

Arion Bank's AGM 20 March 2014 – Chairman's speech

Ladies and gentlemen,

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

Our goal, here at Arion Bank, has been to develop a good bank which provides support to individuals and corporate clients in whatever business they are engaged in. We are on the right track and the Bank's operations are now characterized by stability and the fact that we repeatedly achieve results in a somewhat challenging environment.

Important milestones were reached in 2013 in the ongoing process of building the Bank's business. Crucial steps were taken in opening up international credit markets, when early in the year the Bank secured foreign funding by means of a successful unsecured bond offering, denominated in Norwegian kroner. By doing so, Arion Bank became the first Icelandic bank to raise foreign funding since 2007. The issue was part of the Bank's strategy to diversify the funding profile and at the same time it made us better positioned to serve our customers. The Bank has also issued covered bonds in Iceland, both indexed and non-indexed instruments.

And recently, at the beginning of this year, Arion Bank was assigned the credit rating BB+ with stable outlook by Standard & Poor's. This will facilitate further access to the international credit markets. Once more Arion Bank is leading the way – as we were the first Icelandic bank to receive such ratings since the economic crisis. These are important steps on the path we laid out in 2010 and they are all designed to help build a good bank which is capable of serving industry and households in Iceland – a bank which is efficient and effective – a bank that produces good results each year with increasing financial strength.

Here in Iceland the economic policy has been successful in several areas in recent years. Interest rates, inflation and unemployment have all been reduced. The main challenges remaining are to stimulate investment, both from within Iceland and from abroad, and to lift the capital controls. Unfortunately, progress has been too slow in these areas in my opinion. Lifting the capital controls is admittedly a huge and delicate undertaking and great caution must be exercised.

An important component of good economic management is stability and predictability. I believe that one of the key roles of the Icelandic authorities now is to create a stable operating environment for companies and investors.



One positive development is that the uncertainty over illegal currency-linked loans has been reduced and related cases are being resolved. However, many of the words and actions of the authorities recently have been insufficient to increase the confidence of Icelandic and foreign investors in the Icelandic economy. The operating environment of Icelandic companies, especially financial institutions, remains too volatile. The legal environment for financial institutions has undergone enormous change and the recent steep increase in the banking levy is a clear example of that. This represents a massive rise in taxes which are not calculated on revenue or earnings but on liabilities. If the authorities want Iceland to be home to robust financial institutions which are capable of supporting the Icelandic business sector, then they need to create greater stability in their operating environment.

It is also important to remember that the restrictive taxation of cost items such as liabilities and salaries will always have an impact on the terms of business that financial institutions can offer their customers.

More changes to the legislation governing financial institutions are on the horizon. It is important that care is taken and that any changes to the law are well founded and will contribute to a better economy and society in Iceland. I'm aware of the good will of the current government and its willingness for cooperation and partnership, a willingness to provide strong support to the Icelandic business sector. As for the legal environment for financial institutions, it is important to look at our neighbouring countries and the EU and draw from their experience. A separate Icelandic regulatory framework is not desirable and undermines the competitiveness of Icelandic financial institutions and the entire business sector.

In this respect it must be said that Icelandic banks appear to be subject to greater restrictions than similar companies in the Nordic region in terms of cooperation, e.g. operating IT systems. By doing this we are missing an opportunity to reduce the costs of the entire financial system without compromising the necessary competition between companies. Such restrictions are a cause for concern because reducing costs is a critical task for Icelandic banks and it is in everybody's interests that they manage to do so.

We must always keep in mind that banks perform a key role in all societies. The employees and Board of Directors of Arion Bank have worked hard to create a good bank which does its job competently and responsibly. A great deal has been achieved but the process never ends. We are continuing to work diligently to change the Bank, making us better able to serve our customers, and making us more efficient each day.



It matters how things are done – in what manner. To guide us in all our undertakings we laid out our core values in 2013, something we refer to as *our cornerstones*. Arion Bank’s cornerstones are; *we make a difference, we say what we mean* and *we get things done*. All our actions can be measured against our cornerstones. They shape our corporate culture which we are proud of.

Our culture is result driven. The last few years are testament to this. We have taken initiative in important areas, delivered positive earnings, been successful at cost control and increased efficiency in our operations.

Towards the end of 2013 the Banker magazine, which is published by The Financial Times, named Arion Bank “the bank of the year in Iceland”. It is noteworthy that this is the first time since 2007 that an Icelandic bank has received such an award. It underlines what has been achieved and illustrates where Arion Bank and other Icelandic banks now find themselves. Arion Bank was chosen for its solid results in recent years and also for its leading role in Iceland in terms of funding, its range of mortgages, debt recovery work and innovative service offering.

On a final note – I’d like to use this opportunity to praise the employees of Arion Bank for what they have accomplished in the last few years. Objectives have been met and key performance indicators have developed as predicted. The Bank has yielded solid returns every year since it was established.

And now we have to a great extent achieved the balance sheet structure and risk profile we have been aiming for. Following Arion Bank’s acquisition of the loan portfolios of Drómi, Hilda and Frjálsi towards the end of the year, we have a loan portfolio that is not only well distributed between different sectors, but loans to individual borrowers now constitute half of the Bank’s loans to customers – something we have been working towards in recent years. The Bank’s funding mix is also healthier after a concerted effort was made to increase the stickiness of deposits and to diversify funding. Additional efforts to better distribute income have met with success and commission income now represents a larger proportion of the Bank’s income.

All these measures result in a healthier balance sheet and reduced risk in Arion Bank’s operations and business model – something we regard as essential for the Bank and all of its stakeholders. We firmly believe that we have a solid foundation on which to build future success.

Thank you.