

Distinguished guests,

Íslandsbanki's first full year of operations, with new owners and a new Board of Directors in place, has now passed. Numerous tasks awaited the attention of the new Board but overall the situation the Board inherited was a reasonable one.

When the new Board of Directors was elected in February of last year its members immediately embarked on the task of familiarising themselves with the Bank's operations and the management's strategy and policies. The board members from overseas all possess vast experience from international financial markets. This experience has served the Bank well in tumultuous times and enabled it to maintain a leading role in the rebuilding and restructuring of the Icelandic economy.

A change was made to the Board when Ms Martha Eiríksdóttir, the member of Icelandic State Financial Investments, resigned her seat on the Board in September, when she was recruited as CEO of Kreditkort hf., and was replaced by Ms Kolbrún Jónsdóttir a former Íslandsbanki employee. Last Autumn Mr Raymond Quinlan accepted a management position with US based financial institution CIT Group and consequently resigned his seat on Íslandsbanki's Board of Directors. On behalf of the Board I would like to take this opportunity and thank both Martha and Raymond for their good work and excellent co-operations. We wish them every success in their new endeavours.

The Bank's Board of Directors met fourteen times during the course of 2010. Most of the meetings took place here at the Bank's headquarters. The Board has appointed four sub-committees; a risk-committee, a corporate governance and remuneration committee, an audit committee and a special credit committee.

The Board has on average met once a month with meetings lasting one and a half days at a time. The meetings are organised so that the committees meet for half a day immediately followed by a regular Board Meeting. It is therefore safe to assume that the Board and its committees have deliberated for a total of at least 210 hours in the past year. The long journeys undertaken by some board members to attend the meetings come in addition to the long meeting time, and testify to their commitment and involvement.

2010 was a good year for Íslandsbanki's operations. The Bank turned a profit of ISK 29.4bn. The Bank's total capital ratio was 26.6% at year-end which is considerably higher than the FME's minimum requirement of 16%. Return on equity was 28.5%. No dividends will be paid to owners for the year. The CEO will cover the Bank's finances in more detail in her speech later on.

In public discussion on the Bank's results and re-evaluation of its loan portfolio it tends to be overlooked that the Bank contributes greatly to public finances through corporate taxes and various salary related fees. The estimated tax for 2010 is ISK 8.1bn. Thereof corporation tax is ISK 7.2bn, ISK 221m is a new bank tax and ISK 670m is National Insurance. Contributions to the Icelandic Depositors' and Investors' Insurance Fund were ISK 607m.

Íslandsbanki's total capital ratio (CAD) was 26.6% at year-end, which is among the highest to be seen in the western world. The Bank is therefore in a strong position to deal with the high level of uncertainty presently characterising the Icelandic economy and business sector. However, such a

high capital ratio is both an inefficient and expensive form of funding, detrimental to maintaining a high return on equity.

As the operations and quality of the loan portfolios of the three commercial banks become clearer, the authorities must surely be contemplating a change in their demands for the banks' capital ratio.

Íslandsbanki's employees have in the past two years been faced with vast and complicated tasks that centre on the financial restructuring of companies and individuals. At the same time many commentators have reiterated their opinion that there was great need for consolidation in the banking sector and criticised the banks for being overstaffed. While there is indeed a need to consolidate and lower costs in the banking sector it must not be forgotten that the banks are currently dealing with unusually complicated and time consuming tasks. The restructuring of household and corporate finances and recalculation of loans is complicated work. It is therefore a contradiction to call both for a speedy resolution to the corporate debt problem *and* a substantial cut in jobs at the same time. This is an unrealistic demand at present but will however likely be one of the sector's future projects.

In 2010 the foundations were laid for the Bank's five year business plan and strategy. The Bank's Board of Directors was actively involved in the process and worked closely with the management and over 150 employees in setting the course and strategic objectives in work that started in April 2010. The Bank's five year business plan formed a part of the Internal Capital Allocation Assessment Process, or ICAAP, report which was submitted to the FME in November. The business plan and strategy work went very well and afforded the board members the opportunity to better familiarise themselves with the Bank's operations and inner workings.

The restructuring of corporate debt was Íslandsbanki's key priority in 2010. The Bank set itself ambitious goals in this respect and although things have progressed slower than hoped the Bank nonetheless anticipates this work to be largely completed by the end of 2011.

