



FINANCIAL STATEMENTS 30.9.2012

HIGHLIGHTS

Acceptable Q3 and solid 9 month performance

Income statement still affected by irregular items

Continued increase of financial strength

Maintenance of Balance Sheet continues to be challenging



HIGHLIGHTS

Profitability

Net earnings

14.5 bn.

9M 2011: ISK 13.6 bn.

Profitability

Return on equity

15.9%

9M 2011: 17.6%

Balance

Total assets

ISK 876 bn.

31.12.2011: ISK 892 bn.

Balance

Total equity

ISK 128 bn.

31.12.2011: ISK 115 bn.

Efficiency

Cost-to-income ratio

49.8%

9M 2011: 52.2%

Liquidity

Loans-to-deposits ratio

126.0%

31.12.2011: 114.6%

Strength

CAD ratio

22.5%

31.12.2011: 21.2%

Asset quality

LPA ratio

18.1%

31.12.2011: 21.5%

INCOME STATEMENT 9M 2012



INCOME STATEMENT

9M 2012

Million ISK	9M 2012	9M 2011	Diff	%
Net interest income	20.134	16.836	3.298	20%
Net change in valuation	479	3.759	-3.280	-87%
Net commission income	8.053	7.574	479	6%
Net financial income	1.050	2.327	-1.277	-55%
Other income	4.643	3.477	1.166	34%
Operating income	34.359	33.973	386	1%
Salaries and related cost	-8.813	-8.221	-592	7%
Other operating expenses	-8.061	-7.554	-507	7%
Net earnings before taxes	17.485	18.198	(713)	-4%
Income tax	-3.375	-3.079	-296	10%
Bank Levy	-771	-684	-87	13%
Net gain from discontinued operations, net of tax	1.198	-787	1.985	n/a
Net earnings	14.537	13.648	889	7%
Shareholders of Arion Bank	14.176	13.046	1.130	9%
Minority interest	361	602	(241)	(40%)

