

Earnings Press Release, 8 February 2023

Arion Bank's financial results for Q4 2022 and for the year 2022

- Arion Bank reports net earnings of ISK 5,023m in Q4, compared with ISK 6,522m in Q4 2021
- Return on equity in Q4 was 10.7%, compared with 13.4% in Q4 2021
- Earnings per share in ISK of 3.44 in Q4, compared with ISK of 4.26 in Q4 2021
- Net interest margin of 3.1%, compared with 2.8% in Q4 2021
- Core income, defined as net interest income, net commission income and net insurance income, increased by 11.8% compared with Q4 2021
- Cost-to-core income ratio in Q4 was 53.8%, compared with 57.4% in Q4 2021
- ISK 1.6bn accrued in the quarter for employee incentive scheme based on performance metrics at year-end. This includes the overarching KPI of achieving higher ROE than the average ROE of the domestic competitors
- The balance sheet increased by 11.9% in 2022
- Dividend payment and share buybacks amounted to ISK 32.3bn in 2022
- The Board proposes a dividend payment of ISK 8.5 per share, equaling ISK 12.5bn, net of own shares
- The Bank's total capital ratio was 24.0% and the CET1 ratio was 18.8% on 31 December 2022, assuming foreseeable capital release

Arion Bank reported net earnings of ISK 5,023m in the fourth quarter and ISK 25,416m for the year. Return on equity was 10.7% for the quarter and 13.7% for the year.

Total assets amounted to ISK 1,470bn at the end of the year, compared with ISK 1,314bn at the end of 2021. Loans to customers increased by 15.9% from year-end 2021. The increase was 22.6% in corporate lending and 10.6% in loans to individuals, mainly mortgages. Deposits from customers increased by 15.2% in 2022, with a 15.5% increase in core deposits, defined as deposits from individuals, SMEs and corporate customers. Total equity amounted to ISK 188bn at year end. Total equity decreased from year-end due to a capital release of ISK 32.3bn which was partly offset by net earnings for the year.

The Bank's total capital adequacy ratio was 24.0%, and the CET1 ratio was 18.8% at the end of 2022. These ratios assume a dividend payment of ISK 12.5bn and the completion of the current buyback program amounting to ISK 3.3bn that had been authorized by the Financial Supervisory Authority of the Central Bank of Iceland (FSA). The Bank's capital ratios comfortably exceed the requirements set by law and the FSA.

Benedikt Gíslason, CEO of Arion Bank

"Arion Bank performed well in 2022 despite challenging conditions in many areas. The economic impact of the war in Ukraine is complex and far-reaching. Energy prices have increased and inflation among many of Iceland's neighbours has reached almost unprecedented levels. Iceland might be far removed from the war zone, but it has not been spared the uncertainty brought by the conflict. Nevertheless, the Icelandic economy proved resilient during the year and GDP growth is expected to be 6-7%, partly due to the fact that we are largely self-reliant in meeting our energy needs thanks to our eco-friendly hydropower and geothermal power. Return on equity at Arion Bank was good and exceeded our ROE targets. Interest and commission income and insurance income, which we define as core income, grew 17.5%, but the challenging markets meant that financial income was negative by ISK 3 billion. The Bank's remains in robust health, with capital and liquidity ratios well above the Bank's target levels. It has been proposed that dividends of ISK 12.5 billion be paid for 2022, and the Bank continues to buy back own shares in accordance with the Bank's dividend policy.

The sale of Valitor was completed mid-year following a lengthy sale and approval process. The transaction has brought sharper definition to the Group's focus. The employees of Vörður relocated to the headquarters of Arion Bank at the beginning of the year, deepening the partnership between the teams of Vörður, Stefnir and Arion Bank. Together the three companies can leverage their different strengths and offer our customers a comprehensive and accessible range of financial and insurance services. It is precisely this variety of services which gives the Group its competitive edge.



