LBI

Í SLITAMEÐFERÐ
IN WINDING-UP PROCEEDINGS

Report to LBI's Creditors

Presented at the Creditors Meeting, March 12, 2014

Table of contents

Disclaimer

This report is issued by the Winding-up Board of LBI and is intended for LBI's creditors. The report is intended to provide general information regarding the winding-up of LBI. Its contents are as prescribed by Icelandic law.

Despite the Winding-up Board's best efforts, information presented in the report may include inaccuracies. The Winding-up Committee reserves the right to amend the contents of the report, correct it or update it at any time without prior notice. The report may contain information which is subject to third-party ownership rights or copyright, which should be observed in every respect.

This report is not intended to provide the basis for financing or other assessment and should not be a premise for investment decisions or decisions on transactions in claims on LBI. The information in this report updates and replaces information in previous reports on the moratorium and other aspects concerning LBI

Neither the Winding-up Board nor employees of LBI can be liable for any direct, indirect or derivative losses which may result from the use of this report or anything based upon its contents in any manner.

Abbreviations

BA	Act on Bankruptcy
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)
FME	Icelandic Financial Supervisory Authority
FSA	UK Financial Services Authority
FSCS	The Financial Services Compensation Scheme
GMSLA	Global Master Securities Lending Agreement
ICC	Informal Creditors Committee
IFGL	Iceland Food Group Limited
ISDA	International Swap and Derivatives Association Master Agreement
LB	Landsbankinn hf. (New Landsbanki Íslands)
LBI	LBI hf. (in winding up proceeding)
LI Lux	Landsbanki Luxembourg
TIF	The Depositors' and Investors' Guarantee Fund

CHAPTER 1

INTRODUCTION

1. Introduction

At a creditors' meeting held on 28 November 2012, LBI's Winding-up Board presented a Creditors' Report describing the principal aspects of the winding-up proceedings and the status of individual issues. It was announced at this meeting that such Reports would be compiled on a regular basis and subsequently disclosed that the Winding-up Board intended to present Creditors' Reports at creditors' meetings in March each year for the duration of the winding-up proceedings. This report is presented to a meeting of creditors on 12 March 2014.

In other respects, information is provided principally at the creditors' meetings themselves. Creditors' meetings have been held regularly since LBI's moratorium and subsequently during its winding-up proceedings.

Creditors' meetings - dates

20 February 2009

23 November 2009

24 February 2010

27 May 2010

23 August 2010

1 December 2010

19 May 2011

17 November 2011

31 May 2012

28 November 2012

30 May 2013

2 October 2013

CHAPTER 2

LEGAL STATUS AND AMENDMENTS TO LEGISLATION REGARDING THE WINDING-UP PROCEEDINGS

2. Legal status and amendments to legislation regarding the winding-up proceedings

2.1. On legal status in general

LBI is in winding-up proceedings governed by the rules of Part B of Chapter XII of the Act on Financial Undertakings, No. 161/2002, as subsequently amended (AFU). According to the first paragraph of Art. 101 of the AFU, the estate of a financial undertaking cannot be liquidated according to general rules. However, the fact is that rules on the winding-up proceedings of financial undertakings are in many respects similar to general rules on insolvency, and the provisions of the AFU frequently refer to provisions and chapters of the Act on Bankruptcy etc., No. 21/1991 (BA), as will be explained in more detail below.

LBI's winding-up under general rules is based on a Ruling by the Reykjavík District Court of 22 November 2010, in accordance with a joint petition from the Resolution Committee, which was still operative at that time, and the Winding-up Board, as provided for in Point 3 of the second paragraph of Art. 101 of the AFU. The pronouncement of this Ruling automatically concluded the bank's moratorium, which had been in effect since 5 December 2008. According to Point 2 of Temporary Provision V of the AFU, all actions remain unaltered which were taken during the moratorium since the entry into force of Act No. 44/2009, i.e. from 22 April 2009 onwards, as from that date the substantial rules concerning winding-up apply, as provided for in the previously mentioned sections of the AFU, to the bank's moratorium.

The Winding-up Board is appointed by the Reykjavík District Court and is under the control of Icelandic courts. Its work is governed in all main aspects by those rules which apply to the rights, obligations and responsibility of administrators under the BA, cf. also the fourth paragraph of Art. 101 of the AFU. The appointment of the Winding-up Board is therefore based on Art. 75 of the BA and each member of the Winding-up Board must fulfil the eligibility requirements of the second paragraph of Art. 75 of the BA. The specific rule applies concerning the eligibility of members of the Winding-up Board that they must in addition fulfil the specific eligibility requirements of the second paragraph, the fourth sentence of the third paragraph and the fourth to sixth paragraphs of Art. 52 of the AFU.[1]

The Winding-up Board is to handle all work involved in the winding-up of the financial undertaking, but it may, on its own responsibility, seek assistance or services to accomplish certain tasks, as provided for in the first paragraph of Art. 77 of the BA. The Winding-up Board is entitled to

[1] The eligibility requirements of Art. 52 of the AFU are discussed further in Section 2.2 below.

compensation for its work, as provided for in the rules of the second paragraph of Art. 77. Persons on the Winding-up Board are also considered to be public administrators, as referred to in the third paragraph of Art. 77. According to the fourth paragraph of Art. 77, they are liable for damages which they or those persons working under their auspices may cause others.

According to the fourth paragraph of Art. 101 of the AFU, the Winding-up Board of a financial undertaking also exercises the rights and obligations which were held by the Board of Directors and shareholders' meeting. This accord substantially with the first paragraph of Art. 122 of the BA, which provides for a liquidator to have sole control of an estate and to act on its behalf.

The reference date for LBI's winding-up proceedings is determined by law to be 15 November 2008. The date which has legal effect as the initial date of the winding-up proceedings is also determined by law to be 22 April 2009.

As described previously, the legal environment of winding-up proceedings is in many respects based on the rules which apply to liquidation in general and the AFU frequently refers directly or indirectly to provisions, chapters or sections of the BA. In this connection, it can be useful to briefly mention here the main points as well as several important exceptions.

a. According to the first paragraph of Art. 102 of the AFU, the rules of the BA apply concerning reciprocal contractual rights of the estate and claims against the estate. This includes, firstly, Chapter XV of the BA (Articles 89 to 98), which contains the rules which apply to reciprocal contracts and their treatment in liquidation, and secondly, Chapter XVI of the BA (Articles 99 to 108), which contains specific basic principles concerning claims against an insolvent estate, including the conversion of claims in foreign currencies ranked in priority with reference to Articles 112-114 of the BA to ISK and the conditions for the right to set-off of debts against an insolvent estate and by what means. *An important derogation, however, results from the fact that the provision of the first paragraph of Art. 99 of the BA does not apply to the winding-up of financial undertakings; accordingly claims against a financial undertaking do not automatically fall due even when it is placed in winding-up proceedings.*
b. According to the second paragraph of Art. 102 of the AFU, the rules of the BA apply to the winding-up proceedings concerning the invitation to creditors to lodge claims, its legal effect, the deadline for lodging claims etc. This concerns in particular Articles 85 and 86 of the BA.
c. According to the third paragraph of Art. 102 of AFU, the rules of the BA concerning priority of claims apply to winding-up proceedings, i.e. provisions of Chapter XVII (Articles 109 to 115), with the exception, however, that *deposits, as defined in the Act on Deposit Guarantees and*

an Investor Compensation Scheme, are priority claims as referred to in the first and second paragraphs of Art. 112 of the BA.

d. The provisions of Chapter XVIII of the BA (Articles 116 to 121) and of Part 5 of the BA (Articles 166 to 179), apply to the treatment of claims in the winding-up proceedings, the contents of claims lodged, the effect of failure to lodge a claim etc. It should be pointed out especially that the provision of Art. 116 of the BA completely prohibit the bringing of court action against a financial undertaking in winding-up proceedings in the same manner as applies to liquidation.

e. According to Art. 103 of the AFU, the rules of the BA on the administrator's control of the estate apply in the main to the Winding-up Board of a financial undertaking. Here reference is made in particular to provisions of Chapter XIX of the BA (Articles 122 to 130). There is, however, the important exception *that the objective of the Winding-up Board is to maximise the assets of a financial undertaking in winding-up proceedings and it is not bound by the obligation of an administrator in liquidation to expedite the liquidation and disposition of the assets and rights to the extent practicable. In this connection the Winding-up Board may, for instance, disregard a resolution by a creditors' meeting contradicting this objective.*

f. It was previously stated that according to the fourth paragraph of Art. 101 of the AFU, the same rules apply in the main to the Winding-up Board as apply concerning the rights, duties and responsibility of administrators under the provisions of the BA. Rules on the status of the administrator, his/her duties and conduct appear in many provisions of the BA, primarily in Chapter XIII of the BA (Articles 75 to 84).

g. It derives from the status of LBI and the provision in the fourth paragraph of Art. 103 of the AFU that all provisions of Chapter XX of the BA concerning voiding of measures apply to the winding-up proceedings. Special time limits apply for bringing suit, however, according to the AFU, as well as special rules on legal venue. Further details of this will be provided in Section 2.2 below.

The sixth paragraph of Art. 102 of the AFU contains special rules which apply to partial payments (interim distributions) to creditors in the winding-up proceedings of a financial undertaking. More details of these rules will be provided in a special section on partial payments and measures taken by the Winding-up Board in this regard later in this report.

Rules on the decision of winding-up proceedings are contained in Art. 103 a of the AFU. If it is evident that the winding-up proceedings cannot be concluded with full payment of all accepted claims against the financial undertaking concerned, in accordance with the instructions of the first and second paragraphs of Art. 103 a, the Winding-up Board can seek composition with creditors when it

deems the time to be appropriate, according to the detailed instructions in the third paragraph of Art. 103 a of the Act, with the aim of concluding the winding-up proceedings. Reference is made to the principal rules of the BA on how composition is to be sought and on the sanctioning of composition. A special rule applies, however, on the proportion of votes required to approve composition in winding-up proceedings. According to this rule, a scheme of arrangements is considered to be approved if it receives at least the same proportion of votes weighted by the amounts concerned as is equivalent to the proportion of claims waived under the agreement; *however, it must receive votes representing at least 60% of the claim amounts and votes of at least 70% of the parties voting at the meeting.* It derives from the above-mentioned rules of Art. 103 a that only the Winding-up Board can submit a scheme of arrangements and determine its substance. Furthermore, the Winding-up Board performs the role which an administrator would otherwise carry out in seeking composition in liquidation. As composition means that all contracting parties will be bound by its substance, whether or not they have approved the scheme of arrangements, strict requirements are naturally made regarding form and substance in drafting such an agreement.[2]

The rules of Art. 36 of the BA apply to the scheme of arrangements in winding-up proceedings, and therefore regard must also be had for other rules of Chapter VI of the BA, to the extent applicable. In this connection it should be borne in mind that so-called contractual claims, which are covered by the scheme of arrangements according to Art. 36 of the BA, are defined more specifically in Art. 29 as all those claims which are not specifically excluded as such in Art. 28 of the Act. A scheme of arrangements, in other words, does not affect those claims which are excluded in Art. 28 of the BA. Among those claims excluded are priority claims with reference to Articles 109, 110 and 112 of the BA. Such claims are expected to be paid in full before composition can be achieved unless special approval is obtained from the creditors in question. It is in fact one of the basic characteristics of composition that the creditors covered by such an agreement, who are entitled to vote on it, generally hold claims of equal ranking.[3]

If composition is accepted and subsequently sanctioned by a District Court, the Winding-up Board shall, as necessary, fulfil any obligations to creditors it involves and conclude the winding-up proceedings as provided for in the first and second paragraphs of Art. 103 a of the AFU.

If composition is not accepted or if the Winding-up Board considers it evident that the premises will not exist for seeking composition pursuant to the rules of the third paragraph of Art. 103 a of the

[2] A recent judgment of the Supreme Court of Iceland in case no. 476/2013 could be pointed out in this regard.

[3] Other examples of claims which are excluded from composition and independent of it are claims not for monetary payment, which can be satisfied in accordance with their substance, claims which are secured by assets of the estate, to the extent applicable, and claims which would be satisfied with a set-off if no winding-up proceedings or liquidation were involved. It could also be mentioned here that according to the third paragraph of Article-28 the BA, composition results in subordinate claims, as referred to in Points 1, 2, 3 and 5 of Art. 114 of the BA, being cancelled.

AFU, when this is timely in other respects, the Winding-up Board must request liquidation of the estate of the financial undertaking concerned, as provided for in detail in the fourth paragraph of Art. 103 a of the AFU.

2.2. Amendments to the Act on Financial Undertakings

The following section briefly mentions several amendments which have been made to provisions of the AFU which concern LBI's winding-up proceedings since the Winding-up Board's last Report to Creditors was published in November 2012. In other respects reference is made to discussion in the previous report of amendments resulting from Act No. 78/2011, on the one hand, and Act No. 146/2011, on the other.

Various changes have been made to the rules of the AFU since November 2012, but few of them affect LBI's winding-up proceedings directly. It should be pointed out, however, that Act No. 47/2013, altered the arrangements in the fourth paragraph of Art. 52 of the Act regarding directors of a financial undertaking who are at the same time attorneys. As before such directors may not undertake legal work for other financial undertakings which could create a risk of conflicts of interest.

In addition to the above, according to the changes to specific rules on the eligibility of Winding-up Boards in the fourth sentence of the fourth paragraph of Art. 101 of the AFU, members of Winding-up Boards must also fulfil the eligibility requirements of the fifth and sixth paragraphs of Art. 52 of the Act.

2.3. Amendments to the Act on Foreign Currency and LBI's situation in this regard

This section reviews certain statutory amendments which have been made to the Act on Foreign Currency since the latest Report to Creditors was published in November 2012 and are considered to be of special importance for LBI's winding-up proceedings. That report mentioned several amendments made to Act No. 87/1992, on Foreign Currency, with the adoption of Act No. 127/2011 and Act No. 17/2012.

In March 2013 further amendments were made to the Act on Foreign Currency with the adoption of Act No. 16/2013. Among other things, the amendments repealed the so-called “sunset provision” of the capital controls, which had previously been intended to expire on 31 December 2013, thereby extending the controls for an indefinite period. Another very significant amendment for LBI's winding-up proceedings made an exemption from currency controls, for amounts exceeding the

equivalent of ISK 25 billion in a single year,[4] now subject to consultation of the Central Bank of Iceland with the Minister responsible for the sector concerned and the Minister responsible for financial market affairs, and a previous presentation by the Minister of the economic impact of the exemption in question to the parliamentary Economic and Trade Committee. This condition applies, for instance, to exemptions for a financial undertaking in winding-up proceedings according to a ruling by a court or for a legal entity for which the Financial Supervisory Authority has appointed a Resolution Committee or provisional Board of Directors.

Having regard to the above-mentioned changes, and those which derive from Act No. 17/2012, LBI's legal situation with regard to foreign currency matters is such that if LBI's Winding-up Board intends to conclude a capital movement or a foreign currency transaction in the sense of the Act on Foreign Currency for any purpose other than to purchase goods or services it must request an exemption from the Central Bank of Iceland. It then depends upon the amount of the request for exemption whether there is need to consult the Ministers as described above. Partial payments to creditors as provided for in the sixth paragraph of Art. 102 of the AFU are dependent in this manner upon exemption from the Central Bank of Iceland.

The Central Bank of Iceland has confirmed in writing that LBI's Winding-up Board may utilise foreign currency recovered abroad in the winding-up proceedings for the purpose of paying the costs of foreign activities and to maintain assets abroad. Similarly, the Winding-up Board's authorisation to utilise foreign currency accruing in Iceland for settlement of claims towards domestic parties or to pay expenses in foreign currencies connected to LBI's domestic assets was confirmed.

2.4. Other amendments to legislation

This section looks at amendments adopted since the Winding-up Board's last report was published and are considered to be of significance for LBI's winding-up proceedings. The discussion and points mentioned are not exhaustive.

Act No. 132/2012, made certain amendments to Act No. 99/1999, on Payment of Cost due to Official Supervision of Financial Activities. The amendment provided for a reduction to the fixed fee levied on financial undertakings in winding-up proceedings according to the provisions of the AFU, making LBI's annual fee ISK 6 million instead of the previous ISK 35 million. This fee will still enjoy priority with reference to Point 2 of Article-110 the BA. It could be mentioned that the judgment of the Supreme Court of Iceland in case no. 62/2014, which was pronounced on 5 February 2014, confirmed the priority of claims of this sort in the winding-up proceedings of financial undertakings.

[4] Calculation of this amount shall be based on the official reference exchange rates of the Central Bank of Iceland quoted on the date the bank's decision is available.

Near the end of 2013 the Icelandic parliament Althingi passed Act No. 139/2013, on Revenue Measures in Connection with the 2014 Budget Bill. It presented specific changes to Act No. 155/2010, on a Special Tax on Financial Undertakings. The changes involved in particular making legal entities in winding-up proceedings under Art. 101 of the AFU, including those which a District Court has ruled should be liquidated, subject to tax on the same basis as other Icelandic financial undertakings. The tax rate was increased from 0.041% to 0.376% of the tax base and the tax base in the case of those legal entities concerned here was defined as the principal of accepted claims plus interest and costs, as of the end of each year, after deducting a tax-free exemption of ISK 50 billion. According to interpretative sources, accepted claims in this connection are *firstly*, claims which the Winding-up Board has accepted and are considered finally accepted and, *secondly*, claims which were disputed but have been accepted with a final judgment. These tax claims are expected to enjoy priority with reference to Point 3 of Art. 110 of the BA. It is too early at this stage to discuss the detailed implementation of this tax and possible dispute as to the legitimacy of the taxation.

