Earnings Press Release, 10 February 2021

Arion Bank's financial results for Q4 2020 and for the year 2020

- Arion Bank reports net earnings of ISK 5,761 million in Q4 2020, a significant improvement from Q4 2019
- Net earnings amounted to ISK 8,110 million from continuing operations, an improvement of 56% from Q4 2019
- Return on equity in Q4 was 11.8%, compared with a negative 5.8% in Q4 2019
- Net interest margin was 2.9% in a low interest rate environment, compared with 3.0% in Q4 2019
- Core revenues increased by 8.2%, compared with Q4 2019
- The Bank's total assets increased by 8% from year-end 2019 where the loan book increased by 6% and deposits by 15%
- Net earnings of ISK 12,469 million in 2020 and 6.5% ROE, compared with ISK 1,100 million and 0.6% ROE in 2019.
- Net earnings from continuing operations amounted to ISK 16,747 million and increased by 19% from the previous year
- The Bank's capital ratio was 27.0% and the CET1 ratio was 22.3% at the end of the year, assuming Board's proposal of ISK 3 billion dividend payment, equaling ISK 1.74 per share, and ISK 15 billion buy-back of own shares
- Share buy-back program has been approved by the Board of Directors
- Arion Bank is well prepared for the future with a revised Strategic Direction and updated Medium Term Targets

Arion Bank reported net earnings of ISK 8,110 million from continuing operations in the fourth quarter and ISK 16,747 million from continuing operations during the year. Net earnings amounted to ISK 5,761 million for the quarter and ISK 12,469 million for the year. Return on equity was 11.8% for the quarter and 6.5% for the year. Return on equity, assuming 17% CET1 ratio, was 14.9% for the quarter and 7.9% for the year.

Total assets amounted to ISK 1,173 billion at the end of the year, compared with ISK 1,082 billion at the end of 2019. Loans to customers increased by 6% from year-end 2019, primarily due to mortgage lending. Liquid assets increased due to significant deposit growth and proceeds from the Bank´s issuance of AT1 in February. Deposits increased by 15% from year-end 2019, as the Bank focused on deposits from individuals and corporates. Total equity amounted to ISK 198 billion at the end of the year, compared with ISK 190 billion at the end of 2019.

The Bank's capital ratio, as calculated under the Financial Undertakings Act No. 161/2002, was 27.0% at the end of the year, compared with 24.0% at the end of 2019. The CET 1 ratio was 22.3% at the end of the year, compared with 21.2% at the end of 2019. These ratios assume a dividend payment of ISK 3 billion and ISK 15 billion buy-back of own shares, which has 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. The Group's own funds increased by ISK 28 billion from year-end 2019.

The Board of Directors of Arion Bank has approved to authorize the management of the Bank to initiate share buy-back programs in Iceland and Sweden to purchase own shares (including in the form of SDRs). As soon as available, the Bank will disclose information about the initiation date, daily volume limits and the manager(s) of the Programs, which will be independent and make trading decisions independently and without influence by the Bank with regards to the timing of purchases (see Single press release - Arion Bank).

Benedikt Gíslason, CEO of Arion Bank

"The economic and social impact of the Covid-19 pandemic meant that 2020 was a year like no other. Nevertheless the Bank managed to successfully adapt its business to the new reality after restrictions on gatherings came into effect in March, and our employees deserve plaudits for their fortitude and resourcefulness. Some 80% of employees were working from home for an extended period, where they got on with their work and continued to serve our customers. At one stage our branches were only open to people with appointments. The migration to digital services which has occurred in financial services in Iceland proved to be invaluable in 2020, as retail and corporate customers were able to take care of nearly all their financial needs using digital platforms and could make contactless payments to buy goods and services.

The Bank's financial results improved substantially between years, both net earnings and earnings from continuing operations, illustrating that the organizational changes and shifts in focus made at the end of the third quarter of 2019 have had the desired effect. The fourth quarter results were particularly strong, with earnings from continuing operations up 56% YoY, and return on equity in the period was in excess of the Bank's target of 10%. The Financial Supervisory Authority of the Central Bank of Iceland has approved the Bank's request to be permitted to buy back up to ISK 15 billion of own shares, which is positive news for Arion Bank and hopefully the entire banking sector. The Bank will also propose at its AGM that a dividend of approximately ISK 3 billion be paid. Despite this the Bank continues to have one of the strongest financial positions in Europe and has significant lending capacity.

