



Address of the Chairman, Brynjólfur Bjarnason, 16 March 2021

Dear Shareholders

Arion Bank's activities are inextricably linked with the lives and work of the Icelandic people and as a result the Bank shared the ups and downs and uncertainty felt throughout most, if not all, areas of society in 2020. Arion Bank took a resolute response to one of the fastest and deepest economic downturns in recent times and we offered our customers a raft of vital measures to help them deal with the economic impact of the COVID-19 pandemic. The Bank's robust financial position enabled us to provide strong support for our customers during this most challenging of years.

Fortunately, the fact that households, companies and government finances were in an unusually strong position in terms of debt at the beginning the year proved vitally important. We benefitted from the fact that over the past decade a robust financial system has been built up in Iceland, government debt has decreased and the Central Bank of Iceland has amassed healthy foreign currency reserves. These factors made it easier for Iceland to respond to the economic downturn effectively and to prevent greater damage from occurring to the economy. Nevertheless the impact of the global pandemic was substantial in certain sectors, not least in tourism and related industries and it will take time for them to fully recover.



We are faced with a period of renewal in the wake of the global pandemic, and we have the opportunity to put sustainability at the forefront of our efforts. Our strategy is shaped by sustainability and the long-term view, where our economic goals are well balanced with the environment and society.

Financial institutions have a vital role to perform in this process. In the near future the whole world needs to make the transition to sustainable energy in order to combat climate change. A transition of this nature requires huge investment which needs to be backed by financial institutions. In Iceland, for example, there are rich opportunities to develop environmentally friendly transport and a greener and more sustainable tourism industry. Iceland could become a green destination.

During the year Arion Bank performed an evaluation of its loan portfolio from an environmental perspective and is creating a green framework around its deposits and loans, with one of the objectives being to issue green bonds. The Bank is placing increasing emphasis on offering green financial services wherever possible, and during the year became the first Icelandic bank to launch green deposits and green mortgages. By doing so we are giving our customers more environmentally friendly options and it is precisely by doing this and through our lending activities that we can have the greatest impact in the fight against climate change.

Open banking is an integral part of Arion Bank's strategy and services as our focus on digital and convenient financial services in recent years has clearly shown. The



Arion app is a unique channel for open banking and in 2020 the app was named the best financial app in Iceland in a survey of bank customers, just as it was the three previous years. The Arion app is a highly effective sales and service channel which approximately 86,000 people in Iceland use on a regular basis.

We aim to harness the strength of the group, particularly in collaboration with our subsidiaries Vörður and Stefnir, to bring greater efficiency to the business and to further expand the product offering through digital channels. We also look outside the group to find exciting business partners.

Our clear strategy and focus on profitability over growth began in 2018, and in the second half of 2019 organizational and strategic changes were made at the Bank with the aim of boosting efficiency and reducing major financial obligations. This year we have seen the result of these changes and the Bank was close to its target of 10% ROE based on 17% CET1.

Arion Bank is listed on the stock markets in Iceland and Stockholm and is the only one of the three major banks in Iceland which is not government owned. The results we have achieved this year attest to how seriously we take our responsibilities towards our 7,000 or so shareholders.

Arion Bank occupies a somewhat unique position since the Icelandic government, as owner of two of the three major banks in the country, is our main competitor. In the long-term we do not consider this to be a healthy situation and we



welcome the government's plans to sell a stake in Íslandsbanki. By reducing its activities in the financial market the government is creating healthier and more effective competition on the financial market which can only benefit the consumer.

Financial services are evolving rapidly and Arion Bank is not just in competition with Icelandic banks but also international companies. International financial services providers are highly active in Iceland. These companies include foreign banks which lend to many of the country's largest corporations, such as energy and seafood companies, and also international tech and fintech companies such as Apple, Amazon and PayPal which also compete on the consumer market. It's time that the Icelandic Competition Authority considered this when addressing issues on the financial market in Iceland.

We welcome strong competition, both from domestic and international companies. It motivates us and makes us more focused on providing our customers with convenient, smart and dependable financial services.

In late 2020 the board of directors approved an updated strategy for Arion Bank. The changes represented a logical continuation of the organizational and strategic changes which were set into motion in late 2019. The goal is to refine the future



vision of the Bank and subsidiaries and the main theme of the strategy is to excel by:

- creating a solution-oriented and performance-driven culture
- offering services and decisions based on data and analysis
- and developing strong relationships with selected partners

In order to support the implementation of the strategy, the board of directors also approved changes to the Bank's bonus scheme in compliance with the Bank's current remuneration policy which was approved on the Bank's last AGM with 99.6% of votes casted. One of the main changes is that now all employees are included in the scheme. We have set clear targets for 2021. The key target is that return on equity is higher than the weighted average return on equity of the Bank's competitors. In other words our goal is to outperform our competitors. In addition to the bonus scheme, it is pleasing to note that 630 employees participated in the Bank's stock option scheme and around 150 employees chose to invest in warrants issued by the Bank, something which fosters confidence in the business. The new strategy and goals provide a strong incentive for our employees which in turn will bring benefits to our customers, partners and shareholders. We look to the future full of optimism.

I would like to thank the employees, management and board for all their valuable work in 2020. Special thanks to Renier Lemmens and Herdís Fjeldsted that are stepping down from the Board of Directors.