

Arion Bank – Q1 2025 results

Financial highlights for the first quarter 2025

- Arion Bank reports net earnings attributable to shareholders of Arion Bank of ISK 6.4bn in Q1 2025, compared with ISK 4.4bn in Q1 2024
- Return on equity attributable to shareholders of Arion Bank was 12.8%, compared with 9.1% in Q1 2024
- Earnings per share in ISK of 4.59, compared with 3.07 in Q1 2024
- Net interest margin of 3.1%, the same as in Q1 2024
- Net commission income was ISK 4.5bn, compared with ISK 3.4bn in Q1 2024, making it the best quarter in terms of fees since 2022
- Operation of Vörður improved from the first quarter in the previous year, contributing a standalone net loss of ISK 0.6bn in the first quarter of 2025
- Other operating income was ISK 3.3bn due to a valuation increase in development assets
- Core income, defined as net interest income, net commission income and insurance service results (excluding opex of the insurance operation), increased by 15.4%, compared with Q1 2024
- Operating expenses increased by 0.7%, compared with Q1 2024
- Effective tax rate was 32.2%
- Total cost-to-core income ratio was 42.6%, compared with 48.4% in Q1 2024
- Cost-to-income ratio was 34.7%, compared with 45.3% Q1 2024
- The balance sheet increased by 4.2% during the quarter
- Loans to customers increased by ISK 3.9bn or 0.3% during the quarter
- Share buybacks and dividend payments totalled ISK 19.1bn in the quarter
- The Bank's capital ratio was 21.5% and the CET1 ratio was 18.3% at the end of March. The ratios are determined on the basis of the unaudited net earnings in the quarter and take into account the deduction of 50% of net earnings as foreseeable dividend in line with the Bank's dividend policy. The Group's capital ratio, as calculated under the Financial Undertakings Act No. 161/2002, was 21.2% and the CET1 ratio was 17.9%. These ratios comfortably exceed the requirements made by the FSA and Icelandic law.

Benedikt Gíslason, CEO of Arion Bank

"Arion Bank's financial results for the first quarter are in line with our targets despite certain challenges in the external environment. We enjoyed solid momentum throughout almost the entire business, underlining the fact that one of Arion's key strengths lies in the diversity of services which cover virtually all areas of finance for households, companies and investors. Our revenue streams are highly diverse, engendering greater stability and helping risk distribution in our operations. The Group remains financially robust and the capital and liquidity positions are strong, which allows us to enhance our services and to deal with the various challenges posed by our external environment.

Indeed, developing and consolidating our range of services has been a key priority in recent months and will continue to be so. This applies equally to our digital channels and the personal services we provide at our branches and in the call centre. The results of these efforts can clearly be seen in the popularity of the Arion app. New features launched at the beginning of the year include a new customer rewards scheme in the Arion app. Rewards are determined by how many services customers obtain from the Arion Group, whether this be banking services from Arion Bank, such as deposits, payment cards and mortgages, home insurance from Vörður or investments in Stefnir funds. These services also include pensions, both those options offered by Arion Bank under the Lifeyrisauki name, and the supplementary savings which people have entrusted to Frjálsi Pension Fund, which itself is administered and asset managed by Arion Bank. We have ambitious plans to evolve the scheme, where we reward our customers for choosing us as partners to help manage their household finances.

An important milestone was reached in the quarter when the town of Garðabær approved the land use plan for the Arnarland development site. The objective of the new land use plan is to create a vibrant neighbourhood with homes, services and commercial activity. It will be a diverse neighbourhood, with plans to construct 450 homes, local services and a health cluster focused on companies in the health and hi-tech sectors. Landey, a property development company owned by Arion Bank, has a 51% interest in Arnarland and this new phase therefore has a positive impact on Arion's results this quarter. Other assets owned by Landey include land, property and industrial property at two other locations in



south-west Iceland. Landey's objective is to increase the value of its assets through the continued development of these sites."

Income Statement

<i>In ISK millions</i>	Q1 2025	Q1 2024	Δ	Δ %
Net interest income	12,166	11,245	921	8%
Net commission income	4,536	3,365	1,171	35%
Insurance service results	(31)	(215)	184	-
Net financial income	(951)	29	(980)	-
Other operating income	3,321	50	3,271	-
Operating income	19,041	14,474	4,567	32%
Operating expenses	(6,601)	(6,554)	(47)	1%
Bank levy	(508)	(460)	(48)	10%
Net impairment	(378)	(315)	(63)	20%
Net earnings before income tax	11,554	7,145	4,409	62%
Income tax expense	(3,726)	(2,704)	(1,022)	38%
Net earnings from cont. operations	7,828	4,441	3,387	76%
Discontinued operations, net of tax	(11)	(9)	(2)	22%
Net earnings	7,817	4,432	3,385	76%
Non-controlling interest	(1,396)	12	(1,408)	-
Net earnings attributable to shareholders	6,421	4,444	1,977	44%

