

## **Arion Bank's Q3 2011 financial results**

Arion Bank reported consolidated net earnings of ISK 3.5 billion for the third quarter of 2011. The Bank reported net earnings of ISK 1 billion for the same period last year. Arion Bank reported net earnings of ISK 13.6 billion during the first nine months of 2011, compared with ISK 8.9 billion for the same period in 2010.

Return on equity during the third quarter was 12.3%, while return on equity for the first nine months on an annualized basis was 17.6%. Return on equity based on regular operations on an annualized basis was 10%.

The Bank's capital ratio increased to 21.8% by the end of September. The Bank's liquidity ratio is also robust and well above the minimum stipulated by the Icelandic Financial Supervisory Authority (FME). The interim financial statement has not been audited.

Taxes and other public levies amounted to ISK 4.4 billion during the period – this is divided into deferred income tax of ISK 3.1 billion, a special banking tax of ISK 684 million and employment contributions of ISK 607 million. Furthermore, a total of ISK 43 million was paid to the Debtors' Ombudsman and ISK 158 million was paid to the FME.

### **Highlights from the first nine months of 2011:**

- Net earnings of ISK 13.6 billion for the first nine months of 2011 – ISK 3.8 billion of this total is derived from the revaluation of the Bank's loan portfolio in the Corporate Banking division. Earnings during the same period of 2010 amounted to ISK 8.9 billion.
- Net operating income of ISK 34.0 billion during the period, compared with ISK 23.2 billion in the same period last year.
- Net interest income of ISK 16.8 billion during the period, compared with ISK 16.4 billion during the same period last year.
- Net commission income of ISK 7.6 billion, compared with ISK 4.1 billion during the same period of 2010. This increase is largely attributable to the incorporation of new subsidiaries into the group in late 2010.
- Return on equity on an annualized basis was 17.6%, compared with 10.4% during the same period of 2010.
- The interest-rate differential as a percentage of average interest-bearing assets was 3.2% during the period, compared with 3.0% during the same period of 2010.
- Deferred income tax of ISK 3.1 billion during the period, compared with ISK 2.8 billion for the same period of 2010. In addition there was a special bank tax of ISK 684 million and employment contributions totalled ISK 607 million.
- The cost-to-income ratio during the period was 52.2%, compared with 57.3% during the same period of 2010.
- The capital ratio was 21.8%, compared with 18.3% on 30 September 2010 and 19% on 31 December 2010. The FME requires a capital ratio of at least 16%.

- The Bank's liquidity ratio was 36.0%, which is well over the 20% minimum stipulated by the FME.
- The Bank's cash ratio was 16.0%, well over the FME's minimum requirement of 5%.
- Loans to customers totalled ISK 444.1 billion at the end of the period, compared with ISK 451.2 billion at the end of 2010.
- Deposits totalled ISK 511.5 billion, compared with ISK 457.1 billion at the end of 2010.
- Total assets amounted to ISK 823.1 billion, compared with ISK 812.6 billion at the end of 2010.
- Shareholders' equity at the end of September 2011 amounted to ISK 120.7 billion, compared with ISK 105.9 billion at the end of 2010.
- At the end of the period there were 1,168 full-time equivalent positions at the Bank, compared with 1,124 at the end of 2010. The increase is largely a result of new subsidiaries joining the group. At the end of the period 870 of these positions were at Arion Bank, compared with 965 at the end of 2010.

**Höskuldur H. Ólafsson, CEO of Arion Bank:**

„Arion Bank's third quarter results are satisfactory. It cannot be ignored that a proportion of our earnings for the first nine months of 2011 has derived from the revaluation of the Bank's loan portfolio in the Corporate Banking division. We have achieved a great deal in resolving the debts of our customers and this activity will largely be brought to a conclusion this year. There are positive signs in the Bank's operating environment. It is of paramount importance for us that Arion Bank is an active participant in the regeneration of the Icelandic economy. The planned listing of retailer Hagar on the Icelandic stock market is a good example of this involvement. It is vital that we take the right steps and proceed responsibly when restoring an active securities market in Iceland.“