

Earnings Press Release, 4 May 2023

Arion Bank's Q1 2023 financial results

- Arion Bank reports net earnings of ISK 6,291m in Q1, compared with ISK 5,818m in Q1 2022
- Return on equity in Q1 was 13.7%, compared with 12.7% in Q1 2022
- Earnings per share in ISK of 4.32 in Q1, compared with ISK of 3.67 in Q1 2022
- Net interest margin of 3.1%, the same as for Q1 2022
- Another strong quarter in terms of fees and commission income, with total fees of ISK 4.4bn. All fee generating businesses delivered a solid quarter with CIB and Asset Management especially strong
- Core income, defined as net interest income, net commission income and net insurance income, increased by 18.3% compared with Q1 2022
- Cost-to-core income ratio in Q1 was 47.0%, compared with 47.4% in Q1 2022
- The balance sheet increased by 2.1% from year-end 2022
- Dividend payment and share buybacks amounted to ISK 14.8bn in Q1 2023
- The Bank's total capital ratio was 23.7% and the CET1 ratio was 18.6% at the end of March

Arion Bank reported net earnings of ISK 6,291m in the first quarter of 2023 with 13.7% return on equity.

Total assets amounted to ISK 1,501bn at the end of March, compared with ISK 1,470bn at the end of 2022. Loans to customers increased by 2.7% from year-end 2022. The increase was 4.5% in corporate lending and 1.1% in loans to individuals, mainly mortgages. Deposits from customers increased by 2.6% during the first quarter. Total equity amounted to ISK 180bn at the end of March. Total equity decreased from year-end due to a capital release of ISK 14.8bn which was partly offset by net earnings for the period.

The Group's capital ratio was 23.7% and the CET1 ratio 18.6%. 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, and ISK 0.9 billion of the outstanding buyback program that had been authorized by the Financial Supervisory Authority of the Central Bank of Iceland (FSA). The Group's capital ratio, as calculated under the Financial Undertakings Act No. 161/2002, was 23.3% and the CET1 ratio was 18.3%. These ratios comfortably exceed the requirements made by the FSA and Icelandic law.

Benedikt Gíslason, CEO of Arion Bank

"The first quarter financial results were in line with our expectations, and we reached our key financial targets. Our core business continues to perform well, and core income grew by 18% between years. The Bank's capital and liquidity positions remain robust.

Arion Bank and our subsidiaries Vörður and Stefnir provide our customers with comprehensive financial services and offer the most diverse service offering of any financial institution in the country. Our revenue streams therefore come from a wide range of sources both on the retail and corporate sides of the business. Asset management and corporate services and advisory performed strongly during the quarter, with almost 75% of the Bank's commission income originating from corporate services. Deposits grew strongly which provided a solid platform for our lending activities.

During the first few months of the year the financial markets were unsettled in both Europe and the United States. Furthermore, interest rates both in Iceland and internationally have climbed sharply over the past few months. We will of course closely monitor these developments and their impact on the Bank and our customers. As for the Bank's capital and dividends, then our strategy remains unchanged, but we will nevertheless remain cautious and focus on maintaining our robust position."



Income Statement

<i>In ISK millions</i>	Q1 2023	Q1 2022	Δ	Δ %
Net interest income	11,015	9,528	1,487	16%
Net commission income	4,353	3,552	801	23%
Net insurance income	118	5	113	-
Net financial income	839	991	(152)	(15%)
Other operating income	19	438	(419)	(96%)
Operating income	16,344	14,514	1,830	13%
Salaries and related expenses	(4,099)	(3,540)	(559)	16%
Other operating expenses	(3,176)	(2,661)	(515)	19%
Operating expenses	(7,275)	(6,201)	(1,074)	17%
Bank levy	(449)	(393)	(56)	14%
Net impairment	(52)	(495)	443	(89%)
Net earnings before income tax	8,568	7,425	1,143	15%
Income tax expense	(2,287)	(1,703)	(584)	34%
Net earnings from cont. operations	6,281	5,722	559	10%
Discontinued operations, net of tax	10	96	(86)	-
Net earnings	6,291	5,818	473	8%

KFI's

Return on equity (ROE)	13.7%	12.7%
Return on total assets (ROA)	1.7%	1.8%
Earnings per share (in ISK)	4.32	3.67
Cost to core income ratio	47.0%	47.4%
Net interest margin (NIM)	3.1%	3.1%
Core income / REA	6.9%	6.2%

Net interest income increased by 15.6%, compared with the first quarter of 2022. 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 2022. The policy rate increased from 2.0% at the beginning of the first quarter 2022 to 7.5% at the end of the first quarter 2023. Average interest-bearing assets increased by 15.7%, compared with the first quarter of 2022, mainly loans to customers.

Net commission income increased by 22.6%, compared with the first quarter of 2022. The quarter was strong in all fee generating businesses, with strong income from lending and guarantees and several major CIB projects completed in the quarter. Asset Management continued to generate strong and stable income, recording one of the strongest historical quarters for the business, partly influenced by performance-based fees. Fee generation in capital markets was robust during the quarter, and the Bank ranked first in equity trading and third in bonds in the Icelandic market.