KFI's		
Return on equity attributable to shareholders	12.8%	9.1%
Return on equity	15.5%	9.1%
Return on total assets (ROA)	1.9%	1.2%
Earnings per share (in ISK)	4.59	3.07
Total cost to core income ratio	42.6%	48.4%
Net interest margin (NIM)	3.1%	3.1%
Core income / REA	7.0%	6.6%

Net interest income increased by 8.2%, compared with the first quarter of 2024. The net interest margin (NIM) as a percentage of average interest-bearing assets was 3.1% for the quarter, the same as for the first quarter of 2024. The CPI balance grew by ISK 49bn between years and was ISK 164.4bn at the end of March 2025. Average interest-bearing assets increased by 10.6%, compared with the first quarter of 2024, mainly loans to customers and bonds and debt instruments, whereas interest-bearing liabilities increased by 8.1%, mainly deposits. The Bank expects NIM to be around 3% in the coming quarters with fluctuations in line with the trajectory of policy rates and inflation.

Net commission income was ISK 4.5bn, compared with ISK 3.4bn in the first quarter of the previous year. It was the best quarter in terms of fees since 2022. The quarter was strong for CIB, especially in terms of fees from lending and corporate finance following the completion of key projects. Asset management fees were stable with AuM increasing to ISK 1,644bn at period-end.

Insurance service results of Vördur were negative by ISK 31m during the quarter, after the elimination of intercompany transactions. There has been strong growth of 5.4% in insurance revenues compared with the first quarter of 2024. The claims and reinsurance ratio was 80.5% in the quarter, which is favorable compared with the first quarter of 2024. The combined ratio for the first quarter was 99.7%, compared with 103.9% for the same period in 2024.

Net financial income was negative by ISK 951m for the quarter following challenging market conditions for investment income, especially equities. The investment portfolio of Vördur resulted in a loss of ISK 680m.

Other operating income was strong at ISK 3.3bn, mainly due to the Arnarland development project reaching an important milestone in March 2025 when the town council of Garðabær approved the land use plan for the development site. As Arnarland ehf. is 51% owned by Landey ehf. (100% subsidiary of Arion Bank) the net effect of those value changes is ISK 1.3bn net of income tax.

Operating expenses increased by 0.7% in the first quarter, compared with the same quarter in 2024. When operating expenses of the insurance operation are included (post IFRS 17 cost related to the insurance business is accounted for through insurance service results) the increase was 1.5%. Total cost-to-core income ratio was 42.6%, compared with 48.4% in the first quarter of 2024, when including the operating expenses of the insurance operation. Salary expenses increased by ISK 58m or 1.4% compared with the first quarter of 2024, including the reversal of expenses due to the incentive scheme from the previous year of ISK 319m. If this is excluded, salaries were just over 8% up from the first quarter last year, which primarily relates to the 9.4% increase in FTEs from the



same time last year, to 867. The increase was primarily in the insurance business and IT, in line with the investment strategy.

Net impairment was ISK 378m in the first quarter of 2025. Impairments are calculated at 12 bps on an annualized basis, which is below through the cycle guidance.

Income tax, as reported in the financial statements, comprises 20% income tax on earnings and a special 6% financial tax on the earnings of financial undertakings of more than ISK 1bn. The effective income tax rate was 32.2% in the quarter. In general, the combination of income is the main driver behind the fluctuation in the effective tax rate.

Balance sheet

The balance sheet increased by 4.2% from year-end 2024 and the liquidity position remains strong.

Assets

<i>In ISK millions</i>	31.03.2025	31.12.2024	Δ	Δ %
Cash & balances with CB	124,808	124,094	714	1%
Loans to credit institutions	27,220	25,690	1,530	6%
Loans to customers	1,234,006	1,230,058	3,948	0%
Financial instruments	261,088	206,417	54,671	26%
Investment property	12,857	9,387	3,470	37%
Intangible assets	8,018	7,688	330	4%
Other assets	18,658	14,933	3,725	25%
Total assets	1,686,655	1,618,267	68,388	4%

KFI's

REA / Total assets	59.5%	61.0%
Share of stage 3 loans, gross	2.5%	2.3%

Loans to customers increased by 0.3% or ISK 4bn from the end of 2024, with loans to corporates increasing by 0.6% whereas loans to individuals remain stable. The diversification of the corporate loan book continues to be good and in line with the Bank's credit strategy.

The Bank's liquidity position is strong with the total LCR ratio at 186% and the ISK LCR ratio of 127%. This is reflected in the strong position in *Cash and balances with Central Bank*, *Loans to credit institutions* and *Financial assets*, including bonds and debt instruments. The average duration of liquidity in the bond portfolio is less than one year and there is no HTM accounting.

