

A low-angle photograph of a modern glass skyscraper against a clear blue sky. The building's glass facade reflects the sky and surrounding environment. The image is partially obscured by a large blue geometric overlay on the right side.

FINANCIAL STATEMENTS 31.03.2013

INVESTOR PRESENTATION

HIGHLIGHTS

Profitability

Net earnings

ISK 1.4 bn.

3M 2012: ISK 4.5 bn.

Profitability

Return on equity

4.3%

3M 2012: 16.5%

Balance

Total assets

ISK 907 bn.

31.12.2012: ISK 901 bn.

Balance

Total equity

ISK 132 bn.

31.12.2012: ISK 131 bn.

Efficiency

Cost-to-income ratio

72.6%

3M 2012: 53.1%

Liquidity

Loans-to-deposits ratio

122.3%

31.12.2012: 126.3%

Strength

CAD ratio

23.9%

31.12.2012: 24.3%

Asset quality

Problem loans

10.2%

31.12.2012: 12.5%

INCOME STATEMENT 3M 2013



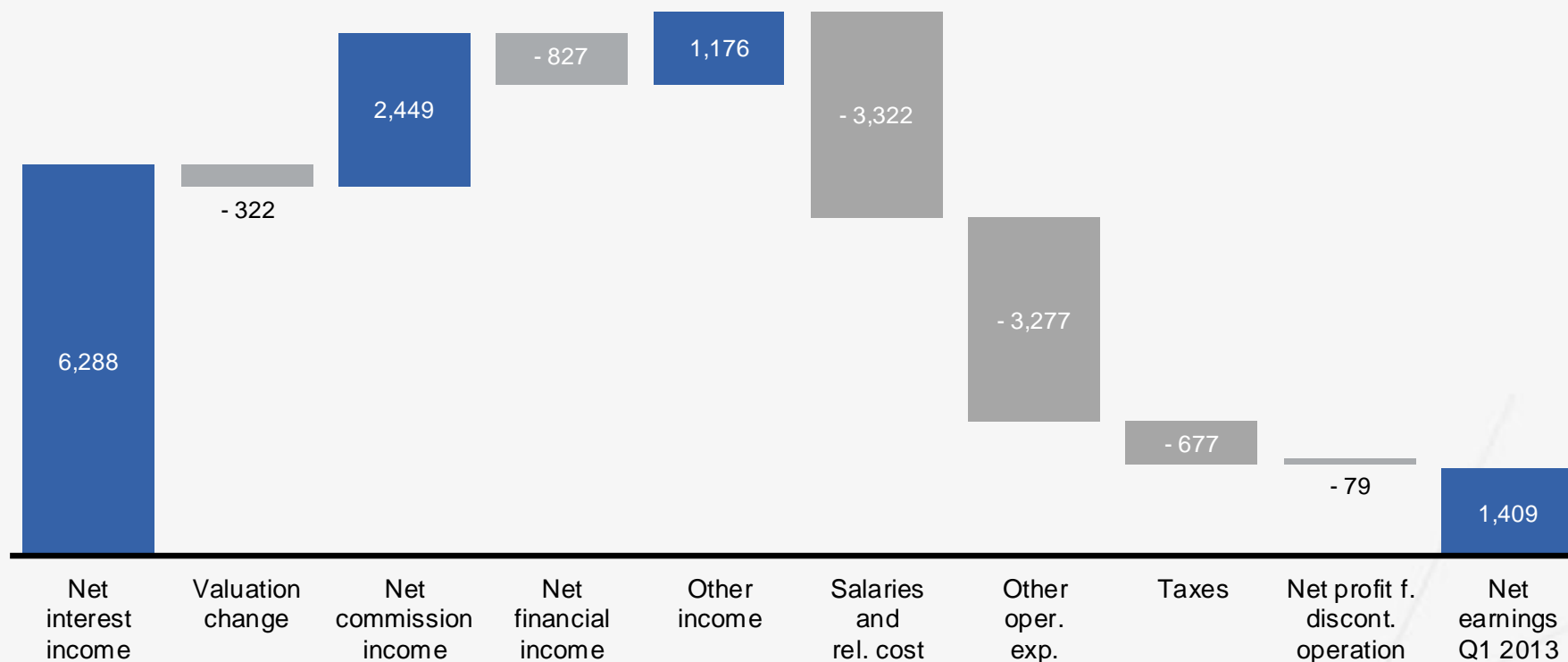
INCOME STATEMENT

Q1 2013 COMPARED TO Q1 2012

Million ISK	Q1 13	Q1 12	Diff	%
Net interest income	6,288	6,214	74	1%
Net change in valuation	(322)	(76)	(246)	324%
Net commission income	2,449	2,336	113	5%
Net financial income	(827)	1,429	(2,256)	(158%)
Other income	1,176	952	224	24%
Operating income	8,764	10,855	(2,091)	(19%)
Salaries and related cost	(3,322)	(3,045)	(277)	9%
Other operating expenses	(3,277)	(2,757)	(520)	19%
Net earnings before taxes	2,165	5,053	(2,888)	(57%)
Income tax	(586)	(1,061)	475	(45%)
Bank Levy	(91)	(268)	177	(66%)
Net gain from discontinued operations, net of tax	(79)	727	(806)	(111%)
Net earnings	1,409	4,451	(3,042)	(68%)
Shareholders of Arion Bank	1,697	4,311	(2,614)	(61%)
Minority interest	(288)	140	(428)	(306%)

