



Dear shareholders, ladies and gentlemen.

Thank you all for taking the time to be here with us today at Arion Bank's first Annual General Meeting after it was listed on the main lists of Nasdaq Iceland and Nasdaq Stockholm.

The year 2018 was indeed an important one in the history of Arion Bank. Ever since it was established, the goal has been to rebuild the Bank after the turmoil of the financial crisis just over 10 years ago. From the outset the goal was to create a good, profitable and strong bank, which provides quality services to its customers and which plays a leading role in the Icelandic financial system and business sector. A bank which would eventually become an attractive investment option and be listed on the stock market. It was therefore particularly pleasing that a successful international IPO was held in 2018 in which 30% of Arion Bank shares were sold to international and Icelandic investors. In fact 70% of the shares in the IPO were sold to international investors. Arion Bank was subsequently listed on the main lists of Nasdaq Iceland and Nasdaq Stockholm. It represented a vital step in the Bank's development and is an evidence of what has been achieved over the past 10 years.

Prior to the IPO the Icelandic government divested its entire holding in the Bank. Arion Bank thereby became wholly privately owned, while the Bank's main competitors remain under full government ownership.

The listing of Arion Bank represented the second ever largest stock market listing in Iceland, and Arion Bank became the first Icelandic financial institution to be listed on the main list of a stock exchange for more than a decade. It is a significant achievement for the Bank and has been a key objective for many years.



Today the Bank's shareholder base is well diversified between domestic and international investors. Furthermore, nearly all the Bank's employees are shareholders in the Bank, having received shares in a stock grant following the IPO.

Arion Bank is a domestic bank that operates almost solely in Iceland. It has been quite impressive to see how well the Icelandic economy has performed in recent years. Economic growth has been strong, and the country has done well to extricate itself from a difficult situation. The debts of government, companies and households are at their lowest level for many years and the country is now highly competitive.

Tourism has been a key contributor to economic growth, and the sector has grown rapidly in recent years. Obviously, such rapid growth presents certain challenges, and these became evident during 2018, particularly in the airline business. The tourism sector, and indeed the economy as a whole, are forecast to continue to grow, and although the growth rate has eased off and we have uncertainties in the economy, e.g. due to the currently complicated situation in general wage negotiations, the economic outlook in Iceland is bright.

Arion Bank is financially robust and in prime position to perform its role of providing support to a dynamic business sector. The Bank has been profitable every year since its foundation. The Bank's performance in its regular operation was acceptable in 2018, apart from the negative impact on the Bank's results and profitability from dire market conditions and difficulties in the airline industry. The Bank's medium-term target for return on equity is to exceed 10%. To reach this ambitious target the Bank will place increased focus on efficiency and return, rather than growth.

The regulatory authorities have stepped up the supervision of financial institutions and the requirements made of them in recent years, with capital and liquidity requirements increasing. Arion Bank's equity at year end 2018 amounted to ISK 201 billion. The capital ratio was 22% and



the leverage ratio 14.2%, and they both meet and exceed the requirements made by the Financial Supervisory Authority. The Bank is also obliged to report its large exposures as they can have an impact on the Bank's financial strength and results. There are no such large exposures in the Bank's accounts at the end of 2018. The Bank's loan portfolio is well diversified between individual and companies and also between sectors.

The government recently published a white paper on the future of the financial system in Iceland. It discusses various aspects of the financial sector and provides a good platform for discussing the future shape of the Icelandic financial system. It is important that a strong consensus seems to have been reached on the fundamentals of the system and no major negative changes are likely to occur.

It is disappointing that the white paper did not say anything more explicit on the scrapping of the specific taxation of the banking system, in particular the bank levy. The bank levy, which is in fact a tax on deposits and bonds issued by Icelandic financial institutions, is 10 times higher in Iceland than in the handful of other European countries which impose such a tax. Similar taxes are not collected from other financial institutions operating on the joint European financial market.

The bank levy greatly distorts the competition environment and in fact leads to market failure. The end result is that the current system favours international banks, which are increasingly offering their services in Iceland, and Icelandic pension funds, which can offer their fund members mortgages at terms which the banks cannot match due to fees and capital requirements placed on them but from which the pension funds are exempt.

When the playing field is no longer level, it undermines the regular banking system and favours the shadow banking system. We would have liked to have seen it spelled out more clearly how the banking levy should be abolished and we think it's only fair that it be abolished as quickly as possible.



Arion Bank shows its commitment to sustainable banking by making a difference to our customers and performing our role as a financial institution conscientiously and responsibly. More than ever before, it is vital that individuals, organizations and companies take into account the needs of different groups and consider society and environmental issues, not least now that climate change is becoming a pressing issue for us all. We are well aware of our responsibility to our employees, shareholders, customers, partners and society and want to have a positive impact on our environment and the projects our customers choose to undertake.

Since 2014 Arion Bank has been a signatory to the UN Women/UN Global Compact Empowerment Principles and signatory to UN Global Compact, the UN's initiative to encourage businesses to adopt sustainable and socially responsible practices, since 2016. The Bank has also been a signatory to the UN's Principles for Responsible Investments (UN PRI) since the end of 2017.

In 2018 we set about reviewing the Bank's strategy. The overall strategy remains fundamentally unchanged, i.e. the Bank's market continues to be primarily in Iceland and the Bank provides its customers, i.e. individuals, investors and companies with universal financial services. However, there is an enhanced focus on competitiveness and efficiency, as well as digital services and a positive customer experience.

Our subsidiaries continue to be integral to the Bank's overall product offering. Stefnir, Iceland's largest fund management company, is a key component of the Bank's services, while the insurance company Vördur plays an increasingly vital role in the Bank's strategy and income generation. Our partnership with Stefnir has been very fruitful and we see great opportunity for increasing our collaboration with Vördur, for the benefit of both companies and our customers.

Valitor, one of Iceland's leading payment services companies, has been expanding internationally and in 2018 70% of the company's revenue was generated abroad. The company now has around 400 employees and offices in three countries. Valitor has become a large company and its focus on international operations and its plans to further expand its business mean that it requires



substantial investment, and therefore, as has been reported, Arion Bank has put the company up for sale and intends to sell it, wholly or partly, in 2019.

Arion Bank continues to develop its business on solid foundations. The Bank occupies a strong position in its chosen markets and is a leader in digital financial services. Digital services and increased automation are crucial for making the business more efficient and generating higher income. The goal is to continue in this direction, to make the Bank more efficient and competitive so that it can achieve financial objectives.

A solid platform for continued success has been created. I would like to thank the management and employees for their contribution to the Bank's positive progress in 2018.

Thank you.

*Eva Cederbalk*

*Chairman of the Board of Directors of Arion Bank*