



FINANCIAL STATEMENTS 30 SEPTEMBER 2015

INVESTOR PRESENTATION
11 NOVEMBER 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

- A leading capital markets house and M&A advisor
- Full range of investment banking services
- Managed all IPOs this year

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

STEFNIR

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

okkar

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

vörður

- Vörður is the 4th largest non-life insurance company in Iceland, with a market share of more than 10%
- Arion Bank has reached a deal to acquire 51% in the company
- Acquisition is subject to approval of Icelandic regulators

HIGHLIGHTS OF THE THIRD QUARTER OF 2015

INCREASED ACTIVITY IN THE ECONOMY AND AT THE BANK

Icelandic economic environment

- Government's plans to lift capital controls have generally been well received
- The tourism industry continues to expand rapidly, which has an effect on the entire economy
- The Central Bank of Iceland remains very active on the currency market and has been building up very strong currency reserves
- The economic situation has been good in Iceland, with 5.2% economic growth, 1.9% inflation and unemployment at around 4.0%
- Inflation is likely to rise in the medium term, particularly following collective wage agreements
- Investments by companies have grown somewhat, particularly in the construction and manufacturing industries

Arion Bank

- Growth in loans to companies and demand for loans has generally increased
- Arion Bank sold 10% stake in Síminn to investor consortium and clients of Bank
- Arion Bank was involved in a project to construct a 5 star hotel next to the Harpa concert hall in central Reykjavík in cooperation with Marriot Edition
- Arion Bank increased its share of vehicle and equipment financing market
- Bank's share in turnover on NASDAQ Iceland was 17.1% for bonds and 22.6% for equities
- Arion Bank has arranged all three listings on NASDAQ Iceland this year: Eik, Reitir and Síminn
- Merger between AFL Savings Bank and Arion Bank approved in early October and will be completed at the end of November

HIGHLIGHTS OF THE THIRD QUARTER OF 2015

CREDIT RATING UPGRADED TO INVESTMENT GRADE – ANNUAL STARTUP REYKJAVÍK INVESTOR DAY

Funding

- Arion Bank's credit rating was upgraded from BB+ (with positive outlook) to BBB- (with stable outlook)
- Arion Bank issued ISK 8 billion of covered bonds in two issues in Q3
- This year Arion Bank has issued ISK 19 billion in covered bonds. Proceeds being used to fund the mortgages of the Bank's customers
- Agreement reached with Landsbankinn, Íslandsbanki and Kvika on market making for covered bonds. This increased liquidity of the bonds



Innovation

- Startup Reykjavík was held for the fourth time by Arion Bank. The Bank has invested in 40 companies through this business accelerator
- Startup Reykjavík held its annual investor day at the end of August. The ten teams presented their ideas to potential investors



HEADLINE FIGURES FOR 9M 2015

Profitability

Return on equity
19.8%

9M 2014:
19.9%

Strength

Tier 1 ratio
22.2%

31.12.2014:
21.8%

Efficiency

Cost-to-income ratio
38.4%

9M 2014:
48.7%

Asset quality

Problem loans
3.2%

31.12.2014:
4.4%

Net earnings
ISK 25,397 million

9M 2014:
ISK 22,633 million

Leverage ratio
15.0%

31.12.2014:
15.4%

Number of Employees
1,151

31.12.2014:
1,120

Mortgages/
Total loans
39.7%

31.12.2014:
42.8%



INCOME STATEMENT

INCOME STATEMENT

GOOD PROFITABILITY IN THIRD QUARTER

Strong net interest income

Slight decrease in net commission income due to less transactions during the summer months

Low net financial income mainly due to FX loss

High other income in Q3 due to profit from the sale and fair value change of Siminn hf. prior to the company's IPO in Q4

	Q3 2015	Q2 2015	Q1 2015	Q4 2014	Q3 2014
Net interest income	7,112	7,392	5,783	5,911	6,343
Net commission income	3,292	3,677	3,757	3,192	3,526
Net financial income	453	2,184	7,539	1,429	1,993
Other income	3,448	1,038	4,702	5,211	687
Operating income	14,305	14,291	21,781	15,743	12,549
Salaries and related expense	(3,153)	(3,675)	(3,492)	(3,953)	(2,862)
Other operating expenses	(3,012)	(3,108)	(2,896)	(4,467)	(2,787)
Bank levy	(779)	(659)	(730)	(636)	(633)
Net impairment	(33)	(1,863)	1,782	(744)	876
Net earnings before taxes	7,328	4,986	16,445	5,943	7,143
Income tax	(1,272)	(647)	(1,720)	(223)	(1,989)
Net gain from disc. operations	15	79	183	241	67
Net earnings	6,071	4,418	14,908	5,961	5,221

INCOME STATEMENT

POSITIVE DEVELOPEMENT IN MOST ITEMS

Net interest income increase from last year, mainly related to higher inflation and more favourable terms in funding

Net fee and commission income increase in all units

Net financial income and other income are higher related to sale and listing of three large companies that the Bank owned

Net gain from discontinued operation was high last year, due to the sale of 18% shareholding in HB Grandi, large company in the fishing sector

	9M 2015	9M 2014	Diff	Diff%
Net interest income	20,287	18,309	1,978	11%
Net commission income	10,726	10,119	607	6%
Net financial income	10,176	5,861	4,315	74%
Other income	9,188	3,963	5,225	132%
Operating income	50,377	38,252	12,125	32%
Salaries and related expense	(10,320)	(10,026)	(294)	3%
Other operating expenses	(9,016)	(8,597)	(419)	5%
Bank levy	(2,168)	(2,009)	(159)	8%
Net impairment	(114)	2,877	(2,991)	-
Net earnings before taxes	28,759	20,497	8,262	40%
Income tax	(3,639)	(4,456)	817	(18%)
Net gain from disc. operations	277	6,592	(6,315)	-
Net earnings	25,397	22,633	2,764	12%