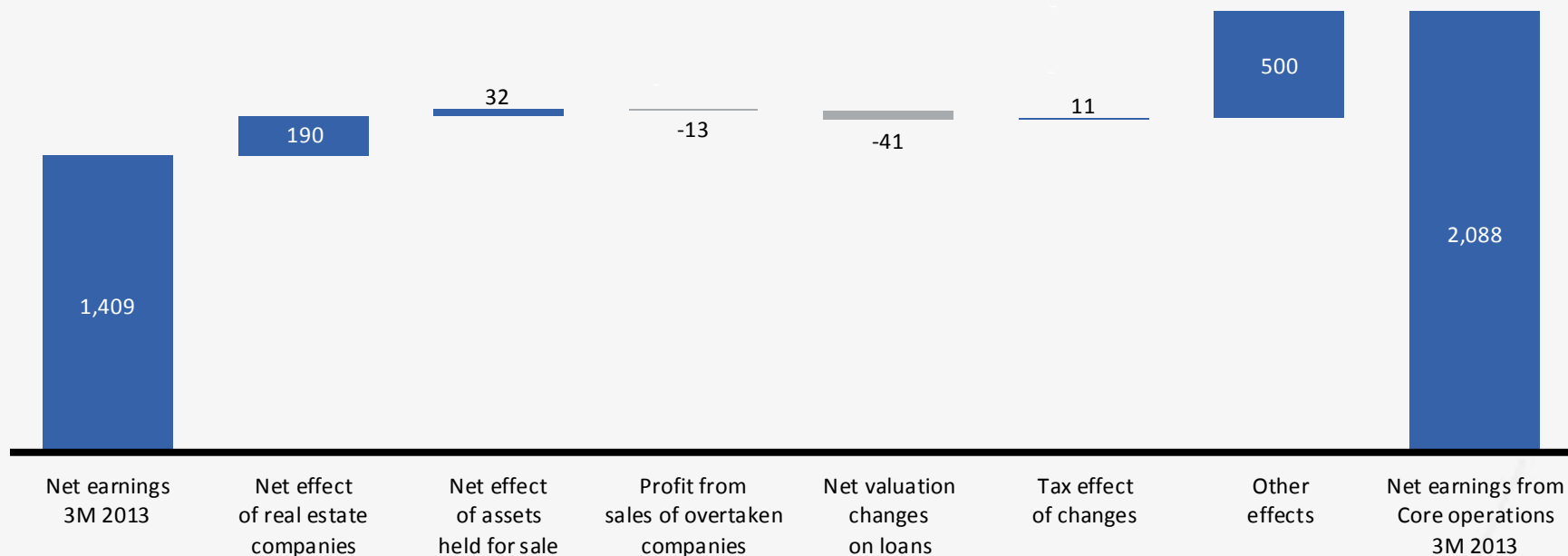
INCOME STATEMENT

BREAKDOWN OF NET EARNINGS IN Q1 2013

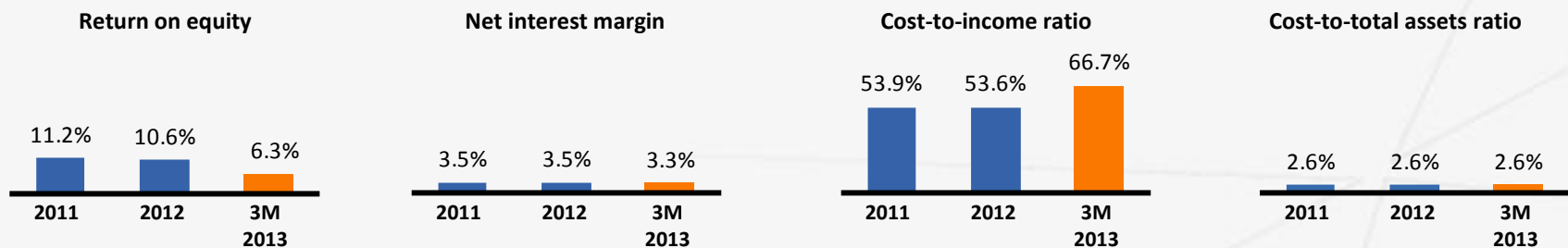


INCOME STATEMENT

CORE INCOME



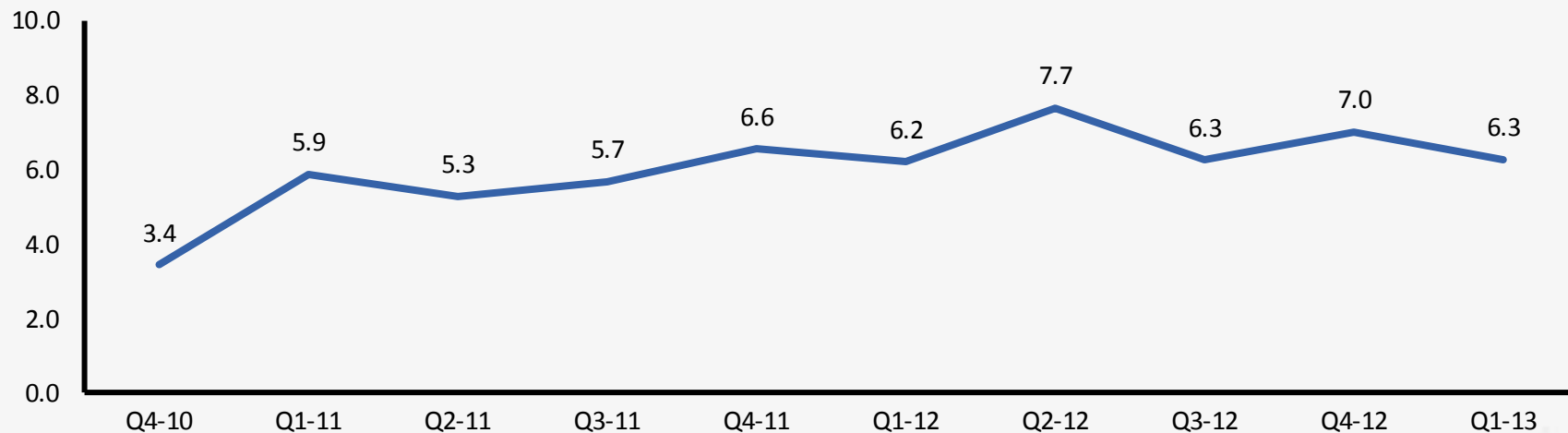
Key ratios from Core income



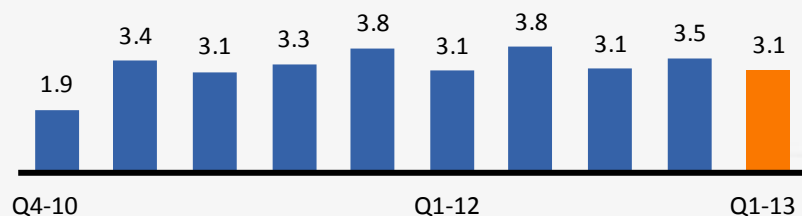
NET INTEREST INCOME

NET INTEREST INCOME QUITE STABLE FROM Q4 2011, BUT IS LINKED TO CHANGES IN CPI

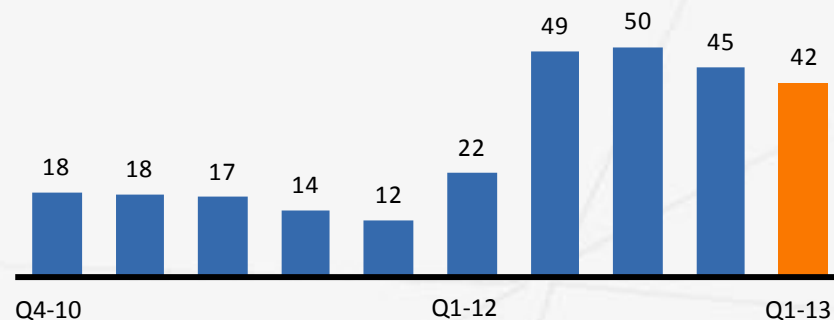
Net interest income from Q4 2010 – Q1 2013 (ISK bn.)



Net interest margin from Q4 2010 – Q1 2013 (%)



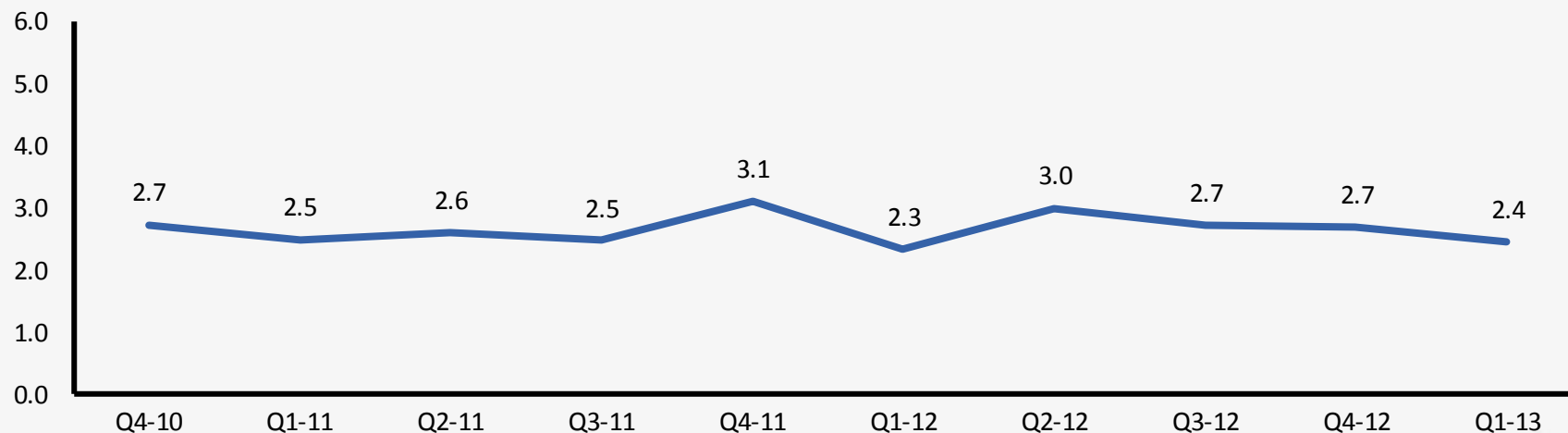
CPI imbalance from Q4 2010 – Q1 2013 (ISK bn.)