We strive to provide services which meet the needs of our customers. We see it as our role to help them reach their goals by providing our expertise, solutions and financial resources. At our headquarters we have a dedicated team of experts able to provide individuals, companies and investors with specialized advice and general financial services. We also offer diverse and personalized services and advice on insurance, pensions, savings and mortgages at our branches located throughout the country. The Arion app is our most popular service channel and in recent years we have released more than 30 innovations designed to make it easier for people to manage their finances. The convenience of the app has been a big hit with our customers, and on average they open the app more than once a day. Last year the Arion app was named the best banking app in Iceland for the sixth consecutive year by bank customers in a survey conducted by MMR. Studies of international banks indicate that Arion Bank is among the best performing banks globally in terms of digital services.

There was robust economic activity in Iceland in 2022 and the Bank was involved in a wide range of projects and engagements, including the stock market listings of Alvotech, Nova and Amaroq Minerals. The Bank also had the highest market share on Nasdaq Iceland, both in fixed income and equities and it was the seventh year in succession that the Bank has ranked number one in equities trading. There was also a strong influx of capital into the Bank's asset management business and Stefnir funds, and investment returns were acceptable given the challenging market backdrop.

The international credit markets were not immune to the uncertainty unleashed by the conflict in Europe. However, Arion Bank is fortunate enough to be free of imminent funding needs in 2023. In fact the most important component of the Bank's funding mix is customer deposits, which despite fierce competition grew 15% during the year. The Bank held two green bond issues in 2022, bringing the total to four since the publication of the Green Financing Framework. To consolidate our position on the international credit markets we added a credit rating from Moody's during the year, and the Bank is now rated by both Moody's and S&P Global Ratings."

Income Statement

<i>In ISK' millions</i>	Q4 2022	Q4 2021	Δ	Δ %	2022	2021	Δ	Δ %
Net interest income	10,524	8,768	1,756	20%	40,277	32,063	8,214	26%
Net commission income	3,972	4,079	(107)	(3%)	16,065	14,673	1,392	9%
Net insurance income	833	865	(32)	(4%)	2,614	3,442	(828)	(24%)
Net financial income	157	1,151	(994)	(86%)	(3,095)	6,220	(9,315)	-
Other operating income	54	371	(317)	(85%)	1,337	1,827	(490)	(27%)
Operating income	15,540	15,234	306	2%	57,198	58,225	(1,027)	(2%)
Salaries and related expenses	(5,373)	(4,893)	(480)	10%	(15,856)	(14,638)	(1,218)	8%
Other operating expenses	(2,878)	(2,974)	96	(3%)	(11,055)	(11,237)	182	(2%)
Operating expenses	(8,251)	(7,867)	(384)	5%	(26,911)	(25,875)	(1,036)	4%
Bank levy	(496)	(345)	(151)	44%	(1,749)	(1,516)	(233)	15%
Net impairment	411	559	(148)	(26%)	144	3,169	(3,025)	(95%)
Net earnings before income tax	7,204	7,581	(377)	(5%)	28,682	34,003	(5,321)	(16%)
Income tax expense	(1,815)	(1,588)	(227)	14%	(9,809)	(6,782)	(3,027)	45%
Net earnings from cont. operations	5,389	5,993	(604)	(10%)	18,873	27,221	(8,348)	(31%)
Discontinued operations, net of tax	(366)	529	(895)	-	6,543	1,394	5,149	-
Net earnings	5,023	6,522	(1,499)	(23%)	25,416	28,615	(3,199)	(11%)
KFI's								
Return on equity (ROE)	10.7%	13.4%			13.7%	14.7%		
Return on total assets (ROA)	1.4%	2.0%			1.8%	2.3%		
Earnings per share (in ISK)	3.44	4.26			17.06	17.96		
Cost to income ratio (C/I)	53.1%	51.6%			47.0%	44.4%		
Net interest margin (NIM)	3.1%	2.8%			3.1%	2.8%		
Operating income / REA	7.1%	7.6%			6.7%	7.6%		

Net interest income increased by 20.0%, compared with the fourth quarter of 2021. The net interest margin (NIM) as a percentage of average interest-bearing assets was 3.1% during the quarter, compared with 2.8% for the fourth quarter of 2021. The main reason for this sharp increase is the higher base rate and 15.9% growth in the loan book. Interest-bearing assets increased by 15.4%, compared with the fourth quarter of 2021, mainly loans to customers, while interest-bearing liabilities increased by 16.1% for the same period, mainly deposits.



