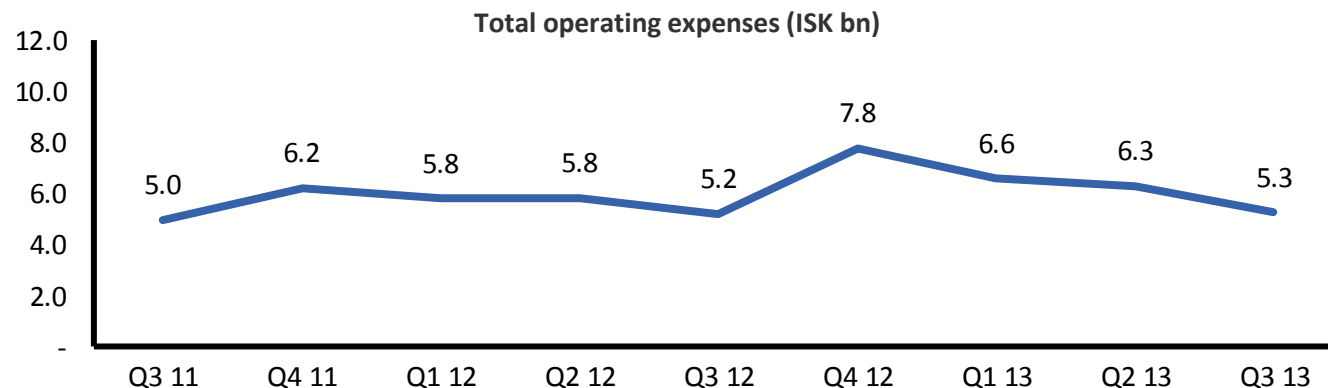
## CONTINUED FOCUS ON COST EFFICIENCY

Relatively stable and low C/I ratio

Operating expenses are decreasing in real terms from Q3 2012

Number of total employees has decreased by 51 in 2013

Focus on increased efficiency with overall cost reduction



# BALANCE SHEET

30.9.2013



# STRONG BALANCE SHEET

WELL DIVERSIFIED LOAN PORTFOLIO, STABLE FUNDING AND STRONG EQUITY POSITION

Increase in new lending in a low investment environment

Growth in loans to credit institutions due to increase in liquidity reserves

Stable funding with increased focus on term deposits

Increasing equity base

Assets					
Billion ISK	30.9.13	30.6.13	31.3.13	2012	2011
Cash & balances with CB	20	26	28	30	29
Loans to credit institutions	113	110	103	101	69
Loans to customers	576	567	566	567	562
Financial assets	154	154	146	138	158
Investments properties	29	29	28	29	27
Non current assets & disp.groups HFS	10	10	11	12	24
Other assets	34	34	26	25	24
<b>Total assets</b>	<b>937</b>	<b>929</b>	<b>907</b>	<b>901</b>	<b>892</b>
Liabilities and Equity					
Billion ISK	30.9.13	30.6.13	31.3.13	2012	2011
Due to credit institutions & CB	29	26	22	33	16
Deposits from customers	472	467	462	449	490
Non current liab. & disp.groups HFS	1	1	1	2	5
Other liabilities	56	63	54	57	47
Borrowings	206	203	204	195	187
Subordinated loans	33	33	32	34	32
Equity	141	137	132	131	115
<b>Total liabilities and equity</b>	<b>937</b>	<b>929</b>	<b>907</b>	<b>901</b>	<b>892</b>



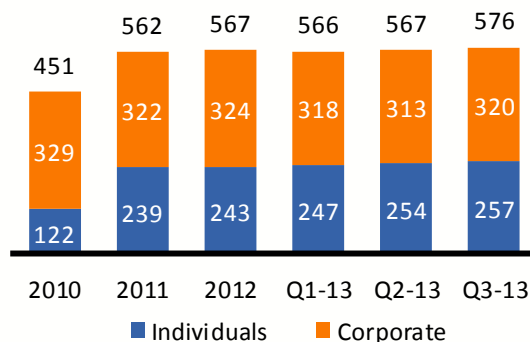
# WELL DIVERSIFIED LOAN PORTFOLIO

INCREASING OVERALL CREDIT QUALITY DUE TO MORTGAGE LENDING

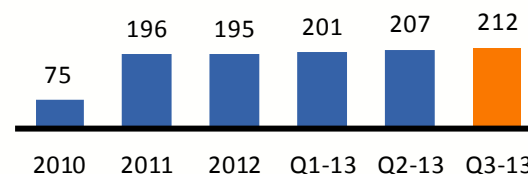
Moderate growth in loans to customers, with individuals representing 45% of total loans

Mortgage lending is a core business for Arion Bank and the Bank is the largest provider of mortgages in Iceland after the government owned HFF

