

# Third quarter 2024 results

Press release 30 October 2024



# Arion Bank – Q3 2024 results

## Financial highlights for the third quarter 2024

- Arion Bank reports net earnings of ISK 7.9bn in Q3 2024, compared with ISK 6.1bn in Q3 2023
- Return on equity was 16.1%, compared with 12.9% in Q3 2023
- Earnings per share in ISK of 5.62, compared with 4.19 in Q3 2023
- Net interest margin of 3.1%, compared with 3.0% in Q3 2023
- Solid quarter for net commission income of ISK 3.9bn, compared with ISK 3.8bn in Q3 2023
- Best quarter in the history of Vördur, contributing standalone net results of ISK 1.7bn
- Core income, defined as net interest income, net commission income and insurance service results (excluding opex of the insurance operation), increased by 13.9%, compared with Q3 2023
- Operating expenses increased by 11.7%, compared with Q3 2023
- Effective tax rate was 21.1%
- Cost-to-core income ratio was 37.5%, compared with 38.2% in Q3 2023
- The balance sheet increased by 2.4% during the quarter
- Loans to customers increased by 1.5% during the quarter. The increase was 1.8% in corporate lending and 1.2% in loans to individuals, mainly mortgages
- Share buybacks of ISK 7.9bn in Q3 2024
- The Bank's capital ratio was 23.2% and the CET1 ratio was 18.8% 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 dividend in line with the Bank's dividend policy. The Group's capital ratio, as calculated under the Financial Undertakings Act No. 161/2002, was 22.8% and the CET1 ratio was 18.3%. These ratios comfortably exceed the requirements made by the FSA and Icelandic law

## Financial highlights for the first nine months 2024

- Arion Bank reports net earnings of ISK 17.8bn for 9M 2024, compared with ISK 19.5bn in 9M 2023
- Return on equity was 12.2%, compared with 13.9% in 9M 2023
- Earnings per share in ISK of 12.45, compared with 13.40 in 9M 2023
- Net interest margin of 3.1%, the same as for 9M 2023
- Net commission income of ISK 11.2bn for the first nine months of the year, a 10.1% decrease from 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 4.3% compared with 9M 2023
- Operating expenses increased by 10.4%, compared with 9M 2023
- Effective tax rate was high, 29.6%, due to unfavorable combination of income and expenses
- Cost-to-core income ratio was 43.8%, compared with 41.4% in 9M 2023
- The balance sheet increased by 5.2% from year-end 2023
- Share buybacks of ISK 12.5bn during 9M 2024
- Dividend payment of ISK 9.0 per share or a total of ISK 13.1bn in Q1 2024



## Benedikt Gíslason, CEO of Arion Bank

“Arion Bank has posted solid financial results for the third quarter which are in line with our expectations. We are particularly pleased to see how well Vörður performed in the period, delivering one of the strongest quarters in the company’s history. Other segments of our core operations also performed strongly and produced excellent results. It’s safe to say that our focus on diverse financial services and thereby diverse income streams engenders a certain amount of stability in our operations. The Bank’s capital and liquidity positions remain robust and comfortably above regulatory requirements.

We are continuing to contact customers who are switching from fixed rate mortgages following interest rate resets to discuss the options available to reduce their monthly repayments. These people have enjoyed excellent mortgage rates during a period of high policy rates but are now faced with higher mortgage repayments. Various options are available, but the situation is in many ways unfortunate as policy rates remain at 9% while inflation has dropped to 5.1%. This huge difference results in the real interest rates and therefore inflation-linked interest rates being historically high. Inflation-linked mortgages have been a safe haven sought by many households and therefore it is important that policy rates continue to fall so that real interest rates in Iceland also drop. The current interest rate environment means that we are cautious in our impairments.