Net commission income decreased by 2.6%, compared with the fourth quarter of 2021. Diversification in fee generating operations is a strength and net commission income in 2022 was the highest on record for the Group. Fee generation in capital markets was robust and the Bank ranks number one in both bonds and equity trading in the Icelandic market in 2022. Cards and payment solutions continued to generate strong income as did asset management, despite a challenging market backdrop.

Insurance premiums earned at the insurance company Vördur have been increasing, but volatility in *net insurance income* is mainly due to an unusually high claims ratio, partially due to difficult weather conditions in Iceland. Insurance premiums for own account increased by 10% from the fourth quarter of 2021, whereas claims for own account increased by 15%. The combined ratio for the fourth quarter of 2022 was 98.4%, compared with 97.7% for the same period in 2021. For the full year 2022 the combined ratio was 99.2%, compared with 93.2% in 2021.

Net financial income was ISK 157m for the quarter in an ongoing volatile market backdrop. Equity holdings generated a profit of ISK 402m whereas bond holdings resulted in a loss of ISK 275m, of which ISK 180m was due to a loss from marking down holdings in HFF bonds.

Operating expenses increased by 4.9% in the fourth quarter, compared with the fourth quarter of 2021. In the fourth quarter ISK 1.6bn was accrued for the incentive scheme which applies to all employees, except for employees of internal control units, compared with ISK 1.5bn in the fourth quarter of 2021. At the end of 2022, the number of full-time equivalent positions (FTEs) was 781, an increase of 4% from year-end 2021. Salary expenses increased, compared with the fourth quarter of 2021, mainly due to general wage increases. Other operating expenses increased slightly.

Net impairment was positive by ISK 411m in the fourth quarter of 2022, mainly due to changes in single name provision. Impairments were lower than through the cycle expectations, estimated at 20-25bps of the loan book on an annualized basis. The Bank has, however, changed its outlook in the IFRS9 impairment models, with more uncertainty in the global economic environment.

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 25.2% for 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 11.9% from year-end 2021. The liquidity position remains very strong despite ISK 32.3bn capital distribution through dividends and buybacks of own shares in 2022 and ISK 148.5bn increase in loans to customers.

Assets

<i>In ISK millions</i>	31.12.2022	31.12.2021	Δ	Δ %	30.09.2022	Δ	Δ %
Cash & balances with CB	114,118	69,057	45,061	65%	68,149	45,969	67%
Loans to credit institutions	45,501	30,272	15,229	50%	52,643	(7,142)	(14%)
Loans to customers	1,084,757	936,237	148,520	16%	1,045,152	39,605	4%
Financial instruments	193,330	225,657	(32,327)	(14%)	223,142	(29,812)	(13%)
Intangible assets	8,783	9,463	(680)	(7%)	8,816	(33)	(0%)
Assets and disposal groups HFS	61	16,047	(15,986)	(100%)	2,152	(2,091)	(97%)
Other assets	23,006	27,131	(4,125)	(15%)	27,832	(4,826)	(17%)
Total assets	1,469,556	1,313,864	155,692	12%	1,427,886	41,670	3%

KFI's

REA / Total assets	60.1%	61.9%	60.8%
Share of stage 3 loans, gross	1.2%	1.9%	1.4%

Loans to customers increased by 15.9% from the end of 2021, with loans to corporates increasing by 22.6%, whereas loans to individuals increased by 10.6%. The demand for new lending over the last few quarters has mainly been from corporates but the medium-term growth outlook is expected to be relatively balanced between corporates and individuals, while this will fluctuate between quarters. Sales of loans are progressing well as the Bank follows the strategy of increasing capital velocity. In 2022 the Bank sold corporate loans for ISK 22bn following a sale of ISK 30bn in 2021.