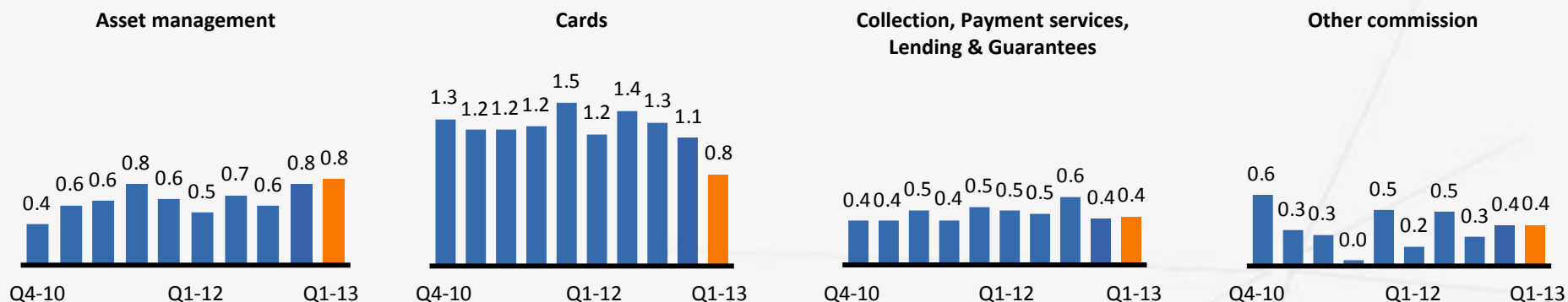
NET COMMISSION INCOME

DECREASE IN COMMISSION INCOME FROM PAYMENT CARDS

By quarters from Q4 2010 – Q1 2013 (ISK bn.)



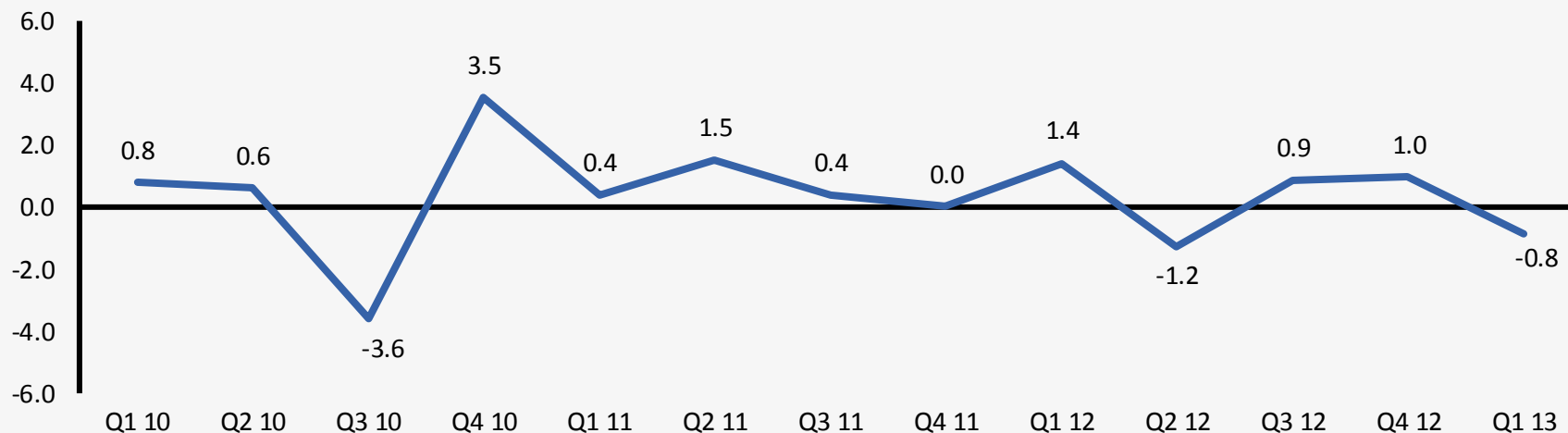
Net commission income by type from Q4 2010 – Q1 2013 (ISK bn.)



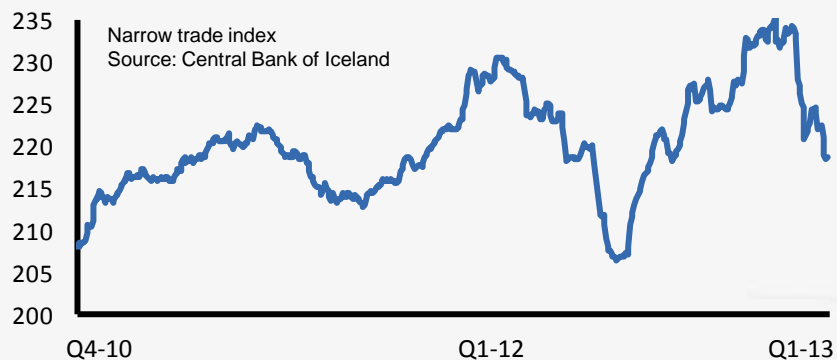
NET FINANCIAL INCOME

GOOD PROGRESS IN MARKETS BUT LOSS FROM FX IMBALANCE

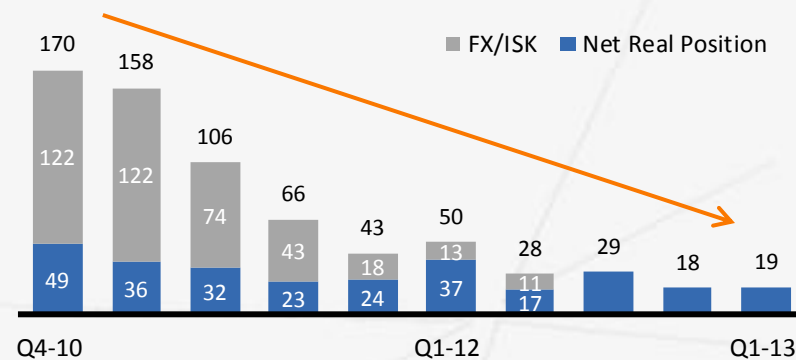
Net financial income from Q4 2010 – Q1 2013 (ISK bn.)



