

An aerial photograph of a coastal city, likely Reykjavik, Iceland. The foreground shows a dense residential area with multi-story apartment buildings. A large body of water, possibly a bay or fjord, is visible in the middle ground. In the background, there are large, rugged mountains under a sky with scattered clouds. A large blue semi-transparent rectangle is overlaid on the right side of the image, containing the title text.

FINANCIAL STATEMENTS 31.12.2014

INVESTOR PRESENTATION
FEBRUARY 2015

HEADLINE FIGURES FOR 2014

A VERY GOOD YEAR FOR THE GROUP

Profitability

Return on equity
18.6%

2013: 9.2%

Strength

CET 1 ratio
21.8%

2013: 19.2%

Efficiency

Cost-to-income ratio
50.1 %

2013: 57.3%

Asset quality

Problem loans
4.4%

2013: 6.3%

Net earnings
ISK 28,594 million

2013:
ISK 12,657 million

Leverage ratio
15.4%

2013: 14.5%

Employees
1,139

2013: 1,145

Mortgages/
Total loans
42.0%

2013: 40.6%

FINANCIAL HIGHLIGHTS IN 2014

VERY GOOD PERFORMANCE IN 2014

Record net earnings ISK 28,594 million

- Net interest income up from 2013
- Strong NIM of 2.8%
- 19% increase in commission income
- Substantial one-off and FV gains relating to legacy equity holdings

Total assets ISK 934 billion down from ISK 939 billion in 2013

- Well balanced loan portfolio
- Improved asset quality
- Strong capital position at the end of the year
- High RWA and a very strong leverage ratio
- Dividend payment ISK 7,811 million in Q2
- Outlook on BB+ credit rating from S&P changed from stable to positive

Net earnings ISK 28,594 million 2013: ISK 12,657 million	Net interest income ISK 24,220 million 2013: ISK 23,800 million
Return on equity 18.6% 2013: 9.2%	Net interest margin 2.8% 2013: 2.9%

FINANCIAL HIGHLIGHTS IN Q4 2014

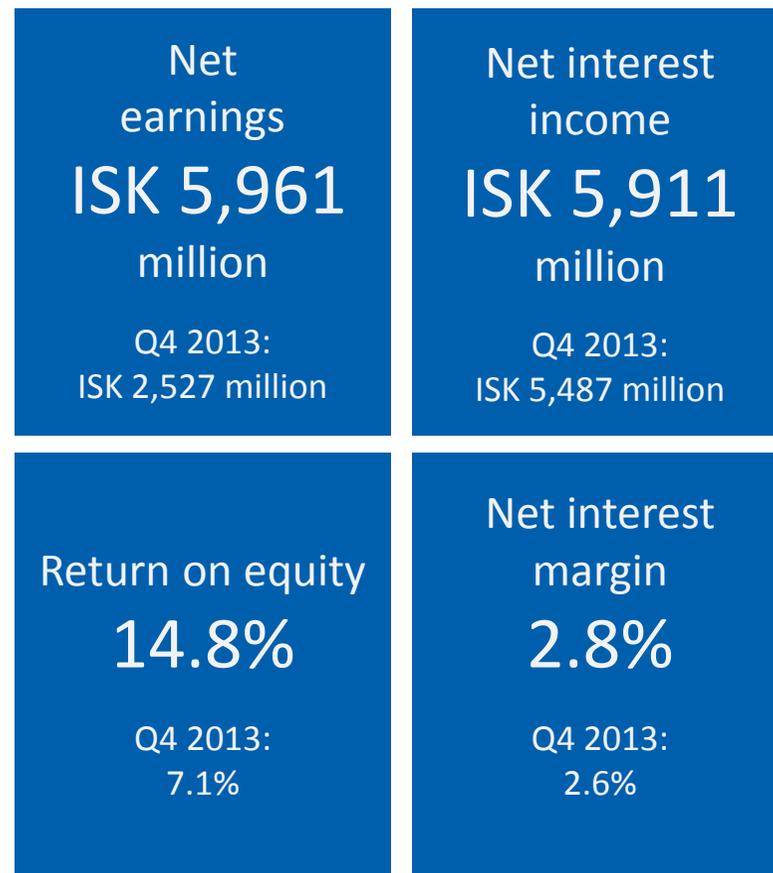
SOLID PERFORMANCE IN Q4 2014

Net earnings for Q4 2014 ISK 5,961 million

- Net interest income up from Q4 2013
- Healthy NIM of 2.8% despite low inflation
- Strong other income from valuation increases of associates and investment property
- Salaries expense is slightly down from Q4 2013 to Q4 2014 but there is a sharp increase in other expenses due to fines from The Icelandic Competition Authority and one-off write-downs

Total assets virtually unchanged from Q3 to Q4

- Arion Bank acquired additional 38% share in Valitor Holding hf., a payment solution company, taking its total share to 98.8%
 - Valitor acquired the Danish group AltaPay, to support its growth in e-commerce in the Nordics



OPERATIONAL HIGHLIGHTS OF 2014

The Group shows solid operating results

- Core subsidiaries add quality to the group
 - Valitor, leading in payment solutions
 - Stefmir, no. 1 fund management company
 - Okkar líf, leading in life insurance

Strategic investments in the payment solutions business

- Acquired an additional 38% share in Valitor Holding and now holds 98.8%
- Valitor acquired AltaPay, a Danish payment solutions company
- Valitor invested in further expansion of its operations in the UK

At the forefront in digital banking

- Continued rise in popularity of the *Arion App* with 45% of customers using it
- Further development of our online bank with 95% of our customers online
- New generation of ATMs introduced
- A new flagship branch opened in Reykjavík introducing new branch strategy – digital banking and personal consultancy

Customers of the future

- A successful new line of services for children introduced
- Focus on financial literacy for children and younger individuals

OPERATIONAL HIGHLIGHTS OF 2014

Increase in investment banking activities and large scale lending projects

- Successful listing of one of Iceland's largest fishing companies, HB Grandi
- No. 1 lender to large-scale investment projects in Iceland
- Market leader in equities trading

Credit rating and funding

- First bank in Iceland to receive international credit rating since 2008
- S&P rated the bank BB+, one notch below the sovereign, upgraded outlook in October from stable to positive
- Continued issuance of covered bonds and started issuing commercial papers

Frjálsi Pension Fund managed by Arion Bank highly successful in 2014

- Named best pension fund in Europe in its class by the magazine *IPE*
- Named best institutional investor in real estate from among 40 European counties by the magazine *IPE Real Estate*
- Named pension fund of the year in Iceland by the magazine *Acquisition International*

OPERATIONAL HIGHLIGHTS OF 2014

Arion Bank's research team continues to have a leading role in Iceland

- Published reports on the economy, the tourism industry, the real estate market and development of corporate debt amongst other things

Equal opportunities

- Signed the CEO Statement of Support for the Women's Empowerment Principles (UN Women) and the UN Global Compact

A strong commitment to Icelandic startups

- The Bank's startup accelerator *Startup Reykjavik* held for the third time
- *Startup Energy Reykjavík*, an energy focused accelerator, established in cooperation with the energy industry
- Preparation of investment in VC fund *Eyrir Sprotar* which took place early 2015



