CREDITORS REPORT

1/2011

Landsbanki Íslands hf.

In winding-up proceedings | Í slitameðferð

CONTENTS

ABBREVIATIONS

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

CHAPTER 1

INTRODUCTION

1 INTRODUCTION

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

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

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

This report is not intended to provide the basis of any credit or other evaluation and should not be relied upon for the purpose of making investment decisions or determination regarding trading claims of Landsbanki Íslands hf. This report updates and replaces information in the previous report on moratorium and other issues concerning Landsbanki Íslands hf. dated August 23rd 2010

CHAPTER 2

HISTORICAL BACKGROUND

2 HISTORICAL BACKGROUND

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

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

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

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

2.1 EVENTS LEADING UP TO THE COLLAPSE

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

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

Following the insolvency of the US investment bank Lehman Brothers in September 2008, the situation deteriorated drastically and the government of Ireland declared that the Irish state would guarantee all claims against its banks for the next three years. International financial markets were in turmoil and mistrust was rampant. Governments throughout the world imposed wide-reaching rescue measures to prevent the total collapse of the global financial system, as most financial undertakings were facing major difficulties.

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

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

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

CHAPTER 3

RESOLUTION COMMITTEE

3 RESOLUTION COMMITTEE

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

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

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

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

3.1 ROLE OF THE RESOLUTION COMMITTEE

The role of the RC was originally defined by an FME Decision of 7 October 2008.[1] The RC’s principal task was to take over and manage the bank’s operations, safeguard its assets and maximise their value to the benefit of all creditors. In essence the RC holds powers similar to those of a board of directors. Due to market circumstances, the decision was made immediately to preserve LBI’s assets wherever possible and sell them only in instances where it proved necessary to do so to maximise their value.

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

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

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

- To supervise the bank’s authorised banking activities under the FME’s direction, as provided for in the third paragraph of Article 9 of the AFU.
- To assess whether the bank's assets are sufficient to meet its obligations when lodging of claims is complete.
- To dispose of the bank’s interests with a view to maximising their value in a manner similar to that of an administrator in a corporate insolvency, as provided for in the AB.
- To hold creditors' meetings to discuss matters falling within the scope of the RC just as an administrator would hold creditors’ meetings on such matters in winding-up a company in accordance with the above Act.

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

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

3.2 PRINCIPAL TASKS OF THE RESOLUTION COMMITTEE AT PRESENT

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

The administrative structure of LBI is clear and efficient. The RC and bank employees manage most of the bank's assets until they have been liquidated and as such available in the form of cash for eventual distribution to creditors apart from funds necessary for operational purposes of the bank. Funds designated for operational purposes are managed jointly by the RC and the WuB. The budged for operations is assessed quarterly and funds in excess of that budged are transferred to the management of the WuB. Negotiations with the Ministry of Finance and NBI (see more detailed discussion in Section 8) were conducted by the RC as well as negotiations with BCL and the executioner of LLUX (see Sections 7.15).

The RC is represented in numerous committees where decisions are made concerning the bank (for more details on committees, see Section 7.1.1). It is in addition actively involved in various larger asset and restructuring cases. The RC or committees in whom the members of the RC are members hold regular meetings. Additional meetings, outside of the set meeting hours of standing committees and working groups, are held as necessary. Regular meetings are also held abroad to exchange information and supervise activities in overseas establishments, meetings aimed at securing various creditors' interests.

The RC meets the WuB regularly to consult. At these meetings, the RC and WuB review the main tasks before each committee and take positions on issues which concern both committees. The RC collaborates with the WuB on forensic investigations, on projects concerning global exposures (see Section 10.1.3) and liability claims directed against third parties. Other projects require close collaboration between the two committees, such as regaining fiduciary control over the Amsterdam branch. It is likely that the RC will provide the WuB with increased assistance in connection with legal proceedings involving claims on the bank, as it has become clear that this is a major project.

The RC emphasises active supervision of all the bank's activities through such media as the committees, analyses and reporting (see Section 7.1.2).