Movement of the Icelandic krona from Q4 2010 – Q1 2013



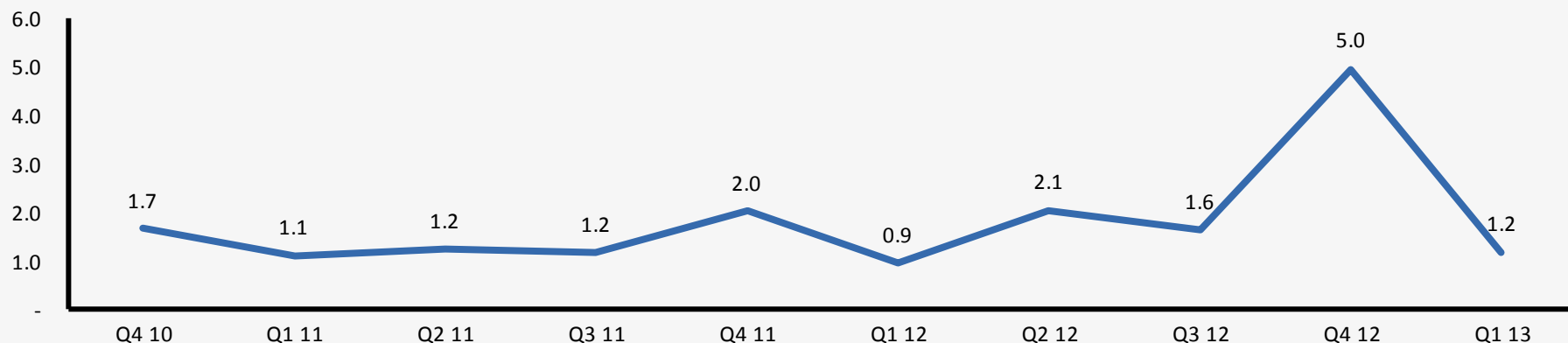
FX imbalance from Q4 2010 – Q1 2013 (ISK bn.)



OTHER INCOME

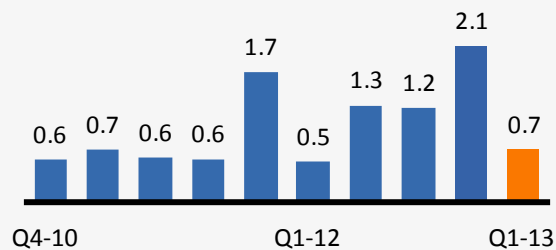
VALUATION CHANGES EXPLAIN HIGH QUARTERS

Other income from Q4 2010 – Q1 2013 (ISK bn.)

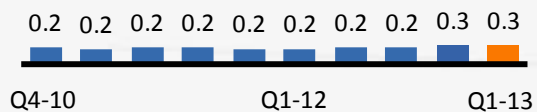


Other income by type from Q4 2010 – Q1 2013 (ISK bn.)

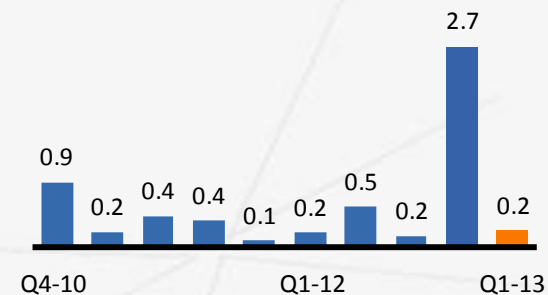
Income from investment properties



Income from insurance



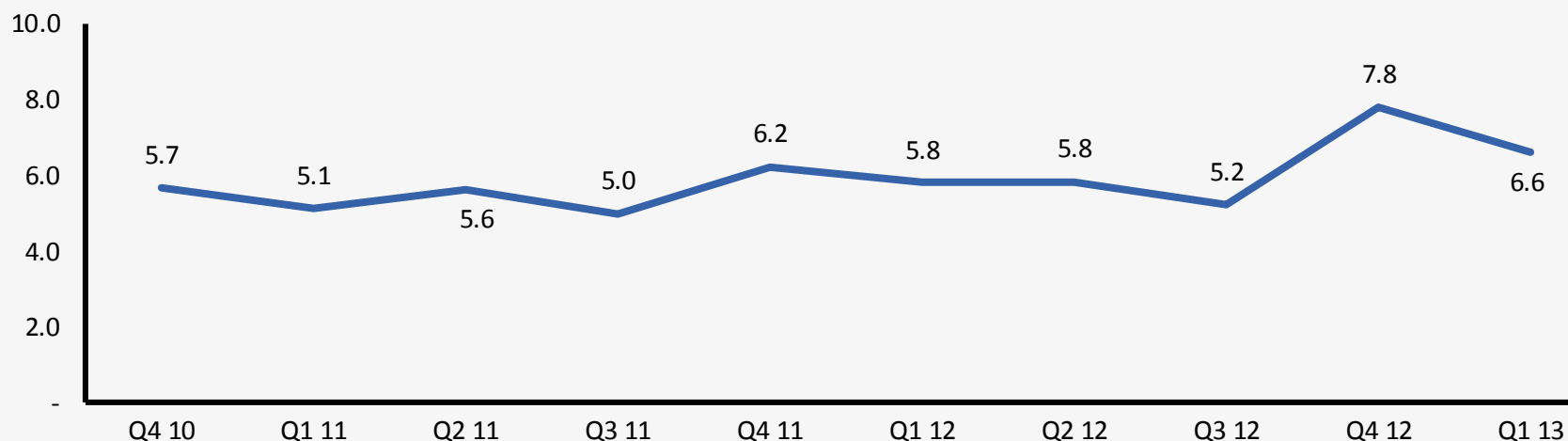
Other income



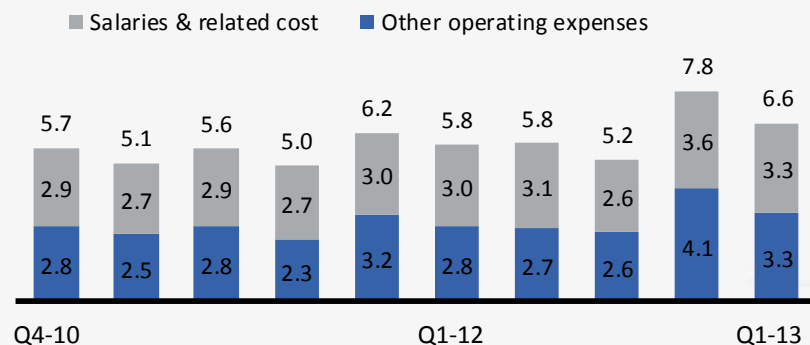
OPERATING EXPENSES

ONE-OFF COST HAVING MAJOR EFFECT IN Q4 2012 AND Q1 2013

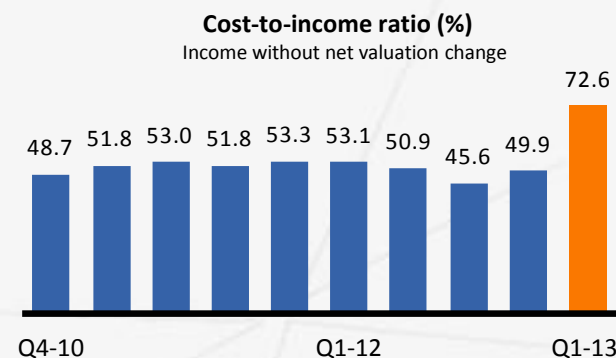
Total operating expenses from Q4 2010 – Q1 2013 (ISK bn.)



Operating expenses from Q4 2010 – Q1 2013 (ISK bn.)