In response to the changing economic conditions Arion Bank was the first bank in Iceland to offer both retail and corporate customers the option of deferring repayments on their loans. Payment holidays were granted on loans totalling ISK 130 billion and at the end of the year the figure was ISK 35 billion. At the same time the Bank granted a record number of mortgages, which is obviously due to the low interest rate environment. At year-end approximately half of the Bank's mortgage portfolio were loans granted in 2020, a total of ISK 200 billion. Corporate lending was also unusually strong, with ISK 440 billion going to companies in 2020, a significant proportion being to companies refinancing loans. New corporate loans included more than ISK 1 billion in the form of supplementary loans and approximately ISK 3 billion in business support loans which formed part of the raft of government measures relating to Covid-19. As the year progressed the markets rallied and assets under management at the Bank increased by more than ISK 100 billion during the year. Arion Bank was the leading equities broker in Iceland for the fifth year in succession.

We saw a surge in the use of our digital channels in 2020 which also means that we are in much more frequent contact with our customers. We interacted with all of our customers once a day on average in 2020, a total of 42 million interactions, 99% of which were digital. The growing popularity of our digital platforms provides us with huge potential to further enhance our services in the future, making them even more convenient and efficient.

In 2020 we sought to expand our range of green products. Mid-year we launched a new deposit account called Green Deposits which has been used to finance the Bank's green car loans. By investing in Green Deposits our customers can contribute to the vital transition to renewable energy. The reaction from customers has exceeded all our expectations and due to its popularity we have expanded the account framework. We were also the first bank to offer green mortgages with special interest rates. By providing the option of green mortgages our prime objective is to encourage individuals, construction companies and real estate companies to build more environmentally friendly housing, as in our opinion there is currently too little available.

In December the board of directors approved a revised strategy for the Bank which builds on the journey the Bank has been taking in recent years, our culture and values and the shifts in focus which were introduced in September 2019. The Bank's new core strategy is to excel by offering smart and reliable financial solutions which create future value for our customers, shareholders and society as a whole. We have already begun to implement the strategy and it will shape our business and services over the coming years.

The economy is showing clear signs of a recovery now that external uncertainty is beginning to recede. It is crucial that we as a country bounce back strongly so that the economy can quickly regain its former strength. Arion Bank is well set to play its role in the economic recovery alongside our dedicated and hard-working customers."

Income Statement

In ISK millions	Q4 2020	Q4 2019	Δ	Δ %	2020	2019	Δ	Δ %
Net interest income	8,059	7,693	366	5%	31,158	30,317	841	3%
Net commission income	3,116	2,615	501	19%	11,642	9,950	1,692	17%
Net insurance income	766	723	43	6%	3,071	2,886	185	6%
Net financial income	1,362	489	873	179%	2,745	3,212	(467)	(15%)
Other operating income	1,410	208	1,202	578%	2,148	1,633	515	32%
Operating income	**14,713**	**11,728**	**2,985**	**25%**	**50,764**	**47,998**	**2,766**	**6%**
Salaries and related expenses	(3,121)	(3,076)	(45)	1%	(12,332)	(14,641)	2,309	(16%)
Other operating expenses	(3,486)	(3,366)	(120)	4%	(12,109)	(12,222)	113	(1%)
Operating expenses	**(6,607)**	**(6,442)**	**(165)**	**3%**	**(24,441)**	**(26,863)**	**2,422**	**(9%)**
Bank levy	(263)	(357)	94	(26%)	(1,301)	(2,984)	1,683	(56%)
Net impairment	74	1,203	(1,129)	-	(5,044)	(382)	(4,662)	-
Net earnings before income tax	**7,917**	**6,132**	**1,785**	**29%**	**19,978**	**17,769**	**2,209**	**12%**
Income tax expense	193	(923)	1,116	(121%)	(3,231)	(3,714)	483	(13%)
Net earnings from cont. operations	**8,110**	**5,209**	**2,901**	**56%**	**16,747**	**14,055**	**2,692**	**19%**
Discontinued operations, net of tax	(2,349)	(7,981)	5,632	(71%)	(4,278)	(12,955)	8,677	(67%)
Net earnings	**5,761**	**(2,772)**	**8,533**	**-**	**12,469**	**1,100**	**11,369**	**1,034%**