2.5. Court decisions which affect LBI's legal situation

2.5.1. Judgment of the European Court of Justice on 24 October 2013

On 24 October 2013 a judgment was pronounced by the European Court of Justice in case no. C-85/12. The case had been referred to the Court by the Supreme Court of France and concerned the interpretation of certain points of Directive 2001/24/EC ("the Directive"), on the reorganisation and winding up of credit institutions. Specifically, the issue in dispute was, *firstly*, whether Articles 3 and 9 of the Directive, which specify that a decision by the public authorities or courts marks the commencement of restructuring or winding-up, could be interpreted to mean that LBI's winding-up proceedings, which began following the adoption of Act No. 44/2009, were considered valid and, *secondly*, whether the provisions of Icelandic law prohibiting enforcement actions were in opposition to Art. 32 of the Directive. It was not disputed that from 22 November 2010 onwards LBI was in winding-up proceedings according to general rules on the basis of a Ruling from the Reykjavík District Court that day. Prior to that time LBI was in moratorium according to a Ruling of that same Court, first pronounced on 5 December 2008. Briefly speaking, the decision of the European Court of Justice was that those substantial rules of the winding-up proceedings which derived from Act 44/2009, while LBI's moratorium was in force, were valid in the sense of the Directive, as they were based in any case on LBI's moratorium, which was and had been decided by a court action. The Court emphasised that the law of the home state had to apply in this respect and that regard should be had for the principle of the Directive on equal treatment and unity of creditors in support thereof. Regarding the latter issue of contention the Court upheld LBI's view that Art. 32 of the Directive

concerns only court cases and not enforcement actions. The provisions of Icelandic law prohibiting enforcement actions, and thereby collection actions by individual creditors, even if such a prohibition were applied retroactively, were therefore not in opposition to the Directive. The Court also pointed out that any other decision would be contrary to basic principles of unity and equal treatment of creditors.

Although the above-mentioned decision of the European Court of Justice upheld the validity of Icelandic law, to the extent this was tested in the case, it should be borne in mind that the judgment underlines primarily that the principles of the Directive, in the future as in the past, provide the basis for interpreting issues of contention in this area. LBI's pleading in the case maintained, among other things, that the Icelandic law which was concerned accorded with these principles and thereby with the interests of all the estate's creditors.

2.5.2. Judgment of the Supreme Court of Iceland on legal status after the appointment of a Resolution Committee

The situation is that the Supreme Court of Iceland has, in four different instances, reached the conclusion that LBI's status from the time of its takeover by the Financial Supervisory Authority (FME) and the appointment of a Resolution Committee on 7 October 2008 and until the commencement of winding-up proceedings on 22 April 2009 can to a certain extent be equated with one where liquidation of the company's estate had commenced. Firstly, there is the Court's judgment of 28 November 2011 in case no. 441/2011, where LBI's status was equated with liquidation, “with regard to the entitlement of others based on ownership rights to monies in its custody”. A similar conclusion was expressed in this regard in the Court's judgment of 13 February 2014 in case no. 72/2014. Secondly, there is the Court's judgment of 22 March 2012 in case no. 112/2012, where LBI's status was equated with one where liquidation had commenced during the period from 7 October 2008 until 22 April 2009 regarding a claim for reimbursement due to overpayment to LBI which took place in November 2008; the claim for reimbursement was accepted as a claim for the administration of the estate with reference to Point 3 of Art. 110 of [the BA]. A similar conclusion was expressed in this regard in the Court's judgment of 6 May 2013 in case no. 211/2013. Thirdly, there is the Court's judgment of 16 January 2014 in cases nos. 191, 356, 359, 412 and 413/2013, where LBI's status was equated with liquidation, with the result that the voiding rules of Chapter XX of the BA could “not be applied to overturn measures taken by or on the responsibility of the Resolution Committee” after 7 October 2008.

Finally, mention could be made the judgment of the Supreme Court of 25 February 2013 in case no. 17/2013 (Kaupthing), where the parties' legal status after the appointment of a Resolution

Committee was equated with one where liquidation had commenced, with the result that certain provisions of Chapter XV of the BA on reciprocal contractual rights were applied in resolving the dispute.

The above-mentioned judgments concerning LBI's winding-up equate its position with liquidation after the appointment of a Resolution Committee regarding specific legal status or dealings. No judgment has been pronounced equating LBI's status during this period with liquidation in all respects and it is established, for instance, that interest on claims with reference to Articles 112 and 113 of the BA has been accepted and awarded up until 22 April 2009, although such claims would be considered subordinate claims if the situation were equated in this regard to liquidation after the appointment of a Resolution Committee. Therefore, some doubt remains as to what the general significance of these judgments is as precedents for LBI's legal status during the said period.

CHAPTER 3

OVERVIEW OF LBI'S ASSETS AND OPERATIONS AS OF 30 SEPTEMBER 2012

3. Overview of LBI's assets and operations as of 3 December 2013

3.1. General

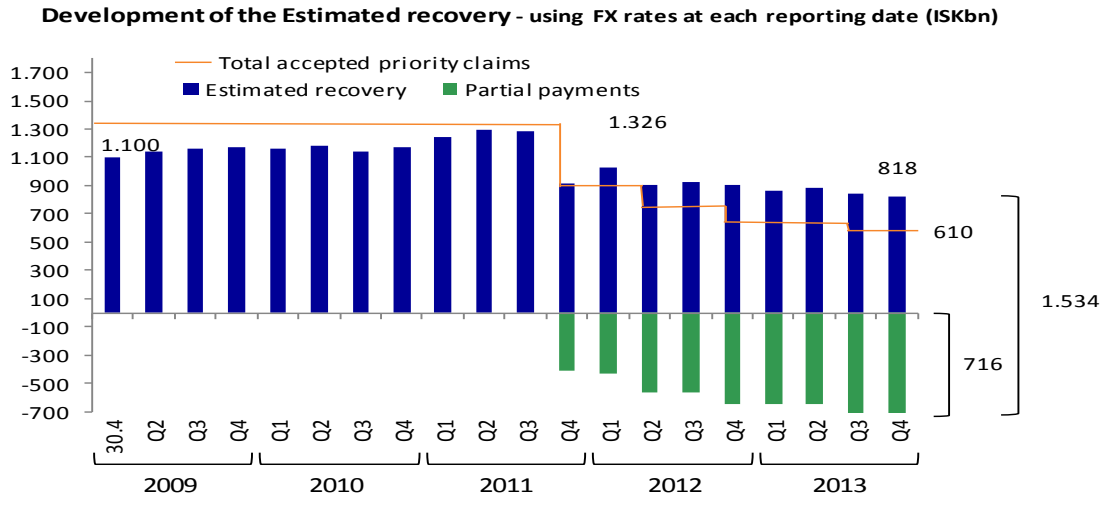
According to the third paragraph of Art. 103 of Act No. 161/2002, on Financial Undertakings (AFU), the Winding-up Board is to inform creditors of all major actions involving the sale or disposition of assets or other rights of a financial undertaking at meetings convened by the Winding-up Board in the normal manner.

Section 3.2 summarises the most significant dispositions of assets and other rights made since the last creditors' report was presented to LBI's creditors at a meeting on 28 November 2012. Some of these measures have already been discussed at creditors' meetings held since that time.

Status of LBI's portfolio as of 31 December 2013 and changes since 30 September of the same year.

	Estimated recovery		Changes in Quarter		
ISKbn	**30.9.2013**	**31.12.2013**	**FX change**	**Actual**	**% change**
Cash	230.9	317.6	(6.3)	93.0	40%
Loans to Financial Inst.	27.9	27.7	(0.6)	0.4	1%
Loans to Customers	226.7	183.3	(6.6)	(36.8)	(16%)
Bonds	46.9	45.9	(1.4)	0.3	1%
Equities	6.6	2.4	(0.2)	(4.1)	(61%)
LB Financing	297.9	237.7	(9.2)	(50.9)	(17%)
Derivatives	1.1	0.5	0.0	(0.7)	(59%)
Non current assets	2.4	2.9	(0.1)	0.7	28%
Total assets	**840.4**	**818.1**	**(24.3)**	**2.0**	**0%**

Summary of changes in portfolio value during the period from 30 April 2009 to 31 December 2013 (blue columns) and partial payments made towards priority claims (green columns), which have reduced the amount of priority claims from ISK 1,325 billion to ISK 610 billion (red line).



For further details of the developments and changes in the estimated value of LBI's portfolio each quarter, reference is made to LBI's financial presentations, which are available on the secure creditors' area of the website, www.lbi.is.

3.2. Disposition of assets and other rights

3.2.1. Aurum Holding Limited ("Aurum")

On 6 December 2012 an agreement was signed with Apollo Global Management on the sale of the entire shareholdings held by LBI in Aurum, which trades in the UK as Mappin & Webb, Goldsmiths and Watches of Switzerland. Completion of the sale occurred on 18 March 2013 following FSA approval and EC clearance.

Aurum is the largest UK luxury watch retailer and one of the largest prestige and luxury jewellers in the UK.

LBI was a leading lender in 2004 when Baugur acquired Goldsmiths, followed later by a bolt-on acquisition of both Mappin &Webb and Watches of Switzerland.

Several factors contributed to a restructuring, which was successfully finalized in 2009/2010. Under LBI's leadership, the mezzanine lenders converted debt to equity and provided modest new funding, which left LBI and Aurum's chairman, Don McCarthy, as the main shareholders.

LBI held three board positions and was 69.6% shareholder, but this was diluted to 60.4% of issued capital because of exercised ratchet warrants (as part of the restructuring) and performance equity ratchets for management. LBI also remained a lender.

In 2011, Cavendish Corporate Finance in London was jointly appointed by shareholders to manage the sales process of Aurum on which LBI issued a press release 4 April 2011. Around 25 parties were approached in the sales process, three indicative offers were received during late summer 2011 and into early 2012. Exclusivity was granted to one party of the three mentioned above in early 2012 but it failed to deliver an acceptable final offer.

A number of interested parties continued to approach the business and in late summer 2012 these were given access to a data room subject to a non-disclosure agreement and a time frame to provide indicative bids.

The indicative offer received from Apollo Global Management resulted in a Term Sheet and a proposed transaction subject to due diligence. Creditors were informed of the progress on discussions with the potential bidder at the creditors' meeting on 28 November 2012.

Negotiations led to a final agreement of GBP 107.25 million equity value for the business plus full refinance of debt upon completion.

As presented at the 30 May 2013 creditors' meeting, debt owed to LBI was fully repaid on completion at par value, including all accrued interest, and LBI received GBP 63.3 million for its equity stake or an increase in LBI's expected recovery of around GBP 20 million. The increase was reported in Q4 2012 financial information.

The Winding-up Board sought third-party valuation of the business in general and an opinion supporting this transaction.

3.2.2. Eimskip hf.

Following the IPO of Eimskip in October 2012 (discussed in the 28 November 2012 Creditors' Report) LBI reduced its shareholding in Eimskip to 10.4%. LBI subsequently sold its remaining equity stake in two brokered sales, one for a 5% stake in April 2013 and the second for the remaining 5.4% stake in December 2013.

Both transactions were executed at or near market pricing and disclosed to NASDAQ OMX Nordic Exchange in Iceland in accordance with regulatory requirements for listed companies.

3.2.3. Landsbanki Luxembourg (LI Lux) S.A. in liquidation ("LI Lux")

As further explained in last updated Creditors' Report, LBI's payment to BCL of EUR 125 million made at the end of June 2012 in connection with the agreement between the liquidator of LI Lux, BCL and LBI, was expected to be fully recovered from assets transferred from LI Lux to LBI within a year from the date the payment was made. This goal was achieved well within this time frame, or in Q1 2013.

LBI received a dividend payment from LI Lux of ISK 4.0 billion or EUR 25 million in Q2 2013. LBI's remaining claim against LI Lux at end of Q4 2013 was ISK 57.5 billion, or EUR 362.6 million. The estimated recovery on this remaining claim is ISK 11.4 billion, or EUR 67 million.

The remaining estimated recovery comes from LI Lux's equity release loan portfolio, which is collected by the liquidator of LI Lux. Due to recent developments, including criminal complaints in France, Spain and Luxembourg, where former employees of LI Lux have been accused of fraudulent activity in connection with the selling of the equity release loan product at the time, collection of the outstanding amounts in the equity release loan portfolio is expected to be slower than anticipated. LBI is therefore more conservative regarding estimated recovery and expected cash flow from the remaining claim against LI Lux estate, and flags that these numbers might in the future be further affected by this deteriorating situation.

3.2.4. Glitnir hf.

As discussed at the creditors' meeting on 30 May2013, LBI entered into an agreement to sell net claims against Glitnir of ISK 109 billion in a direct placement on 8 March 2013.

Proceeds from the sale were approximately GBP 100 million and EUR 58 million (equivalent to ISK 30 billion) and represented a price based on prevailing exchange rates of 27.6%.

The sale represented a realization above reported estimated recovery of approximately ISK 24.2 billion.

By entering into a direct sale, LBI has not incurred any fees on the transaction and due to the nature and size of the claim, a single block sale was preferred by the bank.

LBI had filed ISK 144 billion in claims against Glitnir and Glitnir filed ISK 94 billion in claims against LBI. In Q4 2012 LBI reached an agreement with the Winding-up Board of Glitnir on the settlement of claims LBI held against Glitnir and claims held by Glitnir against LBI on. As part of the settlement, Glitnir's Winding-up Board accepted ISK 113 billion of LBI's claims and the Winding-up Board of LBI agreed to ISK 4.5 billion of claims filed by Glitnir, which were subject to set-off against LBI's claim of ISK 113 billion.

At the time of sale, LBI had an additional claim of ISK 22.5 billion against Glitnir which was not settled and is still subject to dispute, and likely court proceedings. As the basis for this claim continues to be uncertain the claim exposure is reported as an Asset at Risk and thus not part of Recorded Balance Sheet amounts.

Glitnir had additional claims lodged against LBI in the amount of 2.4 billion ISK, subject to dispute at the time, which have been subsequently settled in court and are discussed further in this report.

3.2.5. Meridian Lightweight Technologies (MLTH Holdings Inc.) ("Meridian")

The entire shareholdings in the Canadian company, including a 33% equity stake held by LBI, were sold to a Chinese joint venture in December 2013. The company's outstanding debt was refinanced with the acquisition, including LBI's CAD 37 million position.

Meridian is a leading producer of lightweight metal components for the automotive sector with principal operations in Canada, USA, UK, Mexico and China and significant relationships with Ford and Chrysler, and other key relationships with General Motors, Jaguar Land Rover, BMW, Volkswagen and Mercedes.

LBI supported the acquisition of Meridian in 2007 as a leading lender and minority shareholder. In mid-2008, following trading difficulties (maturity of high volume vehicle platforms and adverse metal

pricing) and an independent review, a significant restructure was completed whereby LBI acquired preferred shares and warrants in the company through a mid-2008 debt conversion and an equivalent part of the currently existing debt of the company.

In 2012, it became clear that Meridian needed significant capital investment to deliver material growth and support next generation platforms, with existing platforms expiring. A fundraising process was commenced in early 2012 and Blackstone was appointed as advisors to manage the sales process. This developed into discussions around a sale but valuation was difficult given the potential discount for "underinvestment in Capex". Blackstone's valuation against the Business Plan was CAD 100-120 million, (subject to CAD 30 million new money investment).

Blackstone approached a significant number of potential buyers but only two credible parties made formal offers – one trade buyer and one financial buyer. Neither offer was considered acceptable to the voting warrant holders (General Electric/LBI/ALMC) and these were rejected.

In February 2013 an offer from Shanxi Tianshuo Investment Management Company Limited, known as United Magnesium ("UMG"), was received. The strategic nature of the acquisition commanded a premium valuation and from an initial indicative CAD 200 million bid, a final offer of CAD 188 million was agreed post due diligence and was accepted by the stakeholders. A sale and purchase agreement was signed on 21 June 2013, with completion subject to three Chinese Government approvals within 6 months and a deposit CAD 8 million was paid. The sale was completed at the end of Q4 2013, resulting in a full repayment of LBI's outstanding debt of CAD 37 million and a CAD 23 million cash payment in respect of LBI's preferred shares.

3.2.6. LB

LBI's single largest asset remains the bonds issued by LB to LBI according to settlement agreements signed on 15 December 2009 between LBI, LB and the Icelandic Ministry of Finance on the settlement concerning the transfer of assets and liabilities from LBI to LB on the basis of Decisions by the Financial Supervisory Authority of 9, 12 and 19 October 2008.

The initial Bonds issued on 4 October 2010 are the Bond A, consisting of three tranches denominated in EUR, GBP and USD, but otherwise bearing the same terms. As discussed in the last Creditors' Report, the Bond A terms were modified on 15 June 2012 whereby the bonds' amortisation schedule was changed to 15 equal quarterly principal instalments with the first payment date delayed to 9 April 2015. LB made a prepayment in an amount equivalent to ISK 73.1 billion towards the bonds coincidentally with the terms amendment.

According to the provisions of the settlement agreements, LB was to issue an additional Bond (Contingent Bond A) based on the positive net value of certain assets transferred to LB as measured on 31 December 2012 against the value at which these assets were transferred on 8 October 2008. LB and LBI jointly engaged Deloitte LLP to conduct the valuation of the reference assets and determine the size of the Contingent Bond A. On 15 March 2013 Deloitte determined the size of the Contingent Bond A to be equivalent to ISK 92 billion, the maximum amount as per the terms of the 2009 settlement agreement. On that basis and according to the terms of the 2009 settlement agreements, LB issued to LBI the Contingent Bond A on 11 April 2013 in three tranches in the nominal amounts of EUR 270,519,352.19, USD 214,078,853.51 and GBP 88,271,315.88 and LBI transferred all of its equity shares in LB to the Icelandic Ministry of Finance. The first interest payment on the Contingent Bond A was made the same day, with interest accrued from 1 January 2013 through to 10 April 2013. The terms of the Contingent Bond A are the same as the initial terms of the Bond A, with 20 equal quarterly principal instalments with the first payment date 9 January 2015.

On 28 May 2013, LBI received a letter from LB on a formal proposal for discussions regarding revision of certain contractual obligations under the Bonds. Following a meeting with LB on 26 September 2013, LBI agreed to discuss the matter further with LB, with due diligence as the first step. As a result of the due diligence conducted by LB and its advisors and financial advisors to LB's largest creditors, LBI agreed to renegotiate the terms of bonds on the basis of certain principles, foremost of which are that any extension of maturities would not lead to (1) a degradation of value in the bonds and (2) the exemption of future distributions of cash collected from LB on the revised Bonds and foreign assets from the Act No. 87/1992, on Foreign Currency, as amended. LBI presented LB with its draft Heads of Terms on the basis of these principles on 16 January 2014. At this point in time, LB and LBI are exploring common grounds on which to move negotiations forward. LBI has communications with both the Central Bank of Iceland and the Icelandic Ministry of Finance in keeping them informed of LBI's position and status of negotiations. LBI is being advised in negotiations and related discussions by financial and capital markets advisors Barclays Bank and Great Circle Advisors, and by Morrison & Foerster as legal advisors.

On 23 December last year LB made an optional partial early redemption of the Bonds of around ISK 50 billion equivalent. The remaining exposure at the end of Q4 2013 is ISK 237.7 billion. As before, estimated recovery is 100%. Interest on the Bonds stepped up from 3 month Libor/Euribor plus 175 basis points to 3 month Libor/Euribor plus 290 basis point on 8 January 2014.

