

Address of the Chairman, Brynjólfur Bjarnason, 15 March 2023

Dear Shareholders

2022 was an eventful year. At the beginning of the year restrictions on gatherings were still in force in Iceland and in many places around the world. The lifting of the restrictions early in the year signalled a new period of optimism. However, this optimism proved short-lived as Russia invaded Ukraine, bringing terrible consequences. The economic impact of the war has been far-reaching, not least in Europe but also in the global assets markets. The Icelandic economy was in vigorous health in 2022 despite challenging conditions on the markets. The Bank remains financially robust, with a capital ratio of 24,0% at year-end. The Bank's equity was ISK 188 billion at year-end, and share buybacks and dividends to shareholders amounted to ISK 32 billion during the year. In total over the last three years the Bank's dividends and share buybacks have amounted to ISK 68 billion. In this respect we will continue to look to the Bank's policy on dividends and the target on CET 1 ratio.

The Bank's capital position remains one of the strongest in Europe. The Bank is therefore in good financial shape and well placed to deal with what the future brings.

Despite economic instability amongst Iceland's neighbours, high inflation and rising interest rates, Iceland recorded GDP growth around 6% in 2022. Forecasts expect continued economic growth in Iceland in the year 2023. While inflation has certainly been high – and is unfortunately still going strong – the harmonized inflation rate was one of the lowest in Europe in 2022.

The economy thrived and the tourism sector staged a strong recovery with the return of foreign tourists. The Icelandic export sectors are performing well, and the seafood industry is flourishing. The fourth pillar of exports, the knowledge industries, is booming and companies in this field generate more than 15% of the nation's foreign currency revenue, and further strong growth is expected. The Bank's operations benefited from the strongly performing economy. The Bank's loan book grew 16% during the year, and there was high demand for our services from households and corporates.

The financial markets are sensitive to the uncertainty inevitably triggered by warfare. The securities markets and credit markets were therefore volatile both in Europe and beyond. Typical portfolios split evenly between listed US stocks and bonds saw their values plummet by more than at any time since the 1932 depression. The credit terms

offered to financial institutions on the international credit markets have worsened, but Arion Bank finds itself in the enviable position of having no pressing refunding requirements in 2023.

Despite the strength of the Icelandic economy, its self-reliance in terms of energy and remoteness from conflict zones, the Icelandic securities markets were volatile and prices dropped across the board. Shares in Arion Bank were no exception and were down 21% on Nasdaq Iceland in 2022, after factoring in dividends, after having gained 101% in 2021.

We took decisive steps during the year to reinforce the Arion Group and to refine focuses. The sale of the subsidiary Valitor was completed in mid-year, and this simplifies the group structure. In early 2022 Vörður relocated to Arion Bank's headquarters in Borgartún 19, which now houses all three core companies in the Arion Group: Arion Bank, Vörður and Stefnir. This move has deepened the partnership between the companies and the employees work closer together than ever. Various aspects of Vörður's business have been integrated with Arion Bank's operations in order to boost synergy and enhance efficiency. I would therefore like to give thanks to the employees located here at the Bank's headquarters for their good will and positivity despite the increased number of people within the limited space.

But the Group's strength is embodied in its dedicated team of professionals serving a broad group of customers. Our aim is to leverage the capabilities of each company and their combined strength for the benefit of our customers. By this I mean our diverse service offering, the extensive experience and expertise of our employees and our effective sales and service channels. The Arion Group offers a more varied spectrum of financial services than our competitors and this is our key strength.

The Arion Group is engaged in exciting partnerships with emerging fintech companies. We have invested in two companies which operate in markets which have tended to be inefficient and thus offer enormous potential for growth. The first of these is Leiguskjól, which offers landlords and tenants comprehensive services, including bank guarantees from Arion Bank. The second is Frágangur, whose objective is to offer a complete package for people buying and selling their cars, including financing. Both these companies have the simple goal of using digital solutions to improve the efficiency of the markets on which they operate and to increase use of digital financial services.

