

## Annual financial results for 2009

Arion Bank reported net earnings of ISK 12.8 billion for 2009. Return on equity was 16.7%. Despite the adverse economic climate, the reconstruction of Arion Bank has come a long way and is founded on a strong balance sheet, healthy liquidity and solid funding.

Arion Bank's capital base was further reinforced on 8 January with an injection of new equity from Kaupskil (Kaupthing Bank's 100% owned subsidiary), which acquired an 87% stake in the Bank, and a subordinated loan from the government. This increased the Bank's capital ratio from 13.7% at the end of 2009 to 16.4%. The Financial Supervisory Authority now requires a minimum capital ratio of 16.0%.

### Highlights of the 2009 annual results:

- Net earnings of ISK 12.8 billion in 2009.
- Income tax of ISK 2.5 billion - ISK 1 billion of this expected to be paid in 2010.
- No dividend will be paid to shareholders in 2010 from the 2009 earnings.
- Operating income of ISK 49.6 billion.
- Net interest income of ISK 12.1 billion.
- Net commission income of ISK 5.9 billion.
- Net change in the value of the loan portfolio of ISK 10.3 billion after factoring in the appreciation in value due to the likelihood of an improved recovery rate and the decline in the value of the loan portfolio. Expenses of ISK 10.6 billion relating to the reduction in the Bank's claim against Kaupthing Bank following the increase in value of certain assets which were transferred from Kaupthing Bank to Arion Bank in the autumn of 2008.
- Income of ISK 17.8 billion from companies temporarily taken over by the Bank. This figure is offset by the salaries and operating costs of these companies totalling ISK 18 billion.
- Net financial income of ISK 10.3 billion, which is chiefly explained by the 7.6% depreciation of the ISK against the Central Bank of Iceland's exchange rate index and Arion Bank's negative foreign exchange balance.
- The interest rate differential as a percentage of the average interest-bearing assets and liabilities was 1.9% in 2009.
- Return on equity (ROE) was 16.7%.
- The cost-to-income ratio was 57.5%.
- At the end of 2009 there were 1,096 full-time equivalent positions at the Bank.
- Total assets amounted to ISK 757.3 billion at the end of 2009, compared with ISK 641.2 billion at the end of 2008. The main change in assets is attributable to the compensation paid in relation to the acquisition of the deposit obligations of SPRON and the assets and liabilities of SPM during the first quarter of 2009 and the depreciation of the ISK.
- Total loans to credit institutions and customers amounted to ISK 396.2 billion and deposits amounted to ISK 609.1 billion at the end of 2009.

- When Kaupskil acquired 87% of the share capital of Arion Bank on 8 January 2010, the Bank's equity increased from ISK 90.0 billion to ISK 93.9 billion. At the same time the Bank's total assets increased by ISK 80.2 billion to ISK 837.6 billion. The loan portfolio grew by ISK 112.8 billion, while its holdings in bonds decreased by ISK 32.6 billion when the government was repaid its 87% holding.
- Highlights of 2009:
- In 2009 the Bank prepared its opening balance sheet and reached a settlement with the Resolution Committee of Kaupthing Bank. A framework agreement was made on the future ownership structure and funding of the Bank on 17 July and the final agreements were signed on 3 September. On 1 December 2009 the Resolution Committee of Kaupthing Bank announced that it intended to acquire an 87% stake in the Bank.
- Resolving the debts of households experiencing financial difficulties was a key undertaking during 2009. Almost 2,000 customers, mainly young first-time home buyers, have taken advantage of the debt solutions offered by Arion Bank in the five months they have been available. A total of 14,000 customers of Arion Bank have taken advantage of the solutions offered by the Bank and the government.
- One of the Bank's most wide-reaching projects in 2009 was resolving corporate debt issues. A new department was established to deal with these recovery cases on a systematic and coordinated basis.
- The Bank adopted the name Arion Bank on 20 November.
- The Bank took over the savings bank SPM and the deposit obligations of the savings bank SPRON in 2009.
- The Bank has streamlined its branch network by merging branches and creating larger units better equipped to provide customers with more comprehensive services. This has made Arion Bank's branch network the most efficient in Iceland.

**Finnur Sveinbjörnsson, CEO of Arion Bank:**

“These financial results show that the Bank is well equipped to tackle the challenges facing the Icelandic economy. We have focused on reinforcing our internal procedures, the regulatory framework and the internal audit function. Our employees have worked hard to deal with a large number of demanding and complex assignments, and it goes without saying that it has been a difficult year for the customers and staff alike. The results are satisfactory and our capital ratio meets the statutory requirements of the Financial Supervisory Authority.”