KFI's	Q4 2020	Q4 2019	2020	2019
Return on equity (ROE)	11.8%	(5.8%)	6.5%	0.6%
Return on equity, continuing operations	16.6%	10.8%	8.8%	7.2%
Return on equity assuming 17% CET 1	14.9%	(6.7%)	7.9%	0.4%
Return on total assets (ROA)	1.9%	(1.0%)	1.1%	0.1%
Earnings per share (in ISK)	7.26	(1.53)	7.24	0.61
Cost to income ratio (C/I)	44.9%	54.9%	48.1%	56.0%
Net interest margin (NIM)	2.9%	3.0%	2.9%	2.8%
Operating income / REA	8.0%	6.4%	7.0%	6.4%

Net interest income increased in the fourth quarter by 5%, compared with the fourth quarter of 2019. The net interest margin (NIM) as a percentage of average interest-bearing assets was 2.9% during the quarter, compared with 3.0% for the same period in 2019. The main reasons for the increase in net interest income, despite the lowering interest environment, is the lower average funding cost due to the higher percentage of deposits in total funding, slightly higher inflation and activities on the lending side, especially in the corporate loan book.

Net commission income from lending and guarantees has been exceptionally strong, mainly driven by the prepayment of loans and loan service agreements, whereas volume-related fees have decreased due to the pandemic. During the fourth quarter activities in Corporate Finance were significant with favorable fee income.

Insurance premiums earned at the insurance company Vördur have been increasing, but volatility in net insurance income is mainly due to seasonal fluctuations in the claim rate. The combined ratio for the fourth quarter of 2020 was 96.8%, compared with 94.4% for the same period in 2019 and is highly competitive in the domestic market.

Net financial income increased significantly compared with the fourth quarter of 2019, as equity markets performed very favorably. Equity holdings increased both domestically and internationally but there was a significant loss from the buy-back of issued bonds and FX position during the quarter as the ISK strengthened against foreign currencies during the quarter.

Other operating income increased significantly in the fourth quarter of 2020, compared with the same period in 2019, mainly due to profit from sale and fair value changes on investment property, mainly land for residential development, that the Bank holds in the Reykjavik area. There were also profit from sale of real estate in the branch network, which the Bank has been optimizing over the last few years.

Operating expenses increased slightly compared with the fourth quarter of 2019. Salaries and related expenses are stable in the fourth quarter, whereas other operating expenses increase slightly. At the end of the year the number of full-time equivalent positions (FTEs) was 776 at the Group and 648 at the Bank. IT expenses increased significantly due to the increased focus on IT solutions in the Bank’s operation. Housing cost increased as the Bank is reorganizing and renovating its business premises with the aim of improving staff wellbeing and lowering expenses going forward. Other operating expenses have been trending down, partly due to Covid-19.

Net impairment is insignificant in the fourth quarter of 2020. The calculated cost of risk was 71 bps of loans to customers in 2020, of which 24.2 bps (34% of net impairment) is due to changes in economic scenarios in IFRS 9 models, 24.2 bps (34% of net impairment) is due to specific impairment (Stage 3), 16.2 bps (23% of net impairment) is due to an increase in tourism exposure and 6.4 bps (9% of net impairment) is due to other increases in credit risk. Uncertainty persists regarding the valuation of assets due to the pandemic.

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 1 billion. The effective income tax rate was 16.2% for 2020, compared with 20.9% in 2019. The minimal income tax in the fourth quarter is due to the high percentage of income which is not taxable, i.e. valuation changes in shares and price increases and capital gains on investment assets. However, the loss from other securities such as bonds, exchange rate losses and the loss due to the buy-back of issued bonds is deductible, which reduced the tax base. In general, the combination of income is the main driver for the fluctuation in the effective tax rate.

The discontinued operations held for sale comprise the operating results of the subsidiaries Valitor hf., Stakksberg ehf. and Sólbjarg ehf. The reasons for the negative results of discontinued operations in past quarters are chiefly twofold: negative operational results of Valitor and valuation changes of Stakksberg and Sólbjarg.