INCOME STATEMENT

INCOME STATEMENT

STRONG GROWTH IN ALL INCOME ITEMS OVERSHADOW INCREASE IN OTHER OPEX

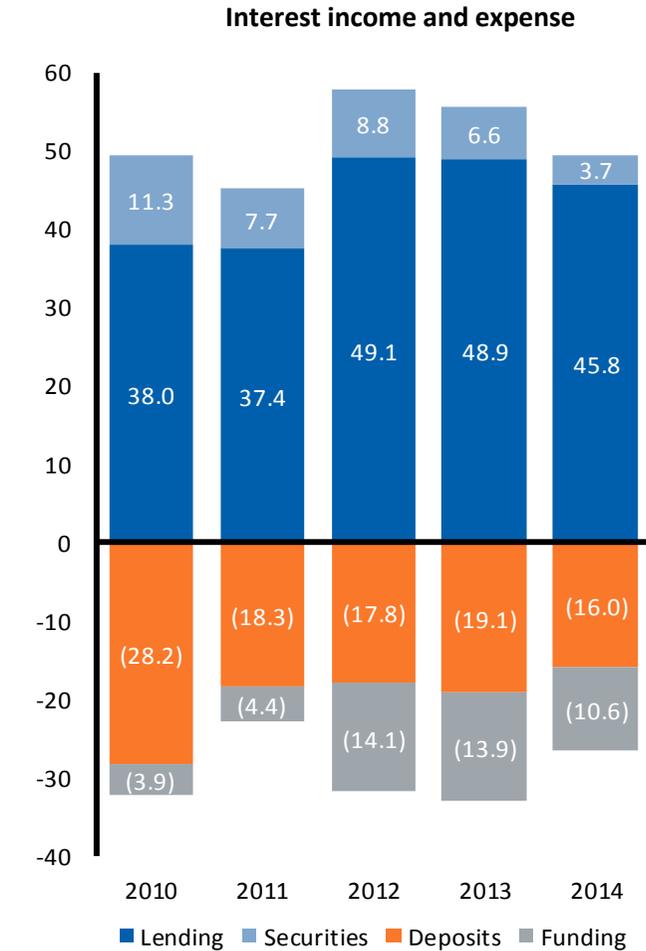
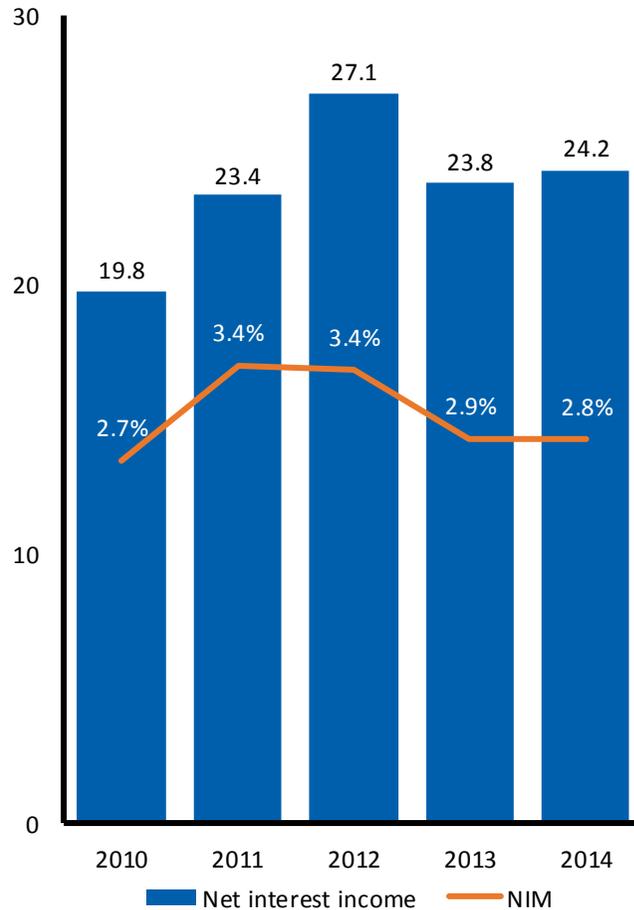
	2014	2013	Q4 2014	Q4 2013
Net interest income increasing YoY				
Robust growth in commission income during the year				
Increase in net financial income and other income mostly due to FV gains on legacy equity holdings				
Decrease in bank levy between Q4 14 and Q4 13 is explained by the increase in the tax rate in December 2013 which applied to the whole year				
Net interest income	24,220	23,800	5,911	5,487
Net commission income	13,309	11,223	3,192	2,939
Net financial income	7,290	1,675	1,430	721
Other income	9,171	7,650	5,210	3,615
Operating income	53,990	44,348	15,743	12,762
Salaries and related expense	(13,979)	(13,537)	(3,953)	(4,098)
Other operating expenses	(13,063)	(11,858)	(4,467)	(3,114)
Net change in valuation	2,135	(680)	(744)	(561)
Net earnings before taxes	29,083	18,273	6,579	4,989
Income tax	(4,679)	(3,143)	(223)	(292)
Bank levy	(2,643)	(2,872)	(636)	(2,572)
Net gain from disc. operations	6,833	399	241	402
Net earnings	28,594	12,657	5,961	2,527

NET INTEREST INCOME

STABLE NET INTEREST INCOME

Interest income from loans and interest expense from deposits and borrowings reducing mainly because of low inflation

More focus on efficient liquidity management resulting in lower funding cost



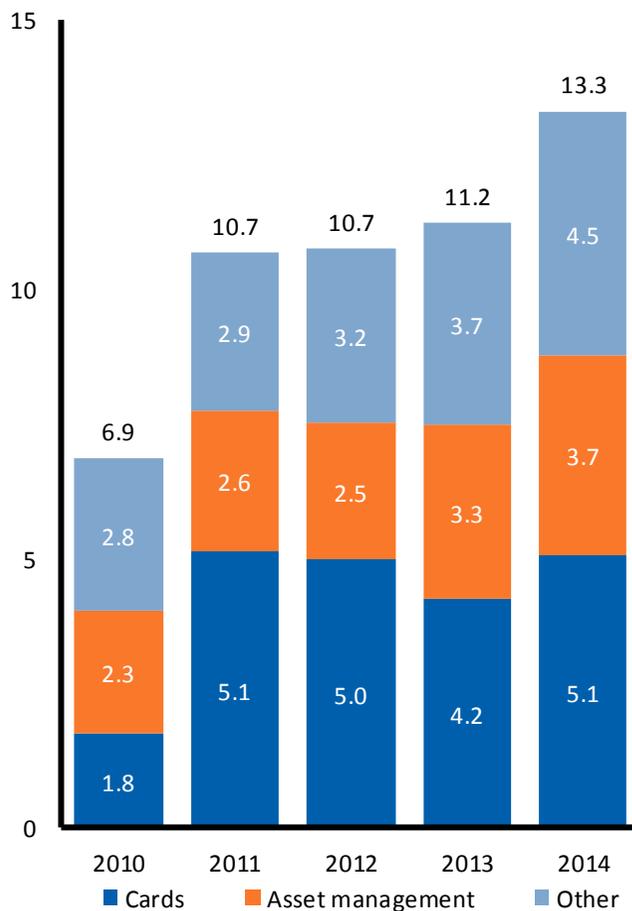
NET COMMISSION INCOME

GROWTH EXPECTATIONS MATERIALIZED IN ALL UNITS OF THE BANK

Asset management and Cards remain largest source of commission income

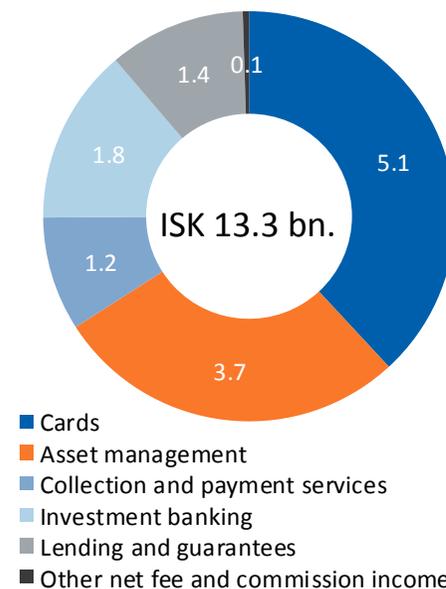
Good performance in investment banking as well as retail and corporate banking

