



FINANCIAL STATEMENTS 30 JUNE 2015

INVESTOR PRESENTATION

26 AUGUST 2015

ARION BANK IS A UNIVERSAL RELATIONSHIP BANK

ARION BANK PROVIDES A FULL RANGE OF FINANCIAL SERVICES

Retail Banking

- ~ 30% market share
- Largest private provider of residential mortgages
- Wide range of financial services for individuals and SMEs
- Strong focus on digital banking solutions

Asset Management

- Leading player in the Icelandic market
- AuM equal to Arion Bank's total assets
- Services institutional investors and HNW clients

Investment Banking

- Managed both IPOs this year and more than 50% of all Icelandic IPOs since 2009
- A leading capital markets house and M&A advisor
- Full range of investment banking services

Corporate Banking

- Leading lender to large corporates in Iceland
- Innovative and customized solutions
- International activities in seafood and related businesses

STRATEGIC SUBSIDIARIES IN THE ARION BANK GROUP

ARION BANK PROVIDES A FULL RANGE OF FINANCIAL SERVICES

VALITOR

- The largest online and e-commerce payment services company in Iceland
- Operations in Iceland, Denmark and the UK
- Member of VISA EU and MasterCard International



- Leading life insurance company in Iceland
- Focus on modern personal insurance services
- Sales and distribution partnerships with Arion Bank



- Iceland's largest fund management company
- Retail and professional clients
- Range of mutual, investment and institutional investment funds

HEADLINE FIGURES FOR H1 2015

Profitability

Return on equity
22.8%

H1 2014:
23.4%

Strength

Tier 1 ratio
21.8%

31.12.2014:
21.8%

Efficiency

Cost-to-income ratio
36.5%

H1 2014:
50.5%

Asset quality

Problem loans
3.3%

31.12.2014:
4.4%

Net earnings
ISK 19,326 million

H1 2014:
ISK 17,409 million

Leverage ratio
15.4%

31.12.2014:
15.4%

Employees
1,123

31.12.2014:
1,120

Mortgages/
Total loans
40.7%

31.12.2014:
42.8%

HIGHLIGHTS OF THE FIRST HALF OF 2015

SOUND OPERATIONS IN A FAVORABLE BUSINESS ENVIRONMENT

Arion Bank

- Arion Bank managed both IPOs on NASDAQ Iceland this year: the real estate companies Reitir and Eik and sold shareholdings in the companies
- Sale and listing of shares in Refresco Gerber. Companies in the Arion Bank group held a 9.8% stake in the company, directly or indirectly
- Asset Management yielded excellent results in the first half of the year
- The Bank has been a leader in corporate lending and has increased its lending to international companies by making loans to seafood companies in North America
- The Bank has increased its market share in lending to SMEs

Operating environment

- The economic situation has been positive in Iceland. There is 3.6% economic growth, 1.9% inflation and unemployment is around 3%
- On 8 June the government announced measures to lift the capital controls
- Following the announcement the sovereign credit rating was upgraded by the three main ratings agencies
- Increased activity on the currency, equity and bonds markets

HIGHLIGHTS OF THE FIRST HALF OF 2015

BOND ISSUE IN EUROS – BEST BUSINESS ACCELERATOR IN NORDIC REGION

Funding

- Arion Bank's credit rating was upgraded from BB+ (with positive outlook) to BBB- (with stable outlook)
- In March Arion Bank became the first Icelandic bank to issue bonds in euros to a broad group of investors - €300 million 3-year bonds
- The issue was followed in June with NOK 500 million bond issue
- More unfavourable loans paid off and cost of capital reduced



Innovation

- ISK 800 million invested in start-up fund Eyrir Sprotar
- Arion Bank held Startup Reykjavík for fourth year – a total of 40 companies have now participated
- Startup Reykjavík has been named by Nordic Startup Awards as the best business accelerator in Nordic region



HIGHLIGHTS OF THE FIRST HALF OF 2015

STRONG EMPHASIS ON EQUALITY AT THE BANK

Equality

- Arion Bank was the first Icelandic bank to receive equal salaries certification from VR (Iceland's largest commercial and office worker union)
- This is designed to ensure no discrimination in terms of salaries between people in the same or comparable positions at work
- Arion Bank is the largest company to receive VR's equal salaries certification



VR-15-024



INCOME STATEMENT

INCOME STATEMENT

SOLID PERFORMANCE IN Q2 2015

Net interest income increases from previous quarters, mainly due to a slight increase in inflation

Salaries and related expense decrease from Q2 2014

Negative net change in valuation on loans is predominantly due to revaluation of loans at the subsidiary AFL-sparisjóður

	Q2 2015	Q1 2015	Q4 2014	Q3 2014	Q2 2014
Net interest income	7,392	5,783	5,911	6,343	6,483
Net commission income	3,677	3,757	3,192	3,526	3,445
Net financial income	2,184	7,539	1,429	1,993	4,439
Other income	1,038	4,702	5,211	687	2,356
Operating income	14,291	21,781	15,743	12,549	16,723
Salaries and related expense	(3,675)	(3,492)	(3,953)	(2,862)	(3,714)
Other operating expenses	(3,108)	(2,896)	(4,467)	(2,786)	(3,064)
Bank levy	(659)	(730)	(636)	(633)	(715)
Net impairment	(1,863)	1,782	(744)	876	34
Net earnings before taxes	4,986	16,445	5,943	7,144	9,264
Income tax	(647)	(1,720)	(223)	(1,989)	(1,152)
Net gain from disc. operations	79	183	241	67	6,433
Net earnings	4,418	14,908	5,961	5,222	14,545

INCOME STATEMENT

NET EARNINGS AFFECTED BY VALUE CHANGES OF EQUITIES RELATING TO IPO'S

Increase in net interest income due to increase in inflation in H1 2015 and changes in funding structure

