

CREDITORS REPORT

1/2010

Landsbanki Íslands hf.
Resolution Committee | Skilanevnd
Winding-up Board | Slitastjórn

CONTENTS

- ABBREVIATIONS..... 5
- 1 INTRODUCTION..... 7
- 2 HISTORICAL BACKGROUND 9
 - 2.1 EVENTS LEADING UP TO THE COLLAPSE..... 9
- 3 RESOLUTION COMMITTEE..... 12
 - 3.1 ROLE OF THE RESOLUTION COMMITTEE..... 12
 - 3.2 PRINCIPAL TASKS OF THE RESOLUTION COMMITTEE AT PRESENT..... 13
 - 3.2.1 COMMITTEES..... 13
 - 3.2.2 ANALYSES AND MAIN REPORTS 14
- 4 THE MORATORIUM AND APPOINTEE 17
 - 4.1 LBI DURING THE MORATORIUM..... 17
 - 4.1.1 DISPOSITION OF ASSETS AND RIGHTS DURING MORATORIUM..... 17
 - 4.1.2 MORATORIUM: 5 DECEMBER 2008 - 26 FEBRUARY 2009..... 18
 - 4.1.3 MORATORIUM: 26 FEBRUARY 2009 TO 26 NOVEMBER 2009 18
 - 4.1.4 MORATORIUM: CONTINUATION 19
 - 4.1.5 IMPACT OF MORATORIUM..... 19
 - 4.1.6 RECOGNITION OF LBI’S MORATORIUM ABROAD..... 19
 - 4.2 MAIN TASKS OF THE APPOINTEE PRIOR TO THE ENTRY INTO FORCE OF ACT NO. 44/2009..... 20
 - 4.3 ACT NO. 44/2009 AND AMENDMENTS TO ACT NO. 161/2002 (AFU)..... 20
 - 4.3.1 TASKS OF THE APPOINTEE AMENDED 21
- 5 WINDING-UP BOARD..... 23
 - 5.1 PROCEDURE FOR LODGING CLAIMS..... 23
 - 5.2. WORK AND TASKS OF THE WINDING-UP BOARD..... 24
 - 5.2.1 INVITATION TO LODGE CLAIMS, RECEPTION AND PROCESSING OF CLAIMS LODGED 25
 - 5.2.2 PROCESSING OF CLAIMS AND DECISIONS 25
 - 5.2.3 RECIPROCAL CONTRACTUAL RIGHTS..... 25
 - 5.2.4 LEGAL PROCEEDINGS AGAINST THE BANK..... 26
 - 5.2.5 RESPONSE TO COLLECTION ACTIONS ABROAD 26
 - 5.2.6 CASH MANAGEMENT 27
- 6 ASSET MANAGEMENT 29
 - 6.1 LOAN PORTFOLIO 29

6.2 SECURITIES.....	29
6.3 LIQUID ASSETS.....	29
6.4 REAL ESTATE.....	29
7 LBI'S ACTIVITIES.....	32
7.1 LEGAL DIVISION.....	32
7.2. CORPORATE BANKING.....	32
7.3 LBI OBSERVER.....	33
7.4 FINANCE AND OPERATIONS.....	33
7.5. RISK MANAGEMENT DIVISIONS.....	33
7.6 PUBLIC RELATIONS AND CREDITOR RELATIONS.....	34
7.7. TREASURY.....	34
7.8 CLAIMS PROCESS.....	34
7.9 LEGAL ADVISORY OF THE WINDING-UP BOARD.....	34
7.10 ACTIONS DURING THE WINDING-UP PROCEDURE.....	35
7.11 FOREIGN BRANCHES/SUBSIDIARIES.....	35
7.11.1 LONDON BRANCH.....	35
7.11.2 AMSTERDAM BRANCH.....	36
7.11.3 LABKI FINANCE.....	37
7.12 SERVICE AGREEMENT.....	37
7.13 ACTIVITIES NO LONGER CONTROLLED BY LBI.....	37
7.13.1 KEPLER OG MERRION.....	38
7.13.2 HERITABLE.....	38
7.13.3 LANDSBANKI SECURITIES UK.....	38
7.13.4 LANDSBANKI GUERNSEY.....	38
7.13.5 OTHER ESTABLISHMENTS.....	39
7.14 LANDSBANKI LUXEMBOURG S.A.....	39
7.15 LBI'S ADVISORS.....	40
7.15.1 MORRISON & FOERSTER LLP.....	40
7.15.2 BARCLAYS.....	41
7.15.3 DELOITTE.....	41
7.15.4 ERNST & YOUNG A/S.....	41
7.15.5 OTHER PARTIES.....	42
8 THE CONCLUSION OF THE NEGOTIATION BETWEEN LBI AND MOF.....	44
9 RELATIONS WITH CREDITORS.....	48

9.1 CREDITORS' MEETINGS..... 48

9.2 ICC..... 49

9.3 TIMELINE ON COMMUNICATIONS 49

10 MAJOR FINANCIAL PROJECTS 55

10.4.1 GLOBAL EXPOSURS 55

10.4.2 LANDSBANKI LUXEMBORG 55

10.4.3 INVESTIGATION IN THE BANK'S AFFAIRS AND VOIDING OF MEASURES..... 55

10.4.4 CLAIMS FOR DAMAGES AGAINST THIRD PARTIES 56

10.4.5 NETTING (SET-OFFS) 56

11 LBI - NEXT STEPS 58

DISCLAIMER..... 60

ABBREVIATIONS

AB	Act on Bankruptcy etc.
AFU	Act on Financial Undertakings
BCL	Luxembourg Central Bank (Banque centrale du Luxembourg)
CBI	Central Bank of Iceland
DNB	Dutch Central Bank (De Nederlandsche Bank)
EEA	European Economic Area
FME	Financial Supervisory Authority
HoT	Head of Terms
KE	Kepler Equities
LBI	Landsbanki Íslands hf.
LLUX	Landbanki Luxembourg
MC	Merrion Capital
MoFo	Morrison & Foerster
NBI	NBI hf. (New Landsbanki Íslands hf.)
RC	Resolution Committee
WuB	Winding-up Board

CHAPTER 1
INTRODUCTION

1 INTRODUCTION

This report has been prepared by Landsbanki Íslands hf. (hereafter “LBI”) in order to explain the bank’s affairs, its moratorium and other issues considered to be of significance for the bank’s creditors. The contents of the report are in part based on the rules which apply to information disclosure by the Resolution Committee (hereafter “RC”) and Winding-up Board (hereafter “WuB”), as laid down in the Act on Financial Undertakings, No. 161/2002 (hereafter “AFU”). The objective is to provide a comprehensive overview of the bank’s position, its operations, the handling of its assets and other measures of significance. This report will be updated as LBI deems needed.

The report contains various useful information for creditors that explain the legal framework that applies to the bank’s moratorium. It gives details of the composition, activities and tasks of the RC, the position of the Appointee and his tasks, the WuB and its activities, the bank’s day-to-day operations in Iceland and abroad, and the main aspects of managing assets and measures taken in this regard.

The contents of the report summarise the main points of significance concerning the bank’s situation, but the report is not exhaustive. This report is made available to creditors of LBI both in Icelandic and English. The Icelandic text is the original. If there are any discrepancies in the English translation the Icelandic version prevails.

This report is not intended to provide the basis of any credit or other evaluation and should not be relied upon for the purpose of making investment decisions or determination regarding trading claims of Landsbanki Íslands hf. This report updates and replaces information in the previous report on moratorium and other issues concerning Landsbanki Íslands hf. dated 23 November 2009.

CHAPTER 2

HISTORICAL BACKGROUND

2 HISTORICAL BACKGROUND

Established in 1886, LBI is the oldest commercial bank in Iceland. Initially LBI's operating capital was limited to 10,000 krónur contributed by the country's treasury, as well as bank notes amounting to 500,000 krónur which the government of the time had printed. This was the first paper currency issued in Iceland. The bank performed a central banking function until 1961, when an act was passed establishing an independent central bank.

LBI was state-owned until 1997, at which time it was incorporated as a public limited company. A limited amount of share capital was offered to the public in several offerings, and in 2002 the state sold a 45.8% core holding to Samson ehf. In 2003 the privatization of the bank was completed and a new board of directors elected.

LBI functioned as a universal bank, with retail and corporate banking operations, investment banking, capital markets trading, asset management and private banking divisions. The bank had establishments in Europe's leading financial centres, emphasising services to medium-size corporates, institutional investors and individuals. In 2000, LBI began its activities in markets abroad by acquiring a 70% holding in Heritable Bank in London. During the following years, the bank's operations abroad grew steadily, both through acquisitions and the establishment of foreign branches.

2000	LBI acquires a 70% holding in Heritable Bank.
April 2003	LBI acquires a bank in Luxembourg and changes its name to Landsbanki Luxembourg.
February 2005	LBI acquires stockbrokers Teather & Greenwood.
March 2005	LBI opens Landsbanki London Branch.
November 2005	LBI acquires the securities firm Kepler Equities.
November 2005	LBI acquires the securities firm Merrion Capital.
March 2006	LBI opens Landsbanki Amsterdam Branch.
August 2006	LBI acquires Cheshire Guernsey.
March 2007	LBI opens Landsbanki Oslo Branch.
June 2007	LBI opens Landsbanki Halifax Branch.
August 2007	LBI opens Landsbanki Helsinki Branch.
August 2007	LBI acquires stockbrokers Bridgewell and merges it with Teather & Greenwood to form Landsbanki Securities UK.

2.1 EVENTS LEADING UP TO THE COLLAPSE

The favourable international financial markets which prevailed from the end of 2001, with a high supply of inexpensive funding, enabled LBI, together with banks everywhere, to finance its growth on good terms. In this international climate, the three Icelandic commercial banks, LBI, Kaupthing Bank and Glitnir, grew rapidly from 2003 onwards, until eventually their total assets had become many times the GDP of Iceland.

Following the collapse of the subprime mortgage market, credit began to flow less readily in foreign lending markets. Information disclosure by financial undertakings throughout the world on their situation was unsatisfactory, they mistrusted each other and were reluctant to lend one another. In the spring of 2007, a global liquidity crisis had developed and a shortage of available credit resulted in deteriorating borrowing terms.

Following the insolvency of the U.S. investment bank Lehman Brothers in September 2008, the situation deteriorated drastically and the government of Ireland declared that the Irish state would guarantee all claims against its banks for the next three years. International financial markets were in

turmoil and mistrust was rampant. Governments throughout the world imposed wide-reaching rescue measures to prevent the total collapse of the global financial system, as most financial undertakings were facing major difficulties.

The liquidity crisis had a major impact on the financial market in Iceland. Due to the size of the Icelandic banks, the state was not able to support them and the Central Bank of Iceland (hereafter "CBI") lacked the financial strength to serve as a lender of last resort for foreign currency to the banks.

During the first week of October 2008, the operating environment of Icelandic financial enterprises became extremely difficult and it appeared they would not be able to meet their commitments. Credit lines and wholesale markets closed, preventing debt refinancing.

Existing Icelandic legislation on financial undertakings was not prepared to deal with the systemic collapse which developed at the beginning of October 2008. As a result, special legislation was adopted on 6 October 2008, referred to as "the emergency legislation" (Act No. 125/2008). The Act amended certain provisions of AFU. The Act allowed the authorities to take over banks facing payment difficulties and introduced a variety of measures to ensure the continuity of banking activities in Iceland, as well as attempting to minimise creditors' losses insofar as possible. Pursuant to the emergency legislation, for instance, deposits as defined in the Act on Deposit Guarantees and an Investor Compensation Scheme, No. 98/1999, enjoyed priority as provided for in the first and second paragraphs of Articles 112 of the Act on Bankruptcy etc., No. 21/1991 (hereafter "AB"). This amendment is of major significance for LBI's creditors, since the bank to a substantial extent was financed by deposits.

CHAPTER 3
RESOLUTION COMMITTEE

3 RESOLUTION COMMITTEE

On 7 October 2008 the Icelandic Financial Supervisory Authority (hereafter the “FME”) took over LBI pursuant to the above-mentioned amended legislation. It assumed the authority of the shareholders’ meeting, dismissed the Board of Directors and appointed a RC for the bank. The RC was to manage all LBI’s affairs, supervise the management of the bank’s assets and direct its operations. The RC appointed consisted of:

- Ársæll Hafsteinsson, District Court Attorney.
- Einar Jónsson, District Court Attorney.
- Lárentsínus Kristjánsson, Supreme Court Attorney.
- Lárus Finnbogason, State Authorized Public Accountant
- Sigurjón G. Geirsson, State Authorized Public Accountant.

Lárus Finnbogason served as chairman until he resigned on 20 June 2009. Lárentsínus Kristjánsson subsequently took over as chairman and has served in this position since that time.

On 30 July 2009, the FME requested that Ársæll Hafsteinsson and Sigurjón G. Geirsson resign from the committee no later than 15 August 2009. Both of them had previously been employees of LBI and the FME maintained that the tasks requiring their expertise were concluded. This action was not welcomed by creditors in the bank’s Informal Creditor Committee (hereafter “ICC”), in particular due to the fact that negotiations on a settlement for assets transferred from LBI to NBI were in progress and the intervention by the FME at this point in time was regarded as very ill-advised. To ensure continuity in this work, the RC decided to engage Ársæll Hafsteinsson and Sigurjón G. Geirsson as consultants so that their expertise and experience would continue to be available, in particular in the negotiations with NBI. The RC also requested that Ársæll Hafsteinsson supervise and direct LBI’s day-to-day operations. As a result, the RC is now comprised of Lárentsínus Kristjánsson and Einar Jónsson.

3.1 ROLE OF THE RESOLUTION COMMITTEE

The role of the RC was originally defined by an FME Decision of 7 October 2008.¹ The RC’s principal task was to take over and manage the bank’s operations, safeguard its assets and maximise their value to the benefit of all creditors. In essence the RC holds powers similar to those of a board of directors. Due to market circumstances, the decision was made immediately to preserve LBI’s assets wherever possible and sell them only in instances where it proved necessary to do so to maximise their value.