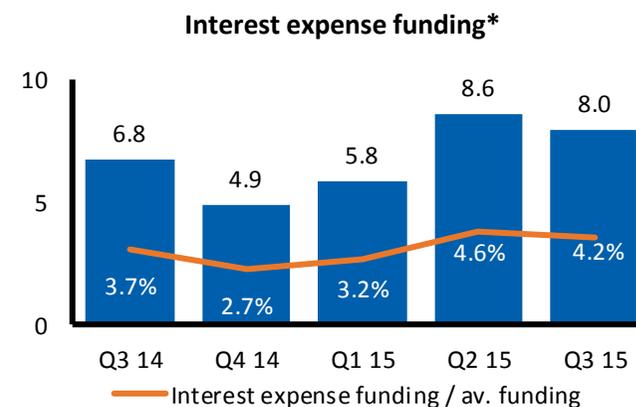
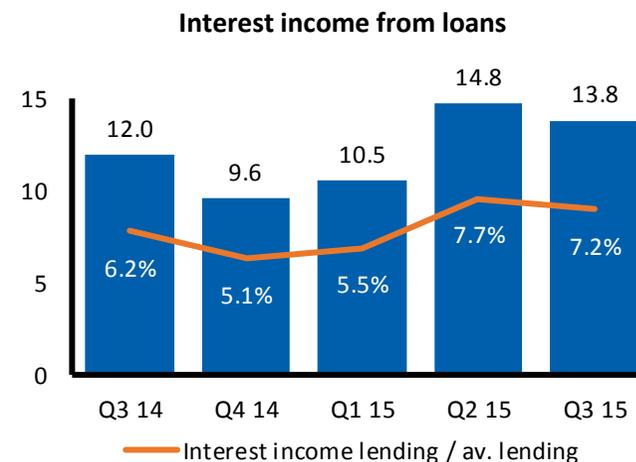
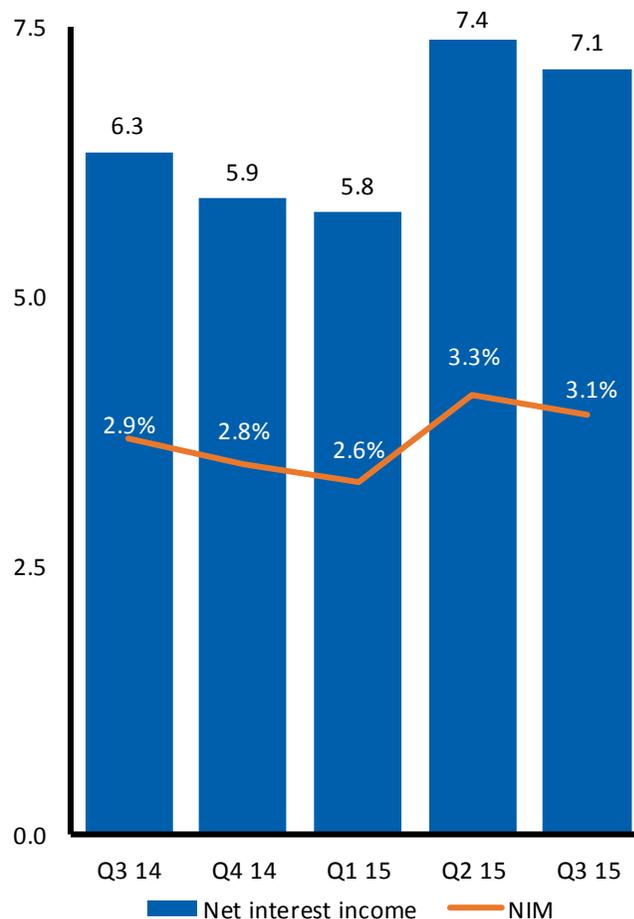
NET INTEREST INCOME

INCREASE IN NET INTEREST INCOME RESULTING FROM TREASURY ACTIVITIES AND HIGHER INFLATION

Inflation increased during Q2 and Q3 2015 resulting in higher net interest income compared to previous quarters

Net interest margin reducing slightly from Q2, mostly due to increase in low interest bearing positions with Central Bank at the end of the quarter

Cost of funding starting to decrease due to more favourable terms on new funding and prepayment of older less favourable loans