- Valitor is an international payments company, with operations primarily in Iceland, the UK and the Nordic countries, and it provides both card acquiring services and card issuing services. During the year Valitor underwent extensive organizational changes and streamlining measures and sold off its business in Denmark and some of its UK operation. These measures have already yielded positive results. However, Valitor's contribution to the net earnings of the Group was a loss of ISK 0.5 billion during the fourth quarter. The sale process of Valitor is ongoing.
- Stakksberg's operations comprise a silicon production plant. During the fourth quarter a net impairment of ISK 1.4 billion was made on assets of Stakksberg, as continued uncertainty remains regarding the reopening of the silicon smelter.
- Sólbjarg is the holding company of tour operators in Scandinavia and Iceland. The business has been undergoing restructuring during the year as the travel industry has been hit hard by the global pandemic. As part of the restructuring process units have been sold off, both in Iceland and abroad. Sólbjarg had a minor impact on the Group's earnings during the fourth quarter.

Balance sheet

The balance sheet increased by 8% from year-end 2019 with loans to customers and liquid assets being the main driver of the increase. The liquidity position has mainly increased due to an increase in deposits and the issuance of AT1 in February.

Assets

In ISK millions	**31.12.2020**	**31.12.2019**	Δ	**Δ %**	**30.09.2020**	Δ	**Δ %**
Cash & balances with CB	42,136	95,717	(53,581)	(56%)	87,517	(45,381)	(52%)
Loans to credit institutions	28,235	17,947	10,288	57%	39,484	(11,249)	(28%)
Loans to customers	822,941	773,955	48,986	6%	807,866	15,075	2%
Financial assets	227,251	117,406	109,845	94%	234,937	(7,686)	(3%)
Intangible assets	9,689	8,367	1,322	16%	9,398	291	3%
Assets and disposal groups HFS	16,811	43,626	(26,815)	(61%)	30,821	(14,010)	(45%)
Other assets	25,643	24,837	806	3%	26,193	(550)	(2%)
Total assets	**1,172,706**	**1,081,855**	**90,851**	**8%**	**1,236,216**	**(63,510)**	**(5%)**
KFI's							
REA / Total assets	63.6%	66.5%			58.9%		
Share of stage 3 loans, gross	2.6%	2.7%					

Loans to customers increased by 6.3% from the end of 2019, mainly mortgage lending. Corporate and SME lending measured in ISK decreased slightly as FX loans increased in value with the depreciation of the ISK from year-end. The loan book continues to be well balanced between individuals and corporates. Loans to individuals increased by 5% during the fourth quarter and 18% from year-end 2019, with mortgages driving the growth and being 46% of the loan portfolio at year-end 2020. Loans to corporates decreased by 1.3% during the fourth quarter and decreased by 4.2% from year-end, partly due to prepayments of large corporate loans in line with strategy and additional impairments.

There was a significant turnover in the loan book during the year, both refinancing and new loans. Proportionally, the change is greatest in mortgage loans to individuals, as more than half of the mortgage loan portfolio is new or was refinanced during the year, or ISK 211 billion. During the fourth quarter, new mortgage loans amounted to ISK 60 billion, while the net increase, taking into account prepayments, amounted to ISK 20 billion.

Arion Bank has been supporting its customers and worked with the Icelandic authorities to develop government guaranteed loan facilities targeted at corporates that are going through temporary difficulties. At year-end 2.00% of individual loans (by amount), predominantly mortgages, and 6.56% of corporate loans were in payment moratorium. At the end of the year the Bank had made more than 320 loans with the government guarantee amounting to ISK 4.1 billion.

The Bank's liquidity position is very strong with total LCR ratio 188% and ISK LCR ratio 144%. That is reflected in 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 Valitor ehf., Stakksberg ehf. and Sólbjarg ehf. Total contribution of assets from HFS entities to the Group was ISK 15,788 million at the end of the year, thereof Valitor ISK 11,885 million. The net value of those companies was ISK 10.8 billion at the end of 2020.