The business model of Valitor offers continued growth



18.6% increase in Net commission income in 2014

Breakdown of Net commission income



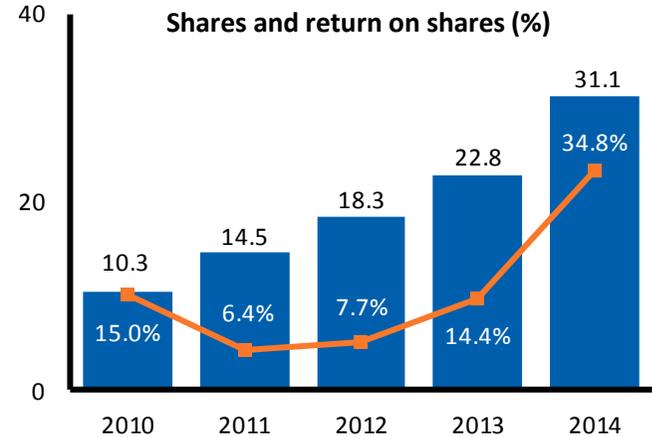
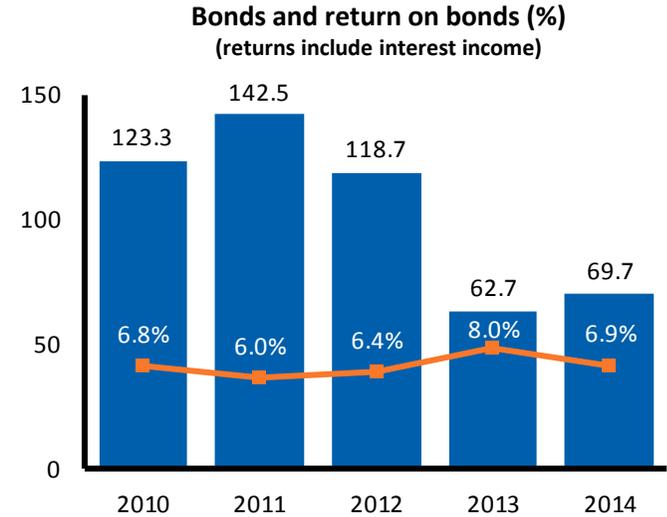
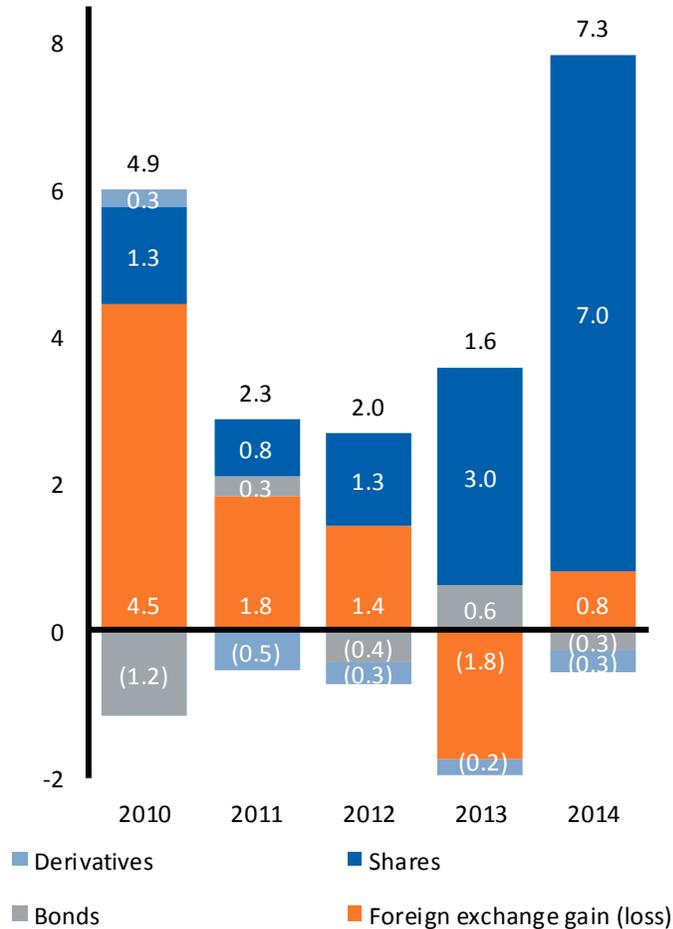
NET FINANCIAL INCOME

STRONG CONTRIBUTION FROM LEGACY EQUITY HOLDINGS

Excellent return on equity holdings during the year

The bond market was difficult during most of 2014 but improved in Q4

Improved focus on FX management yielding an FX gain



OTHER INCOME

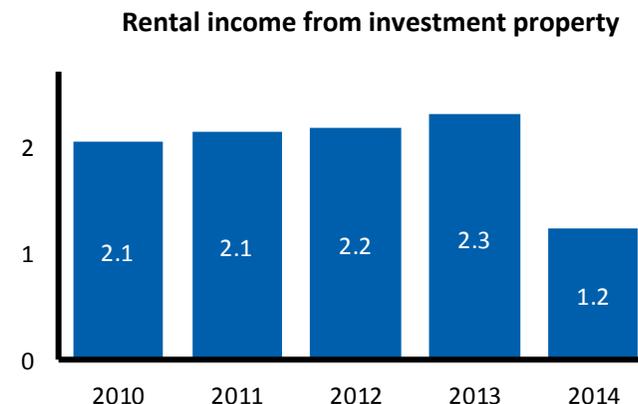
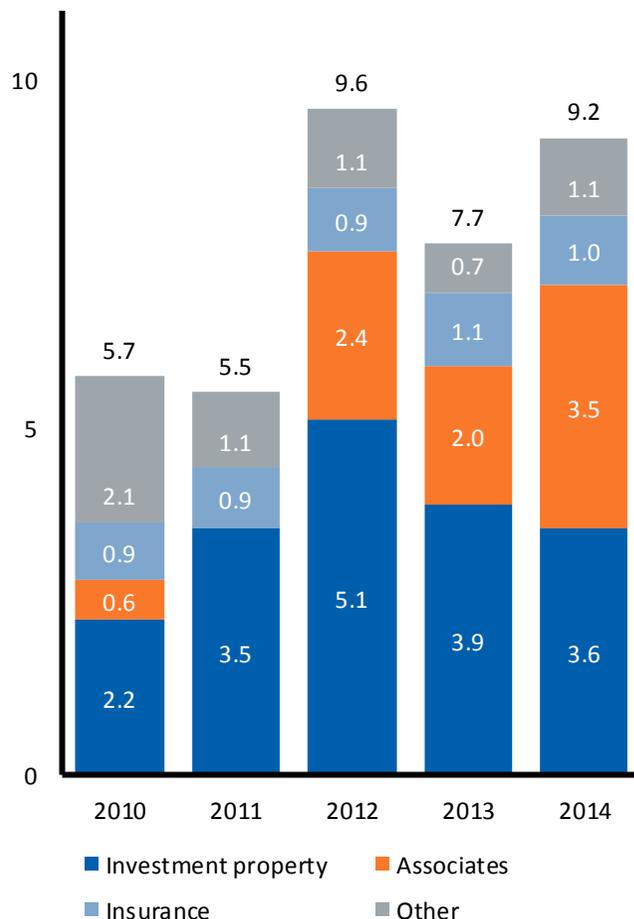
VALUATION CHANGES DOMINATE