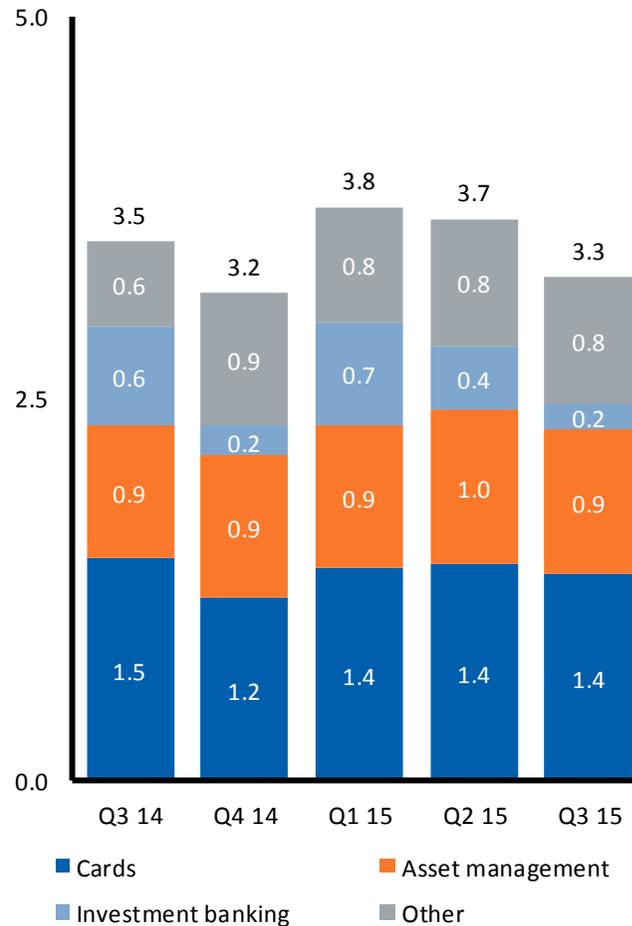
NET COMMISSION INCOME

STABILITY AFTER A THREE YEAR GROWTH PERIOD

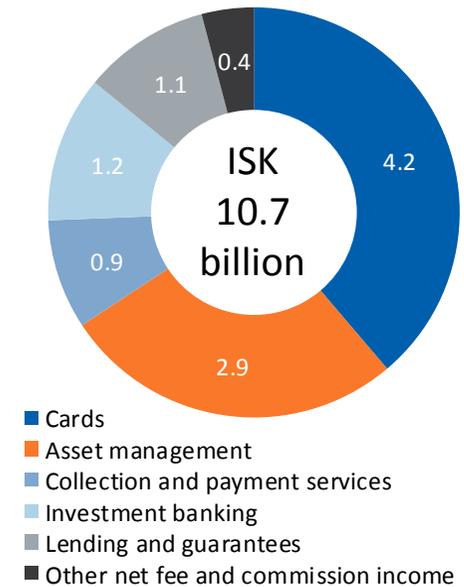
Cards and Asset management a stable source of commission income

Commission income in investment banking contingent on IPO's

Lending and guarantees and other sources of commission income stable



Breakdown of Net commission income 9M 2015



NET FINANCIAL INCOME

MAJOR EFFECT ON NET EARNINGS

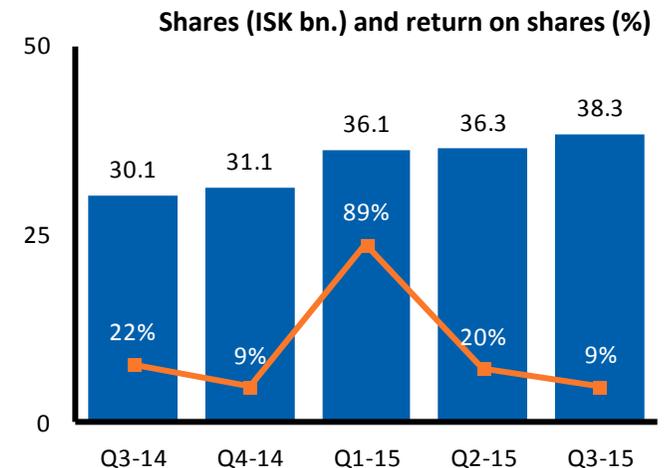
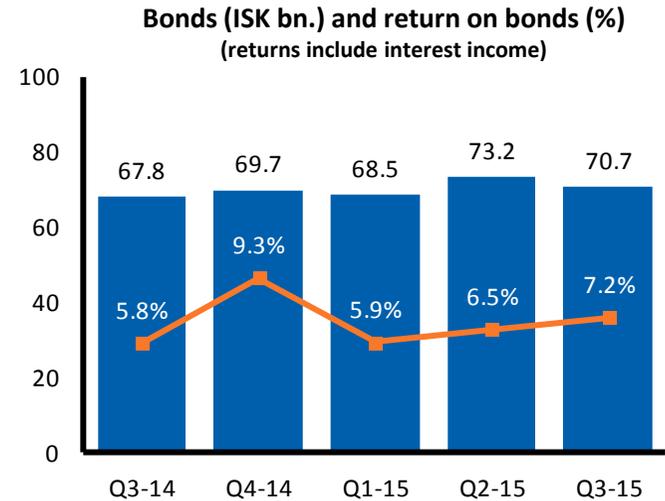
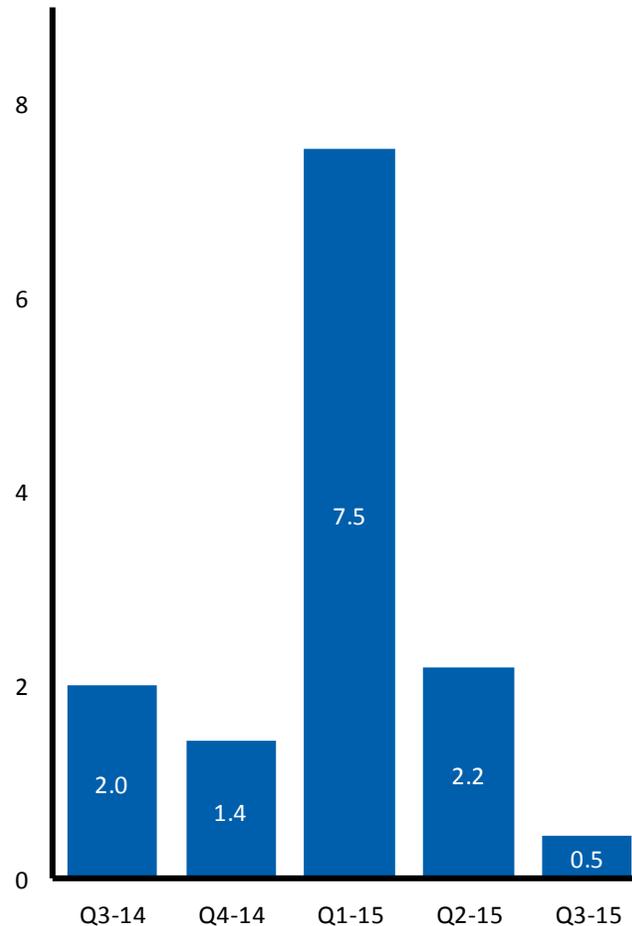
Low return on shares in Q3 compared to Q1 and Q2