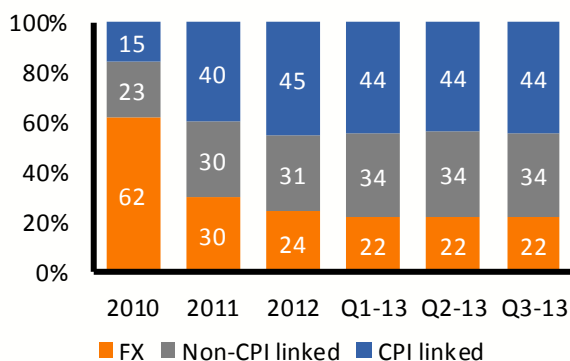
Development (ISK bn)



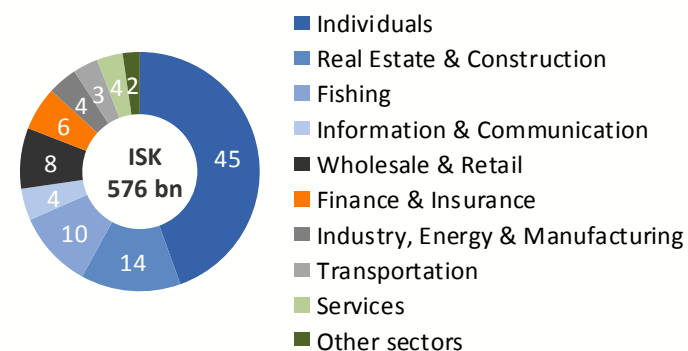
Mortgages loans (ISK bn)



By currencies 30.9.2013 (ISK bn)



By sector 30.9.2013 (%)



# IMPROVING ASSET QUALITY

KEY TASK FOR THE BANK IS TO FURTHER IMPROVE ASSET QUALITY

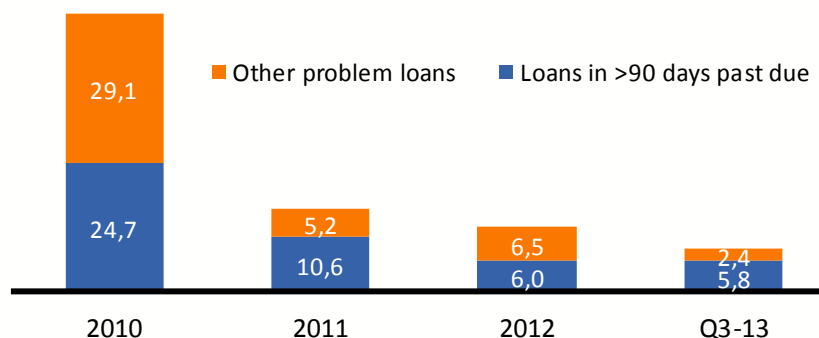
Good progress in recovery

Problem loans have continued to decrease since their peak in 2010

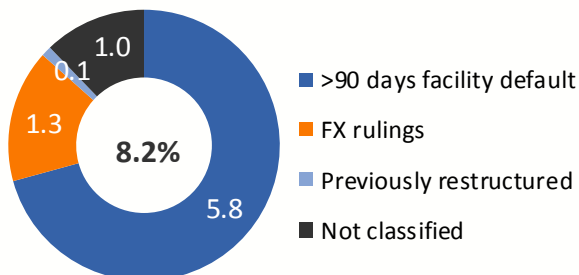
Loans in over 90 days default have also been decreasing

The total collateral coverage ratio is 73% of total loans

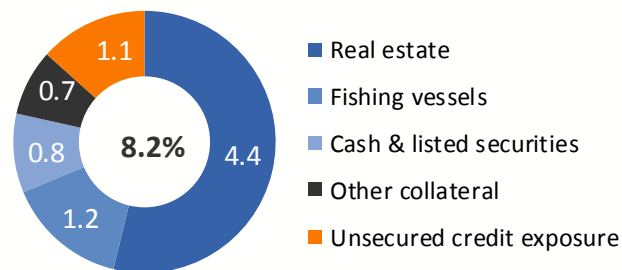
Problem loans (%)



Problem loans by status (%)



Collateral behind problem loans (%)



# STRONG FUNDING AND LIQUIDITY

## STRONG LIQUIDITY POSITION AND LIMITED REFINANCING NEEDS

Arion Bank's liquidity position is strong, based on limited refinancing needs in coming years and solid deposit base