Further information on the agreements, including the terms and conditions of the bonds and the collateral provided for them, can be found in the Information Memorandum published previously on the secure creditors' area of the bank's website.

It should be noted that LBI has significant deposits in LB, totalling ISK 106 billion. Thereof foreign currency deposits are equivalent to ISK 74 billion.

3.2.7. ALMC hf. (formerly known as Straumur-Burdaras Investment Bank)

As previously reported, LBI sold its finally accepted claims against ALMC of around ISK 39 billion or EUR 232 million in June 2010. With the Supreme Court's ruling in case nr. 229/2013, LBI's claim against ALMC of approximately EUR 179 million was reduced EUR 133 million due to ALMC's right to set-off. The remaining EUR 45.9 million of LBI's claim against ALMC of approximately EUR 2.2 million is still subject to dispute.

LBI's undisputed and finally accepted claims against ALMC, approximately EUR 43.6 million, were sold in a direct placement in December 2013 for around 35% of nominal value. By entering into a direct sale LBI has not incurred any fees on the transaction.

3.3. Summary of operating costs

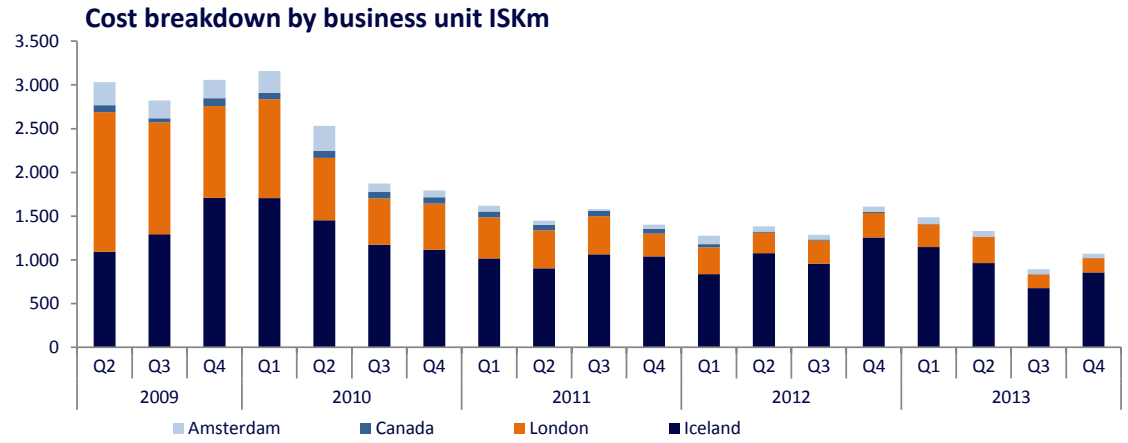
Cost incurred in the winding-up proceedings of a financial undertaking is included with so-called claims for administration of the estate, as provided for in Point 2 of Art. 110 of the BA. Such claims therefore enjoy priority in winding-up and are generally paid as they fall due, as is normally the case in normal business operations. The main cost items in LBI's operations are wage costs, expert assistance, cost of premises and costs arising from its service level agreement with LB.

The following table provides a summary of operating cost in 2011 to 2013.

	2011				2012				2013				Change
ISKm	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	'12/'13
Housing and logistics	50	58	60	42	60	33	78	42	37	57	32	41	(22%)
Payroll and benefits	524	554	522	466	493	426	417	442	440	473	362	351	(8%)
Icelandic legal cost	199	199	160	267	300	205	158	215	208	194	157	223	(11%)
Icelandic expert cost	89	56	90	46	67	61	84	67	60	70	41	22	(31%)
Non-Icelandic legal cost	200	84	382	249	71	175	165	422	290	241	136	152	(2%)
Non-Icelandic expert cost	269	263	162	134	107	362	219	251	247	149	49	153	(36%)
Other Operational costs	198	147	117	112	109	51	95	106	132	85	60	68	(4%)
SLA cost	88	88	88	88	68	68	68	62	71	61	58	58	(7%)
Breakdown by location													
Iceland	1.016	902	1.061	1.038	837	1.076	956	1.254	1.147	962	675	855	(12%)
London	469	434	439	261	304	231	263	282	259	299	157	163	(19%)
Canada	67	65	59	52	39	16	13	14	4	4	3	3	(83%)
Amsterdam	66	48	22	53	95	58	52	57	76	65	59	47	(6%)
Total ISKm	**1.618**	**1.449**	**1.581**	**1.404**	**1.275**	**1.382**	**1.284**	**1.608**	**1.486**	**1.330**	**894**	**1.068**	**(14%)**

Operating cost in 2013 amounted to ISK 4,778 million, a decrease of 14% YoY and a decrease of32% when Q3 and Q4 of the respective years are compared. The operating cost of LBI's winding-up proceedings now amounts to ISK 34,7 billion which is equivalent to 8% of the total increase in recoveries since the beginning of LBI's winding-up proceedings.

A considerable portion of the cost reduction can be attributed to reduced activity abroad, with the accordant decrease in employee numbers, as well as to various actions taken to reduce costs in purchasing expert services. At the same time, a larger proportion of the cost is incurred in the bank's headquarters in Reykjavík. The accompanying figure shows how the proportional cost which can be attributed to activities in Reykjavík havs risen and is at yearend 2013 around 80%.

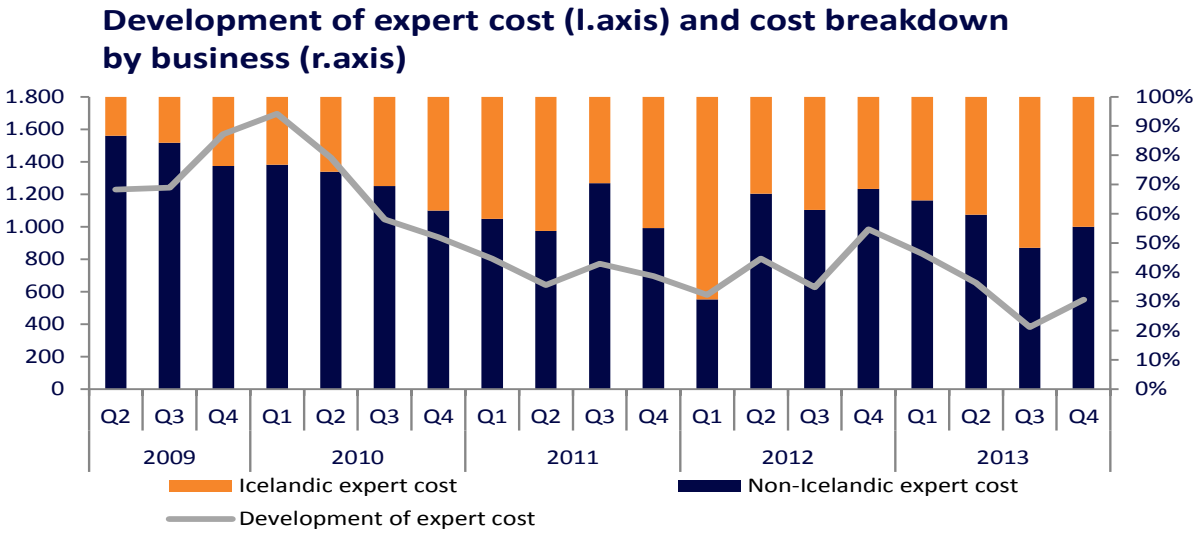


The decrease in cost which has been achieved by transferring tasks to Reykjavík in tandem with generally decreasing activity has resulted in proportionally higher cost in ISK, as is shown in the accompanying figure.

Wage cost in 2013 amounted to the equivalent of ISK 1.626 million, a decrease of 8% YoY. Wage cost has declined around 40% from its peak in 2009. The principal reason for this is the decrease in number of employees at establishments abroad, in tandem with the transfer of tasks to Iceland. The cost of each full-time equivalent position in Iceland is considerably lower than the average cost per position in foreign establishments. In the Winding-up Board's estimation there is for at least awhile yet a need for establishments abroad to manage assets and maximise their value, although further savings can likely be achieved by transferring projects to Iceland; these matters will continue to be examined.

The cost of expert assistance in the winding-up can be roughly divided between domestic and foreign experts. The largest components in this cost are legal services, services of auditing firms and financial advisory services. Total payments for expert services have been decreasing since the beginning of the winding-up proceedings. Payments were highest at the ISK equivalent of ISK 1,694 million in Q1 2010, but were ISK 550 million in Q4 2013, or 68% lower. It should be pointed out, however, that this cost item naturally fluctuates somewhat from one quarter to the next. This can be attributed to the fact that a substantial portion of expert cost is related to specific projects, such as sale of assets. It should also be pointed out that information on the cost of winding-up is presented on an accrual basis, as a result of which cost is accepted depending upon when the experts providing the services send invoices for their services. Thus it is common that tasks which extend over a period of several months are paid upon the conclusion of the project, making fluctuations of this sort unavoidable.

A summary of the development of expert costs and the split between foreign and domestic expert costs is shown below.



Expert services purchased comprise around 50% of the total cost in LBI's winding-up proceedings. This cost is around 4% of the increase in the value of assets since 2009 and around 1,1% of the total value of assets in the winding-up proceedings, as estimated on 31 December 2013. In 2010 and 2011 the cost of foreign expert services was close to 70% of the cost of expert services purchased, while it had decreased to around 60% in 2012 and 2013.

It is the Winding-up Board's aim to increase the share of domestic expert services in its activities at the cost of foreign ones to the extent practicable in consideration of the interests of the winding-up. By so doing, the Winding-up Board seeks to reduce the cost of expert services purchased and reduce the outflow of foreign currency to pay costs.

The cost of LBI's premises has been decreasing. Cost of premises has decreased by 22% YoY. The decrease can mainly be attributed to moving establishments in Reykjavík and London to more economical locations in 2012 as previously elaborated on.

The cost of the service level agreement with LB has declined as service items have decreased in number in tandem with reduced needs; this cost has decreased by 7% since between 2012 and 2013. The main items now included in the agreement are computer and IT services as well as services in connection with information disclosure, the need for which in part is due to the fact that according to a decision by the Financial Supervisory Authority, LB holds all LBI's accounting data prior to 9 October 2008. Late in 2013 it was decided to change vendor for computer and IT services, this will take place H1 2013. The service level agreement is reviewed regularly to ensure it is as economical as possible.

CHAPTER 4

LIST OF CLAIMS AND HANDLING OF DISPUTES

4. List of claims and handling of disputes

4.1. Process of Lodging Claims

The Winding-up Board published its first invitation to creditors to lodge claims in the *Legal Gazette* (Icel. *Lögbirtingarblaðið*) on 30 April 2009 and again on 7 May 2009. The date of the former publication 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 abroad in those countries where the bank's creditors were thought to be resident. The invitation to lodge claims was also published in the EU Official Journal. Creditors from member states of the European Economic Area or the European Free Trade Association were permitted to submit claims in a language of their home state. Such submissions were to be accompanied by an Icelandic translation; however, claims could be lodged in English without an accompanying translation. Other creditors could, furthermore, lodge their claims in Icelandic or English. All supporting documentation for claims lodged was to be accompanied by a translation into English or Icelandic, if not in either of these languages.

Once the time limit for lodging claims had expired, the Winding-up Board compiled a list of claims lodged and made independent decisions on recognising these claims. The Winding-up Board's decision on priority as lodged was determined by provisions of Articles 109 to 115 of the Act on Bankruptcy etc. (BA), with the exception resulting from amendments to the Act, that claims on deposits, cf. the provisions of the Act on Deposit Guarantees and an Investor Compensation Scheme, have priority.

The bank received a total of 11,950 claims prior to the expiry of the time limit for lodging claims, 30 October 2009. The vast majority, or close to 90%, of the claims lodged were received in October, 80% in the last week prior to the deadline and just over half in the last two days, 29 and 30 October.

Lodging a claim has, according to the sixth paragraph of Art. 117 of the BA, the same effect as bringing suit against the bank for a claim the moment the claim is received by the Winding-up Board. The Winding-up Board therefore confirmed receipt of all claims lodged with a letter to this effect, sent to all the creditors or their agents. Immediately following the expiration of the deadline, the Winding-up Board began to compile a list of the claims lodged. This list of claims contains all the claims received before the end of the time limit for lodging claims, as well as indicating the substance of the claim and what priority in ranking was requested, as is required in the first paragraph of Art. 119 of the BA. A total of 1127 claims have been received after the deadline for lodging claims expired. Due to their improper lodging, such claims are generally lost against the bank except in

exceptional cases described in Points 1-6 of Art. 118 of the BA. The Winding-up Board has rejected all but one of the claims which were received too late, since none of the instances described in Art. 118 could appear to apply. On 5 March 2014, the 10th edition of the list of claims was published, one week prior to the creditors' meeting on 12 March.

4.2. Transfer of claims lodged

Creditors may transfer claims against LBI in full or in part, in which case the transferee assumes the rights of the transferor against LBI. According to Art. 115 of the BA, transfer or other change of ownership conveys claims rights against an insolvent estate, with reference to Articles 109 to 114 of the same Act.

In order to ensure efficiency and security, the Winding-up Board, in collaboration with Epiq Systems Ltd. (hereafter Epiq) has set up specific arrangements for the transfer which are available on the bank's website. In order for a transfer to be registered in the regular updating of the list of claims, it must have been executed following the special arrangements. To briefly describe the transfer process, when a transferor and transferee have reached agreement on transferring a claim, they fill out the Transfer Form (the form is available on LBI's website) and submit this together with payment and relevant information to Epiq. If, in Epiq’s estimation, the information provided on the Transfer Form is insufficient, the parties concerned will be notified thereof and allowed a period of 30 days to rectify the shortcomings, otherwise the transfer is deemed to have been revoked. If a transferor or transferee wishes to raise objections concerning a proposed transfer, the parties concerned must convey such to Epiq within 10 days of receipt of notice of the proposed transfer. If both parties so request, the time limit for objections is reduced to three days. If a transfer is objected to it is deemed to have been revoked. If a transfer is not objected to within the specified time limit the list of claims will be updated in accordance with the Transfer Form and accompanying documentation, once confirmed by the Winding-up Board.

The Winding-up Committee bears no responsibility for the validity of a transferred claim The Winding-up Committee’s recognition of the transfer and its registration does not imply any decision by the Winding-up Committee on the claim in any respect. A claim could nonetheless be rejected, if a decision has not yet been made on it when the transfer takes place.

The list of claims which is published for this creditors' meeting reflects all the transfers received and confirmed by the Winding-up Board. In the list of claims a transferred claim always has the same serial number as the original claim but only the transferee is listed as the creditor. The letter “F” in front of a transferred claim indicates that the claim has been transferred. In the case of a full transfer, the figure “100%” follows the name of the creditor. In the case of a partial transfer, the new

transferee is listed with the respective percentage figure and the claim in question is given the same claim number as the original claim together with an additional digit (e.g. the original claim number was 15421, and the number of the claim which was transferred in part will be 15421.1).

4.3. The claims decision procedure

A decision by the Winding-up Board as to whether to recognise claims involves a preliminary examination of the claim lodged, the nature of the claim, what priority ranking is requested and whether the claim fulfils the provisions of Art. 117 of the BA. A check is then made as to whether the claim in question matches the bank's own documentation. For a claim to be given a ranking other than a general claim the creditor normally has to state specifically in its claim what priority is requested. As a rule, it is sufficient to refer to the relevant legal provision, but the text of the claim may also indicate the creditor’s position in this respect

The Winding-up Board made its decisions in accordance with the basic principle of Icelandic insolvency law that if special priority is not requested in a satisfactory manner, a claim is considered to be lodged as a general claim in the understanding of Art. 113 of the BA. It is in accordance with case law in Iceland that all derogations from the principle of non-discrimination between creditors should be interpreted narrowly. This understanding has been confirmed by the Supreme Court, for example, in Supreme Court case no. 506/2012, case no. 182/2013 and case no. 708/2013. All of these concern disputed claims against LBI.

Due to the large number of claims and the fact that the majority of them were received near the end of the time limit for lodging claims, the Winding-up Board was not able to take decisions on recognising all claims and provide information on such decisions sufficiently in advance of the creditors' meeting on 23 November 2009. For this reason, the claims decision process was prioritised by first taking decisions on priority claims, lodged with reference to Articles 109 to 112 of the BA, and thereafter on general claims and claims which were lodged after the time limit for lodging claims expired.

The Winding-up Board has concluded decisions on all claims lodged in the winding-up proceedings of LBI. Decisions have been announced at creditors' meetings on 23 November 2009, 24 November 2010, 27 May 2010, 1 December 2010, 19 May 2011 and finally 17 November 2011. At the creditors' meetings the Winding-up Board has presented and elaborated on reports with a summary of the process of lodging claims and explanations of its decisions on claims.

4.4. Decisions on claims

Since the Winding-up Board presented its decisions on claims at its meeting on 2 October 2013, three claims have been received, with a breakdown as follows:

Claims under art. 112	2
Claims under art. 113	1
Total	**3**

According to Art. 121 of the BA, the Winding-up Board is to take decisions on whether, and if so how, a claim is to be accepted if received after the time limit for lodging claims provided for in the second paragraph of Art. 85 of the BA has expired.

4.4.1. Priority claims with reference to Art. 112 of the BA

The Winding-up Board received two claims concerning Icesave deposits, from Jason Moreno (13205) and Johannes Hendricus Lutien (13148) in the UK and the Netherlands respectively. In both instances the claims were lodged with priority with reference to Art. 112 of the BA. Claims must be lodged with the Winding-up Board before the expiration of the time limit for lodging claims as provided for in the second paragraph of Art. 85 of the BA. If claims are not lodged within the proper time limit they are generally cancelled towards LBI unless the exceptions in Points 1-6 of Art. 118 apply to the claim. Both claims were rejected as lodged too late, since it did not appear that the exceptions provided for in Points 1-6 of Art. 118 of the BA applied to the claims.

4.4.2. General claims with reference to Art. 113 of the BA

One general claim was lodged after the creditors' meeting on 2 October 2013.

Ólafur Ólafsson lodged a claim (13188) on the base of alleged overpayment under a specified loan contract, maintaining that the contract involved unlawful exchange-rate indexation in the sense of Articles 13 and 14 of Act No. 38/2001, on Interest and Indexation. It is maintained that the claim should be admitted in LBI's winding-up on the basis of Point 5 of Art. 118 of the BA as the claim first arose following the ruling date and was lodged without undue delay and before the announcement of a creditors' meeting on a scheme for distribution. The Winding-up Board refused to admit the claim in the winding-up proceedings as it was not demonstrated that the claim fulfilled the conditions of Point 5 of Art. 118 of the BA.

