

Earnings Press Release, 28 July 2021

Arion Bank's Q2 2021 financial results

- Arion Bank reports net earnings of ISK 7,816 million in Q2 2021
- The results represent a significant improvement in all segments from Q2 2020
- Return on equity in Q2 was 16.3%, compared with 10.5% in Q2 2020
- Net interest margin of 2.9% in a low interest rate environment, same as in Q2 2020
- Core revenues increased by 10.5% compared with Q2 2020
- Cost-to-income ratio in Q2 was 42.5%, compared with 45.5% in Q2 2020
- The Bank's total assets increased by 3.9% from year-end 2020
- Dividend payment and share buy-backs amounted to ISK 17.8 billion during H1 2021
- The Bank will launch buy-back on 29 July for the total amount of ISK 4 billion, 50% of share buy-backs authorized by the Central Bank of Iceland
- The Bank's total capital ratio was 27.2% and the CET1 ratio was 22.7% on 30 June 2021
- The Bank is very well positioned to distribute capital and meet the funding requirements of its customers
- Bancassurance will be a key area at Arion Bank over the coming months when the insurance subsidiary Vördur moves into the Bank's headquarters and will work closely with Retail Banking
- On 1 July 2021 Arion Bank entered into a definitive agreement on the sale of Valitor hf.

Arion Bank reported net earnings of ISK 7,816 million in the second quarter with 16.3% return on equity. Return on equity, assuming 17% CET1 ratio, was 21.3% for the quarter.

Total assets amounted to ISK 1,218 billion at the end of the period, compared with ISK 1,173 billion at the end of 2020. Loans to customers increased by 2.6% from year end 2020 with mortgage lending increasing by 9.6% during this period. Liquid assets increased by 7.3% despite share buy-backs and dividend payments during the first half of 2021. On the liability side deposits increased by 6.3% from year-end 2020. Total equity amounted to ISK 194 billion at the end of the period. Total equity increased due to the reported net earnings but decreased due to dividend paid and share buy-backs.

The Bank's total capital adequacy ratio was 27.2% and the CET1 ratio was 22.7% at the end of June 2021, assuming 50% dividend payments of net earnings in line with the dividend policy and buy-backs of ISK 8 billion, compared with 27.0% and 22.3% respectively at year-end 2020. The Bank's capital ratios comfortably exceed the requirements set by law and the Financial Supervisory Authority of the Central Bank.

Benedikt Gíslason, CEO of Arion Bank

"Arion Bank performed excellently in the second quarter. Return on equity in Q2 of 16.3% was well above the Bank's 10% ROE target, the third quarter in a row in which we have exceeded targets. It is therefore fair to say that the Bank has successfully adapted to the challenges in the current environment. The Bank's capital ratio remains one of the highest in Europe and the liquidity ratio is stronger than at our European peers. The Bank has been authorized by the Financial Supervisory Authority of the Central Bank of Iceland to commence share buy-backs and will initiate a program to buy back ISK 4 billion of its own shares tomorrow, 29 July.

A key milestone was reached during the quarter with the successful launch of a new deposits and payment system, which will bring increased efficiency to the business and enable us to further enhance our services. One of our chief focuses remains to make financial services more accessible and convenient for our customers. We recently launched a new feature on the Arion app, which makes it easier for our customers to invest in Icelandic stocks and in Stefir funds, while also providing the customer with a clearer overview of their investments. This solution was developed in response to increased interest among the general public in investing in securities.

Numerous successful stock offerings have been held in recent months. These include the IPOs of Fly Play and Solid Clouds, in which Arion Bank played a key role as the companies were listed on the First North market. It is pleasing to see that the financial markets have been thriving in recent months and that companies now have an increasingly diverse range of financing options. The Bank's Corporate Finance division has enjoyed a solid quarter, with engagements including the management of the Iceland Seafood International bond offering. This transaction represented a certain milestone, being the first unsecured corporate bond offering in Iceland for more than a decade. Arion Bank also advised on a major bond transaction at Alvotech, the acquisition by Lyfsalinn ehf. of all share capital in Lyfjaval ehf, and also arranged the sale and the financing process when the private equity fund VEX I invested in AGR Dynamics.

We recently concluded an agreement with the fintech company Rapyd on the acquisition of Valitor. The deal is subject to the approval of the regulatory authorities. Valitor has been in a sale process for some time and I believe



this is an excellent outcome for both the Bank and Valitor, which will gain new owners with great ambition and experience in the field of payment services. Rapyd is at the forefront of technological innovation and has complementary strengths to those of Valitor. The financial impact of the deal with Rapyd is positive but will not be recognized in the accounts until the approval of the regulators has been obtained.