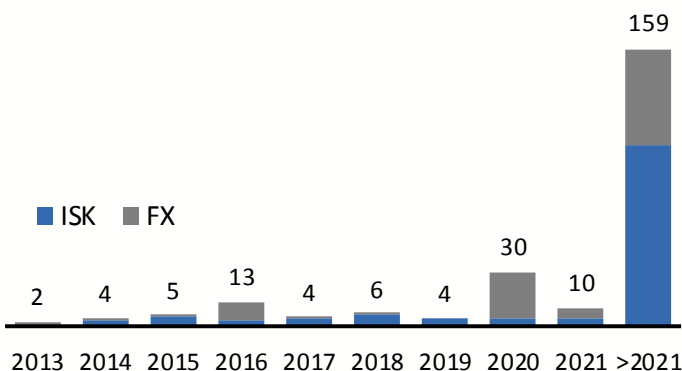
Strong liquidity in foreign currency

Liquidity ratios well above regulatory minimum

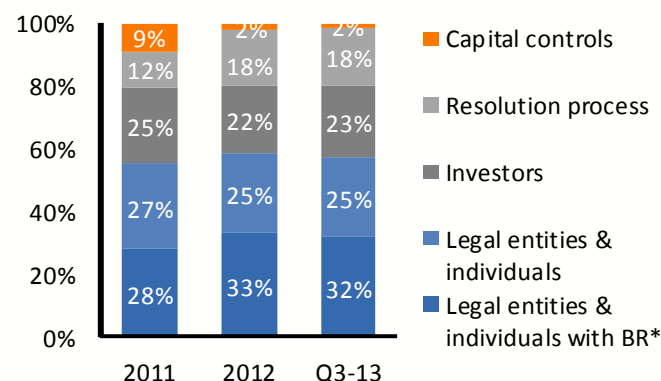
Deposits from legal entities and individuals are the most sticky ones

Deposits from investors are mainly in ISK

Maturity of long-term funding (ISK bn) and type (%)



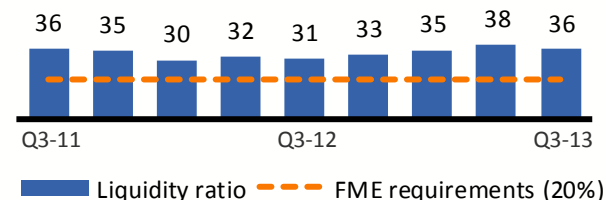
Deposits from customers by stickiness rating



Deposits coverage ratio

Asset type	ISK	FX	Total
Cash and balances with Central Bank	15	4	20
Balances with Credit institutions	-	64	64
Repo eligible bonds and Liquid Facility	111	-	111
<b>Total liquid assets</b>	<b>126</b>	<b>69</b>	<b>195</b>
<b>Liquid assets to total deposits</b>	<b>27%</b>	<b>81%</b>	<b>36%</b>
<b>Cash to total on demand deposits</b>	<b>6%</b>	<b>155%</b>	<b>29%</b>

Liquidity ratio



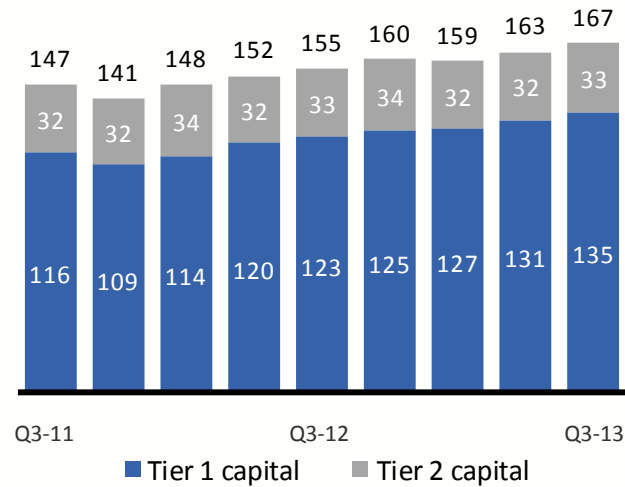
# SOLID CAPITALIZATION

WITH NO RELIANCE ON HYBRID INSTRUMENTS

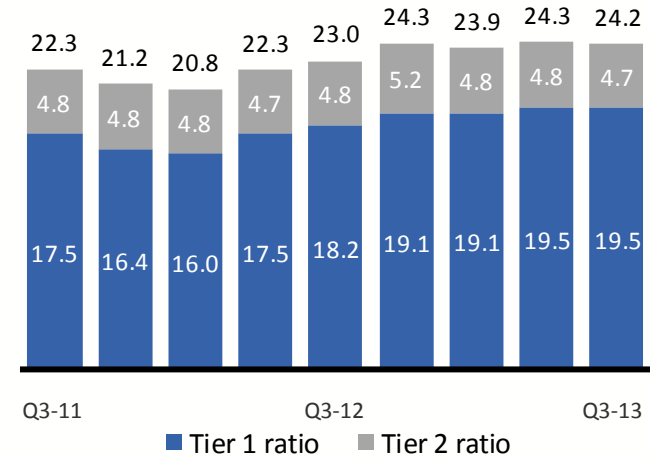
Arion Bank has maintained very solid levels of capitalization

