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## Arion Bank named bank of the year in Iceland by The Banker

The Banker, which is published by The Financial Times, has named Arion Bank as the bank of the year in Iceland for 2015. This is the second time in the last three years which Arion Bank has won this prestigious award.

In explaining its choice The Banker says that it looked to the fact that Arion Bank had delivered excellent financial results, while at the same time it had achieved a low cost-to-income ratio. The Banker also cites Arion Bank's successful relationship banking approach and the greater contribution of commission income to Arion's overall income, particularly in asset management and investment banking. Arion Bank's subsidiaries also played a significant role in this respect, not least Stefnir in its role as a leading fund management company in Iceland, and Valitor, whose international operation is flourishing and which was chosen to service ApplePay in the UK earlier this year.

In naming Arion Bank as bank of the year in Iceland, the Banker also looked to Arion's success in digital banking, with solutions such as the online bank, a new generation of ATMs and not least the highly popular Arion app.

The Banker noted that Arion Bank had lowered its cost of funding and that it was the first Icelandic bank since 2008 to issue a benchmark bond in euros earlier in the year. The €300 million bond has been performing well on the secondary market and the spread over interbank rates has decreased.



Stefán Pétursson, CFO of Arion Bank, accepts The Banker award on behalf of Arion Bank.



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## Standard & Poor's upgrades Arion Bank's ratings to investment grade

Following the government's announcement of its plans for the eventual removal of capital controls in Iceland the international ratings agency Standard & Poor's raised its ratings on Arion Bank from BB+ to the investment grade ratings of BBB-, with stable outlook. Standard & Poor's decision followed the ratings agency's decision to raise Iceland's ratings to BBB from BBB-. Arion Bank therefore continues to be at the sovereign's ceiling.

## Plan for lifting the capital controls – effect on Arion Bank

The government's plans for the lifting of the capital controls, announced in June, have generally been well received. In essence the estates of the failed banks can either meet certain stability conditions by the end of the year, which focus on maintaining economic stability in Iceland, or pay a 39% stability tax on all their assets if the estates fail to meet these conditions.

The creditors of the failed banks have already approved a framework on how each estate can meet the government's conditions. The conditions may include a direct contribution, loan refinancing, revenue sharing or converting deposits into long-term bonds.

For Arion Bank the main impact will be twofold. Firstly, the Bank has negotiated the refinancing of around ISK 100 billion of the Bank's debt with the Kaupthing estate. This debt is a loan from the Central Bank of Iceland and Kaupthing's foreign exchange deposits at Arion Bank. Both will be refinanced with a long-term bond issuance under Arion Bank's EMTN program.

Secondly, Arion Bank will undergo a change in ownership in the medium-term future. At the moment it is not clear when or how this will proceed. The matter is in the hands of the Bank's owners, Kaupthing (87%) and the government (13%), with the necessary support being provided by the Bank's management. It is, however, likely that within the next 12 months we will know more about how Arion Bank will be sold, whether it will be sold privately or publicly, to domestic or international investors. Many of Iceland's largest pension funds have stated their interest in playing a key role in new ownership of the Bank.

## Strong first nine months of 2015

Arion Bank reported net earnings of ISK 25.4 billion for the first nine months of 2015, compared with ISK 22.6 billion for the same period of 2014. Arion Bank's net earnings for the first nine months of 2015 were significantly affected by irregular items, as in the first half of 2014. The main factors were one-off events such as the Bank's sale of shares in the real estate company Reitir, the telecommunication company Síminn and the international drinks manufacturer Refresco Gerber and the subsequent stock market listing of these companies.