Good returns on bond holdings

High income in Q1 mainly related to sale and listing of Refresco Gerber

FX loss resulting in lower net financial income in third quarter compared to previous quarters

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



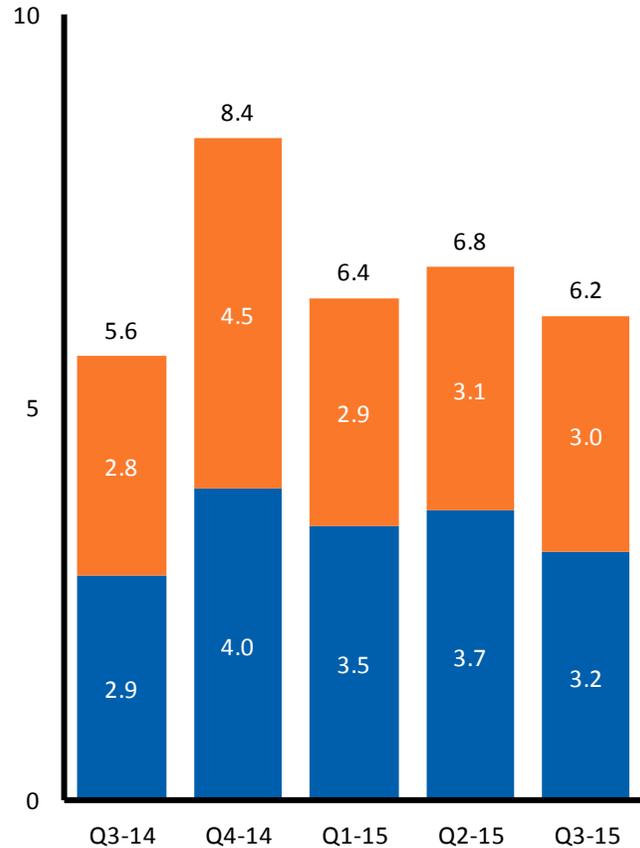
TOTAL OPERATING EXPENSE

OPERATING EXPENSE IN LINE WITH EXPECTATIONS

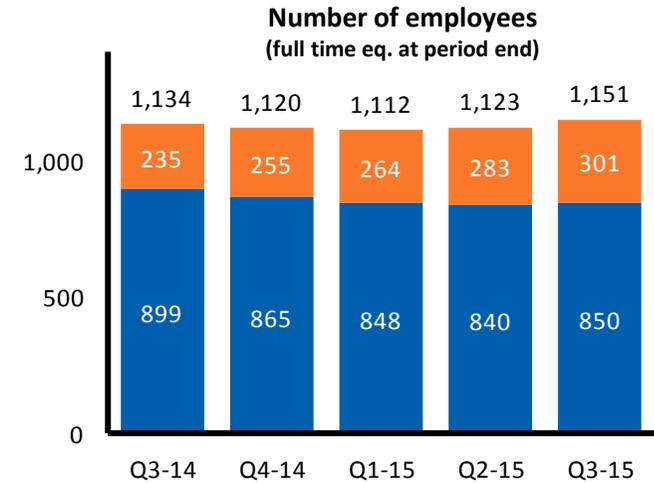
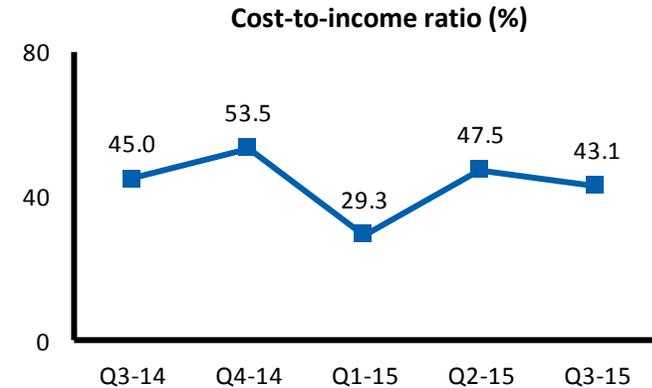
Increase in total salaries and other operating expenses mainly related to increased activities at Valitor in foreign operation

Slight increase in number of employees at parent company. Number of employees continues to increase at Valitor

Cost-to-income ratio compares favourably with international peers



Other operating expense Salaries and related expense



Parent company Subsidiaries

BALANCE SHEET



BALANCE SHEET

NEW BORROWINGS AND INCREASED LENDING HAVE EFFECT ON THE BALANCE SHEET

Managed growth in lending activities

Very good liquidity position

Increased 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	30.09.2015	30.06.2015	2014	2013	2012	2011
Cash & balances with CB	73	33	21	38	30	29
Loans to credit institutions	93	104	109	102	101	69
Loans to customers	679	667	648	636	567	562
Financial assets	111	111	102	87	138	158
Investment property	8	8	7	29	29	27
Other assets	45	51	48	48	37	48
Total Assets	1,009	975	934	939	901	892