FV changes and realized gain on investment property amounted to ISK 2 billion in 2014

Income from associates in 2014, mainly due to valuation changes

Insurance income from Okkar Life Insurance remains a stable source of other income

Rental income from investment property decreased in H2 2014 due to the sale of Landfestar, the Bank's commercial real estate company



TOTAL OPERATING EXPENSES

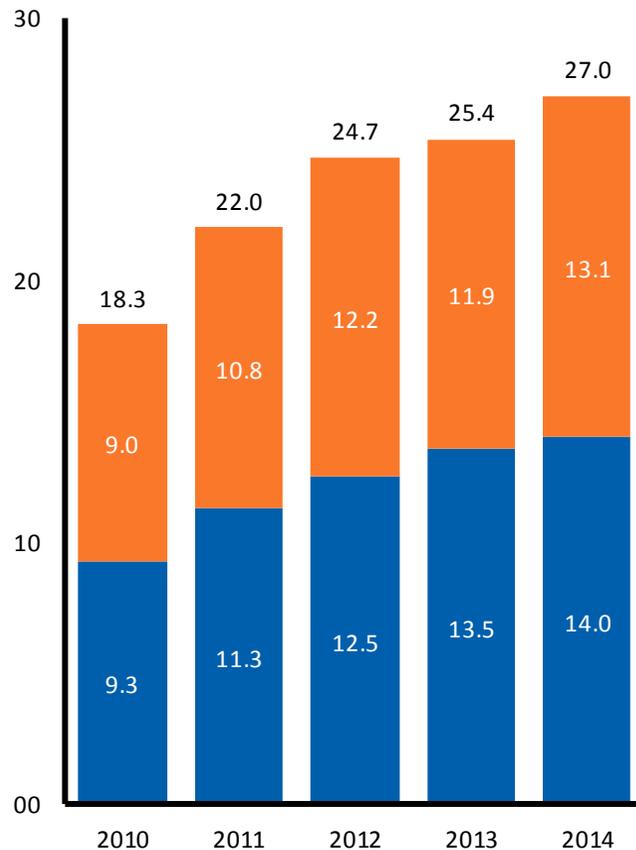
CONTINUED FOCUS ON OPERATING EFFICIENCY

Settlement of Arion Bank and Valitor with the Icelandic Competition Authority of ISK 700 million increases expenses and affects cost to income ratio in Q4

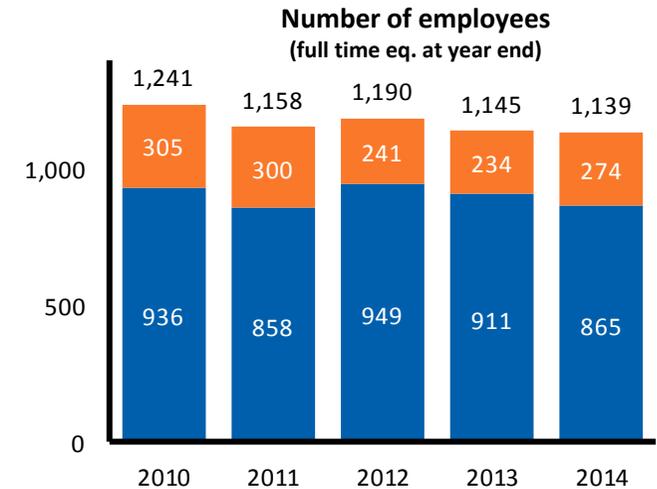
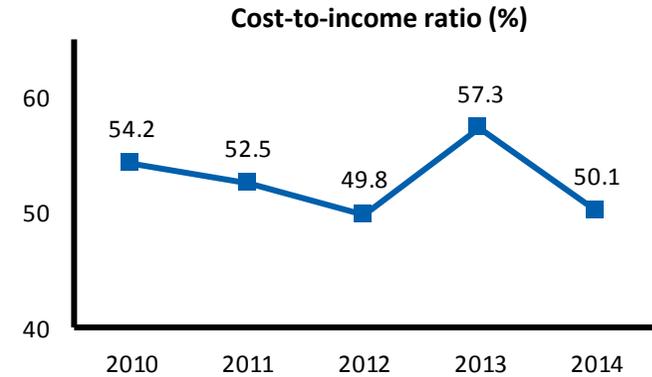
One-off write-down of real estate value in the branch network of ISK 600 million

Substantial decrease in number of employees in Arion Bank from 2013

Increase in number of employees in subsidiaries mainly due to Valitor, both organic growth and acquisition



