



FINANCIAL STATEMENTS 31.3.2015

INVESTOR PRESENTATION
12 MAY 2015

HIGHLIGHTS OF Q1 2015

BOND ISSUE IN EUROS AND SALE OF SHAREHOLDINGS IN TWO COMPANIES

Sale of shares in companies in non-core operations

- Sale and listing of shares in Refresco Gerber
 - Arion Bank and subsidiaries owned directly or indirectly 9.8%
- Arion Bank sold stakes in two local real estate companies
 - Arion Bank sold 13.25% in Reitir in April
 - Proceeds of ISK 6.4 billion
 - Demand from approx. 3,600 investors
 - Total demand of ISK 25.5 billion
 - Reitir listed on market in April, Arion Bank now owns approx. 8% in company
 - Sale and listing of Eik prepared
 - Company was listed on market at the end of April. Arion Bank sold its entire shareholding

Funding

- First major benchmark bond issue in euros
 - €300 million (approx. ISK 45 billion)
 - The issue was two times oversubscribed
 - Diverse group of investors
 - 3-year bonds with 3.125% fixed interest
- Norwegian kroner denominated bonds repurchased for NOK 59 million (approx. ISK 1 billion)
- Continued issuance of domestic covered bonds in Iceland

HIGHLIGHTS OF Q1 2015

BETTER BANKING

Arion express service

- Strong emphasis on introducing *Arion express service* to customers. Adverts, courses and promotion in branches
- Continued emphasis on mobile banking
 - App users exceeded the number of users of on-line banking for the first time
- Even more new ATMs introduced. 280% increase in use of ATMs from same period last year

Loans

- New loans in the seafood industry in cooperation with DNB Bank

Innovation

- Continued leadership in startup and venture capital
 - Joint venture for seed investment. ISK 800 million invested in startup fund *Eyrir Sprotar*
- *Startup Reykjavík 2015*
- *Startup Energy Reykjavík* Investor Day held

HEADLINE FIGURES FOR Q1 2015

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

Q1 2015 results

Return on equity
35.1%

Q1 2014: 7.8%

Return on Regular operations
9.8%

Q1 2014: 4.7%

Efficiency

Cost-to-income ratio
29.3%

Q1 2014: 69.0%

Strength

Tier 1 ratio
21.2%

31.3.2014: 18.6%

Asset quality

Problem loans
3.2%

Q1 2014: 6.1%

Net earnings
ISK 14,908 million

Q1 2014:
ISK 2,864 million

Net earnings regular op.
ISK 3,972 million

Q1 2014:
ISK 1,694 million

Employees
1,112

31.03.2014:
1,140

Leverage ratio
14.5%

31.12.2014: 15.4%

Mortgages/
Total loans
41.7%

31.03.2014: 41.1%

HIGHLIGHTS IN Q1 2015

CONTINUED STRONG EARNINGS FOR ARION BANK

- Net earnings are characterized by high net financial income and other income due to sale and listing of legacy equity holdings
- Net earnings for Q1 2015 ISK 14,908 million
 - Net interest income up from Q1 2014
 - Stable net interest margin
 - Continued growth in commission income
- Total assets increased by ISK 71 billion (7.5%) from Q4 2014
 - Increase in assets mostly in cash and cash equivalents
 - EUR 300 million bond issued in March
 - Repayment of 30% of subordinated liabilities
 - The Bank is well funded and holds a very strong capital position
- Dividend paid in April, ISK 12.8 billion

Net earnings
ISK 14,908
million

Q1 2014:
ISK 2,864 million

Net interest income
ISK 5,783
million

Q1 2014:
ISK 5,483 million

Return on equity
35.1%

Q1 2014: 7.8%

Net interest margin
2.6%

Q1 2014: 2.6%



INCOME STATEMENT

INCOME STATEMENT

OUTSTANDING PERFORMANCE IN Q1 2015

Net interest income in line with previous quarters

Commission income continues to show strong growth

High net financial income and other operating income due to sale and listing of legacy equity holdings

Operating expenses decreased significantly from Q4 2014

Low effective income tax due to tax exempt revenues from equity positions

	Q1 2015	Q4 2014	Q3 2014	Q2 2014	Q1 2014
Net interest income	5,783	5,911	6,343	6,483	5,483
Net commission income	3,757	3,192	3,526	3,445	3,148
Net financial income	7,539	1,429	1,994	4,439	(572)
Other income	4,702	5,211	689	2,356	918
Operating income	21,781	15,743	12,552	16,723	8,977
Salaries and related expense	(3,492)	(3,953)	(2,862)	(3,714)	(3,450)
Other operating expenses	(2,896)	(4,467)	(2,787)	(3,064)	(2,747)
Net change in valuation	1,782	(744)	876	34	1,967
Net earnings before taxes	17,175	6,579	7,779	9,979	4,747
Income tax	(1,720)	(223)	(1,989)	(1,152)	(1,315)
Bank levy	(730)	(636)	(633)	(715)	(660)
Net gain from disc. operations	183	241	67	6,433	92
Net earnings	14,908	5,961	5,224	14,545	2,864