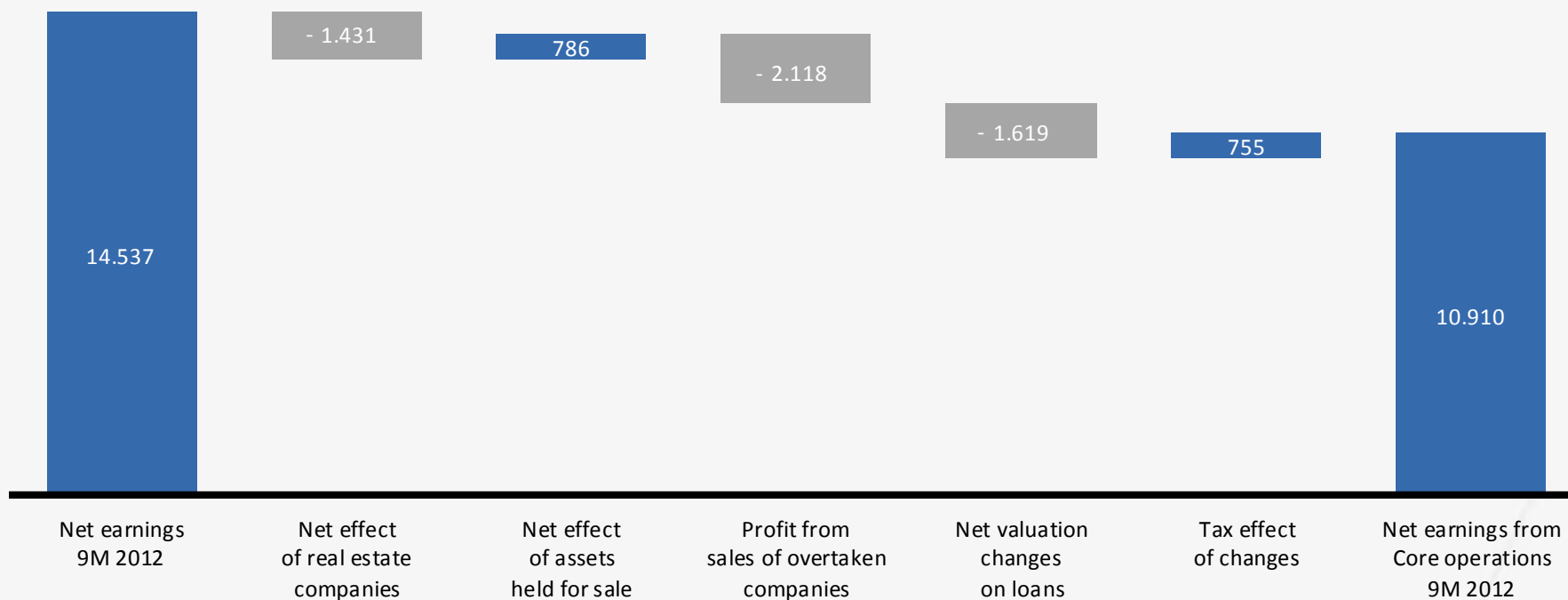
INCOME STATEMENT

PER QUARTER 2012

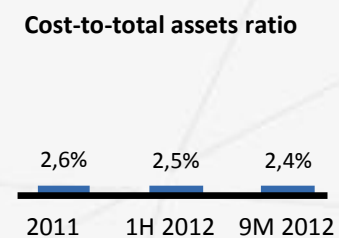
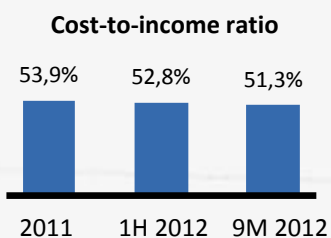
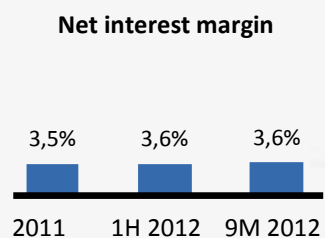
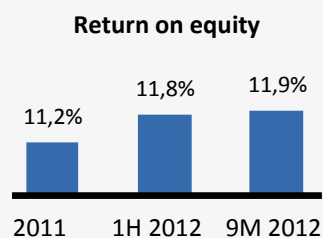
Million ISK	Q3 2012	Q2 2012	Q1 2012
Net interest income	6.254	7.666	6.214
Net change in valuation	-2.053	2.608	-76
Net commission income	2.715	3.002	2.336
Net financial income	869	-1.248	1.429
Other income	1.637	2.054	952
Operating income	9.422	14.082	10.855
Salaries and related cost	-2.644	-3.124	-3.045
Other operating expenses	-2.586	-2.718	-2.757
Net earnings before taxes	4.192	8.240	5.053
Income tax	-462	-1.852	-1.061
Bank Levy	-261	-242	-268
Net gain from discontinued operations, net of tax	-181	652	727
Net earnings	3.288	6.798	4.451
Shareholders of Arion Bank	3.124	6.741	4.311
Minority interest	164	57	140

INCOME STATEMENT

CORE INCOME

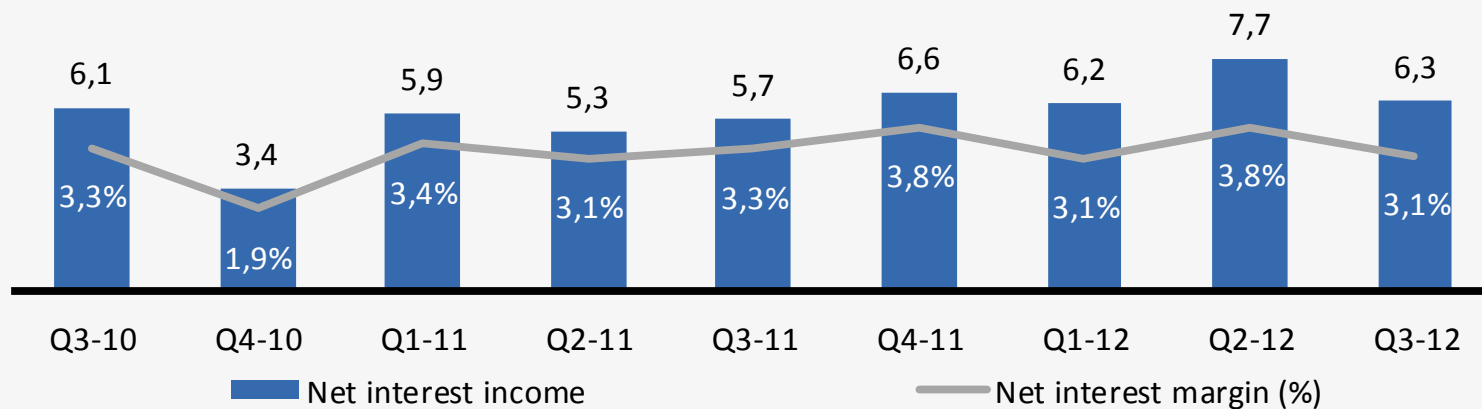


Key ratios from Core income

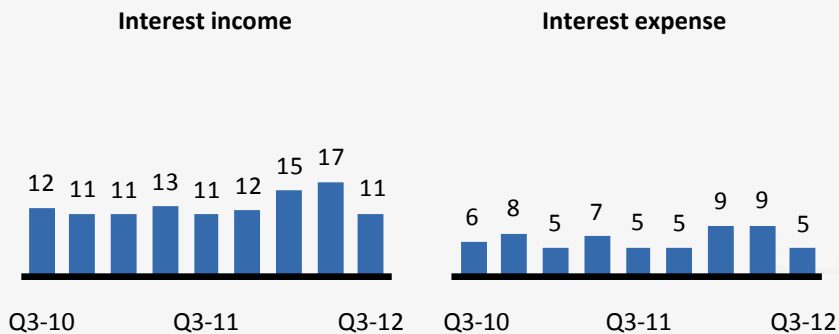


NET INTEREST INCOME

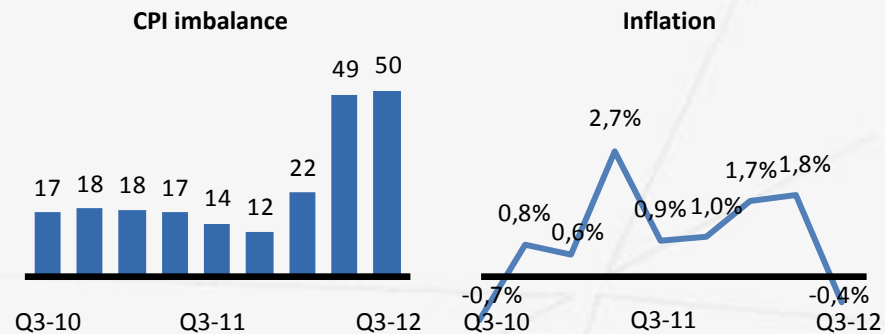
Net interest income and net interest margin from Q3 2010 – Q3 2012 (ISK bn.)