Liabilities and equity

<i>In ISK millions</i>	31.03.2025	31.12.2024	Δ	Δ %
Due to credit institutions & CB	5,785	6,618	(833)	(13%)
Deposits from customers	884,606	857,443	27,163	3%
Other liabilities	69,324	69,405	(81)	(0%)
Borrowings	496,821	433,178	63,643	15%
Subordinated liabilities	33,331	44,537	(11,206)	(25%)
Total liabilities	1,489,867	1,411,181	78,686	6%
Shareholders equity	194,888	206,582	(11,694)	(6%)
Non-controlling interest	1,900	504	1,396	277%
Total equity	196,788	207,086	(10,298)	(5%)
Total liabilities and equity	1,686,655	1,618,267	68,388	4%

KFI's

Loans to Deposits ratio	139.5%	143.5%
CET 1 ratio	18.3%	18.2%
Capital adequacy ratio	21.5%	22.6%

Deposits from customers remain the most important source of funding for Arion Bank, with 59% of total liabilities in deposits. The increase from year-end 2024 has primarily been in stable LCR categories and term deposits, reflecting the strategic focus.

The maturity profile of *Borrowings* is balanced, and the Bank has broad funding options with the majority of the 2025 FX funding plan completed in Q1 2025. During the quarter the Bank issued EUR 300m senior preferred bond with a maturity of 5 years as well as SEK 250m and NOK 350m senior preferred notes, each with a three-year maturity. The Bank issued ISK 4.1bn in covered bonds and ISK 4.9bn in senior preferred format in the quarter. The Bank will continue to regularly issue in the domestic market and access the international markets periodically.



Shareholders' equity decreased due to the ISK 16.1bn dividend payment and ISK 3.0bn share buyback, which was partly offset by the net earnings of ISK 6.4bn in Q1 2025. The leverage ratio was 11.4% at the end of March, compared with 12.2% at the end of 2024, which is high by international standards.

For further information on the accounts please visit Arion Bank's [website](#).

Medium-term financial targets of Arion Bank

	Q1 2025	Arion Bank's medium-term financial targets
Return on equity attributable to shareholders of Arion Bank	12.8%	Exceed 13%
Core income / REA	7.0%	Exceed 7.2%
Insurance revenue growth (YoY)	5.4%	In excess of market growth (5.8% in Q4 2024 YoY)
Combined ratio Vördur	99.7%	Below 95%
Total cost-to-core income ratio	42.6%	Below 45%
CET1 ratio above regulatory capital requirements	297 bps	150-250 bps management buffer (~16.8 - 17.8%)
Dividend pay-out ratio	50%	Pay-out ratio of approximately 50% of net earnings attributable to shareholders through either dividends or buyback of the Bank's shares or a combination of both

Investor meeting / webcast in English on 8 May at 10:30 CEST (8:30 GMT)

Arion Bank will be hosting a meeting at the Bank's headquarters in Borgartún 19, Reykjavík, on Thursday 8 May at 10:30 CEST (8:30 GMT) where CEO Benedikt Gíslason will present the results and Chief Economist Erna Björg Sverrisdóttir will give an update on the economic environment. The meeting will take place in English and will also be streamed live.

The webcast will be accessible live on [Lumiconnect](#) and a link is also available on the Bank's website under [Investor Relations](#).

Participants attending virtually will be able to ask questions during the meeting through a message board on the same site. Answers will be provided by presenters at the end of the webcast.

Financial calendar

Arion Bank's financial calendar is available on the Bank's [website](#).

For any further information please contact Theodór Fridbertsson, [Investor Relations](#), tel.+354 856 6760, or Haraldur Eidsson, [Head of Corporate Communications](#), tel. +354 856 7108.

Forward-looking statements

This release contains forward-looking statements that reflect management's current views with respect to certain future events and potential financial performance. The information in the release is based on company data available at the time of the release. Although Arion Bank believes that the expectations reflected in such forward-looking statements are reasonable, no assurance can be given that such expectations will prove to have been correct. Accordingly, results could differ materially from those set out in the forward-looking statements as a result of various factors. The most important factors that may cause such a difference for Arion Bank include, but are not limited to: a) the macroeconomic development, b) change in inflation, interest rate and foreign exchange rate levels, c) change in the competitive environment and d) change in the regulatory environment and other government actions. This release does not imply that Arion Bank has undertaken to revise any forward-looking statements, beyond what is required by applicable law or applicable stock exchange regulations if and when circumstances arise that will lead to changes after the date when this release was made. Arion Bank assumes no responsibility or liability for any reliance on any of the information contained herein. It is prohibited to distribute or publish any information in this release without Arion Bank's prior written consent.