Vörður, a subsidiary of Arion Bank, is a highly successful insurance company which has been expanding its market share in recent years. We have now started to further integrate the businesses of Vörður and Arion Bank to lay the foundations for an even stronger partnership and to advance on the insurance market. It will enable us to build on each other's strengths and to make us a more robust team. Arion Bank will bring to the partnership its dynamic sales and service channels such as the Arion app. Vörður will remain an independent company with its own brands.

At the beginning of July Arion Bank published a Green Financing Framework which applies to our funding and lending activities. The framework is integral to the Bank's focus on financing projects associated with sustainable development and green infrastructure and supports the Bank's environment and climate policy. It clearly sets out the conditions which the Bank's loans need to meet in order to be considered environmentally friendly. In line with the framework, we have recently issued our inaugural green bond for a total of €300 million. The issue was oversubscribed and the pricing of the bond was the tightest that the Bank has received in recent years. Green bond issues such as this help expand the Bank's investor base, thus improving funding access on favourable terms, which will help the Bank offer better terms to its customers and is essential in order to enable the Bank to consolidate its offering of green products."

Income Statement

In ISK millions	Q2 2021	Q2 2020	Δ	Δ %	H1 2021	H1 2020	Δ	Δ %
Net interest income	8,016	7,857	159	2%	15,358	15,110	248	2%
Net commission income	3,562	2,688	874	33%	6,839	5,764	1,075	19%
Net insurance income	914	761	153	20%	1,585	1,262	323	26%
Net financial income	2,203	2,691	(488)	(18%)	3,703	691	3,012	436%
Other operating income	309	66	243	368%	616	212	404	191%
Operating income	15,004	14,063	941	7%	28,101	23,039	5,062	22%
Salaries and related expenses	(3,575)	(3,577)	2	(0%)	(6,846)	(6,707)	(139)	2%
Other operating expenses	(2,797)	(2,818)	21	(1%)	(5,574)	(5,895)	321	(5%)
Operating expenses	(6,372)	(6,395)	23	(0%)	(12,420)	(12,602)	182	(1%)
Bank levy	(355)	(324)	(31)	10%	(685)	(655)	(30)	5%
Net impairment	812	(918)	1,730	-	1,892	(3,778)	5,670	-
Net earnings before income tax	9,089	6,426	2,663	41%	16,888	6,004	10,884	181%
Income tax expense	(1,408)	(1,468)	60	(4%)	(3,274)	(2,328)	(946)	41%
Net earnings (loss) from cont. operations	7,681	4,958	2,723	55%	13,614	3,676	9,938	270%
Discontinued operations, net of tax	135	(45)	180	-	241	(934)	1,175	-
Net earnings	7,816	4,913	2,903	59%	13,855	2,742	11,113	405%
KFI's								
Return on equity (ROE)	16.3%	10.5%			14.3%	2.9%		
Return on equity, continuing operations	16.0%	10.6%			14.1%	3.9%		
Return on equity assuming 17% CET 1	21.3%	13.1%			18.6%	3.2%		
Return on total assets (ROA)	2.6%	1.7%			2.3%	0.5%		
Earnings per share (in ISK)	4.89	2.86			8.47	1.59		
Cost to income ratio (C/I)	42.5%	45.5%			44.2%	54.7%		
Net interest margin (NIM)	2.9%	2.9%			2.8%	2.9%		
Operating income / REA	8.0%	7.9%			7.5%	6.4%		

Net interest income increased slightly compared with the second quarter of 2020. The net interest margin (NIM) as a percentage of average interest-bearing assets was 2.9% during the quarter, the same as for the second quarter of 2020. The Bank aims to maintain NIM in the range of 2.6% - 2.9% whilst the base rate remains at current levels. Loans to customers increased by 2.6%, primarily mortgage lending, whereas loans to corporates decreased by 4.7% measured in ISK. The focus on returns in lending and funding cost, with a higher proportion of funding in deposits, is materializing in an acceptable NIM.

Net commission income increased by 33%, compared with the second quarter of 2020. Net commission income was very strong across the Bank and corporate lending and corporate finance performed well, supported by the structural changes made in 2019. Income from lending and guarantees continues to be strong, buoyed by an increased focus on capital velocity as opposed to loan growth. Asset management fees trend positively with increased AuM, whereas volume-related fees, which are expected to grow again, have decreased due to the pandemic.