Interest from Q3 2010 – Q3 2012 (ISK bn.)

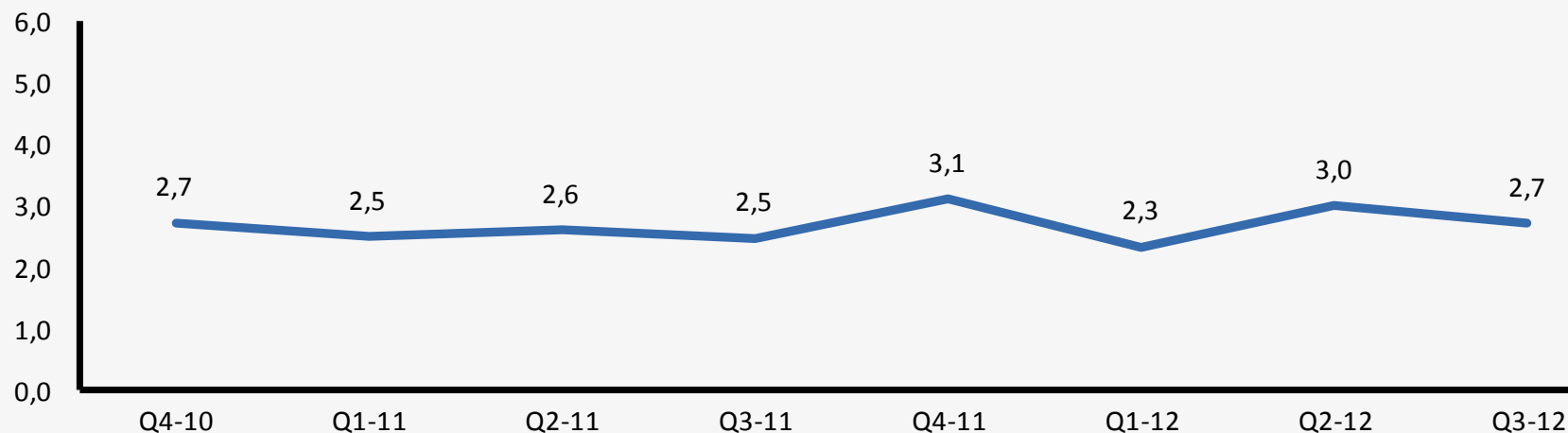


CPI imbalance & inflation from Q3 2010 – Q3 2012

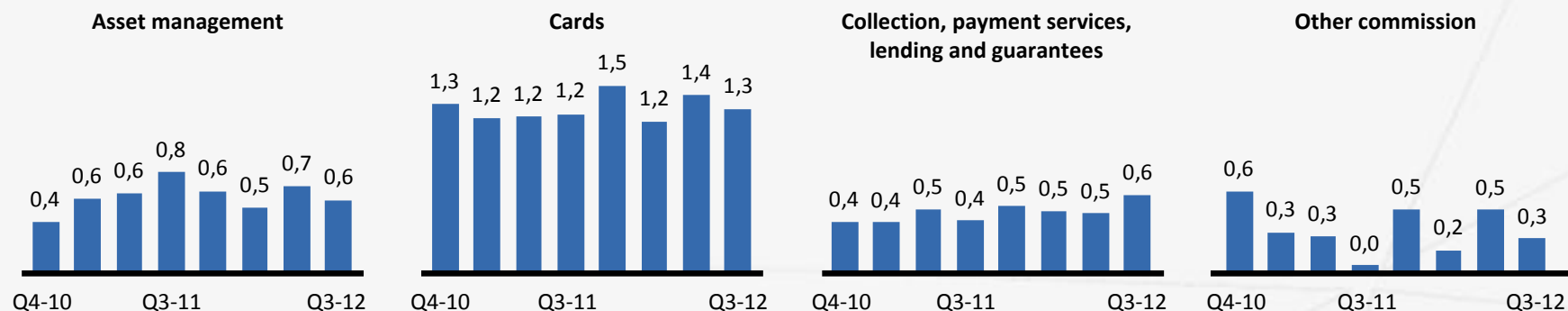


NET COMMISSION INCOME

Net commission income from Q4 2010 – Q3 2012 (ISK bn.)