In September Arion Bank renewed its partnership with the European Investment Fund. We collaborated with the EIF eight years ago and this enabled Arion Bank to fund numerous innovative projects in fields as diverse as aquaculture, data centres, green fuels and product development in skin care. The objective of our partnership this time around is to support Icelandic innovators by providing EIF-guaranteed loans. The collaboration allows us to lend up to ISK 15 billion to Icelandic small and medium sized companies at more favourable terms and to fund projects earlier in the process. Our focus will be on three main areas: sustainability, innovation and the digitalization of society, and culture and the creative industries.

We reached an important milestone recently when we published a sustainable financing framework. The framework replaces the Bank’s green financing framework and applies to the Bank’s funding and lending which is classified as environmentally and/or socially sustainable. We have endeavoured to provide a sustainable range of products, and we offer our customers green mortgages, car loans, deposits and business loans. The new framework will be used to further product development in the sustainable banking sector and to issue sustainable bonds.”

## Income Statement

<i>In ISK millions</i>	<b>Q3 2024</b>	<b>Q3 2023</b>	<b>Δ</b>	<b>Δ %</b>	<b>9M 2024</b>	<b>9M 2023</b>	<b>Δ</b>	<b>Δ %</b>
Net interest income	11,863	10,918	945	9%	35,056	33,338	1,718	5%
Net commission income	3,880	3,848	32	1%	11,224	12,486	(1,262)	(10%)
Insurance service results	1,532	395	1,137	288%	1,839	436	1,403	322%
Net financial income	524	(183)	707	-	652	(4)	656	-
Other operating income	(313)	8	(321)	-	(226)	1,613	(1,839)	-
<b>Operating income</b>	<b>17,486</b>	<b>14,986</b>	<b>2,500</b>	<b>17%</b>	<b>48,545</b>	<b>47,869</b>	<b>676</b>	<b>1%</b>
Operating expenses	(6,021)	(5,392)	(629)	12%	(19,727)	(17,871)	(1,856)	10%
Bank levy	(500)	(468)	(32)	7%	(1,436)	(1,374)	(62)	5%
Net impairment	(954)	(741)	(213)	29%	(2,044)	(1,361)	(683)	50%
<b>Net earnings before income tax</b>	<b>10,011</b>	<b>8,385</b>	<b>1,626</b>	<b>19%</b>	<b>25,338</b>	<b>27,263</b>	<b>(1,925)</b>	<b>(7%)</b>
Income tax expense	(2,114)	(2,274)	160	(7%)	(7,489)	(7,787)	298	(4%)
<b>Net earnings from cont. operations</b>	<b>7,897</b>	<b>6,111</b>	<b>1,786</b>	<b>29%</b>	<b>17,849</b>	<b>19,476</b>	<b>(1,627)</b>	<b>(8%)</b>
Discontinued operations, net of tax	(6)	20	(26)	-	(26)	37	(63)	-
<b>Net earnings</b>	<b>7,891</b>	<b>6,131</b>	<b>1,760</b>	<b>29%</b>	<b>17,823</b>	<b>19,513</b>	<b>(1,690)</b>	<b>(9%)</b>
<b>KFI's</b>								
Return on equity (ROE)	16.1%	12.9%			12.2%	13.9%		
Return on total assets (ROA)	2.0%	1.6%			1.5%	1.7%		
Earnings per share (in ISK)	5.62	4.19			12.45	13.40		
Cost to core income ratio	37.5%	38.2%			43.8%	41.4%		
Net interest margin (NIM)	3.1%	3.0%			3.1%	3.1%		
Core income / REA	7.5%	7.0%			7.1%	7.2%		

*Net interest income* increased by 8.7% in the third quarter, compared with the third quarter of 2023. The net interest margin (NIM) as a percentage of average interest-bearing assets was 3.1% for the quarter, compared with 3.0% for the third quarter of 2023. The ISK 945m increase in net interest income is mainly a result of the effect of inflation on increased net CPI balance. The CPI balance grew by more than ISK 100bn between years and was ISK 167.4bn at the end of September. The Central Bank base rate was 9.25% at the end of September 2024, unchanged from the end of September 2023. Average interest-bearing assets increased by 4.3%, compared with the third quarter of 2023, mainly loans to customers, whereas interest-bearing liabilities increased by 3.6%, mainly deposits. The Bank



expects NIM to be around 3% in the coming quarters with fluctuations in line with the trajectory of policy rates and inflation.

