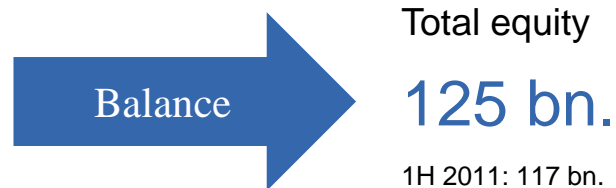
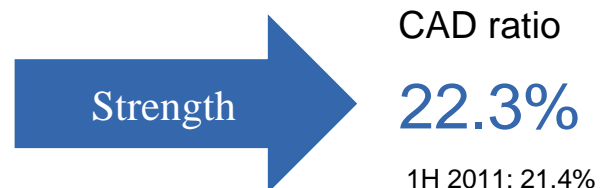
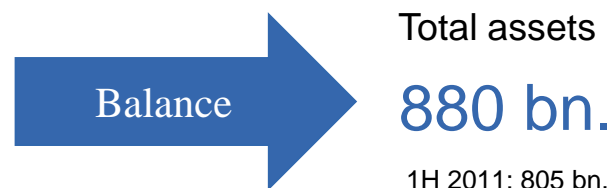
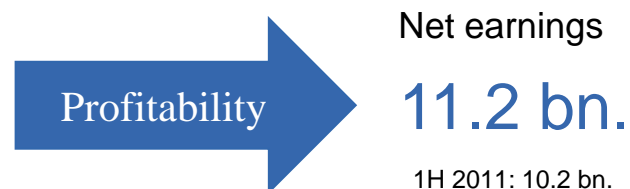




