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ARION BANK WITH A EURO BENCHMARK TRANSACTION

Arion Bank has played a leading role in Iceland in re-opening access to the capital markets. On 3 March 2015 Arion Bank launched its inaugural euro senior unsecured benchmark transaction, the first by an Icelandic bank since 2008. The order book grew quickly to more than €675 million, which enabled the Bank to price at MS+310, or 15bp lower than initial guidance. The transaction saw very strong demand from real money accounts with 82% of the order book, and only limited hedge fund participation, representing 14% of orders. In total around 100 investors subscribed for bonds, with most demand coming from the UK (48% of orders) and from the Nordics (31%).

The Bank's inaugural bond issue is the first EUR public transaction and the single largest transaction by an Icelandic bank since 2008. The bond issue marks the return of the Icelandic banks to the international financial markets. Arion Bank had taken prior steps in 2013 with the issue of NOK 500 million to Swedish and Norwegian investors, which was a smaller and more regionally focused bond issue.

ARION BANK'S ANNUAL REPORT PUBLISHED ONLINE



Arion Bank's Annual Report for 2014 has been published online and is only available on the Bank's annual report website.

By having the report in this format, it is not only more environmentally friendly but also makes information on the Bank's activities in 2014 more accessible.

Read Arion Bank's Annual Report for 2014 [here](#).

ARION BANK'S FINANCIAL RESULTS FOR 2014

The year 2014 was an excellent year for Arion Bank, particularly with respect to its financial results. Return on equity in 2014 was 18.6%. Regular operations were strong and the Bank is performing well on all its key markets. Irregular items had a positive impact on the financial results, in particular the sale of the Bank's holding in HB Grandi and the successful listing of the company on NASDAQ Iceland. The Bank reported net earnings of ISK 28.6 billion for 2014, compared with ISK 12.7 billion for 2013. Return on equity was 18.6%, compared with 9.2% in 2013. Total assets amounted to ISK 933.7 billion, compared with ISK 938.9 billion at the end of 2013.

The Bank's capital ratio at the end of 2014 was 26.3%, compared with 23.6% at the end of 2013 and Tier 1 was 21.8%, compared with 19.2% in the previous year.

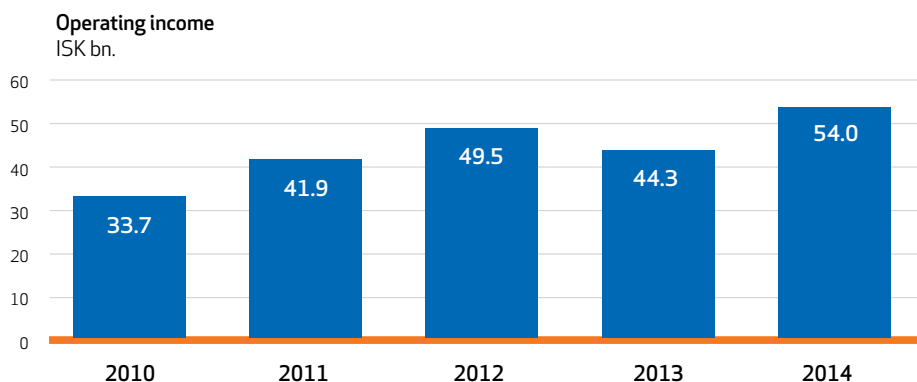
Total equity at the end of 2014 amounted to ISK 162.2 billion, compared with ISK 144.9 billion at the end of 2013.

INCOME STATEMENT

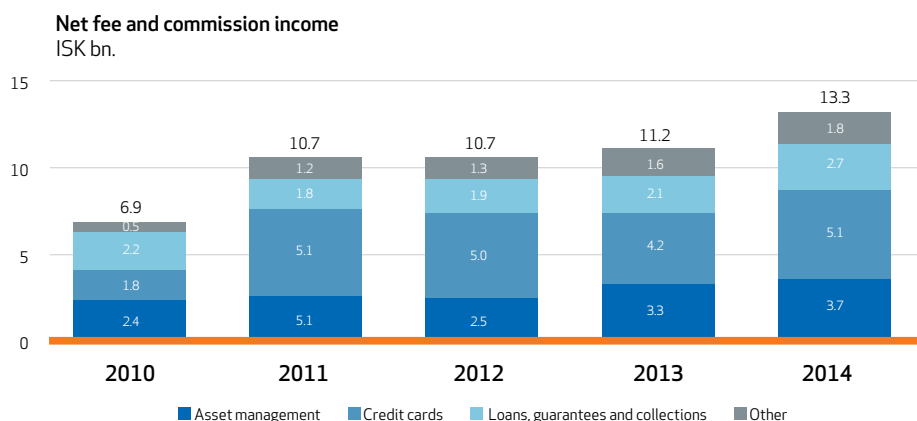
Million ISK	2014	2013	Q4 2014	Q4 2013
Net interest income	24,220	23,800	5,911	5,487
Net commission income	13,309	11,223	3,192	2,939
Net financial income	7,290	1,675	1,430	721
Other income	9,171	7,650	5,210	3,615
Operating income	53,990	44,348	15,743	12,762
Salaries and related expenses	(13,979)	(13,537)	(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