Act No. 129/2008, which entered into force on 15 November 2008, amended the AFU. Among other things, the amendments authorised the bank to request a moratorium. On 5 December 2008, the Reykjavík District Court granted LBI a moratorium, which made certain changes to the bank’s legal environment. Further amendments were made in this respect with the adoption of Act No. 44/2009, amending the AFU, on 22 April 2009. Further details are provided on the moratorium, appointment of an Appointee and the applicable legal framework in Section 4.

The latter amendment provided for the appointment of a WuB and instructions on the division of responsibilities between the RC and the WuB, as referred to in Point 3 of Temporary Provision V. Additional details about the amendments to the AFU are provided in Section 4.3 and further details of the composition and role of the WuB are provided in Section 5. The role of the RC is now as follows:

- To supervise the bank’s authorised banking activities under the FME’s direction, as provided for in the third paragraph of Article 9 of the AFU.

¹ For further information: <http://www.fme.is/lisalib/getfile.aspx?itemid=5670>

- To assess whether the bank's assets are sufficient to meet its obligations when lodging of claims is complete.
- To dispose of the bank's interests with a view to maximising their value in a manner similar to that of an administrator in a corporate insolvency, as provided for in the AB.
- To hold creditors' meetings to discuss matters falling within the scope of the RC just as an administrator would hold creditors' meetings on such matters in winding-up a company in accordance with the above Act.

Should creditors and others with lawful interests at stake be of the opinion that certain measures by the RC are in violation of its duties as provided for by law, or if measures taken by the RC are disputed in other respects, such questions may be referred to a District Court in the same manner as provided for in Articles 166-179 of the AB. In this respect the access by creditors and others with legitimate interests at stake is the same as in instances where a dispute may arise on measures and/or decisions by the WuB.

Meetings for consultation are held weekly by the RC and the WuB. The two bodies review the most urgent tasks they are each dealing with, as well as making decisions on matters of joint concern.

3.2 PRINCIPAL TASKS OF THE RESOLUTION COMMITTEE AT PRESENT

When the RC took over management of LBI, its principal emphasis was on gaining a firm grasp on day-to-day operations with the objective of maximising the bank's assets and preventing losses. Despite difficult circumstances in the beginning, these objectives were achieved and fairly soon LBI's everyday activities were provided with a fixed and organised framework. The bank currently has four operating units: headquarters in Iceland, branches in London and Amsterdam, and the subsidiary Labki Finance Ltd. in Canada (formerly LBI's Halifax branch).

The RC places major emphasis on active supervision of all its activities, including meetings of audit committee and its' subcommittees which have been established for specific tasks (further details of the bank's administration are provided in Section 7). The RC emphasises ensuring that all LBI's regulatory framework and procedures comply with law and are reviewed regularly.

The RC or committees in which the members of the RC are members hold regular meetings each working day. Additional meetings, outside of the set meeting hours of standing committees and working groups, are held as necessary. Regular meetings are also held abroad to exchange information and supervise activities in overseas establishments, as well as meetings aimed at securing various creditors' interests.

The RC has members on five committees concerned with various LBI issues, in addition to which employees must deliver a variety of reports and analyses to the RC. Information on LBI committees. Analyses and reports are provided in the following sections.

3.2.1 COMMITTEES

- **Credit Committee.** The Credit Committee controls all lending by LBI on a group basis. The Credit Committee holds two regular meetings each week and more frequently if necessary. The Credit Committee is comprised of the RC and the managing director of daily operations. Prior to each Credit Committee meeting the Appointee has received, as well as other members of WuB, all cases the committee is handling, together with the proposals for dealing with them and the minutes of the last meeting. A separate Credit Committee operates in Landsbanki London branch, with limited authorisation to take minor decisions on leveraged lending which has already been granted.

- **Market Risk Committee.** The Market Risk Committee, a subcommittee and part of the Credit Committee, is comprised of the same committee members. It makes decisions concerning LBI's fixed-income and equity holdings. The same general principles apply to the activities of this committee as to the Credit Committee. The Risk Management division prepares committee meetings and handles all reporting on the assets concerned and underlying risk factors.
- **Operations Committee.** The Operations Committee has meetings every other week to deal with the most urgent operating issues within the mandate of the RC at any given time. The Operations Committee is comprised of the RC and the managing director of daily operations. Meetings of the Operations Committee are prepared by the committee secretary and the director of the Finance and Operations division.
- **Audit and Risk Committee.** An Audit Committee has been established within the bank to supervise all its activities. The Audit Committee is comprised of members of the RC and the WuB. Furthermore six permanent subcommittees operate under the auspices of the Audit Committee. The working groups are responsible for implementing, supervising and following up on specific issues within the bank, while also providing the employees involved in these issues with support and direction. Specifically, these subcommittees are:
 - Credit, domestic derivatives and nettings.
 - Fixed-income and equity assets.
 - International financial instruments and nettings.
 - Voiding of measures in accordance with rules of the AB.
 - Claims against third parties.
- **Write-offs Committee** The Write-offs committee meets quarterly concerning final write-offs and credit loss provisions. Before the Write-offs Committee makes its decisions, LBI's Audit Committee must have dealt with the issues in question. The Risk Management division is responsible for preparing meetings and implementing decisions. Decisions must be recorded by the secretary of the Write-offs Committee in minutes of its meetings. The Write-offs Committee is comprised of the Resolution Committee, Ársæll Hafsteinsson and the Winding-up Board if necessary.
- **Set-off Committee.** The Set-off committee operates on the basis of the agreement between LBI and NBI as further described in Section 5.2.6. The committee has four members, NBI has two members and the RC and the WuB have one member each.

3.2.2 ANALYSES AND MAIN REPORTS

Portfolio monitoring. LBI's entire portfolio is reviewed quarterly and is the responsibility of the bank's Risk Management division. All the bank's asset classes are examined in detail with LBI employees and experts providing advice in each instance. Each individual asset is examined specifically and a value estimated for its recovery rate. The director of LBI's Risk Management division is responsible for this work and reports regularly to the RC. In addition, the RC has the Risk Management division and, as the case may be, outside experts prepare ad hoc reports on individual issues in connection with the bank's portfolio.

- **Cost and operations analysis.** Each month the Finance and Operations division prepares a detailed cost and operations analysis for the LBI group. The CFO is responsible for regular reporting to the RC on the bank's situation on a group basis.
- **Reporting by heads of operating units on the main aspects of daily activities.** The RC's secretary requests quarterly information from heads of departments in the bank's headquarters and in operating units abroad (branch managers in London and Amsterdam and the managing director of Labki Finance Ltd.) concerning the principal tasks of the division/department/branch/subsidiary concerned. This information is gathered in quarterly reports on activities which are presented to the RC at meetings of the Operations Committee.
- **Reporting to external authorities.** As provided for by law, LBI delivers regular reports to regulators and public bodies, including the FME and the Central Bank of Iceland (CBI).

CHAPTER 4

THE MORATORIUM AND
APPOINTEE

4 THE MORATORIUM AND APPOINTEE

On 15 November 2008, Act No. 129/2008, amending the AFU, entered into force. The primary purpose of the amendment was to enable those financial undertakings, including the banks, for which a RC had been appointed, to obtain a moratorium, thereby protecting them from legal proceedings brought by creditors. The moratorium provided for by this Act differs in some respect from general rules on moratoria under the AB.

In adopting this legislation, opinions were taken into consideration expressed by foreign experts and major creditors, that a moratorium was necessary to maximise the value of the banks' assets and that it would likely be necessary and beneficial to all creditors to gain protection from litigation, collection measures and other depletion of assets. Prior to the amendment, a moratorium could originally be granted for three weeks, with a possible extension of up to an additional five months. Following the amendment, financial undertakings can obtain a moratorium period of 12 weeks, with the possibility of applying for extension periods of up to 9 months each but never exceeding 24 months from the time moratorium was initially granted.

In order for a party facing material financial difficulty to obtain a moratorium, so that it can attempt to restructure its finances, it must have engaged a lawyer or auditor fulfilling the eligibility qualifications provided for in the third paragraph of Article 10 of the AB.

The RC requested that Kristinn Bjarnason, Supreme Court Attorney, assume the position of Appointee for the bank and he agreed to this request. As is required, LBI's request for a moratorium was accompanied by a statement from the attorney that he was prepared to serve as Appointee to the bank during its moratorium and considered himself to fulfil the qualifications set. The required consent of the FME was also included.

A ruling of the Reykjavík District Court issued on 5 December 2008 granted LBI's request for a moratorium expiring on 26 February 2009. At the same time, the court's ruling confirmed that the Appointee nominated fulfilled the conditions to serve in this position.

4.1 LBI DURING THE MORATORIUM

LBI's moratorium is aimed at safeguarding the bank's financial position and providing an opportunity for necessary restructuring. The moratorium directly affects creditors' legal status, since, subject to certain limited exceptions, any legal proceeding that was brought against LBI prior to the moratorium is stayed and legal proceedings cannot be initiated against the bank after the moratorium. As a result, creditors cannot enforce their claims by execution, nor can they apply to put LBI into local insolvency, bankruptcy, administration, winding-up or similar proceedings. The conditions of the European Directive on the Reorganization and Winding-up of Credit Institutions (2001/24/EC) are satisfied² and the moratorium therefore affects LBI's legal status throughout the European Economic Area (hereafter the "EEA").

4.1.1 DISPOSITION OF ASSETS AND RIGHTS DURING MORATORIUM

From the commencement of LBI's moratorium and until the entry into force of Act No. 44/2009 on 22 April 2009, Chapter IV of the AB applied to the role of LBI's Appointee. Pursuant to the main provisions of this Chapter, the bank was not authorised during the period in question to dispose of assets or rights or to create obligations against it without the consent of the Appointee. For such consent to be granted, the disposition had to be a necessary aspect of its daily operations or an

² See <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2001:125:0015:0023:EN:PDF>

attempt to modify the bank's financial situation, and the price involved was required to be normal and reasonable. Authorisation to dispose of the bank's monetary assets was restricted to:

- Covering the necessary expense of continuing operations.
- Paying debts, to the extent this is authorised.
- Paying unavoidable cost of attempts to modify its financial situation.
- Paying for actions which may be deemed necessary to prevent material loss.

During the moratorium period, the bank is not authorised to pay debts or fulfil other commitments except to the extent that such commitments would be fulfilled or debt paid according to the ranking of creditors if liquidation was to follow in the wake of the moratorium. It is, however, authorised to pay a debt or fulfil another commitment if it is considered necessary to prevent material loss.

The bank can neither acquire new debt or other commitments, nor place restrictions on its assets and rights, except to continue business operations or prevent material loss and if it were evident that such an action would be beneficial to creditors if liquidation was to follow in the wake of the moratorium.

4.1.2 MORATORIUM: 5 DECEMBER 2008 - 26 FEBRUARY 2009

As previously mentioned, LBI was granted a moratorium on 5 December 2008. Initially the moratorium was granted for a period of 12 weeks, or until 26 February 2009, on the basis of the amendment to legislation previously referred to.

According to the provisions of the AB, the Appointee must hold a creditors' meeting in the bank's legal venue no later than 72 hours before the moratorium is to be reviewed by the District Court. Such a meeting was held on 20 February 2009 at 9:00 am at Hilton Hotel Nordica, Suðurlandsbraut 2 Reykjavík. Special rules in the second paragraph of Art. 98 of the AFU apply to convening the meeting, as amended by Art. 2 of Act No. 129/2008.

Any party presenting itself at the meeting location and maintaining to have a claim against LBI, that the bank recognised or was proven with documentation, was entitled to attend the meeting. To facilitate the actual holding of the meeting, the meeting announcement requested that those parties planning to attend register on the bank's website. Some 400 parties registered but only around 150 attended the meeting.

At the meeting, the Appointee reviewed the events occurring after the FME assumed control of LBI and appointed a RC for the bank and what measures had been taken during the moratorium period. A summary of the bank's assets and obligations was provided as of the reference date. It was announced that LBI intended to apply for an extension of its moratorium for up to 9 months when the case was reviewed by the Reykjavík District Court on 26 February 2009. An account was provided of what the bank's activities could be expected to consist of during the extension of the moratorium period. At the meeting, the Appointee invited attendees to express their position towards the bank's plans and their proposals for actions. There was some discussion, in which attendees presented their views and at the same time requested further information on specific issues. The Appointee, the RC and experts assisting these parties sought to explain what was considered unclear and answered the questions raised. Further information on the meeting is available on LBI's website, www.lbi.is.

4.1.3 MORATORIUM: 26 FEBRUARY 2009 TO 26 NOVEMBER 2009

Following the 20 February 2009 meeting, LBI's moratorium was reviewed by the Reykjavík District Court on 26 February and a request was made by the bank that the moratorium be extended for up to 9 months on the basis of the legislation previously referred to. No objections were raised by the bank's creditors to LBI's moratorium extension when the court met to decide on the request. A ruling by the

court on 3 March 2009 granted the bank's request, and the moratorium was extended by 9 months until 26 November 2009.

4.1.4 MORATORIUM: CONTINUATION

On 26 November 2009, a petition was submitted to the Reykjavík District Court for an extension of the moratorium. The intention of applying for such an extension was made known at a creditors' meeting on 23 November 2009. No objections were raised by the bank's creditors to the extension of the moratorium and the petition was heard by the court. A ruling by the court on 27 November 2009 approved the bank's request and the moratorium was extended by an additional nine months, or to 26 August 2010.

The chronology of events below shows the significant moratorium dates as provided for in the legislation referred to above:

5 December 2008	Reykjavík District Court grants a moratorium.
20 February 2009	Creditors' meeting held in Reykjavík.
26 February 2009	Extension of moratorium granted for 9 months.
23 November 2009	Creditors' meeting held in Reykjavík.
27 November 2009	Extension of moratorium granted for 9 months
24 February 2010	Creditors' meeting held in Reykjavík.
27 May 2010	Creditors' meeting to be held in Reykjavík.
23 August 2010	The final date a Creditors' meeting can be held should LBI request for a continuation of the moratorium.
26 August 2010	End of the duration of the current moratorium.
4 December 2010	Maximum length of the moratorium provided for by law.