CHAPTER 4

THE MORATORIUM AND THE WINDING-UP PROCEEDINGS

4 THE MORATORIUM AND THE WINDING-UP PROCEEDINGS

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

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

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

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

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

4.1 LBI DURING THE MORATORIUM

LBI’s moratorium was aimed at safeguarding the bank’s financial position and providing an opportunity for necessary restructuring. Commencement of the moratorium on 5 December therefore had a considerable impact on the legal position of the bank‘s credtors. The moratorium met the conditions of the European Directive on the Reorganization and Winding-up of Credit Institutions (2001/24/EC) are satisfied[2] and the moratorium therefore affected LBI’s legal status throughout the European Economic Area (hereafter the “EEA”).

4.1.1 DISPOSITION OF ASSETS AND RIGHTS DURING MORATORIUM

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

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

involved was required to be normal and reasonable. Authorisation to dispose of the bank's monetary assets was restricted to:

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

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

LBI's moratorium did not directly affect its banking license and the bank was and is under the mandatory supervision of FME.The same rules therefore apply to the bank's activities as apply to the activities of other financial undertakings according to the AFU, as appropriate.On the other hand, due to its legal status, LBI's activities are considerably different from normal banking activities, in particular with regard to undertaking new obligations and transactions.The conclusion of the moratorium and commencement of winding-up under general rules has not brought any changes in this respect.

4.1.2 MORATORIUM: FROM DECEMBER 5TH 2008 - NOVEMBER 22ND 2010

As previously mentioned, LBI was granted a moratorium on 5 December 2008. Initially the moratorium was granted for a period of 12 weeks, or until 26 February 2009, on the basis of the amendment to legislation previously referred to. A meeting was held with creditors, as provided for by law, on 20 February 2009, which was attended by around 150 persons, all of whom considered themselves to hold a claim against the bank.In other respects the meeting agenda accorded with the legal provisions which applied to such meetings.

Following the 20 February 2009 meeting, LBI's moratorium was reviewed by the Reykjavík District Court on 26 February and a request was made by the bank that the moratorium be extended for up to 9 months on the basis of the legislation previously referred to. No objections were raised by the bank's creditors to LBI's moratorium extension when the court met to decide on the request. A ruling by the court on 3 March 2009 granted the bank's request, and the moratorium was extended by 9 months until 26 November 2009.

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

On 23 August 2010 yet another creditors' meeting was held, where among other things the intention to request an extension of the moratorium until 5 December 2010 was announced.A request to this effect was submitted to the Reykjavík District Court on 26 August 2010 and approved with a ruling by the court on 31 August.

4.1.3 RECOGNITION OF LBI'S MORATORIUM ABROAD

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

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

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

The entry into force of Act No. 44/2009, amending the AFU, on 22 April 2009 made a number of changes to the legal requirements that applied to the bank's moratorium and subsequently to its winding-up proceedings according to general rules (see further Section 4.4).Furthermore, various other changes were made relating to the bank's activities, such as the changes made to the tasks of the RC with the creation of the WuB. Section 5 sets out further details of the WuB, its composition and tasks.

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

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

automatically part of the WuB where appropriate, together with up to four other persons who fulfilled the legal requirements to be appointed as administrators.

Having regard for the above, it is clear that from April 22nd 2009 the bank was in a special moratorium which was aimed at allowing its winding-up, or restructuring considering, to proceed in a proper manner.

The role of the Appointee changed in accordance to Act No. 44/2009 but he still had supervision over certain measures during the moratorium. Furthermore, as a result of the Temporary Provision of the Act, the Appointee automatically became a member of the Winding-up Board, thereby continuing his work in this respect although the specific position of Appointee concluded upon the expiration of the moratorium.