Arion Bank

Financial Statements for 1H 2012

Highlights in 1H 2012

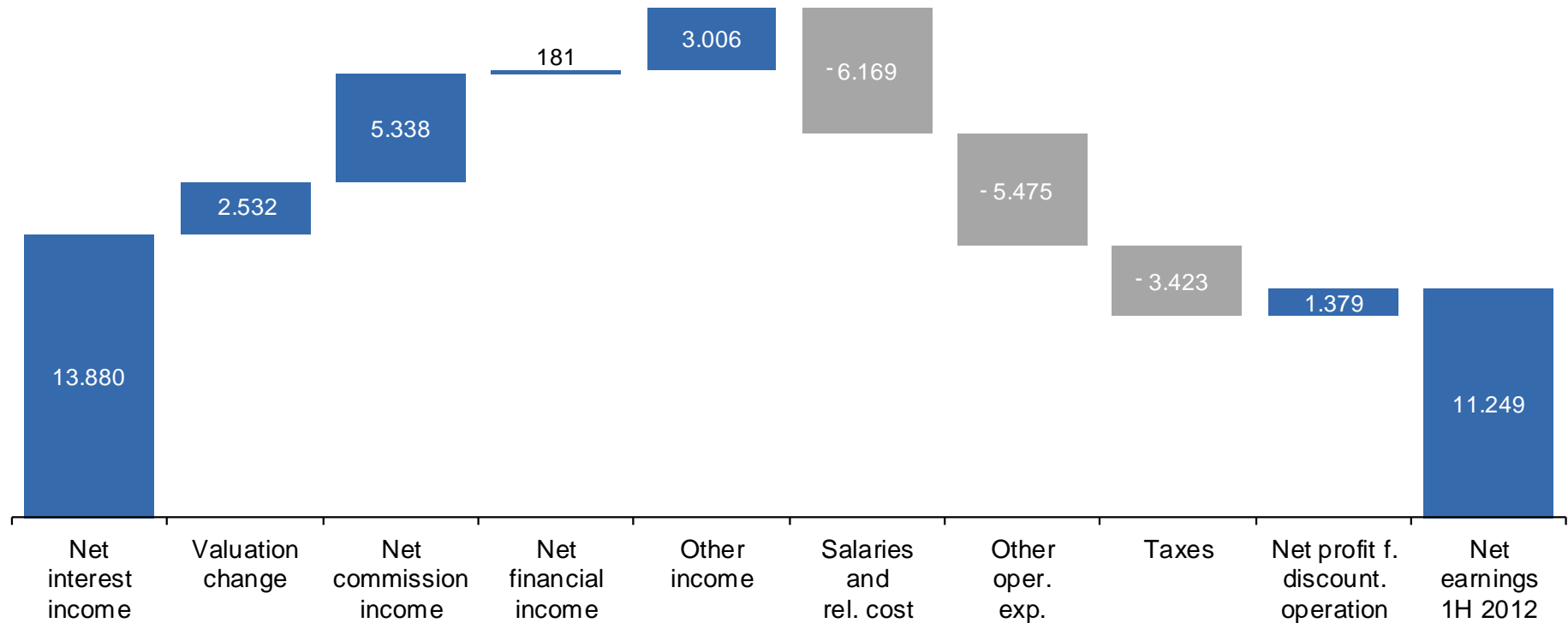


Arion Bank – Financial Statements for 1H 2012

Income Statement 1H 2012



Breakdown of net earnings in 1H 2012



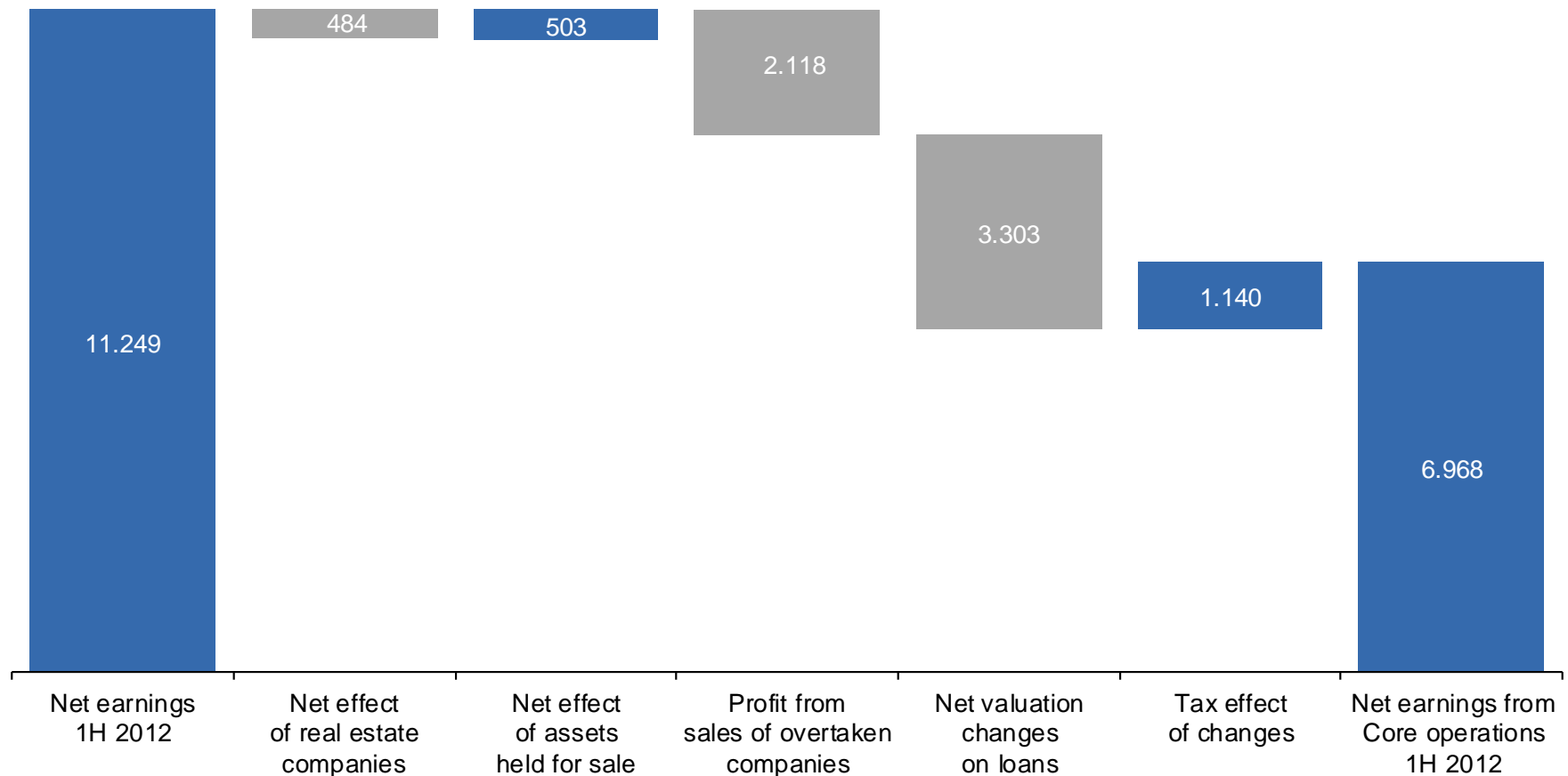
Income statement

Net earnings are 10% higher than for the same period last year

Million ISK	1H 2012	1H 2011	Diff	%
Net interest income	13.880	11.160	2.720	24%
Net change in valuation on loans	2.532	3.944	-1.412	-36%
Net interest income less val.on loans	16.412	15.104	1.308	9%
Net commission income	5.338	5.099	239	5%
Net financial income	181	1.939	-1.758	-91%
Other income	3.006	2.350	656	28%
Operating income	24.937	24.492	445	2%
Salaries and related cost	-6.169	-5.516	-653	12%
Other operating expenses	-5.475	-5.253	-222	4%
Net earnings before taxes	13.293	13.723	(430)	-3%
Income tax	-2.913	-2.517	-396	16%
Bank Levy	-510	-446	-64	14%
Net gain (loss) from discontinued oper. net of tax	1.379	-568	1.947	n/a
Net earnings	11.249	10.192	1.057	10%
 Shareholders of Arion Bank	 11.052	 9.825	 1.227	 12%
Minority interest	197	367	(170)	(46%)

Core operation in 1H 2012

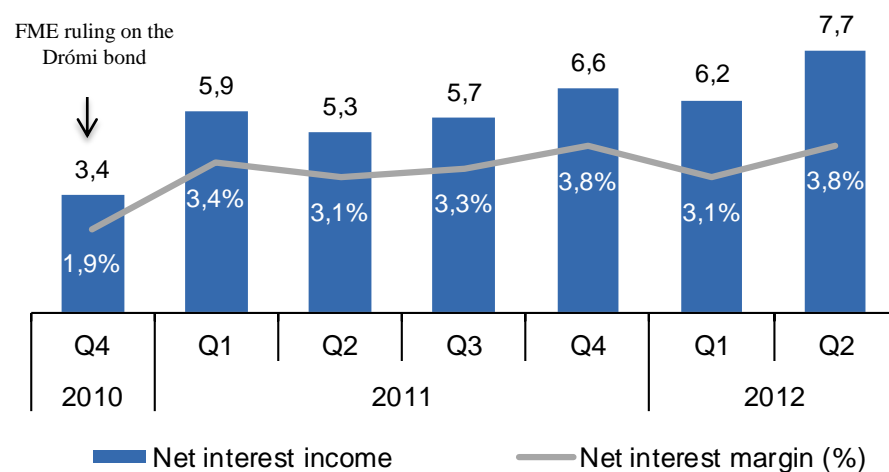
Return on equity from core operations is 11.8%



Net interest income

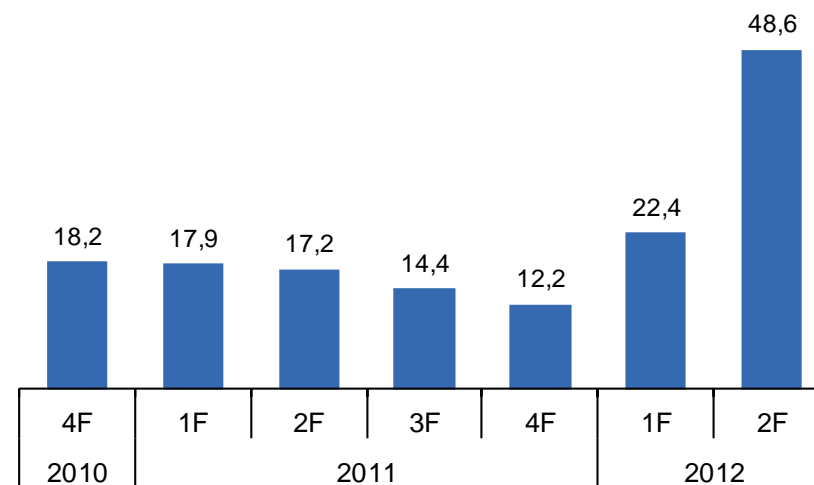
Increasing net interest income mainly due to increasing CPI imbalance

Development of net interest income and net interest margin



ISK bn.