Insurance premiums earned at the insurance company Vörður have been increasing, but volatility in *net insurance income* is mainly due to seasonal fluctuations in the claim rate. The combined ratio for the second quarter of 2021 was 91.5%, compared with 94.5% for the same period in 2020, and is highly competitive in the domestic market.

Net financial income was very strong with a profit of ISK 2,203 million. Equity holdings performed well during the quarter due to favorable market conditions and effective management.



Operating expenses were stable between years. At the end of June the number of full-time equivalent positions (FTEs) was 741 at the Group and 610 at the Bank, a 5% decrease at Group level compared with the same period in 2020. Other operating expenses have been trending down in line with the Bank's objective to control costs.

Net impairment is positive in the second quarter of 2021 as the Bank is reversing a part of its impairments. This is partly due to changes in the loan book with a higher proportion in mortgages instead of corporate loans. IFRS models remain more or less unchanged as the expectation is that the worst is behind us in terms of the economy. However, uncertainty does persist regarding the valuation of assets due to the pandemic, especially as the delta variant is still being dealt with.

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 1 billion. The effective income tax rate was 15.5% for the second quarter. In general, the combination of income is the main driver behind the fluctuation in the effective tax rate. During the second quarter of 2021 the positive effects of equity holdings through net financial income is the main driver of the low effective income tax rate.

Discontinued operations held for sale comprise the operating results of the subsidiary Valitor hf. and valuation changes of the underlying assets of the subsidiaries Stakksberg ehf. and Sólbjarg ehf. On 1 July 2021 Arion Bank entered into a definitive agreement regarding the sale of Valitor hf. Arion Bank expects to recognize a net profit of approximately ISK 3.5 billion from the sale when all conditions precedent have been met. The sale agreement for Valitor hf. does not affect the financial statements for the period, in accordance with IFRS.

Balance sheet

The balance sheet increased by 4% from year-end 2020. The liquidity position remains very strong despite ISK 17.8 million capital distribution through dividends and buy-backs of own shares.

In ISK millions	30.06.2021	31.12.2020	Δ	Δ %	30.06.2020	Δ	Δ %
Cash & balances with CB	69,609	42,136	27,473	65%	103,432	(33,823)	(33%)
Loans to credit institutions	35,701	28,235	7,466	26%	33,597	2,104	6%
Loans to customers	843,988	822,941	21,047	3%	779,902	64,086	8%
Financial assets	213,963	227,251	(13,288)	(6%)	197,142	16,821	9%
Intangible assets	9,996	9,689	307	3%	9,077	919	10%
Assets and disposal groups HFS	19,236	16,811	2,425	14%	30,732	(11,496)	(37%)
Other assets	25,427	25,643	(216)	(1%)	28,368	(2,941)	(10%)
Total assets	1,217,920	1,172,706	45,214	4%	1,182,250	35,670	3%

KFI's

REA / Total assets	61.3%	63.6%	60.6%
Share of stage 3 loans, gross	2.8%	2.6%	3.4%

Assets

Loans to customers increased by 2.6% from the end of 2020, with mortgage lending increasing by 9.6%. Corporate lending decreased by 4.8% from year-end 2020. Lending activities remained robust during the first half of 2021 with significant sales of corporate credit exposures to institutional investors taking place. The loan book continues to be well balanced between individuals and corporates. Loans to individuals increased by 9.0% during the first six months, with mortgages driving growth with a 9.6% increase.

Arion Bank has been supporting its customers and worked with the Icelandic authorities to develop government guaranteed loan facilities targeted at corporates that are experiencing temporary difficulties. At the end of June the Bank had made more than 353 loans with a government guarantee, amounting to ISK 4.4 billion. Additionally 1.03% of individual loans (by amount), predominantly mortgages, and 5.93% of corporate loans were in payment moratorium at the end of the period.

The Bank's liquidity position is very strong with the total LCR ratio at 215% and the ISK LCR ratio at 195%. 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.

Assets and disposal groups held for sale comprise the subsidiaries Valitor ehf., Stakksberg ehf. and Sólbjarg ehf. On 1 July 2021 Arion Bank entered into a definitive agreement regarding the sale of Valitor hf. for a purchase price of USD 100 million. The transaction is subject to regulatory approval. If the sale is not completed due to the failure to obtain regulatory approval, the risk is borne by the buyer, a condition applicable until the end of 2023. The sale agreement for Valitor hf. does not affect the financial statements for the period, in accordance with IFRS.