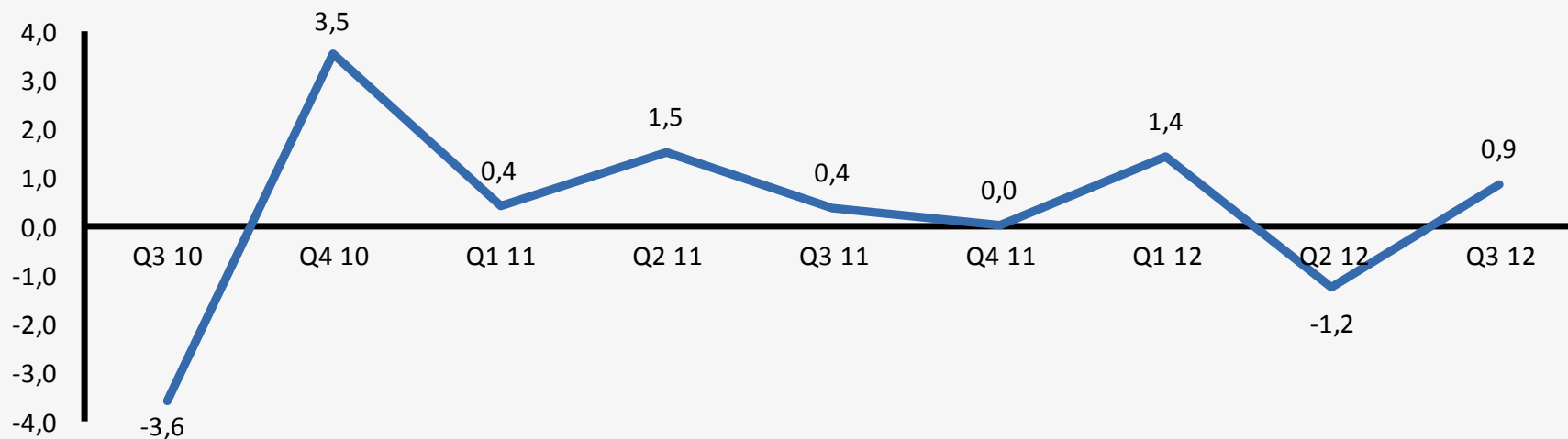


Net commission income by type from Q4 2010 – Q3 2012 (ISK bn.)

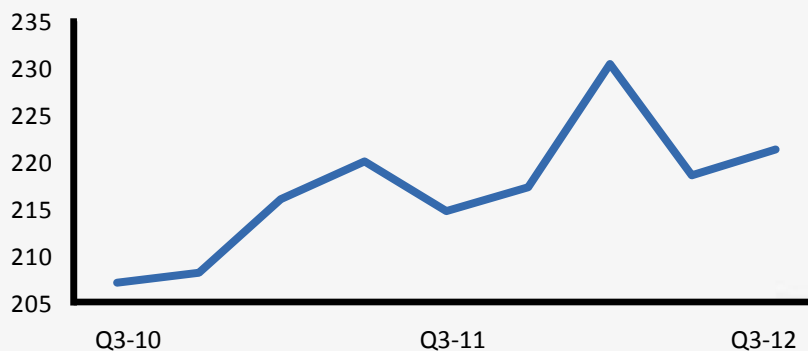


NET FINANCIAL INCOME

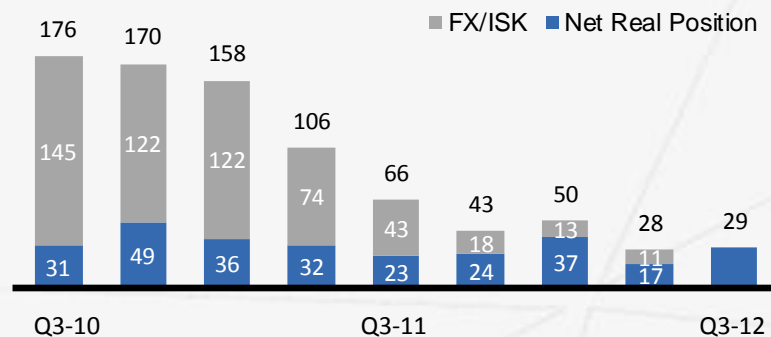
Net financial income from Q4 2010 – Q3 2012 (ISK bn.)



Movement of the Icelandic krona (TWI)

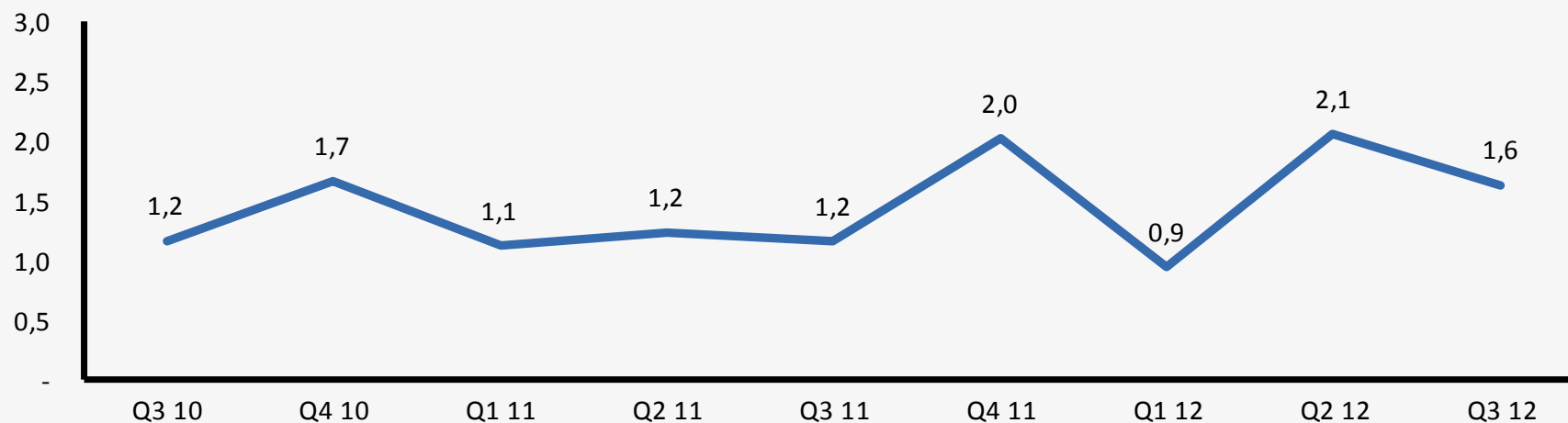


FX imbalance from Q3 2010 – Q3 2012 (ISK bn.)