Development of CPI imbalance

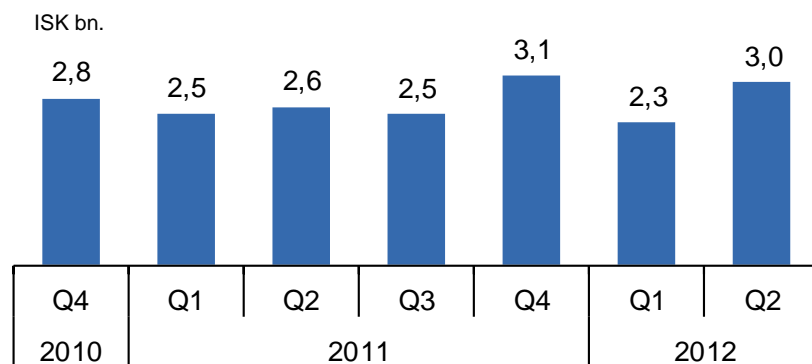


ISK bn.

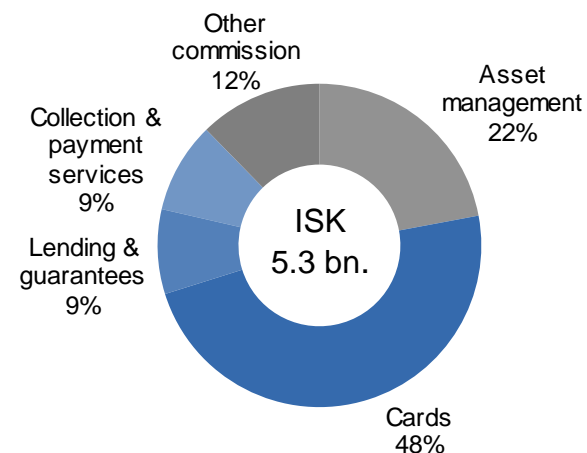
Net commission income

Strong performance in challenging markets

Total net commission income

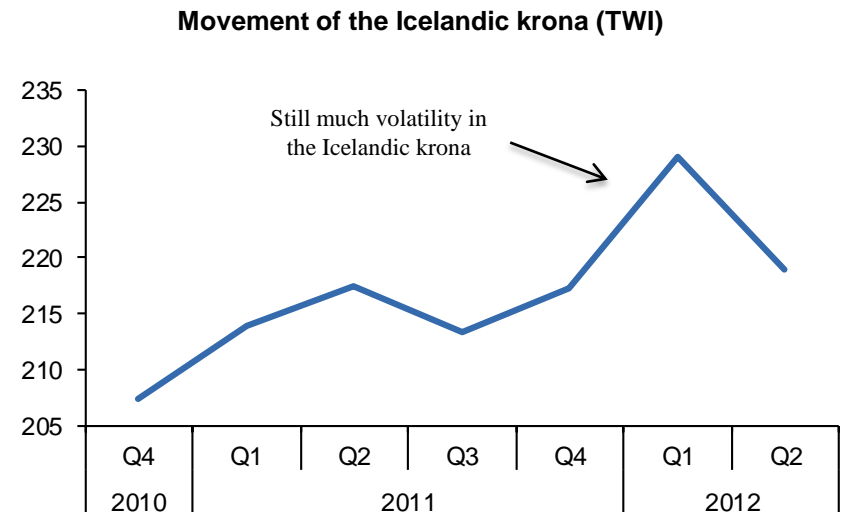
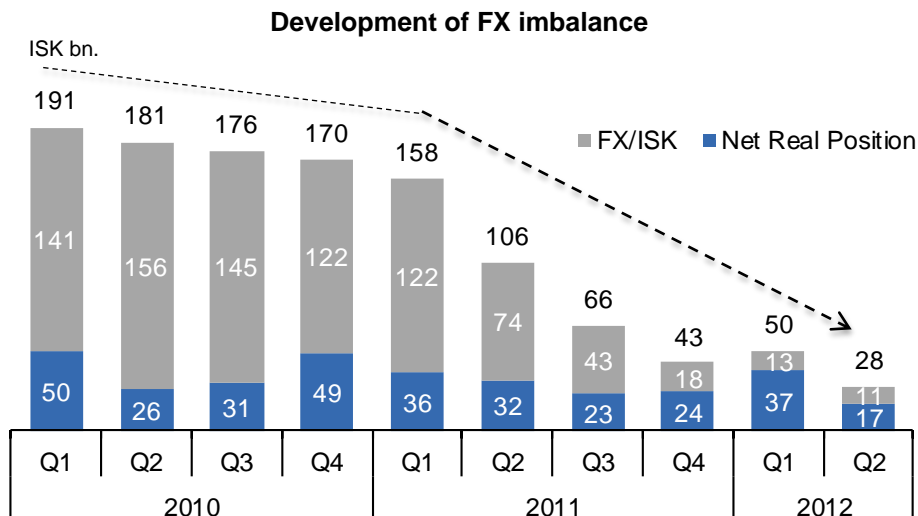
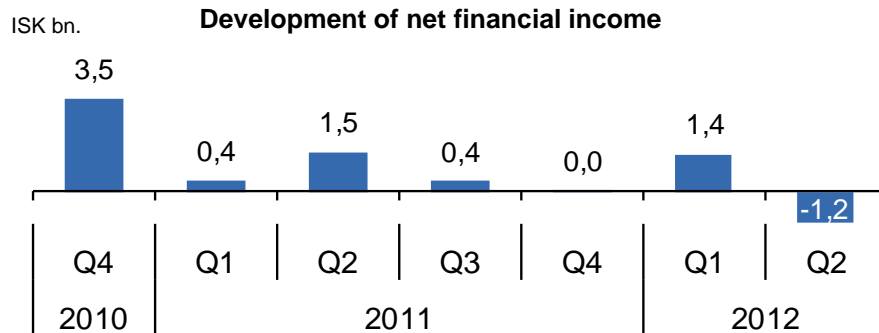