Capital quality is also high with no reliance on hybrid instruments

Total capital (ISK bn)



Total capital ratio (%)



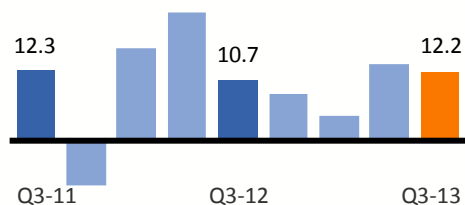
# KEY FINANCIAL INDICATORS



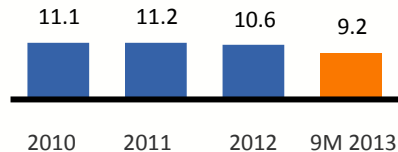


# KEY FINANCIAL INDICATORS

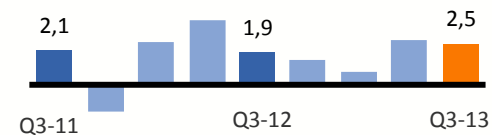
ROE (%)



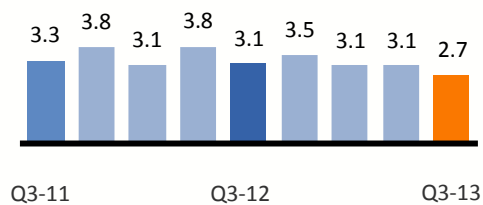
Core ROE (%)



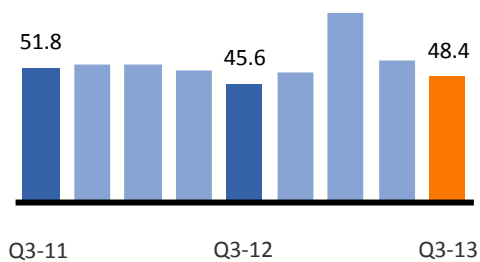
RORWA (%)



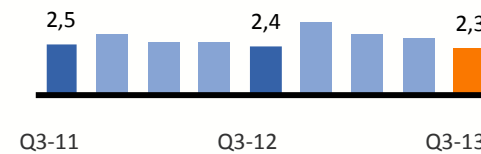
Net interest margin (%)



C/I ratio (%)

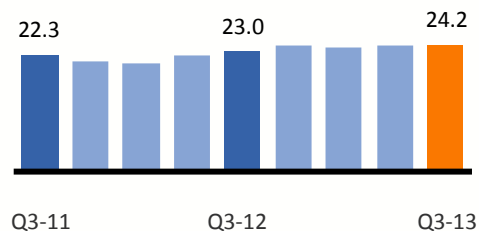


Cost-to-total assets (%)

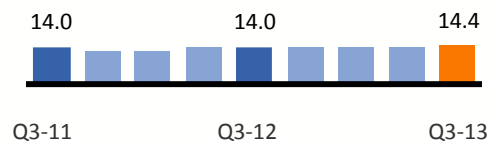


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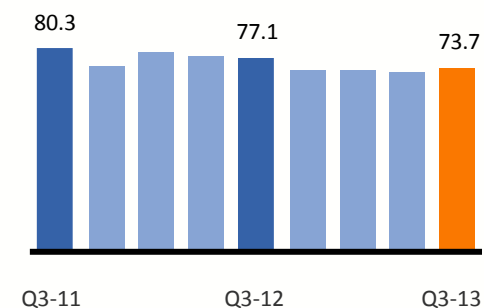
Total capital ratio (%)



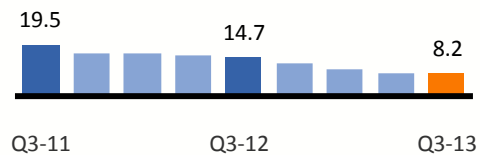
Tier 1 capital / Total assets (%)



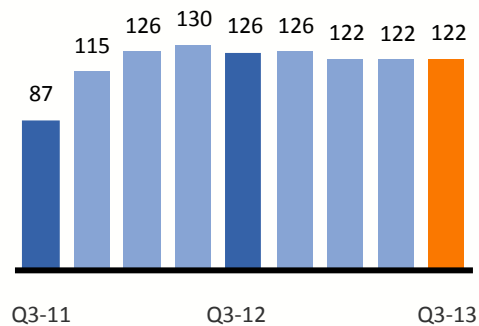
RWA / Total assets (%)



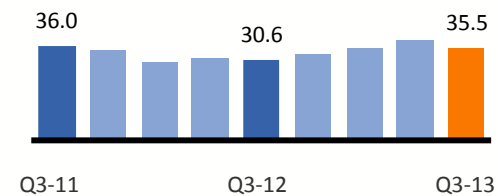
Problem loans (%)



Loans to deposits ratio (%)



Liquidity ratio (%)



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