Substantial growth in Net commission income from all sources

High net financial income and other income in H1 2015 due to sale and listing of legacy equity holdings

Net gain from discontinued operations in H1 2014 mainly a result of successful listing and sale of 18% stake in HB Grandi

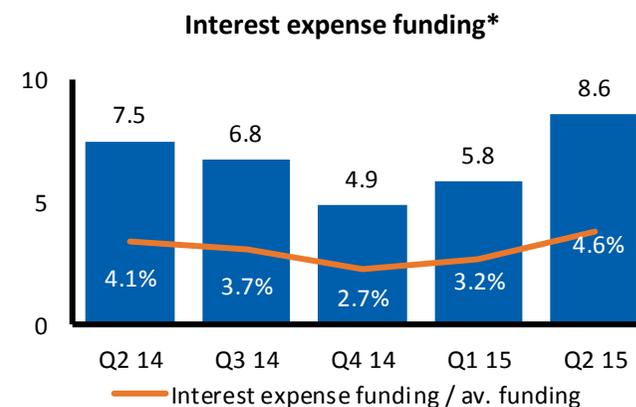
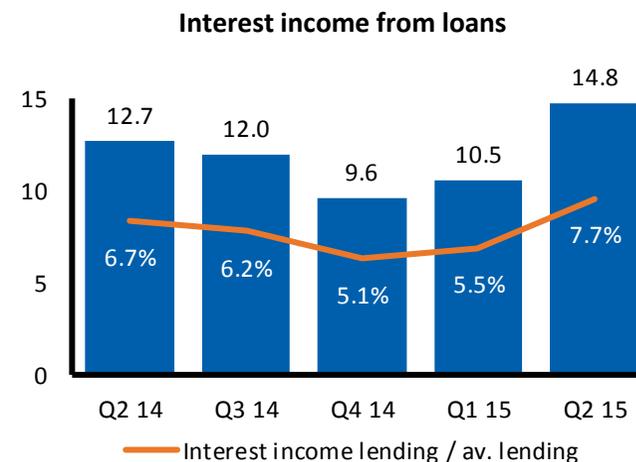
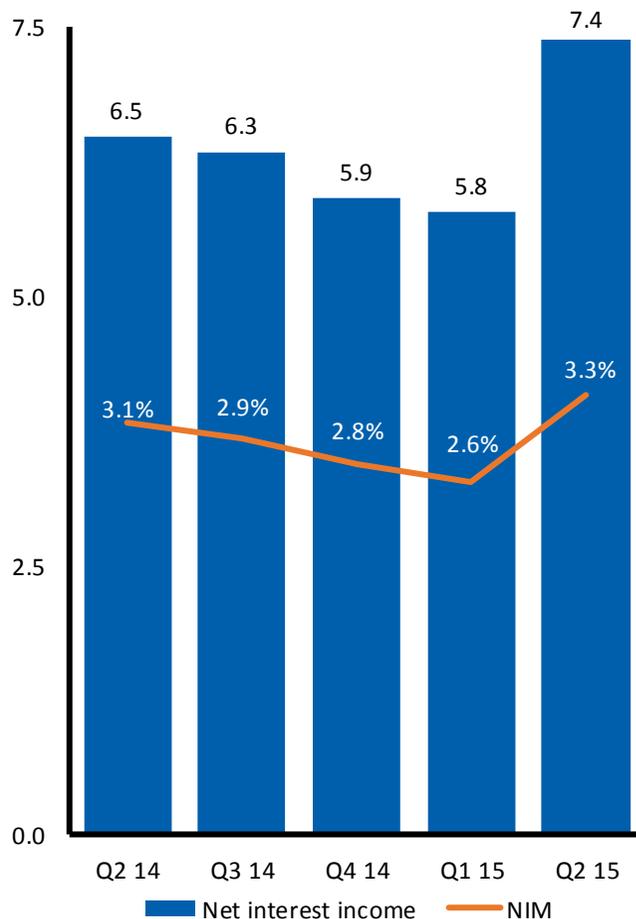
	H1 2015	H1 2014	Diff	Diff%
Net interest income	13,175	11,966	1,209	10%
Net commission income	7,434	6,593	841	13%
Net financial income	9,723	3,867	5,856	151%
Other income	5,740	3,274	2,466	75%
Operating income	36,072	25,700	10,372	40%
Salaries and related expense	(7,167)	(7,164)	(3)	0%
Other operating expenses	(6,004)	(5,811)	(193)	3%
Bank levy	(1,389)	(1,375)	(14)	1%
Net impairment	(81)	2,001	(2,082)	-
Net earnings before taxes	21,431	13,351	8,080	61%
Income tax	(2,367)	(2,467)	100	(4%)
Net gain from disc. operations	262	6,525	(6,263)	-
Net earnings	19,326	17,409	1,917	11%

NET INTEREST INCOME

NIM IS UNUSUALLY HIGH DURING THE QUARTER AT 3.3%

Inflation increased during Q2 2015 resulting in higher net interest income compared to previous quarters

Prepayment of a portion of the Bank's subordinated loan had a positive effect on Net Interest Margin