4.1.5 IMPACT OF MORATORIUM

LBI's moratorium does neither directly affect its operating license, nor the fact that the bank continues to be regulated by the FME as provided for by law. The same rules of the AFU therefore, apply to the activities of the bank as do they apply to activities of other financial undertakings as appropriate. On the other hand, due to the moratorium rules and the laws which apply to LBI, certain aspects of the bank's activities are subjected to restrictions of operating licenses and the courts supervision. This entails a significant deviation from regular banking operations e.g. when establishing new dealings and making operational commitments.

4.1.6 RECOGNITION OF LBI'S MORATORIUM ABROAD

For the purpose of safeguarding the interests of creditors and protecting LBI's assets from collection actions by individual creditors, efforts were made to obtain recognition for the bank's moratorium in those countries where it has material interests at stake. Legal protection within the EEA is obtained pursuant to the EU Directive on the Reorganization and Winding-up of Credit Institutions. Outside the jurisdiction of the EEA, where the bank has substantial assets, suitable measures were taken to have the moratorium recognised. An example of this is the recognition by a U.S. Federal Court under Chapter 15 of the U.S. Bankruptcy Act of a foreign main proceeding, together with legal protection in those provinces of Canada where the bank has interests at stake.

Recognition of LBI's moratorium abroad is necessary legal protection to ensure equal treatment of the bank's creditors and that the bank's assets are handled in a similar manner wherever they may be located.

4.2 MAIN TASKS OF THE APPOINTEE PRIOR TO THE ENTRY INTO FORCE OF ACT NO. 44/2009

During the first weeks of the moratorium, the daily activities and measures taken by the bank were divided between two committees, a Credit Committee and an Operations Committee (see further on LBI's committees in Section 3.2.1). All of the RC members were on both of these committees and the Appointee attended their meetings and participated in dealing with relevant issues.

In addition to the committee meetings referred to, the Appointee and the legal advisors assisting him were in daily contact with the bank's RC. The Appointee has also been communicating regularly with the bank's employees, including those in its London branch and subsidiary in Halifax. Due to the nature of the administration proceedings in the bank's Amsterdam branch, where Dutch administrators were appointed to look after its affairs, the involvement of the Appointee there has been limited (see further in Section 7.11.2).

4.3 ACT NO. 44/2009 AND AMENDMENTS TO ACT NO. 161/2002 (AFU)

The entry into force of Act No. 44/2009, amending the AFU, on 22 April 2009 made a number of changes to the legal requirements that apply to the bank's moratorium. Furthermore, various other changes were made relating to the bank's activities, such as the changes made to the tasks of the RC with the creation of the WuB. Section 5 sets out further details of the WuB, its composition and tasks.

The adoption of the above Act No. 44/2009 continued to adapt the Icelandic legal system to the situation that had developed regarding the country's financial markets in the autumn of 2008. The amendments were therefore a continuation of the previous amendments (Act No. 125/2008 and Act No. 129/2008) and reinforced the legal environment that had been created. Due to the rules laid down in Acts Nos. 125/2008 and 129/2008, it was furthermore deemed unavoidable to lay down special rules that should apply to the financial undertakings that had already been granted a moratorium. These special rules were set out in the Act's Temporary Provisions. With this in mind, set forth below are the four principal premises that served as a basis in drafting Act No. 44/2009, to the extent it applies specifically to LBI's position:

1. Act No. 44/2009 was not intended to cancel a moratorium that had already been established based on the provisions of Act No. 129/2008. Instead, certain amendments were made to the legal effect of the moratorium. One of these amendments is that the rules of Articles 19-22 of the AB no longer apply concerning authorisations to pay debts, sell assets and acquire new obligations. Instead, the same rules apply to this and to other measures taken on the bank's behalf as apply to liquidation of insolvent estates by administrators. All measures taken on the bank's behalf shall be aimed at maximising the return on its assets.
2. Following the changes, the bank's moratorium is based on the main principles and characteristics of winding-up proceedings as provided for by law, while it is also established that such winding-up proceedings will ensue following the conclusion of the moratorium period, unless all the bank's obligations have been fully paid or composition reached with creditors. The bank's affairs will continue to be in the hands of the RC and WuB upon the conclusion of its moratorium.
3. For the sake of simplicity and efficiency, it was deemed proper to have many of the main principles of the AB apply to the bank's affairs *mutatis mutandis*. These include, for example, rules on reciprocal contractual rights, claims against the bank, invitation to lodge claims, claims submission, creditors' meetings, priority of claims (with the exception of the special rules on priority of deposits, as provided for in the Act on Deposit Guarantees and an Investor Compensation Scheme), various matters concerning the duties of the RC and WuB, access to the courts to resolve disputed questions and rules on voiding of measures.

4. Provision was made for the District Court, at the request of the RC, to appoint a WuB to handle those aspects of the moratorium and winding-up proceedings which fell outside the remit of the RC. It was considered necessary for Appointees in moratoria to become automatically part of the WuB where appropriate, together with up to four other persons who fulfilled the legal requirements to be appointed as administrators.

As described above, the bank is in a moratorium which has certain special characteristics deemed necessary by the government. Furthermore, the bank will, upon the conclusion of the moratorium period, automatically be in winding-up proceedings. The winding-up proceedings have commenced during the moratorium period, since all the main rules of winding-up proceedings apply during the moratorium.

4.3.1 TASKS OF THE APPOINTEE AMENDED

The adoption of the above-mentioned Act No. 44/2009 made major changes to the legal effect of LBI's moratorium and the role of the Appointee. It stipulated that Chapter IV of the AB should not apply to the new moratorium and that the Appointee should supervise measures taken by the RC as provided for in Article 103 of the AFU, cf. Article 7 of Act No. 44/2009. According to this provision, the RC is to dispose of the bank's assets according to the same rules which apply to the winding-up of an insolvent estate by an administrator.

Pursuant to Point 4 of Temporary Provision V, the Appointee automatically took a seat on the WuB when the District Court Judge appointed a WuB. This appointment was made on 29 April 2009 and the Appointee has served as a member of the bank's WuB and performed those tasks assigned to the board from that time onwards, as well as performing the duties of Appointee. The role of the bank's Credit Committee did not change upon the entry into force of Act No. 44/2009. According to the Act, decisions that could be regarded as measures provided for in Art. 103 of the AFU will be made by the committee. Since the Appointee took his seat on the WuB, he has as a rule not attended Credit Committee meetings, but prior to each Credit Committee meeting he has received, as well as other members of WuB, all cases the committee is handling, together with the proposals for dealing with them and the minutes of the last meeting. In this manner the Appointee has regularly followed the measures taken by the RC as well as holding meetings with the RC and the bank's employees. The Appointee has, together with other members of the bank's WuB, attended consultation meetings with the RC.

Since the entry into force of Act No. 44/2009, extensive efforts were directed towards reaching a settlement with NBI in relation to the compensation instrument to be issued in connection with the decision by the FME to transfer certain of LBI's assets and liabilities to NBI on 9 October 2008 which concluded with a final signing of agreements at 15 December 2009 (see further Section 8). Although the Appointee was not directly involved in discussions on this matter, he followed their progress.

According to Article 25 of the AB, the Appointee must notify the District Court Judge in writing if he expects the moratorium will be unsuccessful or if the debtor is not co-operating with him in good faith or has taken measures contrary to rules pertaining to the moratorium. Having regard to the legal basis upon which LBI originally was granted a moratorium and how the legal effect of the moratorium was amended by Act No. 44/2009, the Appointee has seen no reason to notify the District Court Judge that the bank's moratorium will not be successful. The Appointee has neither been aware of any failure to act in good faith towards achieving the objectives of LBI's moratorium. Nor is the Appointee aware of any measures taken during the bank's moratorium which infringed against Articles 19-21 of the AB until 22 April 2009 or Art. 103 of the AFU, cf. Article 7 of Act No. 44/2009 after their entry into force on the before mentioned date.

CHAPTER 5
WINDING-UP BOARD

5 WINDING-UP BOARD

On 29 April 2009, the Reykjavík District Court responded to a written request by the RC that a WuB be appointed for LBI. Supreme Court Attorneys Halldór H. Backman and Herdís Hallmarsdóttir were appointed by the court to the WuB, which they constitute together with moratorium Appointee Kristinn Bjarnason, Supreme Court Attorney, as previously mentioned.

Following the entry into force of the above-mentioned Acts, the RC and WuB jointly manage the bank's affairs in accordance with the division of responsibilities provided for in Points 3 and 4 of Temporary Provision V in the AFU. One of the most extensive task of the WuB is to handle all claims against the bank in accordance with the procedure provided for in AFU as amended in Act No. 44/2009.

5.1 PROCEDURE FOR LODGING CLAIMS

A notice inviting creditors to submit claims to the WuB was initially published on 30 April 2009. The time limit for lodging claims expired on 30 October 2009. Once the time limit had expired, a list of claims submitted was compiled and the WuB has since worked on making decisions on recognising claims, including the priority given to them. The decision on priority of claims shall comply with the provisions of Articles 109-115 of the AB, cf. Article 102 of AFU; furthermore, the Act states that claims on deposits, in accordance with the Act on Deposit Guarantees and an Investor Compensation Scheme, shall have priority, cf. the first and second paragraphs of Article 112 of the AB. The form and contents of claims shall be based on the rules of Art. 117 of the AB.

Due to the scope and quantity of claims against LBI, the WuB prioritised its work, initially focusing on various priority claims, lodged on the basis of Articles 109-112 of the AB. Thereafter it intends to focus on general claims, as referred to in Article 113 of that same Act. Having regard for the final sentence of the first paragraph of Article 119 of the AB, no decision will be made on subordinate claims, i.e. claims covered by Article 114 of the Act. The above implies that the WuB must hold several creditors' meetings to present its decisions on claims.

The first creditors' meeting for this purpose was held on 23 November 2009. At this meeting, the WuB presented its decisions on 1,175 priority claims. The process of presenting decisions on recognising priority claims continued at the second creditors' meeting, held on 24 February 2010. The WuB intends to conclude the presentation of its decisions on all priority claims at a third creditors' meeting, scheduled for 27 May 2010 at the same location, i.e. Hilton Hotel Nordica, and present its decisions on general claims in so far as possible. The WuB also intends to schedule a creditors' meeting later this year to conclude the presentation of its decisions on general claims against LBI. The above plans of the WuB may change if the handling of claims against LBI proves more time-consuming than expected.

If a claim is rejected, in full or in part, by the WuB, the relevant creditor must be notified at least one week prior to the creditors' meeting where the decision will be presented. A special notification must also be sent to creditors in cases where a decision as referred to above is postponed. A new creditors' meeting is convened for the purpose of continuing to present decisions by the WuB on recognising claims with an announcement at the preceding meeting. Announcements of such meetings are also published on the secure area of the bank's website intended for creditors. Information on the WuB's plans in this respect is also provided in announcements sent to creditors as appropriate. A list of claims lodged, updated as appropriate as the decisions of the WuB on recognising claims become available is made accessible to the bank's creditors at the offices of the WuB one week prior to the creditors' meeting. It is also published on the secure area of the bank's website, where various other documentation is also available.

Creditors with legitimate interests may object to a decision by the WuB on any claim lodged provided that such objections are received by the WuB no later than at the creditors' meeting where the claim and decision concerning it is presented. All objections will be recorded and the WuB will endeavour to resolve all questions of dispute. Should this not prove possible, the dispute shall be referred to the District Court. Due to the size and scope of creditors' meetings and the large number of cases, it is not possible to attempt to resolve disputes during meetings. Special meetings, attempting to resolve disputes, shall be held with the parties concerned.

Following the initial creditors' meeting held by the WuB to present decisions on claims lodged against LBI, i.e. the meeting on 23 February 2009, the WuB may pay claims which have been recognised in full or in part. This is subject to certain conditions:

- Only recognised claims will be paid (i.e. undisputed claims or claims concerning which a dispute has been resolved).
- It must be ensured that the bank's assets are sufficient to pay all creditors of equivalent priority an equal proportion of their outstanding claims.
- If a dispute concerning a claim which could be entitled to a proportional payment is not resolved, funds shall be set aside to enable it to be paid if recognised.

Notwithstanding the above-mentioned conditions, individual creditors may be paid in advance if they agree to waive their claims in return for partial payment provided that it is ensured that such payment is a lower amount than would be paid on the claim at a later stage, given its priority.

It should be mentioned that none of the conditions listed above have been fulfilled so far. This is in part due to the fact that objections have been raised in connection with all claims recognised by the WuB. Efforts are underway to resolve such disputes in accordance with the rules of the AB, as appropriate.

5.2. WORK AND TASKS OF THE WINDING-UP BOARD

In addition to handling the claims process, the WuB is entrusted with numerous tasks including, but not limited to, the following.

- The WuB takes decisions on and/or resolves any legal actions, litigation and/or actions by individual creditors against the bank.
- The WuB voids actions as provided for in the rules of the AB.
- Together with the RC, the WuB undertakes forensic examination of the bank's accounts.
- Together with the RC, the WuB undertakes to recover assets and attempts to retrieve assets which have been lost for any reason due to any sort of creditor actions.
- The WuB supervises reciprocal contractual rights and implements decisions concerning them, as provided for in the relevant provisions of the AB.
- The WuB is involved in netting decisions, in particular those aspects concerning enforcement of claims against the bank through netting.
- The WuB handles the preservation of the bank's funds and their disbursement to creditors when the time comes and as provided for by law.

Finally, the WuB handles the conclusion of the winding-up proceedings as described in Article 103a of the AFU. This includes full payment of all obligations and guarantees or the conclusion of composition with creditors once assets have been recovered fully or such recovery is anticipated and all disputes concerning claims and other issues have been settled.