Breakdown of total net commission income for 1H 2012

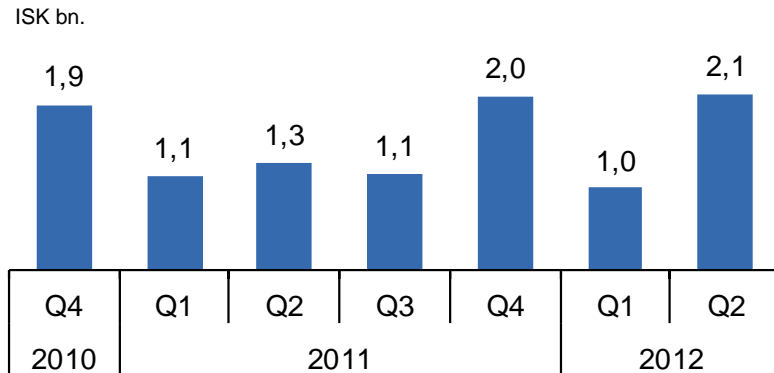


Net financial income

Less volatility in foreign exchange due to decreasing FX imbalance

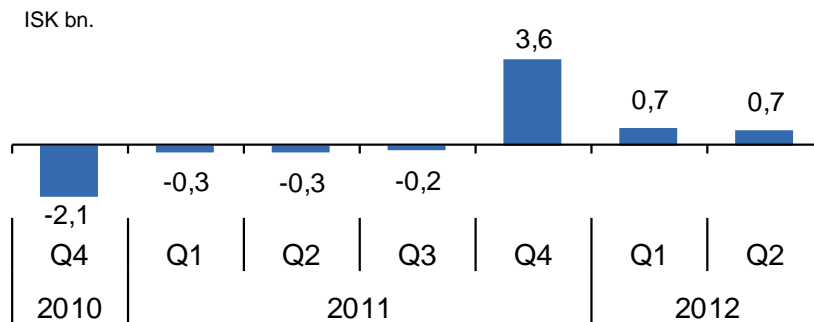


Other income



- Other income was ISK 3.1 bn. in 1H 2012
 - mainly from investment properties and insurance operation or ISK 2.2 bn.

Net gain from discontinued operations

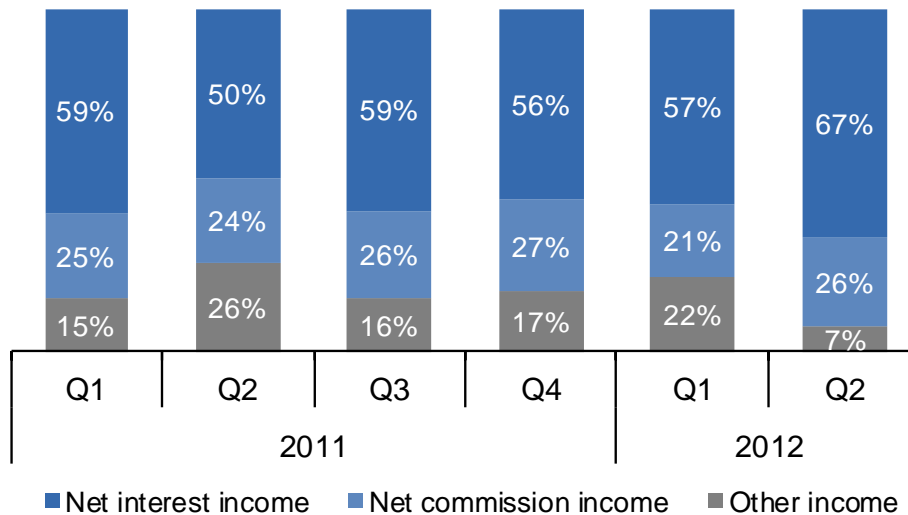


- Net gain from discontinued operations was ISK 1.4 bn. in 1H 2012
 - Net gain from sale of Hagar was ISK 875 million
 - Net gain from sale of 39% share in N1 was ISK 868 million
 - Loss from other assets was total of ISK 389 million

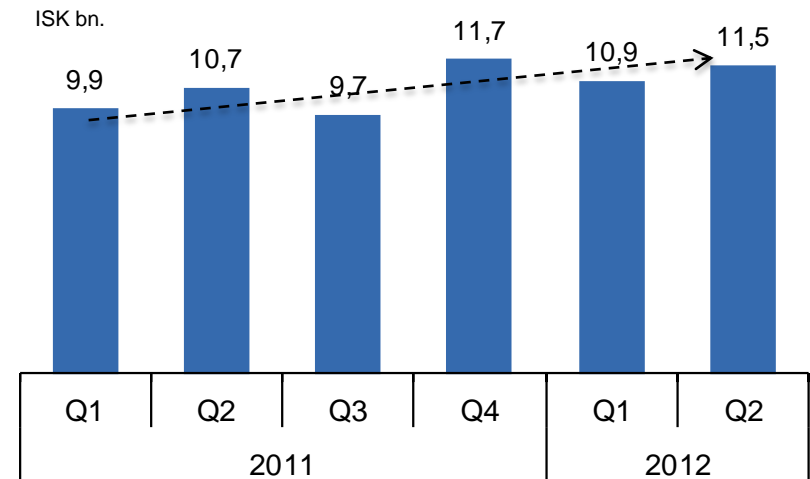
Operating income without valuation change

Increasing operating income

Breakdown of operating income



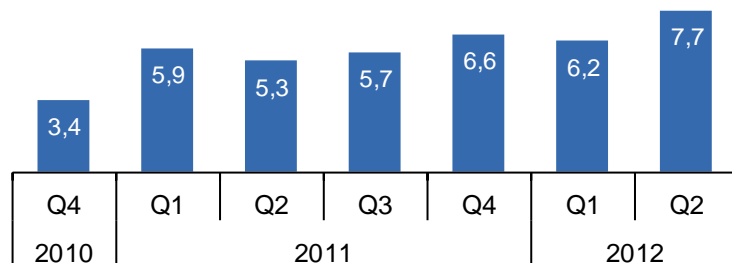
Development of operating income



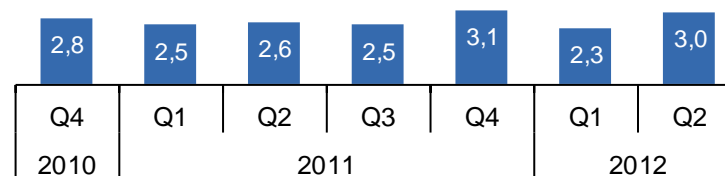
Other income: Net financial income and Other income