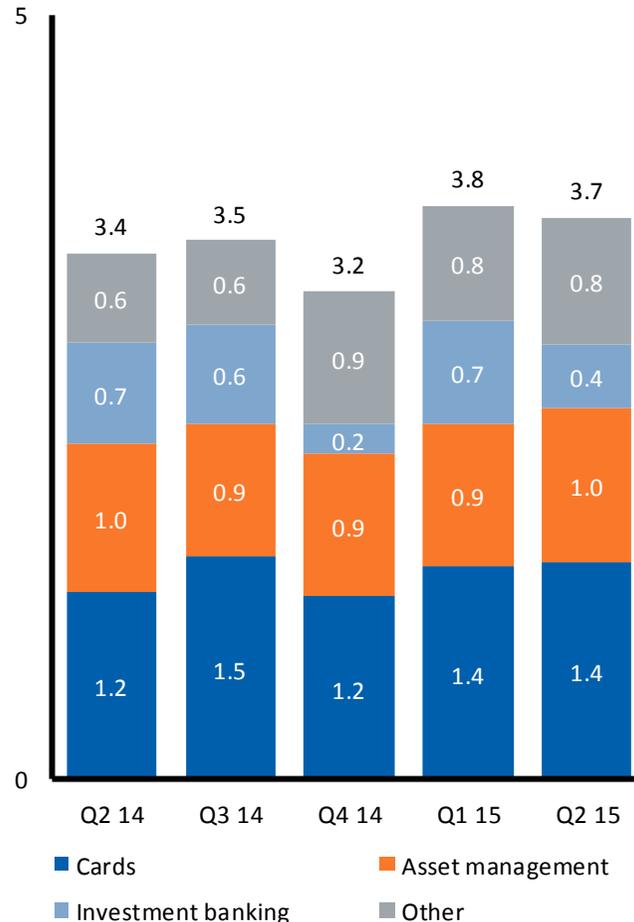
NET COMMISSION INCOME

COMMISSION INCOME IS TRENDING UPWARDS

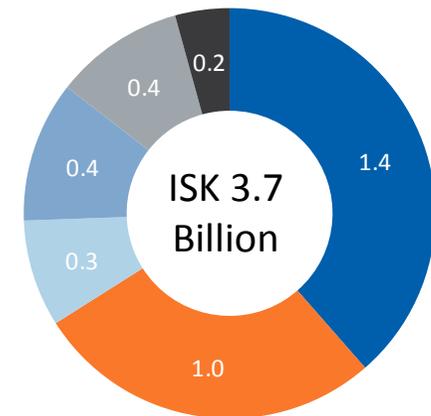
Cards and Asset management a growing source of commission income

Commission income in investment banking decreases from Q1 as expected
- No IPO in Iceland in Q2

Lending and guarantees and other sources of commission income stable



Breakdown of Net commission income Q2 2015



- Cards
- Asset management
- Collection and payment services
- Investment banking
- Lending and guarantees
- Other net fee and commission income

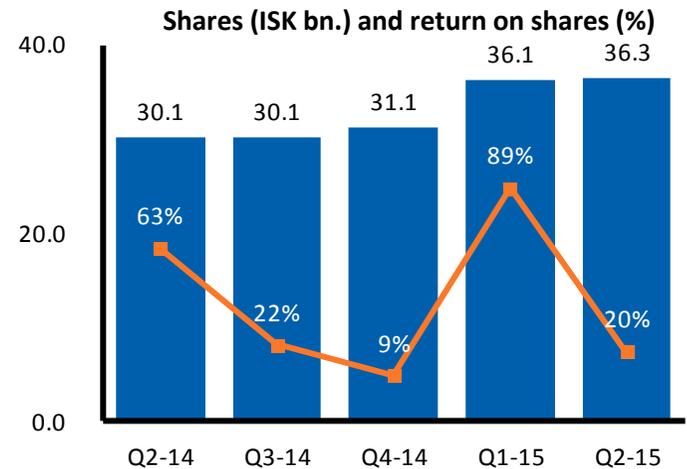
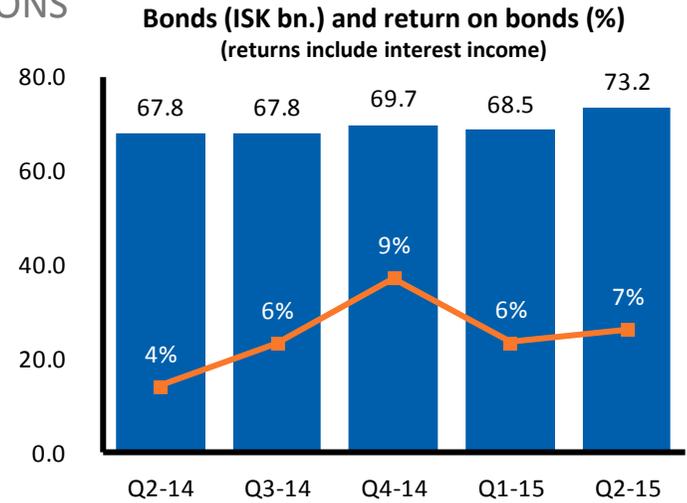
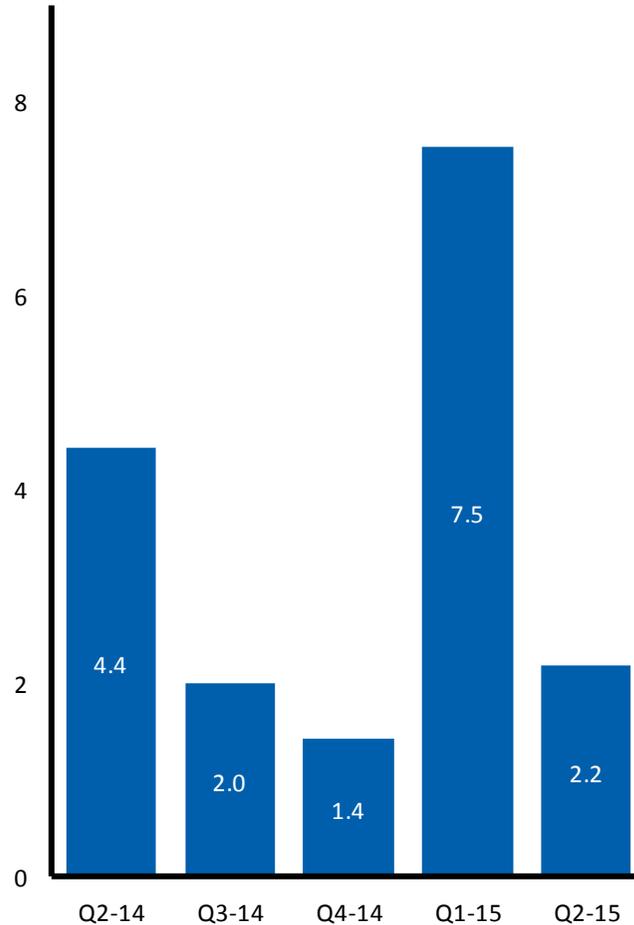
NET FINANCIAL INCOME