4.5. Disagreements due to decisions on claims

The Winding-up Board has taken decisions on 11,895 claims which have been discussed at creditors' meetings. Insofar as no objections are received to decisions by the Winding-up Board on recognition

of claims, at the latest at the creditors' meeting where the claim was discussed, the decision of the Winding-up Board is considered final upon winding-up. On the other hand, if the Winding-up Board's decision is objected to, an attempt must be made to resolve disagreement on the claim; if this is not successful the dispute is referred to the Reykjavík District Court for resolution as provided for in Articles 120 and 171 of the BA. Meetings aimed at resolving disputes have been held concerning a total of 3,165 claims. At year-end 2013 the Winding-up Board had referred 381 cases, concerning 447 claims, to the District Court. Decisions have been obtained in 351 cases, while 30 cases are in process before the court. Most of the cases concern claims demanding priority with reference to Articles 109 to 112 of the BA, and disputes concerning derivatives transactions.

Publication of the list of claims and the subsequent discussion here is based on the decisions as recorded in the Winding-up Board's systems as of year-end 2013. At that point in time the status of disputes in the winding-up proceedings of LBI was as follows:

Claim Priority - Liability type[5]	Accepted Amounts	Final[6]	Settled by other means	Paid from recoveries	Escrow allocations	Liabilities 31/12/2013[7]
109 - Proprietary Claims	**4.8**	**100%**	**4.8**	**-**	**-**	**-**
110 - Administrative Claims (par. 3)	**8.5**	**100%**	**0.9**	**7.6**[8]	**-**	**-**
111 - Guarantee Claims						
Deposit - Retail	6.3	100%	6.3	-	-	-
(Loans from Financial Institutions)	48.9	100%	48.9	-	-	-
Other borrowings	2.8	100%	2.8	-	-	-
Total Guarantee Claims	**58.0**	**100%**	**58.0**	**-**	**-**	**-**
112 - Priority Claims						
Deposit - Retail	1,167.0	99.94%	-	628.3	0.7	538.0
Deposit - Wholesale	145.4	100%	-	78.1	-	67.4
Loans from Financial Institutions	11.7	94.91%	-	5.4	2.2	4.0
(Loans from Financial.Inst.- Rejected)	-			-	-	-
Other liabilities	0.9	92.17%	-	0.5	0.0	0.5
(Claims settled by lump sum payment)	0.7	100%	-	0.7	-	-
Total Priority Claims	**1,325.7**	**99.90%**	**-**	**712.9**	**3.0**	**609.8**
113 - General Claims						
Deposit - Retail	0.2	1.56%	-	-	-	0.2
Deposit - Wholesale	10.4	79.15%	-	-	-	10.4
Derivatives	202.8	50.64%	-	-	-	202.8
Loans from Financial Institutions	46.7	100%	-	-	-	46.7
Other borrowings	179.5	22.66%	-	-	-	179.5
Other liabilities	9.5	86.24%	-	-	-	9.5
Securities Issued[9]	1,231.2	72.26%	22.3	-	-	1,209.0
Total General Claims	**1,680.3**	**65.24%**	**22.3**	**-**	**-**	**1,658.1**
Grand Total	**3,077.4**	**80.97%**	**86.0**	**720.5**	**3.0**	**2,267.9**

[5] Amounts in ISK billion.

[6] Percentage of accepted amounts that has been finally accepted.

[7] All numbers are using FX rates as of the 22 of April 2009.

[8] Set-off agains tLB was finally rejected thereforeo claim 1177 was fully settled in cash.

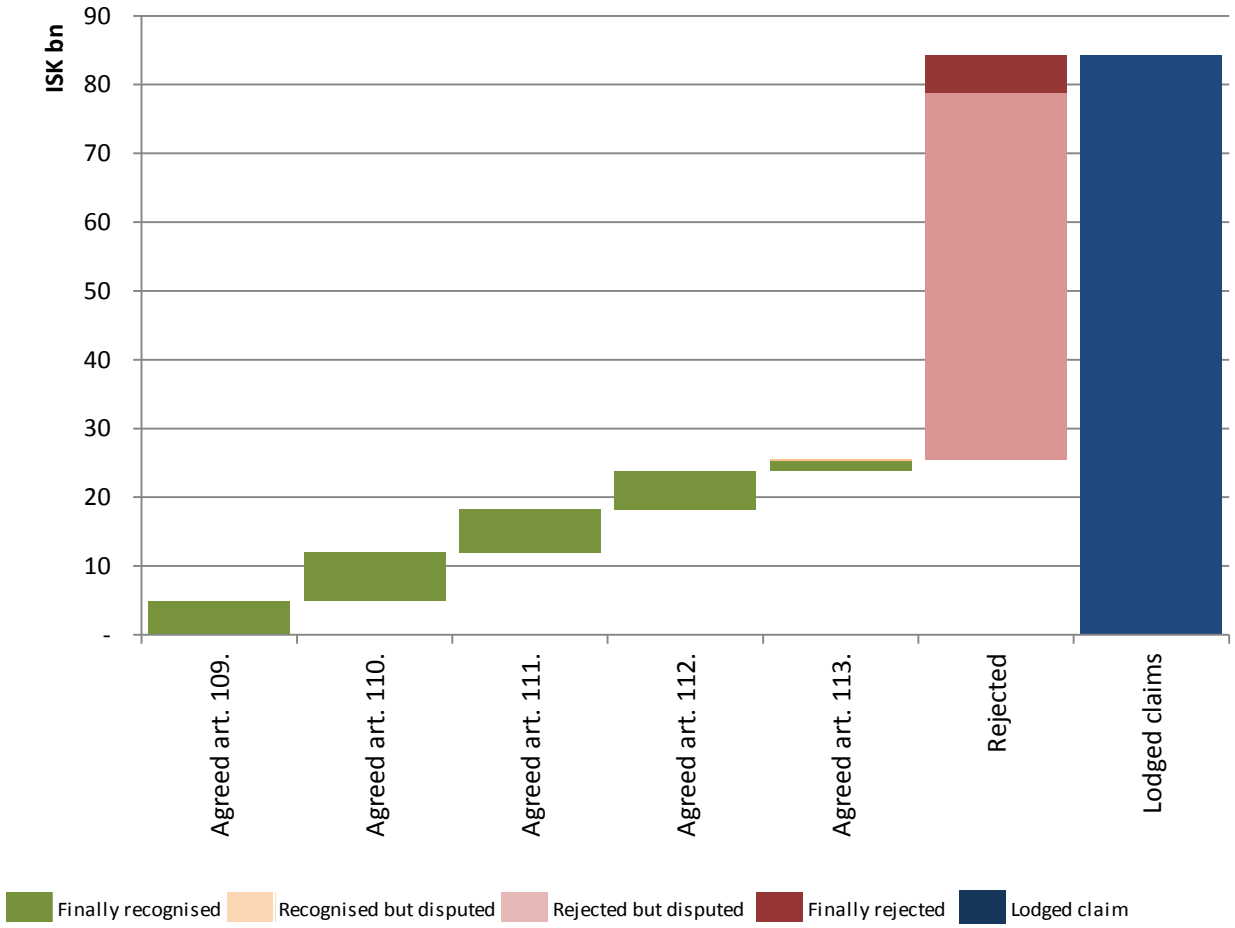
[9] Securities Issued is lowered by ISK 22.3 billion due to payments by set-off.

The creditors' report which was made available at the creditors' meeting on 28 November 2012 gave an account of the final conclusions of decisions on claims as well as insights into the main issues of dispute still to be resolved. The claims were discussed in the order of ranking requested. Accompanying the discussion of each priority was an explanatory figure showing the status of dispute resolution in amounts. Explanatory charts are shown below for each provision, based on the status of dispute resolution as of year-end. The accompanying discussion will be limited to the changes which have occurred since the last creditors' report. The discussion will also be restricted to claims or groups of claims amounting to over ISK 1 billion.

4.6. Proprietary claims with reference to art. 109 of the BA

LBI's Winding-up Board received claims amounting to ISK 84.2 billion requesting priority with reference to Art. 109 of the BA. Final decisions have been obtained concerning claims totalling ISK 30.6 billion, while claims amounting to ISK 53.5 billion are still disputed.

See the breakdown in the accompanying figure.



	Finally accepted	Disputed	Amounts accepted
Accepted with reference to Art. 109	4.8		4.8
Accepted with reference to Art. 110	7.1		7.1
Accepted with reference to Art. 111	6.3		6.3
Accepted with reference to Art. 112	5.5		5.5
Accepted with reference to Art. 113	1.5	0.2	1.7
Rejected	5.4	53.3	58.7
Total	**30.6**	**53.5**	**84.2**

The total amount of proprietary claims accepted decreases by ISK 0.1 billion. This results from a correction to an amount when the Winding-up Board went over a final decision. Finally accepted claims with reference to Art. 113 have increased by ISK 0.5 billion since the last creditors' report. A

final decision has been obtained on the rejection of claims amounting to ISK 4.3 billion in addition to the previous ISK 1.1 billion. However, the amount of disputed claims has increased considerably, by ISK 33.4 billion. The difference is due to new claims received by the Winding-up Board, increasing the amount of proprietary claims lodged from ISK 46.5 billion to ISK 84.2 billion.

An account will be given below of the changes which have occurred since the previous report; in other respects reference is made to the last creditors' report. Only individual claims amounting to over ISK 1 billion will be discussed.

4.6.1. Claims accepted with another ranking

Finally accepted with reference to Art. 113 of the BA

The Winding-up Board has managed to resolve disagreement on various claims lodged with priority with reference to Art. 109, which the Winding-up Board accepted as general claims. The amount of finally accepted claims has increased by ISK 0.5 billion from the last report. These include claims of various liability types, such as bond claims and derivative claims, for example.

4.6.2. Claims rejected

Finally rejected

The Winding-up Board has rejected 80 claims lodged claiming priority with reference to Art. 109 of the BA. The total amount is ISK 5.4 billion, which includes claims finally rejected as well as the difference between the amount as lodged and the amount accepted in cases where the Winding-up Board accepted a lower amount.

The amount of claims rejected by the Winding-up Board has increased by ISK 4.3 billion since the last report; these are claims of various liability types, such as subordinated bond claims, sub-participation loans, derivative claims and other claims.

Rejected claims which are disputed

Still disputed are 26 claims lodged claiming priority with reference to Art. 109 of the BA, which were rejected by the Winding-up Board. The total amount is around ISK 53.3 billion. Five of these are claims received since the last creditors' report, only one of which is over ISK 1 billion.

The estate of BG Holding ehf. (13185) lodged a claim in the amount of ISK 38.5 billion with reference to Art. 109, and alternately with reference to Art. 110 of the BA. The claim demands the delivery of money as well as of specified holdings and the cancellation of the liquidation proceedings of BG Holding ehf. in the UK. The financial claim is based on the contention that LBI was paid too much by BG Holding ehf. towards the latter's debts. The Winding-up Board rejected the claims, as it does not

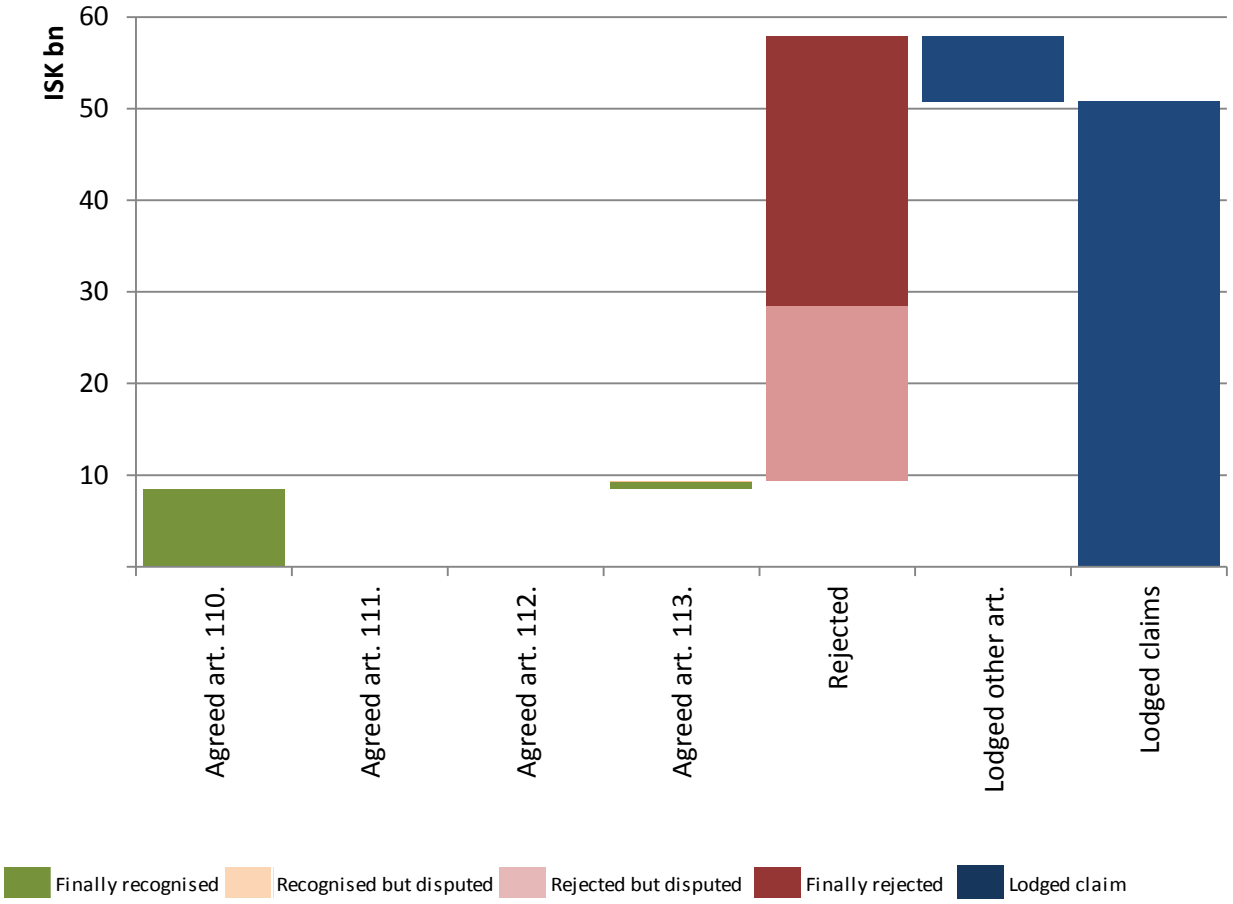
consider them to have a basis in law. The administrator of BG Holding has objected to the Winding-up Board's decision.

In the opinion of the Winding-up Board, the estate of BG Holding ehf. owes LBI and LBI has lodged a claim in the amount of ISK 130 billion in the company's liquidation proceedings. The administrator has rejected LBI's claim and disputes concerning LBI's claim are being resolved by the Reykjavík District Court.

4.7. Claims for the administration of the estate with reference to art. 110

LBI's Winding-up Board has received claims for a total amount of ISK 50.8 billion primarily requesting priority with reference to Art. 110 of the BA. Since the last creditors' report new claims amounting to ISK 5.8 billion have been received. A final decision has been obtained on claims amounting to ISK 38.7 billion, which is an increase of ISK 31.6 billion from the last report. Still disputed are claims equivalent to ISK 19.1 billion.

See the breakdown in the accompanying figure.



	Finally accepted	Disputed	Amounts accepted
Accepted with reference to Art. 110	8.5	-	8.5
Accepted with reference to Art. 111	-	-	-
Accepted with reference to Art. 112	-	-	-
Accepted with reference to Art. 113	0.8	0.1	0.9
Rejected	29.4	19.1	48.6
Total	**38.7**	**19.2**	**57.9**

	Amounts as lodged
Transferred from other categories	7.1
Lodged with reference to art. 110.	50.8
Total	**57.9**

Finally accepted administration claims have increased by ISK 1.4 billion. Similarly, a final decision has been obtained on ISK 0.8 billion which the Winding-up Board accepted as general claims while only ISK 0.1 billion is disputed. A final decision has been obtained on rejection of claims amounting to ISK 29.4 billion, while claims for ISK 19.1 billion are disputed.

An account will be given of the changes which have occurred since the previous report below; in other respects reference is made to the last creditors' report. Only individual claims amounting to over ISK 1 billion will be discussed.

4.7.1. Finally accepted claims with reference to Art. 110 of the BA

Administration claims finally accepted amount to ISK 8.5 billion. Since the last report this amount has increased by ISK 1.4 billion.

A claim from VBS Fjárfestingabanki hf. (12282) was discussed on p. 52 of the last creditors' report. A Supreme Court judgment upheld that payment by VBS eignasafn hf. to LBI with shares in the private limited company Vingþór was voidable based on the first paragraph of Art. 134 of Act No. 21/1991. It was not regarded as proven that employees of LBI should have known of the voidability of the payment and LBI was therefore only ordered to pay VBS eignasafn hf. the gain from which LBI benefited. The Court also agreed with LBI that the undertaking was authorised, under Art. 144 of Act No. 21/1991, to return the shareholding in Vingþór ehf. to VBS eignasafn hf., as it was unproven that this was not possible without unreasonable value depletion.

A claim of LB (1235), originally in the amount of ISK 7.1 billion, which was discussed on p. 51 of the last creditors' report, was accepted as an administration claim with reference to Point 3 of Art. 110 of the BA in the amount of just over ISK 435 million with a judgment by the Supreme Court of 6 May 2013 in case no. 211/2013. The roots of the claim can be traced to a mistake in executing orders for the sale of units in certain UCITS in 2008 for which LB had compensated clients for their losses. The Supreme Court's judgment maintained that there had been an agreement between the parties that LBI would bear the final cost of those payments made by LB after 7 October 2008. In this context reference was made, furthermore, to the nature of the parties' relationship at that time, that the mistakes of employees of LBI at that time were not the responsibility of LB and that it should have been evident to LBI that changes to the payments would be likely to damage the business interests of LB and make its operations difficult. The accepted administration claim arising from the Supreme Court's judgment has already been paid in LBI's winding-up.

4.7.2. Claims accepted with different priority, with reference to Art. 113 of the BA

Claims lodged as administration claims with reference to Art. 110 of the BA have been finally accepted as general claims in the amount of ISK 0.8 billion. Of these, one was lodged for an amount over ISK 1 billion.