Liabilities and equity

In ISK millions	**31.12.2020**	**31.12.2019**	**Δ**	**Δ %**	**30.09.2020**	**Δ**	**Δ %**
Due to credit institutions & CB	13,031	5,984	7,047	118%	10,802	2,229	21%
Deposits from customers	568,424	492,916	75,508	15%	602,842	(34,418)	(6%)
Other liabilities	42,216	39,672	2,544	6%	58,103	(15,887)	(27%)
Borrowings	298,947	304,745	(5,798)	(2%)	308,913	(9,966)	(3%)
Subordinated liabilities	36,060	20,083	15,977	80%	36,867	(807)	(2%)
Liabilities associated w/disposal groups HFS	16,183	28,630	(12,447)	(43%)	26,193	(10,010)	(38%)
Total liabilities	**974,861**	**892,030**	**82,831**	**9%**	**1,043,720**	**(68,859)**	**(7%)**
Shareholders equity	197,672	189,644	8,028	4%	192,324	5,348	3%
Non-controlling interest	173	181	(8)	(4%)	172	1	1%
Total equity	**197,845**	**189,825**	**8,020**	**4%**	**192,496**	**5,349**	**3%**
Total liabilities and equity	**1,172,706**	**1,081,855**	**90,851**	**8%**	**1,236,216**	**(63,510)**	**(5%)**
KFI's							
Loans to Deposits ratio	144.8%	157.0%			134.0%		
CET1 ratio	22.3%	21.2%			22.5%		
Capital adequacy ratio	27.0%	24.0%			27.6%		

Deposits from customers remain the most important source of funding for Arion Bank and a greater focus on deposit funding has resulted in a significant increase. The increase is in all the main classes i.e. from individuals, corporates and public entities.

The decrease in *borrowings* from the end of September is primarily due to the strengthening of the ISK against foreign currencies. The decrease from year-end 2019 is mainly due to the optimizing of the funding structure, with deposits constituting the majority of total funding. There are limited refinancing needs over the next few quarters but the remaining EUR 200 million maturity in Q4 2021 is the next foreseeable target.

The Bank issued its first AT1 instrument during the first quarter of 2020 in the amount of approximately ISK 13 billion (USD 100 million). The Bank has previously issued a number of Tier 2 subordinated bonds in line with its capital strategy and has now issued the required subordinated bonds.

Shareholders' equity increases due to the financial results for the year, which are partly offset by the purchase of own shares in the amount of ISK 4.4 billion. The share buy-back program continued until the AGM in March 2020. The leverage ratio was 15.1% at the end of the year, compared with 14.1% at the end of 2019, which is very high in international comparison. At year-end the Group had ISK 66 billion of CET1 capital in excess of regulatory requirements and ISK 40 billion in excess of the Group's target CET1 ratio of 17%, in addition to the foreseeable ISK 18 billion equity reduction.

For further information on the accounts please visit the Arion Bank's website.

Financial targets

Arion Bank's has adopted updated medium-term financial targets:

Return on Equity	Exceed 10%
Revenues / RWA's	Exceed 6.7% - *was 6.5%*
Cost to Income Ratio	Reduce to 45% - *was 50%*
Loan growth	The loan book will grow in line with economic growth, with growth in mortgage lending expected to outpace corporate lending.
CET 1 Ratio	Reduce to 17%
Dividend policy / Share buy-back	Pay-out ratio of approximately 50% of net earnings attributable to shareholders through either dividends or buy-back of the Bank's shares or a combination of both. Additional distributions will be considered when Arion Bank's capital levels are above the minimum requirements set by the regulators in addition to the Bank's management buffer.

Investor webcast on 11 February at 9:30 CET (8:30 GMT)

Arion Bank will be hosting a webcast on Thursday 11 February at 9:30 CET (8:30 GMT) where CEO Benedikt Gíslason, CFO Stefán Pétursson, Deputy CFO Eggert Teitsson and Head of Investor Relations Theodór Fridbertsson will present the results and answer questions from participants. The webcast will take place in English and will be streamed live.

The webcast will be accessible live on *financialhearings.com* and a link will also be made available on the Bank's website under *Investor Relations*.

To participate in the webcast via telephone and ask questions please call in using the relevant number indicated below before the start of the webcast:

Sweden	+46 850 558 354
UK	+44 333 300 9261
Iceland	+354 800 7520
USA	+1 844 625 1570

For further information please contact Theodór Fridbertsson, Head of IR, tel.+354 856 6760, and for media enquiries Haraldur Gudni Eidsson, Head of Corporate Communications, tel. +354 856 7108.

Financial calendar

The Bank's Financial Statements are scheduled for publication as stated below. The calendar may be subject to change.

AGM 2021	16 March 2021
Q1 2021 Financial results	5 May 2021
Q2 2021 Financial results	28 July 2021
Q3 2021 Financial results	27 October 2021

This is information that Arion Bank hf. is obliged to make public pursuant to the EU Market Abuse Regulation. The information was submitted for publication through the agency of the contact persons set out above.