Liabilities and Equity						
Due to credit institutions & CB	11	14	23	28	33	16
Deposits from customers	503	472	455	472	449	490
Other liabilities	62	67	61	58	59	52
Borrowings	248	242	201	205	195	187
Subordinated liabilities	10	11	32	32	34	32
Equity	175	168	162	145	131	115
Total Liabilities and Equity	1,009	975	934	939	901	892

LOANS TO CUSTOMERS

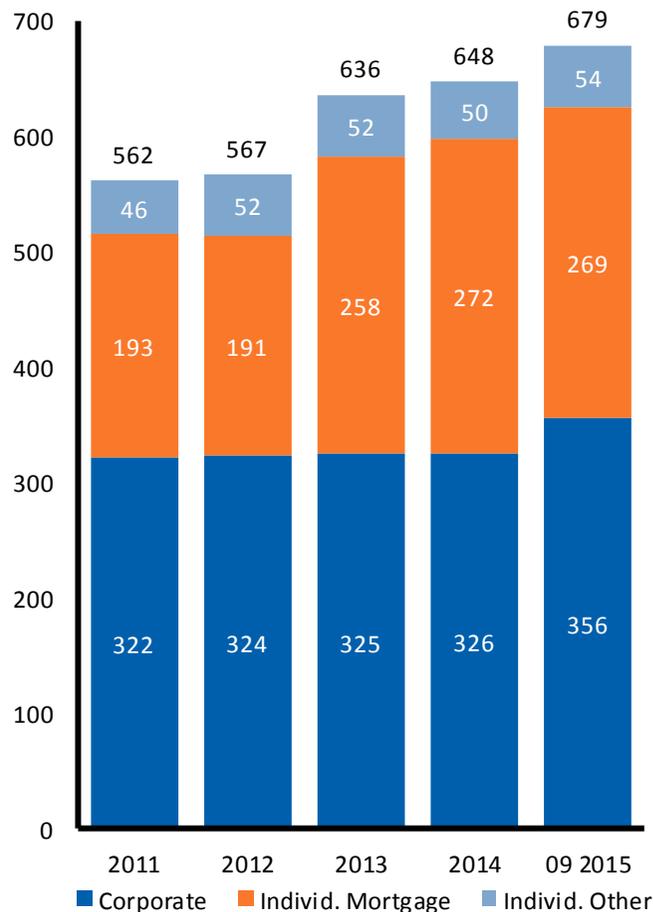
INCREASE IN DEMAND FOR LOANS TO CORPORATES

Continued good balance in loans to corporates and individuals

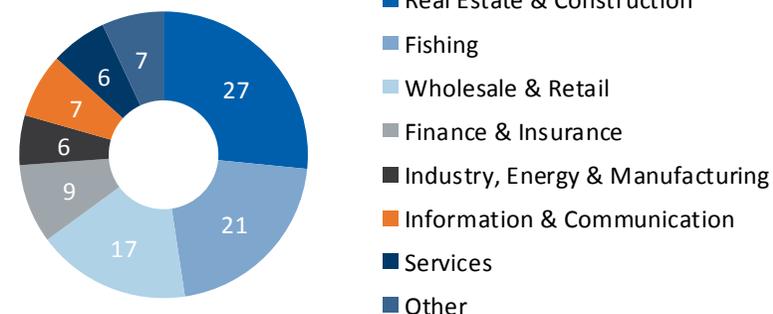
Mortgage loans decrease due to the debt forgiveness of CPI indexed mortgage loans by the Icelandic state

Good diversification in the corporate loan book

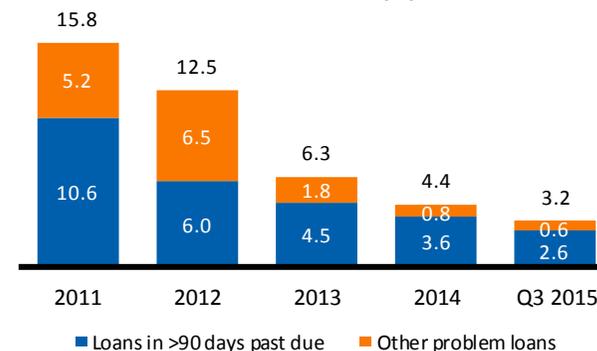
Continued improvement in problem loans



Loans to corporates by sector (%)



Problem loans (%)



