

**Íslandsbanki Annual General Meeting 18 April 2013**

**Friðrik Sophusson, Chairman of the Board**

**Honoured guests:**

In recent years, the Board of Directors' primary objective has been to strengthen Íslandsbanki's infrastructure and operations. Staff, management, and Board members have worked to achieve this goal through clear strategies and a variety of targeted projects. The Bank's strong operations and sound governance bear eloquent witness to these efforts.

Although uncertainties remain in the Bank's operating environment, I consider Íslandsbanki's operations to be balanced and stable. The uncertainty of the past several years has undeniably made its mark. Since its establishment, the Bank has operated under the stringent regulatory framework set by the Financial Supervisory Authority, which required a minimum capital ratio of 16% during the first years of operation. This strict stance was both prudent and necessary, particularly because of the uncertainty about loan portfolios, court judgments on exchange rate-linked loans, and other factors affecting the operating environment and the general economy. Íslandsbanki's balance sheet is stronger than ever before, with a capital ratio of 25.5% at year-end 2012, well above the Financial Supervisory Authority's stipulated minimum.

Although the initial operational period specified by the Authority is now over, the Board has agreed on a minimum capital adequacy reference level of 18%, as is stated in the third edition of the Bank's Risk Report. This reference level, based on the legally mandated process followed by the Bank in assessing its economic capital, is an element in introducing the Basel III capital adequacy criteria.

The Board's decision on the minimum capital ratio reflects the Bank's commitment to maintaining capital adequacy well in excess of the threshold set by the Financial Supervisory Authority.

## **Dividend to shareholders**

Íslandsbanki's ownership structure has remained unchanged since October 2009, when Glitnir creditors and the Icelandic Government agreed that creditors should acquire a 95% stake in the Bank. A separate holding company, ISB Holding, was established to administer Glitnir's stake in the Bank. Since the current owners acquired the Bank, they have been paid no dividends on their holdings. Over that same period, the Bank has contributed ISK 23 billion to Icelandic society in the form of taxes and public levies. The Board of Directors has therefore decided to propose to the Annual General Meeting that a modest dividend of ISK 3 billion be paid to shareholders in Icelandic krónur.

This decision reflects the Board's conviction that the Bank's operational foundation has reached equilibrium, making the payment of a minimal dividend appropriate.

## **Financial market regulations**

The regulatory framework for financial companies has changed radically since the crisis struck. Regulatory provisions have been tightened, and requirements concerning information disclosure to supervisory authorities have been expanded considerably. It is abundantly clear that the legal and regulatory architecture of the financial system needed revamping after the financial crisis, and such review has taken place the world over.

The broad scope of the regulatory framework can be seen in the large number of laws, rules, and guidelines that have been issued in the past few years, with the intention of safeguarding against future shocks. It is important not to go too far in this direction, however. There must be a balance between oversight and efficiency, and care must be taken that the cost of increased supervisory requirements, which is ultimately paid by the Bank's customers, does not spiral out of control.

It is of paramount importance that Government authorities and financial supervisors bear in mind that regulatory provisions and external monitoring can never take the place of sound corporate governance. The most effective way to promote strong, healthy financial company operations is to foster a

sense of responsibility and accountability within the firms themselves, including their management and owners.

### **Employment terms policy**

According to Íslandsbanki's employment terms policy, the Bank is authorised to pay performance-based bonuses to managers and staff members, on the basis of a special Board-approved performance assessment system. In 2012, such payments totalled ISK 68 million. The payments are based on the operating performance of the unit concerned, the performance of the employee in question, and the Bank's earnings. Particular care is taken to ensure that these bonus payments provide an incentive to achieve the Bank's operational targets and are consistent with sound, healthy business practice.

The performance measurement system meets all of the Financial Supervisory Authority's rules on financial companies' employee bonus systems, which stipulate that the bonus paid to an employee may never exceed 25% of his or her annual salary.

Bank employees' terms of employment are controversial in Iceland, as they are elsewhere, but it is often forgotten that the rules in Iceland are much more stringent than in most other countries. In this context, it should be noted that, in neighbouring countries, there is argument about whether bonus payments should top out at 100% or 200% of the annual salary, as opposed to our 25%.

The Bank's employment terms policy is described more fully in the Risk Report, which accompanies the Annual Report.

