

Íslandsbanki - General Meeting – April 2010

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(Draft translation)

Distinguished guests,

The year 2009 was a year of transformation - this applies equally to Íslandsbanki as to other institutions in Iceland. Numerous changes were made to the Bank's operations aimed at strengthening its viability in the long run, reinforce internal controls and equip it with the necessary tools to serve efficiently its customers.

The task facing employees and management at the beginning of the year was enormous and although many are yet to be fully completed I am of the opinion that the Bank's staff has made tremendous headway in the past 12 months. It is also my opinion that this work is the key to the Bank's satisfying results being presented here today.

Strengthening the infrastructure – setting the course

In January 2009 Íslandsbanki took the lead in organising the so called Strategy Summit. Participation was broad with nearly 600 employees showing up, in their own free time, on Saturday 16 January. All the preparation and organisation was in the hands of our own people and they did a phenomenal job.

I believe that Íslandsbanki's Strategy Summit was a turning point in the reconstruction of the Bank. At the Summit employees demonstrated exceptional team spirit, integrity and enthusiasm for organising the Bank's first year of operation.

The Summit became the inspiration for non-profit organisations and companies alike to host comparable meetings. An example would be the National Forum held in Reykjavik in November 2009.

As a result of the Strategy Summit the Bank's four strategic pillars were decided; Strong infrastructure, Outstanding service, Team work and Cost-efficient operations.

These pillars include our declaration that Íslandsbanki's regulatory framework should be transparent and on a par with the best in the world, that the Bank wants to regain trust by providing outstanding service, that employees' communications are encouraging, clear and honest. Further, that employees should demonstrate strong cost-consciousness.

The core message that management received from staff at the meeting was the ambition that Íslandsbanki would be the first bank to get back on its feet. That became the reality.

At the Summit employees also participated in choosing new values for the Bank. The following came out on top: Professional, Positive and Progressive. Consequently a lot of work went into implementing the values. An October 2009 survey revealed that 91% of respondents were familiar with the values. The same percentage of people felt they could apply them to their roles in the Bank

Another turning point in the first half of 2009 was the successful rebranding of the Bank. On 20 February the Bank reverted to its previous long standing brand name, Íslandsbanki. It had become

clear that the Glitnir brand was severely damaged after the collapse, making it necessary to adopt a new name. Also it was not considered optimal that the Bank would bear the same name as an institution under receivership.

A great many of the bank's customers suggested a return to the old brand name – a significant deciding factor.

Íslandsbanki is a valuable and well-known brand. The name is deep-seated and has a clear reference to the Bank's new vision of focusing the majority of its activities on its closest environment and servicing Icelandic companies and households.

The rebranding process was a success and the Bank stressed that its execution would be low key and cost be kept to a minimum.

I want to thank employees for their dedication and single-mindedness in meeting all of these challenges they were faced with. I am extremely proud to say that in so doing, job satisfaction in the Bank was measured at record high levels during the year.

Debt relief programmes

The ambition that employees and management had to be the first bank to get back on its feet is reflected in the Bank's various initiatives introduced in 2009.

Íslandsbanki lead the lowering of interest rates and lowered rates a total of ten times during 2009. As an example the premium interest rate for non-CPI linked loans dropped from 22% to 9% during the year.

The Bank suspended the collection of a pre-payment penalty charge on CPI linked mortgages in February. Also, on its own initiative it offered programmes to assist debt ridden customers in keeping their loans current.

In March 2009 the Bank introduced the so called payment adjustment scheme (PAS) for FX linked mortgages. In September the Bank then started offering debt adjustment on both FX-linked and CPI-linked mortgages. In total about twelve hundred customers have accepted such programmes.

In October Íslandsbanki asset-based-financing started offering debt adjustment on leasing contracts and to date about three thousand customers have taken up this option.

Finally I want to mention that at the end of 2009 the Bank made public its intention to offer conditional debt adjustment schemes to companies that have FX-linked loans and income in ISK. It gives me great pleasure to announce that today the Bank announced that it will start accepting applications for this scheme starting tomorrow.

Moreover the Bank has worked closely with authorities and the Icelandic financial services association on a joint set of rules on the financial restructuring of severely debt ridden companies and individuals.

But what exactly is the financial situation of Íslandsbanki's corporate and retail customers?

Regarding loans to companies, the Bank organises them in four categories pursuant to our disclosure of this customer group to the Icelandic Financial Supervisory Authority.

1. Performing loans to companies – aprox. 46% of loans are in this category.
2. Loans to companies on watch list – aprox. 9% of loans are in this category.
3. Loans to companies under restructuring – about 41% of the portfolio comprised these loans
4. Loans to companies under legal collection – aprox. 4% of loans fall into this category.

As you can see from the graphs (pie charts) at the bottom of the slide 82% of seafood companies are in category 1 – that is with fully performing loans. The worst situation is among investment companies where 77% of loans are under restructuring. However it is only fair to note that the underlying assets of these companies are in many cases operating soundly.

If we look at loans to individuals and households we can see the following:

- Roughly 85% of the portfolio is fully performing.
- Aprox. 6% are non-performing or past due
- Aprox 9% are in a collection or liquidation process

The debt relief options mentioned above are complex in execution and have called for substantial changes to IT systems and processes.

A large number of experts in a number of divisions within the Bank have worked hard on making these possible to realise. I want to thank them for their dedication and selfless work.

2009 results

I will now turn your attention to the Bank's financial results for the year 2009.

The Bank's consolidated financial statements are hereby submitted for your approval.