FUNDING

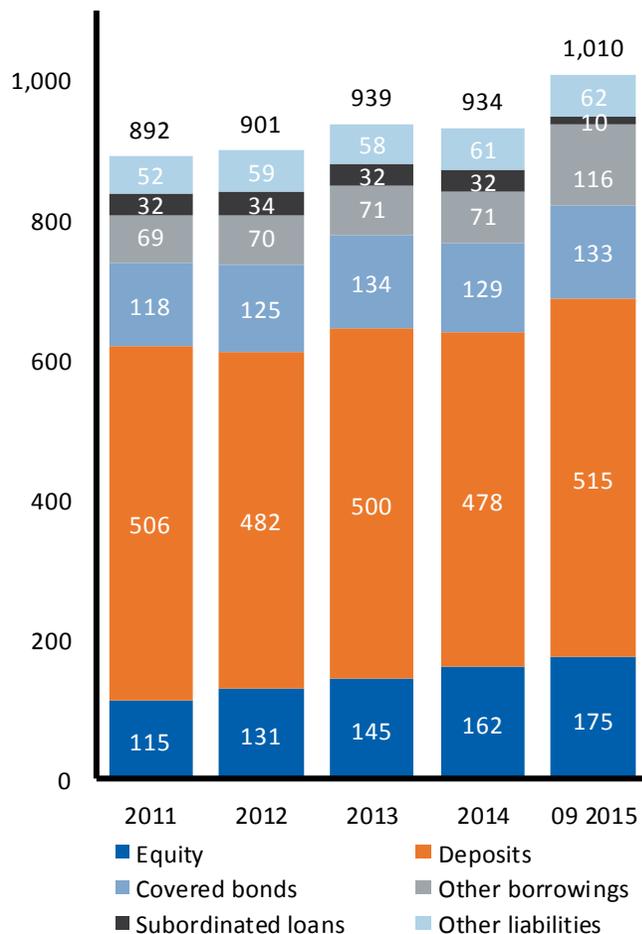
INCREASED DIVERSIFICATION IN FUNDING

The Bank issued 3 year EUR 300 million bond in March and a 5 year NOK 500 million bond in June. Those bonds are trading favourably on the market

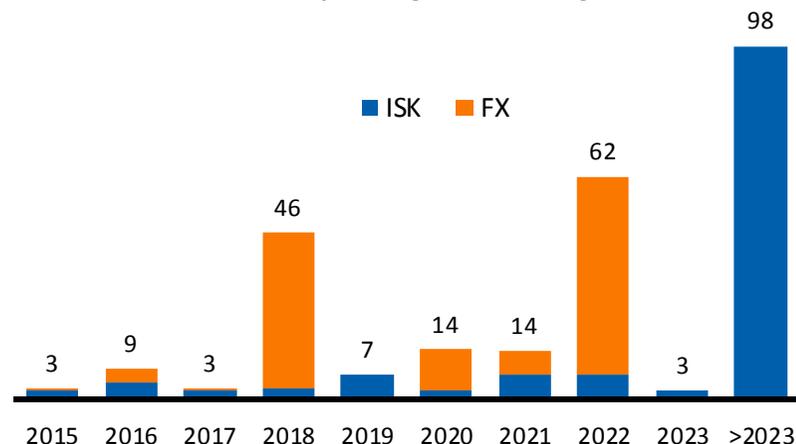
The Bank has repurchased NOK 319 million of bonds issued at NIBOR +500 bps in February 2013

The Bank continues to issue covered bonds on the Icelandic Market, total of ISK 11.4 million during 9M 2015

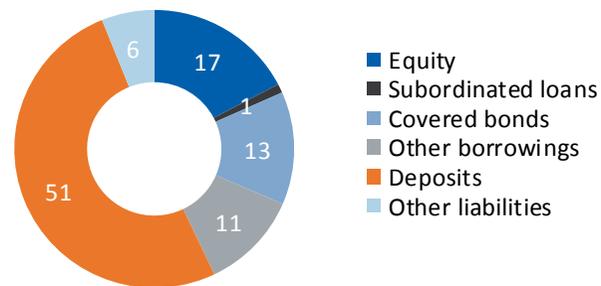
The Bank prepaid 2/3 of subordinated loans during first two quarters



Maturity of long-term funding



Liabilities and equity 30 September 2015 (%)



CAPITAL BASE

VERY STRONG CAPITAL BASE

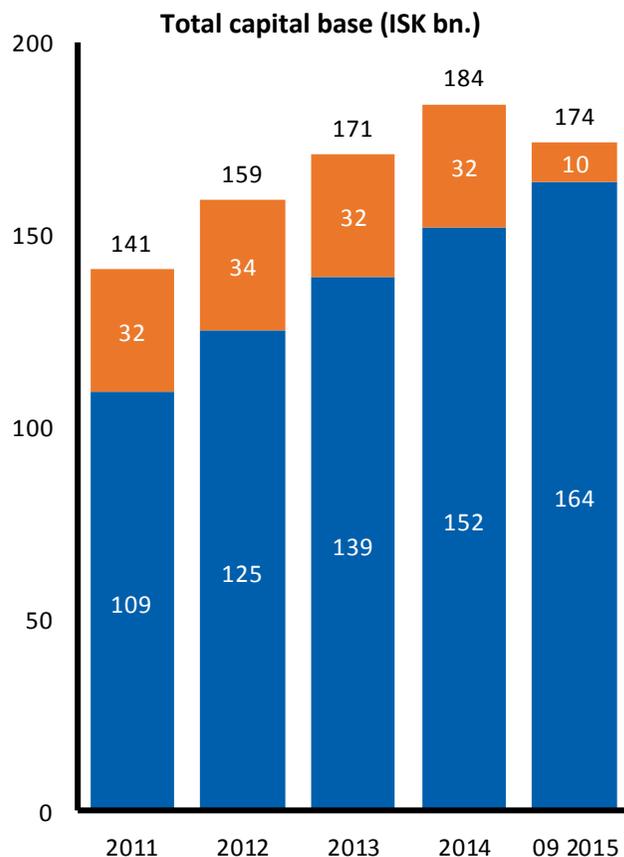
Decrease in Tier 2 due to ISK 20 billion prepayment of subordinated liabilities

