

Address of Brynjólfur Bjarnason

Annual General Meeting of Arion Bank 13 March 2024

Dear chair, shareholders, ladies and gentlemen.

After a period of solid economic growth, the Icelandic economy began to slow down in 2023. One of the main tasks for the authorities during the year was to rein in inflation which seemed to be running out of control. The Central Bank of Iceland repeatedly hiked rates, and at year-end policy rates stood at 9.25%, creating a challenge for households and companies alike in Iceland. It was therefore a good sign when the economy began to lose momentum, and private consumption and business activity in general began to decrease, in line with the Central Bank's targets. Volcanic eruptions and seismic activity on the Reykjanes Peninsula also left their mark on the year – and indeed continue to do so. Seismic activity on the Reykjanes Peninsula will continue to be part of our lives over the next few years and even decades, but fortunately our scientists have unrivalled experience and expertise in this field as volcanic eruptions have been fairly frequent in the last few decades. Muted economic activity and high interest rates have naturally had an impact on the Bank's operations, but we nevertheless performed strongly during the year. At year-end the Bank is on a strong footing with a capital ratio of 24.1%. The Bank's equity was 199 billion krónur at year-end and share buybacks and dividends to shareholders amounted to 12.4 billion krónur during the year.

Ladies and gentlemen, as I have already announced, I have decided not to stand for re-election to the board of directors of Arion Bank. After having served on the board of directors for a decade, I think now is the right time to move on.

It has been a great pleasure to have been part of the Bank's journey, and I am very proud of what the Bank has achieved and where it is today. Arion Bank is a robust company and sets an example on many fronts. The company has at its disposal a diverse team of employees and managers who I have greatly enjoyed getting to know and working with.

I would like to touch upon a few things which the Bank has achieved over the last few years and I am particularly pleased about. I would also like to use the opportunity to discuss a couple of things which are a cause for concern.

But I'll start by talking about what we are most proud of.

Firstly, we have successfully increased profitability at Arion Bank by making the business more efficient and providing more diverse financial services to meet the needs of our customers, against a challenging market backdrop and while facing competition on many fronts.

Profitable business

Over the last few years, we have made a focused effort to improve operational efficiency at the Bank, and the organizational and strategic changes introduced towards the end of 2019 have been pivotal in that journey. The changes were underpinned by the strengths and the mindset which have characterized Arion Bank and its predecessors. There was no need to completely overhaul the Bank's strategy but just to refine certain focuses when it came to our strengths and traditions. These strategic adjustments were soon translated into results, and Arion Bank's return on equity has exceeded our 13% target for the last three years and the Bank has outperformed our main competitors in terms of ROE. These achievements have been recognized by the leading global finance news publication, *The Banker*, published by *The Financial Times*, which has named Arion as Bank of the Year in Iceland for the past three years.

Comprehensive financial services

One of our chief focuses in recent years has been to expand our product range by integrating the services offered by Arion Bank and our subsidiary Vörður, with the fund manager Stefnir already representing a key component of our service offering. This approach brings the advantages of offering families, companies and investors a seamless spectrum of services and at the same time diversifies the Bank's revenue streams. Varied sources of income protect the Bank against fluctuating

demand for different services and therefore act an effective risk management tool.

Leading provider of corporate services

Over the past few years, we have also achieved better synergy in our corporate services business, which is exactly what we were aiming for when we merged the Bank's Corporate Banking and Investment Banking divisions in 2019. The key to enhanced corporate services has been closer teamwork by our specialists, not just in Corporate & Investment Banking but across other divisions and at our subsidiaries, Vörður and Stefmir. The close partnership between a bank and an insurance company, the bancassurance model, was a new step in Iceland and has brought us excellent results.

These changes to corporate services have yielded positive results in many areas. For example, Arion Bank has been in a class of its own in terms of IPOs on the Icelandic stock market. Last year the Bank was involved in the listings of Arnarlax, Hampiðjan, Kaldalón and Ísfélagið, and has played a key role in nine of the last ten IPOs in Iceland.

Strong performance against challenging market backdrop

For the eighth year in a row, Arion Bank has had the highest market share in equities trading on Nasdaq Iceland. The Bank had approximately 20% of the turnover on the equities market in 2023. The Bank also had the highest market share on the Nasdaq First North market, with a 24.9% share, and the second highest turnover in bonds on Nasdaq Iceland.

In 2023 we also saw a positive trend in demand for our pension services. In recent years we have placed great emphasis on making information on pensions easily accessible to customers in the Arion app, thus giving them a better overview of this crucial area of their finances. In addition to being able to stay on top of their pensions in the app, customers can now sign up for pension schemes and perform a range of other actions, quickly and conveniently. The number of new supplementary pension

schemes signed up for in the app in 2023 far outstripped our expectations.

Assets under management at Arion Bank at year-end total ISK 1,383 billion, up ISK 85 billion from the previous year.

Best at meeting our customers' needs

In 2023, we set ourselves the clear vision of being the best at meeting our customers' needs. We want to be a market leader and the driver of success for our customers and society as a whole. We want to be the first choice for individuals, companies and investors. In actual fact, it is often the same person who performs all these roles; being part of a family and company and making investments at the same time. That's how we want to outperform our competitors, and that's where the diversity and accessibility of our service offering comes into its own.

There are few banks in Europe which offer as diverse a range of financial services as Arion Bank and its subsidiaries do, especially when you consider what is available to our customers via digital channels. Customers can attend to nearly all their day-to-day financial needs in the app and online banking, organize their savings, stay up to date up with their pensions and buy and sell securities. One of the latest updates in the app now allows people with corporate accounts to switch easily between their personal and company's accounts.

