

Distinguished guests,

The past eighteen months have proved to be a great challenge for Íslandsbanki's staff and customers. The changes in Iceland's financial sector since the fateful autumn of 2008 are enormous. However, despite challenging circumstances, much has been accomplished in building a new bank.

Considerable changes were made to the Bank's Board of Directors during 2009. Valur Valsson resigned from his post as Chairman and was succeeded by Supreme Court Attorney Vilhjálmur H. Vilhjálmsson. Other members were Ólafur Ísleifsson and Katrín Ólafsdóttir who along with newcomers Martha Eiríksdóttir and Guðmundur R. Jónsson made up the Board of Directors that would serve the Bank throughout the year. They were faced with numerous demanding tasks and on behalf of the current Board of Directors I want to take this opportunity to extend our gratitude for their good work.

A milestone was reached with the involvement of Glitnir's creditors in the rebuilding process. During the year a great deal of work was dedicated to the valuation process and negotiations with Glitnir's Resolution Committee. On 15 October, on the Bank's first anniversary, it was announced that the Resolution Committee, on behalf of its creditors, would assume ownership of a 95% share in Íslandsbanki. The share would be placed in a subsidiary, ISB Holding ehf., fully owned by Glitnir.

The current Board was elected at the Bank's Annual General meeting on 25 January 2010. It was ISB Holding's goal to appoint overseas experts in financial markets to occupy the majority of seats on the Board. The purpose was to strengthen the operations of the new bank and make it viable and profitable in the long run. The Icelandic State Banking Agency then appointed the seventh Member, Martha Eiríksdóttir. Martha had served on the Board in the previous year and had gained valuable insight and knowledge of the Bank's operations. The Board members' co-operation got off to a good start and it is clear that our overseas members, Neil Graeme Brown, John E. Mack, Raymond J. Quinlan and Marianne Økland, bring great expertise to the table.

The most important asset of any company is trust. This is especially true of financial institutions. Understandably the collapse of the banking sector has left Icelandic financial companies wanting in this respect. The banks have their work cut out for them in terms of regaining trust.

I am confident that the nine-hundred employees of this Bank have in the past year given their best to servicing and assisting our customers. Surveys reveal that despite everything that has happened there is still a good level of trust between our customers and the Bank's frontline staff who have served them.

I feel it is important that we, the Members of the Board, support decisions that enable the Bank's employees to assist and service customers to the best of their ability – that is the key to regain trust.

The recently published Report of the Special Commission of the Althing paints a dark picture of the financial system that collapsed in the autumn of 2008. Clearly the operations of all three banks' as well as the function of the public sector left a lot to be desired. It is important that we draw the proper lessons from this report.

It is a logical response of authorities, both here and abroad, to tighten the legal framework surrounding financial institutions. However, we should not forget that it was not the regulations that failed; it was the people who were supposed to obey and enforce them. Financial legislation in Iceland is not wanting in itself; in fact it is very extensive, counting some one-hundred-and-forty

laws, rules and regulations. At Íslandsbanki the Report is being thoroughly reviewed in order to assess any reforms that might be needed of the Bank's systems, procedures and regulations.

However, it should be emphasised that this work began immediately on the Bank's inception and the year 2009 was dedicated to strengthening the Bank's infrastructure and solidify its operations. Last year saw widespread transformations of the Bank's regulations and procedures, increased resources in risk management and compliance and investments in various new operational systems.

To take several examples: The Bank has severely amended its rules regarding related party lending, loan approvals between risk committee meetings are no longer admissible and the Bank no longer grants loans to finance the purchase of its own stock. Also, a new procedural framework has been implemented within the asset management division, resources in compliance have been increased and transparency has been greatly improved.

The current Board of Directors has not deviated from this path and has fully supported the drive to invest further in the Bank's infrastructure. This is reflected in the Board's proposal not to pay any dividend for the year 2009 but, rather, to support Íslandsbanki's capital base.

Last year there was a debate about the level of the banks' involvement in the business sector. This debate relates is correlated to difficulties that many companies found themselves in following the banking sector collapse.

To ensure a professional and objective approach a special asset management company, Midengi hf., was founded that would hold all stakes in companies and other assets acquired by the Bank as part of restructuring. The company's Board of Directors is made up of five people, three of which are independently appointed. On the company's website an overview of all of its assets and subsidiaries is fully accessible to all. By this Midengi and the Bank wish to ensure transparency in their operations.