REGULAR OPERATIONS

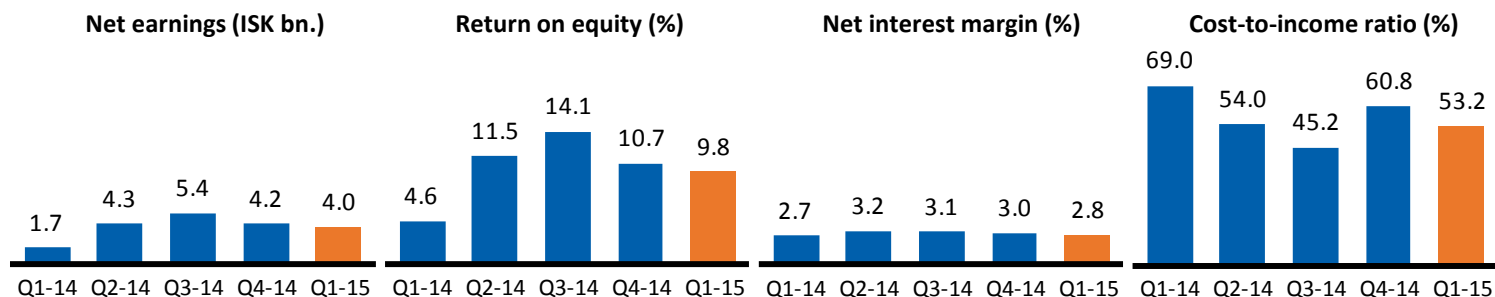
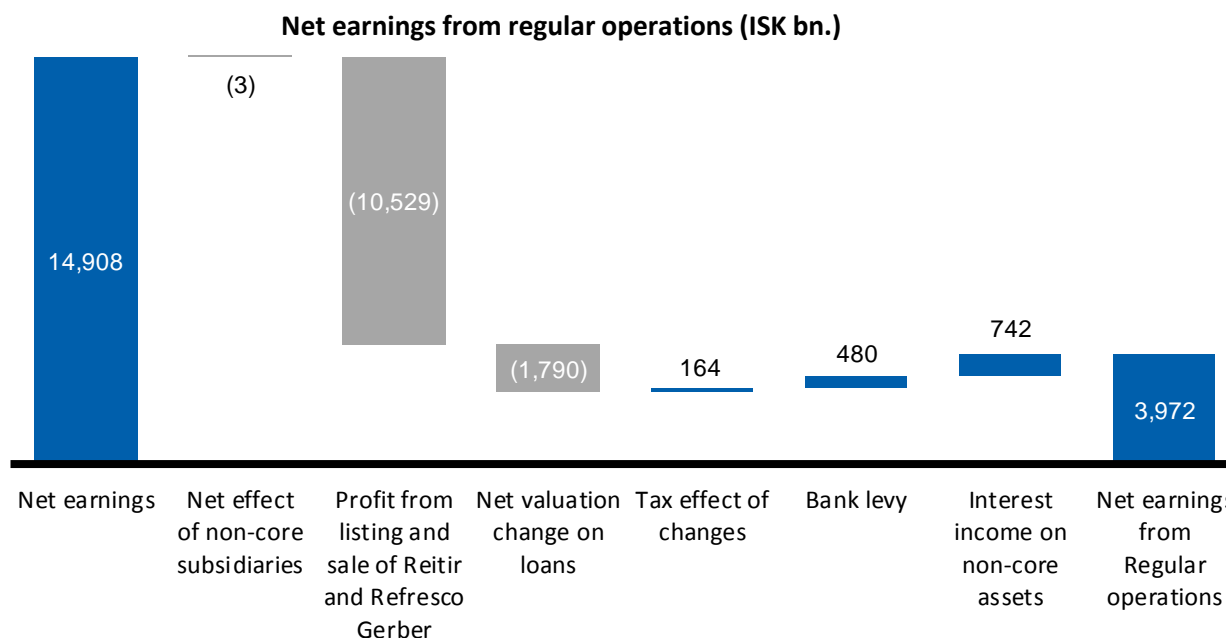
STABLE INCOME FROM REGULAR OPERATIONS

Very good headline performance in Q1 2015, mainly related to equity holdings

Substantial effect of Refresco Gerber and Reitir

- Listing of Refresco Gerber
- Sale and listing of Reitir

Effect of valuation changes on loans to one major customer not included



NET INTEREST INCOME

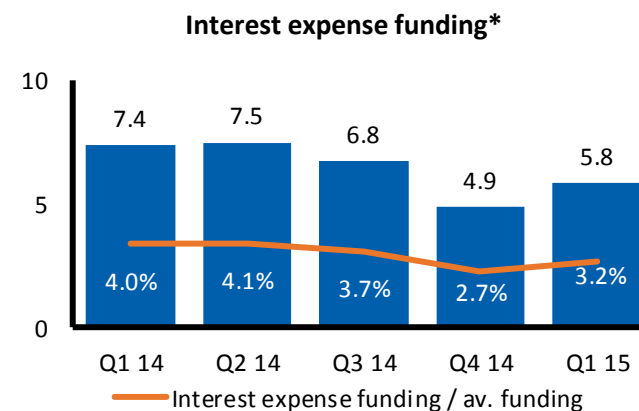
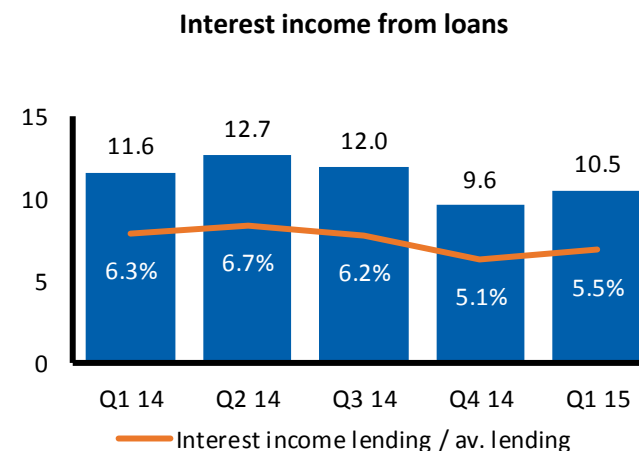
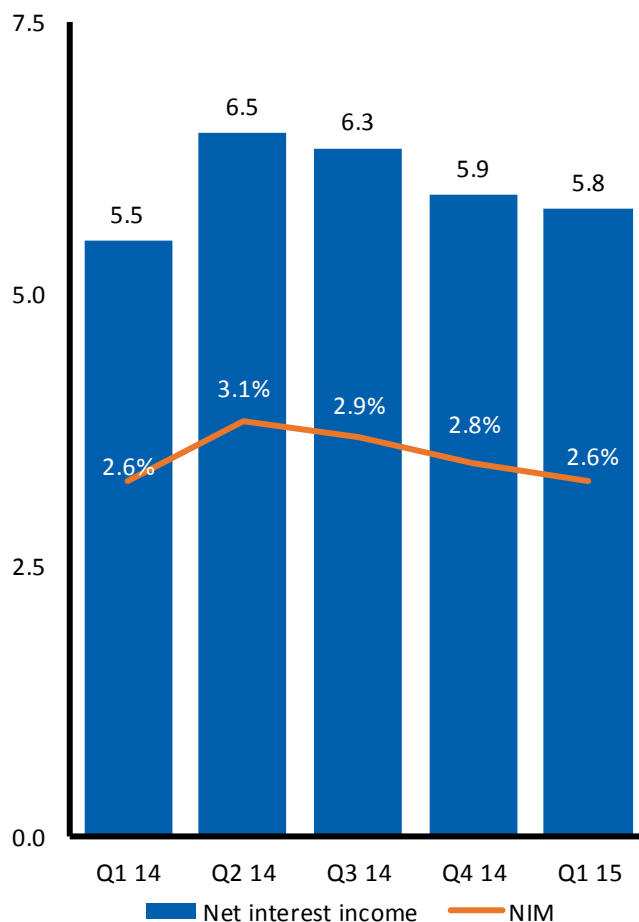
NIM AFFECTED BY NEW FUNDING STILL TO BE CHANNELLED INTO NEW LOANS OR PREPAYMENTS