VERY GOOD RETURN ON LISTED AND UNLISTED EQUITY POSITIONS

Good return on shares during Q2 due to favourable stock market

Return on bond holdings improving

A slight growth in equity positions mainly related to listing of a former associated companies whilst bond positions remain relatively stable



TOTAL OPERATING EXPENSE

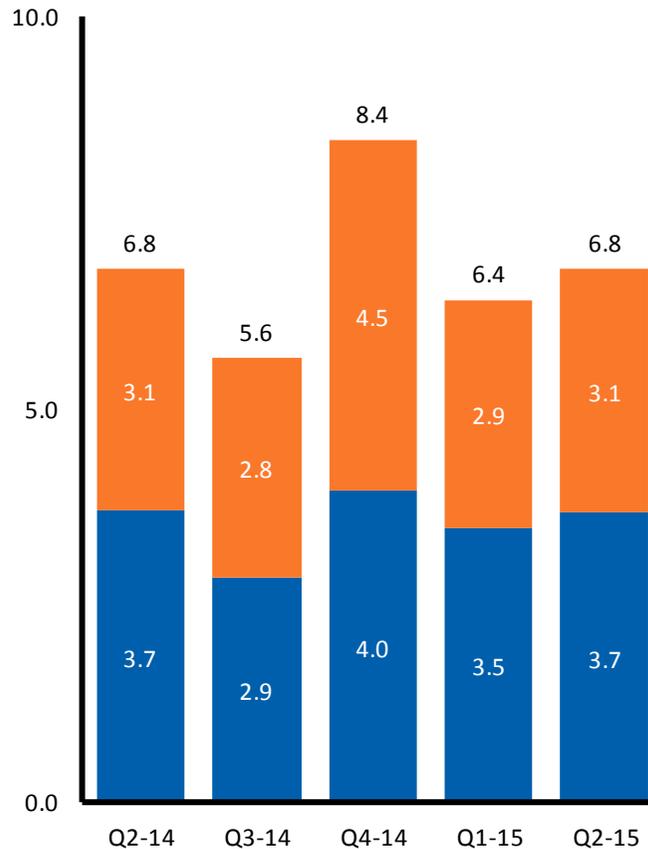
CONTINUED FOCUS ON OPERATING EFFICIENCY

Salaries in line with previous quarters

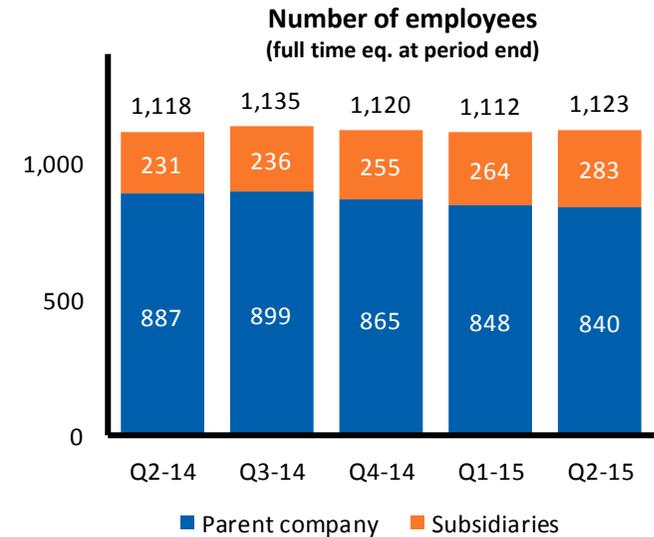
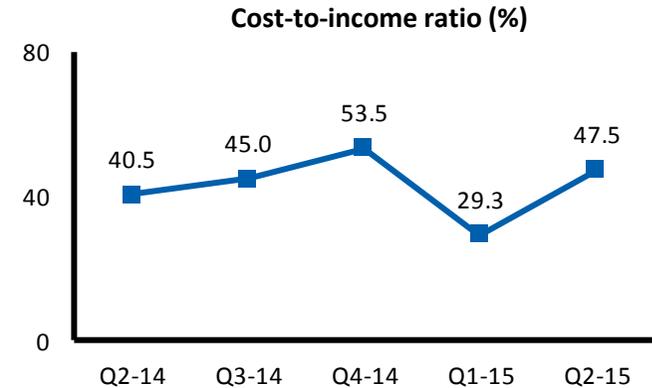
Number of employees continues to reduce at the parent company during the period but an increased number at Valitor

Other operating expenses stable compared to last year

Cost-to-income ratio compares favourably with international peers



Other operating expense
Salaries and related expense



Parent company Subsidiaries

BALANCE SHEET



BALANCE SHEET

STRONG BALANCE SHEET OFFERS VARIOUS OPPORTUNITIES

Controlled growth in lending activities

Very good liquidity position

Stable deposit base

Increase in borrowings partially used to prepay unfavourable loans, both senior and subordinated

Equity continues to grow regardless of substantial dividend payment

Assets	30.06.2015	2014	2013	2012	2011
Cash & balances with CB	33	21	38	30	29
Loans to credit institutions	104	109	102	101	69
Loans to customers	667	648	636	567	562
Financial assets	111	102	87	138	158
Investment property	8	7	29	29	27
Other assets	51	48	48	37	48
Total Assets	975	934	939	901	892