As explained on p. 51 of the last creditors' report, Bow Bells House Limited Partnership lodged a claim (1152) in the amount of ISK 10 billion concerning a leasing contract between the creditor and LBI for the premises of the bank's London Branch. The creditor and Winding-up Board reached an agreement with a Consent Decree on 29 September 2011 that the claim should be accepted as a general claim with reference to Art. 113 of the BA in the amount of ISK 0.5 billion. With reference to the above-mentioned Consent Decree, which concludes a court action on the claim, it is finally accepted in the winding-up as stated above.

Apart from this these were bond claims which were improperly lodged as administration claims.

4.7.3. Claims rejected

Finally rejected

A final decision has been obtained on claims of ISK 29.4 billion rejected by the Winding-up Board since the last creditors' report.

Among them were two claims of LB hf. (1234 and 1237) for a total amount of ISK 9.4 billion in connection with securities which the bank purchased to make up for a lack of the securities on the custodians' part. The case was referred to the District Court for resolution, where it was cancelled by the creditor, making the Winding-up Board's decision on the claim final.

Other claims concerned here are for the most part in connection to trade credit.

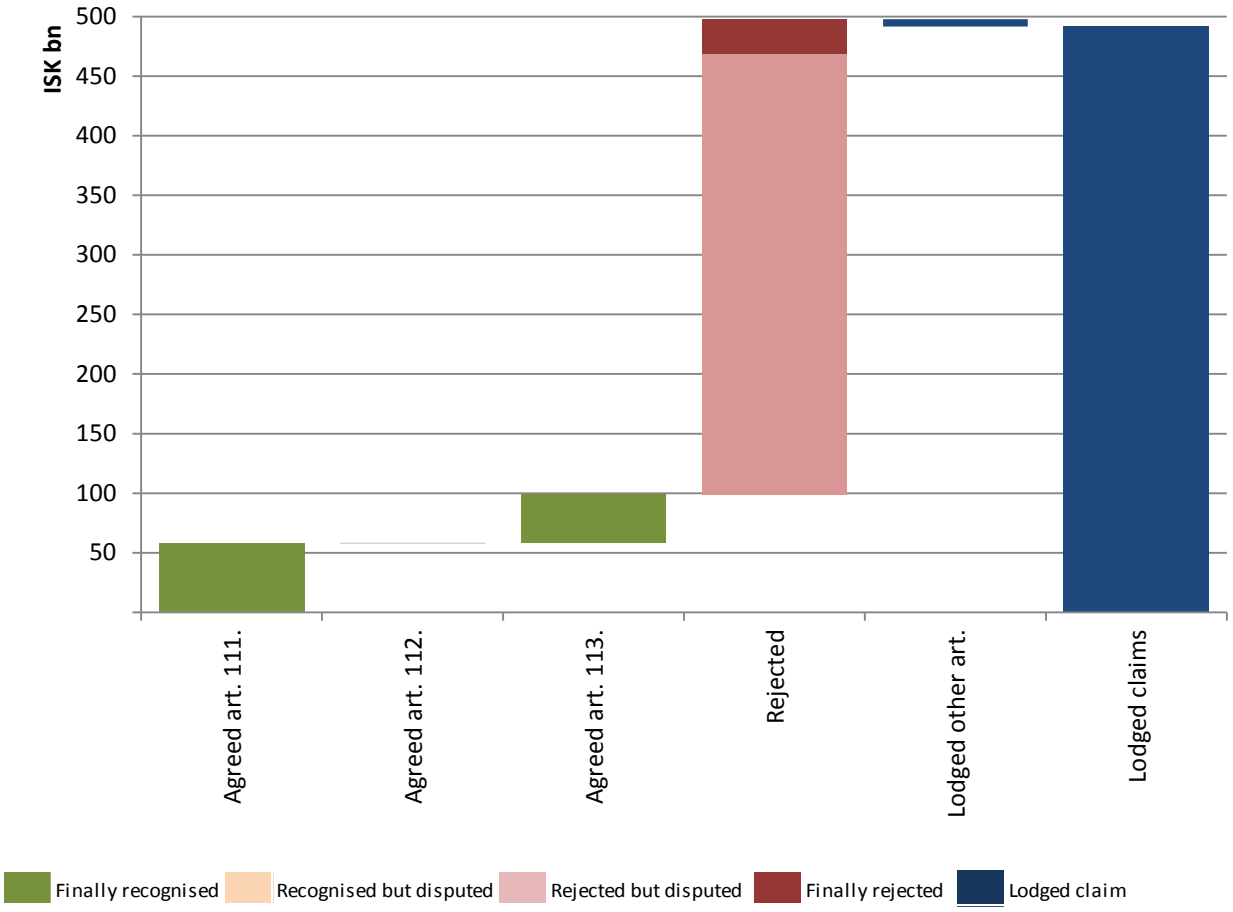
Rejected claims which are disputed

Still disputed are 7 claims lodged claiming priority with reference to Art. 110 of the BA. Two of these claims were received after the deadline for lodging claims, from LB hf. (13140 and 13141), for a total amount of ISK 7.1 billion. The claims are for penalty interest and cost on a principal amount accepted as an administration claim with reference to Point 3 of Art. 110 of Act No. 21/1991 by a judgment by the Supreme Court of Iceland pronounced on 22 March 2012 in case no. 112/2012 (claim no. 1249 in the List of Claims). The Winding-up Board rejected the claim and this dispute had not been resolved as of year-end 2013.

4.8. Secured claims, art. 111 of the BA

LBI's Winding-up Board received claims amounting to ISK 497.8 billion requesting priority with reference to Art. 111 of the BA. Thereof, FSCS lodged a claim in the amount of ISK 6.3 billion primarily with reference to Art. 109 of the BA and alternately with reference to Art. 111 of the BA. A final decision has been obtained on claims amounting to ISK 130.9 billion, which is an increase of ISK 116.1 billion from the last creditors' report. At year-end disputed claims amounted to around ISK 366.8 billion.

See the breakdown in the accompanying figure.



	Finally accepted	Disputed	Amounts accepted
Accepted with reference to Art. 111	58.0	-	58.0
Accepted with reference to Art. 113	40.7	-	40.7
Rejected	32.2	366.8	399.1
Total	**130.9**	**366.8**	**497.8**

	Amounts as lodged
Transferred from other categories	6.3
Lodged with reference to art. 110.	491.5
Total	**497.8**

Finally accepted secured claims amount to a total of ISK 58 billion, increasing by ISK 49 billion from the previous report. Similarly, a final decision has been obtained on claims amounting to ISK 40.7 billion, which the Winding-up Board accepted as general claims. A final decision has been obtained on rejecting claims amounting to ISK 32.2 billion, which is an increase of ISK 26.4 billion from the last report. Objections have been raised to rejection by the Winding-up Board of claims amounting to ISK 366.8 billion.

An account will be given of the changes which have occurred since the previous report below; in other respects reference is made to the last creditors' report. Only individual claims amounting to over ISK 1 billion will be discussed

4.8.1. Claims finally accepted with reference to Art. 111 of the BA

According to the above, four claims totalling ISK 58 billion have been finally accepted as secured claims with reference to Art. 111 of the BA.

A claim of the Central Bank of Iceland Holding Company (Eignasafn Seðlabanka Íslands hf.) (1244), which was discussed on p. 54 of the previous report, is now finally accepted with the same amounts as were previously mentioned. As before, the claim was accepted as a secured claim in the same amount as the value of those assets which the pledgee appropriated. To the extent the assets were insufficient to cover it, the claim was accepted as a general claim.

4.8.2. Claims accepted with a different priority, with reference to Art. 113 of the BA.

The Winding-up Board has accepted claims lodged claiming priority with reference to Art. 111 of the BA in the amount of ISK 40.7 billion as general claims. The final amount in this category is comprised mainly of a claim of Eignasafn Seðlabanka Íslands hf. (1244) in the amount of ISK 39.8 billion.

Other claims in this group are derivative claims.

4.8.3. Claims rejected

The Winding-up Board has rejected claims for a total amount of ISK 399.1 billion lodged with reference to Art. 111 of the BA. Of this amount, claims amounting to ISK 366.8 billion were disputed as of year-end. The decision on claims of around ISK 32.2 billion is final.

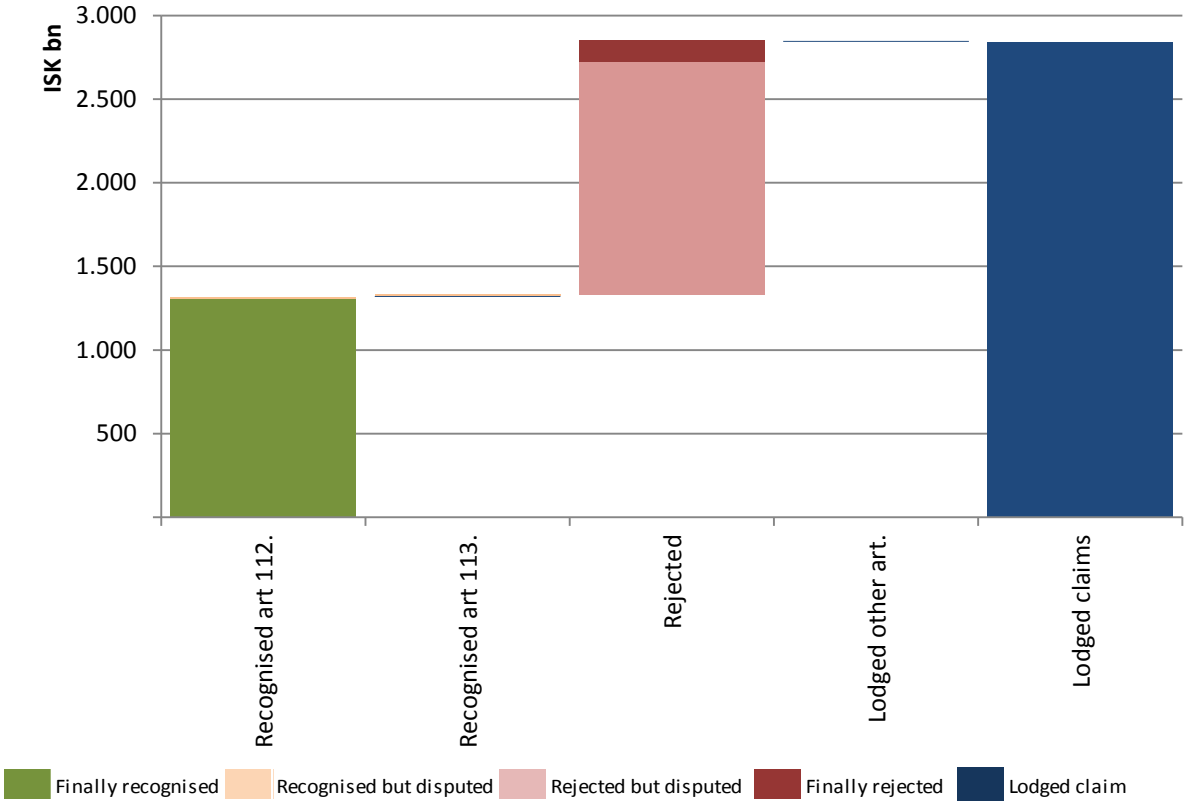
Finally rejected

A final decision has been obtained on claims amounting to ISK 32.2 billion, which is an increase of ISK 26.4 billion from the last creditors' report. The increase is the result of that portion of the claim of Eignasafn Seðlabanka Íslands hf. which was not accepted by the Winding-up Board. Other claims in this category rejected by the Winding-up Board are unchanged from the previous report.

4.9. Priority claims with reference to art. 112 of the BA

Claims requesting priority with reference to Art. 112 of the BA in the amount of ISK 2,842.5 billion were lodged. Final decisions have been obtained concerning claims totalling ISK 1,439.3, while claims amounting to ISK 1,408.7 are still disputed.

See the breakdown in the accompanying figure.



	Finally accepted	Disputed	Amounts accepted
Accepted with reference to Art. 112	1,325.1	0.6	1,325.7
Accepted with reference to Art. 113	12.7	0.0	12.7
Decision postponed	-	25,0	25,0
Rejected	232.7	1,251.3	1,484.0
Total	**1,570.5**	**1,276.9**	**2,847.4**

	Amounts as lodged
Transferred from other categories	5.5
Lodged with reference to Art. 112	2,841.9
Total	**2,847.4**

Finally accepted priority claims have increased by ISK 16.6 billion since the last creditors' report. A final decision has also been obtained on claims totalling ISK 12.7 billion which the Winding-up Board has accepted as general claims, an increase of ISK 8.2 billion from the last report. A final decision has been obtained on the rejection of claims amounting to ISK 106.4 billion in addition to the previous

ISK 126.3 billion. The amount of disputed claims has decreased by ISK 131.8 billion since the last creditors' report.

An account will be given below of the changes which have occurred since the previous report; in other respects reference is made to the last creditors' report. Only individual claims amounting to over ISK 1 billion will be discussed.

4.9.1 Finally accepted with reference to Art. 112 of the BA

A total of 1,148 claims, amounting to ISK 1,325.1 billion in all, have been finally accepted as priority claims. The majority of these claims are for deposits.

A final conclusion has been obtained on the priority of money market deposits from financial institutions. The Winding-up Board's decision on those claims was discussed on p. 59 of the last report.

A judgment by the Supreme Court in case no. 383/2013 confirmed the Winding-up Board's decision to classify a claim of the investment bank Morgan Stanley Senior Funding Inc. (755), which was discussed on p. 59 of the previous creditors' report, as a priority claim with reference to Art. 112 of Act No. 21/1991, in the amount of ISK 3.9 billion. The claim therefore is finally accepted.

4.9.2. Accepted but disputed

In addition, the Winding-up Board had accepted as priority claims deposit claims amounting to ISK 0.6 billion, but these are still objected to by creditors and the disputes are being resolved in the courts.

4.9.3. Claims accepted with a different ranking

Finally accepted as a general claim with reference to Art. 113 of the BA

Since the previous creditors' report, claims amounting to ISK 8.2 billion which the Winding-up Board had accepted as general claims have been finally accepted.

The Depositors' and Investors' Guarantee Fund (TIF) lodged two claims (1278 and 1285) in connection with premiums owed by LBI, and which were discussed on p. 67 of the last creditors' report. The claims were accepted with reference to Art. 113 of the BA, totalling ISK 6.8 billion. Creditors who objected to the Winding-up Board's decision on recognising the claims have withdrawn their objections. The Winding-up Board's decision recognising the claims is therefore final.

A claim by Landsbanki Guernsey (1277) was finally accepted with reference to Art. 113 of the BA, but without a specific amount. This claim was discussed in the last creditors' report on p. 60.

Apart from these, claims were of various sorts, including bond claims, current accounts, derivative claims etc.

4.9.4. Claims rejected

The Winding-up Board has rejected claims totalling ISK 1,484 billion. Of these, decisions on claims totalling ISK 232.7 billion, are final. At year-end objections existed to decisions by the Winding-up Board on rejected claims totalling ISK 1,251.3 billion.

Claims finally rejected

A final decision has been obtained on the rejection of claims amounting to ISK 106.4 billion in addition to the ISK 126.3 billion in the last report. Claims totalling ISK 232.7 billion, lodged with priority, have therefore been rejected.

Glitnir hf. lodged two claims (nos. 1272 and 1275) totalling ISK 90 billion with reference to Art. 112 of the BA, on the grounds that these were deposits, cf. the discussion on p. 61 of the last creditors' report. At a dispute resolution meeting Glitnir hf. accepted the Winding-up Board's decision to reject the claims. The Winding-up Board's decision is therefore final.

The Winding-up Board received 476 claims for a total amount of ISK 9 billion claiming priority with reference to Art. 112 of the BA in connection with LBI's guarantee of deposits and obligations of Landsbanki Guernsey Ltd. Of these, a final decision has been obtained for 168 claims totalling ISK 2.7 billion. The decision is discussed on p. 61 of the last creditors' report.

The Winding-up Board received 107 claims for damages for alleged losses resulting from the settlement of money market funds of Landsvaki hf., a subsidiary of LBI. Of these, a final decision has been obtained for 99 claims totalling ISK 2.6 billion. The decision is discussed on p. 61 of the last creditors' report.

The Winding-up Board rejected 31 claims totalling ISK 2.3 billion which were based on stock option and bonus agreements. The Winding-up Board rejected the claims completely, with reference to the fact that the parties concerned had no legally sanctioned financial claim against LBI on the basis of such agreements. In three cases decisions by the Winding-up Board to reject the claims in question were upheld by Supreme Court judgments, cf. the Court's cases nos. 122/2011, 333/2011 and 334/2011. Based on the said Supreme Court judgments other parties who lodged claims in LBI's winding-up on the basis of stock option and bonus agreements have withdrawn their objections to the Winding-up Board's decision to reject the claims. The Winding-up Board's decision to reject the claims is therefore final.