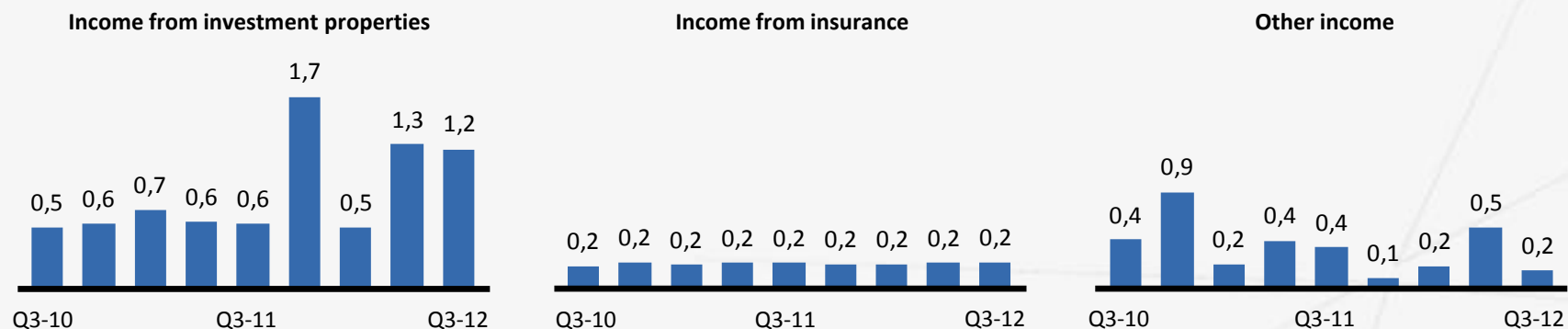


OTHER INCOME

Other income from Q3 2010 – Q3 2012 (ISK bn.)

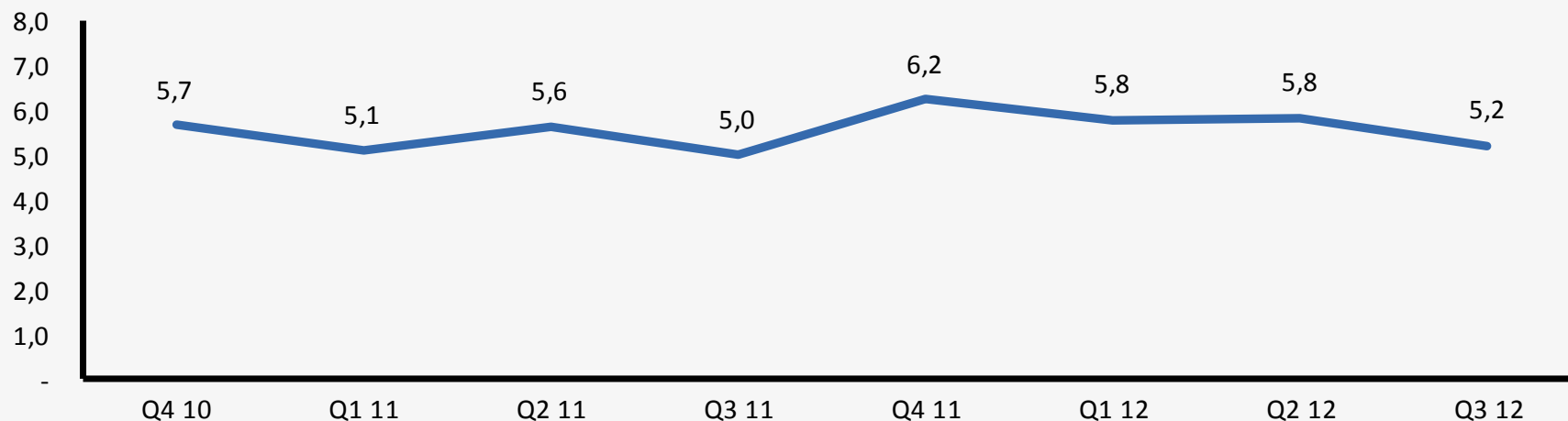


Other income by type from Q3 2010 – Q3 2012 (ISK bn.)



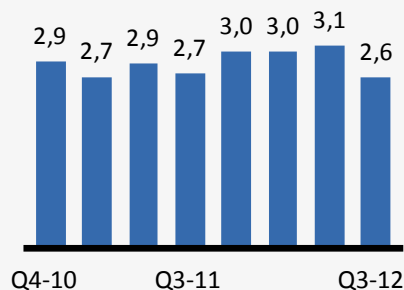
OPERATING EXPENSES

Total operating expenses from Q4 2010 – Q3 2012 (ISK bn.)

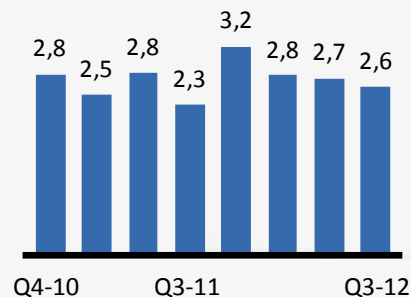


Operating expenses from Q4 2010 – Q3 2012 (ISK bn.)