Liabilities and Equity					
Due to credit institutions & CB	14	23	28	33	16
Deposits from customers	472	455	472	449	490
Other liabilities	67	61	58	59	52
Borrowings	242	201	205	195	187
Subordinated loans	11	32	32	34	32
Equity	168	162	145	131	115
Total Liabilities and Equity	975	934	939	901	892

LOANS TO CUSTOMERS

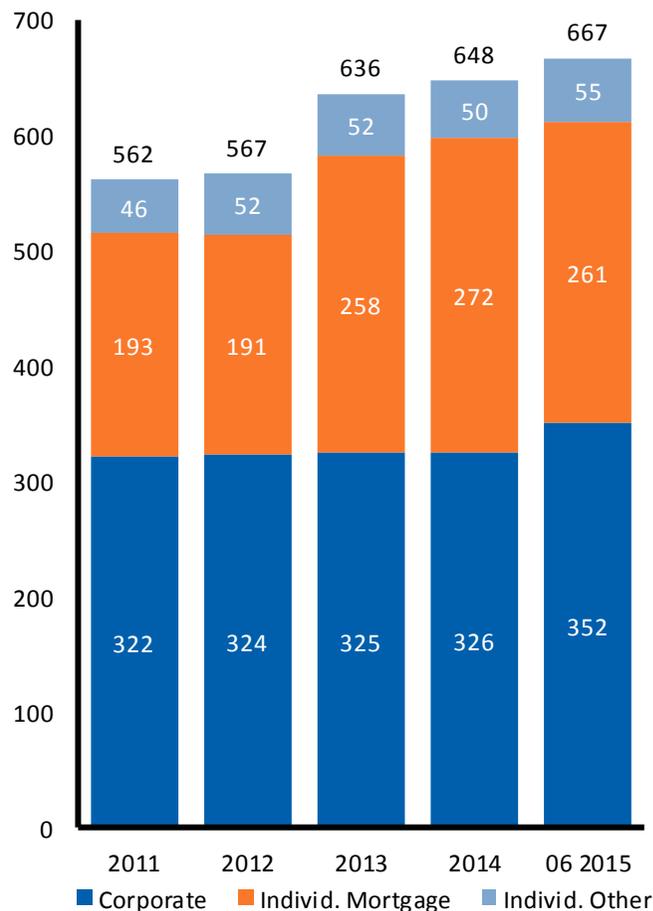
GOOD BALANCE BETWEEN INDIVIDUAL AND CORPORATE LENDING

Mortgage loans decrease due to the debt forgiveness of CPI indexed mortgage loans by the Icelandic state

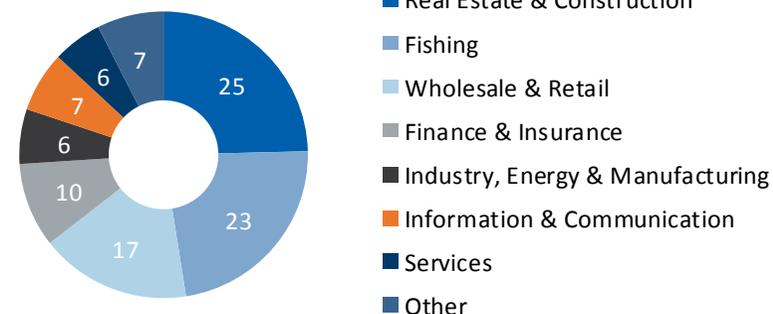
Loan growth in H1 is primarily to corporate customers

Good diversification in the corporate loan book

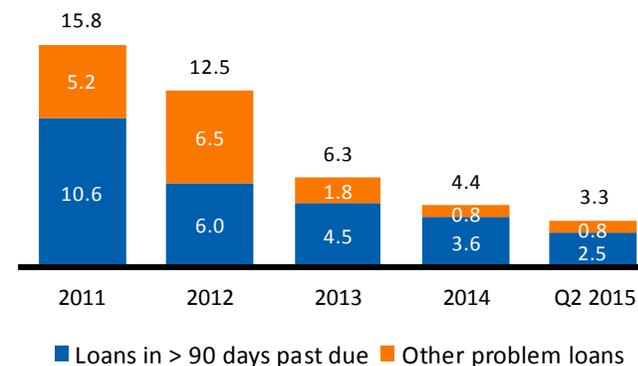
Continued improvement in problem loans



Loans to corporates by sector (%)



Problem loans (%)



