

Financial results for the first half of 2010

Arion Bank reported net earnings of ISK 7.9 billion for the first half of 2010 according to the reviewed interim financial statement. Annualized return on equity was 17.7% for the first half of 2010.

Kaupskil's acquisition of 87% of Arion Bank on 8 January 2010 reinforced the Bank's capital base with an injection of new capital, while the government provided a subordinated loan of ISK 29 billion. The Bank's capital ratio on 30 June 2010 was 16.4%, which is above the 16% required by the Icelandic Financial Supervisory Authority. Arion Bank meets all the capital and liquidity requirements stipulated by the regulatory authorities.

Highlight of the interim financial statement:

- Net earnings of ISK 7.9 billion in the first half of 2010.
- Operating income of ISK 27.7 billion.
- Net interest income of ISK 10.3 billion.
- Net commission income of ISK 2.9 billion.
- Net financial income totalled ISK 1.4 billion while the net financial income from foreign exchange amounted to ISK 1.7 billion.
- The interest-rate differential as a percentage of the average interest-bearing assets and liabilities was 2.9%.
- Income tax was ISK 1.5 billion.
- Return on equity was 17.7%.
- The Bank's cost-to-income ratio was 56.0%.
- Loans to customers totalled ISK 466.0 billion on 30 June, 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 493.4 billion compared with ISK 495.5 billion at the end of 2009.
- At the end of the period there were 1,142 full-time equivalent positions at the Bank, compared with 1,157 at the end of 2009.
- Total assets amounted to ISK 842.3 billion on 30 June 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. The Bank's loan portfolio increased by ISK 112.8 billion while its bondholdings decreased by ISK 32.6 billion after the government was repaid 87% of its shareholding in the Bank.
- Shareholders' equity at the end of June amounted to ISK 101.4 billion, compared with ISK 89.9 billion at the end of 2009.

Höskuldur H. Ólafsson, CEO of Arion Bank:

“The financial results for the first six months of 2010 clearly demonstrate the growing financial strength of Arion Bank. Return on equity of 17.7% matches our expectations. However, the economic environment is and will remain challenging, not least in light of the uncertainty surrounding foreign loans. The Bank has carefully examined the possible effects of these loans on the Bank’s financial position and the outcome is clear: the Bank will, in all eventualities, be able to meet the 8% capital ratio required by law for financial institutions.”