The WuB sits on the Audit Committee together with the RC and members of the WuB participate in working groups under the auspices of the Audit Committee, as described in more detail in Chapter 3.2.1.

5.2.1 INVITATION TO LODGE CLAIMS, RECEPTION AND PROCESSING OF CLAIMS LODGED

The WuB published a first invitation to creditors to lodge claims in Iceland in the *Legal Gazette* (Icel. *Lögbirtingablaðið*) on 30 April 2009 and a second invitation on 7 May 2009. The date of the former advertisement marks the beginning of the six-month time limit for lodging claims, which expired at midnight on 30 October 2009. The invitation to lodge claims was also published in daily newspapers in those countries where the bank's creditors are thought to be domiciled. The notice was also published in the *Official Journal of the European Union*. Known creditors of LBI were sent a special notice to the effect that lodging of claims had begun, when the time limit for lodging claims would expire and what the consequences would be for claims not lodged by the end of the time limit.

Creditors from a member state of the EEA or the European Free Trade Association were authorised to submit claims in the language of that state. Such claims submissions had to be accompanied by an Icelandic translation. However claims could be submitted in English without an accompanying translation. Other creditors could, furthermore, submit their claims in Icelandic or English. All documentation accompanying the claims lodged was to be accompanied by an English or Icelandic translation if not in either of these languages.

The WuB set up an organised reception procedure for claims lodged together with a special database to manage the claims lodged and all accompanying documentation which would serve as a basis for a list of claims lodged.

5.2.2 PROCESSING OF CLAIMS AND HANDLING OF DISPUTES

The WuB has been discussing individual claims in order to make a decision on recognising them as provided for by law. This work is very extensive and time-consuming. As a result, the WuB has had to enlist the assistance of legal personnel and attorneys in preparing decisions by the WuB, as well as handling other tasks which are not deemed proper, for reasons of eligibility, to entrust to bank employees. Among the tasks involved in preparing decisions is the investigation of supporting documents and the verification against the bank's own documentation wherever possible, the examination of claims for interest and costs, and various other processing which must be completed before a decision is made by the WuB.

As previously described above disputes regarding the WuB's recognition of claims will be handled by Icelandic courts in accordance to AB, cf. Article 120, cf. Article 171. This is a comprehensive task which the WuB will endeavour to finalise as soon as feasible. The procedure of this work is based on explicit rules. Because of the legal status of LBI, among other in regards to the European Directive on the Reorganization and Winding-up of Credit Institutions (2001/24/EC), disputes concerning claims lodged against LBI shall be heard before Icelandic courts, irrespective of whether the contracts or obligations on which the claims are grounded are based on the substantive laws of other states. All claim holders are thus on an equal footing during the winding-up process, in this respect as in others.

5.2.3 RECIPROCAL CONTRACTUAL RIGHTS

According to the first paragraph of Article 102 of the AFU, the rules of the AB apply to reciprocal contractual rights. This implies that the WuB has had to take decisions on various contracts concluded by the bank which are covered by provisions of Chapter XV of the AB. Due to the scope of the bank's former operations, this work has proven to be very extensive and in certain instances, the WuB has

sent notice to counterparties in such contracts that the bank will not assume the rights and obligations which they provide for. Among those contractual rights concerned were various derivative contracts.

Derivatives are contracts for forward currency transactions and swaps between commercial banks and savings banks, on the one hand, and their clients, on the other. Certain special rules apply to derivative contracts. For instance Article 40 of Act No. 108/2007, on Securities Transactions concerning written contracts between two parties, states that their obligations shall be fully netted against one another notwithstanding the provisions of Articles 91 and 100 of the AB. The purpose of the exemption from Article 91 of the AB is to avoid enabling the bank to fulfil those contracts which are advantageous for it and to reject those which are not by requiring a mutual settlement to be made. In co-operation with the RC, the WuB has been reviewing derivative contracts and their lawful treatment, taking in regard the special rules which apply.

5.2.4 LEGAL PROCEEDINGS AGAINST THE BANK

According to the fourth paragraph of Article 102 of the AFU, the rules of Chapter XVIII of the AB apply to claims against the bank. Provisions which apply to bringing suit against the bank are laid down in the initial Article of Chapter XVIII, i.e. Article 116 of the AB. According to the first paragraph of Article 116 of the AB, suit may not be brought unless there are specific grounds for so doing, as described in detail in the provision. However, it can be concluded from the second paragraph of Article 116 of the AB that litigation that had already been initiated may continue, provided the plaintiff notifies the WuB thereof. This is a special exception that should be construed narrowly. Legal action carried out based on these rules does, however, not lead to increased probability of recovery for the claim holder or a better legal position, as enforcement measures cannot be brought against the bank irrespective of the time they were initiated, see details in Section 5.2.5 below.

The WuB has had to examine and make decisions in many instances where lawsuits have been brought against the bank, both in Iceland and abroad. The task of the WuB includes deciding whether these lawsuits concern interests which must be defended for the benefit of the bank and its creditors in general. This applies both in the case of new proceedings which should not be admitted due to the provisions of the first paragraph of Article 116 of the AB and where a decision must be made as to whether the WuB will concern itself in suits which had previously been brought in keeping with the provisions of the second paragraph of Article 116 of the AB.

5.2.5 RESPONSE TO COLLECTION ACTIONS ABROAD

The WuB has made an effort to maintain legal protection for LBI overseas. This has involved, firstly, applying for recognition by the authorities in those states where the bank has interests at stake of the legal protection provided by the provisions of the AB (the so-called recognition process discussed in Section 4.1.6) and secondly, responding to collection actions already undertaken by various creditors, in particular overseas.

As previously mentioned the provisions of Article 116 of the AB apply to the bank's moratorium and winding-up proceedings. According to the third paragraph of Article 116, and with the exception implied in the fourth paragraph, "a debt enforcement action, attachment or injunction cannot be requested against [the bank]". The WuB has had to apply this legal protection in several instances where foreign creditors have attempted to enforce their claims through actions directed at the bank's assets abroad.

In those instances where creditors have managed to acquire some sort of enforcement rights to the bank's assets prior to the amendments to the AFU, which were made with the entry into force of Act No. 44/2009 on 22 April 2009, the WuB has attempted to have the voiding of such rights recognised, for instance, pursuant to the rules of Article 138 of the AB.

5.2.6 CASH MANAGEMENT

The WuB is responsible for supervising and preserving the bank's cash. More details on cash management are provided in Section 7.7. Decisions regarding cash management on a group level are taken by the Investment Committee. The committee works according to a *Cash Management and Investment Policy*. Fundamentally, it is the aim of LBI to preserve cash in a sound and secure way so that the risk of loss and set offs is minimized. It must also be ensured that interests on cash positions are acceptable. The Investment Committee is comprised of one member of the WuB, the managing director of daily operations, the managing director of the winding-up proceedings, a managing director from the London Branch and the Head of Treasury. These meetings are prepared by the Treasury department.

CHAPTER 6
ASSET MANAGEMENT

6 ASSET MANAGEMENT

Concerted efforts are focused on safeguarding LBI's assets and value. A strategy has been adopted for handling each asset class. Work processes have been prepared and procedures developed to enable the most cost-effective handling of assets.

6.1 LOAN PORTFOLIO

LBI's general objective is to recover payments on loans through to maturity. Debtors' loans are restructured if it appears evident that this will increase the amounts recovered. Opportunities to renegotiate loan terms to increase interest or shorten the repayment period are generally seized. Opportunities to sell loans on the market are examined as they arise, but efforts will be made not to sell unless a sale can be made as close as possible to nominal value. Decisions on handling loans are taken by the Credit Committee, as explained previously in Section 3.2.1. In addition, the entire loan portfolio is reviewed regularly. If a debtor is in default and it does not appear worth the while to restructure its debt, collection actions are undertaken. The RC avails itself of assistance from foreign experts where the debtor's asset position internationally needs to be evaluated. LBI will seek assets anywhere, of whatever sort, to enforce its claims where such actions are deemed to be cost effective for LBI.

6.2 SECURITIES

Bonds maturing over the next 2-3 years will be held to maturity and the bank will receive instalments on them. Efforts will be directed at disposing of long-term bonds without regular instalments, with high lending risk and a long duration as long as the selling price remains acceptable.

It is the aim of LBI to dispose of smaller holdings in listed equities to a large extent before mid year 2010. The aim is to hold larger exposures until 2012 or 2013. Assets will be sold when a maximum price can be obtained. Movements in the securities portfolio are monitored daily and an attempt made to obtain information of market developments from experts. In those instances where LBI has large holdings in companies the bank will avail itself of expert advice to place the shares on the market so that it makes as little price impact as possible. Unlisted securities will be disposed of with the assistance of experts or the companies themselves when an acceptable price can be obtained for them.

6.3 LIQUID ASSETS

In order to be able to pay funds to creditors as soon as a decision by the WuB to this effect has been taken the bank's liquid funds are preserved in a secure manner. At the moment, the bank's liquid funds are preserved in deposits with central banks (the Bank of England, DNB and the CBI) and several commercial banks deemed trustworthy by LBI. Efforts will be made to obtain a maximum return on these assets while ensuring that the risk of loss is negligible.

6.4 REAL ESTATE

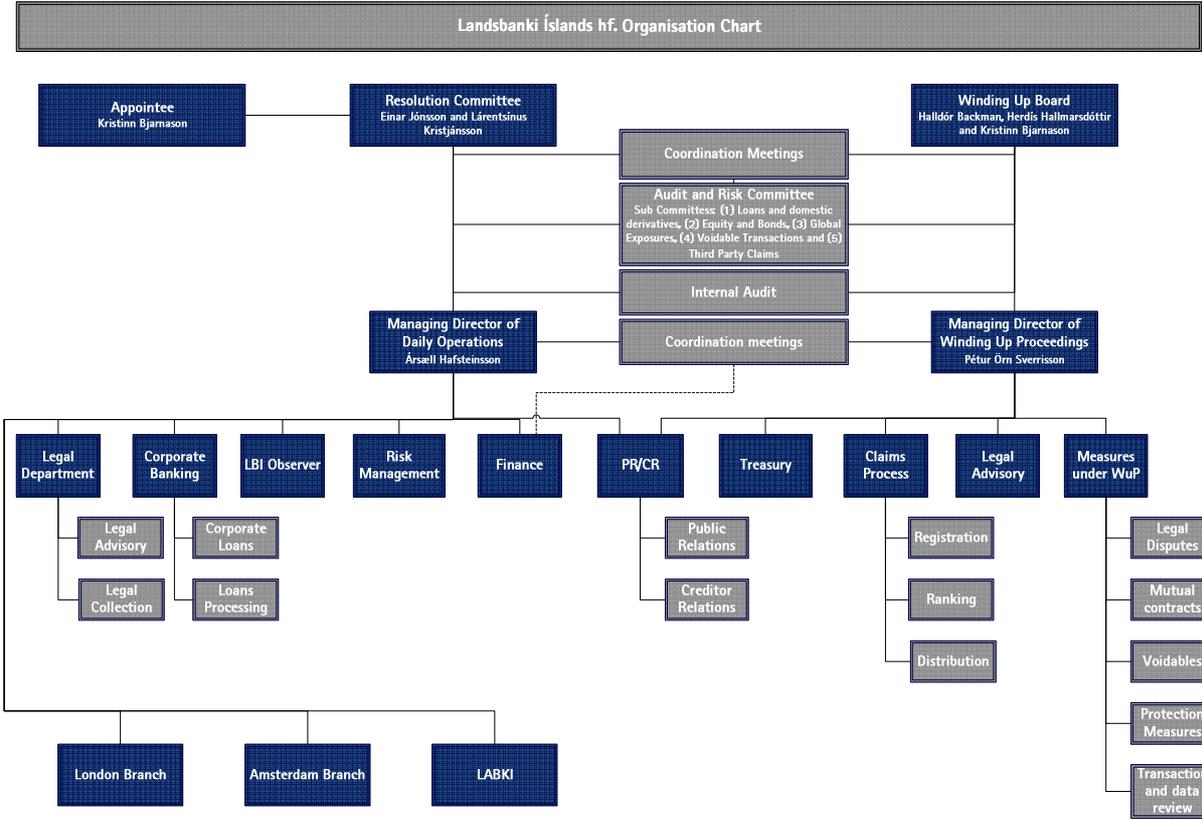
Employees with expertise in real estate administration were hired by the bank, together with specialised contractors to look after property maintenance, security and sanitation services. These specialists provide various services, including conducting valuation of properties and comparing those values to older valuations, estimating the future value of assets, calculating potential income and expenses generated by those assets, and determining whether the properties should be offered for sale or rented.

Emphasis is placed on ensuring that the sale process for real estate is transparent and open. In accordance with this objective, the RC requires that the bank's real estate be advertised before being sold. The banks real estate are few and comprise a negligible proportion of total assets.

CHAPTER 7
LBI'S ACTIVITIES

7 LBI'S ACTIVITIES

The RC and WuB jointly control LBI, as explained in the preceding section.



Ársæll Hafsteinsson and Pétur Örn Sverrisson direct daily operations in their divisions of responsibility as shown in the organisational chart above. The following sections provide a brief account of the tasks of each of LBI's operating units.

7.1 LEGAL DIVISION

LBI's Legal Division consists of Legal Advisory and Legal Collection. The legal division is responsible for communications with governmental bodies and all legal advice to LBI.

Legal Advisory provides legal advice to the RC and Corporate Banking as required. Five persons work in Legal Advisory, one of them in part-time positions.

Legal Collection handles enforcement of the bank's claims in Iceland. Six persons work in Legal Collection plus two other employees who supervises all appropriated assets (real estate, securities and moveable assets). The Director of Legal Collection is responsible for seeing that all claims are being collected by the department follow proper and correct collection channels. Legal Collection also handles litigations due to collections and communicates regularly with estates that the bank has claims against. Around 200 cases are now in collection.