Salaries and related cost



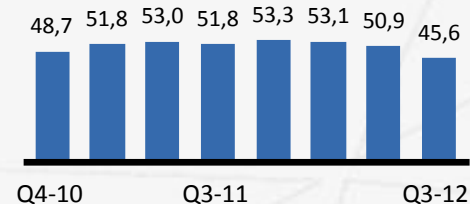
Other operating expense



Cost-to-income from Q4 2010 – Q3 2012

Cost-to-income ratio (%)

Income without net valuation change



BALANCE SHEET

30.9.2012

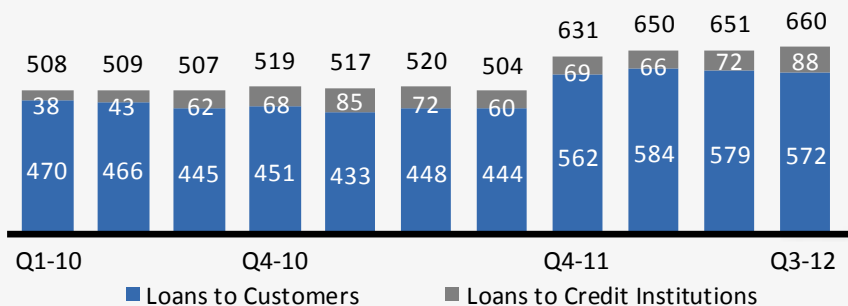


BALANCE SHEET

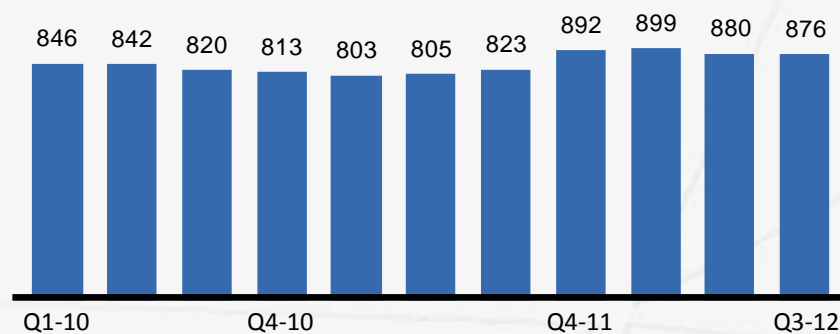
TOTAL ASSETS

Billion ISK	30.09.12	30.06.12	Diff%	31.12.11	Diff%
Cash & balances with CB	16	16	-2%	29	-45%
Loans to credit institutions	88	72	23%	69	27%
Loans to customers	572	579	-1%	562	2%
Financial assets	138	147	-6%	158	-13%
Investments properties	28	28	-1%	27	4%
Non current assets & disp.groups HFS	14	16	-16%	24	-43%
Other assets	20	21	-6%	24	-16%
Total assets	876	880	0%	892	-2%

Total loans (ISK bn.)



Total assets (ISK bn.)

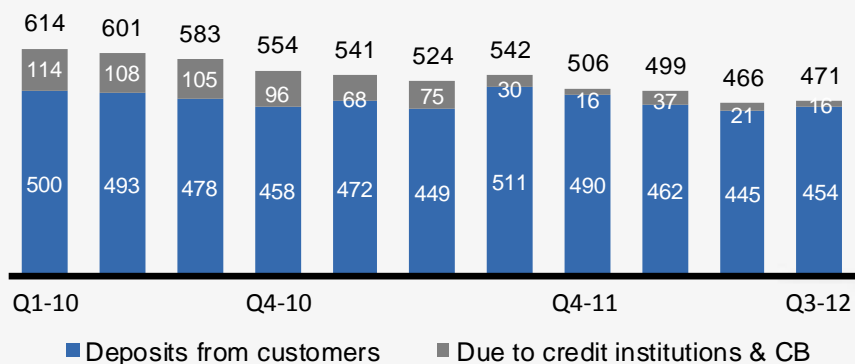


BALANCE SHEET

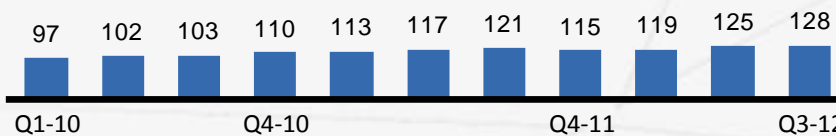
TOTAL LIABILITIES AND EQUITY

Billion ISK	30.09.12	30.06.12	Diff%	31.12.11	Diff%
Due to credit institutions & CB	16	21	-21%	16	2%
Deposits from customers	454	445	2%	490	-7%
Non current liab. & disp.groups HFS	3	4	-36%	5	-46%
Other liabilities	49	60	-17%	47	5%
Borrowings	192	193	0%	187	3%
Subordinated loans	33	32	1%	32	1%
Equity	128	125	3%	115	12%
Total liabilities and equity	876	880	0%	892	-2%

Total deposits (ISK bn.)