Other operating expense Salaries and related expense



Parent company Subsidiaries

ONLINE BANKING CHANGES THE RETAIL LANDSCAPE

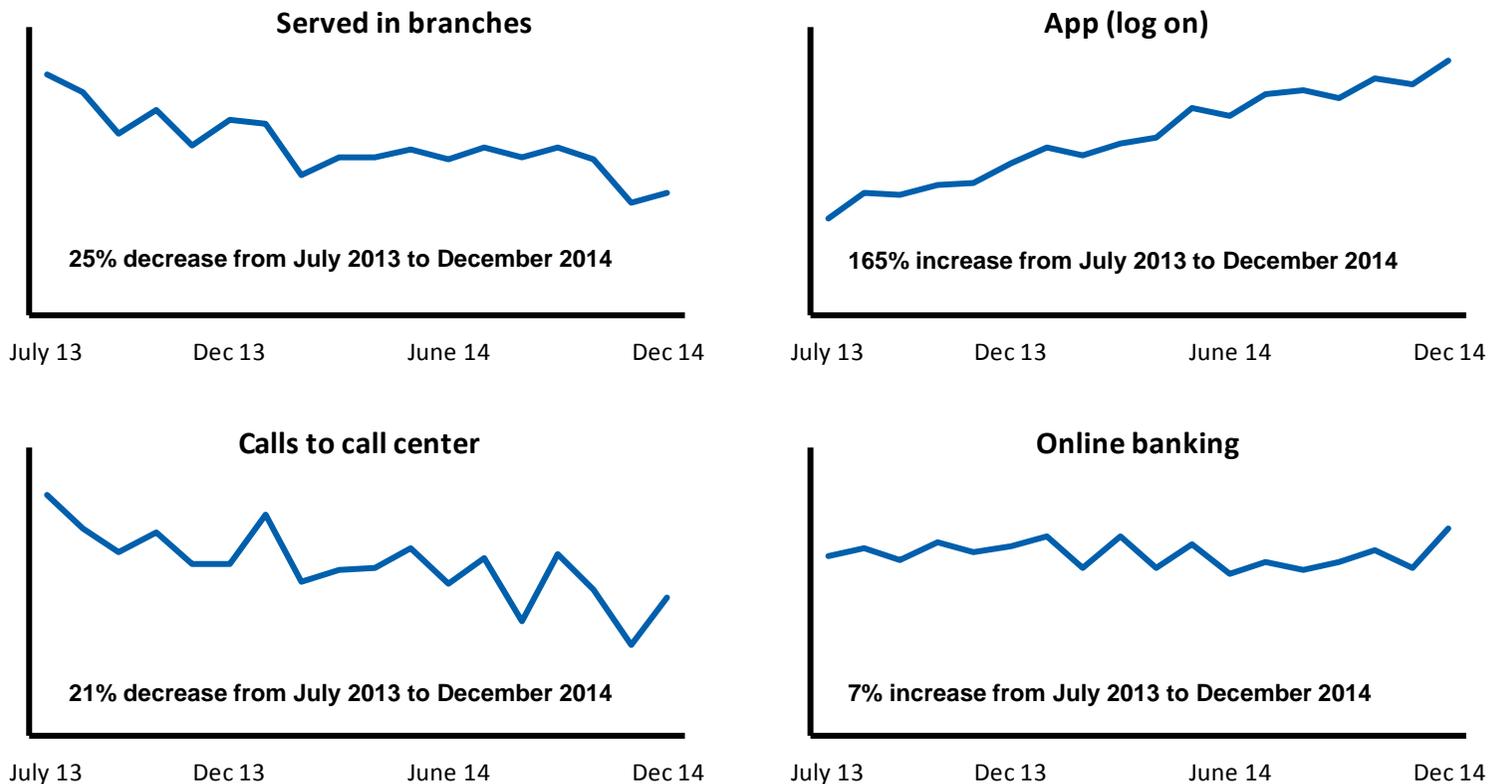
THE ARION APP HAS BEEN A GREAT SUCCESS SINCE ITS LAUNCH IN 2013

Increasing number of customers choose to do their banking online or with a smartphone app rather than in a branch

The number of people served in branches (25%) and calls to call center (21%) have decreased since the introduction of the Arion App in July 2013

Number of FTE's in branches has decreased by 17% at the same time

Development of customer visits to branches, calls to call center, online banking and the Arion App since the introduction of the app



TAX EXPENSE

16.1% EFFECTIVE TAX RATE

Income tax rate has increased from 18% to 20% on taxable income from 2010

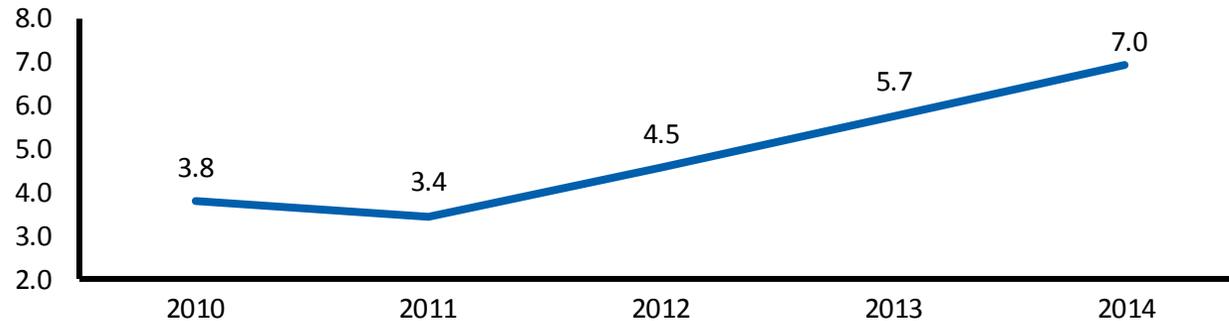
With the same tax legislation as in 2010 taxes would have been ISK 3.6 bn. lower in 2014

Financial institutions pay an additional 6% income tax on taxable income above ISK 1 bn

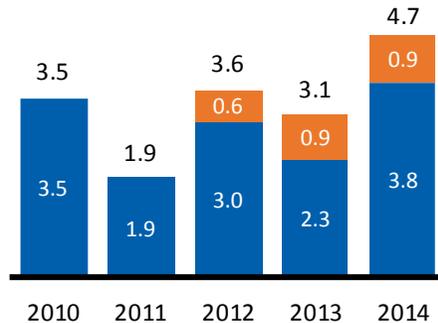
Bank levy is 0.376% on total debt above ISK 50 bn

Financial institutions pay an additional 5.5% tax on employee salaries (6.75% in 2013)

Tax expense from 2010-2014 (ISK bn.)

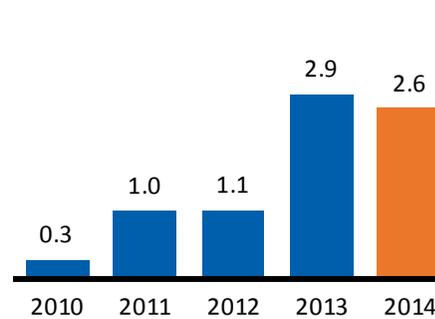


Income tax and additional 6% income tax

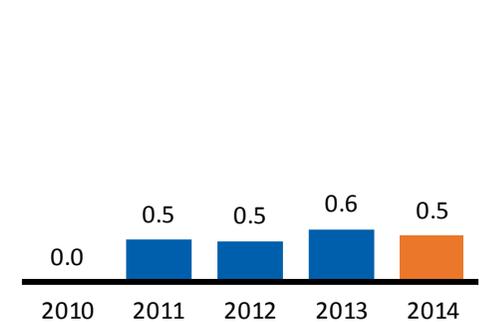


■ Income tax ■ Additional 6% Tax

Bank levy



Additional tax on employee salaries



BALANCE SHEET



BALANCE SHEET

STRONGEST CAPITAL POSITION EVER

Increase in loans in 2014 mainly due to loans to individuals

Decrease in investment property due to the sale of Landfestar

Changes in financial assets mainly due to liquidity management

Decrease in deposits at year-end due to market conditions

Assets					
	2014	2013	2012	2011	2010
Cash & balances with CB	21	38	30	29	31
Loans to credit institutions	109	102	101	69	68
Loans to customers	648	636	567	562	451
Financial assets	102	87	138	158	135
Investment property	7	29	29	27	28
Other assets	48	48	37	48	101
Total assets	934	939	901	892	813

Liabilities and Equity					
Due to credit institutions & CB	23	28	33	16	96
Deposits from customers	455	472	449	490	458
Other liabilities	61	58	59	52	58
Borrowings	201	205	195	187	65
Subordinated loans	32	32	34	32	26
Equity	162	145	131	115	110
Total liabilities and equity	934	939	901	892	813