According to Article 25 of the AB, the Appointee must notify the District Court Judge in writing if he expects the moratorium will be unsuccessful or if the debtor is not co-operating with him in good faith or has taken measures contrary to rules pertaining to the moratorium. Having regard to the legal basis upon which LBI originally was granted a moratorium and how the legal effect of the moratorium was amended by Act No. 44/2009, the Appointee has seen no reason to notify the District Court Judge that the bank's moratorium will not be successful. The Appointee has neither been aware of any failure to act in good faith towards achieving the objectives of LBI's moratorium. Nor is the Appointee aware of any measures taken during the bank's moratorium which infringed against Articles 19-21 of the AB until 22 April 2009 or Art. 103 of the AFU, cf. Article 7 of Act No. 44/2009 after their entry into force on the before mentioned date.While the moratorium was in effect, and having regard to the legal basis for granting LBI such originally and subsequently its altered meaning as amended by Act No 44/2009, the Appointee saw no reason to exercise his obligation to notify a District Court judge, as provided for inArt. 25 of the AB. The Appointee has not been aware of any actions not carried out faithfully to achieve the objectives of LBI's moratorium while it was in effect. Nor is the Appointee aware of any measures taken during the bank's moratorium in violation of Articles 19-21 of the AB until 22 April 2009, or of Art. 103 of the AFU, cf.Article 7 of Act No.44/2009 after its entry into force on the above-mentioned date and until the conclusion of the moratorium on 22 November 2010.

4.3. WINDING UP ACCORDING TO GENERAL RULES

The ruling of the Reykjavík District Court of 22 November 2010 placed LBI in winding-up proceedings under the general rules of the AFU, most of which are in Part B of Chapter XIII of the Act.

With this ruling, the court approved the joint request of the WuB and the RC to this effect. The legal effect of the ruling is determined specifically by the provisions of Points 2, 3 and 4 of Temporary Provision V of the Act.The adoption of Act No. 132/2010 of 17 November 2010 made certain formal changes which allowed for winding-up proceedings to commence by a decision of a court instead of being an automatic consequence of the moratorium, as previously provided for.

The court's ruling also concluded the bank's moratorium.The bank's moratorium has been continuously in effect from 5 December 2008 in accordance with the relevant provisions of the AFU and the amendments made to the Act, first by Act No. 129/2008 of 15 november 2008 and then by Act No. 44/2009 of 22 April 2009.

Despite the above change to the bank's formal status, this does not imply any real substantial change to its legal environment.The adoption of Act No.44/2009 of 22 April 2009 made certain main principles and rules of winding-up proceedings part of the moratorium and therefore applicable to the bank during the moratorium period.As a result, upon the conclusion of the moratorium the said substantial rules have remained in force, but now as part of the general rules of winding-up proceedings, in accordance with Part B of Chapter XII of the AFU without any restrictions.This means, for instance, that the invitation to lodge claims and processing of claims during the moratorium period is unaltered, the status of creditors remains the same, the bank's protection against collection actions by creditors is unchanged and the same parties direct the bank's affairs, to mention some examples. In this context it should be pointed out, however, that the position of Appointee in the moratorium no longer exists following the conclusion of the moratorium. The person who fulfilled this position then becomes a member of the bank's Winding-up Board.

The Icelandic courts will, in the future as in the past, maintain their formal legal role in the same manner as applies in liquidation of bankrupt estates in accordance with the provisions of the AB Disputes which may arise can be referred to the courts and creditors have access to the courts, for instance, concerning individual measures of the RC and/or WuB. The position of the RC and WuB towards the courts is and will be substantively the same as that of an administrator in bankruptcy proceedings.

The winding-up proceedings of Landsbanki Íslands hf., are covered by EU Directive 2001/24/EC on the reorganisation and winding up of credit institutions, and as such are automatically recognised by EEA member states, cf. further Title III of the Directive, i.e. Articles 9-18. The decision on winding-up proceedings was formally advertised as provided for in the rules of the Directive.Recognition has been obtained for the winding-up proceeding in those jurisdictions outside the EEA where this is considered necessary to safeguard the bank's interests.

CHAPTER 5

WINDING-UP BOARD

5 WINDING-UP BOARD

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

According to the provisions of Part B of Chapter XII of the AFU, cf. also Temporary Provision V of the Act, the RC and WuB jointly manage the bank's affairs in accordance with the division of responsibilities provided for in Points 3 and 4 of Temporary Provision V in the AFU. One of the most extensive task of the WuB is to handle all claims against the bank and disputes in connection with them.