7.2. CORPORATE BANKING

Corporate Banking consists of two departments: Credit and Loan Administration. Customer Relations Managers and the Credit Committee's employee work on credit issues. The Customer Relations Managers supervise specific loans in LBI's loan portfolio, all of which have a designated Customer

Relations Manager who is responsible for them. Their objective is to maximise the value which can be obtained from LBI's loans, whether this involves repayment of loans, restructuring them or collecting payments on them for the duration of the loan. Seven employees work in the credit department. The director is responsible for daily activities, such as preparing cases for submission to the Credit Committee, preparing regular portfolio monitoring meetings and preparing meetings for write-offs.

Four persons work in Loan Administration. The department's tasks involve primarily keeping track of LBI's loans in the bank's systems as well as handling archiving of loan documentation together with the Credit Committee's employee.

Corporate Banking used to include a derivatives division which was discontinued as those derivatives that have not been settled have been sent to Legal Collection. The Credit Department has taken over all projects and cases that were not transferred to Legal Collection and will be working closely with Legal Collections on the handling of such cases

7.3 LBI OBSERVER

The LBI Observer is responsible for the monitoring of certain asset portfolios that were transferred to NBI by the FME's decision in October 2008.

The agreement that was signed 15 December 2009 between NBI and LBI states that NBI issues a ten year bond to LBI for the equivalent of 260 ISKbn for net assets transferred as of October 2008. The amount of the bond was the result of a negotiated settlement. Due to the inherent uncertainty of asset values as of October 2008, a valuation of the asset portfolios being monitored by the Observer will be undertaken at end 2012. Any increase in value determined by this valuation may result in an additional bond being issued by NBI up to a maximum amount of 92 ISKbn as described in Section 8 below. LBI observer monitors the value and development of NBI's underlying asset portfolios until the final valuation of assets has taken place.

Eight employees work for the LBI Observer.

7.4 FINANCE AND OPERATIONS

Finance and Operations handles accounting for the bank's daily operations in Iceland. The division is also responsible for the bank's accounting and results on a group basis, as well as various group financial and operational issues. The department also observes and analyses cost on a group level. There are six employees in the Finance and Operations department.

7.5. RISK MANAGEMENT DIVISIONS

The role of the Risk Management division is to verify, measure, monitor and report on the main risk factors faced by the bank in its operations. These involve primarily operational risk, market risk and credit risk, which is most important given the nature and scope of LBI's operations. All work concerning LBI's databases and processing of their data is carried out by Risk Management. Risk Management regularly and systematically monitors the work of Legal Collection and Customer Relations Managers with the aim of maximising the value of the bank's assets.

As previously mentioned, Risk Management is responsible for preparing regular meetings with all persons involved in handling the bank's assets. The position is reviewed and the assets discussed and assessed. Following these meetings, Risk Management reviews the conclusions, recalculates recovery of the bank's assets and informs the RC of the results.

7.6 PUBLIC RELATIONS AND CREDITOR RELATIONS

The public relations officer looks after press and media relations, follows and assesses media reports and discussion of issues concerning the bank directly and indirectly, as well as managing the bank's website

The creditor relations officer handles communications with creditors as appropriate and, in addition, supervises the ICC. The creditor relations officer was also involved in negotiations between LBI and the Ministry of Finance in co-operation with the RC's capital markets advisors from Barclays Capital.

7.7. TREASURY

The bank's cash management is controlled from Reykjavík. Due to the actions by authorities in the Netherlands, management of liquid assets at the Amsterdam branch is under the control of the administrator in that country and LBI's Cash Management has no access to the affairs of the branch. This is expected to change after LBI assumes control of the branch on 14 April (see further Chapter 7.11.2). The bank is also subjected to constraints regarding transferring cash from the London Branch, LBI is working towards resolving this issue.

Cash Management places primary emphasis on having funds preserved in a dependable and secure manner, seeking to minimise the risk of loss and risk of set-offs. In addition funds are invested to provide an acceptable return. An investment committee has been established within the bank and its objective is to apply the agreed upon investment policy. LBI treasury also monitors the bank's bond portfolio.

LBI's cash in Iceland is mostly deposited at the Central Bank. In the opinion of LBI, the return on liquid assets in Iceland has been acceptable.

The London branch has to a large extent deposited liquid assets in accounts with the Bank of England, as a major emphasis was placed on the security of London branch's assets. Under the deposit terms, interest earned at the Bank of England is such that the account is not bearing any interests. Certain constraints are in the AB in regards to how monetary assets may be reserved. The bank is in negotiation with certain UK financial institutions to open deposit accounts and it is the bank's policy to reduce cash amounts in accounts in Bank of England as soon as possible and deposit them to secure accounts bearing interest comparable with interest currently offered in the deposit market.

7.8 CLAIMS PROCESS

The Claims Process was responsible for registering and classifying claims which were received prior to the expiration of the time limit for lodging claims. Since the last creditors' meeting the department has worked on registration of objections, communications with creditors and up-dating and reviewing information in the claims registration system. Claims Process prepares a list of claims as provided for in Article 119 of the AB and up-dates according to the decisions of the WuB. Carrying out disbursement as provided for in Chapter XXII of the AB is also prepared by Claims Process.

7.9 LEGAL ADVISORY OF THE WINDING-UP BOARD

The Legal Advisory of the WuB provides legal advice to all departments under the direction of WuB. The two employees of Legal Advisory work in close co-operation with the managing director of the winding-up procedure and the WuB. The tasks of Legal Advisory include LBI's entire winding-up process, including providing advice and assistance regarding recognition of claims, disputes legal questions concerning creditors, the bank's mutual contracts, netting, global exposures and voidable measures.

7.10 ACTIONS DURING THE WINDING-UP PROCEDURE

Upon the appointment of the WuB, various provisions of the AB came into force obliging the WuB to take specific actions. These include provisions of Chapter XV of the AB on reciprocal contractual rights, which are the responsibility of this division. The most extensive task of the department is examination of measures taken by LBI prior to the reference date to see if the voiding measures of the AB should be applied. Several such cases are currently in process and the recovery rate has increased as a result.

7.11 FOREIGN BRANCHES/SUBSIDIARIES

LBI's activities abroad currently consist of its two branches in London and Amsterdam, in addition to its subsidiary Labki Finance Ltd., previously its branch in Halifax. The largest share of its asset is in Iceland a partial reason for this is that the instruments to be issued by NBI will be issued and accounted for by LBI in Iceland. As previously stated, the RC meets regularly with employees of domestic and overseas operating units concerning their operations and asset valuation. RC also partakes regularly in work on various assets.

7.11.1 LONDON BRANCH

The principal activities of the branch in London prior to the bank's collapse were loans to small and medium-size corporates, primarily European but also American. The branch's loan portfolio broadly consists of two types of loans: asset-backed finance, loans granted against charges on companies' inventories and receivables, and structured/leveraged finance, loans granted against charges on a company's entire operations. The bank was sometimes lead arranger, but in most cases was a participant in financing initiated by other banks. In addition, the branch brokered and acquired bonds and brokered and set up derivatives, but such activities were still in the early stages. The branch also accepted deposits, but these aspects were outsourced completely to LBI's subsidiary Heritable Bank and all administration to UK service providers.

The branch's primary assets today are loans to companies. As well as working on the loan book the branch also assists Reykjavík operations in managing holdings in UK companies. In addition a collection of equities and bonds is managed by the bank but due to favourable market conditions, a significant portion of the listed equity portfolio was sold in the fall of 2009.

The bank emphasises co-operating closely with those companies which are in full operation to ensure that the bank's interests are fully secured while at the same time these companies and their managers can operate independently and successfully.

Following the collapse, the situation in the branch was extremely uncertain, in part due to the freezing order imposed on the basis of terrorist legislation. With the assistance of the Bank of England, which provided a short-term loans for the branch's activates, the branch's operations were stabilized. At the same time, all payment mediation and internal activities were reinforced to ensure that there would be no further disruption on operations. A large number of employees were made redundant, while still ensuring that sufficient staff would remain to administer the asset portfolio.

At the beginning of October 2008, the London Branch had 193 employees. As of February 2010 that number had been reduced to 65, 23 of whom are connected with asset-backed loans while others handle general banking operations and administer other loan portfolios and the bank's asset portfolios. The majority of the branches' employees are foreign. It is foreseen that this year the number of employees will decrease but those plans will solely be based on the size and nature of the projects that the branch will be working on for LBI. The emphasis is on retaining competent and experienced employees to manage the asset portfolio.

By the beginning of December 2008, loans from the Bank of England had been repaid with income and collections from the asset portfolio. Since the RC began governing LBI, operations have been successful and collections have been satisfactory. A third of LBI's portfolio has been collected and deposited in the United Kingdom. In order to ensure safe keeping, a large proportion of the cash is deposited in the Bank of England (see further in Chapter 7.7).

7.11.2 AMSTERDAM BRANCH

Three employees currently work in the branch office in the Netherlands. The RC considered itself obliged to dismiss the bank's former management due to a dispute on remuneration and afterwards requested that branch employee Jan Van Andel assume the position of branch manager. Few employees are required at the Amsterdam branch, as the London branch provides the branch with most back office services.

On 13 October, the District Court in Amsterdam appointed administrators for the branch in the Netherlands at the request of the Dutch central bank (De Nederlandsche Bank, DNB) for period of 18 months or until 13 April 2010. The administrators are from the Dutch legal firm DLA Piper. The appointment was made based on the incorrect contention that LBI had lost, or was about to lose, its banking license. The court's verdict, however, was not appealed on the advice of LBI's then Dutch lawyers.

In LBI's estimation, this intervention in the branch's affairs is in clear violation of Icelandic law and in direct contradiction to European Directive on the Reorganization and Winding-up of Credit Institutions (2001/24/EC)³. A positive step was taken in December 2009 when LBI received a considerable amount of data on the operations of the Amsterdam branch. On the other hand the cost of the Dutch administration has been beyond the jurisdiction of the RC and the WuB and it has proved difficult to get information on the costs of administration of the branch and its premises for the cost. The same is the case in respect of some of the administrator's provisions. It is the opinion of the RC and the WuB that the cost of Dutch administration is mostly a duplication of costs and that the work of the administration has been of no benefits to LBI. The RC and the WuB have not approved any costs pertaining to the work of the administrators but has instead reserved the right to counterclaim against whosoever may be held responsible for these costs by law.

This special administration in the Netherlands in general causes various difficulties and uncertainty as to the legal position of certain creditors, and could even result in losses for them. All information on assets in the Netherlands, their disposition and the position of the branch in other respects is unclear and subject to reservation on behalf of LBI.

The RC and the WuB have attempted to persuade the Dutch appellate court to rectify the situation in accordance with European Directive on the Reorganization and Winding-up of Credit Institutions (2001/24/EC) as there are no legal grounds for special administration as described above. On 16 February a litigation took place at the Dutch appellate court regarding the administrators demand to have their appointment continued so that they could "complete their work", as it was worded in their petition. They contend, for instance, that they are responsible for the distribution of the assets of the branch to creditors according to Dutch law. This is in complete contradiction to all the basic European principles concerning winding-up of financial undertakings and is liable to undermine the overall winding-up process, to the detriment of all creditors, in the estimation of the RC and WuB.

The Amsterdam District Court delivered its verdict on the petition by the administrators on 8 March this year, rejecting their claims entirely. As a result, this special winding-up procedure will come to an end on 13 April 2010, barring further changes. The management, assets, rights and obligations of the

³ For further information: <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2001:125:0015:0023:EN:PDF>

branch will then be transferred to the RC and WuB. It is unclear at this moment whether it will prove possible to reach an amicable settlement on the administrators' departure or whether further actions will be necessary to regain control of the branch's affairs. It is hoped that the position will become clearer in the coming days and weeks so that the administration procedures in the Netherlands can be concluded no later than 13 April this year.

It should be mentioned that court proceedings brought by the RC and WuB in 2009, demanding recognition of the illegality of the administration or its invalidation are still unresolved. Demands to this effect were rejected in the lower court and the judgment has been appealed. The case is now suspended in the appellate court in Amsterdam and a decision will be taken as to whether to pursue the case or withdraw it. The outcome in the case may affect the bank's legal position in general concerning the administration procedure.

7.11.3 LABKI FINANCE

A decision was taken to establish a subsidiary for the activities of the branch in Canada due to uncertainty at first as to whether the Canadian Office of the Superintendent of Financial Institutions (OSFI) would authorise the continuing operation of the branch in its original form and whether legal protection from actions by creditors would be recognised in Canada on the basis of the Icelandic moratorium.⁴ It was therefore decided to place the assets of the branch, which consist of loans and cash, into a subsidiary to protect them against collection and enforcement actions by individual creditors. Both of the RC members are on Labki's Board of Directors, which meets regularly. Labki currently has six employees. The company obtains its loan administration and credit control services from the bank's headquarters. LBI also supervises its loan book.

7.12 SERVICE AGREEMENT

For operational and financial reasons it was decided to outsource specific tasks to NBI. In addition, the RC has in many instances required the specialised expertise of NBI employees in resolving certain tasks. In concluding the draft service agreement with NBI, the work performed by individual departments for LBI was examined in detail, a list made of individual aspects and the work contribution assessed. Among the services obtained from NBI are the financial updating of specific claims, technical services, human resources and various other services. The contract has not been finalized, although the principal items have been agreed in principle it is however evident that the need for NBI's service has decreased as LBI is now mostly self-sufficient with current operations.

7.13 ACTIVITIES NO LONGER CONTROLLED BY LBI

Immediately following its appointment, the RC undertook to safeguard LBI's foreign operations. The adoption of the emergency legislation on 6 October 2008, authorising FME to take over the direction of the commercial banks with the appointment of RC, drew harsh responses from foreign governments. The UK government placed a freezing order on all the bank's assets in the UK based on anti-terrorist legislation. The UK freezing order immediately had a very negative impact on the activities of LBI's branches and subsidiaries abroad, especially in the UK. In its report on the impact of the collapse of the Icelandic banks, the UK House of Commons Treasury Committee commented on the invocation of this legislation, stating that it would be appropriate to prepare new legislation to deal with similar circumstances in the future.