Last year the Bank, through a margin call, acquired a 47% share in Icelandair, Iceland's largest airline, which understandably stirred some interest. Further, Íslandsbanki was involved in the restructuring of insurance company Sjóvá Almennar a large scale cooperative project of the Bank and Glitnir. It is safe to say that the project was a success, and of much importance to the financial and insurance market in Iceland.

Criticism of the banks' involvement in the corporate sector, though understandable in the context of the times, is founded on cynicism and a lack of trust. Transparency is an effective means to regain trust.

Íslandsbanki has publicly pronounced that all companies the Bank has or may acquire through restructuring will be sold at the earliest possible time. It is our view that banks generally don't make good holders of operational companies.

Last year Íslandsbanki led the field in selling companies through transparent and open processes. I daresay the Bank has set a certain path in this respect, a path other players in the market have tried to emulate.

The financial results of Íslandsbanki for the year 2009 were encouraging despite the difficult economic conditions.

The return on equity was 30% which must be considered good. Nonetheless, as I have previously mentioned, the Board proposes that no dividend be paid for 2009 in lieu of further investing in the

Bank's infrastructure. A healthy return on equity is important in light of the Bank's ownership. It is clear that the Bank's owners will not be making any further injections of capital to seize opportunities in the market. It is therefore important that the Bank itself is positioned to do so, on its own, should its Board and management deem it appropriate.

At the same time it remains important to ensure the Bank's strong equity position. Íslandsbanki's total capital ratio at the end of 2009 was 19.8%, against the Icelandic Financial Supervisory Authority's minimum requirement for the three main banks at 16%. The equivalent minimum in our neighbouring countries is 8%. The Bank's Balance Sheet is therefore robust, its return and liquidity position solid. These are all factors that enable Íslandsbanki to deal with the tasks ahead as well as increasingly consider growth opportunities.

It tends to be forgotten that the robust operations of the country's companies are of importance to society as a whole. In this respect I should mention that in 2010 Íslandsbanki will contribute around ISK 5bn to public finances in the form of taxes and other public fees.

The Bank's Board emphasises efficient operations. It is important that management always seeks ways to increase efficiency without compromising the level of service the Bank provides. Íslandsbanki benefits from the fact that its predecessor never lost sight of its core operations in Iceland despite having branched out to overseas markets. Its branch network is therefore one of the most efficient in Iceland.

The Bank's cost / income ratio for 2009 was 41.3%. It remains clear that further efforts will be made to cut costs, possibly in tandem with a general consolidation in the Icelandic financial market.

The competitive environment was somewhat unusual in 2009. However, competition will increase and we will meet boldly it head on. There exists a multitude of opportunities in the rebuilding phase that has begun in the Icelandic business sector and Íslandsbanki intends to keep and increase the competitive advantage it has carved out for itself thus far.

It is imperative that the restructuring of Icelandic companies be executed aggressively and expediently. It is the only way to speed up the recovery. Companies need to get appropriate help to tackle their debt burden and to be encouraged to resume their investment programmes.

The financial market needs to be stimulated and capital put to work instead of lying in savings accounts. In this respect, Íslandsbanki needs to be a leading force.

I am of the opinion that the ownership of banks is best placed with responsible private investors. It goes without saying that the banks' owners need to manage carefully and responsibly their property and boost confidence in their operations rather than see them as a private source of wealth.

This will be best achieved by getting the banks into the ownership of parties that know how to run them and provide the general public with an opportunity to invest in them. It is my sincere hope that Íslandsbanki be listed on the stock exchange in the next three to five years.

The privatisation of Landsbanki and Búnadarbanki, now Arion banki, and the way it was executed has been the source of much debate recently.

Íslandsbanki's history is quite different. Íslandsbanki was the result of a four way merger of three private banks and the Icelandic Fisheries Bank, the last of which was founded on the basis of the original Íslandsbanki, established by private investors back in 1904.

Íslandsbanki therefore has a history of being in private ownership since long before the concept of privatisation became known in Iceland.

For Íslandsbanki to reclaim its former position and the implicit trust of the public we need to resume the practice of rigorous working methods and disciplined processes. With such a corporate culture and a clear vision for the future the staff and management of Íslandsbanki can reach any goal the Bank sets for itself.

On behalf of the Board of Directors I want to thank the Bank's employees and management team for their selfless work in difficult times. I look forward to working with this dynamic group of people towards the continued regeneration of Íslandsbanki.

Thank you.