Inflation remains low.

CPI balance increased by 10% from Q1 2014

Decrease in NIM due to increase in low interest bearing FX assets, mainly cash

Less focus on deposits from institutional investors which bear higher interests



NET COMMISSION INCOME

STRONG GROWTH FROM INVESTMENT BANKING AND INTERNATIONAL OPERATIONS OF VALITOR

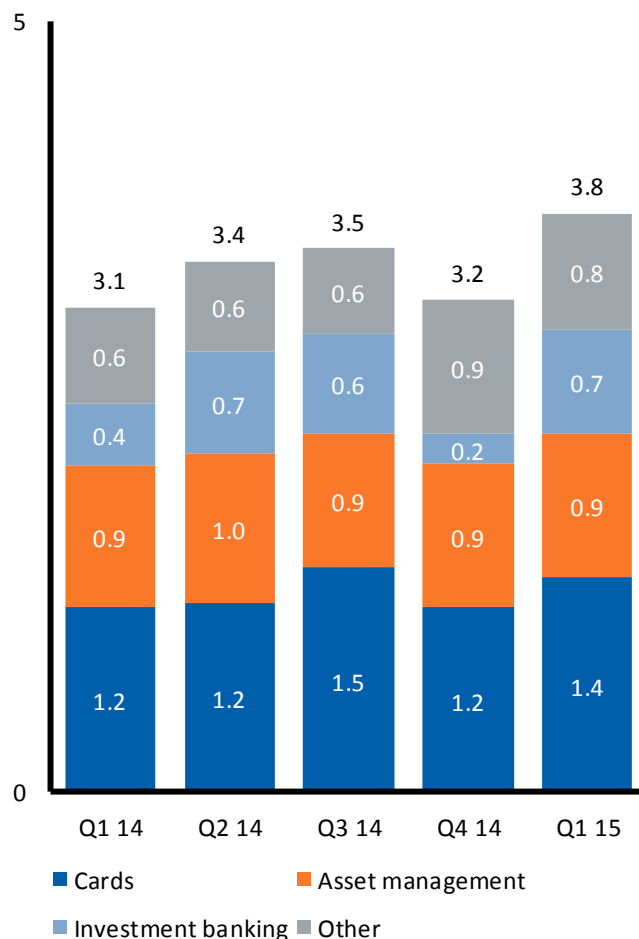
Commission income from cards continues to grow mainly due to growth in international operations of Valitor

Asset management a stable source of commission income

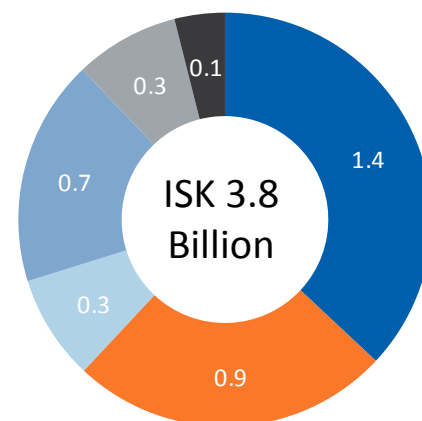
Investment banking continues to grow and performed well during the quarter