⁴ Such recognition was, however, eventually obtained in April and May 2009.

7.13.1 KEPLER AND MERRION

In September 2005, LBI acquired the European securities brokers Kepler Equities (hereafter “KE”), previously Julius Bär Brokerage. KE specialised in the sale and mediation of equities to institutional investors, as well as operating a strong research division. While the company’s headquarters were in Paris, it also operated establishments in the principal financial capitals of Europe and in New York.

LBI’s acquisition of a 50% holding in the Irish stockbroker Merrion Capital (hereafter “MC”) was concluded in November 2005. LBI was expected to acquire the company’s entire share capital over the following three years. Established in 1999, MC had 75 employees when acquired by LBI.

Prior to the collapse of LBI, KE and MC were in the process of being sold, with Straumur-Burðarás Investment Bank hf. (Straumur) intending to acquire the companies’ activities. Following the bank’s collapse the sale was not consummated. From the negotiations and letters exchanged by the RC with the management of KE and MC it was clear that the companies could not continue their operations under LBI’s ownership. The sales process was resumed because the RC determined that value of the companies to the bank was falling rapidly and if the situation continued it would be reduced to zero. With respect to both KE and MC, the RC concluded that a management team from each of the respective companies should acquire them. Because the transaction involved sales to insiders, independent advisors were obtained to provide a fairness opinion on the transactions before they were concluded.

7.13.2 HERITABLE

In 2000, LBI acquired Heritable Bank Plc, a Scottish bank headquartered in London. The bank was established in 1877 in Glasgow. Heritable Bank specialised in advisory and financing services for housing development ventures.

Heritable Bank was placed in administration on 7 October 2008. On 8 October 2008, the majority of Heritable Bank’s deposits were transferred to ING Direct.

Ernst & Young LLP is the administrator during the administration proceedings and LBI has ongoing discussion regarding claims on the estates. Information received by LBI regarding possible recovery has been limited to what is publicly available. E&Y have issued 3 progress reports.

7.13.3 LANDSBANKI SECURITIES UK

Landsbanki Securities UK (LS) was created through the merger of stockbrokers Bridgewell and Teather & Greenwood upon LBI’s acquisition of Bridgewell in May 2007. LBI had acquired Teather & Greenwood in February 2005 and operated it under that name.

After LBI could not fulfil major guarantees for its obligations, LS’s management requested the company be declared insolvent in November 2008. Shortly before this they sold Straumur the trademark “Teathers” which the company had owned. Soon afterwards Straumur hired several LS employees. Neither of these actions took place with the knowledge or consent of the RC but, as this concerned a subsidiary, such sale was not conditional on its consent. These events did not bring about any known loss to LBI.

7.13.4 LANDSBANKI GUERNSEY

In August 2006, LBI concluded the purchase of Cheshire Guernsey Ltd., a bank on the island of Guernsey in the Channel Islands, which became Landsbanki Guernsey, a subsidiary of LBI. The company was placed in administration on 7 October 2008. Rick Garrard and Lee Manning from

Deloitte LLP were appointed as joint administrators during the administration proceedings, the former on 7 October 2008 and the latter on 10 October 2008.

7.13.5 OTHER ESTABLISHMENTS

LBI had a large number of establishments throughout the world. They are listed below and a brief account of developments provided in each case.

Oslo: The Oslo branch primarily carried out securities brokerage activities. Plans to expand its activities were not carried out. Possible sale of the activities was examined, but since there was considered to be little likelihood of this being successful it was decided to disband the operation.

Helsinki: The Helsinki branch, which primarily carried out securities brokerage activities, had only recently been established. Branch operations ceased and employees were laid off.

Hong Kong: A preparatory office operated in Hong Kong was closed. The office had no major assets and only three employees.

Singapore: A preparatory office operated in Singapore was closed. The office had no major assets and only one employee.

Frankfurt: Preparations underway to open a branch in Frankfurt were terminated, and the office there was closed. The office had no major assets and only one employee had begun work. He was laid off, together with three others who had been hired and were to begin work in November 2008.

Madrid: Preparations underway to open a branch in Madrid were terminated, and the branch there was closed. The office had no major assets and only one part-time employee. Branch activities were in fact operated from London branch. In October 2008 the branch's small loan book was transferred to London and its activities ceased.

New York: Preparations underway to open a branch in New York were terminated, and the branch there was closed. Employees in New York were either employees of London branch or of the parent company (LBI).

7.14 LANDSBANKI LUXEMBOURG S.A.

Landsbanki Luxembourg (LLUX) was a subsidiary of LBI which had operated since 2001. Originally a subsidiary of Búnaðarbanki Íslands hf., which operated under the name Bunadarbanki International SA, the bank was sold to LBI upon the merger of Búnaðarbanki Íslands and Kaupthing Bank and its name changed to Landsbanki Luxembourg S.A.

On 8 October 2008, one day after a RC was appointed for LBI, LLUX was placed in moratorium, and a Luxembourg court appointed an administrator for the bank during the moratorium. The RC attempted without success to reach an agreement on LLUX's affairs during the moratorium, with the aim of maximising the assets of the estate to the benefit of all creditors. Although LLUX's moratorium was valid until 8 April 2009, which meant sufficient leeway to find an acceptable solution for all parties, the bank was placed in liquidation proceedings on the request of the moratorium administrator on 12 December 2008, on the grounds that the moratorium was not producing the desired results. It should be pointed out that at the same time two other banks in Luxembourg, owned by the Icelandic banks Kaupthing Bank hf. and Glitnir Bank hf., were in moratorium. Both of these banks were given considerably greater leeway to resolve the situation of their subsidiaries – in the case of Kaupthing Bank hf., to find a buyer and, in the case of Glitnir Bank hf., to reach composition with creditors. The administrator during the moratorium was appointed one of two administrators in liquidation, but resigned from this position in May 2009.

The Central Bank of Luxembourg (hereafter “BCL”) and LBI are by far LLUX’s largest creditors, making it clear that reaching agreement with these parties will be crucial in determining the outcome of the LLUX estate. BCL’s claim against LLUX arises from loans granted to LLUX. The loans were granted against collateral which LBI provided to its subsidiary, which subsequently re-loaned the funds borrowed from BCL to the parent company. The collateral was in the form of bonds with an A rating or higher. Upon the banks’ collapse, BCL wrote down the value of these portfolios sharply and followed this up with a margin call for almost EUR 400 million. No sufficiently justified grounds have ever been provided for the calculations behind this margin call.

In April 2009, negotiations between the parties resulted in some progress, in part due to efforts by the Icelandic government. Negotiations were dormant, however, for the most part during the summer of 2009, as a summary and statement of the LLUX’s position were being prepared by the administrator. This information was made available in draft form in September 2009 and meant that LBI could make a much better assessment of the interests at stake and therefore how much effort should be devoted to resolve the issue and maximise LBI’s recovery from LLUX. More detailed information from the administrator was then received in October 2009 and since then negotiations for a comprehensive solution have been ongoing.

7.15 LBI’S ADVISORS

LBI has availed itself of the assistance of a large number of foreign consultants and legal offices for various tasks. The bank’s main legal advisor is Morrison & Foerster LLP (hereafter “MoFo”). In part due to the urging of its largest creditors, the RC engaged a special financial advisor to assist and advise it in the bank’s negotiations with the Ministry of Finance concerning the assets transferred from LBI to NBI. LBI has, furthermore, required extensive assistance from auditors to review accounts and investigate the bank’s financial and other matters. An expert team from Deloitte in Iceland and in London has worked on these tasks.

7.15.1 MORRISON & FOERSTER LLP

MoFo is LBI’s main legal advisor. Originally established in the US, with roots going as far back as 1856, MoFo currently operates legal offices in 16 countries. Among the tasks which MoFo has carried out for LBI are:

- Providing assistance with legal proceeding to obtain recognition for LBI’s moratorium abroad.
- Preparation of documents, in co-operation with Icelandic attorneys, for agreements on the value of assets transferred from LBI to NBI.
- Providing assistance to the RC concerning information disclosure to creditors.
- Negotiating with the liquidator of Heritable Bank concerning LBI’s claim against the bank.
- Defending various suits brought against LBI.
- Assisting with the investigation of the bank’s accounting issues.
- Providing assistance with actions aimed at recovering assets abroad.
- Providing other legal advice and opinions of various sorts.

The above list is not exhaustive. The numerous attorneys from MoFo who have worked for LBI have years of experience of financial instruments and have worked for several of the largest US financial institutions. In addition, they have extensive experience of insolvency law in both the US and the UK, and have been involved in the restructuring of large multinationals.

7.15.2 BARCLAYS CAPITAL

At the beginning of 2009, the RC engaged Barclays Capital as capital markets advisor to assist the RC in the negotiations of the agreements concerning the compensation instrument and also to partake in ICC meetings related to the compensation instrument.

7.15.3 DELOITTE

Following the RC's appointment, the FME demanded that a preliminary investigation be carried out as to whether abnormal transfers of LBI's assets had taken place in the events leading up to the actions taken based on Act No. 125/2008. The RC requested the assistance of experts from Deloitte for this task. The preliminary investigation focused, on among other items, financial movements, derivative contracts, lending, collateral, transactions by employees and management, and analysis of computer data.

The scope of the preliminary investigation was limited to the final 30 days prior to the collapse. Those employees of Deloitte who directed the project have worked in both internal and external audit, in addition to providing advice to the National Commissioner of Police in connection with investigation of financial crime.

From the spring of 2009 the RC and WuB decided to begin a more detailed and exhaustive investigation of the bank's affairs, including an examination of voidable measures. Although LBI's administrative bodies play a major role in this work, it was clear immediately that foreign experts would be required due to the scope of the issue and the bank's activities and operations abroad. A "forensic and dispute" team from Deloitte in London was engaged to undertake this project while specialists from Deloitte in Iceland were also engaged to work alongside the foreign experts. Deloitte's experts have considerable experience in investigating accounting irregularities, fraud, money laundering and corruption. Furthermore, they have experience in tracing and discovering assets in tax havens and countries where bank secrecy is strict.

Deloitte is an international company and its employees are assisted if necessary by offices in other countries. The UK team, Deloitte LLP, has, for instance, worked with Deloitte's Icelandic specialists on the preliminary investigation for the FME. The UK team consists of employees with as much as 20 years of experience of such investigations, many of whom have previously worked in internal investigations of financial undertakings or for public investigators such as the UK Serious Fraud Office.

Deloitte's office in Iceland, Deloitte hf., has, furthermore, assisted the RC in analysing the bank's accounts, adjusting the accounts due to the split of the bank into LBI and NBI, and analysing the valuation work and the bank's procedures. Deloitte's employees undertaking these tasks possess broad experience in providing financial advisory services, conducting due diligence, valuation and budgeting.

7.15.4 ERNST & YOUNG AS

Ernst & Young AS has acted as adviser in relation to issues regarding the Contingent Bond A limited to providing expert advice to LBI in negotiations with NBI in regards to the future value adjustment to be used in determining the final value. Going forward, Ernst & Young AS will provide the LBI Observer with an assessment of NBI's processes for tracking receipts received in respect of reference assets and the calculation of the valuation adjustments based on the receipt and the initial value.

7.15.5 OTHER PARTIES

LBI has required the assistance of experts throughout the world. In addition to the experts already mentioned, the following parties have worked for the bank in individual instances (the list is not exhaustive):

- The legal office of **Simmons & Simmons** in the Netherlands assists the bank in various legal matters arising in the Netherlands. The office has, for instance, been representing LBI in the proceeding to have the appointment of the administrator for the Amsterdam branch revoked. Prior to that **Allen&Overy** worked for LBI in Amsterdam.
- The legal offices **Jeantet et Associés AARPI** and **Allen&Overy**, both located in Paris, have provided the bank with assistance concerning its interests in France.
- The legal office **Elvinger, Hoss & Prussen** in Luxembourg has, for example, assisted in dealing with the authorities in Luxembourg concerning agreements in the participation of the RC in operations of LLUX. Furthermore, the legal office **Molitor** in Luxembourg was engaged to assist on various issues under the direction of the WuB and RC.
- The legal office **Steenstrup Storage** has, among other things provided advice in Norway regarding the moratorium and worked on the removal of an attachment in Norway.
- The legal offices **Squire Sanders & Dempsey** and **S. J. Berwin** in the UK have assisted LBI in various matters.
- The legal office **Appelby** in the Cayman Islands worked on obtaining recognition for the moratorium there.
- The legal office **Tavern Tschanz** in Switzerland has, among other things, worked on the removal of an attachment order in Switzerland.

CHAPTER 8

THE CONCLUSION OF THE
NEGOTIATION BETWEEN LBI
AND THE MINISTRY OF FINANCE

8 THE CONCLUSION OF THE NEGOTIATION BETWEEN LBI AND MOF

Negotiations with the Ministry of Finance and “new Landsbank” (hereafter “NBI”) on the compensation for those net assets transferred from LBI to NBI at the decision of the FME was the largest and most time-consuming task of the RC in 2009. These negotiations were based on FME’s decisions on how assets were to be divided between the banks.

On 9 October 2008⁵ the FME made its first decision on the division of assets as authorised in Art. 100a of the AFU, cf. Article 5 of Act No. 125/2008, on the Authority for Treasury Disbursements Due to Unusual Financial Market Circumstances etc. the FME’s decision would subsequently be amended on a number of occasions. Pursuant to the FME’s decision, all assets, including real estate, moveable assets, cash, holdings in other companies and claims rights, were delivered to NBI immediately. NBI also took over contractual rights to the use of real estate and moveable assets. Furthermore, NBI assumed all security rights, including collateral rights, guarantees and other similar rights in connection with the bank’s claims. According to the FME decision, NBI also took over intangible assets and rights, including trademarks and patents, registered or unregistered, trade names, databases, software and licenses, and all other similar rights.

