Third quarter and 9M 2025 results

Press release
29 October 2025

Arion Bank

Arion Bank – Q3 2025 results

Financial highlights for the third quarter of 2025

- Arion Bank reports net earnings attributable to shareholders of Arion Bank of ISK 8.2bn in Q3 2025, compared with ISK 7.9bn in Q3 2024
- Return on equity attributable to shareholders of Arion Bank was 16.0%, compared with 16.1% in Q3 2024
- Earnings per share in ISK of 5.95, compared with 5.62 in Q3 2024
- Net interest margin of 3.3%, compared with 3.1% in Q3 2024
- Net commission income was ISK 4.0bn, compared with ISK 3.9bn in Q3 2024
- Operation of Vördur contributed a standalone profit of ISK 0.7bn in the third quarter of 2025, compared with ISK 1.7bn in the previous year
- Core income, defined as net interest income, net commission income and insurance service results (excluding opex of the insurance operation), increased by 6.9%, compared with Q3 2024
- Operating expenses increased by 2.9%, compared with Q3 2024
- Effective tax rate was 26.3% during the quarter
- Total cost-to-core income ratio was 36.3%, compared with 37.5% in Q3 2024
- Cost-to-income ratio was 32.6%, compared with 34.4% Q3 2024
- The balance sheet increased by 1.4% during the quarter
- Loans to customers increased by ISK 29.2bn or 2.3% during the quarter, primarily to corporates

Consumer Association's class-action lawsuit

Following the Supreme Court judgment on 14 October regarding consumer loans with variable interest rates, Arion Bank has reassessed its maximum potential loss in cases brought against the Bank. Arion Bank estimates the maximum potential loss on the Banks non-indexed consumer loans at just under ISK 500 million before tax, assuming the Supreme Court's decision is applied to the Bank's loans. Similarly, the potential maximum loss on indexed consumer loans is now estimated at about ISK 4.5 billion before tax, based on calculations that assume the lowest market interest rates published by the Central Bank will be used as a benchmark. The Bank has not made any provisions due to the significant uncertainty about the final decision made by the courts but will keep this under review.

Financial highlights for the first 9 months of 2025

- Arion Bank reports net earnings attributable to shareholders of Arion Bank of ISK 24.4bn for 9M 2025, compared with ISK 17.8bn in 9M 2024
- Return on equity attributable to shareholders of Arion Bank was 16.0%, compared with 12.2% in 9M 2024
- Earnings per share in ISK of 17.55, compared with 12.45 in 9M 2024
- Net interest margin of 3.3%, compared with 3.1% 9M 2024
- Net commission income of ISK 13.1bn for the first nine months, compared with ISK 11.2bn in 9M 2024
- Other operating income was ISK 4.7bn due to a valuation increase in development assets
- Operation of Vördur contributed a standalone profit of ISK 0.9bn, compared with ISK 2.0bn in 9M 2024
- Core income increased by 13.9% compared with 9M 2024
- Operating expenses have decreased by 1.2% compared with 9M 2024
- The effective tax rate was high, 28.8%, due to an unfavorable combination of income
- Total cost-to-core income ratio was 38.3%, compared with 43.8% in 9M 2024
- Cost-to-income ratio was 32.8%, compared with 40.6% in 9M 2024
- The balance sheet increased by 7.3% from year-end 2024

- Dividend payment and share buybacks of ISK 19.1bn in total in 9M 2025
- The Bank's capital ratio was 21.9%, and the CET1 ratio was 18.0% at the end of September. 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 divided in line with the Bank's dividend policy. The Group's capital ratio, as calculated under the Financial Undertakings Act No. 161/2002, was 21.5% and the CET1 ratio was 17.6%. These ratios comfortably exceed the requirements made by the FSA and Icelandic law.

Benedikt Gíslason, CEO of Arion Bank

"The Bank has performed well in the third quarter, and we have achieved all our key financial targets. Despite high interest rates the economy has been ticking along nicely, and our operations clearly reflect this. We reported strong loan growth in the corporate sector although there are signs that things are starting to slow down. As before, there is great strength in the diversity of the services we offer, and all of Arion Group's business units are delivering solid results. Our capital and liquidity positions remain very strong.

Preliminary discussions between Arion Bank, Kvika Bank and the Icelandic Competition Authority on the proposed merger between the companies have begun. We expect these discussions to take some time, but they will provide us with the opportunity to discuss various issues with representatives of the ICA and exchange information before the merger is formally announced to the ICA. We firmly believe that Kvika and Arion will combine to create a robust financial institution where the strengths of each entity will be harnessed for the benefit of both customers and shareholders alike.

The recent Supreme Court judgment in a case brought against Íslandsbanki has naturally had an impact on the residential mortgage market. The judgment concerned non-indexed mortgages with variable interest and gives a fairly clear guideline on how lenders may change the interest rates on such loans if the terms are found to be partly unlawful. In general, it can be said that the interest rate adjustment terms for Arion loans differ from those terms to which the Supreme Court judgment applied. The Arion Bank loan terms contain both an exhaustive list of factors to be considered when changing interest rates, unlike the Íslandsbanki terms, and each factor is further defined with a concise description. A case against Arion Bank concerning the Bank's interest rate adjustment terms for indexed mortgages will be heard by the Supreme Court on 17 November, and both the District Court and the Court of Appeal have ruled that the terms are lawful.