Lending and guarantees and other sources of commission income stable

80% of Net commission income from corporates



Breakdown of Net commission income Q1 2015



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

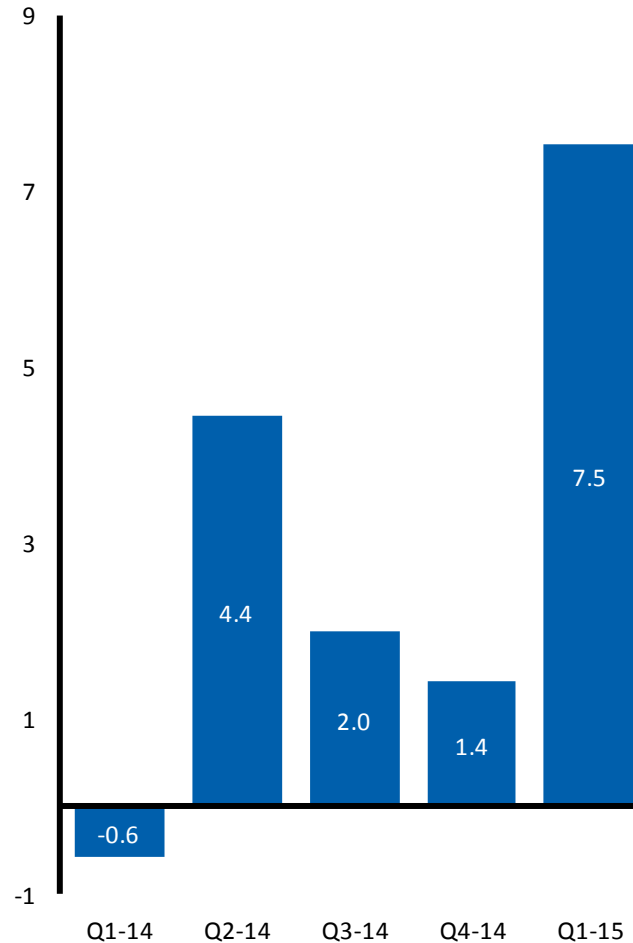
NET FINANCIAL INCOME

EXCELLENT RETURN ON LISTED AND UNLISTED EQUITY POSITIONS

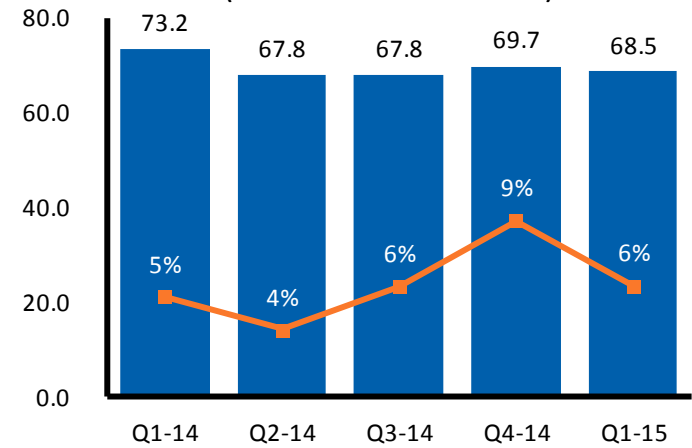
Excellent return on equity positions during the period, mainly due to shares in Refresco Gerber in connection with the company's IPO

Return on bonds almost entirely due to interest income but almost no market gain

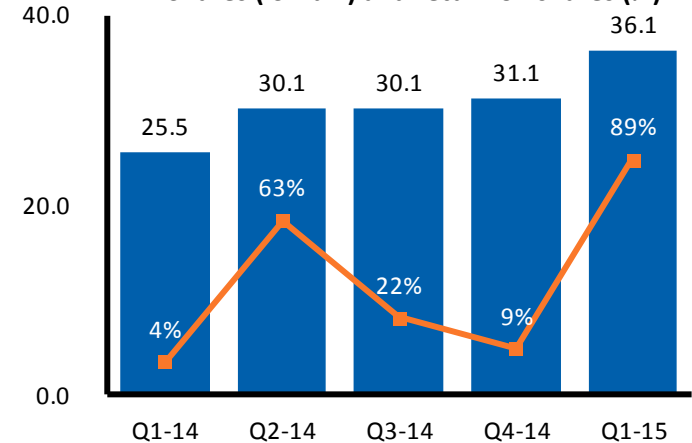
FX gain of ISK 0.3 billion during the quarter



Bonds (ISK bn.) and return on bonds (%)
(returns include interest income)



Shares (ISK bn.) and return on shares (%)



TOTAL OPERATING EXPENSES

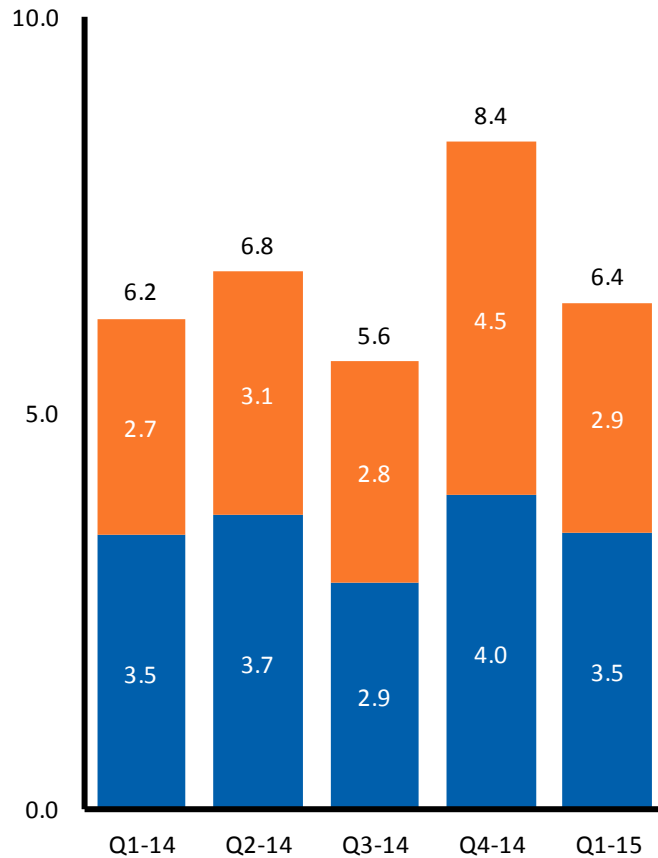
CONTINUED FOCUS ON OPERATING EFFICIENCY

Salaries in line with previous quarters

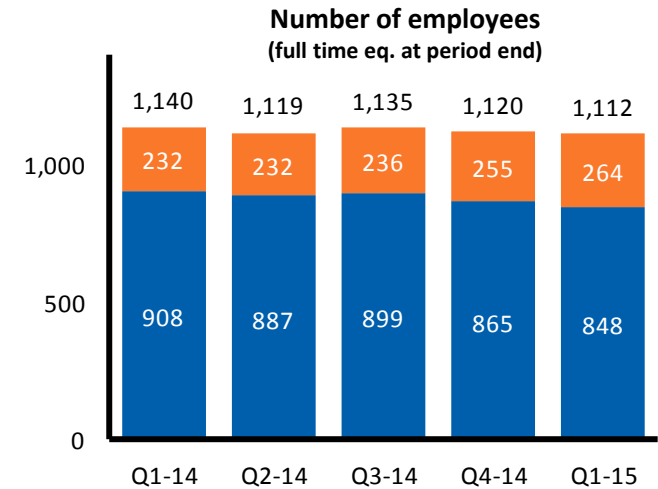
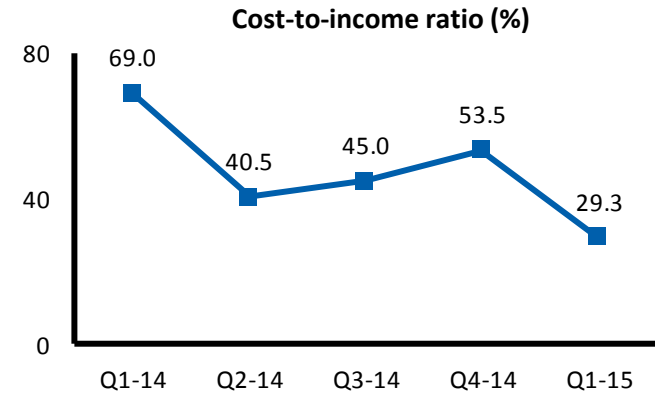
Number of employees decreased at the parent company during the period