*Net commission income* was ISK 3.9bn, compared with ISK 3.8bn in the third quarter of the previous year. The quarter was strong in cards and payments as well as lending while there was less activity in capital markets and corporate finance. Asset management was stable with AuM increasing to ISK 1,577bn at period end. The comparison in commission income between years is impacted by the closure of the Keflavík airport branch and the reclassification of card insurance fees to insurance service results, a total of ISK 320m in the third quarter 2023.

*Insurance service results* of the insurance company Vördur were ISK 1,533m during the quarter, after the elimination of intercompany transactions. There has been strong growth of 10.4% in insurance revenues, compared with the third quarter of 2023, and the claims and reinsurance ratio was strong at 53.5%. The combined ratio for the third quarter of 2024 was 70%, compared with 88.6% for the same period in 2023.

*Net financial income* was ISK 524m for the quarter, which was solid for the core investment business. The investment portfolio of Vördur performed strongly but there was a mixed performance in other areas, including the mark-down of unlisted equity holdings.

*Other operating income* was negatively affected by the re-valuation of the Helguvík development plot of ISK 355m.

*Operating expenses* increased by 11.7% in the third quarter, compared with the same period in 2023. When 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 11.9%. There is an ongoing focus on operating expenses and efficiency within the Group. Cost-to-core income ratio was 37.5%, compared with 38.2% in the third quarter 2023, when including the operating expenses of the insurance operation. Salary expenses increased by 9.2% compared with the third quarter of 2023, partly due to a one-off payment related to new collective wage agreements and an increase in the number of full-time equivalent positions (FTEs). At the end of September, the number of FTEs was 851, an increase of 6.4% from the same period in 2023.

*Net impairment* was ISK 954m in the third quarter of 2024. Impairments are calculated at 31 bps on an annual basis.

*Income tax*, as reported in the financial statements, comprises 21% 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 favorable at 21.1% in the third quarter 2024. 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 2.8% from year-end 2023 and the liquidity position remains strong.

### Assets

<i>In ISK millions</i>	<b>30.09.2024</b>	<b>31.12.2023</b>	<b>Δ</b>	<b>Δ %</b>	<b>30.06.2024</b>	<b>Δ</b>	<b>Δ %</b>
Cash & balances with CB	96,323	102,095	(5,772)	(6%)	135,522	(39,199)	(29%)
Loans to credit institutions	32,772	28,835	3,937	14%	32,728	44	0%
Loans to customers	1,220,424	1,152,789	67,635	6%	1,202,616	17,808	1%
Financial instruments	214,307	205,706	8,601	4%	165,630	48,677	29%
Investment property	9,327	9,493	(166)	(2%)	9,633	(306)	(3%)
Intangible assets	7,833	8,051	(218)	(3%)	7,864	(31)	(0%)
Other assets	24,731	18,703	6,028	32%	14,796	9,935	67%
<b>Total assets</b>	<b>1,605,717</b>	<b>1,525,672</b>	<b>80,045</b>	<b>5%</b>	<b>1,568,789</b>	<b>36,928</b>	<b>2%</b>

### KFI's

REA / Total assets	60.4%	59.7%	60.7%
Share of stage 3 loans, gross	2.4%	1.7%	2.1%

*Loans to customers* increased by 5.9% or ISK 68bn from the end of 2023, with loans to corporates increasing by 6.6%, and loans to individuals growing by 5.2%. Part of this growth, or ISK 13.5bn, is due to inflation and changes in exchange rates. The growth rate has decreased in recent quarters, with the economy slowing down following the changes in the interest rate environment. 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 at 179% and the ISK LCR ratio at 131%. 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