Comparison between quarters

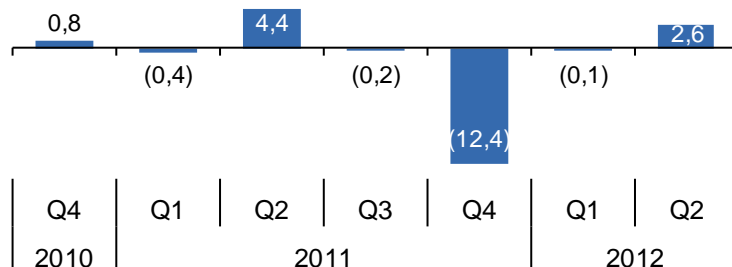
Net interest income



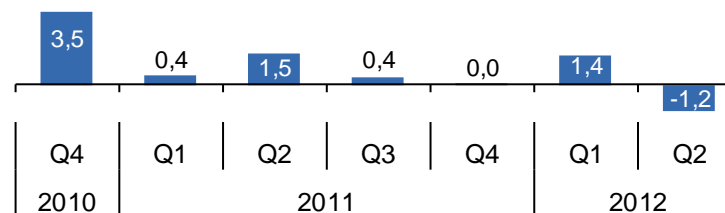
Net commission income



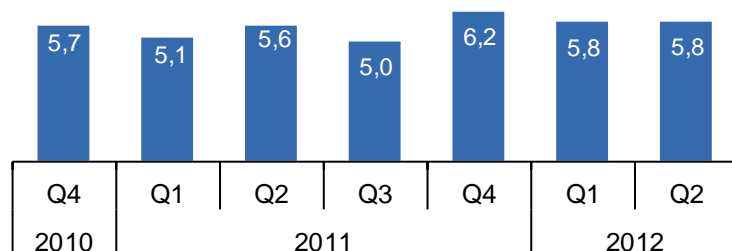
Net valuation change



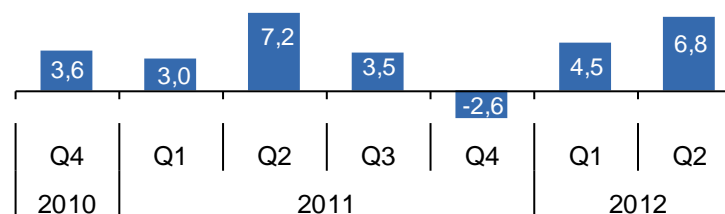
Net financial income



OPEX



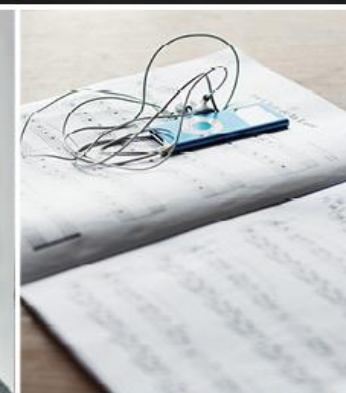
Net earnings



Arion Bank – Financial Statements for 1H 2012

Balance Sheet

30 June 2012

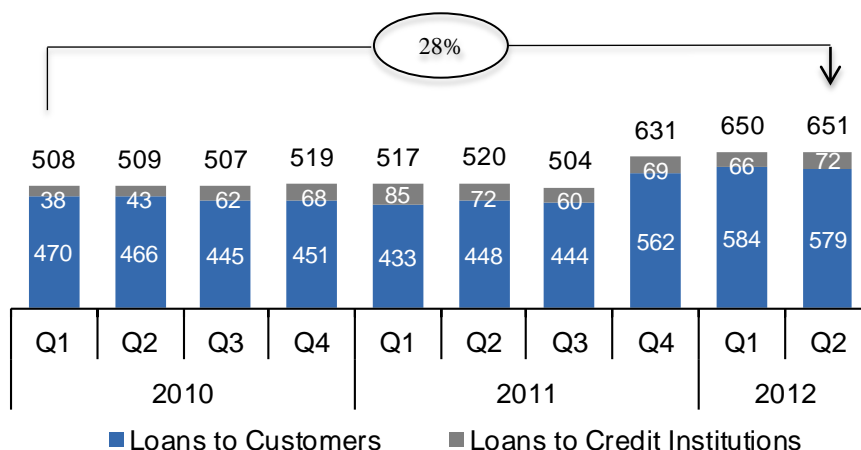


Balance sheet

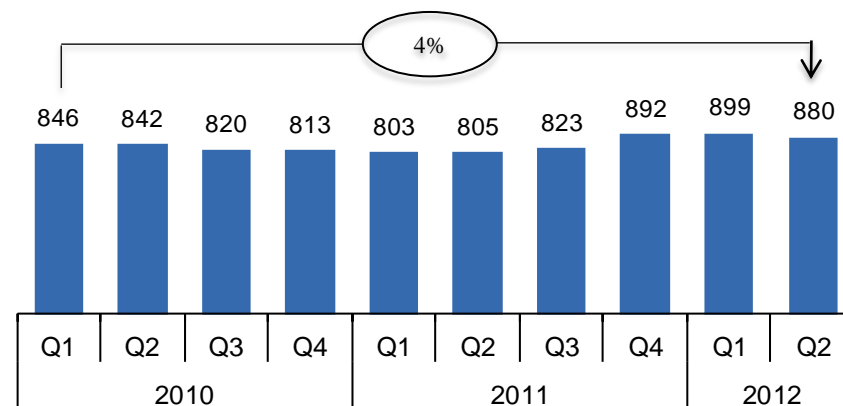
Total assets demonstrate low activities in the economy

Assets					
Billion ISK	30.06.12	31.03.12	Diff%	31.12.11	Diff%
Cash & balances with CB	16	18	-10%	29	-44%
Loans to credit institutions	72	66	9%	69	4%
Loans to customers	579	584	-1%	562	3%
Financial assets	147	161	-9%	158	-7%
Investments properties	28	26	10%	27	5%
Non current assets & disp.groups HFS	16	22	-25%	24	-32%
Other assets	21	23	-5%	24	-10%
Total assets	880	899	-2%	892	-1%