Rejected claims which are disputed

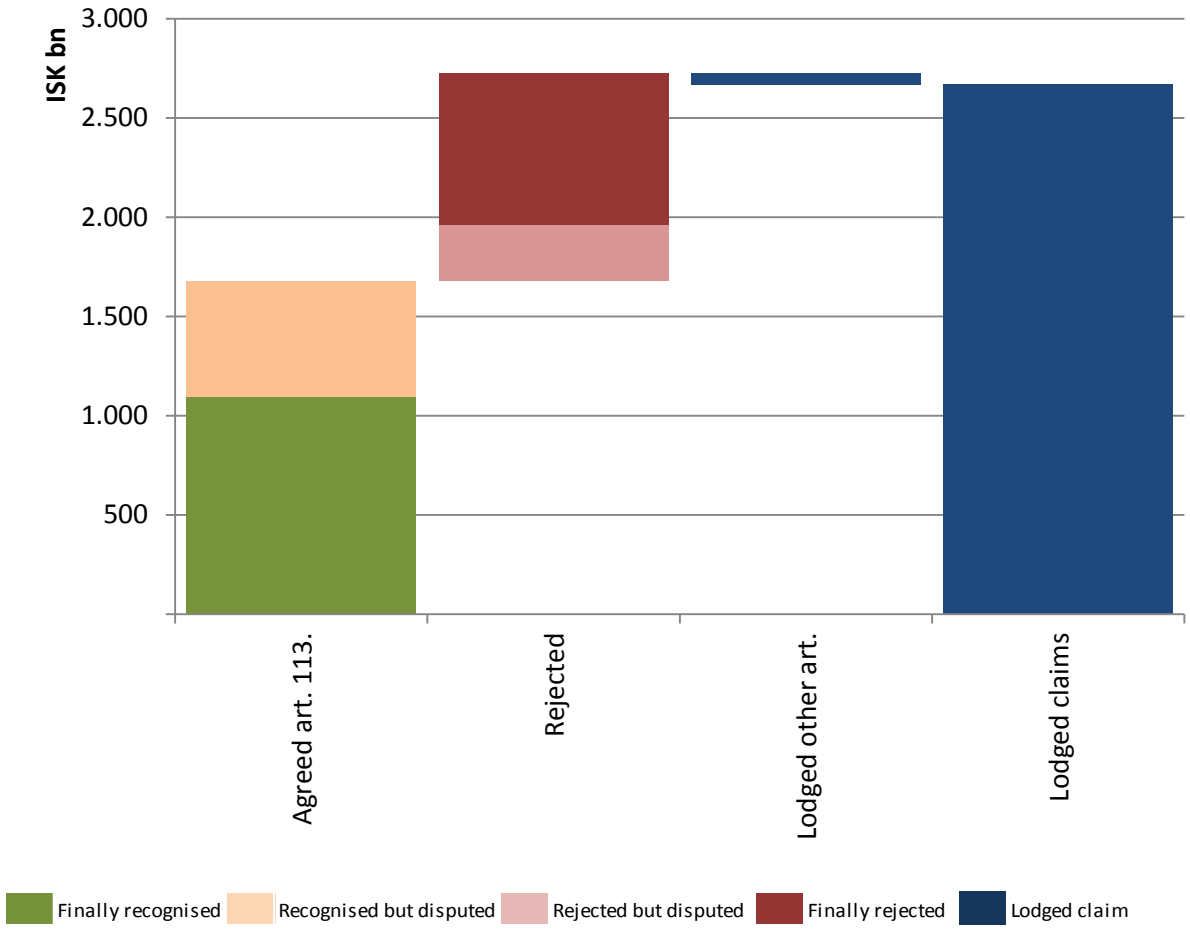
Hannes Þ. Smárason lodged a claim (1288) based on a deposit in the amount of ISK 1.2 billion, which he maintains should have been transferred to LB hf. based on the Decision of the Financial Supervisory Authority of 9 October 2008. The claim is lodged as an alternate claim, i.e. it states that the creditor will demand a settlement of the deposit from LB hf. The Winding-up Board rejected the claim and it is in the dispute resolution process, awaiting the final outcome of the creditor's action against LB hf. concerning the same circumstances as underlie the above-mentioned claim. On 28 November 2013 a judgment was pronounced by the Reykjavík District Court rejecting Hannes's claims against LB hf., but the outcome of the case before the Supreme Court is awaited.

Other claims rejected by the Winding-up Board which were lodged with reference to Art. 112 of the BA and are still disputed are unchanged from the discussion in the last creditors' report.

4.10. General claims art. 113 of the BA

LBI's Winding-up Board has received claims requesting priority ranking with reference to Art. 113 of the BA for a total amount of ISK 2,742.2 billion. Final decisions have been obtained concerning claims totalling ISK 1,860.7, while claims amounting to ISK 863.5 are still disputed.

See the breakdown in the accompanying figure.



	Finally accepted	Disputed	Amounts accepted
Accepted with reference to Art. 112	1,096.0	584.4	1,680.3
Rejected	764.7	279.1	1,043.8
Total	**1,860.7**	**863.5**	**2,724.2**

	Amounts as lodged
Transferred from other categories	56.8
Lodged as general claims	2,667.3
Total	**2,724.2**

Finally accepted general claims have increased by ISK 751.3 billion since the last creditors' report. The amount of disputed claims has decreased considerably from the last report, by ISK 1,398.5 billion. A final decision has been obtained on the rejection of claims amounting to ISK 636.6 billion in addition

to the previous ISK 128.1 billion. An account will be given of the changes which have occurred since the previous report below; in other respects reference is made to the last creditors' report.

4.10.1. Finally accepted claims with reference to Art. 113 of the BA

Claims have been finally accepted with reference to Art. 113 of the BA totalling ISK 1,096 billion. In addition to claims discussed in the last creditors' report a final outcome has been obtained on 6,309 claims totalling ISK 678 billion.

The Winding-up Board has been working on resolving disagreement on bond claims which it had accepted but which were objected to. Since the last creditors' report a final decision has been obtained for 1567 claims totalling ISK 534.1 billion. These claims were discussed in the last creditors' report on p. 65.

The Supreme Court of Iceland confirmed the Winding-up Board's decision to recognise deposit claims of Newcastle Building Society (2795), Applied Biosystems (2821) and Cogas BV (3020) totalling ISK 5.1 billion as general claims with reference to Art. 113 of the BA, as it was required that it be stated unequivocally what priority ranking was requested for the claims. The Supreme Court stated that this meant that creditors had to state this specifically in their claim as lodged if they wished the claims to enjoy another priority ranking than that of general claims. It was not sufficient for one party to state that its claim was a deposit claim based on a wholesale deposit, nor for the other to state that the claim had arisen from a deposit agreement, since neither of these was considered to satisfy the requirement in Art. 117 of the BA.

Ten other claims concerning wholesale deposits totalling ISK 3.2 billion have been finally accepted as general claims, as no priority was requested. The total amount of claims in this category therefore amounts to ISK 8.3 billion.

The estate of Landsbanki Luxembourg SA (LI Lux) lodged a claim (no. 2582) in the amount of around ISK 159 billion. The decision on the claim was discussed on p. 66 of the last creditors' report. In resolving the dispute the Winding-up Board agreed to recognise the above claim as a general claim in the amount of ISK 61.1 billion. Other creditors took part in resolution of the dispute and accepted the Winding-up Board's decision and withdrew their objections; the decision is therefore final.

The Winding-up Board's decision on a claim of Drake Global Opportunities (Master) Fund Ltd. (2912) was discussed on p. 66 of the last report. Two dispute resolution meetings were held in 2013. In the process of dispute resolution the creditor provided additional documentation and information to the Winding-up Board which was taken into consideration. The creditor accepted the Winding-up Board's decision on the principal of the claim, which was to recognise it with changes in the amount of ISK

1.1 billion. The Winding-up Board changed its decision on the claim lodged for interest up until 22 April 2009 on the basis of new information. This portion was accepted with changes in the amount of ISK 11,295,003, to which the creditor raised no objection. The parties have resolved their disagreement on the claim so that it has now been finally accepted in a total amount of ISK 1.1 billion as a general claim with reference to Art. 113 of Act No. 21/1991.

A dispute has been resolved concerning a derivative claim of Unicredit Bank AG (2891) which was discussed in the last creditors' report on p. 69 with its recognition by the Winding-up Board in the amount of ISK 1.6 billion. The decision is final, since objections from other creditors concerning the claim have been withdrawn.

Basler Kantonalbank (2702) lodged a derivative claim in the amount of ISK 3.5 billion. The claim has been finally accepted as a general claim since the last creditors' report was published. The Winding-up Board originally rejected the claim as improperly lodged, with reference to the second and third paragraphs of Art. 117 of the BA. The claim was lodged on the basis of currency transaction agreements which were concluded without an underlying master agreement or terms and conditions. Among the aspects in dispute was the question of applicable legislation, a dispute on methodology applied in settling the contracts and the fact that the creditor has, in tandem with lodging its claim, brought an action against LB hf. for the same claim in Switzerland. More detailed explanations were obtained and the end result, after four formal dispute resolution meetings, was agreement by the parties to resolve the dispute based on a reconciliation proposal by the Winding-up Board that the finally accepted amount of the claim in the list of claims would be ISK 2.7 billion.

The Royal Bank of Scotland Plc lodged a derivative claim (2617) in the amount of ISK 9.6 billion. The claim has been finally accepted as a general claim. The Winding-up Board originally rejected the claim as improperly lodged, with reference to the second and third paragraphs of Art. 117 of the BA. During the dispute resolution process the Winding-up Board sent a request for data to the creditor for additional specific information. The basis for the claim was the ISDA Master Agreement on derivatives. The creditor responded to the Winding-up Board's request and provided additional documentation. Three formal dispute resolution meetings were held and there were further communications in between them on specific aspects of the claim. In the end the parties agreed to settle the dispute with the finally accepted amount of the claim in the List of Claims ISK 5.8 billion.

There are 25 other finally accepted derivative claims since the last creditors' report, for a total amount of ISK 4.1 billion.

A final decision has now been obtained regarding 13 claims totalling ISK 23.6 billion in connection with a EUR 600 [million] syndicated loan taken by LBI in the summer of 2006. The decision was discussed on p. 66 of the last creditors' report.

A claim of BMI Bank BSC (2877) in the amount of ISK 1.8 billion was lodged on the basis of two bilateral loan contracts for EUR 60 million and EUR 500 million respectively. The Winding-up Board's decision is final.

A final outcome has been obtained for 8 claims for so-called Schuldschein loan contracts which have been accepted as general claims for a total amount of ISK 15.4 billion.

4.10.2. Claims rejected

The Winding-up Board has rejected claims totalling ISK 1,043.8 billion. Of these, decisions on ISK 764.7 billion are final while objections have been raised concerning claims for ISK 279.1 billion which are disputed.

Finally rejected

Claims lodged for subordinated notes have now for the most part been finally rejected. They totalled 4,410 in number and the total amount of claims lodged was ISK 123.5 billion. Now 4,083 claims for a total amount of ISK 120.4 billion have been finally rejected. The decision was discussed on p. 68 of the last creditors' report.

Final decisions have now been obtained for a total of 288 other bond claims lodged for a total amount of ISK 359.5 billion. Of these, 199 are claims lodged with reference to the USD 7,500,000,000 Medium Term Note Program (MTN program). Work on going over and finally registering these claims is now complete, as was discussed on p. 68 of the last creditors' report.

A final decision has been obtained on the rejection of 17 claims totalling ISK 1.6 billion which are classified under the heading Other in the list of claims.

In addition, a final decision has been obtained to reject 226 claims on the basis of alleged losses in connection with assets in the money market fund *Peningabréf Landsbankans*, totalling around ISK 2 billion.

4.11. Claims lodged after deadline

A total of 1,077 claims were received by the Winding-up Board with reference to Articles 111 to 113 of the BA after the deadline for lodging claims provided for in the second paragraph of Art. 85 of the BA had passed; the total amount of these claims is ISK 31.9 billion. In the discussion of claims lodged

too late, an account will be given of the changes which have occurred since the previous report; in other respects reference is made to the discussion in the last creditors' report on p. 72.

Since the last report was presented to creditors 5 claims have been registered as lodged too late. Of these, 2 were lodged with reference to Art. 112 of the BA and three with reference to Art. 113 of the BA.

The decision on the two priority claims and one general claim will be presented at the meeting on 12 March 2014. The decision on the other two claims was presented at the creditors' meeting on 28 November 2012. One was objected to and a meeting will be convened in connection with it when the dispute resolution process for claims lodged too late commences.

4.12. Summary

The total amount of claims lodged against LBI amounts to ISK 6,178.9 billion. Of these the Winding-up Board has accepted claims amounting to a total of ISK 3,077.4 billion, which is an increase of ISK 46.6 billion from the last creditors' report. This is taking into consideration 645 claims which had previously been lodged, for a total amount of ISK 430.8 billion, which have been withdrawn. Such claims are not included in the list of claims.

Claims lodged with reference to Art. 109	84,187,115,143
Claims lodged with reference to Art. 110	50,775,190,630
Claims lodged with reference to Art. 111	491,476,007,973
Claims lodged with reference to Art. 112	2,841,922,343,224
Claims lodged with reference to Art. 113	2,667,310,331,942
Claims lodged with reference to Art. 114	43,192,584,486
Total	6,178,863,573,397**0**

Claims accepted with reference to Art. 109	4,825,061,856
Claims accepted with reference to Art. 110	8,492,281,316
Claims accepted with reference to Art. 111	58,027,182,365
Claims accepted with reference to Art. 112	1,325,703,135,516
Claims accepted with reference to Art. 113	1,680,343,554,467
Total	3,077,391,251,520

The Winding-up Board has accepted claims in the amount of ISK 4.8 billion as proprietary claims with reference to Art. 109 of the BA. Still in dispute are 26 claims amounting to ISK 53.5 billion; work is underway on resolving disputes on all the claims.

Claims lodged for the administration of the estate which have been finally accepted with reference to Art. 110 of the BA total ISK 8.5 billion. There are 25 disputed claims totalling ISK 19.1 billion. Work is underway at resolving disputes on all administration claims.

The Winding-up Board has accepted claims in the amount of ISK 58 billion with priority with reference to Art. 111 of the BA. This is unchanged from the last creditors' report apart from the fact that the proportion of finally accepted claims has increased from 57.9% to 100%.

The Winding-up Board has accepted priority claims totalling ISK 1,325.7 billion. Since the last creditors' report, court decision have confirmed the priority of money market deposits from financial institutions.

The Winding-up Board has accepted general claims totalling ISK 1,680.3 billion. Of these, claims amounting to ISK 584.4 billion are disputed. Considerable success has been achieved in resolving disputes; since the last creditors' report disputes concerning ISK 713.6 billion have been resolved. In addition, claims rejected by the Winding-up Board amounting to ISK 279.1 billion are disputed. Therefore, since the last creditors' report disputes have been resolved and the Winding-up Board's decisions have been upheld in finally rejecting claims for ISK 684.9 billion.

The Winding-up Board has naturally emphasised obtaining final decisions concerning claims lodged with priority with reference to Articles 109 to 112 of the BA. This work has proceeded well but it should be mentioned that new claims requesting priority have been received and work is underway on decisions on these claims and resolving disputes following the receipt of such claims. Resolution of disputes on general claims is progressing fairly well.

CHAPTER 5

PARTIAL PAYMENTS

5. Partial payments

5.1. Basis for partial payments and legal situation

As has been previously mentioned, the objective of winding-up proceedings is to maximise the assets of a financial undertaking; liquid funds resulting from measures taken by the Winding-up Board are expected to be distributed to creditors according to the applicable rules thereto. These arrangements are basically similar to the usual practice in liquidation pursuant to the provisions of the Bankruptcy Act (BA), although with some variations.

According to the first paragraph of Art. 156 of the BA, an administrator must, as soon as possible, fulfil the claims which have been accepted and can be paid according to their priority. Funds must be set aside to satisfy to the same extent claims which are still disputed, should they be finally accepted in the liquidation. It could be said that this reflects certain basic points which to some extent apply to winding-up proceedings, *mutatis mutandis.*

Regarding partial payments in winding-up proceedings, the special rule of the sixth paragraph of Art. 102 of the AFU applies. It provides authorisation to the Winding-up Board, following the first creditors' meeting after the expiry of the time limit for lodging claims, to pay in full or in part accepted claims ranked with reference to Articles 109 to 112 of the BA, to the extent it is ensured that the assets of the financial undertaking suffice to make at payments at least as high to equally ranked claims which have not yet been finally rejected. This rule is an authorisation, but if it is applied it must be ensured that all creditors with finally accepted claims receive the same type of payment at the same time unless they agree otherwise.

Should the Winding-up Board decide to avail itself of the authorisation to make partial payments, it must pay into special escrow accounts provided for by law the corresponding amounts for equally ranked claims which are still disputed and have not therefore been finally accepted in the winding-up proceedings. A partial payment has then been made to the creditor concerned with a proviso as to the final recognition of the claim. Should the claim be subsequently accepted, the funds which pertain to it in the escrow accounts go to the creditor concerned, together with a corresponding share of the accrued interest. If partial payments are made in more than one currency, there shall be as many escrow accounts as there are currencies of payment.

It should be pointed out here that in those instances where sufficient instructions for payment of partial payments are lacking from creditors who, however, hold finally accepted claims the Winding-up Board has taken the route of depositing the partial payments of the party concerned into the above-mentioned escrow accounts until the cause of the delay has been rectified.

According to the sixth paragraph of Art. 102 of the AFU, the Winding-up Board may negotiate with creditors holding finally accepted priority claims on a final settlement by means of a lump sum payment of part of the claim, and a corresponding reduction of the claim by the creditor. The condition is set that the amount paid must definitely be lower than the creditor would obtain by waiting for partial payments, like other creditors, in part having regard for interest and the advantage of a lump-sum payment.

As previously mentioned, the authorisation for partial payments is restricted to priority claims with reference to Articles 109 to 112 of the BA. This means that if there are not sufficient funds to fulfil all the obligations of a financial undertaking, payments or distributions to general creditors, as referred to in Art. 113 of the BA, can either be made on the basis of a composition or, if composition cannot be achieved or it is considered certain that conditions for such will not exist in the future, by requesting liquidation. In the case of the latter, then payments to general creditors are governed by the rules of Chapter XXII of the Bankruptcy Act. It is established that the objective of LBI's Winding-up Board is to conclude the winding-up proceedings with composition in accordance with the rules of Art. 103 a of the AFU when the time is ripe with respect to final settlement of priority claims.

Neither partial payments in the winding-up proceedings, in accordance with the sixth paragraph of Art. 102 of the AFU, nor distributions in liquidation, in accordance with the provisions of Chapter XXII of the BA , comprise in the Winding-up Board's assessment the disposition of interests, in the sense of Chapter XIX of the BA. This does not therefore comprise a measure concerning which the law provides for disputes to be referred to the District Court, according to Art. 171 of BA. On the other hand, the Winding-up Board may, if a dispute arises on carrying out partial payments which needs resolution, direct a request to the District Court for resolution of such a dispute specifically, pursuant to the detailed instructions of the first paragraph of Art. 171 of the BA.

5.2. Winding-up Board's principal considerations in determining partial payments

In the estimation of the Winding-up Board there is no statutory obligation to convert LBI's foreign currency assets to ISK and distribute them to creditors. The Winding-up Board is also of the opinion that this would not be a justifiable treatment of the company's assets given the circumstances which have existed, nor that it would serve the interests of creditors or the winding-up proceedings in general. Furthermore, the Winding-up Board considers the law clear that partial payments may be made in more than one currency and this understanding has now been confirmed by the courts.[10] Having regard for all of the above, partial payments to creditors in accordance with the above-

[10] Judgment of the Supreme Court of Iceland of 24 September 2013 in case no. 553/2013.

mentioned authorising provision are made by delivering to the creditors concerned payments in the main currencies currently available in the winding-up provisions. Further details are given below of what amounts and what currencies have been paid in those partial payments which have already been made.