FUNDING

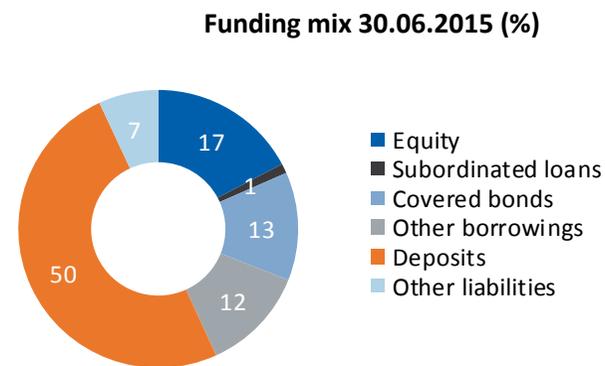
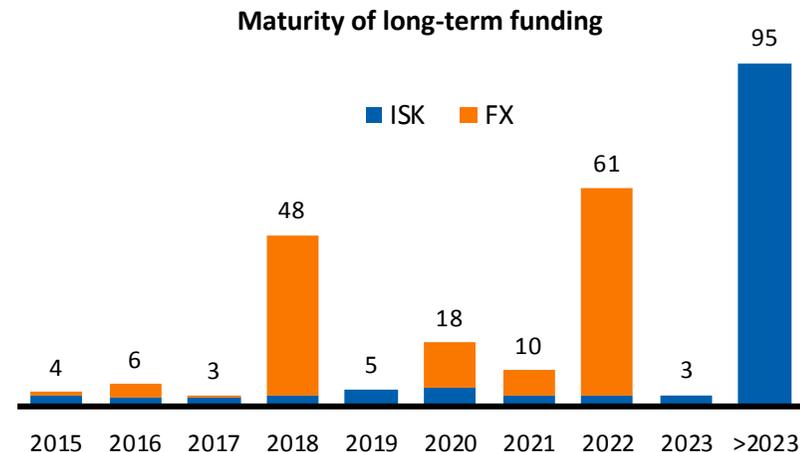
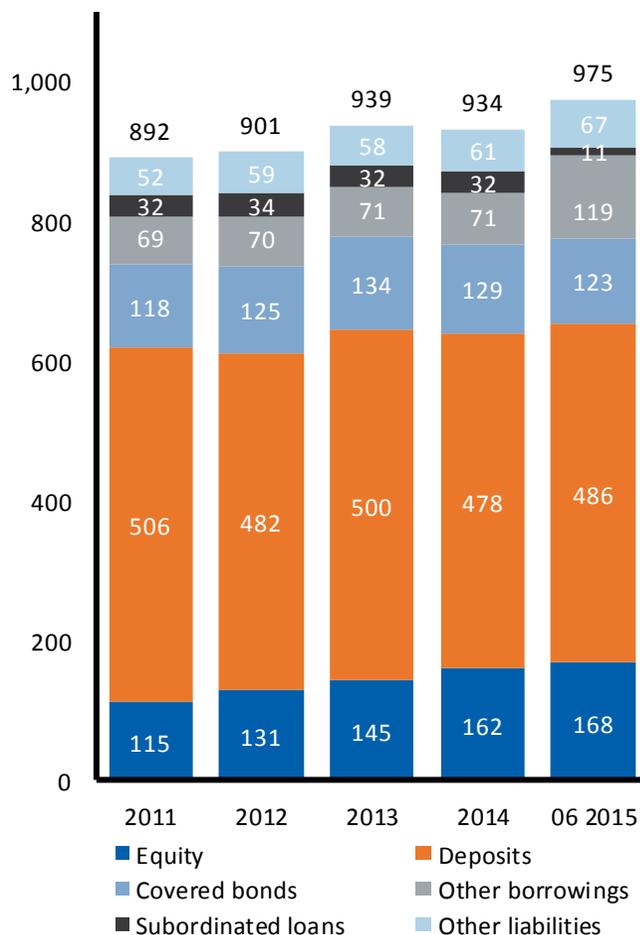
THE BANK'S EUROBOND TRADES WELL IN THE SECONDARY MARKET

The Bank issued 3 year EUR 300 million bond in March. Interest rate on the bond is 3.125% or MS +310 bps at issue date. The bond currently trades at MS +240 bps

The Bank issued a 5 year NOK 500 million bond in June. Interest rate on the bond is NIBOR +295 bps which equals EURIBOR +274 bps

The Bank repurchased NOK 260 million of bonds issued at NIBOR +500 bps in Q1 2013