Dividend payment of ISK 12.8 billion during H1

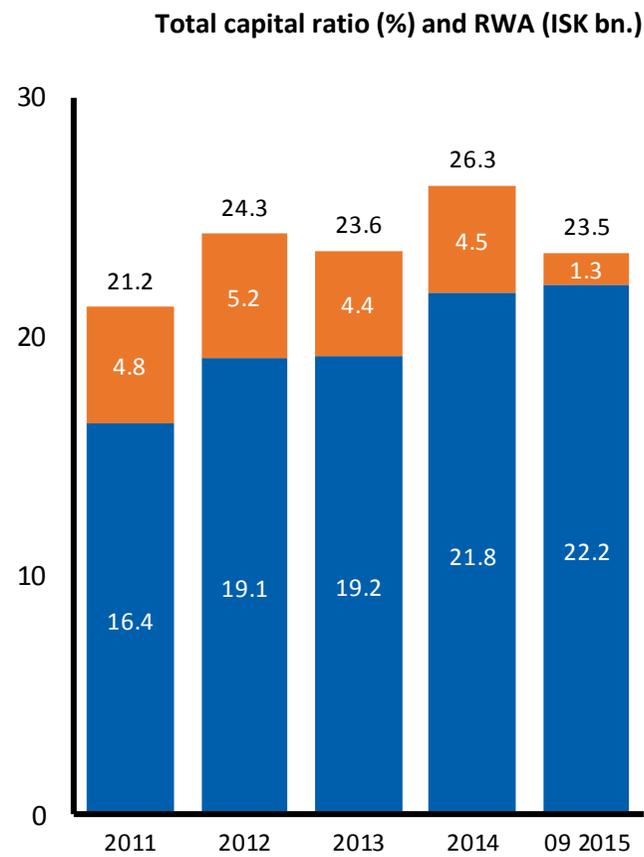
Solid level of capitalization due to strong profit generation

The Bank is using standardized approach calculating RWA

RWA/Total assets is 73.3%



■ Tier 1 Capital ■ Tier 2 Capital



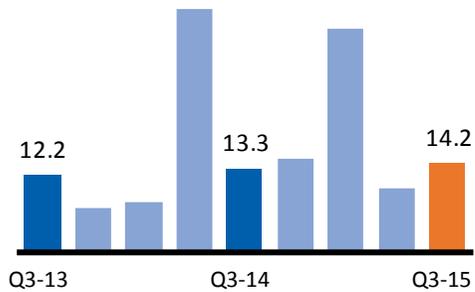
■ Tier 1 ratio ■ Tier 2 ratio



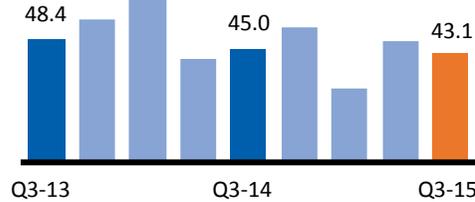
KEY FINANCIAL INDICATORS AND OUTLOOK

KEY FINANCIAL INDICATORS

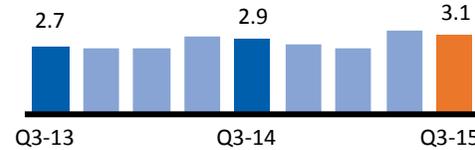
Return on equity (%)



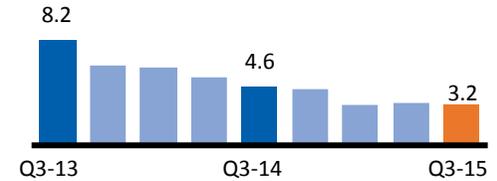
Cost-to-income ratio (%)



Net interest margin (%)

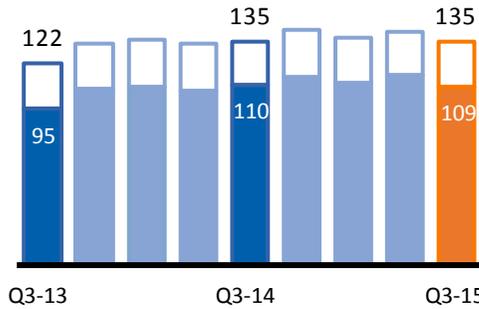


Problem loans* (%)

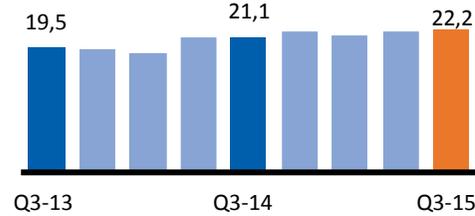


Loans-to-deposits ratio (%)

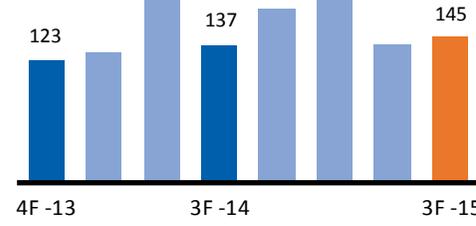
without loans financed with covered bonds



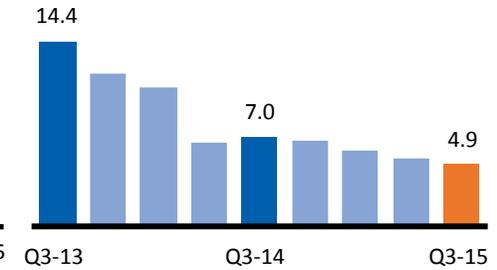
Tier 1 ratio (%)



Liquidity coverage ratio (LCR) (%)



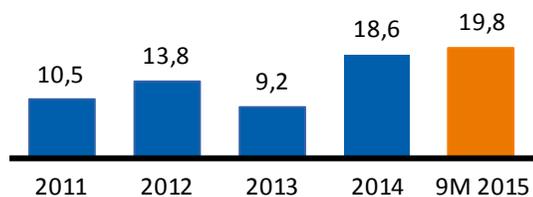
Gross impaired loans/Gross loans (%)