The Bank's liquidity position is very strong with the total LCR ratio at 158% and the ISK LCR ratio at 115%. 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 Stakksberg ehf. and Sólbjarg ehf., following the conclusion of the sale of Valitor in Q2. Stakksberg's main assets, the plot of land and industrial facilities of the silicon plant at Helguvík, were transferred to Landey, Arion Bank's property development company, at the end of the year and thus are no longer classified as assets held for sale. Sólbjarg has sold the vast majority of its assets and at year-end the main asset was a 27.5% shareholding in Ferdaskrifstofa Íslands.

Liabilities and equity

<i>In ISK millions</i>	31.12.2022	31.12.2021	Δ	Δ %	30.09.2022	Δ	Δ %
Due to credit institutions & CB	11,697	5,000	6,697	134%	5,099	6,598	129%
Deposits from customers	755,361	655,476	99,885	15%	739,969	15,392	2%
Other liabilities	74,273	50,131	24,142	48%	85,902	(11,629)	(14%)
Borrowings	392,563	356,637	35,926	10%	376,540	16,023	4%
Subordinated liabilities	47,331	35,088	12,243	35%	34,089	13,242	39%
Liabilities associated w/disposal groups HFS	0	16,934	(16,934)	-	0	0	-
Total liabilities	1,281,225	1,119,266	161,959	14.5%	1,241,599	39,626	3%
Shareholders equity	187,682	193,925	(6,243)	(3%)	185,607	2,075	1%
Non-controlling interest	649	673	(24)	(4%)	680	(31)	(5%)
Total equity	188,331	194,598	(6,267)	(3%)	186,287	2,044	1%
Total liabilities and equity	1,469,556	1,313,864	155,692	12%	1,427,886	41,670	3%
KFI's							
Loans to Deposits ratio	143.6%	142.8%			141.2%		
CET1 ratio	18.8%	19.6%			19.3%		
Capital adequacy ratio	24.0%	23.8%			23.1%		

Deposits from customers remain the most important source of funding for Arion Bank, with close to 60% of total liabilities in deposits. The 15.2% increase from year-end 2021 is mainly in SMEs but also in deposits from individuals and institutional investors.

The 10% increase in borrowings from year-end 2021 is mainly due to the Bank's issuance in the domestic market of ISK 18bn and issuance for the equivalent of ISK 81bn in EUR, NOK and SEK, which is partly offset by payment maturities and prepayments during the year.

In December the Bank issued new CPI linked subordinated Tier 2 bonds in ISK, total of ISK 12.1bn. This issue is in preparation for the possible payment of an issue with a call date in November 2023 and in 2024.

Shareholders' equity decreased due to dividend payments and the purchase of own shares, in total ISK 32.3bn, which is partly offset by the net earnings for the year of ISK 25.4bn. The leverage ratio was 11.8% at the end of year, compared with 12.7% at the end of 2021, which is very high in international comparison. At year-end, the Group had ISK 4.5bn to ISK 13.3bn in excess of the Group's target capital structure of 150-250 bps management buffer or approximately 17.3-18.3% based on current capital requirement.

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

Medium-term financial targets

Updated medium-term financial targets of Arion Bank

Return on equity	Exceed 13%
Core operating income / REA	Exceed 6.7%
Insurance premium growth	Premium growth (net of reinsurance) to exceed the growth of the domestic market by more than 3 percentage points
Cost-to-core income ratio	Below 48%
CET1 ratio	150-250 bps management buffer approx 17.3-18.3% based on current capital requirement
Dividend payout ratio	50%



Investor meeting / webcast in English on 9 February at 9:30 CET / 8:30 GMT

Arion Bank will be hosting a meeting / webcast at the Bank's headquarters in Borgartún 19, Reykjavík, on Thursday 9 February at 9:30 CET / 8:30 GMT where CEO Benedikt Gíslason and CFO Ólafur Hrafn Höskuldsson 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 be streamed live.

The webcast will be accessible live on financialhearings.com 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, located below the video feed. Answers will be provided by presenters at the end of the webcast.

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

Financial calendar

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

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.