The Supreme Court's judgment in the case against Íslandsbanki has added to the uncertainty over the consequences should the interest rate adjustment terms for indexed loans be deemed partly or entirely unlawful, particularly since interest rates on indexed loans generally do not follow Central Bank policy rates.

We are now seeking ways to offer indexed mortgages because the uncertainty is unfortunate for many of our customers. Providing people with mortgages is integral to our core business and we hope that in the coming weeks we will be able to give more details on the loans which then should be available at least until the Supreme Court has given its verdict on the legality of the interest rate adjustment terms of indexed loans."

Income Statement

In ISK millions	Q3 2025	Q3 2024	Δ	Δ %	9M 2025	9M 2024	Δ	Δ %
Net interest income	13,826	11,863	1,963	17%	40,192	35,056	5,136	15%
Net commission income	4,003	3,880	123	3%	13,092	11,224	1,868	17%
Insurance service results	630	1,532	(902)	(59%)	1,665	1,839	(174)	(9%)
Net financial income	483	524	(41)	(8%)	(289)	652	(941)	-
Other operating income	45	(313)	358	-	4,690	(226)	4,916	-
Operating income	**18,987**	**17,486**	**1,501**	**9%**	**59,350**	**48,545**	**10,805**	**22%**
Operating expenses	(6,194)	(6,021)	(173)	3%	(19,492)	(19,727)	235	(1%)
Bank levy	(530)	(500)	(30)	6%	(1,559)	(1,436)	(123)	9%
Net impairment	(1,128)	(954)	(174)	18%	(1,359)	(2,044)	685	(34%)
Net earnings before income tax	**11,135**	**10,011**	**1,124**	**11%**	**36,940**	**25,338**	**11,602**	**46%**
Income tax expense	(2,928)	(2,114)	(814)	39%	(10,638)	(7,489)	(3,149)	42%
Net earnings from cont. operations	**8,207**	**7,897**	**310**	**4%**	**26,302**	**17,849**	**8,453**	**47%**
Discontinued operations, net of tax	3	(6)	9	-	(19)	(26)	7	(27%)
Net earnings	**8,210**	**7,891**	**319**	**4%**	**26,283**	**17,823**	**8,460**	**47%**
Non-controlling interest	19	(19)	38	-	(1,884)	(2)	(1,882)	-
Net earnings attributable to shareholders	**8,229**	**7,872**	**357**	**5%**	**24,399**	**17,821**	**6,578**	**37%**

KFI's				
Return on equity attributable to shareholders	16.0%	16.1%	16.0%	12.2%
Return on equity	15.8%	16.1%	17.1%	12.2%
Return on total assets (ROA)	1.9%	2.0%	2.0%	1.5%
Earnings per share (in ISK)	5.95	5.62	17.55	12.45
Total cost to core income ratio	36.3%	37.5%	38.3%	43.8%
Cost-to-income ratio	32.6%	34.4%	32.8%	40.6%
Net interest margin (NIM)	3.3%	3.1%	3.3%	3.1%
Core income / REA	7.4%	7.5%	7.5%	7.1%

Net interest income increased by 16.5%, compared with the third quarter of 2024. The net interest margin (NIM) as a percentage of average interest-bearing assets was 3.3% for the quarter, compared with 3.1% for the third quarter of 2024. The CPI imbalance grew by ISK 29bn between years and was ISK 196bn at the end of September 2025. Average interest-bearing assets increased by 8.7%, compared with the third quarter of 2024, mainly loans to customers and bonds and debt instruments, as well as interest-bearing liabilities that increased by 8.8, mainly deposits and borrowings. With increased corporate lending, the net interest margin is likely to trend above 3%. However, the relative growth of mortgages versus corporate loans, along with CPI developments, will be key determinants in the near term.

Net commission income was ISK 4.0bn, compared with ISK 3.9bn in the third quarter of the previous year. The CIB operation remains strong, both in terms of fees generated from lending and service on loans, and the focused fee strategy. Asset management fees have remained solid, with Assets under Management and Supervision increasing to ISK 1,891bn at the end of the quarter.

Insurance service results of Vördur were ISK 630m during the quarter, after the elimination of intercompany transactions. Insurance revenues grew by 4.9% compared with the third quarter of 2024. The claims and reinsurance ratio was 71.5% in the quarter, compared with 53.5% in the same quarter last year, which was unusually low. The combined ratio of Vördur for the third quarter was 88.2%, compared with 70.0% for the same period in 2024.

Net financial income was ISK 483m for the quarter, with the equity markets underperforming. The investment portfolio of Vördur generated a profit of ISK 301m, which includes adverse net impact from insurance contracts.