The Bank prepaid 2/3 of subordinated loans



CAPITAL BASE

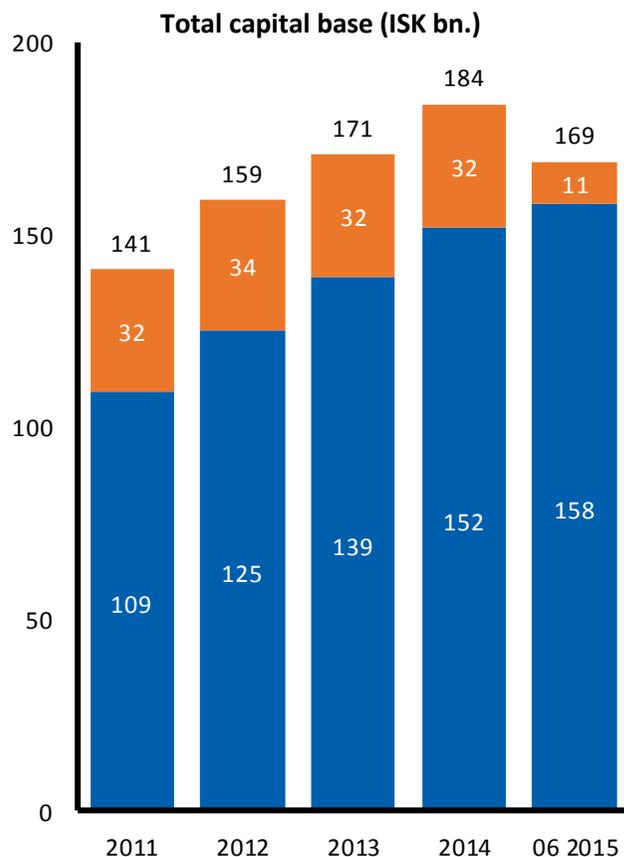
STRONG CAPITAL BASE AFTER A DIVIDEND PAYMENT OF ISK 12.8 BILLION IN APRIL

Decrease in Tier 2 due to prepayment of subordinated liabilities

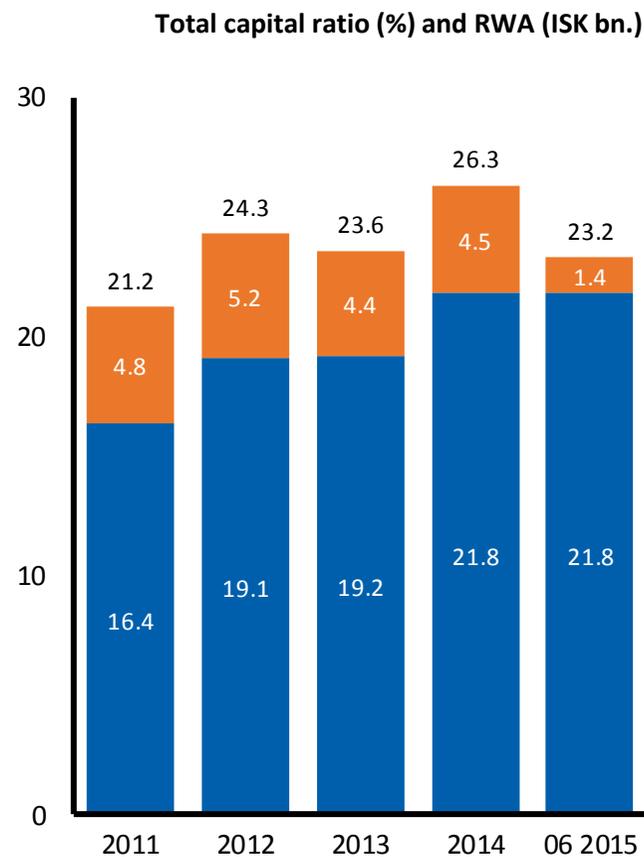
Solid level of capitalization due to strong profit generation

The Bank is using standardized approach calculating RWA

RWA/Total assets is 74.5%



■ Tier 1 Capital ■ Tier 2 Capital

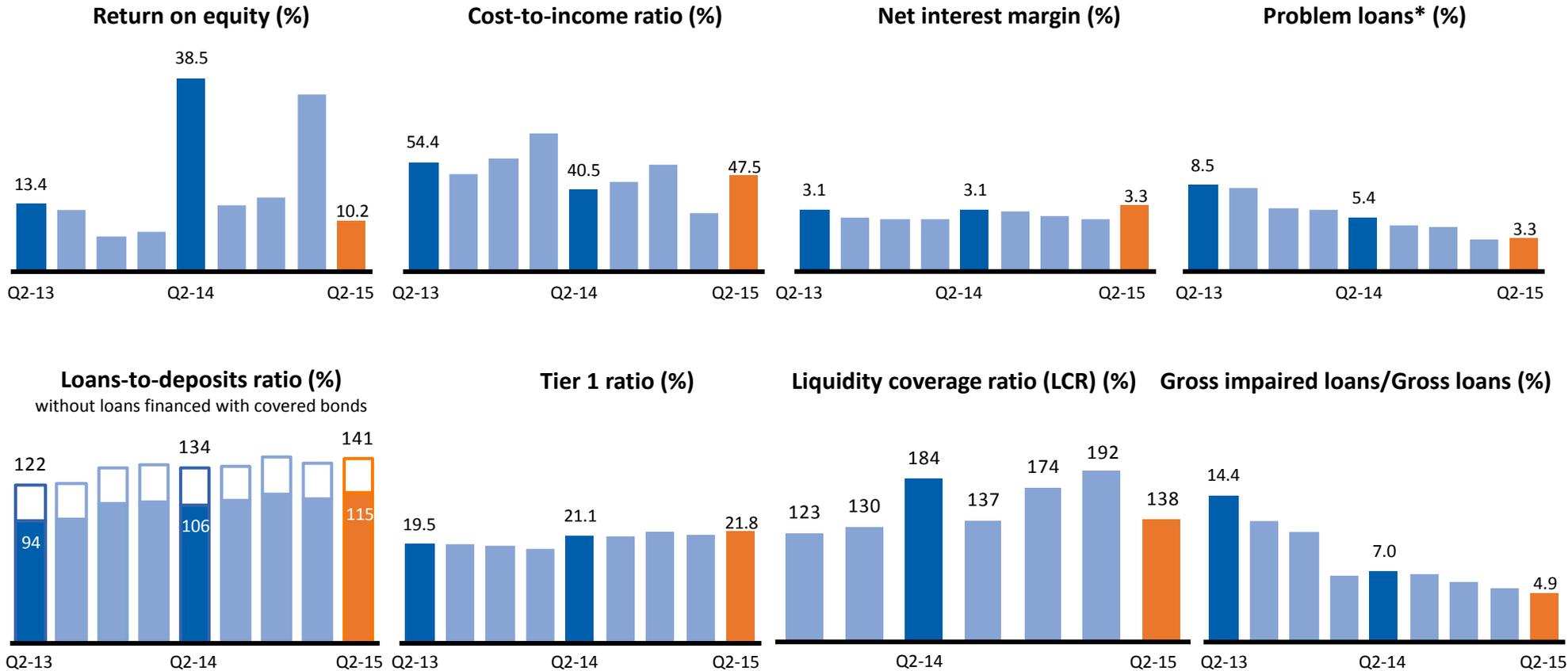


■ Tier 1 ratio ■ Tier 2 ratio



KEY FINANCIAL INDICATORS AND OUTLOOK

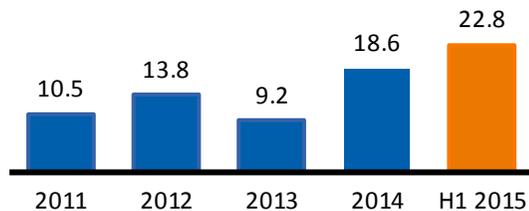
KEY FINANCIAL INDICATORS



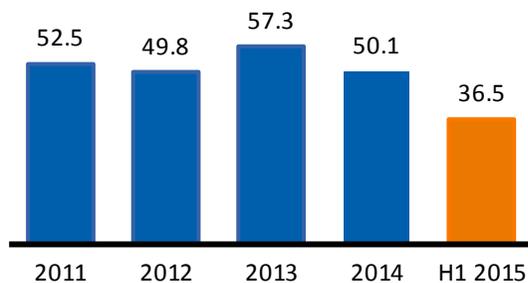
* Problem loans (past due but not impaired loans over 90 days + individually impaired loans) as % of loans to customers

