

Ladies and gentlemen,

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

Arion Bank's current ownership structure was put into place at the beginning of 2010 and it was clear from the outset that this was not a long-term arrangement. The task was clear, to develop a good Bank that was a viable investment option for long-term owners. It has been a complex venture but the results are clear for all to see. Today, Arion Bank is a robust Bank, with a solid client base, a dedicated team of employees and it occupies a strong position on its chosen markets. The Bank is on a strong financial footing with a capital ratio of 24.2% and a leverage ratio of 16.7%.

The year 2015 was a good year for Arion Bank. Return on equity was 28.1% which was a result of the Bank's solid core operations and the positive impact of irregular items. Regular operations are consistently strong and yielded a satisfactory return on equity of 10.4%, but as you all are aware, shareholders' equity is high at ISK 193 billion. One of the key focuses in recent years has been to reinforce the Bank's infrastructure and core operations. The Bank's secure position today is a result of these efforts.

However, during 2015 events occurred which were deemed unacceptable and reflected negatively on the Bank's reputation. I am referring, firstly, to the fine imposed on the Bank by the FME in respect of the Hagar share transaction in 2014; and secondly to the sale of shares in Síminn in the period leading up to the IPO in September. The Board of Directors opened a special investigation into these events and this became the basis for action and procedural changes designed to strengthen the decision-making process within the Bank. The compliance function at the Bank has been reinforced, procedures have been improved, assignments and functions reviewed, and the measures now ensure that the Board of Directors will be directly involved should similar circumstances arise again.

In regards to the general public debate concerning the financial sector in the past few months, it is absolutely clear that our Bank and the sector as a whole must exercise caution in everything it does in order to regain trust that has been seriously tarnished in the past years. There is no question that Arion Bank, and the Icelandic financial system as a whole, have undertaken many complex tasks with notable success; but we must nevertheless remember that whilst we need to remain decisive in the new challenges ahead, caution and careful deliberation are required at all times.

The main role of banks is to support the growth and development of companies and individuals. Our role is to provide financial services so that good ideas can be realized. As we all know, good ideas that are realized can create employment, stimulate economic growth and foster a better quality of life.

We at Arion Bank have felt the effects of increased activity in the Icelandic economy. We have endeavoured to be ambitious and to lend our support to key projects throughout the business sector. This is our most important role, it is here we make the greatest difference.

The Icelandic economy is currently thriving, for a number of reasons. While debt levels have fallen, purchasing power has increased. Moreover, external factors such as a slump on the commodities markets and a strong Icelandic króna have depressed inflation. The massive increase in tourism has also played a crucial role in revitalizing the Icelandic economy. Thanks to the tourism industry, the Icelandic economy is currently operating at full employment. Economic growth has picked up in recent years and forecasts assume robust growth going forward. Investment has grown although has yet to regain previous levels.

Capital controls, which have been in place for the past seven years, will in all likelihood be successfully removed this year – at least for the most part – thereby closing one of the most important chapters relating to post-crisis legacy issues. Consequently, Treasury debt is expected to decline markedly and credit ratings are set to improve further. So, it is safe to say that the outlook for the Icelandic economy is very positive.

The government's plans to lift the capital controls, announced in the summer of 2015, were well prepared and there seems to be a general consensus on the government's plans. Important steps have already been taken, not least the approval of composition arrangements with the estates of the failed banks at the beginning of the year.

One of the tasks we at Arion Bank have been working on since 2010 is to prepare the Bank for the capital control liberalization. It was obvious to us that Arion Bank would need to be financially robust so that the Bank would never be put at risk by the lifting of the controls. We have been ready for this next phase for several years.

Refunding agreements with Kaupthing, finalized in January this year, amounting to 97 billion krónur, were part of the package of measures undertaken by Kaupthing to comply with the stability conditions imposed by the government. These agreements represent the largest funding agreements which Arion Bank has entered into. It involved the refinancing of Kaupthing's deposits in foreign currency and loans from the Central Bank of Iceland acquired by Kaupthing.

Since the year 2010 Arion Bank has faced a diverse range of challenging assignments. One of the most pressing issues at the time, was to deal with the extreme financial distress and excessive debt burden that Icelandic companies and households were struggling with. Now, more than five years on, around one thousand corporate clients of Arion Bank have undergone financial restructuring.

They were complex and sensitive assignments, yet the outcome exceeded expectations. It was critically important that when these cases were being resolved the Bank was following clear and coordinated procedures. Thousands of households availed themselves of the special measures offered by Arion Bank to tackle debt.

With lower debt levels, a recovering Icelandic economy and increasing purchasing power the position of Icelandic companies and households has been transformed and must be considered to be in fairly good shape today. Household and corporate debt levels are now at similar levels, as a percentage of GDP, to what they were at the beginning of the century. In 2015 household debt fell 10% as a percentage of GDP and is now around 85%.

Some of the recovery cases which Arion Bank was required to deal with were highly complex and it has taken a considerable amount of time to finally bring them to a resolution.

One of the characteristic features of the year 2015 has been the completion of some of the final major recovery cases. Prominent in this regard has been the sale of shareholdings the Bank acquired as part of the debt restructuring process. During the year Arion Bank sold shares in public offerings in Reitir, Eik and Síminn. The companies were subsequently listed on the main list of Nasdaq Iceland. The Bank also divested its shareholding in the international drinks manufacturer Refresco Gerber and the company was listed on the stock market in the Netherlands. The Bank's share in BG12, the company which held the Bank's stake in Bakkavor Group, was also sold in January 2016 after a sale process arranged by Barclays. Arion Bank's sale of its shareholdings in all these companies had a highly positive impact on the annual financial results.

This means that Arion Bank has now resolved all the major corporate recovery cases and the outcome is very satisfactory for the Bank.

It is worth remembering that at the time these shareholdings were acquired there was a great deal of uncertainty over their real value and it was far from certain how much could be recovered.

One consequence of the efforts invested in financially restructuring companies has been to reduce the debt levels of companies and households, which in turn has a highly positive impact on the economy. A second consequence has been that Arion Bank has gained a far more in-depth understanding of its loan portfolio. In fact, one could say that no stone in the loan portfolio has been left unturned and the quality of the portfolio is well known. It is of paramount importance for the future of the Bank that it has this solid foundation to build on.

As I have already touched upon, the year 2015 was a good year for Arion Bank. There were quite a few milestones reached. One of them being the issuance of a Euro 300 million bond to a broad group of investors. It represented a landmark issue for Arion Bank and in fact the Icelandic financial system as a whole. The issue was an important step towards further diversifying the Bank's funding.

Also, Standard & Poor's upgraded Arion Bank's credit rating to triple-B-minus (BBB-), which is investment grade, and the outlook is rated positive. S&P pointed at the Bank's strong position, both its financial strength and its solid position on the Icelandic banking market. The agency also referred to the regeneration of the Icelandic economy. The credit rating is also influenced by the Icelandic

sovereign rating as revisions of the Bank's rating have generally come in the wake of upgrades to the sovereign rating.

We at Arion Bank will continue to take the initiative in entering the international funding markets as conditions allow.

In my mind it is therefore no coincidence that Arion Bank was named Bank of the year in Iceland for 2015 by the magazine The Banker, which is published by The Financial Times.

The employees deserve thanks for their excellent work.

Our intention at the beginning to was to create a good Bank and together we have done just that.

Thank you.

*Monica Caneman*

*Chairman of the Board of Directors of Arion Bank*