Insurance premiums earned at the insurance company Vördur have been increasing, growing 11.6% compared with the first quarter of 2022. Volatility in *net insurance income* is mainly due to fluctuations in the claims ratio. The combined ratio for the first quarter of 2023 was 116.3%, compared with 115.3% for the same period in 2022.

Net financial income was ISK 839m for the quarter with solid performances in both equity and bond holdings, with equity holdings generating a profit of ISK 336m and bond holdings ISK 426m.

Operating expenses increased by 17.3% in the first quarter, compared with the first quarter of 2022. The growth in operating expenses is mainly due to the impact of new labor agreements and key projects undertaken during the quarter. At the end of March, the number of full-time equivalent positions (FTEs) was 789, an increase of 5% from the same period in 2022. Salary expenses increased, compared with the first quarter of 2022, mainly due to new labor agreements and the higher number of FTEs. A one-off charge due to back-dated labor agreements amounted to ISK 120m in the first quarter. Other operating expenses increased mainly due to large projects carried out in the quarter and general inflation. One-off projects in marketing, investor relations and HR had an effect of approximately ISK 150m in the first quarter. Additionally, a fine of ISK 80m imposed by the Icelandic Competition Authority was expensed in March.

Net impairment was ISK 52m in the first quarter of 2023. 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, in line with increased 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 26.7% 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 2.1% from year-end 2022 and the liquidity position remains strong.

Assets

<i>In ISK millions</i>	31.03.2023	31.12.2022	Δ	Δ %
Cash & balances with CB	80,272	114,118	(33,846)	(30%)
Loans to credit institutions	62,899	45,501	17,398	38%
Loans to customers	1,114,128	1,084,757	29,371	3%
Financial instruments	204,997	193,329	11,668	6%
Intangible assets	8,575	8,783	(208)	(2%)
Other assets	29,773	23,068	6,705	29%
Total assets	1,500,644	1,469,556	31,088	2%

KFI's

REA / Total assets	60.4%	60.1%
Share of stage 3 loans, gross	1.4%	1.2%

Loans to customers increased by 2.7% from the end of 2022, with loans to corporates increasing by 4.5%, and loans to individuals growing by 1.1%. This growth rate exceeded expectations during the quarter but is expected to be slower for the remainder of the year. Sales of loans are progressing well as the Bank follows the strategy of increasing capital velocity. The Bank sold corporate loans to institutional investors for ISK 4bn during the first quarter of 2023.

The Bank's liquidity position is strong with the total LCR ratio at 174% and the ISK LCR ratio at 110%. 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>	31.03.2023	31.12.2022	Δ	Δ %
Due to credit institutions & CB	24,188	11,697	12,491	107%
Deposits from customers	775,023	755,361	19,662	3%
Other liabilities	84,086	74,274	9,812	13%
Borrowings	390,734	392,563	(1,829)	(0%)
Subordinated liabilities	46,681	47,330	(649)	(1%)
Total liabilities	1,320,712	1,281,225	39,487	3.1%
Shareholders equity	179,276	187,682	(8,406)	(4%)
Non-controlling interest	656	649	7	1%
Total equity	179,932	188,331	(8,399)	(4%)
Total liabilities and equity	1,500,644	1,469,556	31,088	2%

KFI's

Loans to Deposits ratio	143.8%	143.6%
CET1 ratio	18.6%	18.8%
Capital adequacy ratio	23.7%	24.0%

Deposits from customers remain the most important source of funding for Arion Bank, with close to 60% of total liabilities in deposits. The 2.6% increase from year-end 2022 is mainly from individuals, SME's and corporates.

The maturity profile of *Borrowings* is balanced, and the Bank has broad funding options. During the quarter Arion Bank issued private placements of NOK 200m and SEK 300m in senior preferred and a covered bond of ISK 33bn, of which 22bn was for own use in repo funding.

Shareholders' equity decreased due to dividend payments and the purchase of own shares, in total ISK 14.8bn, which is partly offset by the net earnings for the period of ISK 6.3bn. The leverage ratio was 11.3% at the end of the period, compared with 11.8% at the end of 2022, which is high by international standards. At period-end, the Group had ISK 0 to ISK 9.0bn in excess of the Group's target capital structure of 150-250 bps management buffer or approximately 17.3-18.3% based on the 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

	Actuals Q1 2023	Arion Bank's medium-term financial targets
Return on equity	13.7%	Exceed 13%
Core operating income / REA	6.9%	Exceed 6.7%
Insurance premium growth (YoY)	11.6%	Premium growth (net of reinsurance) to exceed the growth of the domestic market by more than 3% (Premium growth in the domestic insurance market was 7.5% for 2022)
Cost-to-core income ratio	47.0%	Below 48%
CET1 ratio	270 bps	150-250 bps management buffer (-17.3 - 18.3% based on current capital requirements)
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 5 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 Friday 5 May at 10:30 CEST / 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 also 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.