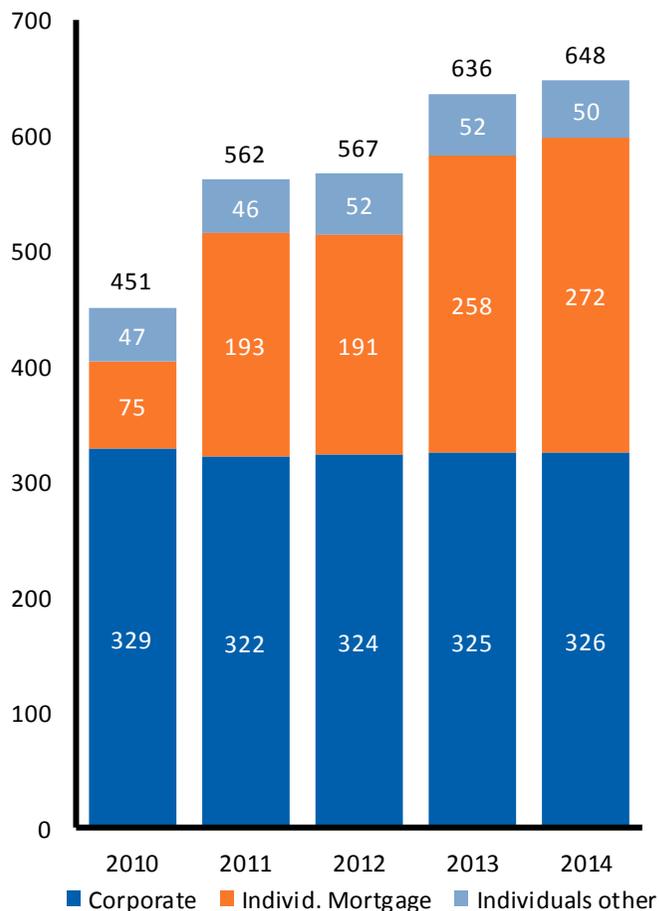
LOANS TO CUSTOMERS

MORTGAGE LOANS COMPRISE 42% OF THE LOAN PORTFOLIO

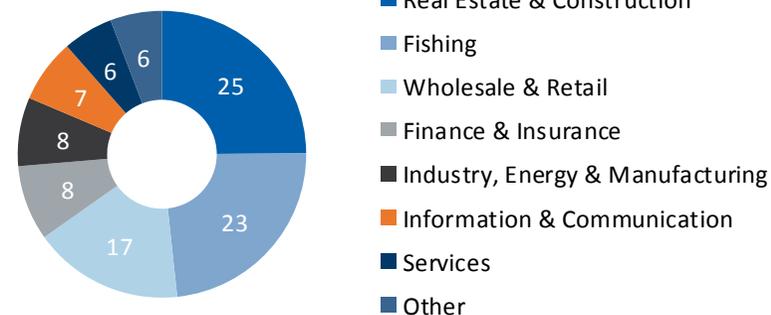
The Bank's strong position in mortgage loans to individuals reduces the risk of its loan portfolio

The Bank maintains a well diversified corporate loan portfolio in line with the sectors in the Icelandic economy

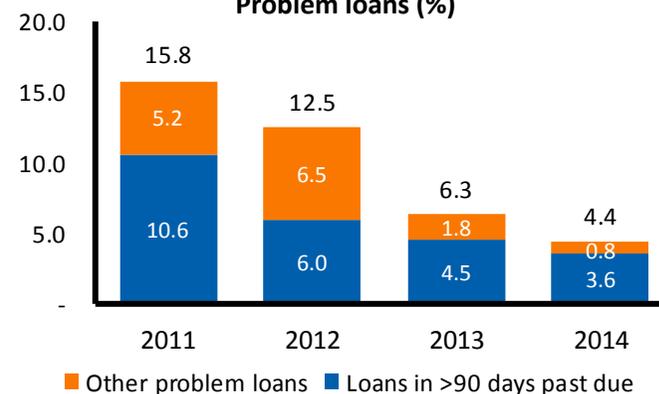
The Bank reached its year end goal of problem loans less than 5% during Q3



Loans to corporates by sector (%)



Problem loans (%)



FUNDING

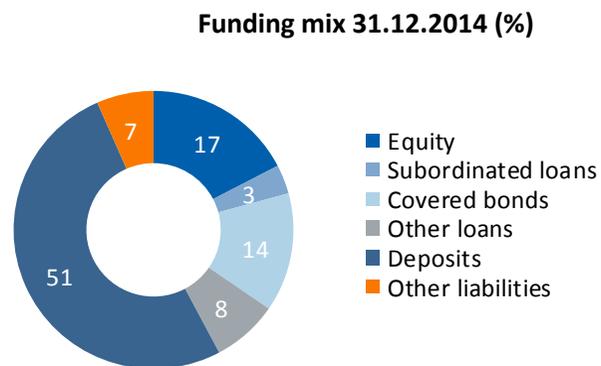
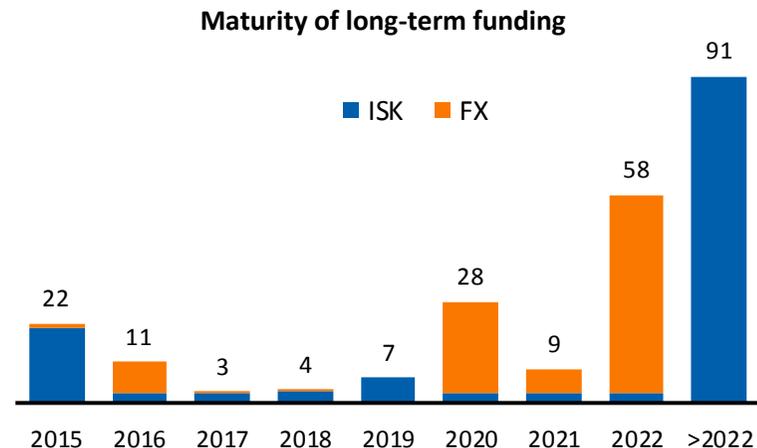
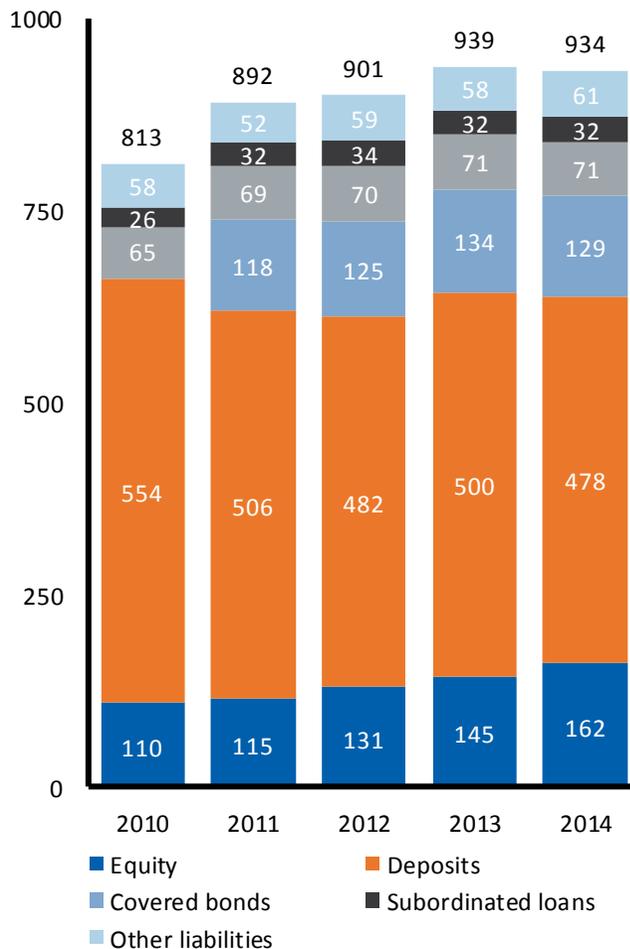
STRONG LONG-TERM FUNDING – LIMITED NEED FOR REFINANCING