The Winding-up Board's partial payments and concurrent payments to special escrow accounts have only concerned claims lodged with priority with reference to Art. 112 of the BA. It is clear, however, that higher ranking claims, i.e. claims with priority as referred to in Articles 109-111 of the BA, shall be paid in full, insofar as they are accepted in the winding-up proceedings, with the statutory or contractual interest they bear. It derives from the provisions of the third paragraph of Art. 99 of the BA, that such claims are paid in their original currency. It is in fact only in very exceptional cases that claims lodged with priority with reference to Articles 109-111 of the BA have been accepted in LBI's winding-up proceedings and the Winding-up Board has taken care to have funds available to cover claims in these priority categories for which recognition cannot be excluded.

According to the third paragraph of Art. 99 of the BA, claims in foreign currencies have been converted to ISK based on the quoted selling rate of the Central Bank of Iceland on the commencement date of the winding-up proceedings prescribed by law, 22 April 2009. It derives from this that the value of those foreign currencies which are used for partial distributions in ISK must be calculated against the claims towards which payment is made. This is done to determine the proportion of the payment comprised by the partial payment and thereby how large a portion of the said claims remains still unpaid and at the same time, and not least important, to determine when the claims have been fully paid.

Icelandic law does not make clear provision as to how the value of partial payments in foreign currencies shall be calculated in ISK. The Winding-up Board was of the opinion that the third paragraph of Art. 99 and Art. 114 of the BA should be interpreted to mean that this calculation should be based on the same exchange rates as were used as a basis when the claims were converted to ISK, i.e. the exchange rates on 22 April 2009. As discussed in the Winding-up Board's report of November 2012, there was disagreement on this point between the Winding-up Board and certain creditors. It was disputed whether the reference should be the exchange rates of 22 April 2009 or of the date of disbursement in each instance, and what exchange rates should be used was also disputed. The dispute was referred to the courts in accordance with the rules in Art. 171 of the BA; on 24 September 2013 the Supreme Court of Iceland pronounced its judgment in case no. 553/2013.

The above-mentioned judgment affirmed that partial payments as provided for in the sixth paragraph of Art. 102 of the AFU could be made in foreign currencies. The judgment stated that provisions of the BA assumed that distributions from an insolvent estate would be made in ISK and, although partial payments could be made in accordance with the above-mentioned provisions in foreign currencies, such payment had to be converted to ISK based on the quoted selling rate of the Central Bank of Iceland on the date of disbursement in each instance, “in the same manner as if the payments had been disbursed in ISK”.

When the decision of the Supreme Court of Iceland was obtained, work began on recalculating those partial payments which had been made up until that time and notifying the creditors concerned thereof. It should be underlined that the partial payments as such were not altered but instead only their value in relation to the priority claims towards which payment was made was changed. It should be pointed out that this court decision made no difference to those lump sum payments amounting to 70% of the claim amounts which had been negotiated and were accounted for in the Winding-up Board's last report.

5.3. Partial payments which have been made to date

The following section reviews in more detail those partial payments made by LBI's Winding-up Board in the winding-up proceedings, their amounts and premises, as the case may be having regard to recalculations following the Supreme Court's judgment in case no. 553/2013.

5.3.1. First partial payments

The Winding-up Board availed itself of its authorisation to make partial payments in the first instance on 2 December 2011, which is the disbursement date of the first partial payments. The payments were made in the following currencies and amounts

EUR	1,110,000,000
GBP	740,000,000
ISK	10,000.000,000
USD	710,000,000

Based on the quoted selling rate of the Central Bank of Iceland for EUR, GBP and USD against the ISK on the disbursement date, the first partial payments were equivalent to a total of ISK 409,910,800,000 or to 29.616% of all accepted and disputed priority claims with reference to Art. 112 of the BA as of this disbursement date.

5.3.2. Second partial payments

The Winding-up Board availed itself of its authorisation to make partial payments in the second instance on 24 May 2012, which is the disbursement date of the second partial payments. The payments were made in a single currency:

GBP	850,000,000

Based on the quoted selling rate of the Central Bank of Iceland for GBP against the ISK on the disbursement date, the second partial payments were equivalent to a total of ISK 172,337,500,000 or to 12.981% of all accepted and disputed priority claims with reference to Art. 112 of the BA as of this disbursement date.

5.3.3. Third partial payments

The Winding-up Board availed itself of its authorisation to make partial payments in the third instance on 5 October 2012, which is the disbursement date of the third partial payments. The payments were made in the following currencies and amounts:

EUR	170,000,000
GBP	150,000,000
USD	190,000,000

Based on the quoted selling rate of the Central Bank of Iceland for EUR, GBP and USD against the ISK on the disbursement date, the third partial payments were equivalent to a total of ISK 80,049,000,000 or to 6.029% of all accepted and disputed priority claims with reference to Art. 112 of the BA as of this disbursement date.

5.3.4. Fourth partial payments

The Winding-up Board availed itself of its authorisation to make partial payments in the fourth instance on 12 September 2013, which is the disbursement date of the fourth partial payments. The payments were made in the following currencies and amounts:

EUR	129,469,555
GBP	142,264,147
USD	155,335,415

Based on the quoted selling rate of the Central Bank of Iceland for EUR, GBP and USD against the ISK on the disbursement date, the fourth partial payments were equivalent to a total of ISK

67,190,000,733 or to 5.062% of all accepted and disputed priority claims with reference to Art. 112 of the BA as of this disbursement date.

5.3.5. Summary and balance on escrow accounts as of year-end 2013

As has been explained at creditors' meetings, the amounts of the partial payments described above are gross amounts, i.e. they include deposits to mandatory escrow accounts to cover claims lodged with priority with reference to Art. 112 of the BA which are still in dispute on each disbursement date. As the disputes on individual claims are resolved funds equivalent to the proportional payment of those claims, together with interest as appropriate, are transferred to the creditor concerned if the claim has been finally accepted; otherwise they are returned to LBI if the claim is finally rejected. The same applies *mutatis mutandis* if the claim is finally accepted in part while the rest is rejected

The total of all partial payments and lump sum payments as of year-end 2013, for both accepted and disputed claims lodged with reference to Art. 112 of the BA, was equivalent to ISK 715,857,114,490, or around 53.9% of the total amount of these claims as of year-end. Of this amount a total equivalent to around ISK 2.9 billion is in escrow accounts for claims which are still disputed.

Interestingly enough, in addition to the above, ISK 7.5 billion is still in escrow accounts of LBI's Winding-up Board of the payments made in this currency in the first partial payments. The reason for this is that the creditors concerned have not provided satisfactory payment instructions for ISK.

LBI's escrow accounts for partial payments made in foreign currencies are held with LBI's foreign correspondent bank, while the escrow account for partial payments in ISK is held with an Icelandic bank. All the accounts bear floating market interest rates, which are acceptable in the Winding-up Board's opinion, and in accordance with what can be expected given the market circumstances and nature of the said accounts. Interest is added to the accounts on a monthly basis and payments are made from the escrow accounts once each month. As a rule payments are made from the escrow accounts in the second week of each month, provided that the requirements for payment have been satisfied before the end of the previous month.

5.4. Reserve fund

It is a prerequisite for making partial payments towards claims with priority with reference to Art. 112 of the BA that sufficient funds be retained to discharge possible claims of higher priority in the currencies concerned. Claims of higher priority in this context would be claims with priority with reference to Articles 109-111 of the same Act. Furthermore, the Winding-up Board is obliged to ensure that sufficient funds are available to pay so-called administrative claims, i.e. claims in connection with LBI's winding-up proceedings and the statutory role of the Winding-up Board to

safeguard the company's interests to the utmost and maximise recoveries on assets. With this in mind the Winding-up Board has established a so-called reserve fund and retained in this fund sufficient capital to be able to discharge the above-mentioned obligations. The reserve fund does not consist of separately designated funds but rather funds in specific currencies which must be retained of liquid assets and cannot be used for partial payments in each instance. The Winding-up Board takes care to ensure that no more funds are retained in a reserve fund than is necessary. The scope and composition of the reserve fund is reviewed at regular intervals and assessed with regard to what is known regarding higher priority claims, operating expenses and other aspects of significance in each instance.

The reserve fund includes both ISK and foreign currencies. That portion of the fund which is in foreign currency is in two parts: firstly, foreign currency held in Iceland, which can be used to pay obligations in foreign currencies to domestic parties or in connection with domestic assets and, secondly, foreign currency outside of Iceland, which can be used to pay obligations in foreign currencies to foreign parties or in connection with foreign assets.

An account is provided of the status and scope of the reserve fund at creditors' meetings when there is cause for so doing.

5.5. Capital controls and requests for exemption

More detailed discussion of the capital controls and Act No. 87/1992, on Foreign Currency, is provided in section 2.3 above. According to the rules of the Act, LBI's Winding-up Board must apply to the Central Bank of Iceland for exemption from the capital controls in order to make further partial payments in the winding-up proceedings. This results from the amendment made to the Act in March 2012, when the general exemption for financial undertakings in winding-up proceedings was repealed.

Two requests for exemptions are under consideration by the Central Bank of Iceland in connection with plans by the Winding-up Board to make partial payments based on the authorisation in the sixth paragraph of Art. 102 of the AFU. The requests concern exemptions equivalent to a total of ISK 265 billion, expressed in those foreign currencies which are primarily acquired through the winding-up proceedings, i.e. GBP, EUR, USD and CAD. The Winding-up Board of LBI is in regular contact with employees of the Central Bank regarding the processing of its request for exemption and efforts are made to ensure that all information and documentation are made available on LBI's part so that a decision can be taken on the requests.

It must be borne in mind that the exemption requests of LBI's Winding-up Board concern authorisation to pay specific, limited partial payments in accordance with a special authorisation in the sixth paragraph of Art. 102 of the AFU. This authorisation is limited to priority claims. By making partial payments LBI's Winding-up Board aims to pay such priority claims in full, as discharging them is a premise for being able to conclude LBI's winding-up proceedings with composition, as is the intention. By comparison, it could be pointed out that similar priority claims in the winding-up proceedings of other financial undertakings, as far as can be determined, have been paid in full.

LBI's Winding-up Board will continue to communicate with the Central Bank of Iceland and submit further requests for exemptions as necessary and as funds are recovered in the winding-up proceedings.

CHAPTER 6

SUITS FOR DAMAGES - VOIDING

6. Suits for damages – voiding

6.1. Introduction

In winding-up proceedings of a financial undertaking, the general obligation rests upon the Winding-up Board to obtain for the estate all assets which come into consideration and to maximise their value. This implies, among other things, that the Winding-up Board should, as appropriate, demand damages from parties who have caused the undertaking, and thereby its creditors, a loss liable for compensation. Whether an action is brought before the courts in connection with such instances is based on an assessment of the legal situation and the interests involved in each case.

As stated in the fourth paragraph of Art. 103, the AFU, the rules of the Act on Bankruptcy etc. apply on voiding of measures when it is demonstrated that the assets of a financial undertaking will not suffice to fully satisfy its obligations. All the provisions of Chapter XX of the BA then apply, however, the time limit for bringing suit in voiding cases, which is laid down in Art. 148 of the BA, is 30 months rather than 6 months, and such cases are to be brought before the District Court where the financial undertaking is placed in winding-up.

As is generally known, Deloitte in London and Deloitte in Iceland were engaged in 2009 to carry out an investigation of LBI's activities and financial affairs prior to its failure; their investigation was carried out in collaboration with LBI's Winding-up Board, advisors and employees. At creditors' meetings on 27 May 2010 and 1 December 2010, the objectives and principal decisions of this work were reviewed. It was pointed out there that the principal purpose was to examine whether certain events existed which could result in LBI possibly being able to demand damages or, as the case may be, insurance compensation, and bring claims for voiding and reimbursement.

At creditors' meetings on 1 December 2010 and 31 May 2012, a brief report was presented on actions for damages and voiding. The Creditor' Report presented to the creditors' meeting held on 28 November 2012 gave an account of the suits for damages and voiding which had been brought, in addition to which the cases were discussed in more detail at the creditors' meeting.

The outcome in those cases which are concluded will be explained here, together with the status of cases in progress.

6.2. Actions for damages

6.2.1. Bank guarantee which was not enforced

This case was brought against two former chief executive officers and the former managing director of LBI's Corporate Banking division and their liability insurers.

The principal of the claim against parties other than the insurers is ISK 16.2 billion. Claims against the insurers are limited to their maximum liability which is equivalent to EUR 50 million according to the terms and conditions of the policy.

The main circumstances of the case are that LBI loaned large amounts to the investment company Fjárfestingarfélagið Grettir hf. This included a loan maturing on 18 June 2008, on which the balance owed was at that time around ISK 18.4 billion. The loan was secured in part with a guarantee from Kaupthing Luxembourg in the amount of ISK 18 billion, which was valid until 26 June 2008.

It is established that the said loan was not paid at maturity and that the bank guarantee was not enforced prior to the expiration of its validity. The borrower was subsequently declared insolvent and only a small fraction of LBI's claim against the estate was paid. The case is based on the contention that the CEOs and managing director of Corporate Banking made themselves liable by failing to enforce the bank guarantee when the loan matured.

The defendants have submitted their briefs, all of them demanding to be absolved on the basis that this does not comprise tortious conduct on their behalf. In addition, their insurers demand to be absolved on the basis that the insurance coverage was invalid due to incorrect or insufficient information disclosure.

While the case has been in progress the insurers have endeavoured to gather extensive evidence with the intention of attempting to demonstrate that they received incorrect information when the insurance was approved on their part. The Reykjavík District Court has in a Ruling rejected a request by these parties to have expert assessors appointed by the court to evaluate these aspects. They have submitted a new request for assessment which is now being dealt with by the Court.

Apart from this the case is ready to be heard by the District Court but it is not possible to say when this will take place.

6.2.2. Loan to an Icelandic financial undertaking at the beginning of October 2008

This case was brought against two former CEOs and their liability insurers.

The principal of the claim against parties other than the insurers is ISK 11.6 billion. while claims against the insurers are limited to their maximum liability which is equivalent to EUR 50 million according to the terms and conditions of the policy.

The principal circumstances of the case are that LBI's former CEOs approved, on 2 October 2008, a loan to Straumur Investment Bank hf. (now and hereafter ALMC hf.) of ISK 19 billion, without any collateral being provided. ALMC did not pay the loan at maturity, the company was taken over by the Financial Supervisory Authority and thereafter was placed in winding-up proceedings which

concluded with composition. A claim for the above-mentioned loan was among those included in ALMC's composition. The case is based on the contention that the CEOs made themselves liable for compensation by agreeing to make a loan to an Icelandic financial undertaking without security under the circumstances which prevailed when the loan was granted and given LBI's situation at that time. The defendants have submitted their briefs, all of them demanding to be absolved on the basis that this does not comprise tortious conduct on their behalf. In addition, their insurers demand to be absolved on the basis that the insurance coverage was invalid due to incorrect or insufficient information disclosure. The case has been postponed for further data gathering and it is not possible to say when a judgment can be expected from the District Court.

While the case has been in progress the insurers have endeavoured to gather extensive evidence with the intention of attempting to demonstrate that they did not receive correct information when the insurance was approved on their part. The Reykjavík District Court has in a Ruling rejected a request by these parties to have expert assessors appointed by the court to evaluate these aspects. They have submitted a new request for assessment which is now being dealt with by the Court.

Apart from this the case is ready to be heard by the District Court but it is not possible to say when this will take place.

6.2.3. Disbursements on 6 October 2008

This case has been brought against the former CEOs, four members of the Board of Directors, the Director of Treasury and the liability insurers.

The principal of the claim against parties other than the insurers is ISK 14.1 billion, USD 10.5 million and EUR 10.8 million. Claims against the insurers are limited to their maximum liability which is equivalent to EUR 50 million according to the terms and conditions of the policy.

This case concerns events which took place on 6 October 2008, i.e. on the last day LBI operated before a Resolution Committee was appointed for the bank. Late that day, and in part after its general business had closed, LBI disbursed substantial amounts to two domestic financial undertakings and one of its subsidiaries; a substantial portion of these funds were lost. The case is based on the contention that, given LBI's financial situation at this time and in light of the prevailing circumstances, LBI's management should have ensured that disbursements such as those concerned here were not made to the detriment of the bank's creditors, since it was or should have been evident to the parties mentioned that the bank was insolvent on the said date.

The defendants have submitted their briefs All the defendants demanded to be absolved on the basis that this did not comprise conduct liability for compensation on their part. In addition, the insurers

demand to be absolved on the basis that the insurance coverage had lapsed due to incorrect or insufficient information disclosure.

Part of the defendants have demanded dismissal of the case. With a judgment by the Supreme Court in case no. 491/2013 the demand for dismissal was rejected and the District Court Judge instructed to accept the case for substantial hearing. Gathering of evidence is currently underway and, in the same manner as in other cases where insurers have been summonsed, cf. the discussion in Sections 6.2.1 and 6.2.2.

Gathering of evidence by other parties in the case is not completed either, and it is not possible to say when the case will be heard by the District Court.

6.2.4. Purchase of shares in LBI in Trading Book II

This case is brought against a former CEO, the managing director of Securities and Treasury and the Director of Brokerage.

The principal of the claim against the defendants is ISK 1.2 bn.

This case concerns the purchase by LBI's Brokerage of own shares and shares in two other companies during the period from April to July 2008 for its so-called equity Trading Book II, which was intended to hold assets for brokering to LBI's customers. The claims are based on the contention that in these purchases the defendants exceeded their authorisations to acquire shares for the Trading Book and failed to comply with the obligation to dispose of the shares when the violation was realised. In so doing they had caused a loss, as the shares were worthless upon the collapse of the bank.

The case is pending the submission of the defendants' briefs and it is not possible to say when a judgment can be expected from the District Court.

Hearing of the case by the District Court is scheduled for 27 May 2014.

6.2.5. Claims for damages in connection with auditing and consultancy services

This case is brought against the Icelandic auditing company which served as LBI's external auditor and the UK auditing company which provided advice on auditing and financial reporting.

The principal of the claim is ISK 83.2 billion, USD 11.2 million and EUR 64.9 million.

The case is based on the contention that the auditing of annual financial statements and review of interim financial statements, and advice on auditing and financial reporting was insufficient. The auditors also neglected to disclose to shareholders and competent authorities certain violations in LBI's activities. As a result thereof, the annual financial statements and interim financial statements

did not provide a true picture of LBI's financial position and activities, which resulted in losses to the bank and its creditors.