Other operating expenses reducing from previous quarter, partially explained by one-off costs in Q4 2014

Cost-to-income ratio at an all-time low due to unusually large income items and is not reflective of full year operations



Other operating expense Salaries and related expense



Parent company Subsidiaries

BALANCE SHEET



BALANCE SHEET

STRONG BALANCE SHEET OFFERS VARIOUS OPPORTUNITIES

Assets above ISK 1,000 billion for the first time, increase in assets mainly in cash and cash equivalents

Increase in borrowings due to EUR 300 million bond issue (ISK 45 billion)

Deposits increased during the quarter after decrease in Q4 2014 due to market conditions

Partial prepayment of subordinated loan at the end of quarter

Assets	31.3.2015	31.12.2014	31.12.2013	31.12.2012	31.12.2011
Cash & balances with CB	64	21	38	30	29
Loans to credit institutions	126	109	102	101	69
Loans to customers	649	648	636	567	562
Financial assets	107	102	87	138	158
Investment property	8	7	29	29	27
Other assets	51	48	48	37	48
Total assets	1,004	934	939	901	892

Liabilities and Equity					
Due to credit institutions & CB	22	23	28	33	16
Deposits from customers	471	455	472	449	490
Other liabilities	64	61	58	59	52
Borrowings	250	201	205	195	187
Subordinated loans	20	32	32	34	32
Equity	177	162	145	131	115
Total liabilities and equity	1,004	934	939	901	892

LOANS TO CUSTOMERS

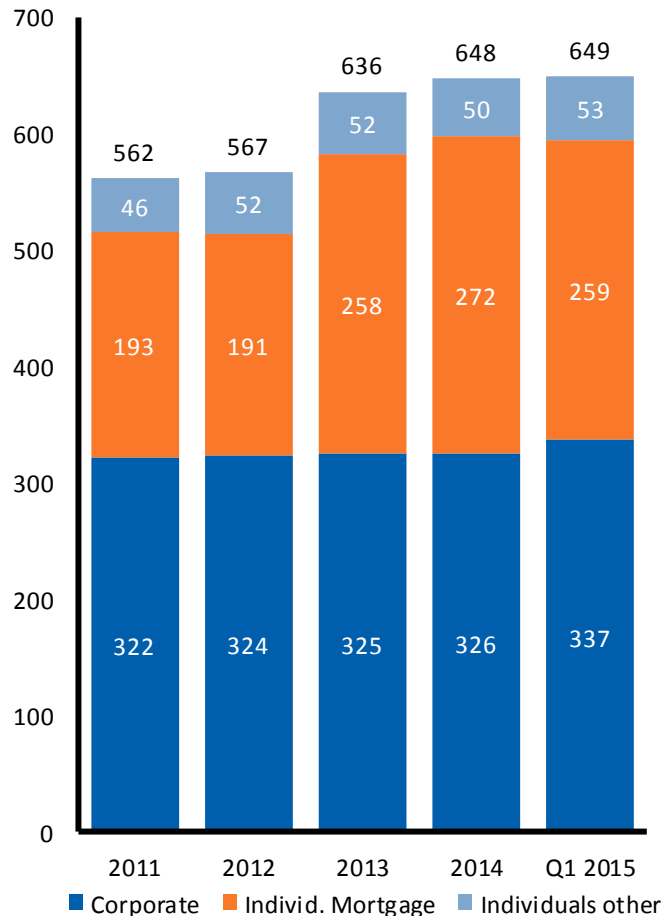
INCREASE IN LOANS TO CORPORATES

Mortgage loans decreased due to the debt relief of CPI indexed mortgage loans by the Icelandic government

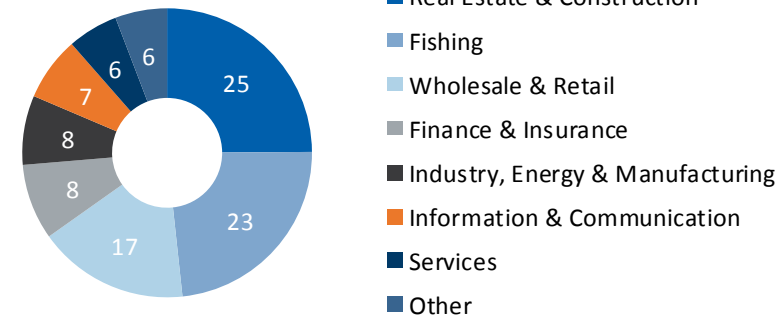
Increase in the corporate loan book mostly due to new loans to companies in the fishing industry

Loans to corporates are well diversified

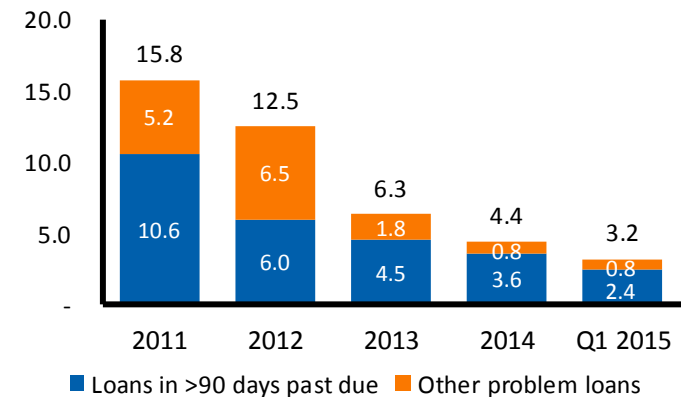
Problem loans continue to decrease, especially loans that are more than 90 days past due