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.

Consolidated Income Statement
Q4 2020 overview

Consolidated Income Statement - Q4 2020 overview

	Notes	Q4 2020	Q4 2019
Interest income		12,707	13,306
Interest expense		(4,647)	(5,613)
Net interest income	A	**8,060**	**7,693**
Fee and commission income		3,529	3,074
Fee and commission expense		(414)	(459)
Net fee and commission income	B	**3,115**	**2,615**
Net insurance income	C	766	723
Net financial income	D	1,362	489
Share of (loss) profit of associates		(22)	7
Other operating income	E	1,431	200
Other net operating income		**3,537**	**1,419**
Operating income		**14,712**	**11,727**
Salaries and related expenses	F	(3,121)	(3,076)
Other operating expenses	G	(3,486)	(3,366)
Operating expenses		**(6,607)**	**(6,442)**
Bank levy		(263)	(357)
Net impairment	H	74	1,203
Earnings before income tax		**7,916**	**6,131**
Income tax	I	194	(923)
Net earnings from continuing operations		**8,110**	**5,208**
Discontinued operations held for sale, net of income tax	J	(2,349)	(7,981)
Net earnings (loss)		**5,761**	**(2,773)**

Attributable to

		Q4 2020	Q4 2019
Shareholders of Arion Bank hf.		5,760	(2,776)
Non-controlling interest		1	3
Net earnings (loss)		**5,761**	**(2,773)**

Amounts are in ISK millions

Notes to the Consolidated Income Statement - Q4 overview

A. Net interest income

Q4 2020	Amortized cost	Fair value thr. P/L	Fair value thr. OCI	Total
Interest income				
Cash and balances with Central Bank	132	-	-	132
Loans to credit institutions	41	-	-	41
Loans to customers	11,442	-	-	11,442
Securities	-	353	720	1,073
Other	19	-	-	19
Interest income	11,634	353	720	12,707
Share of (loss) profit of associates				
Deposits	(1,209)	-	-	(1,209)
Borrowings	(2,938)	-	-	(2,938)
Subordinated liabilities	(475)	-	-	(475)
Other	(25)	-	-	(25)
Interest expense	(4,647)	-	-	(4,647)
Net interest income	6,987	353	720	8,060

Q4 2019	Amortized cost	Fair value thr. P/L	Fair value thr. OCI	Total
Income tax				
Cash and balances with Central Bank	916	-	-	916
Loans to credit institutions	79	-	-	79
Loans to customers	11,786	46	-	11,832
Securities	-	271	172	443
Other	36	-	-	36
Interest income	12,817	317	172	13,306
Interest expense				
Deposits	(2,447)	-	-	(2,447)
Borrowings	(2,956)	-	-	(2,956)
Subordinated liabilities	(182)	-	-	(182)
Other	(28)	-	-	(28)
Interest expense	(5,613)	-	-	(5,613)
Net interest income	7,204	317	172	7,693

Interest spread	Q4 2020	Q4 2019
Interest spread (the ratio of net interest income to the average carrying amount of interest bearing assets)	2.9%	3.0%

B. Net fee and commission income

	Q4 2020			Q4 2019		
	Income	Expense	Net income	Income	Expense	Net income
Asset management	1,095	(115)	980	999	(131)	868
Capital markets and corporate finance	473	(9)	464	406	(7)	399
Lending and financial guarantees	1,072	-	1,072	704	-	704
Collection and payment services	330	(25)	305	372	(28)	344
Cards and payment solution	374	(63)	311	377	(117)	260
Other	185	(202)	(17)	216	(176)	40
Net fee and commission income	3,529	(414)	3,115	3,074	(459)	2,615

Amounts are in ISK millions

Notes to the Consolidated Income Statement - Q4 overview

C. Net insurance income

	Q4 2020	Q4 2019
Earned premiums, net of reinsurers' share		
Premiums written	2,589	2,394
Premiums written, reinsurers' shares	(149)	(108)
Change in provision for unearned premiums	534	557
Earned premiums, net of reinsurers' share	2,974	2,843
Claims incurred, net of reinsurers' share		
Claims paid	(2,022)	(2,087)
Claims paid, reinsurers' share	149	13
Change in provision for claims	(209)	(117)
Changes in provision for claims, reinsurers' share	(126)	71
Claims incurred, net of reinsurers' share	(2,208)	(2,120)
Net insurance income	766	723