Development of total loans



Development of total assets



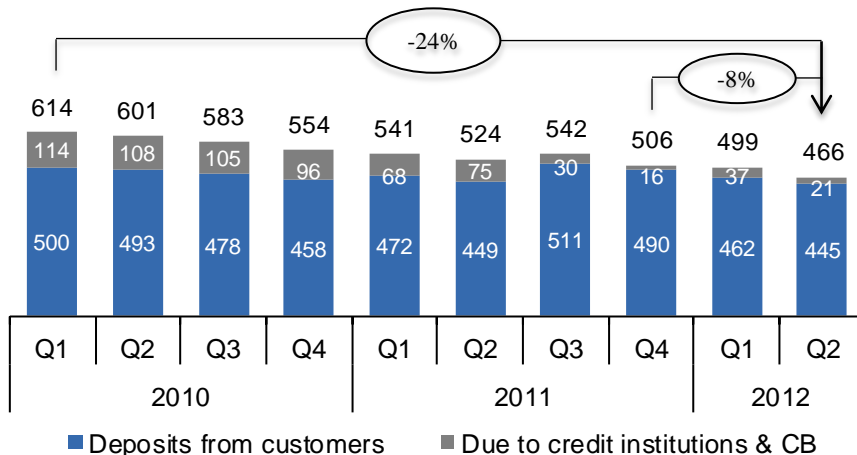
Balance sheet

Total deposits have decreased by ISK 40 bn. from year end – in line with deposits in the system

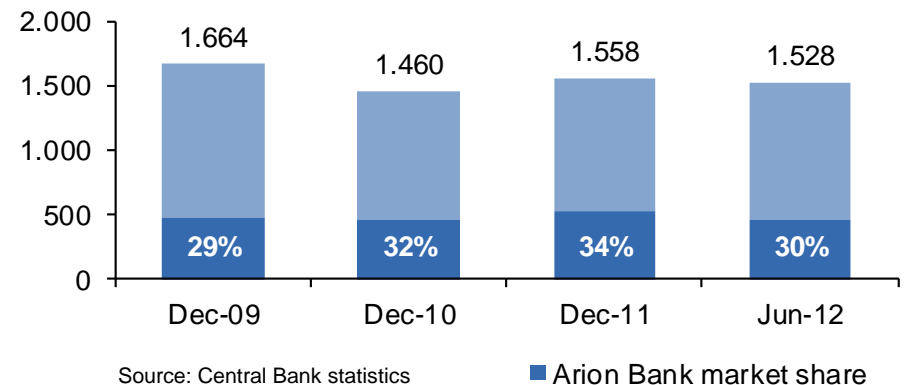
Liabilities and Equity

Billion ISK	30.06.12	31.03.12	Diff%	31.12.11	Diff%
Due to credit institutions & CB	21	37	-44%	16	29%
Deposits from customers	445	462	-4%	490	-9%
Non current liab. & disp.groups HFS	4	4	-6%	5	-16%
Other liabilities	60	51	18%	47	26%
Borrowings	193	192	0%	187	3%
Subordinated loans	32	34	-5%	32	0%
Equity	125	119	5%	115	9%
Total liabilities and equity	880	899	-2%	892	-1%