The Bank continues to diversify its funding. Deposits remain the Bank's largest source of funding

The outlook on the Bank's BB+ credit rating was changed from stable to positive

The Bank is the largest issuer of listed covered bonds in Iceland

The Bank issued ISK CP's for the first time during the year



CAPITAL BASE

SOLID CAPITAL BASE – PROPOSED DIVIDEND OF ISK 12.8 BILLION, 45% OF NET EARNINGS

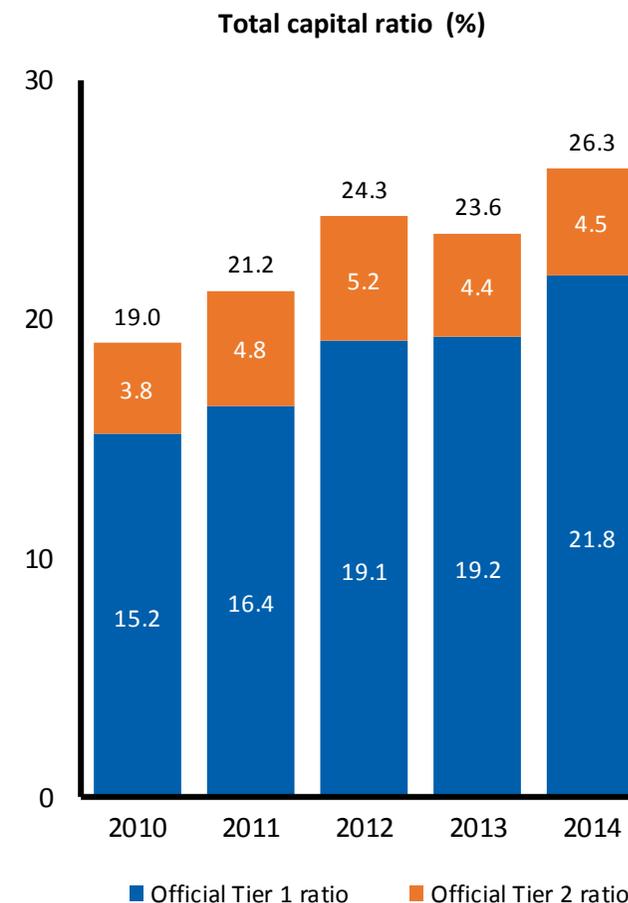
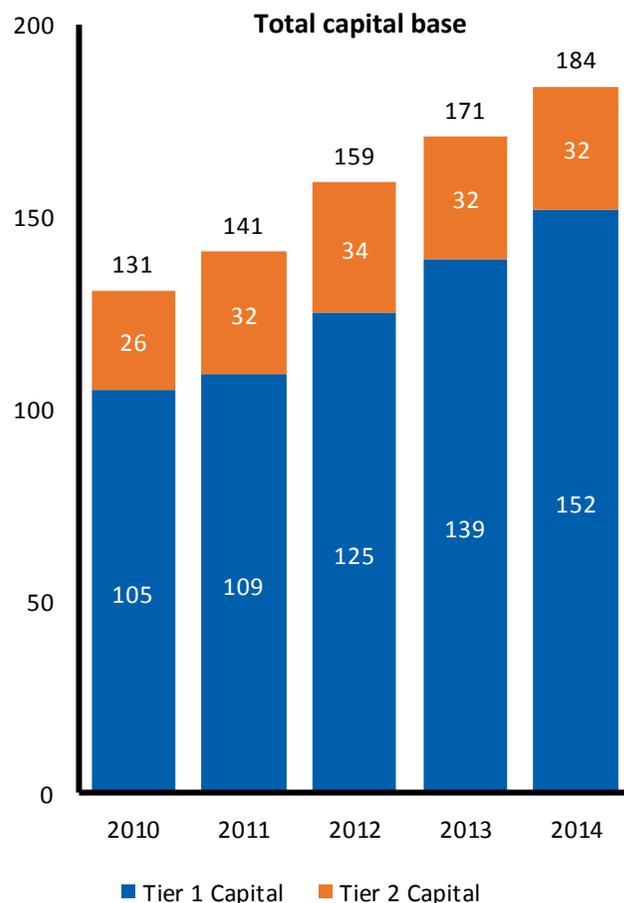
Solid level of capitalization due to strong profit generation

Dividend of ISK 7,811 million paid in Q2

Decrease in RWA mainly due to increased portion of loans to individuals and reduction in the FX imbalance

