



# Newsletter

Financial Institutions - First edition - December 2009

 Arion banki

## A new name, a new logo – a new beginning

When it was founded the new bank temporarily used the name New Kaupthing Bank. On 21 November 2009 it adopted a new name, one we are very proud of – Arion Bank.

# Arion

The new name comes from Greek mythology. Arion was a legendary Greek poet, noted for his musical prowess. However, he is chiefly remembered for the fantastic story of his kidnap by pirates and miraculous rescue by dolphins. The new name symbolizes perseverance, cooperation and new beginnings.



With a new name comes a new logo. The logo of Arion Bank is based on a traditional Icelandic pattern of the eight leaf rose and also resembles the frost rose. It is a pattern that has through the centuries been used in arts and crafts by the Icelandic people; a pattern that represents tradition, moderation and efficiency.

## Values of the new bank

New values have been introduced for the new bank. Arion Bank will be guided by the values of professionalism, ambition, concern for others and loyalty, with the customer in the foreground at all times.

## Arion Bank under new *ownership*



On 1 December it was announced that the Resolution Committee had decided to acquire an 87% holding in Arion Bank (New Kaupthing Bank) on behalf of Kaupthing's creditors. Kaupthing is providing 65% of the total capitalization for this 87% stake. The Icelandic government is providing the remaining 35% and will receive 13% of the common equity plus a Tier II subordinated bond. Kaupthing has an option to buy the government's stake at a later date.

### *The final step of the journey*

The Resolution Committee's decision represents the final phase in the creation of Arion Bank. The bank was established on 22 October 2008 after the collapse of 95% of the Icelandic financial system. The bank was set up on the basis of the transfer of certain assets and liabilities from Kaupthing Bank. The valuation of these assets and liabilities was not finalized until September 2009 and it formed the basis for the bank's opening balance sheet.

### *Financial foundations*

Arion Bank is built on solid financial foundations. The assets were transferred from Kaupthing Bank at fair value after substantial impairments. We are satisfied with the asset valuation and believe that loan recovery in the coming months is key to asset maximization. Arion Bank is fully funded. Retail and corporate deposits make up around 90% of the funding. The liquidity position of the bank is strong and the capital ratio solid, with Tier 1 of 11.4% at the end of Q3.

### *Private ownership*

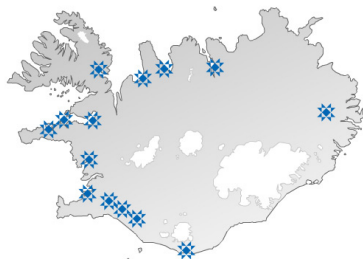
We are very positive about the new ownership structure and believe that there are clear advantages to private ownership. Important decisions concerning the restructuring of large corporations will have to be made in the coming months, and an efficient and firm decision making process with an emphasis on value maximization is therefore crucial to boosting loan recovery. New ownership will also improve Arion Bank's ability to motivate and employ the best people to support and build up fee generating businesses such as asset management and capital markets.

### *New CEO*

At the same time as the new ownership structure was announced Finnur Sveinbjörnsson, the CEO of Arion Bank, revealed that he will be stepping down as CEO. Finnur's temporary appointment as CEO runs out at the end of this year and he does not intend to apply for the position after his tenure ends. Finnur has offered to continue to work with the Resolution Committee until his replacement steps in, which we expect to happen in the first few weeks of 2010.

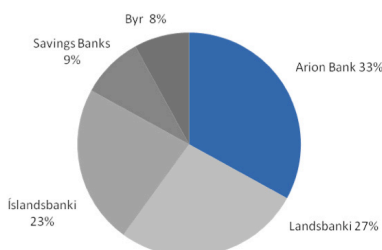
## Nationwide network

Arion Bank has a nationwide network of branches to serve its retail customers. The bank has 26 branches to meet the needs of its 100,000 customers all around the country.



## Market leader

Following the acquisition of two savings banks in 2009 Arion Bank became the leader in the retail banking market in Iceland with a 33% market share (June 2009).



## Economic update from our research team

The research team at Arion Bank will be releasing regular economic updates to keep our colleagues around the world up to speed on the latest economic developments in Iceland.

If you wish to receive the economic update as well as the Arion Bank Newsletter, please send an e-mail to [research.update@arionbanki.is](mailto:research.update@arionbanki.is) with the subject "Yes, please."

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## Restructuring during the first year

Even though Arion Bank is a new bank it builds on a tradition dating back to 1930, when the Agricultural Bank of Iceland was founded. To address the new economic reality in Iceland Arion Bank has made several important changes. There has been a complete change in management, including a new CEO and a new team of managing directors. Important improvements were also made in the area of Corporate Governance. The bank has closed several branches as a part of the necessary restructuring of the business and to align it with to the new economic situation.

## Acquisitions – 25% growth in market share

Arion Bank acquired two savings banks in the summer of 2009, increasing its market share in the retail banking market by 25%. In June 2009 we had a 33% share of the domestic market. We are proud of our key role in the Icelandic market and we aim to further consolidate our top position.

## Financial statements for 2008

On 21 November Arion Bank released the financial statements for New Kaupthing Bank for the period 22 October 2008 until year end 2008. Net earnings amounted to ISK 4.8 billion for the period. Net interest income amounted to ISK 4.2 billion and net commission income totalled ISK 1.3 billion. The bank's CAD ratio was 9.5% at the end of 2008, or 10.8% taking into account natural currency hedges. The minimum mandatory ratio is 8%. Total assets amounted to ISK 641.2 billion at the end of the period. For more information please visit our website at [arionbanki.is](http://arionbanki.is)

## Strong first nine months

Arion Bank has just released its unaudited management accounts for the first nine months of 2009. The Bank performed well during this period, with net earnings of ISK 6.5 billion. Total assets amounted to ISK 741 billion and have increased by 15% from year end 2008. The increase is mainly due to the acquisition of two savings banks.

The results for the first nine months of 2009 show that Arion Bank is profitable, well capitalized and has strong liquidity. We expect to publish the audited financial statements for the year 2009 in February 2010.

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