D. Net financial income

	Q4 2020	Q4 2019
Net gain on financial assets and financial liabilities mandatorily measured at fair value through profit or loss	2,799	616
Net loss on buy back of issued bonds	(779)	(217)
Net loss on fair value hedge of interest rate swap	(67)	(194)
Realized (loss) gain on financial assets carried at fair value through OCI	(87)	421
Net foreign exchange loss	(504)	(137)
Net financial income	1,362	489

Net gain on financial assets and financial liabilities mandatorily measured at fair value through profit or loss

	Q4 2020	Q4 2019
Equity instruments	3,055	870
Debt instruments	(308)	(158)
Derivatives	52	(96)
Net gain on financial assets and financial liabilities mandatorily measured at fair value through profit or loss	2,799	616

Net loss on fair value hedge of interest rate swap

	Q4 2020	Q4 2019
Fair value change of interest rate swaps designated as hedging instruments	(161)	(673)
Fair value change on bonds issued by the Group attributable to interest rate risk	94	479
Net loss on fair value hedge of interest rate swap	(67)	(194)

E. Other operating income

	Q4 2020	Q4 2019
Fair value changes on investment property	580	-
Realised gain on investment property	327	-
Net gain on disposal of assets	322	50
Net gain on assets held for sale	148	93
Other income	54	57
Other operating income	1,431	200

Net gain on assets held for sale

	Q4 2020	Q4 2019
Income from real estates and other assets	176	106
Expense related to real estates and other assets	(28)	(13)
Net gain on assets held for sale	148	93

Amounts are in ISK millions

Notes to the Consolidated Income Statement - Q4 overview

F. Salaries and related expenses

Salaries and related expenses	Q4 2020	Q4 2019
Salaries	2,647	2,512
Defined contribution pension plans	392	366
Salary-related expenses	230	340
Capitalization of salaries due to implementation of core systems	(148)	(142)
Salaries and related expenses	3,121	3,076

G. Other operating expenses

IT expenses	1,482	1,312
Professional services	277	326
Housing expenses	411	287
Other administration expenses	671	788
Depositors' and Investors' Guarantee Fund	128	165
Depreciation of property and equipment	222	239
Depreciation of right of use asset	35	32
Amortization of intangible assets	260	217
Other operating expenses	3,486	3,366

H. Net impairment

Net impairment on financial instruments		
Net change in impairment of loans to credit institutions	(8)	6
Net change in impairment of loans to corporates	918	18
Net change in impairment of loans to individuals	769	567
Write offs on loans and receivables to corporates	(1,374)	(813)
Write offs on loans and receivables to individuals	(377)	(366)
Payments on loans and receivables previously written off from corporates	1	-
Payments on loans and receivables previously written off from individuals	37	31
Net change in impairment of financial instruments at FVOCI	2	(2)
Net change in impairment of loan commitments, guarantees and unused credit facilities	(57)	24
Net impairment on financial instruments	(89)	(535)
Other value changes of loans		
Increase in book value of loans to corporates	8	15
Increase in book value of loans to individuals	155	1,723
Other value changes of loans	163	1,738
Net impairment	74	1,203

Increase in book value of loans to individuals and corporates is mainly due to release of discount from loans acquired with discount during the years 2008 to 2013, both due to impairments and other discount rate than reflected in the interest rates of the loans. The discount release was primarily related to loans that were paid up or sold during the period.

I. Income tax

	Q4 2020	Q4 2019
Current tax expense	(104)	(577)
Deferred tax expense	298	(346)
Income tax	194	(923)

Amounts are in ISK millions

Notes to the Consolidated Income Statement - Q4 overview

J. Discontinued operations held for sale, net of income tax

	Q4 2020	Q4 2019
Net loss from discontinued operations held for sale	(2,307)	(8,388)
Income tax	(42)	407
Discontinued operations held for sale, net of income tax	(2,349)	(7,981)
Valitor hf.	(446)	(5,649)
Stakksberg ehf.	(1,819)	(2,347)
Sólbjarg ehf.	(84)	15
Discontinued operations held for sale, net of income tax	(2,349)	(7,981)

Amounts are in ISK millions