5.1. WORK AND TASKS OF THE WINDING-UP BOARD

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

- The WuB takes decisions on and/or resolves any legal actions, litigation and/or actions by individual creditors against the bank.
- The WuB voids actions as provided for in the rules of the AB.
- Together with the RC, the WuB undertakes forensic examination of the bank's accounts.
- The WuB collaborates with the RC on asset recovery insofar as it touches on the WuB's responsibilities, e.g. in connection with voiding of measures. The WuB also works with the RC on various matters related to asset recovery.
- The WuB supervises decisions regarding reciprocal contractual rights as provided for in AB and implements decisions concerning them,
- The WuB is involved in netting decisions, in particular those aspects concerning enforcement of claims against the bank through netting and cooperates with RC in such cases.
- The WuB manages the preservation of the bank's funds intended for remittance, i.e. amounts not needed to fund operations and winding-up proceedings
- The WuB handles the disbursement to creditors when the time comes and as provided for by law.
- The WuB directs the conclusion of the winding-up proceedings in accordance with the rules of Art. 103 a of the AFU, either through full payment of all claims, composition with creditors or final liquidation if the winding-up proceedings cannot be concluded in another manner.

5.1.1 PROCEDURE FOR LODGING CLAIMS - INVITATION TO LODGE CLAIMS, RECEPTION AND PROCESSING OF CLAIMS LODGED

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

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

The WuB set up an organised reception procedure for claims lodged together with a special database to manage the claims lodged and all accompanying documentation which would serve as a basis for a list of claims lodged. A total of 11,993 claims, amounting to ISK 6,299 billion, were lodged against the bank prior to the expiration of the time limit, resulting in a somewhat higher figure than represented in the bank's balance sheet. This is in part due to the fact that certain claims were lodged more than once, in addition to which there are some claims made as a consequence of the bank's collapse, e.g. claims for damages, which were not part of its balance sheet.

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

Due to the scope and quantity of claims against LBI, the WuB prioritised its work, initially focusing on various priority claims, lodged on the basis of Articles 109-112 of the AB. Thereafter attention has been directed to general claims, lodged with reference to Art. 113 of the AB, to a greater extent. Having regard for the final sentence of the first paragraph of Article 119 of the AB,the WuB has stated that no decision will be made on subordinate claims, i.e. claims covered by Article 114 of the Act. The above implies that the WuB must hold several creditors' meetings to present its decisions on claims

The first creditors' meeting for this purpose was held on 23 November 2009. At this meeting, the WuB presented its decisions on 1,175 priority claims. The process of presenting decisions on recognising priority claims continued at the second creditors' meeting, held on 24 February 2010. The WuB announced its decision on 1359 priority claims at this meeting. At the third creditors meeting held on 27 May 2010 the WuB announced its decision on 3957 claims. It was necessary for the WuB to further postpone decisions on certain priority claims as explained in the third claims report from the WuB. The next creditors' meeting was held on 1 December 2010, at which decisions on 6363 claims were presented. In other respects reference is made to the WuB‘s report on decisions on claims which was submitted to the meeting. The first creditors‘ meeting of 2011 will be held on 19 May, at which time it is hoped that decisions will be available on most of the claims against the bank which have not previously been dealt with. A small number of claims, however, are likely to remain without a decision at this meeting, in particular especially complex claims which are still being examined and/or claims which are conditions or for which the time is not ripe for a decision for this reason. Further information on the decisions of the WuB's on recognising claims are published on the secure area of LBI's website (www.lbi.is).

According to legal provisions, respective creditors must be notified at least a week before a creditors' meetings where decisions on the recognition of claims are to be announced, if a claim is rejected, in full or in part, by the WuB. A special notification must also be sent to creditors in cases where a decision is postponed. Information on the WuB's plans in this respect is provided in announcements sent to creditors when necessary. A list of claims lodged, updated as needed depending on progress is made accessible to the bank's creditors at the offices of the WuB one week prior to a creditors' meeting. It is also published on the secure area of the bank’s website, where various other documentation concerning the claims and the claims process is also available.