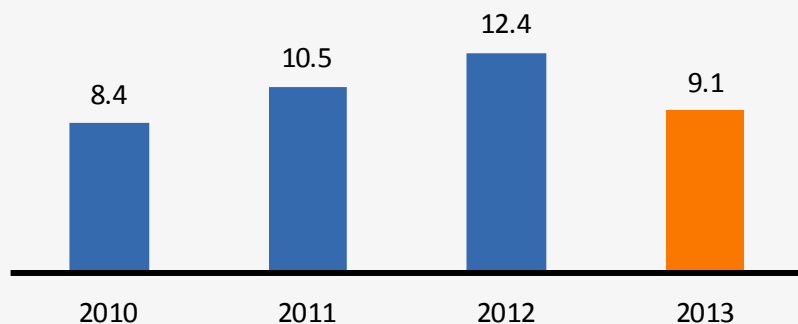
Cost-to-income from Q4 2010 – Q1 2013



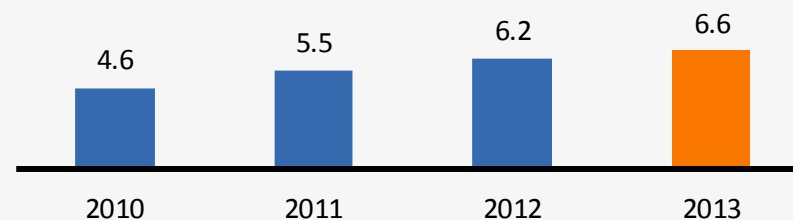
OPERATING PROFIT

Q1 2013 BELOW AVERAGE QUARTER

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

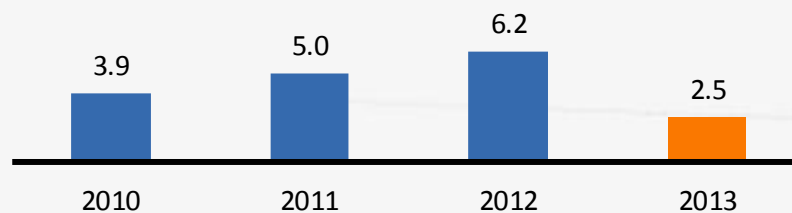


Average quarterly total operating expense (ISK bn.)



Operating profit

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



BALANCE SHEET
31.3.2013

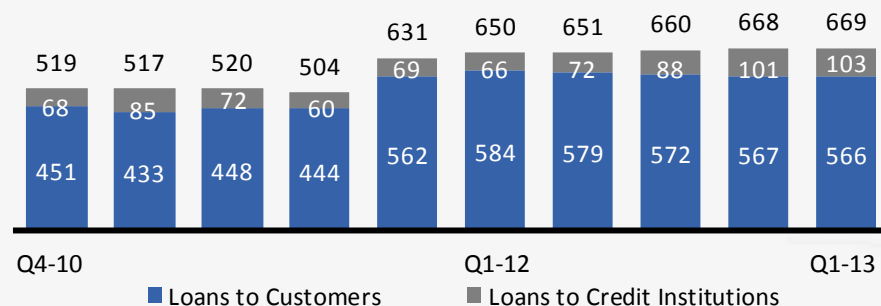


BALANCE SHEET - ASSETS

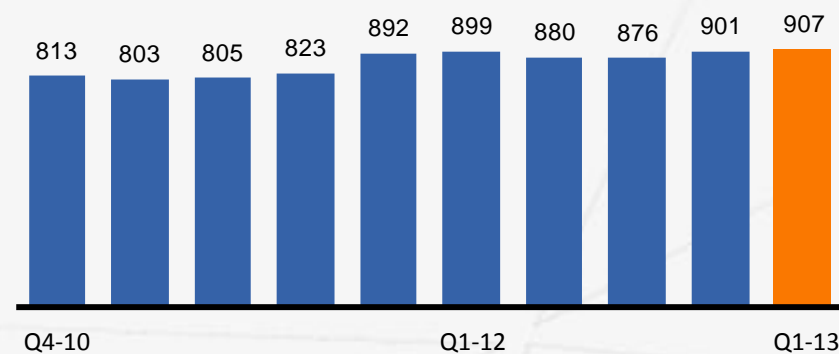
MINOR CHANGES OVER LAST TWO YEARS

Billion ISK	31.3.13	31.12.12	Diff%	31.12.11	Diff%
Cash & balances with CB	28	30	-6%	29	-4%
Loans to credit institutions	103	101	2%	69	50%
Loans to customers	566	567	0%	562	1%
Financial assets	146	138	6%	158	-8%
Investments properties	28	29	-3%	27	4%
Non current assets & disp.groups HFS	11	12	-9%	24	-54%
Other assets	25	25	3%	24	8%
Total assets	907	901	1%	892	2%

Total loans (ISK bn.)



Total assets (ISK bn.)

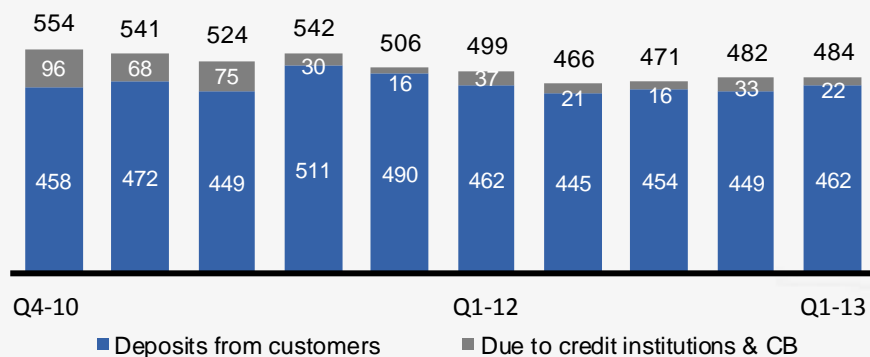


BALANCE SHEET – LIABILITIES AND EQUITY

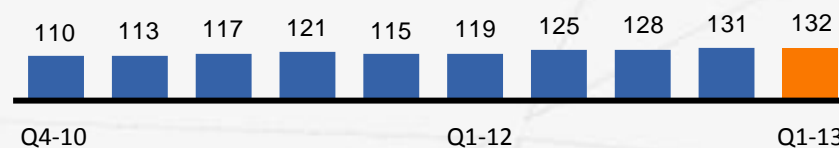
NEW BORROWINGS HAVING EFFECT

Billion ISK	31.3.13	31.12.12	Diff%	31.12.11	Diff%
Due to credit institutions & CB	22	33	-34%	16	34%
Deposits from customers	462	449	3%	490	-6%
Non current liab. & disp.groups HFS	1	2	-57%	5	-85%
Other liabilities	54	57	-5%	47	15%
Borrowings	204	195	5%	187	9%
Subordinated loans	32	34	-6%	32	0%
Equity	132	131	1%	115	15%
Total liabilities and equity	907	901	1%	892	2%

Total deposits (ISK bn.)