KEY FINANCIAL INDICATORS

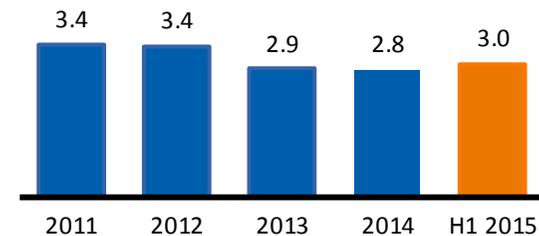
Return on equity (%)



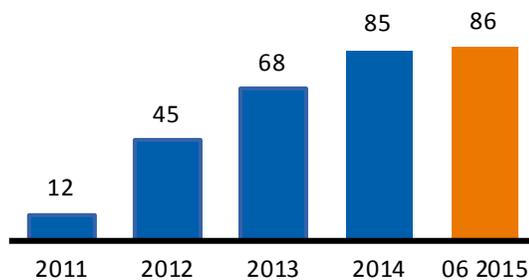
Cost-to-income ratio (%)



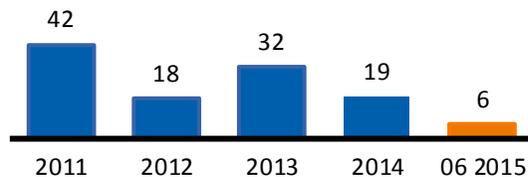
Net interest margin (%)



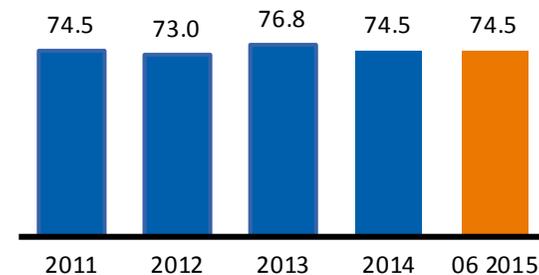
CPI Imbalance – ISK bn.



FX Imbalance – ISK bn.



Risk weighted assets/Total assets (%)



OUTLOOK

LIFTING OF THE CAPITAL CONTROLS A MAJOR EVENT

- The Icelandic economy is expected to perform well in the near to medium term
- The regular operations of Arion Bank are good and the Bank expects to grow with it's customers, both in their local activities and as they grow internationally
- The Bank will actively continue to sell legacy assets that still remain on it's balance sheet
 - The telecommunication company Siminn is expected to be listed in Q4
- Improved credit rating improves the Bank's funding possibilities in the international capital markets
- Arion Bank is well positioned to meet future challenges given it's strong capital base
- The letter of intent from the creditors of Kaupthing to the government in relation to the lifting of the capital controls stipulates that the fx deposits of Kaupthing will be converted to long term EMTN bonds and Kaupthing will purchase the current Central Bank loan to Arion Bank and convert into EMTN bonds as well
- The lifting of the capital controls is likely to offer new possibilities Aron Bank
 - Increased Foreign Direct Investment
 - Increased FX trading
- The lifting of the capital controls may also introduce new challenges for Arion Bank



ADDITIONAL INFORMATION

INCOME STATEMENT – EUR (MILLION)

	Q2 2015	Q1 2015	Q4 2014	Q3 2014	Q2 2014
Net interest income	50	38	38	41	42
Net commission income	25	25	21	23	22
Net financial income	15	50	9	13	29
Other income	7	31	34	4	15
Operating income	97	145	102	82	108
Salaries and related expense	(25)	(23)	(26)	(19)	(24)
Other operating expenses	(21)	(19)	(29)	(18)	(20)
Bank levy	(4)	(5)	(4)	(4)	(5)
Net impairment	(13)	12	(5)	6	0
Net earnings before taxes	34	109	39	46	60
Income tax	(4)	(11)	(1)	(13)	(7)
Net gain from disc. operations	1	1	2	0	42
Net earnings	30	99	39	34	94
EUR/ISK	147.24	150.41	153.75	153.69	154.70

ADDITIONAL INFORMATION

BALANCE SHEET – EUR (MILLION)

Assets	30.06.2015	2014	2013	2012	2011
Cash & balances with CB	225	137	240	176	184
Loans to credit institutions	705	705	645	598	435
Loans to customers	4,532	4,197	4,011	3,355	3,536
Financial assets	757	660	546	816	993
Investment property	53	44	180	171	171
Other assets	349	309	301	217	299
Total assets	6,622	6,052	5,924	5,333	5,618
Liabilities and Equity					
Due to credit institutions & CB	95	148	177	195	102
Deposits from customers	3,209	2,949	2,977	2,657	3,086
Other liabilities	457	398	363	348	328
Borrowings	1,643	1,300	1,291	1,155	1,179
Subordinated loans	74	205	201	203	202
Equity	1,144	1,051	915	775	721
Total liabilities and equity	6,622	6,052	5,924	5,333	5,618
EUR/ISK	147.20	154.28	158.49	168.89	158.80

DISCLAIMER

- This document has been prepared for information purposes only and should not be relied upon, or form the basis of any action or decision, by any person. Nothing in this document is, nor shall be relied on as, a promise or representation as to the future. In supplying this document, Arion Bank does not undertake any obligation to provide the recipient with access to any additional information or to update this document or to correct any inaccuracies herein which may become apparent.
- The information relating to Arion Bank, its subsidiaries and associates and their respective businesses and assets contained in, or used in preparing, this document has not been verified or audited. Further, this document does not purport to provide a complete description of the matters to which it relates.
- Some information may be based on assumptions or market conditions and may change without notice. Accordingly, no representation or warranty, express or implied, is made as to the fairness, accuracy, completeness or correctness of the information, forecasts, opinions and expectations contained in this document and no reliance should be placed on such information, forecasts, opinions and expectations. To the extent permitted by law, none of Arion Bank or any of their affiliates or advisers, any of their respective directors, officers or employees, or any other person, accepts any liability whatsoever for any loss howsoever arising from any use of this document or its contents or otherwise arising in connection with this document.
- By accepting this document you agree to be bound by the foregoing instructions and limitations.