**Income statement**

	9M 2015	9M 2014	Diff	Diff%
Net interest income	20,287	18,309	1,978	11%
Net commission income	10,726	10,119	607	6%
Net financial income	10,176	5,861	4,315	74%
Other income	9,188	3,963	5,225	132%
<b>Operating income</b>	<b>50,377</b>	<b>38,252</b>	<b>12,125</b>	<b>32%</b>
Salaries and related expense	(10,320)	(10,026)	(294)	3%
Other operating expenses	(9,016)	(8,597)	(419)	5%
Bank levy	(2,168)	(2,009)	(159)	8%
Net impairment	(114)	2,877	(2,991)	-
<b>Net earnings before taxes</b>	<b>28,759</b>	<b>20,497</b>	<b>8,262</b>	<b>40%</b>
Income tax	(3,639)	(4,456)	817	(18%)
Net gain from disc. operations	277	6,592	(6,315)	-
<b>Net earnings</b>	<b>25,397</b>	<b>22,633</b>	<b>2,764</b>	<b>12%</b>

Return on equity was 19.8%, compared with 19.9% in the same period of 2014. Net earnings from regular operations amounted to ISK 13.5 billion for the first six months of 2015, compared with ISK 11.4 billion for the same period last year. Return on equity from regular operations was 11.2%, compared with 10.1% for the first half of 2014. Total assets amounted to ISK 1,009.5 billion, compared with ISK 933.7 billion at the end of 2014.

**Total assets**

Assets	30.09.2015	30.06.2015	2014	2013	2012	2011
Cash & balances with CB	73	33	21	38	30	29
Loans to credit institutions	93	104	109	102	101	69
Loans to customers	679	667	648	636	567	562
Financial assets	111	111	102	87	138	158
Investment property	8	8	7	29	29	27
Other assets	45	51	48	48	37	48
<b>Total Assets</b>	<b>1,009</b>	<b>975</b>	<b>934</b>	<b>939</b>	<b>901</b>	<b>892</b>

**Liabilities and Equity**

Due to credit institutions & CB	11	14	23	28	33	16
Deposits from customers	503	472	455	472	449	490
Other liabilities	62	67	61	58	59	52
Borrowings	248	242	201	205	195	187
Subordinated liabilities	10	11	32	32	34	32
Equity	175	168	162	145	131	115
<b>Total Liabilities and Equity</b>	<b>1,009</b>	<b>975</b>	<b>934</b>	<b>939</b>	<b>901</b>	<b>892</b>

The Bank's capital ratio at the end of the period was 23.5%, compared with 26.3% at the end of 2014. The decrease is mainly related to a dividend payment of ISK 12.8 billion and the prepayment of a subordinated loan of ISK 20 billion during the period. Tier 1 capital was 22.2%, the same as at the end of 2014.



## Equal Pay Certification

Arion Bank became the largest employer in Iceland to receive Equal Pay Certification from VR, one of Iceland's largest labour unions, and is also the only bank to have received this recognition. The certification process was carried out by The British Standards Institution (BSI) on behalf of VR. The Equal Pay Certification from VR confirms that the salary gap is below 5%. A difference of 5% represents a standard deviation according to VR but we at Arion Bank are resolved to do even better. The certification incorporates a quality management system to better coordinate salaries.

We place great importance on being a good and socially responsible bank. Employees should be able to count on there being no discrimination of any kind in the work place. It is a long-term project in which we constantly seek to improve.

## Arion Bank has managed all three public offerings this year



This year Arion Bank has sold its shareholdings in three companies that were subsequently listed on Nasdaq OMX Iceland. The listings represent the only three IPOs in Iceland this year, namely the real estate companies Eik and Reitir and now at the beginning of October Arion Bank sold 21% in the telecommunications company Síminn, which was listed on Nasdaq OMX on 15 October.

The public offering of Síminn was very successful with demand exceeding the Bank's expectations and the stock price ending up in line with or higher than market analysts had forecast.

All three companies came under Arion Bank's ownership in the financial restructuring process following the financial crisis. Arion Bank has in recent years managed seven stock offerings and in five of these the Bank sold a stake in the company in a public offering in the run-up to the listing.

## Arion Bank acquires the insurance company Vörður



It was announced on 8 October that Arion Bank and BankNordik had reached an agreement on the sale by BankNordik of its insurance company Vörður to Arion Bank. Arion Bank acquired 51% of Vörður with an option to buy all the shares. The purchase price of the 51% share is ISK 2.3 billion. The sale awaits the approval of the authorities.

## Economic Update

Each month the Arion Research sends out an economic update with the latest economic developments in Iceland. To subscribe to mailing list or to read the latest economic updates please visit our website.

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