Operating income increased considerably between years, up ISK 9,642 million. Operating income amounted to ISK 53,990 million in 2014. The increase is primarily due to a ISK 3,037 million increase in net financial income, ISK 2,578 million shift in net gain on foreign exchange and ISK 2,086 million increase in net commission income.

Net interest income amounted to ISK 24,220 million, an increase of 2% from 2013. The net interest margin as a percentage of average interest-bearing assets was 2.8% in 2014, compared with 2.9% in 2013. Despite lower inflation, affecting index-linked loans, the net interest margin has changed little which is mainly explained by lower funding cost due to effective liquidity management.



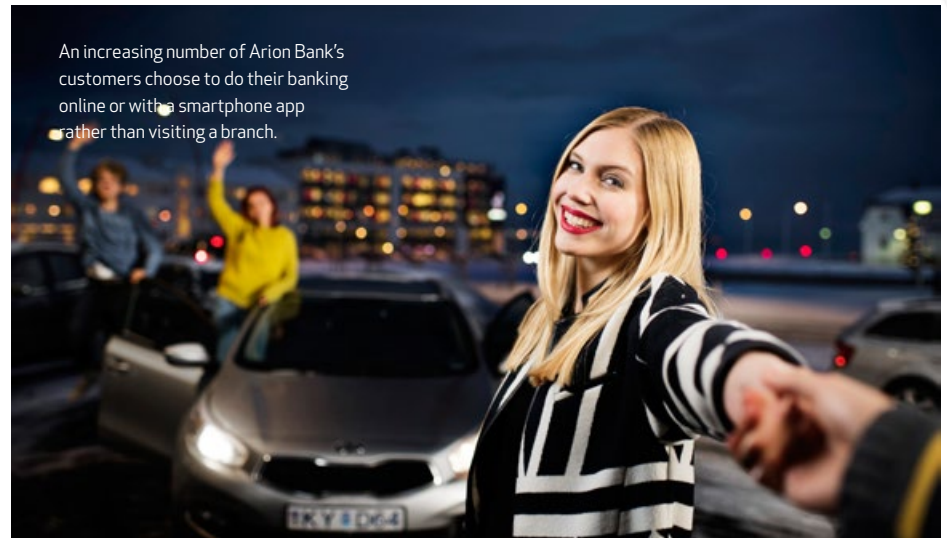
Net fee and commission income increased substantially between years, or by 19% between years to ISK 13,309 million in 2014. The increase is largely due to higher commission income from cards and higher income generated by Investment Banking. Net financial income totals ISK 7.3 billion, a significant proportion of this relating to the holding in HB Grandi hf. following the company's listing on NASDAQ Iceland. The Bank's equities and bond portfolios also performed well during the year. The net valuation change on loans was positive by ISK 2.1 billion, which bears witness to the successful restructuring of the loan portfolio.



POSITIVE OUTLOOK FROM STANDARD & POOR'S

At the beginning of 2014 the Bank was assigned a rating by the international ratings agency Standard & Poor's, the first Icelandic bank to obtain a rating for more than five years. In October the outlook was upgraded from stable to positive. The credit rating from S&P is highly important and greatly increases the number of potential investors in bonds issued by the Bank, as demonstrated by Arion Bank's inaugural bond issue in euros.

ARION EXPRESS SERVICES GAINING GROUND



In a shift towards digital banking Arion Bank has in recent years focused on increasing the number of self-service options for customers, including the Arion App for smartphones and ATMs in which customers can take care of their banking needs themselves, at their convenience. Customer visits to branches decreased by 25% from the launching of the Arion App in July 2013 to the end of 2014 and calls to the call centre fell by 21% in the same period. In contrast the number of log-ins via the app increased by 165% and log-ins via the online bank were up 7%. Digital banking is certainly changing the retail banking landscape. This shift gives us an excellent opportunity to replace traditional cashier tasks at our branches with value-added services to our customers and it also cuts costs in our branch network.

Contacts

ECONOMIC UPDATE

Each month the Arion Research sends out an economic update with the latest economic developments in Iceland. To subscribe to mailing list or to read the latest economic updates please visit [our website](#).

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