The assets not transferred to NBI pursuant to the FME decision include all assets of LBI’s foreign branches, with the exception of eligible loans in Helsinki and eligible loans in the fisheries sector in Halifax and Norway, claims on the bank’s overseas branches and subsidiaries, holdings in foreign subsidiaries, appropriated assets and loans with high risk of loss.

With regard to liabilities and other commitments, the effect of the FME decision was that NBI would assume obligations of LBI’s branches in Iceland arising from deposits from financial undertakings, the Central Bank of Iceland (hereafter “CBI”) and other customers. Pursuant to an FME decision of 12 October 2008, LBI also assumed rights and obligations arising from derivative contracts. In addition domestic deposits were transferred to NBI as were obligations arising from export and import guarantees, letters of credit and performance bonds of corporations and individuals which were part of the bank’s regular activities. Obligations of LBI that NBI did not assume included:

- Commitments of foreign subsidiaries.
- Companies in moratorium, seeking composition with creditors or in liquidation.
- Obligations of LBI’s owners and affiliated parties.
- Obligations towards Icelandic financial undertakings.

In addition, the following liabilities of LBI were not transferred to NBI:

- All bond issues and other borrowings.
- All subordinated debt.
- Tax obligations.
- Obligations arising from employee bonuses.
- All deposits in LBI’s foreign branches.

Oliver Wyman and Deloitte were engaged by FME to assess the value of the assets and liabilities delivered to NBI.

The FME’s decisions have been amended eleven times to date.

⁵ For further information: <http://www.fme.is/lisalib/getfile.aspx?itemid=5731>

1. The first amendment was made on 12 October 2008⁶ when it became clear that NBI could not take over the rights and obligations under the derivative contracts as provided for in the previous decision. The concern was that if the decision of 9 October 2008 were not modified, it would result in NBI failing to fulfil obligations under the contracts with unforeseeable consequences.
2. On 19 October 2008⁷ the decision was amended for the second time, by adding several new items to the previous decision and a new annex listing the assets that would not be transferred to NBI.
3. On 9 January 2009⁸ the decision was amended for the third time. By this time it had become clear that it would not be possible to conclude the valuation by the time stated in the decision. On this basis it was decided to postpone the valuation of assets and obligations and FME was allowed to decide when the valuation would be made available.
4. On 14 February 2009⁹ the previous decision was amended with a decision that the valuation of assets and obligations should be available no later than 15 April 2009.
5. On 6 March 2009¹⁰ a fifth amendment, was made, which provided for the terms of the debt instrument to be issued by NBI to LBI to be available no later than 18 May 2009.
6. On 15 May 2009¹¹ FME was granted discretion to decide when the terms of the instrument would be made available.
7. On 15 June 2009¹² the decision was altered for the seventh time, providing the terms of the instrument were to be available no later than 17 July 2009.
8. On 20 July 2009¹³ the decision was amended yet again to provide that the debt instrument for settlement of the disposition of LBI's assets and liabilities to NBI was to be issued by the parties no later than 14 August 2009.
9. On 14 August 2009¹⁴ this decision was postponed to 18 September 2009.
10. The tenth amendment was made on 21 September 2009¹⁵ and provided that capitalization of NBI and the issuance of a financial instrument for a final settlement of the delivery of LBI's assets and liabilities to NBI should be completed no later than 9 October 2009.
11. The eleventh amendment was made on 14 October 2009¹⁶ and extended the deadline to 6 November.
12. In response to a letter sent to the FME from the RC and MOF dated 8 November 2009, requesting a postponement from the FME of the 6 November deadline in order to complete the agreements, the FME noted that "further latitude for extension was running short" and requested that negotiation parties put forward a realistic time plan regarding the final agreements.

As is evident from the above list of amendments, the negotiations were more time-consuming than anticipated for numerous reasons. To begin with, uncertainty prevailed as to the scope and arrangements of the negotiations. According to the FME decision of 9 October 2008 and the announcement which followed it, the RC originally thought that an agreement was to be reached on

⁶ For further information: <http://www.fme.is/lisalib/getfile.aspx?itemid=5729>

⁷ For further information: <http://www.fme.is/lisalib/getfile.aspx?itemid=6020>

⁸ For further information: <http://www.fme.is/lisalib/getfile.aspx?itemid=5918>

⁹ For further information: <http://www.fme.is/lisalib/getfile.aspx?itemid=6259>

¹⁰ For further information: <http://www.fme.is/lisalib/getfile.aspx?itemid=6258>

¹¹ For further information: <http://www.fme.is/lisalib/getfile.aspx?itemid=6345>

¹² For further information: <http://www.fme.is/lisalib/getfile.aspx?itemid=6423>

¹³ For further information: <http://www.fme.is/lisalib/getfile.aspx?itemid=6459>

¹⁴ For further information: <http://www.fme.is/lisalib/getfile.aspx?itemid=6540>

¹⁵ For further information: <http://www.fme.is/lisalib/getfile.aspx?itemid=6650>

¹⁶ For further information: <http://www.fme.is/lisalib/getfile.aspx?itemid=6701> (in Icelandic)

the basis of the valuation prepared by Deloitte for the FME. Following discussions with the FME and amendments which it later made to Point 11 of the above-mentioned decision, it became clear that the RC was expected to negotiate compensations for the transferred assets concerned independently of Deloitte's valuation. As a result, the RC considered it both proper and necessary to carry out due diligence on the transferred assets concerned and NBI. From its establishment, the RC has invited the participation of all the bank's creditor groups (primarily the representatives of deposit holders in the UK and the Netherlands, bondholders and foreign banks). Efforts were made to provide these parties with access to all necessary documentation to ensure they could participate meaningfully in the negotiations. The delay from the FME in approving this approach by the RC delayed the negotiation process. Eventually however, the FME consented to the RC's demands July 2009. All of the parties involved in the negotiation of the compensation instrument (other than LBI and its advisers) were members of the ICC referred to in Section 9.2.

The RC engaged Barclays Capital, the investment banking division of Barclays Bank PLC, as capital markets advisors to assist with the negotiations. It also engaged the services of the international legal office MoFo as legal advisors. The creditors referred to above also participated in carrying out due diligence and in the negotiations. Thus the RC was not only aided by experts from Deloitte, Barclays Capital and MoFo, but also highly qualified and experienced individuals from among its creditors' advisors in the areas of due diligence and negotiating financial reorganisation and restructuring.

On 10 October 2009 LBI and NBI signed HoT and a more detailed set of term sheets in relations to the debt and equity instruments on November 20, 2009. The agreements, formally reached December 15, 2009, comprise the issuance of three bonds denominated in EUR, GBP and USD, respectively, having an aggregate principal amount of the equivalent of ISK 260 billion and ordinary shares in NBI representing approximately 19% of shares issued. In addition, NBI will issue to LBI a contingent bond in EUR or such other currency as may be agreed, in a principal amount of up to ISK 92 billion equivalent. The principal amount of such contingent bond will not be determined until on or after March 31, 2012. Following the determination of such principal amount, all or part of the share capital in NBI held by LBI may be surrendered to the Icelandic government.

The Contingent Bond is intended to compensate LBI for the increase in value of specific assets between October 9, 2008 and December 31, 2012. LBI and NBI will jointly engage a valuation expert who will conduct a valuation of these assets at December 31, 2012 for purposes of determining the final value, which is subject to various adjustments. Until that time, a new LBI division, LBI Observer, will be monitoring these asset pools (see section 7.3 on the LBI Observer).

The final maturity date of the above mentioned bonds will be October 9, 2018. Principal in respect of the bonds will be payable in 20 equal quarterly installments commencing on January 9, 2014.

The description above is a very brief overview of the material features of the instruments. For further information on the transaction described above please refer to the Information Memorandum which can be found on a secure website for creditors. LBI is not passing upon or expressing a view regarding the valuation of the instrument or the net assets transferred to NBI.

CHAPTER 9

RELATIONS WITH CREDITORS

9 RELATIONS WITH CREDITORS

9.1 CREDITORS' MEETINGS

The WuB and the RC may generally convene creditors' meetings at their discretion in order to present measures which have been taken, to seek proposals or to submit to the creditors certain matters concerning the affairs of the bank.

Under certain circumstances, however, creditors' meetings are mandatory. The WuB must, for instance, hold a meeting as provided for in Article 85 of the AB, for the purpose of presenting the list of claims lodged. More detailed rules on creditors' meetings are provided in Article 79 of the AB.

The Appointee in the bank's moratorium must also hold a meeting with creditors to discuss the bank's finances and whether an extension of the moratorium will be requested and on what grounds.

Creditors representing a total of 20% of votes may demand in writing that a creditors' meeting be held. The weighting of votes at a creditors' meeting is determined by the amount of the claims of those parties entitled to attend the meeting and who have submitted claims against the bank.

A provisional voting weighting will be allocated at the time to creditors with uncertain claims (claims which have not been adjudicated, are disputed, uncertain or dependent upon conditions, claims which are not yet due or claims secured in whole or in part). All parties who have submitted claims against the bank pursuant to the rules on submission are entitled to attend a creditors' meeting. Those parties whose claims have been finally rejected (by the verdict of a court, as the case may be) are not, however, entitled to attend a meeting. Further, if it is clear that a creditor's claim will be paid in full or not at all, a creditor is not entitled to vote in respect of such claim. If votes are cast concerning the interests of one specific creditor, his vote shall be void.

At a creditors' meeting, proposals may be invited from creditors on measures, but the WuB and the RC are in general not bound by resolutions of creditors' meetings. See further Article 127 of the AB. A decision by a creditors' meeting may be binding for the WuB and/or the RC if (i) the meeting is attended by a quorum—that is, creditors who control at least 1/3 of votes, and (ii) the decision of all parties attending the meeting is unanimous. This is, however, subject to significant exceptions. For example, the WuB and the RC will not be bound by a unanimous decision if it:

- Is against the law or dishonest.
- Cannot be implemented.
- Is clearly contrary to the interests of creditors not present at the meeting.
- Is clearly contrary to the interest of creditors who have not yet lodged their claims but may still come forth.

In such cases, the WuB and the RC may take a decision on the question or submit it once more to a creditors' meeting. If a creditor is of the opinion that certain decision or measure taken by the WuB or RC is unlawful, the creditor may object to it at a creditors' meeting, where an attempt shall be made to settle the dispute. If this is not possible, the dispute shall be referred to a District Court for resolution. While the case is awaiting resolution by the court, no further actions shall be taken in such matters unless urgently necessary.

If a vote taken at a creditors' committee meeting is not unanimous, the opinion of the majority will generally prevail, unless the majority has abused its voting majority to the detriment of the minority. In the case of a tie, the WuB and the RC will determine the question, or submit it once more to a creditors' meeting. A decision can only be binding, however, on measures which have yet to be taken.

Creditors cannot overturn any actions the RC and the WuB have already taken in a binding manner on the bank's behalf.

The WuB and the RC have authority to take decisions concerning all the bank's interests. As a matter of course, full regard must be had for creditors' views, as the disposition of the estate's interests directly affects their interests. However, Icelandic law recognizes that a careful balance must be reached between giving creditors' an opportunity to be heard, and maintaining an efficient winding-up process. The third paragraph of Article 103 of the AFU contains rules designed to alleviate the need for the WuB and the RC to obtain authorisation in advance from a creditors' meeting.

Creditors' meetings are not open to the public. Only those parties who have lodged claims can attend a meeting, if their claims have not been finally rejected or already paid in the winding-up procedure. The RC and WuB may, in exceptional cases, allow other parties that have interests at stake to attend, provided that no one legitimately attending objects to their attendance.

9.2 ICC

During the weeks following the collapse of the banking system, creditors placed very strong emphasis on gaining an overview of the bank's situation and their own position as creditors. It was necessary, given the prevailing situation and the enormous interests at stake, to effectively organise creditor relations, in order for stakeholders to have access to satisfactory information and be confident that their interests were being safeguarded.

No statement, formal or otherwise, regarding a process for providing creditors with information and advice was issued in connection with either the emergency legislation or in FME decisions. It was evident, however, that some sort of forum for communication between the RC and creditors needed to be created, despite the lack of a formal order or instructions as to what form this should take. As a result, the ICC was formed.

As early as October 2008, the RC sought the advice of Deloitte in the UK to establish relations with creditors. The ICC was established over the course of approximately four weeks. Deloitte, together with the RC, offered certain creditors membership on the ICC with the aim of including representatives of all creditor groups.

Currently, the RC handles all relations with the ICC. Formal meetings have been held to review the operations of LBI, the asset position and portfolio developments, operating costs, cash position and various other issues which have arisen. The RC has also met with ICC members in informal telemeetings regularly. At these meetings, creditors have, for instance, expressed their views on the handling of the bank's assets, and the RC endeavours to take their comments into consideration insofar as it deems possible. Final decisions, however, are always the responsibility of the RC or the WuB, as applicable.

9.3 TIMELINE ON COMMUNICATIONS

Creditors can contact the WuB in regard to the procedure for lodging claims and processing of claims and decisions at WindingUpProceedings@lbi.is. For general information on LBI creditors can write to info@lbi.is.

Three formal creditors' meeting have been held concerning the bank's moratorium. The first was held on 20 February and the second 23 November 2009 which also dealt with the issue of claims listed and recognition of claims. A meeting on 24 February 2010 also dealt with recognised claims. The next meeting in this regard will be held on 27 May 2010 as mentioned above. The RC and the WuB intend to have quarterly creditors' meetings in the year 2010. Whether a similar agenda will be put forth for 2011 and other years will depend on how the moratorium and winding-up proceedings advance.

Creditors' meetings will be advertised on LBI's website and claim holders are urged to look into all published notifications.

There have been eight formal ICC meetings to date. The last ICC meeting was 24 February 2010. Additionally, regular and ad-hoc informal telemeeting are held with the ICC.

Below is a history of creditor relations and communications to date. Also included are other important dates relating to LBI.