Development of total deposits in Arion Bank



Development of deposits from customers in the system

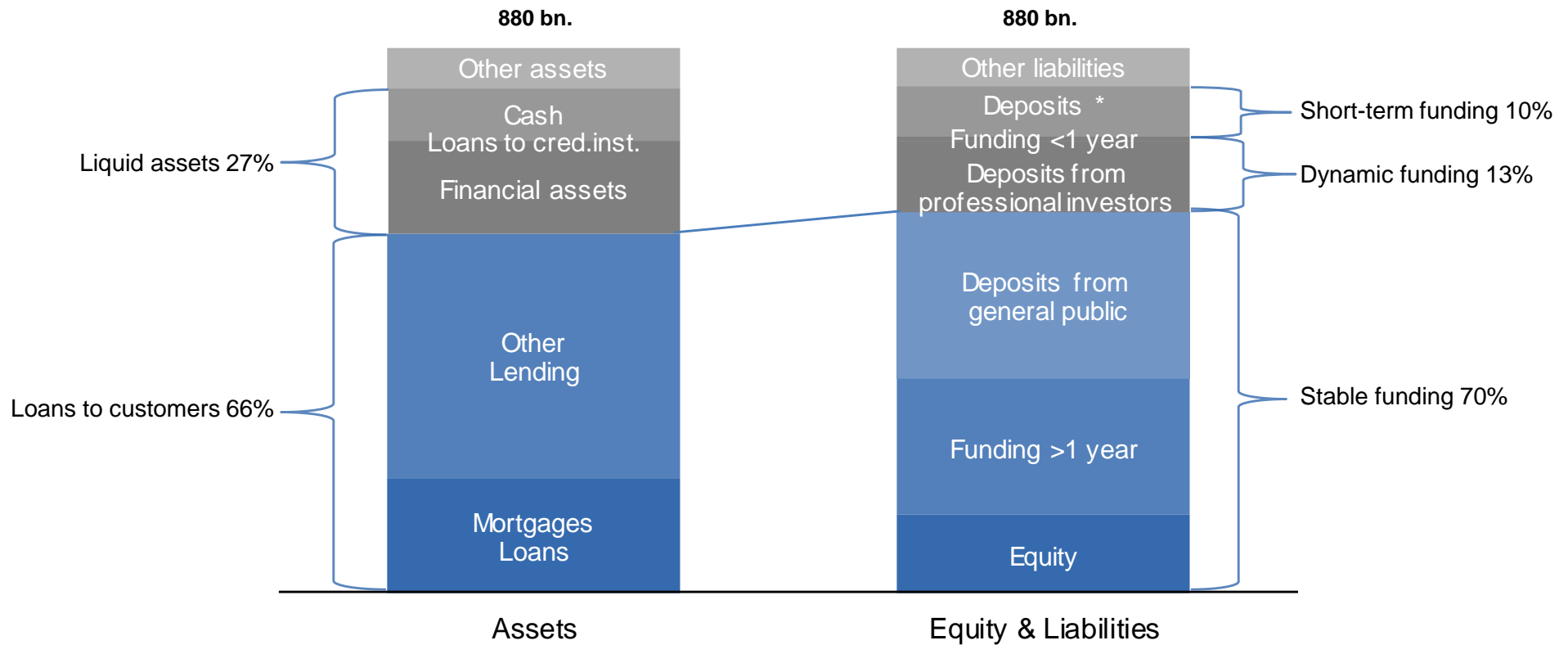


Source: Central Bank statistics

■ Arion Bank market share

Solid balance sheet structure

Prudent assets and liability management

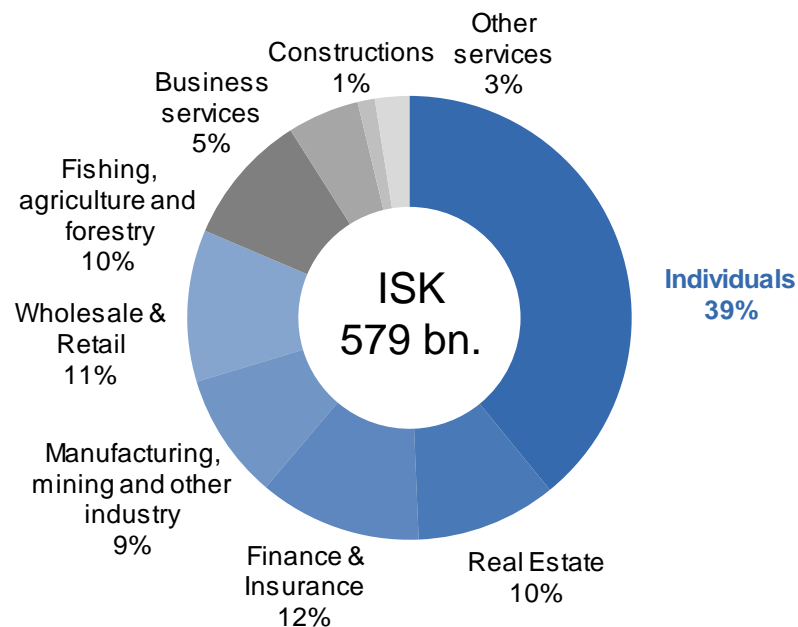


* Deposits from resolution process and due to capital controls

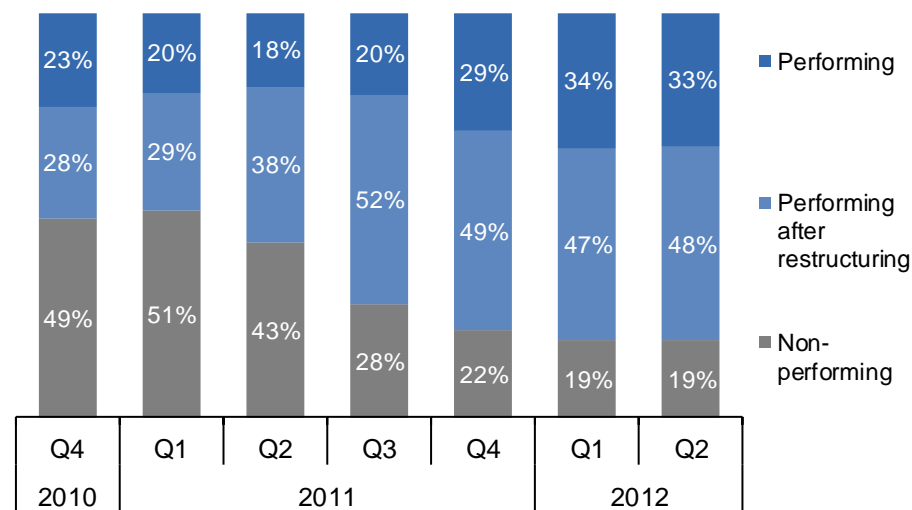
Loan portfolio

Well diversified loan portfolio and asset quality improving

Sector split 30.6.2012

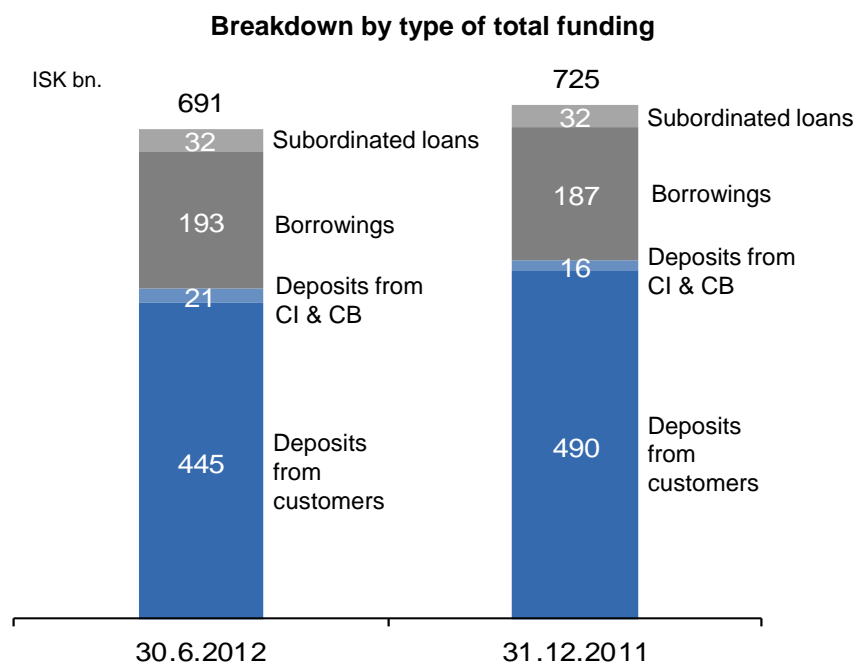


Loan portfolio analysis (LPA ratio)



Funding

Stable deposits base and no significant redemption of long term funding until 2020



Maturity of long term fund.	<1Y	1-2Y	2-3Y	3-4Y	4-5Y	5-10Y	>10Y	Total
Covered bonds	3	3	3	3	3	16	93	125
Other Loans	2	1	1	1	1	62	-	68
Subordinated loans	-	-	-	-	-	32	-	32
Total long term funding	5	4	4	4	4	110	93	225