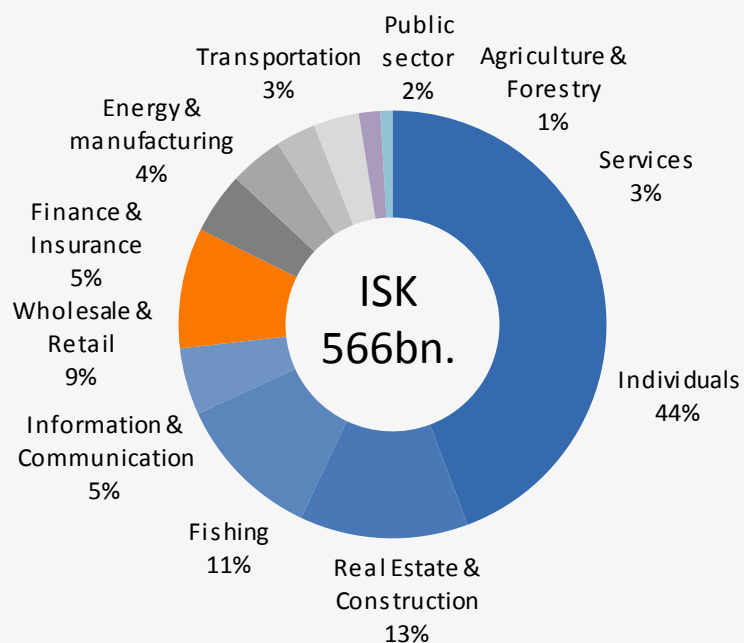
Total equity (ISK bn.)



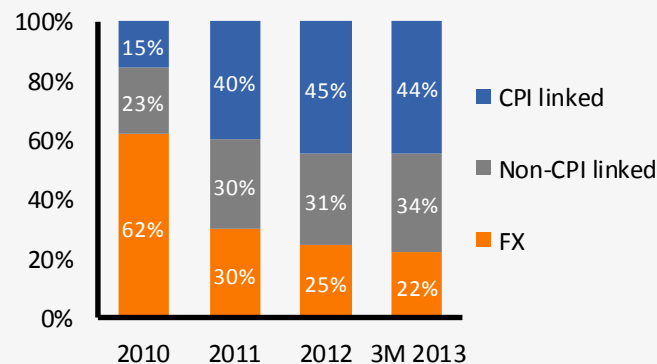
LOAN PORTFOLIO

WELL DIVERSIFIED LOAN PORTFOLIO

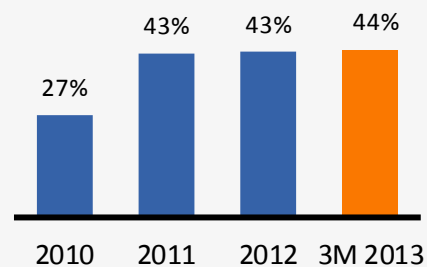
Loans to customers by sector 31.3.2013



Development of loans to customers by currency



Development of loans to individuals

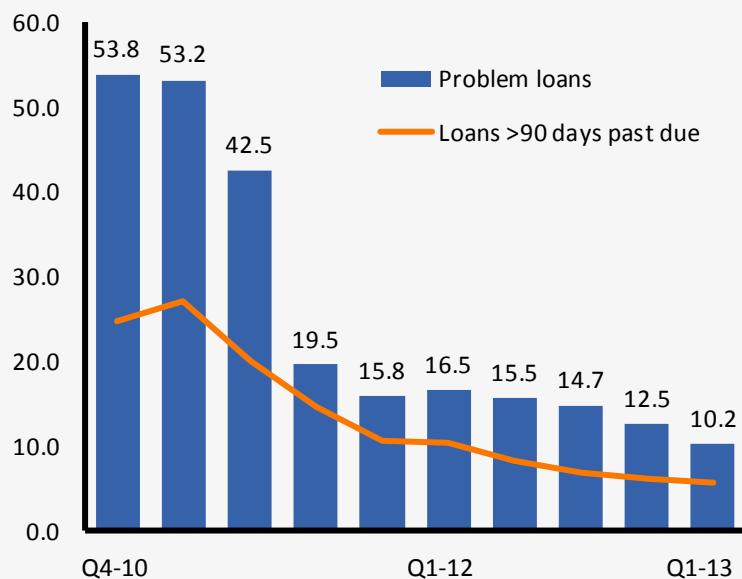


ASSET QUALITY

ASSET QUALITY STILL IMPROVING BUT PROGRESS HAS SLOWED

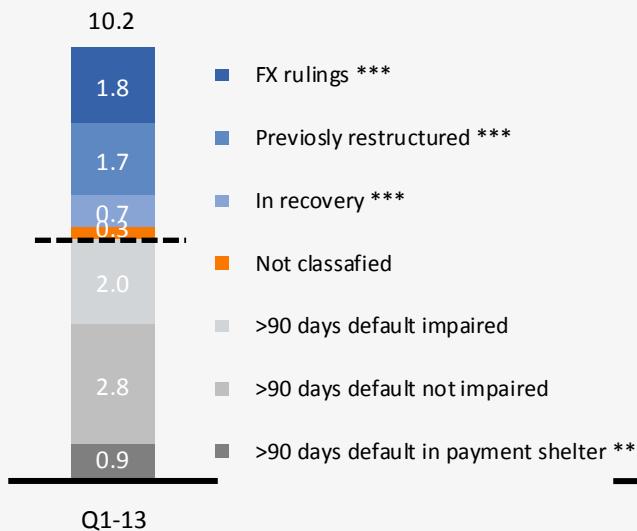
Problem loans * (%)

thereof 5.6% in over 90 days default



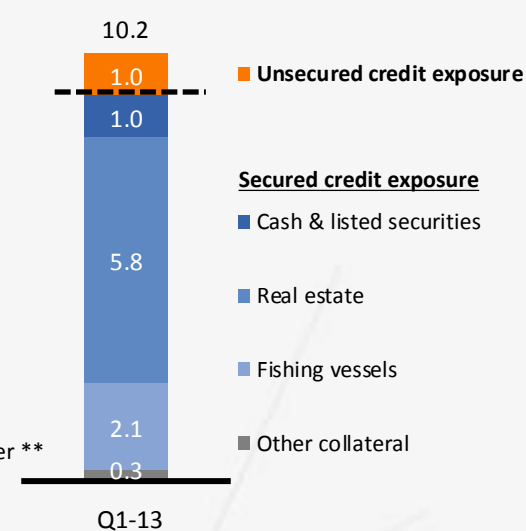
Problem loans by status (%)

1.8% is due to FX rulings



Collateral behind problem loans (%)