2008
October
<i>06 Monday</i>
Emergency law introduced and passed by the Icelandic parliament
<i>07 Tuesday</i>
LBI taken over by the Icelandic Financial Authorities (FME)
Resolution Committee takes control of LBI
<i>08t Wednesday</i>
UK government freezes Landsbanki London assets based on anti terrorist legislation
<i>09 Thursday</i>
NBI takes over domestic operations of LBI
<i>10 Friday</i>
Statement from LBI: LBI did not transfer funds from the UK to Iceland
<i>13 Monday</i>
Freezing action by the Dutch court against Landsbanki Netherlands (following action on 7 and 9 October)
<i>14 Tuesday</i>
LBI requests to remove its listed equities from trading
<i>30 Thursday</i>
Announcement: Deloitte to assist with the communication with creditors of LBI
November
<i>14 Friday</i>
1 st ICC Meeting in Reykjavík
<i>21 Friday</i>
Press Release: LBI's Resolution Committee meets with creditors
December
<i>05 Friday</i>
LBI applies for a moratorium
<i>06 Saturday</i>
LBI granted a moratorium
<i>18 Thursday</i>
2 nd Meeting of the ICC in Reykjavík
<i>19 Friday</i>
Press Release: Kepler Capital Markets sold to management and staff through a management-led buy-out (MBO)
2009
February
<i>02 Monday</i>
Press Release: Moratorium of LBI recognised in the US

04 Wednesday

Press Release: LBI files for administration of BG Holding ehf.

05 Thursday

Press Release: LBI exercises rights over selected securities held by BG Holding ehf.

06 Friday

Communiqué to stakeholders from FME in NAV of New Banks

09 Monday

Barclays Capital is engaged as capital markets advisor

19 Thursday

3rd ICC meeting

20 Friday

1st Creditors' Meeting

26 Thursday

Extension of moratorium granted for 9 months, to November 2009

March

03 Tuesday

Press Release: Moratorium extended until 26 November 2009

11 Wednesday

Press Release: Moody's downgrades LBI and will withdraw ratings

12 Thursday

Bill implementing winding up directive presented to Parliament

31 Tuesday

Release of Deloitte valuations

April

02 Thursday

4th ICC meeting

03 Friday

Quebec ruling recognising Moratorium

06 Monday

New Brunswick ruling recognising Moratorium

07 Tuesday

Nova Scotia ruling recognising Moratorium

08 Wednesday

Newfoundland and Labrador ruling recognising Moratorium

15 Wednesday

Amendment to the act of Financial Undertakings No 161/2002 is passed in Parliament

29 Wednesday

Winding Up Board appointed

Press Release: Submission of creditors' claims against LBI to begin shortly

May

04 Monday

Release: Practical information about the Winding-up Board to be published soon.

08 Friday

Ontario ruling recognising Moratorium

Release: Handling of Claims against LBI

June
<i>03 Wednesday</i>
5 th ICC Meeting
Composition of ICC Negotiation and Diligence Teams for compensation from NBI
<i>15 Monday</i>
Press Release: The British Parliament passed the Statutory Instrument ‘Landsbanki Freezing (Revocation) Order 2009’
<i>22 Monday</i>
Press Release: Activities and Current Situation of LBI
<i>30 Tuesday</i>
Press Release: News announcement from the Resolution Committee of LBI: Lárus Finnbogason resigned
July
<i>28 Tuesday</i>
Press Release: Investigation on activities and financial matters- engagement of Deloitte in London
<i>31 Friday</i>
News Announcement from the Resolution Committee of Landsbanki Íslands hf.: no disagreement exists with Jón Ásgeir Jóhannesson and/or Ingibjörg Stefánía Pálmadóttir concerning their previous commitments to the bank
August
<i>06 Thursday</i>
Dutch court decision not to remove Dutch administrators (NL)
September
<i>02 Wednesday</i>
Press Release: Act on state guarantee
<i>30 Wednesday</i>
6 th ICC Meeting
October
<i>09 Friday</i>
Heads of Terms signed on compensation from NBI to LBI
<i>12 Monday</i>
Press Release: Heads of terms executed between the Ministry of Finance and the Resolution Committee
<i>3 Friday</i>
Deadline for filing claims with Winding-Up Board
November
<i>02 Monday</i>
Press Release: Time limit to lodge a claim has expired
<i>16 Monday</i>
Notice to Creditors of LBI: publication of list of claims
<i>20 Friday</i>
Press Release: Schedule for Creditors’ Meeting
<i>23 Monday</i>
2 nd Creditors Meeting
7 th ICC Meeting
<i>26 Thursday</i>
Petition submitted to the Reykjavík District Court for an extension of the Moratorium
<i>27 Friday</i>

A ruling by the court approving request for extension of the moratorium by an additional nine months, or to 26 August 2010

December

02 Wednesday

Press Release: Permission for an extension of a moratorium granted

07 Monday

Press Release: Reports from creditors meeting available on website

16 Wednesday

Joint press release by the Ministry of Finance and the Resolution Committee of LBI relating to agreements having been signed in relation to the instrument to be issued in relations to the transfer of assets from LBI to NBI

2010

February

17 Wednesday

Announcement: Updated list of claims released by Winding-Up Board

24 Wednesday

3rd Creditors' Meeting

8th ICC Meeting

26 Friday

Press Release: News announcement from LBI – Creditors Meeting 24.2.2010

March

08 Wednesday

Amsterdam District Court delivered its verdict on the petition by the administrators of Amsterdam Branch. The conclusion of the court is that the Dutch administration will come to an end on 13 April 2010

Upcoming events

May

27 Wednesday

4th Creditors Meeting

August

26 Thursday

End of the duration of the current moratorium period. Creditors meeting will be held in Reykjavik before this date.

December

04 Saturday

Maximum length of the moratorium provided for by law.

CHAPTER 10

MAJOR FINANCIAL PROJECTS

10 MAJOR FINANCIAL PROJECTS

At all times LBI is working on numerous projects that could affect the financial position of LBI both in a positive and negative way. The chapter below describes some of these projects. It should not be viewed as a complete recitation. Financial information can be found on LBI's website.

10.4.1 GLOBAL EXPOSURES

At the time of the bank's collapse, it owned substantial assets held by various financial undertakings abroad, either in the form of deposits or other rights and assets connected with international financial instruments. Actions were taken immediately to retrieve all deposits and assets wherever possible. Claims by counterparties for set-offs were encountered in many cases and efforts have been directed at resolving such issues. Following the appointment of the WuB, both bodies have worked jointly with the assistance of the bank's specialised employees and outside experts. To this moment the recovery from these projects are around 76 billion ISK and are expected to increase.

10.4.2 LANDSBANKI LUXEMBOURG

As previously stated in Section 7.14, LBI has tried to negotiate with LLUX and BCL regarding the future of LLUX. The agreement might influence the value of LBI's assets. Firstly the amount of LBI's claim on LLUX has not been settled. It is subjected to the value of a set-off between LBI and LLUX, as of now LBI and LLUX's administrators are not in an agreement on the set-off value but it is the hope of the RC that a solution will be reached on this matter parallel to a global solution on the issues of LLUX. Secondly it is hard to estimate the value of a negotiated agreement with LLUX as LBI does not have all the relevant information, the reason partly being Luxembourg's law on bank secrecy. The data that LBI has received are however adequate for LBI to come to the conclusion that the banks interests will likely be best served by reaching an agreement. As previously stated it is the hope of the RC that an agreement will be reached soon, creditors will be informed via LBS website (www.lbi.is) if and when an agreement is reached.

10.4.3 INVESTIGATION IN THE BANK'S AFFAIRS AND VOIDING OF MEASURES

As previously mentioned, the WuB and RC are jointly overseeing a comprehensive investigation of the bank's affairs, its activities, assets and rights. The investigation is carried out as authorised by and on the basis of the rules which apply to liquidators' duties and working practices, according to the rules of the AB, although it was deemed imperative to engage outside experts for the purpose. With the assistance of the bank's foreign legal counsel, an agreement was concluded with a specialised team from Deloitte (see further Section 7.15.3 on Deloitte).

Their investigation includes potential voidable measures. Deloitte will, for instance, investigate the possibility of voiding measures, having regard to whether:

- Individual measures, such as debt reduction or cancellation, have reduced the bank's assets.
- Individual measures have resulted in financial obligation for the bank to the detriment of creditors in general.
- Measures were taken which involved discrimination among creditors, with the result that enforcement of their claims has been altered from what it would have been, for instance, through payment of debts prior to their maturity or if one creditor was later provided with security for payment of its claim.
- Unlawful or punishable activities occurred within the bank, with the result that the bank could have claims for damages against those persons responsible for such activities.

During LBI's moratorium and subsequent winding-up proceedings, measures which have been taken previously may be voided in accordance with the same rules which apply concerning voiding measures of an insolvent party upon liquidation. With a recent change in law nr. 161/2002 the possibility of voiding measures is now 24 months years from moratorium but it used to be six months. The WuB has received suggestions concerning voidable measures and work is underway on examining them in co-operation with those experts who have been engaged to investigate the bank's financial affairs. Investigations into the possibility of voiding are time consuming but LBI is currently working on few cases of this sort. In investigations of the bank's affairs special attention is also paid to checking for improper measures of other types, which will be responded to in each instance as provided for by law.

10.4.4 CLAIMS FOR DAMAGES AGAINST THIRD PARTIES

The WuB and RC have jointly recorded various claims for damages against third parties. Claims for damages in this sense refer to financial claims which may exist and can possibly be brought against third parties, either through legal action or by set-offs against claims directed at the bank. Due to the nature of such matters, further details of individual cases or suits cannot be disclosed at this time.

10.4.5 NETTING (SET-OFFS)

Parallel with the agreement on payment for the assets transferred to NBI an agreement was reached on the arrangement of netting as it is stated in Point 9 of the FME decision of 19 October 2008 that the transfer of claims rights from LBI to NBI shall not affect the rights of debtors to a set-off to which they were entitled towards the previous creditor. Under the set-off agreement in cases where NBI suffers loss due to third party set-off exercise LBI will compensate for that loss with a deduction on interest payment of the bond. The agreement is valid until 31 December 2012 after that time NBI cannot seek compensation based on loss due to third party set-off. Parallel to this agreement NBI withdrew certain claims which it had previously lodged. It should be mentioned that in handling netting, a decision must be taken both as to whether legal requirements are satisfied and whether the bank's obligation which is set-off is legitimate.

CHAPTER 11

LBI - NEXT STEPS

11 LBI - NEXT STEPS

The preceding sections have summarised the highlights of day-to-day activities at LBI since 7 October 2008 to the present date. No major changes are expected to occur to the bank's activities during the current moratorium period, which expires on 26 August 2010.

The bank plans to continue to operate its London branch and its subsidiary Labki in Halifax in a manner similar to current operations. The bank will also resume control of operations in Amsterdam (see further Chapter 7.11.2). Staff requirements will be monitored and number of employees will reduce, as well as costs in general, parallel to a reduction in LBI's operations.

Management of LBI's assets will continue to be in the hands of the bank's RC in accordance with the requirements of Temporary Provision II of Act No. 44/2009. It is assumed that the policy will generally remain the same, with the result that loans will be collected according to their terms. Special emphasis will, as before, be placed on collecting claims in default, for instance, through focused examination of assets.

Handling of claims against LBI will continue to be in the hands of the bank's WuB. The deadline for lodging claims was midnight, 30 October 2009 and the first creditors' meeting on claims lodged took place on 23 November 2009. This report is published following the creditors' meeting held on 24 February 2010. Creditors' meeting, where the WuB will explain its decision regarding recognitions of claims and creditors will receive an update on the status of LBI, are also expected to take place on 27 May 2010, in August 2010 and in November or December 2010.

Insofar as objections are raised to decisions by the WuB on recognition of claims prior to or at creditors' meetings, efforts will be made to resolve the differences concerning the claims in question. The WuB is in the process of holding meetings with individual creditors with the aim to settle disputes on claims. Disputes which cannot be resolved will be referred to the courts for resolution. The Reykjavík District Court will rule on these disputed cases, as provided for in Article 171 of the Bankruptcy Act, cf. Chapter XXIV of the same Act. Rulings by the District Court may be appealed to the Supreme Court of Iceland within two weeks of their pronouncement. It is not clear when final verdicts may be expected in these disputes e.g. due to the increased burden on Icelandic courts.

According to the sixth paragraph of Article 102 of Act No. 161/2002, cf. Article 6 of Act No. 44/2009, the WuB may pay recognised claims in full or in part, in one or more payments, insofar as it is ensured that the bank's assets will suffice for at least an equivalent payment on all other claims that have the same priority and that have not been finally rejected in the winding-up process. This provision states that care must be taken to ensure that all creditors holding recognised claims with the same priority receive payment at the same time, although derogations may be permitted (i) with the approval of those who do not receive payment or (ii) pursuant to a decision by the WuB. The latter may occur where a creditor offers to waive its claim in return for partial payment thereof, and the amount of that partial payment is less than other creditors of equal rank will receive at a later stage, taking into consideration relevant factors such as whether their claims will bear interest until paid

In accordance with this provision, the WuB can begin to pay disbursements towards claims that have been finally recognised, provided other conditions are fulfilled. On a creditors meeting all recognised claims and unrecognised claims that the WuB might recognise in the future were disputed. Disbursements will thus have to be delayed until the final outcome from the courts is available. Preparations for payment will be undertaken so that it will be possible to disburse monetary assets to creditors in a timely manner when legal requirements for distribution have been met.

As previously described, an investigation into LBI's operations is undergoing with the assistance of Deloitte that will examine, for instance, whether measures can be voided on the basis of Chapter XX

of the AB and whether the bank could have claims for damages against third parties due to losses that it has suffered. Work on voiding measures and bringing suit for damages will be initiated if and when information on such instances is obtained and documentary evidence has been gathered to support such actions.

The current moratorium period expires on 26 August 2010. At the end of that period, an additional moratorium period of three months can be requested. The appointee will describe the basis of his decision on a future creditors' meeting should he conclude that a further extension is required.

DISCLAIMER

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