Creditors with legitimate interests at stake may object to a decision by the WuB on any claim lodged provided that such objections are received by the WuB no later than at the creditors' meeting where the claim and decision concerning it are presented. All objections are put on the record and the WuB endeavours to resolve disputes by calling special mediation meetings with the parties concerned. The main goal of mediation meetings is to review the basis for the WuB's decision, discuss objections lodged and attempt to resolve disputes concerning claims, cf. the second paragraph of Article 120 of the Bankruptcy Act. If the WuB is successful in resolving a dispute, the outcome is noted in the minutes the WuB keeps of the meeting and the recognition of the claim is thereby final. Resolution is conditional on all parties to the dispute attending the meeting and agreeing to the conclusion. If the dispute concerning the claim cannot be resolved, the WuB shall refer the case to the District Court of Reykjavik in Iceland, cf. Article 171 of the Bankruptcy Act. The District Court, or the Supreme Court in case of an appeal, renders a final ruling on how to recognise a claim, its priority, amount claimed and other legal points of relevance.

5.1.2 PAYMENT TO CREDITORS

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

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

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

It should be mentioned that none of the conditions listed above have been fulfilled so far. This is in part due to the fact that objections have been raised in connection with all claims recognised by the WuB to this date. It is hoped that in 2011, various issues of contention will be resolved which will be of key significance for the winding-up proceedings and it is clear that as time progresses an increasingly clear picture will be available as to what are the final claims against the bank and what priority creditors enjoy under Icelandic law in the assessment of Icelandic courts.

If the conditions of the sixth paragraph of Art. 102 of the AFU, and if the WuB deems it actually the proper time to make partial or full distributions to creditors, but the situation is such that disagreement on some claims which could rank equally in priority has not been resolved, the amount which would be paid towards the claim in question shall be deposited in a special escrow account. There the funds would await the final resolution and be paid to the creditor concerned, together with accrued interest, insofar as the latter’s claim is finally recognised by the courts. This applies only if the conditions for distribution are satisfied in other respects and that distributions in this manner are possible.

Until the conditions develop for distributions and the courts’ conclusions on major issues of contention concerning priority claims are available, the WuB will continue to preserve monetary assets and ensure that they are not lost and return as favourable interest as possible at any given time.

5.1.3 PROCESSING OF CLAIMS AND HANDLING OF DISPUTES

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

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

5.1.4 RECIPROCAL CONTRACTUAL RIGHTS

According to the first paragraph of Article 102 of the AFU, the rules of the AB apply to reciprocal contractual rights. This implies that the WuB has had to take decisions on various contracts concluded by the bank which are covered by provisions of Chapter XV of the AB. Due to the scope of the bank's former operations, this work has proven to be very extensive and in certain instances, the WuB has sent notice to counterparties in such contracts that the bank will not assume the rights and obligations which they provide for. Among those contractual rights concerned were various derivative contracts.

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

5.1.5 LEGAL PROCEEDINGS AGAINST THE BANK

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

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

5.1.6 RESPONSE TO COLLECTION ACTIONS ABROAD

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

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

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

5.2 THE END OF WINDING-UP PROCEEDINGS

Provision is made for the manner in which the winding-up proceedings may conclude in Art. 103 a of the AFU.

The main distinction made in the Act is whether the winding-up proceedings conclude with the possibility of payment of all recognised claims against the financial undertaking in question or not. If all recognised claims can be paid, the winding-up proceedings conclude with the undertaking being returned to its owners or with payment made for the holding. If it is not possible to pay all recognised claims the WuB, when it deems the time to be right, can seek composition with creditors. If composition cannot be achieved or if the premises for this cannot possibly exist at later stages, a petition shall be made to the District Court that the estate of the financial undertaking be placed in final liquidation as provided for in detail in the rules of the fifth paragraph of Art. 103 a of the AFU.