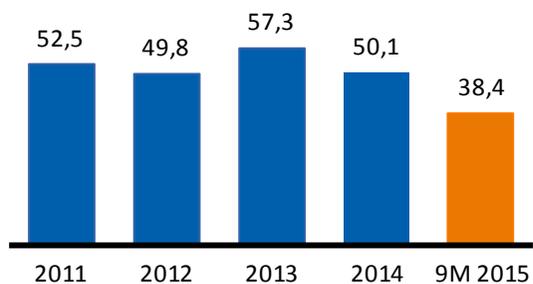
* Problem loans (past due but not impaired loans over 90 days + individually impaired loans) as % of loans to customers

KEY FINANCIAL INDICATORS

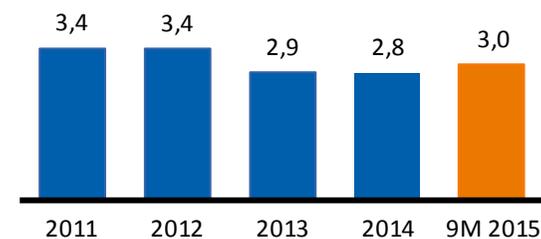
Return on equity (%)



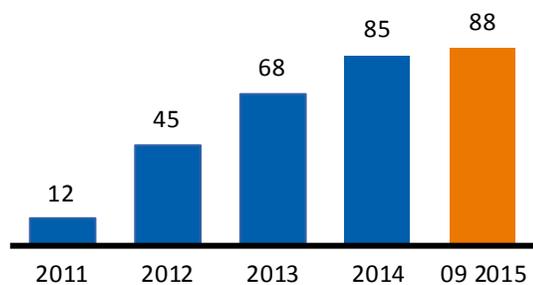
Cost-to-income ratio (%)



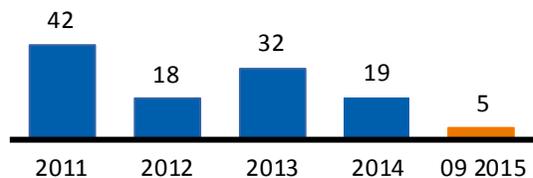
Net interest margin (%)



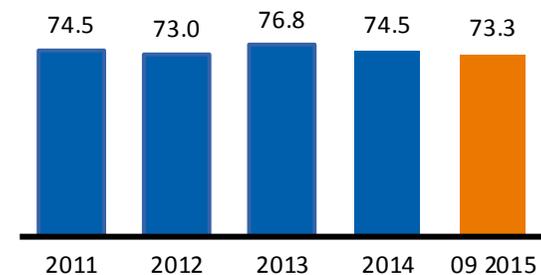
CPI Imbalance – ISK bn.



FX Imbalance – ISK bn.



Risk weighted assets/Total assets (%)



OUTLOOK

PLANS TO LIFT CAPITAL CONTROLS AN IMPORTANT STEP

- In early October it was announced that Arion Bank had acquired 51% in the insurance company Vörður from BankNordik. The acquisition is subject to the approval of the Icelandic regulators
 - The aim is to further integrate banking and insurance services, following model used widely abroad, not least in the Nordic region
- Arion Bank is performing well in its regular operations and the Bank is well placed to grow alongside its customers, both at home and abroad
- The Bank has now sold the majority of its assets in non-banking operations
- The lifting of the capital controls will create new opportunities for Arion Bank
 - Increased direct foreign investment
 - Increased foreign exchange trading
- The lifting of the capital controls will also present new challenges for Arion Bank, including the refinancing of deposits of non-residents
- Arion Bank's balance sheet is expected to change little overall following the lifting of the capital controls, although the structure of liabilities will change somewhat
- A higher credit rating and the positive performance of the Bank's bonds on international markets increase the Bank's opportunities for international funding
- Arion Bank's strong capital position makes the Bank well placed to tackle future challenges



ADDITIONAL INFORMATION

INCOME STATEMENT – EUR (MILLION)

	Q3 2015	Q2 2015	Q1 2015	Q4 2014	Q3 2014
Net interest income	49	50	38	38	41
Net commission income	23	25	25	21	23
Net financial income	3	15	50	9	13
Other income	24	7	31	34	4
Operating income	98	97	145	102	82
Salaries and related expense	(22)	(25)	(23)	(26)	(19)
Other operating expenses	(21)	(21)	(19)	(29)	(18)
Bank levy	(5)	(4)	(5)	(4)	(4)
Net impairment	(0)	(13)	12	(5)	6
Net earnings before taxes	50	34	109	39	46
Income tax	(9)	(4)	(11)	(1)	(13)
Net gain from disc. operations	0	1	1	2	0
Net earnings	42	30	99	39	34
EUR/ISK	145,56	147,24	150,41	153,75	153,69

ADDITIONAL INFORMATION

BALANCE SHEET – EUR (MILLION)

Assets	30.09.2015	2014	2013	2012	2011
Cash & balances with CB	514	143	246	188	173
Loans to credit institutions	654	739	663	637	409
Loans to customers	4.759	4.399	4.121	3.575	3.325
Financial assets	779	692	561	869	934
Investment property	55	46	185	182	160
Other assets	316	324	309	231	281
Total Assets	7.077	6.343	6.085	5.683	5.282
Liabilities and Equity					
Due to credit institutions & CB	80	155	181	208	96
Deposits from customers	3.527	3.091	3.058	2.831	2.901
Other liabilities	431	418	373	371	308
Borrowings	1.740	1.363	1.326	1.231	1.108
Subordinated loans	73	215	207	216	190
Equity	1.225	1.102	939	826	678
Total Liabilities and Equity	7.077	6.343	6.085	5.683	5.282
EUR/ISK	142,65	147,20	154,28	158,49	168,89

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