Liabilities and equity

In ISK millions	30.06.2021	31.12.2020	Δ	Δ %	30.06.2020	Δ	Δ %
Due to credit institutions & CB	7,754	13,031	(5,277)	(40%)	7,661	93	1%
Deposits from customers	604,382	568,424	35,958	6%	555,855	48,527	9%
Other liabilities	57,407	42,217	15,190	36%	51,478	5,929	12%
Borrowings	301,388	298,947	2,441	1%	314,952	(13,564)	(4%)
Subordinated liabilities	34,543	36,060	(1,517)	(4%)	36,494	(1,951)	(5%)
Liabilities associated w /disposal groups HFS	18,841	16,182	2,659	16%	26,982	(8,141)	(30%)
Total liabilities	1,024,315	974,861	49,454	5%	993,422	30,893	3%
Shareholders equity	193,425	197,672	(4,247)	(2%)	183,702	9,723	5%
Non-controlling interest	180	173	7	4%	177	3	2%
Total equity	193,605	197,845	(4,240)	(2%)	183,879	9,726	5%
Total liabilities and equity	1,217,920	1,172,706	45,214	4%	1,177,301	40,619	3%

KFI's

Loans to Deposits ratio	139.6%	144.8%	140.3%
CET1 ratio	22.7%	22.3%	22.9%
Capital adequacy ratio	27.2%	27.0%	28.1%

Deposits from customers remain the most important source of funding for Arion Bank and a greater focus on deposit funding has resulted in a significant increase. The increase is in all the main classes i.e. from individuals, corporates and public entities.

The decrease in *borrowings* from the end of 2020 is primarily due to the strengthening of the ISK against foreign currencies. There are limited refinancing needs over the next few quarters but the remaining EUR 200 million maturity in Q4 2021 is the next foreseeable target. Arion Bank recently published a Green Financing Framework which applies to the Bank's funding and lending activities. In early July the Bank completed its inaugural green bond issue with a EUR 300 million 4-year transaction which was well received by investors.

Shareholders' equity decreased due to the dividend payment and purchase of own shares, in total ISK 17.8 billion, which is partly offset by the financial results for the period. The leverage ratio was 14.6% at the end of June, compared with 15.1% at the end of 2020, which is very high in international comparison. At the end of the period the Group had ISK 67 billion of CET1 capital in excess of regulatory requirements and ISK 42 billion in excess of the Group's target CET1 ratio of 17%, in addition to the foreseeable dividend and buy-back.

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

Financial targets

Return on Equity	Exceed 10%
Revenues / RWA's	Exceed 6.7%
Cost to Income Ratio	Reduce to 45%
Loan growth	The loan book will grow in line with economic growth, with growth in mortgage lending expected to outpace corporate lending.
CET 1 Ratio	Reduce to 17%
Dividend policy / Share buy-back	Pay-out ratio of approximately 50% of net earnings attributable to shareholders through either dividends or buy-back of the Bank's shares or a combination of both. Additional distributions will be considered when Arion Bank's capital levels are above the minimum requirements set by the regulators in addition to the Bank's management buffer.

Investor webcast on 29 July at 10:30 CET (8:30 GMT)

Arion Bank will be hosting a webcast on Thursday 29 July at 10:30 CET (8:30 GMT) where CEO Benedikt Gíslason, CFO Stefán Pétursson, Deputy CFO Eggert Teitsson and Head of Investor Relations Theodór Fridbertsson will present the results and answer questions from participants. The webcast will take place in English and will be streamed live.

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

To participate in the webcast via telephone and ask questions please call in using the relevant number indicated below before the start of the webcast:

Sweden	+46 850 558 354
UK	+44 333 300 9271
USA	+1 646 722 4902
Iceland	+354 800 7437 (PIN 10135050#)



For further information please contact Theodór Fridbertsson, [Head of IR](#), tel.+354 856 6760, and for media enquiries Haraldur Gudni Eidsson, [Head of Corporate Communications](#), tel. +354 856 7108.

Financial calendar

The Bank's Financial Statements are scheduled for publication as stated below. The calendar may be subject to change.

Q3 2021 Financial results	27 October 2021
Q4 / 12M 2021 Financial results	9 February 2022
AGM 2022	16 March 2022
Q1 2022 Financial results	4 May 2022
Q2 2022 Financial results	27 July 2022
Q3 2022 Financial results	26 October 2022

This is information that Arion Bank hf. is obliged to make public pursuant to the EU Market Abuse Regulation. The information was submitted for publication through the agency of the contact persons set out above.

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.