

Ladies and gentlemen,

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

Last year was an excellent year with respect to Arion Bank's financial results. Return on equity was 18%. Regular operations were strong and the Bank is performing well on all key markets. One off items, such as the sale of the Bank's holding in HB Grandi and the listing of the company on NASDAQ Iceland also had a positive impact on the Bank's annual results.

One of the key tasks in rebuilding the Icelandic financial system has been to streamline operations, adapt the financial institutions to a new reality and to prepare the ground for the future. At Arion Bank we have reduced the number of branches and despite having acquired several domestic financial companies with more than one hundred employees, the overall number of employees at the Bank has decreased during the last years.

We are currently taking several ambitious measures to further increase efficiency at the Bank. Not least among these, is the implementation of a lean management system. This began two years ago and will be completed soon. With this we will continue the process of developing and simplifying procedures with the aim of improving and further enhancing our services to our customers.

The annual report for Arion Bank, for the year 2014, will be only be published online. By doing this we hope to make the report and information on the Banks operations in 2014 more accessible to our customers and partners.

If we look at the environment the Bank operates in – the Icelandic economy – the outlook is positive. Economic growth has been encouraging over the last years. Inflation has dropped sharply and is now well below the targets set by the Central Bank, which has now begun the process of cutting interest rates. Unemployment has decreased significantly and is currently low by European standards.

There is good discipline in government finances, the treasury is running a surplus and forecasts indicate that this will continue. The Icelandic financial system continues to gain strength, which is vital for the economy and future growth.

Now is therefore the right time to take a major step towards lifting the capital controls. It was undoubtedly a necessity at the time they were put in place, the fact of the matter today is that they are no longer required and indeed can be harmful.

Lifting the controls clearly needs to be done with the utmost caution. Any decision must also take into account the impending renegotiation of collective wage agreements.

The measures already taken to manage the withdrawal of owners of ISK-denominated assets from the Icelandic economy, have probably helped to relieve the pressure. Moreover, European interest rates are today very low and even negative. Despite the drop in interest rates in Iceland, they do remain far higher than most places in Europe and it is conceivable that some owners of ISK-denominated assets are not in as great a hurry to exit their positions as they once were.

Although the capital controls have virtually zero effect on new investments in Iceland they are clearly detrimental. The controls mainly affect foreign investments by Icelandic residents and others who own ISK-denominated assets. All restrictions on the free flow of capital have a negative impact and can distort the market and price formation in this country.

It is also evident that the controls impede business between Icelandic companies and international customers, suppliers and partners and in some cases may prompt major companies which contribute to the Icelandic economy to leave the country. This is why it is paramount to take this step now.

We at Arion Bank have been pioneers among Icelandic banks in terms of accessing the international capital markets. We were the first Icelandic bank to raise funding overseas in 2013 and at the beginning of last year the Bank obtained a credit rating from Standard & Poor's. Arion Bank was rated BB+ and was assigned a stable outlook. In October the outlook was upgraded to positive to reflect the positive position of the local economy.

Although Arion Bank is fully funded and does not face significant refunding requirements over the next few years, we nevertheless aim to access the international capital markets. We demonstrated this at the beginning of this year when the Bank issued bonds for 300 million euros, to a broad group of international investors. The main aim of the issue was to diversify the Bank's funding and to reduce funding costs.

The capital controls mean that the sovereign credit rating is low considering the robust position of the economy and the positive government finances. This in turn means that ratings for Icelandic

financial institutions are lower than expected given their financial strength and the good health of the local economy.

This has consequences for Icelandic companies and households as the interest terms offered to Icelandic banks on the international credit markets are consequently higher. It is therefore likely that once the controls have been lifted, Icelandic banks will be in a position to offer better terms to companies requiring debt financing, which in turn should materialize in better terms of business for their customers. This is yet another compelling argument for the complete abolition of the capital controls.

At the beginning of this year there has been some discussion in Iceland about interest rates here and the net interest margin. The net interest margin of the banks has been around the 3% mark in recent years. Arion Bank's net interest margin was 2.8% in 2014. However, it has fallen by 0.6 percentage points since 2012 and there are of course a number of reasons for this.

One of the reasons for the level of the interest margin in Iceland is the small size of the country and the relatively high cost of the financial system. It's also a fact that a small economy with a relatively narrow base will always be subject to fluctuations. Fluctuations are costly because when the economy contracts, the number of defaults increases and this ends up costing the financial institutions, and this cost is then reflected in the interest margin.

We aim to offer our customers attractive terms, but these terms must be realistic and take into account the environment, costs and developments on the credit markets on which the Bank funds itself.

Recently the Icelandic consultancy Capacent published an interesting report on the ideal size of banks with a view to them being able to offer their customers favourable interest rates. The conclusion was that the ideal size of the balance sheet needed to be 7 to 14 times the size of Arion Bank's balance sheet. The same applied to the other Icelandic banks. The conclusion reached by Capacent clearly states that the interest margin of Icelandic banks will be higher than those of major international banks as long as they are small by international standards.

Our own analysis of interest margins of banks in other countries of a similar size to Arion Bank supports the findings of this survey.

It is therefore obvious that high interest rates in Iceland are not a result of the high interest margins of the banks but rather high Central Bank interest rates –and the high real required rate of return of major Icelandic institutional investors.

The taxation of financial institutions in Iceland has exceeded sensible levels. This is particularly true of taxes imposed – not on income or earnings – but on liabilities. This is a tax which simply increases the funding costs of Icelandic banks. The so-called bank levy represents almost 0.4% of the Bank's liabilities on an annual basis. Given that the Bank's interest margin has decreased since 2012 it is clear that the Bank has hardly passed these taxes on to its customers. As it is a temporary tax the Bank proceeds with caution in this respect.

Running a bank demands responsibility – which we take seriously. We have in recent years strived to build up a good bank which carries out its duties responsibly.

We want to have a positive effect on our environment in a variety of ways. The financial system is one of society's fundamental systems and it is the role of financial institutions to channel capital from people seeking returns on their assets to people seeking funding, whether on a small or large scale. This is why banks play an important role in the economies of all countries.

Financial institutions around the world are naturally subject to comprehensive regulation and official monitoring. This has been made a priority globally in recent years. We have placed great emphasis on introducing international regulations here in Iceland, and ensuring that the financial institutions are not subject to separate Icelandic rules. Such separate rules make the banks less able to compete and should be avoided.

What the employees of Arion Bank have achieved over the last years is remarkable in many ways. Arion Bank is in the front rank in Europe in terms of financial strength. At the end of 2014, the capital ratio was 26.3%, with Tier 1 capital of 21.8%, and the liquidity ratio was 174%.

The ratio of problem loans has been reduced to 4.4%. This is the result of targeted efforts over the last few years to help our customers, most of who are in a far better position now than they were several years ago. The Bank has successfully sold the companies which it was required to take over during debt restructuring and this has maximized debt recovery and we have contributed to the rebuilding of the Icelandic stock market by focusing on helping companies go public

During the year we made concerted efforts to reinforce the Bank's infrastructure, strengthen business relationships and bring product development to the next level. This work has paid off and created a solid platform for continued growth.

Our achievements are founded on the efforts of our employees in partnership with our customers. I would like to thank them all for their contribution to the results achieved.

Thank you.

*Monica Caneman*

*Chairman of the Board of Directors of Arion Bank*