Despite an operational and economic climate laced with uncertainty the Bank's operations went according to the plans set out by Íslandsbanki's management and Board of Directors. It is clear that irregular items concerning the loan portfolio and assets acquired from Glitnir will continue to influence the Bank's results for the next three years.

2009 was the Bank's first full year of operations. The preceding results are therefore not comparable as they only covered a period of about two and a half months.

The Consolidated Financial Statements are prepared according to IFRS standards, approved by the European Union.

The Statements are endorsed by the Board of Directors and CEO and audited by the Bank's external auditors, Deloitte, who issued an unqualified opinion in their audit report.

Profit and Loss Account

Íslandsbanki posted a profit of ISK 23.9 bn in 2009 and will contribute ISK 4.7bn to public finances through taxes. Return on equity was 30%.

- Net interest income was ISK 32bn. Net interest margin for the year was 4.7%. This is a higher margin than the Bank can expect in the long run and is largely explained by the discount granted on the acquired loan portfolio.
- Net fee and commission income was ISK 7.1bn. Thereof 53% were generated by Retail Banking, 21% by Asset Management and 20% by Capital Markets.
- Net financial income was ISK 11.1bn, mostly due to a net foreign exchange gain following a weakening of the ISK in the first half of the year. This gain is largely offset by substantial impairments made for unrealisable FX gains from FX denominated loans made to borrowers with ISK income.
- Net income from revaluation of loans acquired at a deep discount amounted to ISK 2bn. It comprised net exchange gain (ISK 9.3bn), revised estimated future cash flow of acquired loans (ISK 184bn) and impairments (ISK 26.3bn)
- Operating expenses amounted to ISK 16bn. Thereof ISK 672m was premium paid to the Depositors' and Investors' guarantee fund.

Balance Sheet

- The total size of the Bank's Balance Sheet at 31 December 2009 was ISK 717bn, an increase of ISK 59bn year-on-year.
- Total loans to banks and customers amounted to ISK 577bn. Total deposits were ISK479bn. In April the Bank assumed the wholesale deposits of Straumur Investment Bank. These were collateralised with Straumur's assets with a guarantee from the government. The deposits to loans ratio was 83% at year end.
- Equity at 31 December 2009 was ISK 92bn and had increased by a little under ISK 24bn during the year.
- As part of the government's agreement with Glitnir, the government granted the Bank a subordinated euro denominated loan which at year end amounted to ISK 24.8bn.
- The Bank's total capital ratio stood at 19.8% at the end of 2009. This exceeded the Icelandic Financial Supervisory Authority's required minimum of 16%. It is therefore safe to say that the Bank's operations and assets are sound.

Status quo in the banks?

During the past year there has been a lively ongoing debate on the business sector's limited access to funding. The banks were accused of being reluctant to agree to new lending. It was also maintained that the banks' management and employees suffered from an inability to make decisions.

This criticism was somewhat understandable, in the context of the times. However, the unprecedented market conditions, uncertainty regarding ownership and composition of the Board of Directors at the time cannot be overlooked. All of the aforementioned collaborated to make it more difficult to execute and handle incoming loan applications.

It is the role of banks to assess risk and channel financing into the business sector and therefore they must be prepared to finance well operated enterprises that are based on realistic and sound business plans.

Íslandsbanki has in the past eighteen-months worked with a number of customers, small and large alike, to help realise their plans despite the difficult economic climate.

Despite the Balance Sheet showing limited loan growth the Bank has nonetheless approved ISK 50bn in new lending. It will be challenging to keep up with relending the incoming repayments on loans in this difficult environment.

It is certain that the demand for financing would be greater if interest rates were more favourable, I make no attempt to deny that. Another reason for limited demand is that many companies are already highly leveraged leaving little room for increased borrowing. Finally the uncertainty still inherent in the economic outlook is a large influencing factor.

The strategy for 2010 - 2011

The staff and management team of Íslandsbanki have jointly laid down the strategy for the 2010 – 2011 operating year. The strategy is based on three main pillars:

The financial restructuring of companies and individuals will remain the most challenging task we face in the coming year. We will continue to focus resources on strengthening the Bank's infrastructure and internal processes. We will also be alert to opportunities for organic growth that arise and be mindful of possibilities for consolidation. Additionally we will further develop the business plan and value proposition of Íslandsbanki's investment banking operation.

Last but not least we will place great emphasis on systematically regaining the trust of our customers through targeted measures. It took the Bank's predecessor around 100 years to build the trust that collapsed overnight. This is a task for the long run and the only way to approach it is to let actions speak louder than words.

Draw the proper lessons from the past

The Report of the Special Investigation Commission of the Althingi on the events leading up to and causes of the banking collapsed in the autumn of 2008 is a difficult and gloomy read for every banker.

The Report gives insight into the atmosphere that predominated within the banks and in society in general. This atmosphere cannot and will not be prevalent within Íslandsbanki in the future.

It is important to draw the correct lessons from the past. We need to follow the golden path of moderation in our lending strategy. It is clear that the banks had a high appetite for risk and we have already made provisions to improve processes and internal controls in the Bank.

Within Íslandsbanki a lot of work has been dedicated to improvements in a number of areas in the Bank's operations. By these actions we are striving to make sure that history will not repeat itself.

Distinguished guests.

The past year has been eventful in the operations of Íslandsbanki. I want to extend my thanks to the Board of Directors and employees for their commendable and selfless work in the Bank's interest. I would further like to thank the Bank's customers for being willing to stand by us during these challenging times.

It is my sincere wish that we can now turn our eyes to the future and continue the dynamic work that has been ongoing since the Bank's inception. It is not only **A** way forward, it is **THE** way forward.

Thank you!