

Ladies and gentlemen,

Thank you all for taking the time to be here with us today.

The Icelandic economy and financial system have been performing well in the past few years. GDP growth has been well above the average in Iceland's neighbouring countries, and other economic indicators are heading in the right direction. The authorities took this into account when the last major steps in lifting the capital controls were taken in 2017. Arion Bank has benefitted from operating in this dynamic and growing economy and continues to occupy a strong position on its markets.

The ownership of Arion Bank underwent change in 2017, after being unchanged since 2010. Almost a year ago, Kaupthing sold just under 30% in Arion Bank to three investment funds and Goldman Sachs. The investment funds Attestor Capital and Taconic Capital Advisors were the main investors and each acquired just under 10% in the Bank. The Financial Supervisory Authority (FME) has deemed Attestor Capital to be eligible to hold a qualifying holding in Arion Bank and the fund consequently added slightly to its share. Taconic Capital Advisors has also been deemed eligible by the FME but the FME considers Taconic and Kaupskil to be working in partnership and therefore the same terms apply to Taconic Capital as to Kaupthing.

Further changes to the ownership of Arion Bank occurred at the beginning of 2018 when just over 2.5% in the Bank was sold to 24 established Icelandic funds

managed by four of the country's largest fund management companies. In addition, two shareholders increased their stakes; Attestor Capital by 2% and Goldman Sachs by 0.8%. Kaupskil also decided to exercise its call option on the Icelandic government's 13% holding in the Bank. The call option was based on an agreement with the Icelandic government from September 2009. The Icelandic government is therefore no longer a shareholder in Arion Bank. Simultaneously Arion Bank bought back shares amounting to 9.5%.

We could see further changes in the Bank's ownership during this year if Kaupthing continues to reduce its shareholding. The flotation of Arion Bank on stock markets at home and abroad is one of the options on the table, although the timing and format of any sell-down have not yet been confirmed.

Arion Bank is the only major bank in Iceland today which is not government owned. Nevertheless, owing to the stability conditions agreed by the Icelandic government and Kaupthing, it is primarily the Icelandic state which will benefit from Kaupthing's sale of its shares in Arion Bank as the vast majority of the proceeds will go to the government. The Board of Directors and shareholders of Arion Bank are well aware that that the focus will be on us when the next steps in selling the Bank are taken, with the privatization of other financial institutions in mind, and we are keen to ensure that we do the best job possible.

Despite the marked economic improvement in Iceland, the government has continued to impose uniquely Icelandic taxes which were introduced at the height of Iceland's financial difficulties. These taxes are highly oppressive on financial institutions and undermine their competitiveness and hit customers the hardest.

I would particularly like to mention two things in this context. Firstly, there is the bank levy which is 0.376% on the Bank's funding. What is often forgotten here is that customer deposits form the major part of the funding of Icelandic financial institutions. It is abundantly clear that this tax burden places limitations on the Icelandic banks and restricts the terms that they can offer their customers on both deposits and loans. This tax makes it more difficult for banks to compete on a level playing field with international banks who offer Iceland's major companies funding in foreign currencies.

Secondly, I would like to mention competition with pension funds on the mortgage market. The pension funds are not subject to capital adequacy requirements nor do they pay taxes. It is thus obvious that the banks are at severe competitive disadvantage. It is vital that the Icelandic government considers reviewing this taxation which ultimately affects the terms that banks such as Arion Bank can offer their customers. Despite this, Arion Bank had an outstanding year on the mortgage loans market, and the key to this success is the quality of service following the introduction of new digital solutions which have been warmly welcomed by our customers. This was especially pleasing given that mortgages represent a vital market to Arion Bank, which is the largest provider of mortgages in Iceland after the Housing Financing Fund.

The financial services sector is undergoing profound change across the world. And each bank needs to decide itself how it intends to deal with competition from new sources. We at Arion Bank want to be market leaders in Iceland in terms of innovation and digital solutions, the aim of which is to make life easier for our customers. In order to get us up to speed and to be competitive with smaller and more dynamic companies we adopted a process in the spirit of business accelerators, and each new digital solution is designed in such an accelerator. In 2017 Arion Bank introduced 10 new digital solutions, more than any other Icelandic bank. We have a clear lead in this field and the results are clear for all to see in enhanced customer satisfaction, increasing demand for our services and greater efficiency within the Bank.

We reached the milestone last year of fully paying off all funding linked to the founding of the Bank, originally from the Bank's shareholders and government. The Bank has replaced this debt with market funding and the Bank's financing is now fully based on its own strong financial fundamentals.

Today Arion Bank is a regular issuer of bonds on the international capital markets. In 2017 the Bank issued more than EUR 600 million in international bond markets, in addition to covered bonds and other securities in Iceland. International investors are increasingly looking to the Bank as an investment option and the bonds have performed well on the secondary market, underlining investors' confidence in the Bank.

During the year Standard & Poor's upgraded the Bank's credit rating from BBB to BBB+ with a stable outlook.

Running a systemically important financial institution like Arion Bank is a great responsibility, one of which we are keenly aware. Arion Bank has always sought to tackle each project – large or small – responsibly.

The Board of Directors approved a new policy on sustainability and responsible banking at the end of 2016 and it was implemented in 2017. When implementing this policy we underline the responsibility of everyone working at the Bank and how everyone can make a positive contribution and take decisions responsibly in the interest of different stakeholders.

Arion Bank became a signatory to the United Nations Principles on Responsible Investment (UN PRI). By doing so the Bank has pledged to place an emphasis on environmental and social issues and good corporate governance when it is evaluating potential investments and making investment decisions.

Over the last few years the employees of Arion Bank, in partnership with the Bank's customers, have built a good bank. The Bank's culture is characterized by an ambition to do better today than yesterday and to welcome the changes occurring on the financial market. The employees have demonstrated that they fully intend to be at forefront when it comes to shaping the financial services of the future.

The year 2018 will be an eventful one. Changes represent an opportunity for the Bank – an opportunity which should be grasped and taken advantage of.

I would like to thank the management and our employees for their outstanding contribution to Arion Bank's development and success.

Thank you.

*Eva Cederbalk*

*Chairman of the Board of Directors of Arion Bank*