Arion Bank's financial results for the first nine months of 2010

Arion Bank reported net earnings of ISK 8.9 billion during the first nine months of 2010. Net earnings in the third quarter totalled ISK 976 million. Foreign exchange loss and the depreciation of loans related to corporate and household debt restructuring had a negative impact on results during the third quarter. Return on equity was 10.4% on an annualised basis. The Bank's capital ratio increased by 1.7 percentage points during the third quarter and was 18.1% on 30 September.

The Bank's nine-month financial statement has not been audited.

Highlights of the interim financial statement:

- Net earnings of ISK 8.9 billion in the first nine months of 2010.
- Operating income of ISK 37.4 billion.
- Net interest income of ISK 16.4 billion.
- Net commission income of ISK 4.1 billion.
- Foreign exchange loss of ISK 2.2 billion. The foreign exchange loss from the Bank's foreign exchange imbalance was ISK 1.8 billion.
- The interest-rate differential as a percentage of the average interest-bearing assets and liabilities was 3.0%.
- Income tax was ISK 2.8 billion.
- Return on equity was 10.4% on an annualised basis.
- The Bank's cost-to-income ratio was 57.3%.
- Loans to customers totalled ISK 445.4 billion on 30 September, compared with ISK 357.7 billion at the end of 2009. This increase is mainly a result of new loans coming into the Bank following a change in ownership on 8 January 2010.
- Deposits amounted to ISK 477.8 billion compared with ISK 495.5 billion at the end of 2009.
- At the end of the period there were 1,124 full-time equivalent positions at the Bank, compared with 1,157 at the end of 2009.
- Total assets amounted to ISK 819.7 billion on 30 September 2010, compared with ISK 757.3 billion at the end of 2009. This change can largely be attributed to the acquisition by Kaupskil of 87% of Arion Bank on 8 January 2010, which increased the Bank's total assets by ISK 80.2 billion to ISK 837.6 billion.
- Shareholders' equity at the end of September 2010 amounted to ISK 102.6 billion, compared with ISK 90.0 billion at the end of 2009.

In recent months the Bank has taken extensive action to try to resolve corporate and household debt problems. Approximately 4,000 individual customers and households have taken advantage of the solutions and an additional 10,000 customers of the Bank have availed themselves of government measures. As a result ISK 13 billion in loans to individual customers and households have been written off.

Arion Bank introduced a new advisory service at the beginning of November designed to help individuals in financial difficulties. The Bank hopes that within a few months all individuals experiencing financial difficulties will have taken advantage of the available solutions. The aim of the Bank’s financial advisors has been to get in touch with those individuals experiencing financial difficulties and they have already spoken to 230 of the 1,200 customers the service is designed to help. Approximately 80% of the customers contacted so far intend to accept the assistance on offer.

The focus on the corporate market has shifted to small and medium-sized enterprises. Around 380 companies have now gone into the recovery process and 300 of these cases have been resolved.

In recent months the Bank has put Hagar, Hekla and several real estate projects up for sale. The sale of Hagar is expected to be completed in the first quarter of 2011 and the sale of Hekla is well advanced.

Höskuldur H. Ólafsson, CEO of Arion Bank:

“The Bank’s financial results for the first nine months of the year are satisfactory given the circumstances. However, the Bank’s foreign exchange imbalance has undeniably had an effect on the results. It is nevertheless pleasing to see that the strong focus we have placed on strengthening the Bank's capital base has reaped benefits. The Bank's capital ratio increased by almost two percentage points during the quarter, from 16.4% to 18.1%. Although the banks have made good progress in helping to resolve household debt, it is clear that more needs to be done, preferably with the decisive involvement of other large lenders."