Loans to corporates by sector (%)



Problem loans (%)



FUNDING

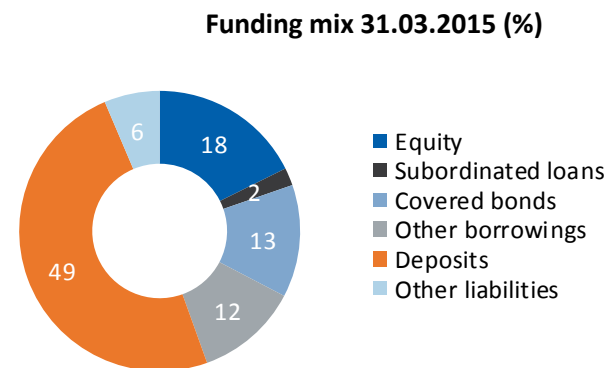
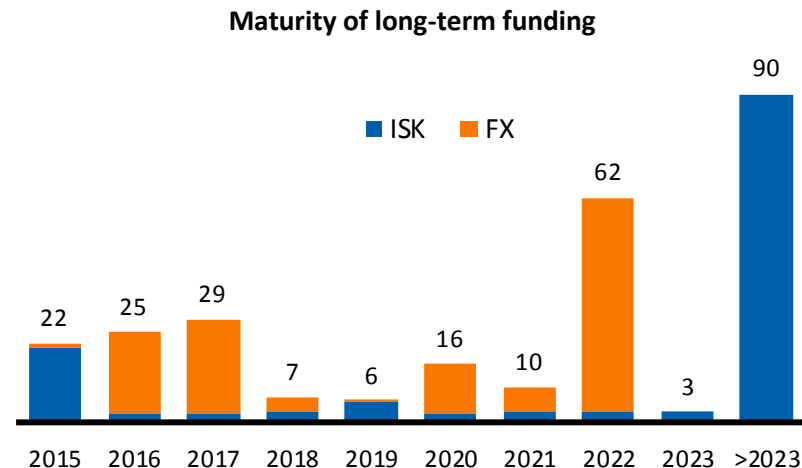
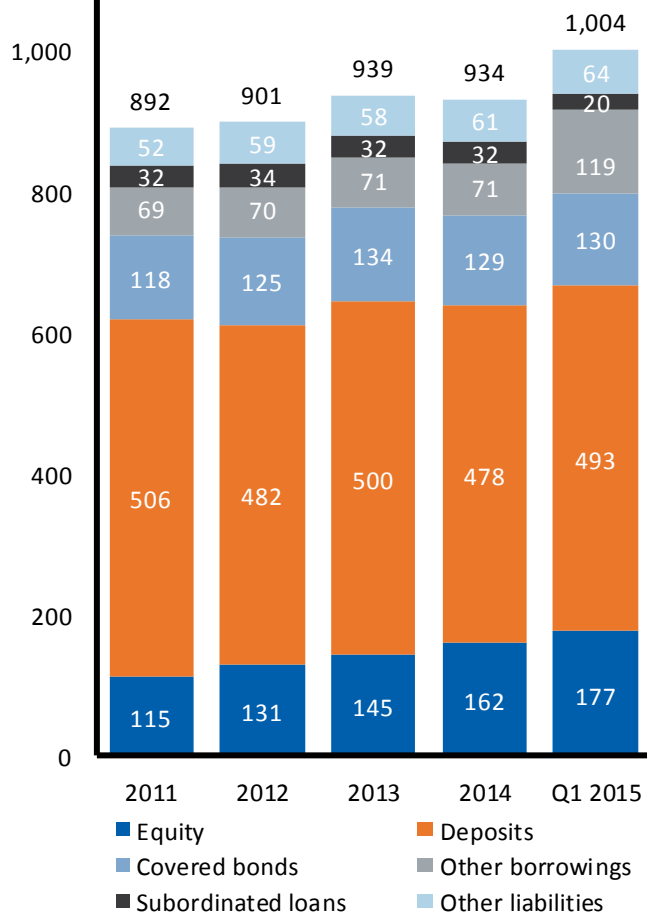
STRONG LONG-TERM FUNDING – LIMITED NEED FOR REFINANCING

The Bank issued 3-year EUR 300 million senior unsecured bond in March. Interest rate on the bond is 3.125%

Deposits increased during the quarter after decrease in Q4 2014 due to market conditions

Repayment of 1/3 of subordinated loans at the end of quarter

The Bank is the largest issuer of listed covered bonds in Iceland and continues to focus on covered bonds as a source of funding of mortgage loans



CAPITAL BASE

SOLID CAPITAL BASE – DIVIDEND OF ISK 12.8 BILLION PAID IN APRIL

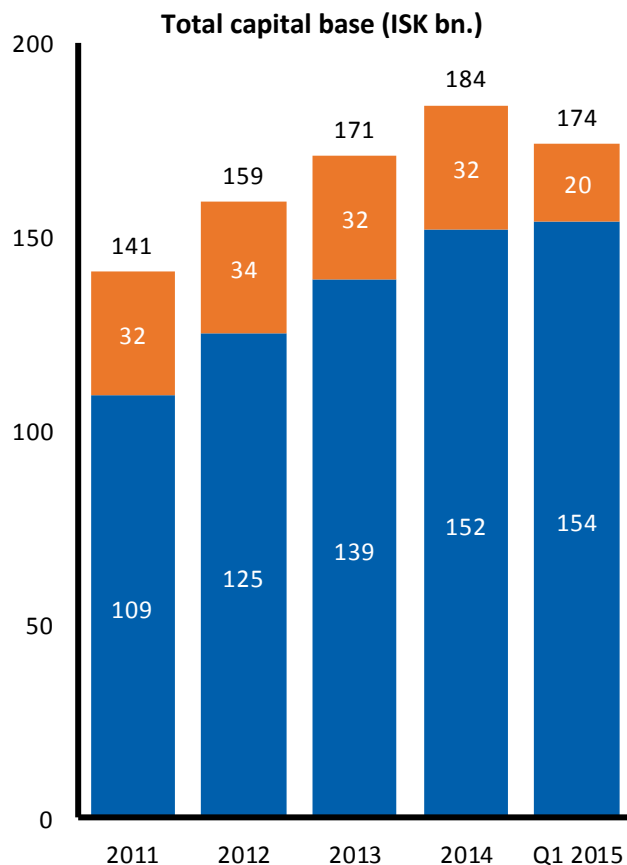
Decrease in Tier 1 capital due to proposed dividend