In ISK millions	30.09.2024	31.12.2023	Δ	Δ %	30.06.2024	Δ	Δ %
Due to credit institutions & CB	6,715	2,771	3,944	142%	5,067	1,648	33%
Deposits from customers	848,434	792,710	55,724	7%	846,686	1,748	0%
Other liabilities	76,599	69,152	7,447	11%	67,378	9,221	14%
Borrowings	431,105	420,460	10,645	3%	415,116	15,989	4%
Subordinated liabilities	44,184	41,278	2,906	7%	42,091	2,093	5%
<b>Total liabilities</b>	<b>1,407,037</b>	<b>1,326,371</b>	<b>80,666</b>	<b>6.1%</b>	<b>1,376,338</b>	<b>30,699</b>	<b>2%</b>
Shareholders equity	198,175	198,798	(623)	(0%)	191,966	6,209	3%
Non-controlling interest	505	503	2	0%	485	20	4%
<b>Total equity</b>	<b>198,680</b>	<b>199,301</b>	<b>(621)</b>	<b>(0%)</b>	<b>192,451</b>	<b>6,229</b>	<b>3%</b>
<b>Total liabilities and equity</b>	<b>1,605,717</b>	<b>1,525,672</b>	<b>80,045</b>	<b>5%</b>	<b>1,568,789</b>	<b>36,928</b>	<b>2%</b>
<b>KFI's</b>							
Loans to Deposits ratio	143.8%	145.4%			142.0%		
CET 1 ratio	18.8%	19.7%			18.5%		
Capital adequacy ratio	23.2%	24.1%			22.8%		

*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 2023 is mainly from individuals and pension funds.

The maturity profile of *Borrowings* is balanced, and the Bank has broad funding options. The Bank has issued ISK 29bn in covered bonds in the Icelandic market for the first nine months and prepaid ISK 8bn from issue on the due date in Q2 2025. The Bank has also been active in the international markets with one EUR 300m benchmark issue and a smaller issue in Scandinavia. The Bank has no significant covered bonds maturities until Q2 2025 and FX maturities in Q3 2025. The Bank will continue to regularly issue in the domestic market and access the international markets periodically.

The Bank has worked on optimizing *subordinated liabilities* during the year. In September the Bank successfully issued a new USD-denominated Additional Tier 1 transaction for a total of \$125 million. The bond issue was oversubscribed with total demand of around \$250 million. Participation was diverse with orders received from over 35 unique investors across the UK, Europe, Asia and Iceland. The issuance strengthens the Bank's own funds and the maintenance of an optimal capital structure in line with the Bank's medium-term targets. The bonds have a fixed coupon of 8.125%. The notes will have a standalone and consolidated 5.125% CET1 trigger with equity conversion.

*Shareholders' equity* decreased due to ISK 13.1bn dividend payment and ISK 12.5bn share buyback, which was partly offset by the net earnings of ISK 17.8bn in the first nine months of 2024. The leverage ratio was 12.0% at the end of September, compared with 12.4% at the end of 2023, which is high by international standards. CET1 capital is ISK 10-20bn in excess of target capital structure.

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

## Medium-term financial targets of Arion Bank

	Actuals Q3 2024	Actuals 9M 2024	Arion Bank's medium-term financial targets
Return on equity	16.1%	12.2%	Exceed 13%
Core operating income / REA	7.5%	7.1%	Exceed 7.2%
Insurance revenue growth (YoY)	10.4%	12.7%	In excess of market growth (10.3% in 6M 2024)
Combined ratio	70.0%	87.4%	Below 95%
Cost-to-core income ratio	37.5%	43.8%	Below 45%
CET1 ratio above regulatory capital requirements	355 bps	355 bps	150-250 bps management buffer (~16.7 - 17.7%)
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 31 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 31 October 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 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](#).



## Financial calendar

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

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

## 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.

