

Arion Bank's H1 2011 financial results

Arion Bank reported net earnings of ISK 10.2 billion for the first half of 2011, compared with ISK 7.9 billion during the same period in 2010. This figure exceeds the Bank's own projections, mainly as a result of the revaluation of the Bank's loan portfolio in Corporate Banking. Return on equity was 20.3% on an annualized basis.

During the second quarter Arion Bank completed the final settlement with the bankruptcy estate of Kaupthing Bank. These results are Arion Bank's first set of financial results in which these parties have no claim against each other. Arion Bank's balance sheet is more transparent as a consequence.

The Bank's capital ratio increased to 21.4% at the end of the period, well above the minimum stipulated by the FME. The Bank's liquidity ratio is also well above the required minimum. The interim financial statement has been reviewed by the Bank's auditors.

Highlights of the interim financial statement:

- Net earnings of ISK 10.2 billion in H1 2011, compared with ISK 7.9 billion in H1 2010.
- Net operating income of ISK 24.5 billion in H1 2011, compared with ISK 17.1 billion in H1 2010.
- Net interest income of ISK 11.2 billion in H1 2011, compared with ISK 10.3 billion in H1 2010.
- Net commission income of ISK 5.1 billion in H1 2011, compared with ISK 2.9 billion in H1 2010. This increase is largely attributable to the integration of new subsidiaries into the group in late 2010.
- A revaluation of the Bank's assets resulted in an increase in the value of assets of ISK 3.9 billion, taking into account Kaupthing's share, which is recognised in the income statement
- Return on equity on an annualized basis was 20.3%, compared with 17.6% in H1 2010.
- The interest-rate differential as a percentage of average interest-bearing assets was 3.2% during the period, compared with 2.8% during the same period of 2010.
- Deferred income tax of ISK 2.5 billion in H1 2011, compared with ISK 1.5 billion in H1 2010. There was a special bank tax of ISK 446 million during the period.
- The cost-to-income ratio during the period was 52.4%, compared with 50.0% during the same period of 2010.
- The capital ratio was 21.4%, compared with 16.6% on 30 June 2010 and 19% on 31 December 2010. The FME requires a capital ratio of at least 16%.
- The Bank's liquidity ratio was 35.0%, 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 447.7 billion at the end of the period, compared with ISK 451.2 billion at the end of 2010.

- Deposits totalled ISK 448.7 billion, compared with ISK 457.9 billion at the end of 2010.
- Total assets amounted to ISK 805.3 billion at the end of the period, compared with ISK 812.6 billion at the end of 2010.
- Shareholders' equity at the end of H1 2011 amounted to ISK 117.2 billion, compared with ISK 109.5 billion at the end of 2010.
- During the period the Bank paid the Icelandic government a dividend of more than ISK 6 billion in accordance with an agreement reached in September 2009 between Kaupthing Resolution Committee and the Icelandic government.
- At the end of the period there were 1,248 full-time equivalent positions at the Bank, compared with 1,142 during the same period of 2010. The increase is largely a result of new subsidiaries joining the group. At the end of the period 947 of these positions were at Arion Bank, compared with 976 during the same period of 2010.

Höskuldur H. Ólafsson, CEO of Arion Bank:

“We are satisfied with the Bank's latest results and they provide a strong platform for the work that lies ahead. The business environment remains challenging. There is great economic uncertainty in Iceland and abroad and it is therefore vital that our business is built on solid foundations. Consolidating the Bank's financial strength has been one of our key priorities alongside resolving our customers' debt problems. Our achievements in this area instill us with a confidence in the Bank that was lacking when it was founded. We can now shift our focus on to the future, where our main concern will be on providing our customers with a broad range of options to finance investments in residential property. Arion Bank has consistently led the way in this area. Earlier this year the Bank introduced competitive inflation-linked mortgages and on 15 September we will launch non-indexed mortgages with fixed 5-year interest rates. Fixing interest for five years is of key importance in order to limit the uncertainty and risk associated with variable non-indexed interest rates.”