Various stakeholders have criticised the slow progress of this important process. It must however be borne in mind that this work was well underway in the spring of 2010, the task was simply more complex and comprehensive than initially anticipated. The problems of overleveraged companies and individuals often lay with more than just their main commercial bank and some of the financial institutions that were party to the negotiations were themselves in the midst of financial restructuring. In the beginning cases also got held up by public organisations such as tax authorities and municipalities.

Finally, progress was significantly impeded by a court ruling that deemed some of the Bank's most commonly used loan agreements in the past 8 – 10 years as illegal. That ruling caused a great deal of uncertainty and quite frankly lessened the incentive of companies and individuals to complete negotiations, despite the Bank having proclaimed that customers would not be held to resolutions that were less favourable than a potential ruling would secure.

In order to expedite restructuring financial institutions, stakeholders and the government signed a comprehensive agreement on debt relief for small and medium-sized enterprises in December called "the Fast track". Íslandsbanki had previously worked with numerous companies on a similar solution.

At the Bank, around 250 companies are eligible for this option and it is anticipated that work on their restructuring will be completed by year-end.

Looking over the past year and the roughly two-and-a-half years since Íslandsbanki's incorporation we can see that much has been achieved. Extensive changes have been made to the Bank's organisation and regulatory framework. Surveillance units have been strengthened considerably and increased demands made regarding the product approval process of all of the Bank's products. Work on re-establishing relations with foreign financial institutions has also gone well. All of the aforementioned, forms a part of the important task of regaining the trust that was lost overnight in the collapse of October 2008. The trust building initiatives, both domestically and overseas, are part of a long term goal that can only be built on our actions and behaviour. Nonetheless it is gratifying to see surveys suggesting that Íslandsbanki is the bank that enjoys the most trust of the three commercial banks last year.

It is not lost on anyone that regulation of financial institutions has been greatly increased in the past two years. The Bank's surveillance and legal divisions are in constant dialogue with regulatory authorities i.e. the FME, Central Bank, Competition Authorities, tax authorities and Icelandic State Financial Investments which holds a 5% stake in the Bank.

In the past year, the Bank's Risk Management and Compliance divisions have submitted between 7-800 reports of all sizes to the aforementioned external stakeholders. In addition the Bank's management and staff have attended enquiries by parliamentary committees and as well as appearing before them if requested.

Finally it bears mentioning that the Bank's loan portfolio has been minutely analysed in a total of five different analytic processes with the help of various external advisors, both domestic and international. By this the Bank now has a clear picture of the quality of the loan portfolio. One of these processes was performed following the Supreme Court's rulings on foreign exchange-linked loans this past summer. All of this entails a great effort on behalf of the Bank's staff.

One of the most important projects for the Bank in the near to medium term is the renewal of its information systems and assure data quality. Great and thorough work has been applied in the composition of the Bank's IT policy that was approved by the Board just recently.

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The economic climate that the banks and companies in Iceland operate in presently has been dire. This is reflected in the extensive loan write-offs necessary as part of refinancing and the need to turn this around quickly is imperative. We need to be thorough but at the same time to be bold and to take the initiative.

The government's decision not to lift capital controls until 2015 is indeed a disappointment however it is understandable that great care should be taken with this delicate matter. We hope that we will be able to expedite the process and lift the controls sooner rather than later.

To accelerate the lifting of the controls and yet prevent capital flight investors, both domestic and foreign, need to have a choice of interesting investment opportunities to avail themselves of. It is my opinion that one of the most important tasks that lies ahead is to revive the Icelandic equities market

so as to secure a supply of such opportunities. I choose to be optimistic in this regard and believe that we will, before too long, see new listings on the Icelandic Stock Exchange.

I would finally like to thank my fellow board members and the CEO for their good co-operation during the past year. I would further like to thank the Bank's employees for their valuable work. It has been rewarding to observe their dedication and interest in strengthening and growing the Bank so that it may take the lead amongst financial institutions in Iceland.

The base of Íslandsbanki's operations is a strong one and the Bank is well prepared to offer its customers great service and useful products. The Bank intends to be a responsible citizen. The best way to achieve that is to service customers, individuals as well as companies, in an efficient and effective manner and thereby be an active participant in the resurrection of the Icelandic economy and business sector.

Thank you.