CHAPTER 6

ASSET MANAGEMENT

6 ASSET MANAGEMENT

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

6.1 LOAN PORTFOLIO

LBI's general objective is to recover payments on loans through to maturity. Debtors' loans are restructured if it appears evident that this will increase the amounts recovered. Opportunities to renegotiate loan terms to increase interest or shorten the repayment period are generally seized. Opportunities to sell loans on the market are examined as they arise, but efforts will be made not to sell unless a sale can be made as close as possible to nominal value. Decisions on handling loans are taken by the Credit Committee, as explained previously in Section 7.1.1,. In addition, the entire loan portfolio is reviewed regularly and a report on the status of loans is published simultaneously. If a debtor is in default and it does not appear worth the while to restructure its debt, collection actions are undertaken. The RC avails itself of assistance from foreign experts where the debtor's asset position internationally needs to be evaluated. LBI will seek assets anywhere, of whatever sort, to enforce its claims where such actions are deemed to be cost effective for LBI.

Loan portfolios are maintained in Amsterdam, London, Canada and Iceland. The Icelandic loan portfolio consists of the loans that were not transferred to NBI in accordance with the FME's decision (see Section 8) and due to the adoption of currency controls which prevented NBI from servicing certain loans. The London loan portfolio consist primarily of asset-backed loans, leverage lending and trade finance. Asset backed loans were extended in the UK and Europe, secured against inventory and receivables. Leveraged loans, on the other hand, are secured by liens on the entire operations of the borrower where the bank is either a leading lender or participates in syndicated facilities lead by other banks. Trade finance deals involve small positions in the transactions of established companies dealing with commodities. The Amsterdam loan portfolio is for the most part comprised of leveraged finance; in Canada, the smallest portfolio mainly consists of lending to fisheries and seafood processors.

6.1.1.1 ADMINISTRATION OF ASSET-BACKED LENDING IN THE LONDON BRANCH

Asset-backed loans were granted by the bank as a percentage of the net value of eligible assets (as determined by the bank), less reserves. Eligible assets include receivables, inventory and plant and property. Amounts deducted from the assessed value of eligible assets are past due claims of uncertain value and/or disputed claims.

Experienced individuals are engaged to work with companies that took out asset-backed loans with the bank. With complete control over the day-to-day cash flow of debtors, the bank is able to identify any deteriorating positions immediately. Auditors attached to this division regularly review and re-evaluate collateral in underlying assets. The division communicates regularly with shareholders, CEOs, COOs, CFOs, financial controllers and other ledger administration staff to ensure open communication on all levels. Customer relations managers review the loan portfolio in its entirety at weekly meetings to monitor both operational and financial covenant performance. Where the debtor's situation has changed, adjustments to rates and fees are made accordingly. Regularly, the department meets with RC and a representative from risk management to review the entire loan portfolio, exchange information on all major changes and make provisions to the loan impairment account as necessary. All amendments to terms outside of daily operations are approved by the RC.

If there is deterioration in loan performance, investigating accountants are hired at the cost of the debtor to assess the situation, produce cash flow plans or seek other means of recovering the loan in full. A request is made for an administrator to be appointed to the company if sale of the loan/assets or other remedies are not feasible. In such cases, the division manages collection in collaboration with the appointed administrator.

6.1.1.2 MANAGEMENT OF LEVERAGED FINANCE AND TRADE FINANCE IN LONDON BRANCH

Fourteen employees are engaged to manage these loan portfolios, in addition to back office and support staff. Each facilities agreement includes specific covenants and the division actively monitors each debtor for compliance. The division performs a monthly analysis of management information and debtors' budgets and checks covenant compliance. Various measures are used to assess development of debtors' situations going forward, including sensitivity analysis, financial modelling and sector and market analysis. The division maintains regular dialogue with debtors, equity owners and/or banking syndicates, as appropriate.

The leveraged finance portfolio is controlled on an ongoing basis. Such control is achieved through attendance at board meetings as observer or through board membership. Major operational changes, waivers and debtor restructuring require approval by the London Branch Credit Committee and the RC. There is regular provision review and review of estimated recovery to maintain optimum concordance between the book value and market value of loans. Should debtors require financial restructuring, the division's employees take an active role in the process. The bank is also involved in any covenant amendments, irrespective of own-originated lending or participation in syndicated deals. Opportunities to increase the bank's revenues or get shareholders to provide equity injections are always considered.