Covered bonds

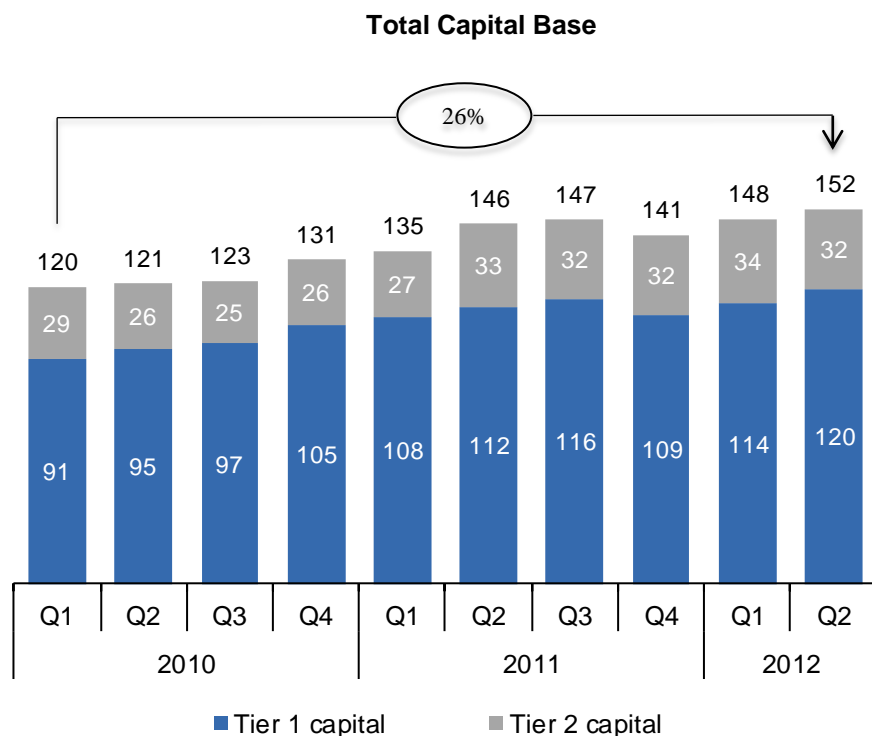
- € 1bn Covered Bond programme completed in February
- First bond issuance of ISK 2.5 billion in CPI linked covered bonds in February 2012
 - The bonds bear 3.6% interest rates and mature in 2034
- The first Icelandic bank to complete a fixed rate covered bond issue
 - total of ISK 2.5 bn. with 6.5% fixed interest rates and mature in 2015
- Covered bonds enable the bank to offer competitive mortgage rates to customers and are important source of funding for the bank

International funding

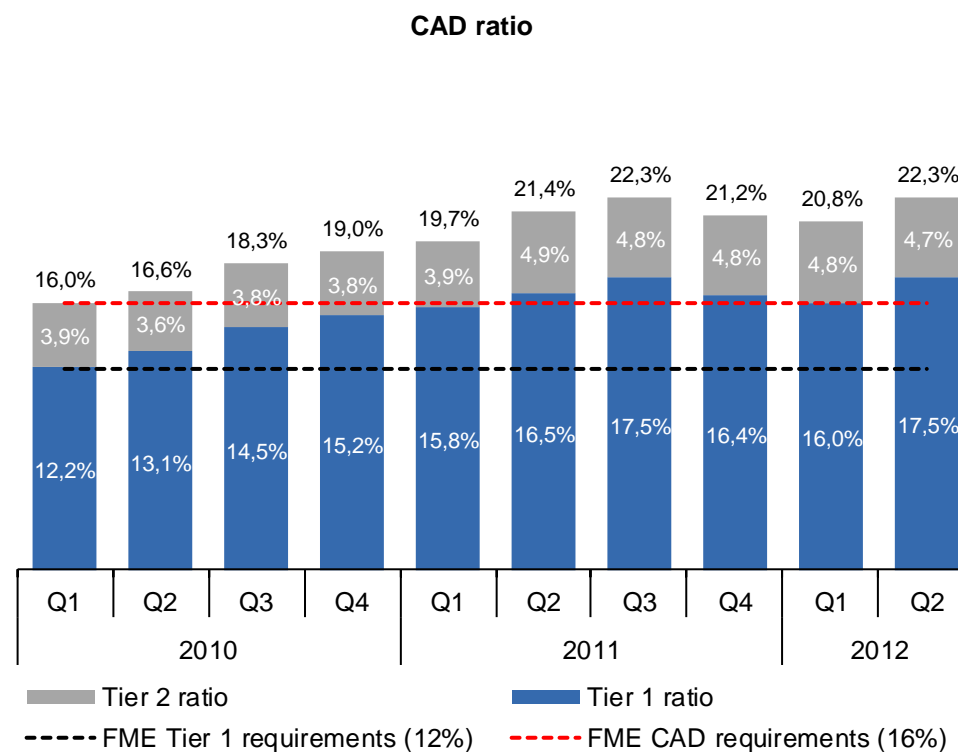
- Arion bank has limited funding needs in international currencies as there are is no significant redemption of long term debt until 2020
- The bank's aim is to seek international funding in the future, and to this end it met investors in London and Frankfurt in the first half of 2012

Capital base

Strong capital base and high CAD ratio



ISK bn.



Arion Bank – Financial Statements for 1H 2012

Key Financial Indicators



Key financial indicators

	1H 2012	2011	1H 2011
Return on equity (ROE)	18.8%	10.5%	20.3%
Return on assets (ROA)	2.5%	1.4%	2.6%
Net interest margin (int.bearing assets)	3.4%	3.4%	3.2%
Net interest margin (total assets)	2.8%	2.9%	2.8%
Cost-to-Income ratio	52.0%	52.5%	52.4%
Cost-to-Total assets ratio	2.6%	2.7%	2.7%
Effective tax rate	21.9%	20.1%	18.3%
CAD ratio	22.3%	21.2%	21.4%
Tier 1 ratio	17.5%	16.4%	16.5%
RWA / Total assets	77.4%	74.5%	84.3%
Loans to deposits ratio	130.0%	114.6%	99.8%
Secured liquidity ratio	31.6%	34.7%	35.0%
Cash ratio	14.5%	15.3%	16.0%
The Group's average number of employees	1,159	1,217	1,251
The Group's employees at the end of the period	1,173	1,158	1,200
The Parent company's employees at the end of the period *	920	858	899

* Former employees of Verdis are included in the parent company numbers for 1H 2012



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