Arion Bank's 2011 financial results

Arion Bank reported net earnings of ISK 11.1 billion in 2011, compared with ISK 12.6 billion in 2010. Return on equity was 10.5%. The Bank’s capital ratio was 21.2% at the end of the year, well above the minimum stipulated by the FME.

Arion Bank’s 2011 financial statement takes into account the effects of the Supreme Court ruling of 15 February 2012 on the recalculation of currency-linked loans. The cost to Arion Bank group relating to the recalculation of interest on those loans affected by the Supreme Court ruling is expected to be approximately ISK 13.8 billion. Deferred income tax decreases by ISK 2.8 billion.

The revaluation of the Bank’s corporate loan portfolio and the divestment of acquired companies in unrelated lines of business, such as Eignabjarg's sale of Hagar, increased the Bank's net earnings by ISK 6.6 billion.

Earnings from regular operations amounted to ISK 12.3 billion and return on equity on regular operations was 10.8%.

In the fourth quarter of 2011 Arion Bank reported a net loss of ISK 2.6 billion, compared with net earnings of ISK 3.6 billion during the same period in 2010. The aforementioned effects of the Supreme Court ruling have been recognized during the quarter. However, the Bank also recognized gains of ISK 3.6 billion from the sale of its shareholding in Hagar and a ISK 5 billion increase in the value of corporate loans.

The average salary at Arion Bank (parent company) increased by 9.3% at the same time as the Statistics Iceland wage index rose by 9.2%. The average salary on a group level increased by 15.6% during the year as a result of new subsidiaries joining the group. This factor and the cost of reducing the number of full-time positions at Arion Bank during the year resulted in a 21.4% increase in the group’s total salary expenses between years.

During the year Arion Bank completed the final settlement with the bankruptcy estate of Kaupthing Bank. These parties no longer have any outstanding claims on each other. Arion Bank also acquired the mortgage portfolio of Kaupthing Bank’s bankruptcy estate which had been managed in a separate fund and which was valued at approximately ISK 120 billion. The transaction also included the financing of loans through the acquisition of covered bonds. This strengthens the Bank’s balance sheet and its long-term funding.

Taxes and other public levies amounted to ISK 4.2 billion during the period. Of this total, deferred income tax amounts to ISK 1.9 billion, a special banking tax amounts to approximately ISK 1.0 billion and employment contributions amount to ISK 877 million. In addition, a total of ISK 139 million was paid to the Debtors' Ombudsman and ISK 241 million was paid to the FME.

The annual financial statement has been endorsed without reservation by the Bank’s auditors.

Highlights of the annual financial statement:

- Net earnings of ISK 11.1 billion in 2011, compared with ISK 12.6 billion in 2010.
- Net operating income of ISK 33.3 billion in 2011, compared with ISK 35.6 billion in 2010.
- Net interest income of ISK 23.4 billion in 2011, compared with ISK 19.8 billion in 2010.
- Net commission income of ISK 10.7 billion in 2011, compared with ISK 6.9 billion in 2010.
- The revaluation of the Bank's assets and capital gains resulted in an increase in the value of assets of ISK 6.6 billion which is recognized in the income statement, when Kaupthing's share of the increase has been included.
- The Supreme Court's ruling of 15 February 2012 reduced the Bank's pre-tax earnings by ISK 13.8 billion or ISK 11 billion after tax.
- Return on equity was 10.5% in 2011, compared with 13.4% in 2010. Return on equity based on regular operations was 10.8% in 2011, compared with 8.8% in 2010.
- The interest-rate differential as a percentage of the average interest-bearing assets was 3.4% in 2011, compared with 2.8% in 2010.
- Deferred income tax amounted to ISK 1.9 billion in 2011, compared with ISK 3.5 billion in 2010. In addition there was a special bank tax of ISK 1,046 million, compared with ISK 290 million in 2010.
- The Bank's cost-to-income ratio was 52.5% in 2011, compared with 54.2% in 2010.
- The capital ratio was 21.2%, compared with 19.0% at the end of 2010. The FME requires a capital ratio of at least 16%.
- The Bank's liquidity ratio was 34.7%, which is well over the 20% minimum stipulated by the FME.
- The Bank's cash ratio was 15.3%, above the FME's minimum requirement of 5%.
- Loans to customers totalled ISK 561.6 billion at the end of 2011, compared with ISK 451.2 billion at the end of 2010. This increase is primarily a result of the acquisition of Kaupthing Bank's mortgage portfolio at the end of 2011.
- Deposits totalled ISK 490 billion at the end of 2011, compared with ISK 457.9 billion at the end of 2010.
- Total assets amounted to ISK 892.1 billion at the end of 2011, compared with ISK 812.6 billion at the end of 2010.
- Shareholders' equity at the end of 2011 amounted to ISK 114.6 billion, compared with ISK 109.5 billion at the end of 2010.
- During the first half of the year the Bank paid the Icelandic government a dividend of more than ISK 6 billion in fulfilment of an agreement reached in September 2009 between Kaupthing Resolution Committee and the Icelandic government.
- At the end of 2011 there were 1,158 full-time equivalent positions in the group, compared with 1,241 at the end of 2010. Arion Bank itself had 858 full-time equivalent positions, compared with 936 at the end of 2010.

Höskuldur H. Ólafsson, CEO of Arion Bank:

"The Bank's 2011 financial results are satisfactory, particularly in light of the recent Supreme Court ruling which has had a substantial impact on the Bank's earnings. This ruling underlines the importance of our efforts to strengthen the Bank’s financial foundations as we are able to cope with this blow. It is a simple fact that robust banks are vital to the economy, which is why we have been committed from the start to consolidating the Bank’s financial strength and to setting up a good bank in which people do their best. And we have done this. In some ways it could be said that in 2011 we took the final steps in constructing the Bank. We reinforced the infrastructure and corporate governance, streamlined operations, modified the Bank’s structure and consolidated its financial base. We also signalled our future intentions by introducing innovative products such as non-indexed mortgages to our customers. We have resolved to build on this platform and to take the initiative in providing good quality and diverse financial services.”