Decrease in Tier 2 due to prepayment of subordinated liabilities

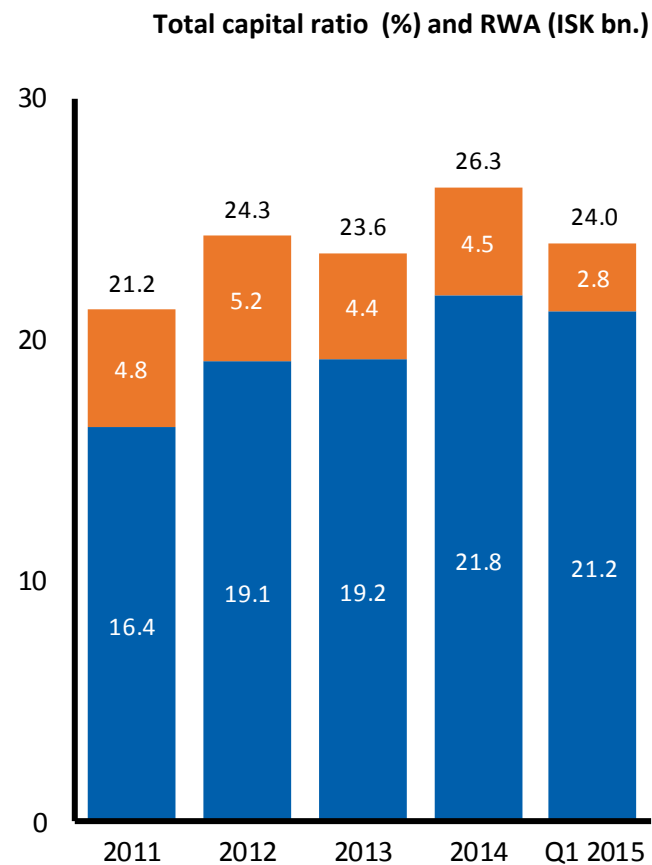
Solid level of capitalization due to strong profit generation