The defendants have submitted their briefs, demanding primarily to be absolved and alternately a substantial decrease in the claims. Further gathering of evidence has gone into preparing the case. This includes a request by LBI for the court to appoint expert assessors to assess the defendants' auditing and advisory work. The defendants objected to the appointment of assessors and a Supreme Court judgment was pronounced in case no. 533/2013, upholding the District Court's decision to appoint assessors to respond to LBI's assessment questions with one exception.

The Icelandic auditing firm submitted a request for the appointment of assessors which was objected to by LBI. The District Court agreed to the appointment of assessors to respond to 36 of the assessment questions. The said party has submitted a new request for assessment which is now being dealt with by the Court.

Gathering of evidence by parties in the case is accordingly not completed and it is therefore not possible to say when the case will be heard by the District Court.

6.3. Voiding cases pursuant to Chapter XX of the BA

6.3.1. Payment of bonds and bills prior to maturity – repurchases

An examination of LBI's financial affairs during the final months preceding its collapse revealed that it had purchased its own bonds and bills in considerable quantity. In the Winding-up Board's estimation, such purchases comprised payment of a debt prior to the agreed maturity date, as the rights and obligations provided for in the securities acquired were then in the same hands, and those parties who received such payments during the six months prior to the reference date in LBI's winding-up proceedings, which is 15 November 2009, were sent a declaration of voiding together with a demand for repayment of the amount paid by LBI.

Voiding was based on the contention that the said debts owed by LBI had been paid abnormally early, in the sense of Art. 134 of the BA, which reads as follows:

> *"Voiding may be demanded of the payment of a debt in the six months preceding the reference date, if such payment was made by unusual means or earlier than normal or if the amount of payment significantly impaired the payment capacity of the insolvent party, unless the payment appeared normal under the circumstances.*
>
> *Voiding may be claimed of such payment to relatives in the six to twenty-four months before the reference date, unless it is established that the bankrupt was solvent at that time, despite the payment."*

The Winding-up Board has brought actions for voiding and reimbursement on the above-mentioned basis against 24 foreign financial undertakings which will be heard by the Reykjavík District Court. The total amounts demanded in these cases are EUR 56.8 million, USD 0.6 million and CHF 25,476.

The defendants have submitted their briefs in these cases; their defences vary and concern both the form and substance of the cases. For instance, it has been maintained that Paragraph 1 of Art. 30 of Directive 2001/24/EC, on the reorganisation and winding up of credit institutions, can prevent the demands for voiding from being upheld.

In a Ruling by the Reykjavík District Court pronounced in one of these cases, no. E-1880/2012, LBI v Merrill Lynch Intl. Ltd., the judge decided to seek an advisory opinion from the EFTA Court. In the Ruling the following questions are addressed to the Court:

1. Should the first paragraph of Art. 30 of Directive 2001/24/EC on the reorganisation and winding up of credit institutions be interpreted to mean that rules on the voidness, voidability or unenforceability of legal acts refer to rules on voiding of measures taken by a financial undertaking pursuant to rules comparable to those which apply to voiding of measures taken by an insolvent under insolvency law?
2. If the response to the first question is yes, then should the first paragraph of Art. 30 of the Directive be interpreted to mean that it is sufficient for a party, at whom a claim for voiding is directed, to provide proof that voiding of a measure pursuant to the law of the member state which applies to the measure would be unauthorised with reference to any sort of rules, e.g. rules on time limits for initiating an action?
3. If the response to the second question is no, then should the first paragraph of Art. 30 of the Directive be interpreted to mean that it is necessary for a party, at whom a claim for voiding is directed, to provide proof that conditions for voiding pursuant to the law of the member state which applies to the measure are obviously not satisfied, for instance, due to the fact that authorisation for voiding is completely lacking for the type of measure concerned?

Further handling of other voiding cases of the same sort await this advisory opinion, which is expected to be available in the latter half of this year.

The Winding-up Board brought one case against an Icelandic financial undertaking in connection with payment of a debt in the manner described above. The Supreme Court of Iceland pronounced judgment in case no. 702/2011 on 27 September this year, accepting the voiding and claim for repayment amounting to ISK 147.9 m, penalty interest and court costs. The summary of the judgment in the registry of the Supreme Court of Iceland is as follows:

"L hf. demanded the voiding of two payments to R hf. which took place on 6 October 2008, for payment of two bills maturing on 5 November that same year; the bills were issued by L hf. Furthermore, it was also demanded that R hf. be made to reimburse to L hf. the amount which had been paid in connection with the bills. The parties disputed whether L hf. had, in making the payments, repaid a debt pursuant to the bills earlier than normal, so that it authorised their voiding on the basis of the Act on Bankruptcy etc., or whether it had acquired the bills from R hf. The Supreme Court's judgment stated, among other things, that this had to be seen as L hf. having agreed to pay R's claim on it on 3 October 2008 and fulfilled this agreement with a settlement on the 6th of the same month. At that time there was around a month until the claim matured and L hf. had therefore paid its debt to R hf. earlier than was normal. R hf. had not shown it to be likely that it could have expected that the offer originated from a party other than L hf. due to its role as market maker, and therefore R hf. had not demonstrated that payment of the debt could have appeared normal under the circumstances. With reference to this the demand of L hf. for the voiding of the payment was accepted. The monetary claim of L hf. against R hf. was also accepted."

This judgment has confirmed that LBI's repurchase of securities issued by the bank where it was the debtor is considered payment of a debt unusually early, in the sense of Art. 134 of the BA.

6.3.2. Payment of money market facilities

An examination of LBI's financial affairs revealed that after the bank's collapse its debts in connection with so-called money market deposits had been repaid to a substantial extent. These payments were made during the period from 7 to 27 October 2008 on the agreed due dates. According to the information available, it appears that at this time uncertainty prevailed as to whether these obligations had been transferred to the LB by a Decision of the Financial Supervisory Authority on the division of LBI's assets and liabilities. In November 2008, the Financial Supervisory Authority confirmed that LBI's obligations from money market deposits of financial undertakings had not been transferred to the LB.

The Winding-up Board sent those financial undertakings which had received payment of their money market deposits during the period claims for voiding and reimbursement. The voiding was based primarily on the contention that the payments had reduced LBI's ability to make payment substantially, in the sense of Art. 134 of the BA, and alternately on Art. 141 of the same Act, according to which voiding may be claimed if a measure improperly benefits a creditor at the expense of other creditors if the debtor was at that time insolvent or became insolvent as a result of

the measure, and provided that the party benefiting from the measure knew or should have known of the debtor's insolvency or the conditions that rendered the measure improper.

The Winding-up Board has brought 19 actions for voiding and reimbursement on the above-mentioned basis which will be heard by the Reykjavík District Court. Three of these are brought against Icelandic financial undertakings and 16 against foreign financial undertakings. The principal of the amounts claimed totals ISK 42.4 bn.

Judgments by the Supreme Court in the cases selected as test cases, nos. 191, 356, 359, 412 and 413/2013, concluded that it the voiding rules of Chapter XX could not be applied to measures which took place after the appointment of a Resolution Committee on 7 October 2008 and LBI's situation was in this respect equated with one where liquidation of the company's estate had begun. On this basis the defendants in these cases were absolved of the claims for voiding and repayment. Other cases in this category were closed with the same decision.

6.3.3. Payments of salaries, bonuses, premia and stock options

The investigation of LBI's financial affairs made a close examination of payments to the bank's employees. This included examining salary payments, bonuses and premia, especially during the last six months before the reference date. It was revealed that during the said period, settlements had been made with both the bank's former CEOs in connection with bonuses, premia and options, in addition to which two department heads had received bonus and premium payments.

The Winding-up Board has brought five voiding actions concerning such payments, three against the former CEOs and one against each of the former department heads. Two of these have been concluded with an agreement on a settlement, one after the District Court had pronounced a judgment in the case and the other after the case had been brought but before it was filed.

The basis of these cases varies somewhat and will be described in more detail here.

Three voiding actions were brought concerning settlement of bonuses and premia, including settlement of stock options of both the former CEOs and one department head concluded in September and the beginning of October 2008. It is established that LBI's Board of Directors agreed in September 2008 to settle with the CEOs concerning bonuses, premia and stock options not yet due. Payments made to each of them amounted to around ISK 300 m. Before the case was brought, one CEO repaid all but ISK 100millionwhich were paid to a private pension fund. The other CEO repaid an amount equivalent to ISK 100 m. Voiding actions against these parties demanded repayment of the difference between the amounts they received and those they repaid. The principal of the claims for repayment amounted to ISK 300 m. The case brought against the CEO who

repaid a smaller amount is currently being heard by the Reykjavík District Court. The hearing of the case is scheduled for 23 June 2014. An agreement was reached, however, with the other CEO on a settlement and this case is closed.

After the District Court had pronounced a verdict in the voiding case against the department head accepting the claim for voiding and repayment in the amount of ISK 89.1millionplus interest, an agreement was reached with the party on a settlement and this case is also closed.

The grounds for voiding in these cases were in the main the same, and were based on Art. 131 (voiding of a gift), Art. 134 (voiding due to payment by unusual means and abnormally early i.e. earlier than agreed) and Art. 136 (salary payments were obviously unfair). It should be pointed out that the voiding cases originally brought against the CEOs were dismissed by the court and therefore had to be brought again.

A voiding suit against one of LBI's former CEOs is being heard by the Reykjavík District Court, demanding the voiding of payment made to his private pension fund because of a trading loss on a specific transaction which it is maintained LBI had agreed to bear. The principal of the reimbursement claimed in this case is ISK 35.1 million and voiding is based on Art. 131 of Act No. 21/1991, as it has not been satisfactorily demonstrated that LBI bore the obligation on which the payment was based. The hearing of this case by the Reykjavík District Court is scheduled for 4 June 2014.

A voiding suit against the former head of LBI's Brokerage, demanding the voiding of bonus payments which he received during the last six months prior to the reference date, is being heard by the Reykjavík District Court. The principal of the reimbursement claimed is ISK 47.3 million and voiding is based on Art. 136 of the BA, as it is contended that performance-linked salary payments in this manner were obviously unfair during the said period, given the operation and performance of the department which he managed and the bank's financial situation in other respects. The case will be heard by the Reykjavík District Court on 20 March 2014.

6.3.4. Payments made by set-off and for purchase of securities

The Winding-up Board has brought two cases for voiding before the Reykjavík District Court concerning payments made by set-off of claims arising from bonds issued by LBI.

In one case, against a European bank, the principal of the claim for reimbursement is EUR 5.1 m.

The circumstances of this case are specifically that the counterparty owed LBI substantial amounts due to derivative transactions. Apparently as a result of this, in November 2008 the bank acquired a bond claim against LBI and in February 2009 used this to make payment of part of the derivative debt

with a set-off.

The voiding claim is based on the contention that the derivative debt was paid by unusual means in the sense of Art. 134 of the BA and that, since the counterparty did not acquire its claim prior to the three-month time limit provided for in Art. 100 of the BA, the authorisation for set-off cannot be based on Art. 135 of the Act.

This case has been cancelled by LBI as the Supreme Court's decision is available that the voiding rules of Chapter XX cannot be applied to measures or events after the appointment of the Resolution Committee on 7 October 2008, cf. the discussion in Section 6.3.2.

The other case concerned the former management company of LBI's funds. This company was among the assets transferred to the LB based on Decisions by the Financial Supervisory Authority.

The claim for voiding and reimbursement concerned two separate events, one involving LBI's purchase of securities and the other settlement of debts. The principal of the claim made for reimbursement is ISK 22.2 bn.

The former instance concerns payments received by the management company from LBI on 6 October 2008 for securities of little or no value acquired by LBI from the management companies funds. Voiding is based on the contention that this was a gift, in the sense of Art. 131 of the BA, of the difference between the value of the payment made by LBI and the value of those securities received in return by the bank which amounts to ISK 17.2 bn.

The latter instance concerns settlement of debts owed by the management company to LBI which was concluded at the beginning of November 2008. The settlement was made with a set-off and cash payment. In this the management company used bonds issued by LBI for payment with a set-off. Winding-up Board was of the opinion that the funds had acquired the majority of the said bonds within three months of the reference date, i.e. after 15 August 2008, and therefore that they were not eligible for set-off according to Art. 100 of the BA. The voiding claim is based on the contention that payment was made by unusual means in the sense of Art. 134 of the BA, as the requirements of Art. 135 the BA are not satisfied.

In the above-mentioned settlement between LBI and the management company a mistake was made resulting in overpayment to LBI of ISK 7.1 billion in cash, which was not discovered until LBI's winding-up proceedings commenced. The new bank, now LB, which had repaid the said amount to the management company, lodged a claim against LBI for the overpayment. A judgment by the Supreme Court in Case no. 112/2012 accepted this as a claim for the administration of the estate, as provided for in Point 3 of Art. 110 of the BA. Generally speaking, such claims can only be created after the date of a ruling on liquidation or the reference date in winding-up proceedings, but given

the circumstances in this case the Supreme Court concluded that the situation as of 7 October 2008 was deemed equivalent to a ruling on liquidation in this respect. Since LB had acquired this claim from the management company, the Winding-up Board considered it authorised to settle the said claim for administration of the estate insofar as the original settlement between the management company and LBI could be voided. Accordingly, the claim brought in the case is that the authorisation for a set-off amounting to ISK 5 billion be accepted.

A judgment by the Supreme Court in case no. 659/2013 confirmed the District Court's decision to dismiss the case, as the conditions for joinder in accordance with the first paragraph of Art. 19 of Act No. 91/1991, to bring suit in a single case against the management company Landsvaki and LB hf., were not satisfied. After this decision it was not possible to further pursue the above-mentioned claim for set-off and LBI paid LB the outstanding amount of the administrative claim which had been accepted in the Supreme Court's judgment in case no. 112/2012. Landsvaki hf. was placed in winding-up according to provisions of Act No. 161/2002, on Financial Undertakings, by a Ruling of the Reykjavík District Court pronounced on 28 November last year and a Winding-up Board appointed for the company. Claims for voiding and reimbursement have been lodged in its winding-up and decisions on them will be reached through that process. It should be pointed out that in accordance with the Supreme Court's decision in cases nos. 359/2013 et al. it is evident that the voiding rules of Chapter XX cannot be applied to payments received by Landsvaki hf. after the appointment of a Resolution Committee and therefore claims for voiding and reimbursement were only lodged for measures taken prior to the appointment of the Resolution Committee (6 October 2008).

6.4. Summary

As the above discussion indicates, it will be some time yet before final judgments are pronounced in the most extensive suits for damages, primarily because gathering of evidence, mainly through assessments to be obtained, is still underway. Assessors can be expected to take a considerable time to conclude the assessments which have already been agreed upon. The requests for assessments which are now being handled by the court are very extensive and, if they are accepted to any extent, it can be expected that it will take quite some time to conclude the assessments. It is worth pointing out that the parties in the case, both those requesting and subject to assessment, can request a review assessment if they are not satisfied with the assessments. It should be reiterated that this gathering of evidence is taking place, firstly, on the part of the insurers, in those cases where they are the defendants, and secondly, in those cases where damages are claimed concerning auditing and consultancy services. This extensive gathering of evidence likely reflects how the parties involved assess the interests at stake in these cases.

The Winding-up Board's general time limit for bring suit for voiding under Chapter XX of the BA expired on 30 April 2010, and as a result the Winding-up Board had to initiate proceedings of this sort prior to that time limit. At that time considerable uncertainty prevailed concerning various aspects which have since been clarified by Supreme Court judgments. For instance, the Winding-up Board assumed at the time that the voiding rules of Chapter XX of the BA could be applied to measures right up to the commencement of LBI's winding-up on 22 April 2009, which accords with general rules. At this time various types of disagreement existed as to the priority ranking of claims, such as whether so-called money market deposits of financial undertakings were considered deposits which should enjoy priority under the so-called emergency legislation, which made deposits priority claims. The decisions in those voiding cases where the defendants have now been absolved or the case cancelled have in all instances been determined by the Supreme Court's interpretation that measures since the appointment of LBI's Resolution Committee should be equated with a measure by the liquidator of an insolvent estate, which resulted in precluding the application of the voiding rules of Chapter XX of the BA to these cases. Final judgments in those voiding cases which are still unresolved are expected to be pronounced this year and next year.

CHAPER 7

IN CLOSING

7. In closing

As pointed out in Section 5 of the Report, over half of priority claims with reference to Art. 112 of the BA have now been paid on the basis of the Winding-up Board's authorisation to make partial payments. These payments are in total equivalent to around ISK 715 billion. It is established that LBI cannot completely fulfil its obligations and as a result the bank's winding-up proceedings can only, according to law, conclude with composition or liquidation.

Section 2 discusses LBI's legal position in general. It explains, among other things, that the Winding-up Board can only seek composition with creditors when it considers the time to be right for so doing and, furthermore, that the composition does not affect claims with priority as provided for in Articles 109 to 112 of the BA. As a result, and due to the fact that it remains to make payment to almost half of claims lodged with reference to Art. 112 of the BA, the time is not yet ripe to seek composition with LBI's creditors.

According to the fifth paragraph of Art. 103 a of the AFU, the Winding-up Board is obliged to request liquidation if it considers demonstrated that the premises for seeking composition do not exist or if a scheme of arrangements has not been approved or a request for its confirmation has been rejected. Section 3 provides an account of the estimated value of LBI's assets and Section 4 discusses the list of claims, where LBI's liabilities are shown. According to the information in these sections, the Winding-up Board estimates that recoveries on LBI's assets will suffice to pay in full claims with priority with reference to Articles 109 to 112 of the BA and that there will be considerable funds available for disposition towards claims ranked in priority with reference to Art. 113 of the BA (general claims). It is therefore not excluded that premises could exist for seeking composition, in the sense of the above-mentioned provision of the AFU and for this reason alone the conditions for requesting liquidation are not satisfied. In no respect does it appear to serve the interests of creditors, or to have any other advantage for LBI's creditors, to terminate the winding-up proceedings, with liquidation ensuing. On the contrary, liquidation could negatively impact interests and assets and cause uncertainty and increase risk for LBI and its creditors. It should be reiterated in this connection that as long as the winding-up is in process, the Winding-up Board can make payments towards claims ranked with a higher priority than arises from the sixth paragraph of Art. 102, the AFU; payments towards general claims, when the time comes for such, can only be made on the basis of a composition or following liquidation.

Having regard for all of the above, it is the Winding-up Board's opinion that circumstances still exist which make it both desirable and obligatory to continue LBI's winding-up proceedings with the aim of concluding them with a composition when and if the premises for such exist.