with coverage ratio of 79%



* 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

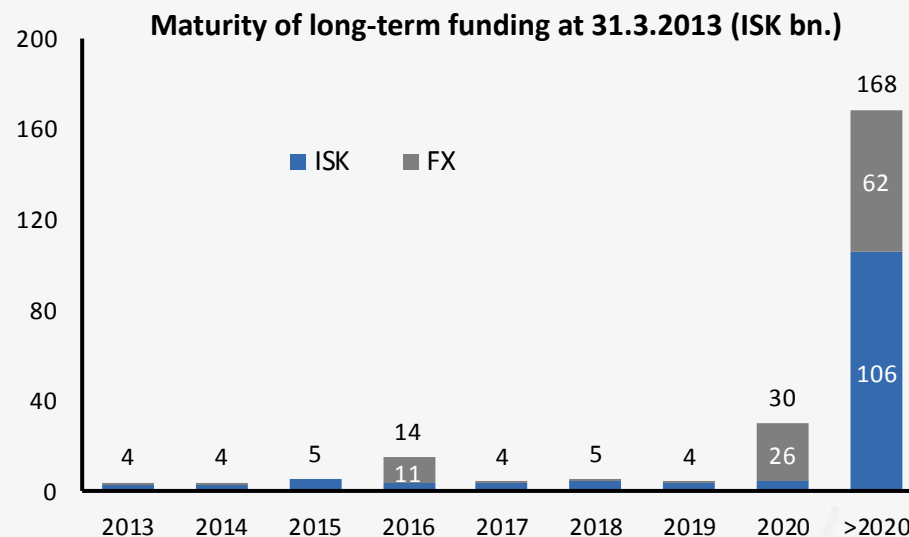
FUNDING

NEW BOND ISSUING WITH MATURITY IN 2016

Long-term funding

Strong funding profile

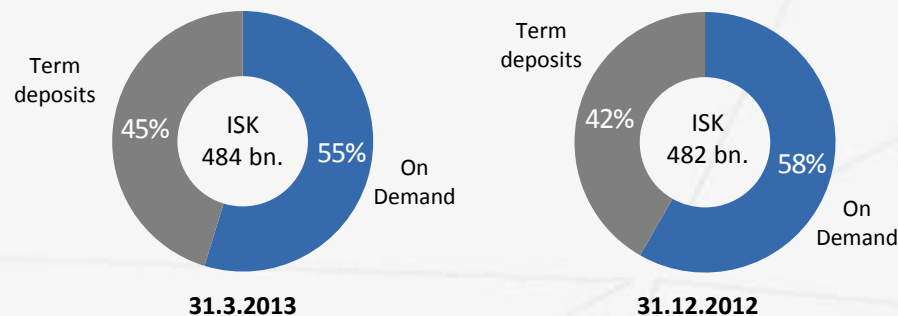
- First Icelandic bank to access international funding markets in February 2013
- International credit rating in progress
- Continued issuance of domestic covered bonds



Deposit funding (total deposits)

Increased focus on term deposits

- Term deposits continue to increase
- Further product development on new term deposits with regards to Basel 3 requirements



LIQUIDITY

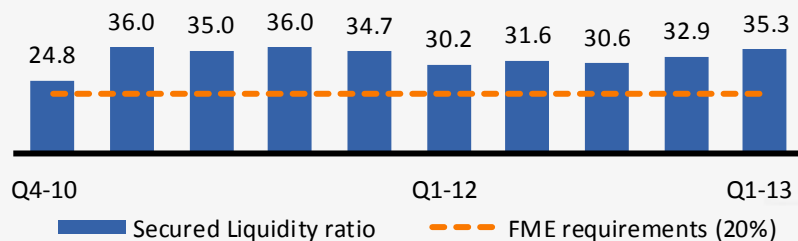
THE BANK EXCEEDS REGULATORY LIQUIDITY REQUIREMENTS

Deposit coverage ratio 31.3.2012 (ISK bn.)

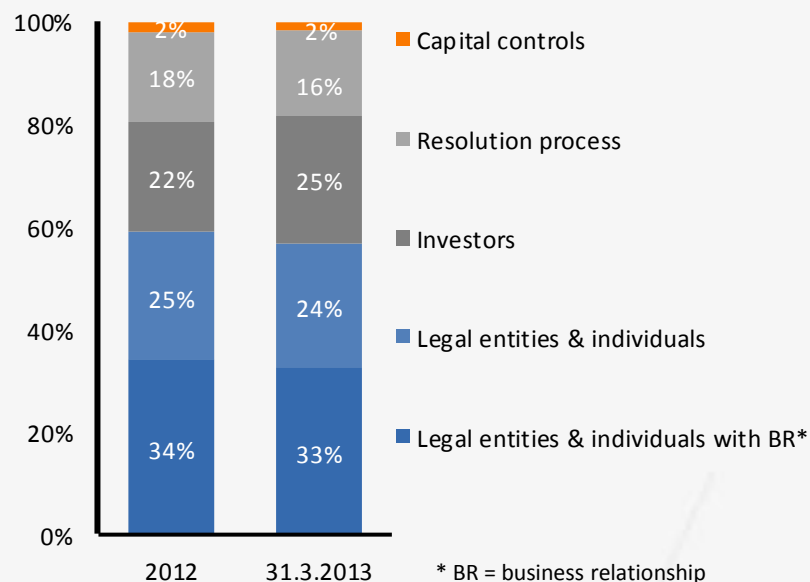
Asset type	ISK	FX	Total
Cash and balances with Central Bank	17	10	27
Balances with Credit institutions	-	59	59
Repo eligible bonds and Liquid Facility	102	-	102
Total liquid assets	118	69	188
Liquid assets to total deposits	26%	83%	35%
Cash to total on demand deposits	6%	172%	27%

- 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

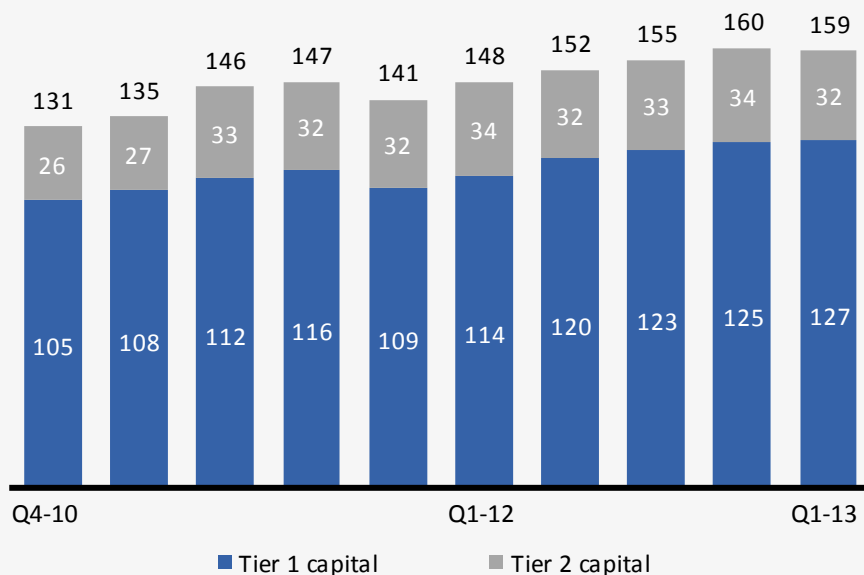


- Legal entities and retail individuals deposits are categorized as the most sticky and are the Bank's core deposits

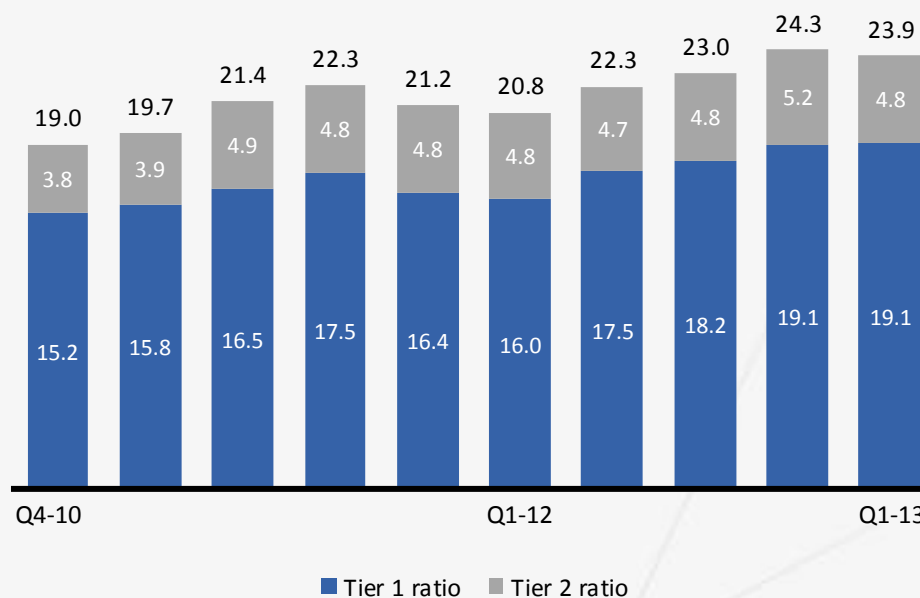
STRONG CAPITAL BASE AND HIGH CAD RATIO

WITH HIGH QUALITY CAPITAL WHERE CORE TIER 1 IS EQUAL TO TIER 1

Total Capital Base (ISK bn.)