The Bank is using standardized approach calculating RWA

RWA/Total assets is 72.5%



■ Tier 1 Capital ■ Tier 2 Capital

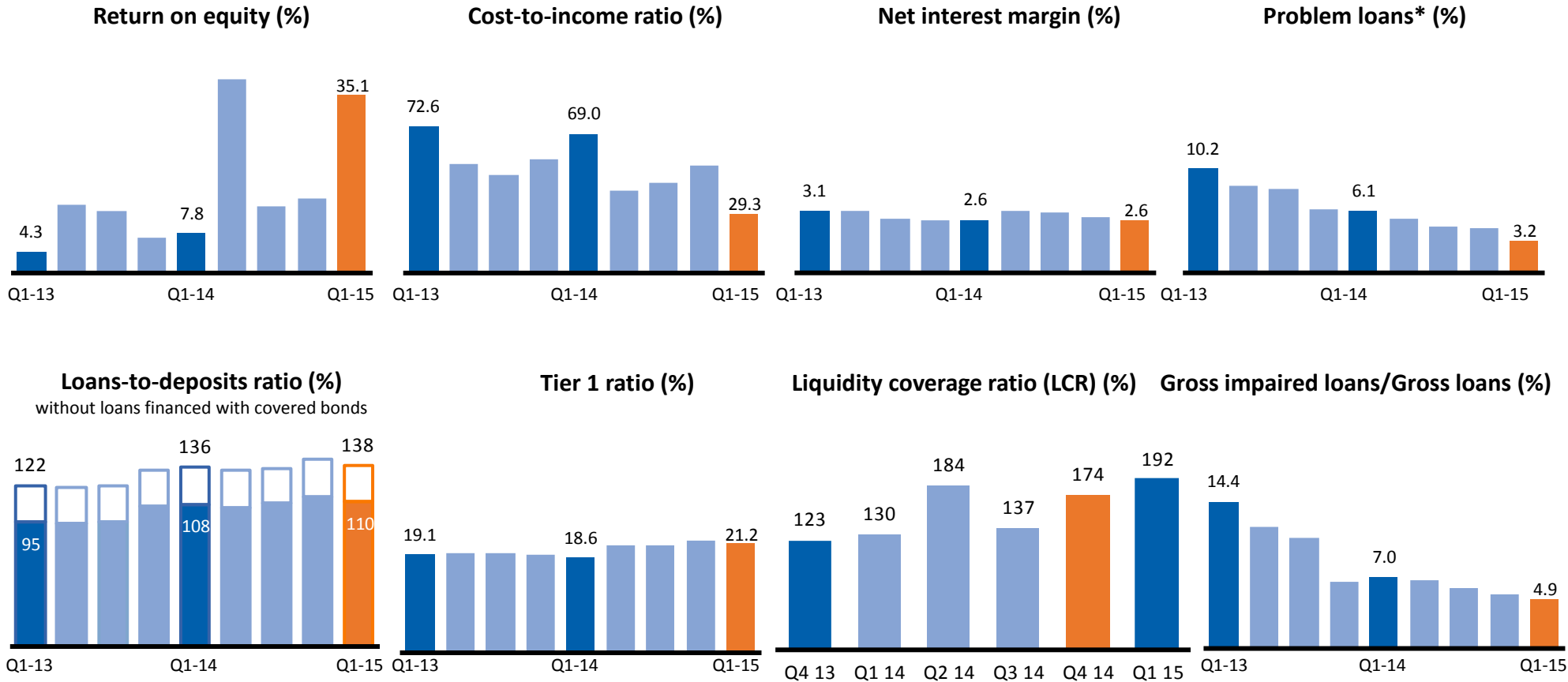


■ Tier 1 ratio ■ Tier 2 ratio

KEY FINANCIAL INDICATORS



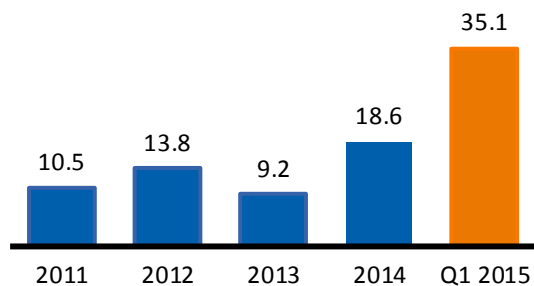
KEY FINANCIAL INDICATORS



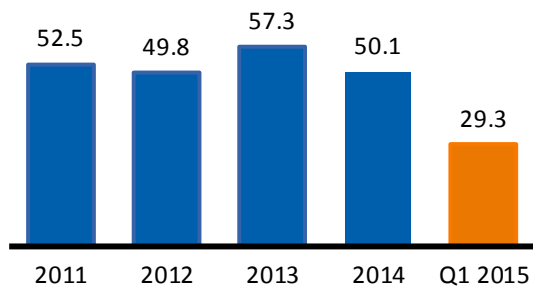
* Problem loans (past due but not impaired loans over 90 days + individually impaired loans) as % of loans to customers

KEY FINANCIAL INDICATORS

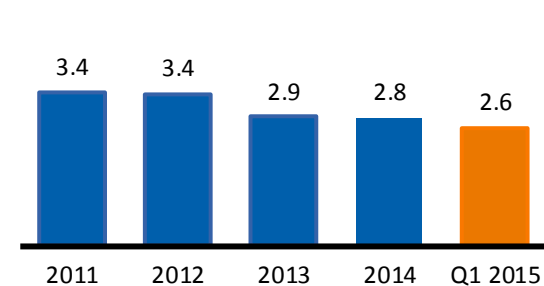
Return on equity (%)



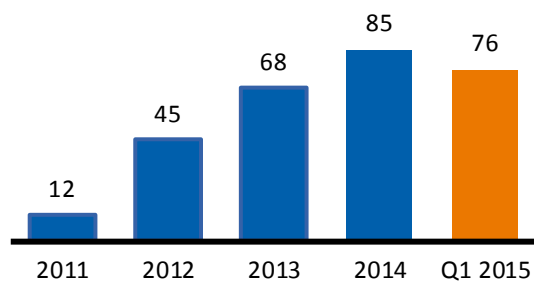
Cost-to-income ratio (%)



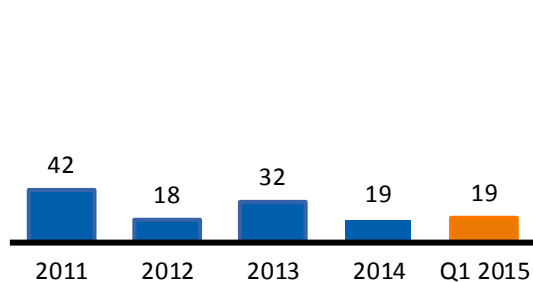
Net interest margin (%)



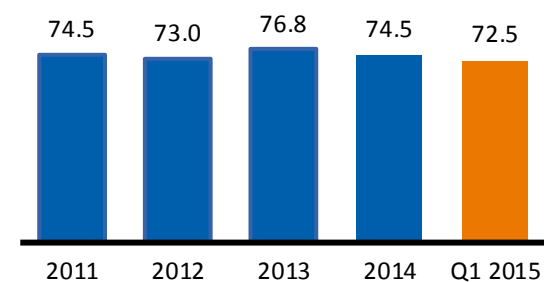
CPI imbalance – ISK bn.



FX imbalance – ISK bn.



Risk weighted assets/Total assets (%)





QUESTIONS



ADDITIONAL INFORMATION

INCOME STATEMENT – EUR (MILLION)

	Q1 2015	Q4 2014	Q3 2014	Q2 2014	Q1 2014
Net interest income	38	38	41	42	35
Net commission income	25	21	23	22	20
Net financial income	50	9	13	29	(4)
Other income	31	34	4	15	6
Operating income	145	102	82	108	57
Salaries and related expense	(23)	(26)	(19)	(24)	(22)
Other operating expenses	(19)	(29)	(18)	(20)	(18)
Net impairment	12	(5)	6	0	13
Net earnings before taxes	114	43	51	65	30
Income tax	(11)	(1)	(13)	(7)	(8)
Bank levy	(5)	(4)	(4)	(5)	(4)
Net gain from disc. operations	1	2	0	42	1
Net earnings	99	39	34	94	18
EUR/ISK	150.41	153.75	153.69	154.70	156.32

ADDITIONAL INFORMATION

BALANCE SHEET – EUR (MILLION)

Assets	Q1 2015	2014	2013	2012	2011
Cash & balances with CB	431	137	240	176	184
Loans to credit institutions	853	705	645	598	435
Loans to customers	4,405	4,197	4,011	3,355	3,536
Financial assets	724	660	546	816	993
Investment property	54	44	180	171	171
Other assets	349	309	301	217	299
Total assets	6,816	6,052	5,924	5,333	5,618

Liabilities and Equity					
Due to credit institutions & CB	146	148	177	195	102
Deposits from customers	3,198	2,949	2,977	2,657	3,086
Other liabilities	435	398	363	348	328
Borrowings	1,695	1,300	1,291	1,155	1,179
Subordinated loans	139	205	201	203	202
Equity	1,202	1,051	915	775	721
Total liabilities and equity	6,816	6,052	5,924	5,333	5,618

EUR/ISK	147.35	154.28	158.49	168.89	158.80
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