We are keen to broaden our horizons geographically and are turning our attention to the Arctic. At the end of last year, just under 9% of the Bank's loans were to companies located in the Arctic. As an economic region the Arctic has a huge amount to offer over the coming decades. Not least Greenland, where numerous opportunities are sprouting up in connection with mining, infrastructure development and tourism. Iceland shares a lot in common with other countries in the region, being sparsely populated and having a similar climate, a fisheries-based economy and abundant green energy. Although Iceland is a small nation, we have a developed financial system and excellent links to the international financial markets. We are therefore ideally placed to provide financial services and to support future development in the Arctic with the interests of the local communities and the environment at heart.

We strive to work responsibly and sustainably in everything we do. Our aim is to be a trusted partner at all times and to have a positive impact on our society, environment and the climate. It is vital to keep up the fight against climate change despite numerous other challenges we face.

The Bank has a clear policy on the environment and climate and in 2021 we published our first green financing framework. Since then the

Bank has held four green bond issues in euros and Icelandic krónur. The Bank offers our customers green savings, green business loans and green mortgages and car loans. The percentage of green loans in our loan portfolio as defined in the green financing framework is 12.5%, and we aim to increase this figure to 20% in 2030.

Through its ownership of two of the three major Icelandic banks, the Icelandic government remains the biggest participant in the Icelandic financial market. The fact that Arion Bank is the only one of these three banks to be wholly privatized is clearly not an ideal situation. While steps certainly have been taken over the past few years to reduce the government's shareholdings, more needs to be done. The faltering attempts to sell the state's 22.5% interest in Íslandsbanki in 2022 should not mean that plans to reduce government involvement need to be abandoned or slowed down. The experience simply has to be learnt from and the next steps need to be considered.

Admittedly, interesting developments have occurred in the last few weeks after Kviká and Íslandsbanki announced discussions on a merger between the companies. It represents an interesting step for both companies in many ways – certainly those of us in this building believe

that a partnership between a bank and an insurance company can bring great benefits to shareholders and customers.

But that does not change the fact that when it comes to the ownership of banks in Iceland the main thing is to get the government to sell its holdings in the banks and thereby boost the confidence of international investors, which today are hesitant when it comes to investing in Icelandic banks due to the fact that the largest bank is government owned and not listed.

We seek to be a good role model in terms of running a responsible business in the long term. A prerequisite for this is that the Bank has solid foundations and can yield dividends for its shareholders and society. This is what we work on day in, day out and our return on equity of 13.7% indicates we have met with some success. In this regard it has been important that the Bank's interests and the interests of its employees are closely aligned. During the year, all of our employees, excluding those in internal control units, had the opportunity to participate in the Bank's share option and bonus schemes. Employee engagement is a vital part of aligning their interests with those of the Bank. The Bank's bonus scheme has well-defined targets which apply to all areas of the business and it has played its part in the Bank's success in recent years.

However, it is not enough for the Bank to work on improving efficiency if the government creates a restrictive business environment. As I've already mentioned, the government needs to scale back its shareholdings in financial institutions and bolster the faith of international investors in the market. The government also needs to make it easier for Icelandic banks to compete fairly with international banks for the business of Icelandic companies – banks which pay lower taxes, are subject to lower capital requirements and less restrictive financial supervision. We welcome all competition, but it has to be on a level playing field.

As noted above, Arion Bank is built on strong foundations, we have a clear vision and strategy and ambitious targets for the next few years. We operate on a market where the economy is resilient against a backdrop of numerous challenges. We know how we want to develop our services so that they best meet the needs of our customers, and we will continue along our chosen path.

I would like to conclude by thanking the employees and board of directors of Arion Bank for their excellent work in 2022.

Brynjólfur Bjarnason,
Chairman of the Board, Arion Bank