### **Amendments to the Articles of Association**

Last month a number of amendments were made to the Act on Financial Undertakings. I will not go into detail about those amendments here, except to say that one of them necessitates an amendment to the Bank's Articles of Association, which will be addressed later during the meeting. Until now, financial firms have been required to elect an equal number of Board members and alternates. However, the amended Act on Financial Undertakings requires only two alternates. Accordingly, the Bank's owners have decided to elect only two alternates instead of the previous seven.

At this juncture, I would like to thank those who have served the Bank as alternate Board members. They have not attended Board meetings, but they have been subjected to the Financial Supervisory Authority's eligibility assessment, as have regular Board members. All of them are qualified and trustworthy individuals, and we wish them well.

### **Gender quotas**

Entering into force on 1 September 2013 is a new act of law requiring that limited companies with more than 50 members of staff ensure that the proportion of either gender on the Board of Directors does not fall below 40%. This is to be incorporated into the Bank's Articles of Association. The owners and the Board of Directors will naturally take steps to ensure that Íslandsbanki meets this requirement before the legislation enters into force in the autumn.

### **Ideal owners of Íslandsbanki**

The ownership structure of Icelandic banks has been a topic of recent discussion. It is clear to all that Íslandsbanki's current owners do not intend to own the bank for the long term. They were forced to acquire the Bank and have no control over its operations.

But who would be the ideal owners?

What is most important for the Bank's customers and employees – and for Icelandic society as a whole – is that the Bank be owned by private entities, domestic or foreign, that are committed to long-term financial operations and guided by long-term views. In this way, the Bank can best fulfil its obligations to its customers, support the build-up of the economy, and contribute to society.

### **Offshore overhang and capital controls**

The capital controls and the so-called overhang of offshore krónur have been prominent topics of discussion in the recent terms, particularly in the political arena. I will not venture into such incendiary territory at this time, with Parliamentary elections just around the corner. But I do consider it necessary to emphasise how important it is that the authorities formulate a clear, credible strategy for removing the capital controls. The damage the controls do to the economy is undeniable, ultimately prompting Icelandic firms with international

operations to leave Iceland altogether. The capital controls are a barrier to the foreign investment we need in Iceland. It is also clear that they encourage bubble formation in the economy, which is a concern that business leaders and the authorities must not ignore.

Politicians must demonstrate that they are responsible, and they must think of the long term. History has shown us that the best way to improve households' financial conditions is to bolster the economy and to ensure stability by paying down public sector debt and keeping inflation at a minimum.

***Honoured guests:***

As I look back, I am extremely satisfied with the performance of Íslandsbanki's staff and management in recent years. It has been particularly gratifying to work with the current Board, with members who have long, broad-based experience in the financial sector and have contributed materially to the Board's work. The Bank's operating results, which CEO Birna Einarsdóttir will present later in this Meeting, speak for themselves.

I would like to thank my fellow Board members for successful collaboration in the past year. In addition, on behalf of the Board, I wish to thank the staff and management of the Bank for their dedication and professionalism. I would also like to extend my thanks to the Bank's shareholders, to ISB Holding, and to Icelandic State Financial Investments, for smooth and successful co-operation, with special thanks to Tryggvi Pálsson, former Chairman of the Board of ISB Holding, who was elected Chairman of the Board of Landsbankinn at its annual meeting just yesterday. Although the change was a rather sudden one, we wish him all the best as he leads our competitor.

By investing in internal operations, technology, and a dynamic staff, Íslandsbanki has been successful in service and operations. Successful operations and good service depend on staff members' understanding of customers' needs and demands. This applies to all employees, whether they work in the front lines or in the back office. Everything they do centres on enabling the Bank to serve its customers and help them to achieve their goals, whatever they might be: to earn interest on their savings, invest in business opportunities, or buy a home.

Íslandsbanki's most important social function is to provide capital for investment and for development of the Icelandic economy, with sound, healthy business practice as a guiding principle. It is our task to work with Icelandic firms and individuals and to encourage them to invest, thereby contributing to private initiatives and company operations, which are the foundation for a high standard of living.

We intend to carry out this task responsibly and enthusiastically, for the benefit of Íslandsbanki's customers, staff members, and owners.

Thank you.