



Dear Shareholders, Ladies and Gentlemen

I would like to thank you for taking the time to join us for the annual general meeting of Arion Bank under these unusual circumstances. This is the second AGM since the Bank was listed on the stock exchanges in Iceland and Stockholm during the summer of 2018. Today the Bank has more than 6,500 shareholders.

There are rather few of us here in the auditorium since we - as a society - are battling the Covid-19 virus and a ban on mass gatherings is in force, which means in this case gatherings of more than 100 people. The meeting is therefore being made available by webcast and shareholders can vote electronically for the first time. I know that many shareholders are attending the meeting like this and will cast their votes electronically.

In the past few weeks Arion Bank has taken a number of measures to combat the spread of Covid-19 among employees and customers. The Bank's measures are designed to ensure that the Bank can continue to perform its vital role in society, as a provider of payment services in Iceland and internationally.

The Bank is well placed to tackle the challenges we are facing. The Bank's security committee meets on a daily basis and keeps a close eye on developments and works in accordance with an action plan and the instructions issued by the health authorities. A large number of our employees are currently working from home or have moved to new facilities at the Bank.

Our CEO Benedikt Gíslason will shortly go over the measures the Bank has taken in response to the unprecedented situation we find ourselves in.



At times like this, we who work in the financial sector are reminded of the vital role of banks. They support job creation, economic growth and a diverse economy. In the current circumstances banks need to reach out to their customers – households and companies. Arion Bank has announced measures to help households through potential difficulties caused by Covid-19 and in the case of companies, we will do what it takes to help those companies which have enjoyed good business relationships with the Bank but are now experiencing temporary problems.

As a society, we benefit from the fact that the financial system has been developed in recent years to cope with shocks. Arion Bank is no exception. The Bank is strongly capitalized and is ready to provide support to its customers.

Benedikt will go over the Bank's financial position in more detail when he discusses the 2019 results later.

It is vital that banks in Iceland are provided with good conditions in which to operate.

Numerous changes have occurred in the last decade to the regulatory framework within which financial institutions operate. These changes are to a great extent based on European Union directives and their adoption into Icelandic law. When adopted into Icelandic law, the authorities added several restrictive provisions applicable only to Iceland due to the circumstances which existed at the time - and as I mentioned earlier we feel the benefits of many of these today. However, in this country extremely high taxes are imposed on financial institutions, far in excess of the norm in Europe. We are talking here about a financial sector tax, a special financial sector tax and a bank levy. Despite proposals to reduce the bank levy, it will nevertheless remain many times higher than comparable taxes in Europe. These special taxes are not calculated on revenue or earnings but on costs and are imposed on funding and salary expenses, for example.



The simple fact of the matter is that special Icelandic taxes increase the operating expenses of Icelandic banks and undermine their ability to compete with other lenders. As a direct consequence of government policy, lending rates offered by Icelandic banks are made more expensive, which in turn has a detrimental impact on economic growth and job creation – making it more difficult to support their customers.

Various government measures over the last decade have impeded the lending capacity of the Icelandic banks and reduced their ability to support value creation and the business sector.

Therefore the authorities need to – not least when Icelandic companies have their backs to the wall – review their policies and consider the role of the banks in supporting a diverse business sector, prosperity and quality of life in Iceland.

It's a widely held view in Iceland that the financial system is too expensive. There is some truth to this given that there are three banks which are defined as systemically important and this entails certain obligations and costs. It would be beneficial if Icelandic banks were able to cooperate more closely on infrastructure such as IT, defences against money laundering and operating ATMs without it having a negative impact on healthy competition between the banks. It's very wasteful for a small nation like Iceland to maintain a triple system – a triple infrastructure. We need to create an atmosphere where shared infrastructure is looked on positively and not negatively. Systemically important companies should work together on developing infrastructure for the benefit of everyone, with the approval of the competition authorities and without running the risk of incurring censure and fines.

One of our main objectives in 2019 was to build stronger foundations for the future and better enable the Bank to support its customers and earn dividends for shareholders.



In mid-2019 the Bank appointed a new CEO, Benedikt Gíslason, and a new organizational chart came into effect during the autumn following extensive restructuring.

During the year Arion Bank took proactive steps in response to the situation on the Icelandic financial market and the operating environment created by the authorities. At its meeting on 26 September 2020, the Board of Directors approved organizational and strategic changes which resulted in a 12% reduction in the number of employees and the Bank's divisions were reduced from eight to six.

Despite this restructuring, the Bank's strategy to provide our customers with universal banking services remains broadly unchanged. However, there was a certain shift in focus, not least with respect to risk concentration. Arion Bank's focus is on providing these companies with expert advice and helping them secure the most effective financing at any given time. This strategy also results in more effective risk distribution in the Bank's loan portfolio. Arion Bank seeks to have few large exposures in its accounts, and we therefore place importance on collaborating with other lenders in Iceland and abroad.

In September 2019 Arion Bank became a signatory to the UN Principles for Responsible Banking.

In 2019 the Board of Directors also adopted a new environment policy and targets for the next few years. It addresses issues such as assessing the carbon footprint of the Bank's loan portfolio and the Bank will set targets on how to reduce the carbon footprint by 2030 in line with the goals of the Paris Agreement. Arion Bank will thus look at the environmental impact of the companies it lends to and focus its attention on financing projects on sustainable development and green infrastructure. Furthermore, when evaluating suppliers the Bank will require them to take into account the environmental and climate impact of their activities.



During the year Arion Bank paid its shareholders a dividend in line with its stated policy and also bought some of its own shares under a buyback agreement.

Today it was planned to vote on a motion on paying dividends but in light of the recent request by the Central Bank of Iceland that banks defer the payment of dividends, shareholders have asked that a decision on the motion be postponed.

The Bank's shares performed positively on the stock exchanges in Iceland and Stockholm in 2019 and was one of the best performing Nordic banks. Approximately half of Arion Bank's current shareholders are international investors, which is positive for the Bank. Three of the board members come from abroad and have extensive international experience of the financial sector. All of them are putting themselves forward for re-election so that they can continue on the board.

Developments on the markets over the last few days and weeks clearly show how quickly things can change. The stock markets are stricken with doubt and we are living in times of great uncertainty. It is important to remember that an epidemic such as this is a temporary phenomenon and that the situation will pass - hopefully sooner rather than later.

At the beginning of last year there were several changes in the board of directors. I took over as Chairman at the last AGM and a new CEO and Deputy CEO joined the Bank in the second half of the year. Höskuldur H. Ólafsson, who had been CEO for nine years, left the Bank as did some of the management team. I would like to thank them and all the other employees who moved on during the year for their efforts and important contribution to the Bank over the past few years.



New people naturally bring in new areas of focus, as reflected by the organizational and strategic changes made during the autumn. I am certain that the Bank is performing strongly and consolidated its position last year, which stands us in good stead today.

Finally, I would like to thank the employees of Arion Bank, the management and board of directors for their excellent work and I wish everyone the best in these unusual times.

Thank you very much.

*Brynjólfur Bjarnason,*

*Chairman of the Board of Directors of Arion Bank*