CAD ratio (%)



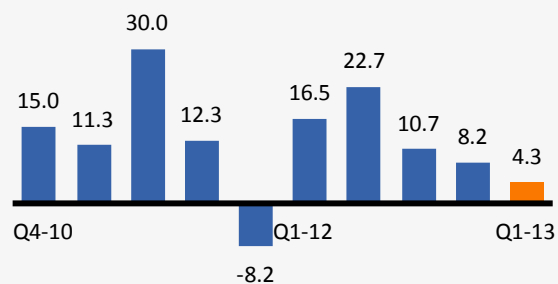
KEY FINANCIAL INDICATORS



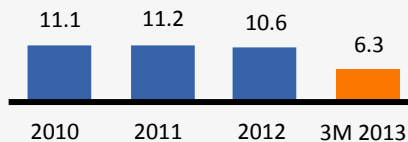
KEY FINANCIAL INDICATORS

DEVELOPMENT OF KEY RATIOS

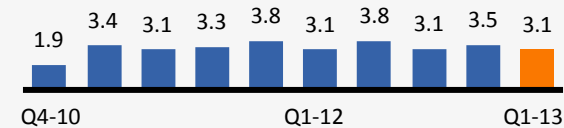
Return on equity (%)



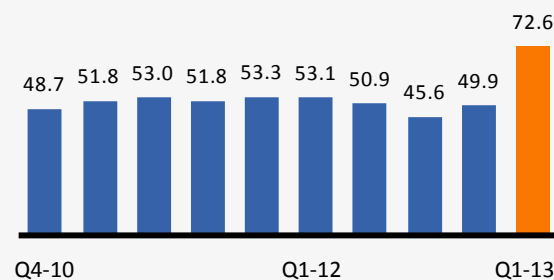
Core return on equity (%)



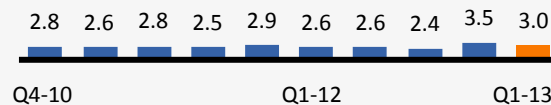
Net interest margin* (%)



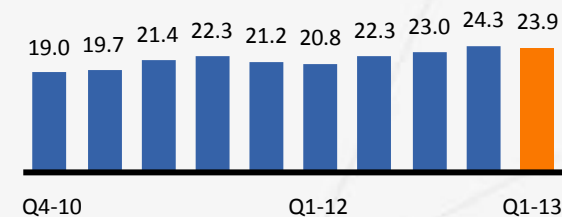
Cost-to-income** (%)



Cost-to-total average assets (%)



CAD ratio (%)



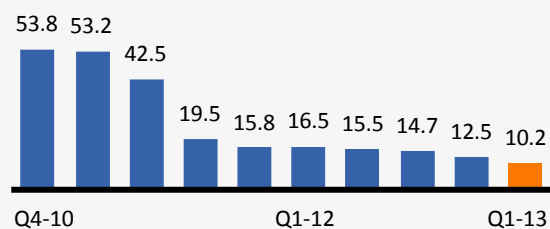
* Net interest margin on average interest-bearing assets

** Total operating expenses / Total operating income less net valuation change

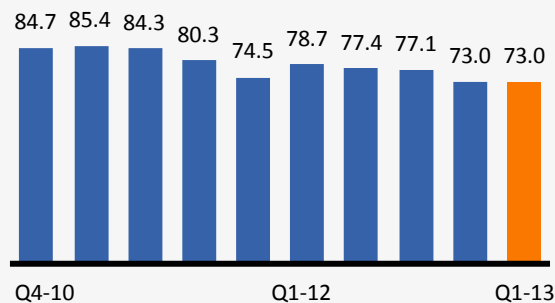
KEY FINANCIAL INDICATORS

DEVELOPMENT OF KEY RATIOS

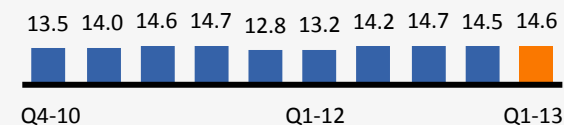
Problem loans * (%)



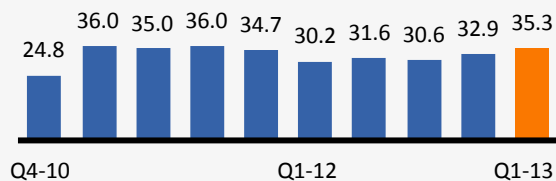
RWA / Total assets (%)



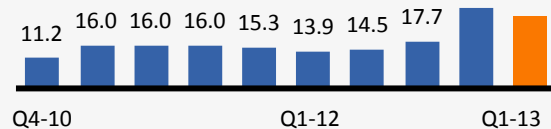
Equity / Total assets (%)



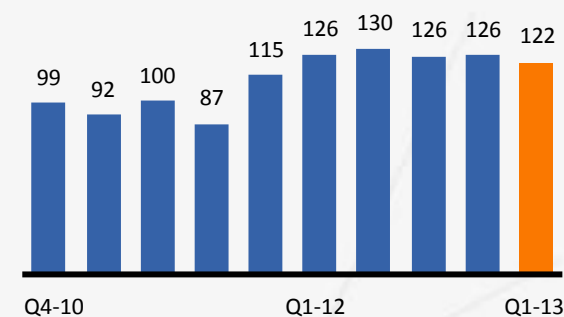
Secured liquidity ratio (%)



Cash ratio (%)



Loans-to-deposits ratio ** (%)



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

** Loans to customers as % of deposits from customers

KEY FINANCIAL INDICATORS

	3M 2013	2012	3M 2012
Return on equity (ROE)	4.3%	13.8%	16.5%
Return on assets (ROA)	0.6%	1.9%	2.0%
Net interest margin (int.bearing assets)	3.1%	3.4%	3.1%
Net interest margin (total assets)	2.8%	3.1%	2.8%
Cost-to-Income ratio	72.6%	49.8%	53.1%
Cost-to-Total assets ratio	3.0%	2.8%	2.6%
Effective tax rate	27.1%	18.0%	21.0%
CAD ratio	23.9%	24.3%	20.8%
Tier 1 ratio	19.1%	19.1%	16.0%
Problem loans	10.2%	12.5%	16.5%
RWA / Total assets	73.0%	73.0%	78.7%
Loans to deposits ratio	122.3%	126.3%	126.4%
Secured liquidity ratio	35.3%	32.9%	30.2%
Cash ratio	27.4%	30.8%	13.9%
The Group's average number of employees	1,187	1,166	1,157
The Group's employees	1,187	1,190	1,179
The parent company's average number of employees	950	927	918
The Parent company's employees	950	949	930

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