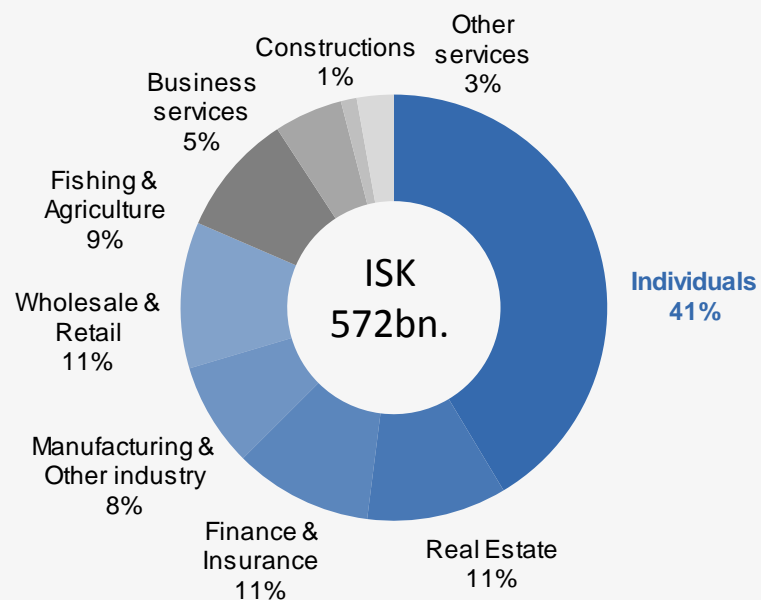
Total equity (ISK bn.)



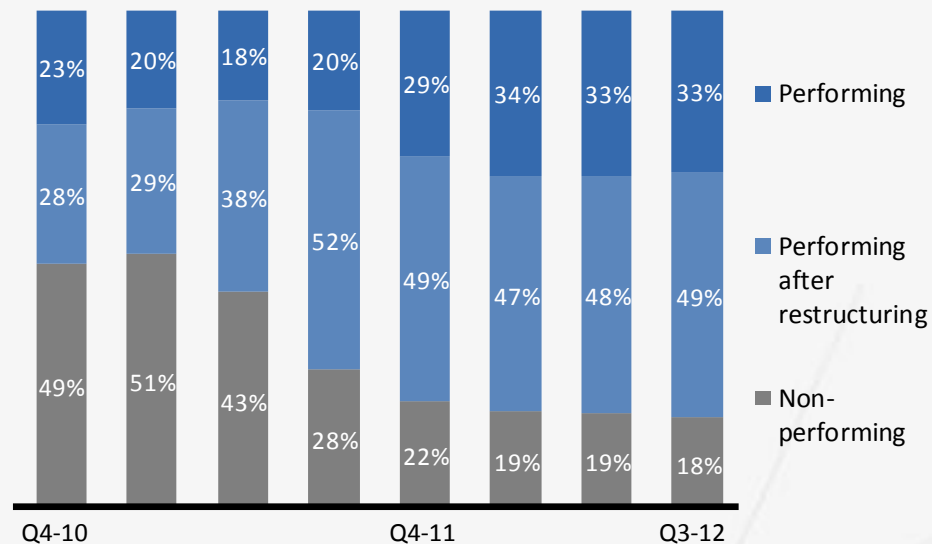
ASSET QUALITY

WELL DIVERSIFIED LOAN PORTFOLIO AND ASSET QUALITY IMPROVING

Loans to customers by sector 30.9.2012



Loan Portfolio Analysis (LPA ratio)



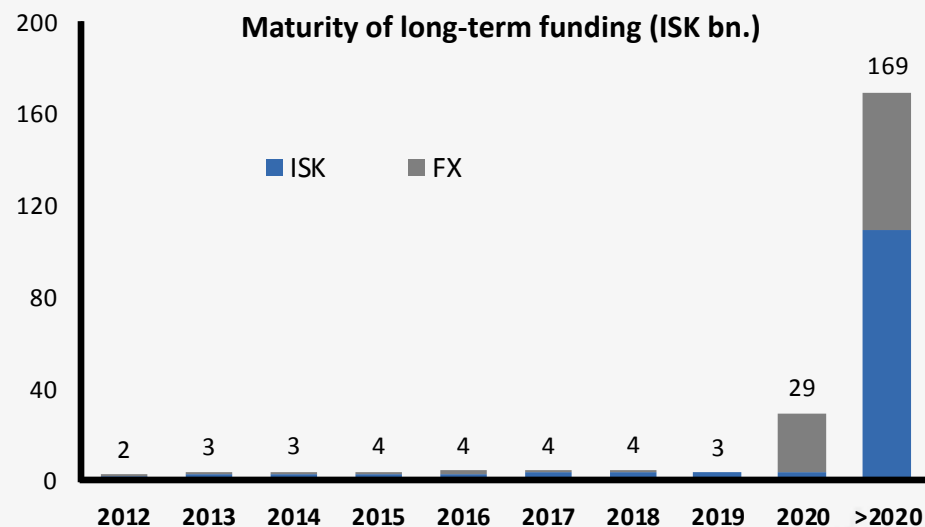
FUNDING

NO SIGNIFICANT REDEMPTION OF LONG-TERM FUNDING

Long-term funding

Strong funding profile

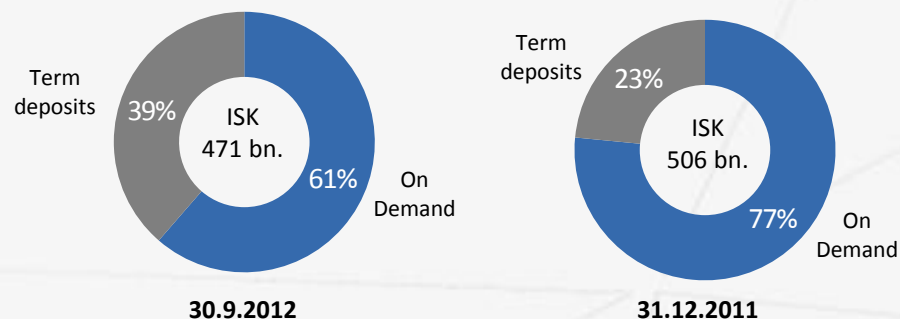
- No significant redemption of long-term funding until 2020
 - ✓ Both in FX and ISK
- Continued issuance of covered bonds
- The bank's aim is to seek international funding in the future