Operating expenses increased by 2.9% in the third quarter, compared with the same quarter in 2024. If the 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 3.5%. Total cost-to-core income ratio was 36.3%, compared with 37.5% in the third quarter of 2024, when including the operating expenses of the insurance operation. Salary expenses increased by ISK 131m or 3.5% compared with the third quarter of 2024, which primarily relates to a 4.7% increase in the number of FTEs from September 2024, to 891. The increase was primarily in the insurance business and IT, in line with the investment strategy.

Net impairment was ISK 1,128m in the third quarter of 2025, calculated as 35bps in the quarter on an annualized basis, whereas impairments were calculated at 14bps for 9M 2025.

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 26.3% 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 7.3% from year-end 2024 and the liquidity position remains strong.

Assets

In ISK millions	**30.09.2025**	**31.12.2024**	**Δ**	**Δ %**	**30.06.2025**	**Δ**	**Δ %**
Cash & balances with CB	110,481	124,094	(13,613)	(11%)	114,114	(3,633)	(3%)
Loans to credit institutions	25,547	25,690	(143)	(1%)	34,805	(9,258)	(27%)
Loans to customers	1,301,708	1,230,058	71,650	6%	1,272,468	29,240	2%
Financial instruments	259,837	206,417	53,420	26%	238,217	21,620	9%
Investment property	13,833	9,387	4,446	47%	13,786	47	0%
Intangible assets	7,681	7,688	(7)	(0%)	7,995	(314)	(4%)
Other assets	17,448	14,933	2,515	17%	31,760	(14,312)	(45%)
Total assets	**1,736,535**	**1,618,267**	**118,268**	**7%**	**1,713,145**	**23,390**	**1%**
KFI's							
REA / Total assets	60.9%	59.5%			60.1%		
Share of stage 3 loans, gross	2.3%	2.5%			2.4%		

Loans to customers increased by ISK 72bn or 5.8% from the end of 2024, of which there was a ISK 29bn increase or 2.3% during the quarter, with loans to corporates increasing by 10.7% from year-end 2024, whereas loans to individuals increased by 1.4%. 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 of 206% and the ISK LCR ratio of 142%. This is reflected in the strong position in *Cash and balances with Central Bank*, *Loans to credit institutions* and *Financial instruments*, 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

In ISK millions	**30.09.2025**	**31.12.2024**	**Δ**	**Δ %**	**30.06.2025**	**Δ**	**Δ %**
Due to credit institutions & CB	8,812	6,618	2,194	33%	7,368	1,444	20%
Deposits from customers	917,226	857,443	59,783	7%	899,157	18,069	2%
Other liabilities	72,756	69,405	3,351	5%	77,216	(4,460)	(6%)
Borrowings	482,285	433,178	49,107	11%	482,806	(521)	(0%)
Subordinated liabilities	42,795	44,537	(1,742)	(4%)	42,403	392	1%
Total liabilities	**1,523,874**	**1,411,181**	**112,693**	**8%**	**1,508,950**	**14,924**	**1%**
Shareholders equity	210,275	206,582	3,693	2%	201,790	8,485	4%
Non-controlling interest	2,386	504	1,882	373%	2,405	(19)	(1%)
Total equity	**212,661**	**207,086**	**5,575**	**3%**	**204,195**	**8,466**	**4%**
Total liabilities and equity	**1,736,535**	**1,618,267**	**118,268**	**7%**	**1,713,145**	**23,390**	**1%**
KFI's							
Loans to Deposits ratio	141.9%	143.5%			141.5%		
CET 1 ratio	18.0%	18.2%			18.0%		
Capital adequacy ratio	21.9%	22.6%			22.0%		

Deposits from customers remain the most important source of funding for Arion Bank, with 60% 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 most of the 2025 FX funding plan completed. During the third quarter, the Bank issued EUR 300 million senior preferred notes. The notes have a 6-year maturity and pay a coupon of 3.50% which corresponds to a spread of 120 bps over mid-swaps.

Shareholders' equity increased due to the net earnings of ISK 24.4bn in 9M 2025, which was partly offset by ISK 16.1bn dividend payment and ISK 6.0bn share buyback during the period. The leverage ratio was 11.4% at the end of September, 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

	Q3 2025	9M 2025	Arion Bank's medium-term financial targets
Return on equity attributable to shareholders of Arion Bank	16.0%	16.0%	Exceed 13%
Core income / REA	7.4%	7.5%	Exceed 7.2%
Insurance revenue growth (YoY)	4.7%	4.9%	In excess of market growth (5.4% in Q2 2025 YoY)
Combined ratio Vördur	88.2%	89.0%	Below 95%
Total cost-to-core income ratio	36.3%	38.3%	Below 45%
CET1 ratio above regulatory capital requirements	266 bps	266 bps	150-250 bps management buffer (~16.8 - 17.8%)
Dividend pay-out ratio	50%	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 30 October at 9:30 CET (8:30 GMT)

Arion Bank will be hosting a meeting at the Bank's headquarters in Borgartún 19, Reykjavík, on Thursday 30 October at 9:30 CET (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.

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