Diverse services make us able to compete

The environment for financial institutions is highly dynamic. Competition comes from all directions, both in Iceland and abroad. In Iceland new financial institutions have sprung up online and achieved remarkable results. It can be complex for established banks to respond to such competition, but we are convinced that our broad service offering and the results we have achieved in digital services put us in a better position to compete. Arion Bank and our subsidiaries enjoy business relationships with around 190,000 people, and our goal is to leverage these strengths to further cement these connections for everyone's benefit.

Sustainable value creation

In 2023, we defined our mission as being to help those who want to achieve success in Iceland and the Arctic through smart and reliable financial solutions which enhance financial health and create sustainable value. We want to be a trusted partner and to have a positive impact on our society, environment and the climate.

Two ratings agencies assessed our performance in sustainability as we aspire to be frontrunners in this area. Once again the Bank was assigned an outstanding rating by Sustainalytics which placed us in the top 3% globally. For the third straight year, the Icelandic ratings agency Reitun gave us the highest rating it has given, 90 out of 100 points. This accomplishment is particularly pleasing as both companies are making their requirements stricter all the time. Sustainability is now formally part of the Bank's organizational structure and comes under the responsibility of the board of directors and the CEO.

But as I noted earlier there are certain things in the Bank's operating environment – and indeed in the corporate sector in Iceland in general – which cause me concern, and this is the ever increasing and restrictive role of the regulatory authorities.

Throughout the economy there has to be a clear set of regulations and supervision, but the fundamental principle of running a business is to meet the needs of customers through products and services and to provide these services as effectively and cost-efficiently as possible.

This principle guides the efforts and endeavours of employees.

However, it has been the case in recent years that a significant proportion of employees' time goes into attending to increasingly restrictive regulations and reporting to ever expanding regulatory authorities, the growth of which seems to know no bounds. One even gets the feeling that the employees of these institutions need to justify

their existence by issuing more and more demands for reports and supervision. And it also appears that the same rules do not always apply to these same institutions which demand that we stick to the rules, as illustrated by the recent discussion on bonus payments to employees of a regulatory authority. However, financial institutions are subject to very clear rules and employees of control units are not permitted to receive bonus payments. Such inconsistency, and unfortunately an often negative approach to business, sows division and even ill will between companies and the regulators, instead of fostering a sense of cooperation to ensure that businesses are healthy and operating within the rules. It is worth remembering that these public institutions are funded by the taxpayer.

For example, the FSA Iceland has greatly expanded its operations. In 2005, there were 4,500 people in the financial sector and the FSA had 35 employees, making it one FSA employee per 128 workers in the financial sector. The cost of supervision that year was ISK 330 million, or just under ISK 10 million per employee.

Last year, the financial sector employed an estimated 3,000 people. That's down 1,500 people from 2005. At the same time, the number of employees at the FSA has increased to 120, meaning there is 1 employee for every 25 in the financial sector. I repeat: In 2005 there was 1 FSA employee for every 128 people in the financial sector. In 2023, there was 1 FSA employee for every 25 people in the financial sector.

The cost of supervision in 2023 was almost ISK 2,500 million and had therefore increased from under ISK 10 million to just over ISK 20 million per FSA employee.

In my almost 50-year career spanning various sectors of the Icelandic economy, including publishing, the fishing industry, telecommunications and banking, I have unfortunately been required to spend too much time sparring with the regulators who have approached their work with too much negativity in my opinion. There are many such examples from the seafood and telecom industries, but if the truth be told I have never encountered a business like the banking industry in which entire departments have to devote hours to meet the demands of the

regulators. In the meantime, these employees are of course not attending to the fundamental task of serving the needs of their customers.

I am *categorically not* speaking out against clear rules, supervision and compliance with regulations. But I would like to remind politicians and the legislator that if we are to retain the energy, hard work and enterprising spirit which has always characterized the Icelandic business sector, a sector which is often competing with far larger companies internationally, we need to review restrictive laws and the impact the regulatory authorities have on the economy. Not to mention the spiralling costs associated with the industry. The expansion of the public regulators requires funds which in many respects would be better employed to address more pressing needs elsewhere in society.

Companies create value and this value engenders prosperity which support the foundations of society. It is therefore vital for all societies to advance the business environment rather than hamper its progress.

It also concerns me that the state remains the largest actor in the Icelandic financial market.

Although steps have been taken to reduce the government's holdings in financial institutions, it needs to go further because it is neither a normal nor sensible state of affairs when the Icelandic government fully owns one of the three main banks and has a major stake in a second. It is crucial for the development of an effective financial market that the government continue to unwind its involvement. By doing so it will boost investor confidence and attract foreign investment which can only be beneficial to the Icelandic stock market.

I would also like to reiterate my position that the government needs to make it easier for Icelandic banks to compete with international banks seeking the business of Icelandic companies. International banks competing with Icelandic banks pay lower taxes, have lower capital requirements and less restrictive financial regulation.

Strong foundations and a clear vision for the future

Ladies and gentlemen, I firmly believe that at Arion Bank we have laid strong foundations for the future based on a clear vision for the future. The achievements of the past few years form an excellent platform which Arion Bank will use to serve its customers and to meet their diverse financial needs in the years to come.

Finally, I would like to thank the Bank's shareholders for the trust they have placed in me over the last decade. I would like to express my gratitude to the employees and board of directors for making our time together such a success, and finally I would like to thank Benedikt Gíslason CEO in particular for such a rewarding and enjoyable time working together.

I wish you all the best of success in the coming years.