Short-term funding (total deposits)

Increased focus on term deposits

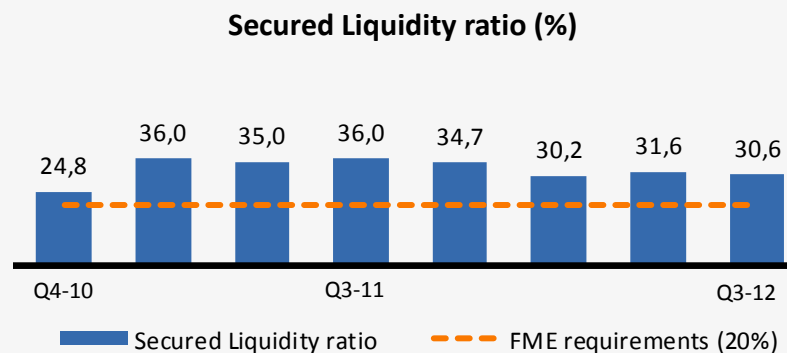
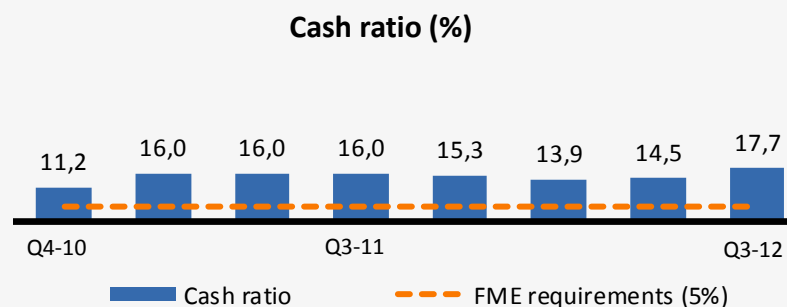
- Successfully increased term deposits
- Actively engaged in offering term deposits products to clients



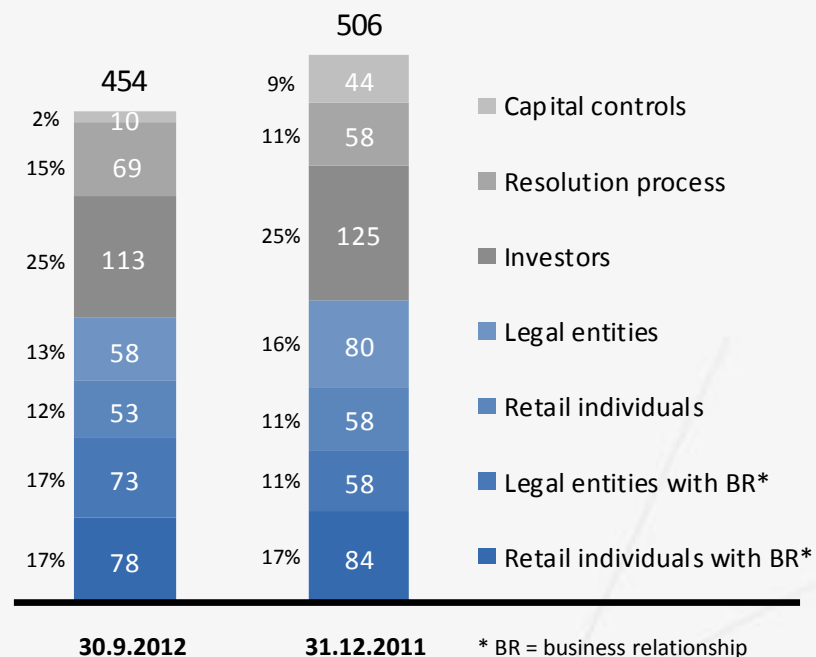
LIQUIDITY

THE BANK EXCEEDS REGULATORY LIQUIDITY REQUIREMENTS

Deposit coverage ratio



Deposits from customers by stickiness rating (ISK bn.)



KEY FINANCIAL INDICATORS



KEY FINANCIAL INDICATORS

	9M 2012	2011	9M 2011
Return on equity (ROE)	15,9%	10,5%	17,6%
Return on assets (ROA)	2,2%	1,4%	2,3%
Net interest margin (int.bearing assets)	3,3%	3,4%	3,2%
Net interest margin (total assets)	3,0%	2,9%	2,8%
Cost-to-Income ratio	49,8%	52,5%	52,2%
Cost-to-Total assets ratio	2,5%	2,7%	2,6%
Effective tax rate	19,3%	20,1%	16,9%
CAD ratio	22,5%	21,2%	21,8%
Tier 1 ratio	17,7%	16,4%	17,0%
LPA ratio	18,1%	21,5%	27,9%
RWA / Total assets	77,1%	74,5%	80,3%
Loans to deposits ratio	126,0%	114,6%	86,8%
Secured liquidity ratio	30,6%	34,7%	36,0%
Cash ratio	17,7%	15,3%	16,0%
The Group's average number of employees	1.160	1.217	1.244
The Group's employees	1.177	1.158	1.168
The Parent company's employees	936	858	870

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