The Bank is using standardized approach calculating RWA

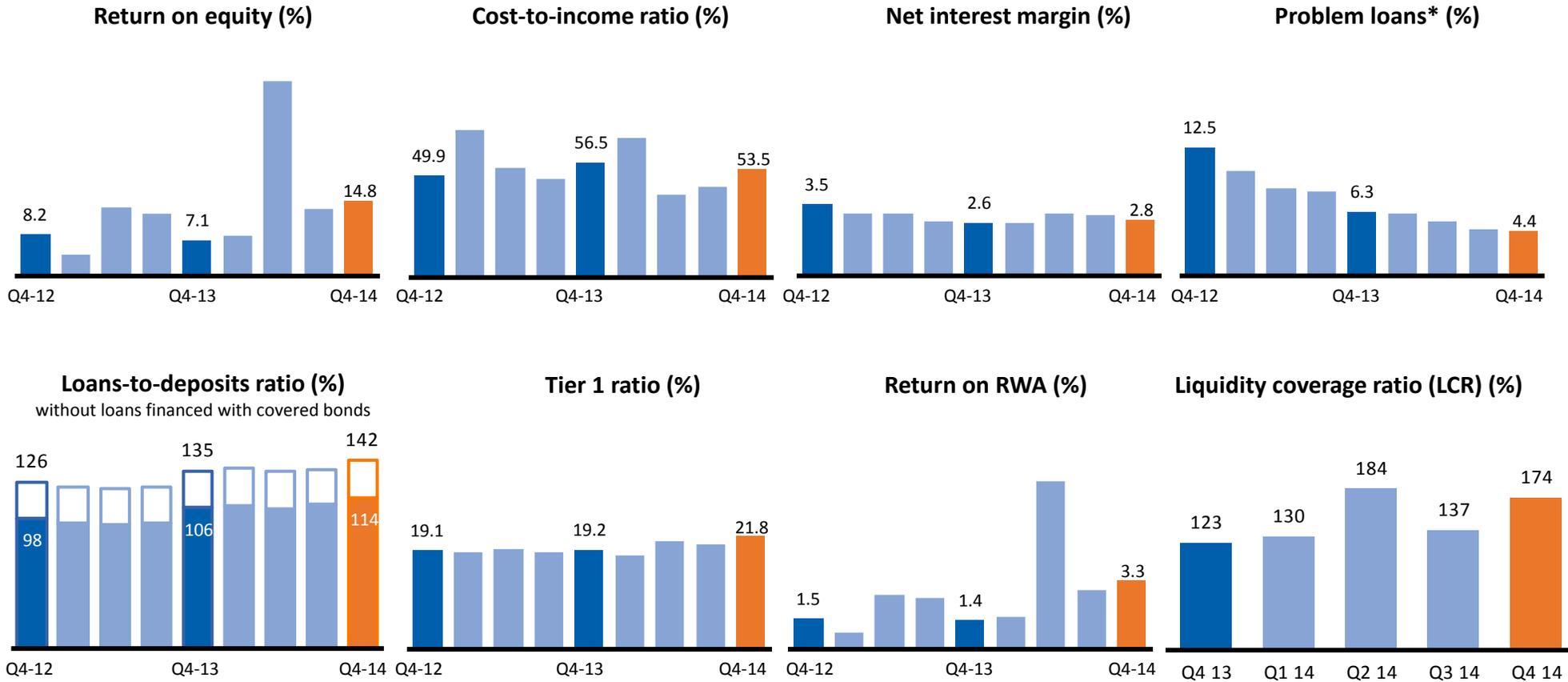
RWA/Total assets is 74.5%



KEY FINANCIAL INDICATORS



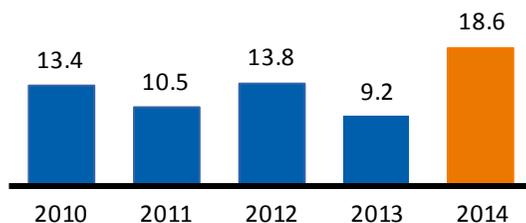
KEY FINANCIAL INDICATORS



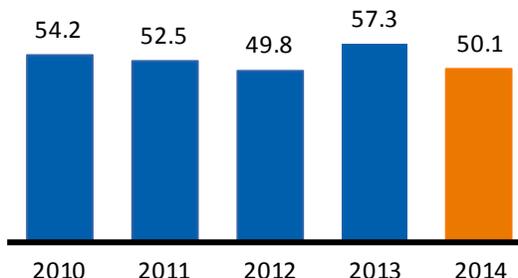
* Problem loans (past due but not impaired loans over 90 days + individually impaired loans) as % of loans to customers

KEY FINANCIAL INDICATORS

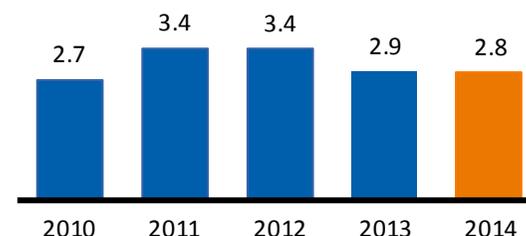
Return on equity (%)



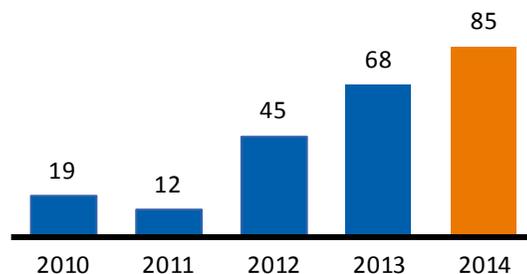
Cost-to-income ratio (%)



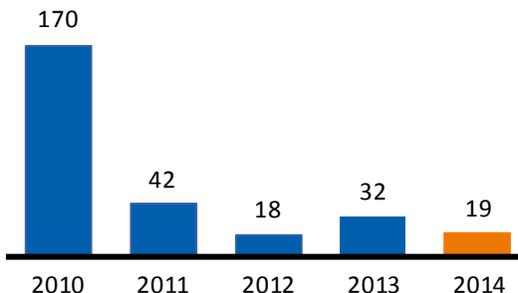
Net interest margin (%)



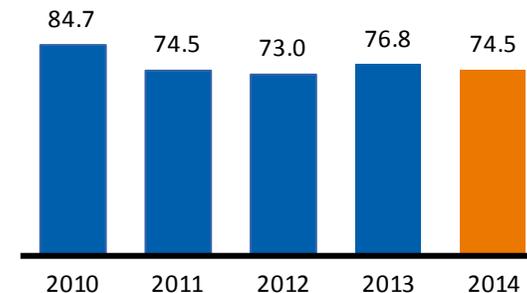
CPI Imbalance – ISK bn.



FX Imbalance – ISK bn.



Risk weighted assets/Total assets (%)



Arion banki

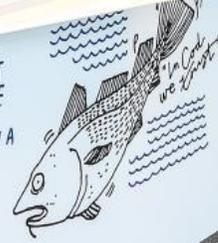
Arion banki

Arion banki

ÞESSI HRAÐBANKI
ER BESTUR
ÞÁ SEM



YOU DON'T KNOW
ICELANDIC? DON'T
WORRY. THIS ONE
HERE SPEAKS WITH A
VERY NICE
ACCENT.



ÞU GÆTTI ÆGA A FERRANNA
ALTA HRAÐBANKA BESTRI
PERLUMLEGA FÉLITIL
ER HANNA LIGA LANGEVA JAFNA
MÁKUR UM HRAÐBANKA

ADDITIONAL INFORMATION

INCOME STATEMENT – EUR (MILLION)

	2014	2013	Q4 2014	Q4 2013
Net interest income	156	147	38	34
Net commission income	86	69	21	18
Net financial income	47	10	9	4
Other income	59	47	34	22
Operating income	349	273	102	78
Salaries and related expense	(90)	(83)	(26)	(25)
Other operating expenses	(84)	(73)	(29)	(19)
Net impairment	14	(4)	(5)	(3)
Net earnings before taxes	188	113	43	31
Income tax	(30)	(19)	(1)	(2)
Bank levy	(17)	(18)	(4)	(16)
Net gain from disc. operations	44	2	2	2
Net earnings	185	78	39	15
EUR/ISK	154.86	162.38	153.75	163.34

ADDITIONAL INFORMATION

BALANCE SHEET – EUR (MILLION)

Assets					
	2014	2013	2012	2011	2010
Cash & balances with CB	137	240	176	184	199
Loans to credit institutions	705	645	598	435	441
Loans to customers	4,197	4,011	3,355	3,536	2,933
Financial assets	660	546	816	993	876
Investment property	44	180	171	171	180
Other assets	309	301	217	299	653
Total assets	6,052	5,924	5,333	5,618	5,283

Liabilities and Equity					
Due to credit institutions & CB	148	177	195	102	622
Deposits from customers	2,949	2,977	2,657	3,086	2,977
Other liabilities	398	363	348	328	377
Borrowings	1,300	1,291	1,155	1,179	424
Subordinated loans	205	201	203	202	171
Equity	1,051	915	775	721	712
Total liabilities and equity	6,052	5,924	5,333	5,618	5,283

EUR/ISK	154.28	158.49	168.89	158.80	153.82
---------	--------	--------	--------	--------	--------

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.