In cases where there is performance deterioration, the bank considers all angles of restructuring, with the aim of receiving maximum return for LBI but taking fully into account the risk of further deterioration. LBI reviews each case of financial restructuring independently to determine the most advantageous way forward and taking into account the position of other stakeholders as appropriate, as well as the bank's overall position in terms of control. Decisions on whether to engage external consultants are made on a case-by-case basis. Heavy restructuring can involve debt-to-equity swaps or insolvency proceedings.

6.1.1.3 MANAGEMENT OF THE REYKJAVÍK LOAN PORTFOLIO

The principal aim of loan restructuring in Iceland is to strengthen LBI's position through additional collateral or new equity raised by corporate debtors. However, domestic loans not transferred to NBI were loans with "particular risk" and in most instances there is very little value in restructuring debt as there is limited revenue generation capacity and current cash flows are negative (e.g. holding companies with equity positions bearing little or no value).

As per Icelandic law, liquidation is handled by semi-independent liquidator over which creditors have limited control. LBI's approach is to co-operate with the liquidator and provide advice and/or assistance where possible. If LBI has a charge over assets, the bank's policy is to take over the assets and hand them over to outside asset management companies or LBI's own asset management team, depending on asset size and level of complexity.

In cases where LBI believes that a company's financial position will improve over time, LBI negotiates a change of loan terms whilst also improving LBI's security position. Where the debtor is a holding company with no underlying operations and debts exceeding assets, LBI takes over the assets either acting alone or collaborating with other creditors as the case may be, and puts the debtor up for liquidation. Where cases involve operating companies with tolerable debt levels, LBI is actively involved in asset disposal, change of ownership and other restructuring work. LBI evaluates the need to engage external advisors on a case-by-case basis.

6.1.2 EXAMPLES OF ACTIONS TAKEN IN LENDING CASES

6.1.2.1 BG HOLDING

In early 2009, negotiations with BG Holding, subsidiary of Baugur Group hf., on the restructuring of the company came to nothing. LBI subsequently moved to send the company into administration, in accordance with UK law. Among BG Holding's assets are holdings in Iceland Foods Group Limited, Highland Group Holding Limited (House of Fraser), Corporal Limited (Hamleys of London) and Aurum Group. All above-mentioned companies are going concerns and LBI maintains close and amicable relations with their managers and BG Holding's administrators. Seeing that the bank neither has the need nor will to divest these assets for less than acceptable prices, they will be sold when market conditions allow. LBI's establishments in Reykjavík and London collaborated on this project and external advisors were retained to handle certain aspects of it.

6.1.2.2 NORDIC PARTNERS

When it became clear that the assets of holding company Nordic Partners had deteriorated significantly, due in part to worsening economic conditions world-wide, LBI decided to appropriate the company's entire asset portfolio. Upon composition, 51% of shares in NP Limited passed into the ownership of the Latvia-based management team. The assets of NP Limited are mostly Latvian food producers and real estate companies. Current market conditions in Latvia are very challenging and LBI's judgment is that the greatest potential for recovery lies in having locals lead the development. In addition to the assets transferred to NP Limited, the bank appropriated five Dornier jets and three hotels in Copenhagen, Denmark. The assets are being managed by the bank with the intent of maximising recovery. It is LBI's opinion that new ownership of NP Limited will lead to greater efficiency in operations. The hotels in Denmark will continue to be operated. The hotels have already been listed for sale but no decision regarding a sale has been taken since market conditions have not been favourable. The same applies to the jet aircraft. External domestic advisors were engaged to assist in the restructuring of the company.

6.1.2.3 EIMSKIP, ICELANDAIR ETC.

Eimskip, the best-known Icelandic shipping concern, entered into a restructuring process immediately following the collapse of the Icelandic banking system, as it had become vital to address the company's liabilities. As creditors were numerous, an external advisor was retained to co-ordinate composition. The resulting composition agreement requires LBI to swap part of its claim for equity in the new company. Other companies where restructuring has lead to similar results include Icelandair and Atorka. LBI's Icelandic customer relations managers were actively involved in the restructuring process and maintained an open dialogue with the managers of these companies throughout. Now that restructuring is complete, LBI communicates regularly with the management of the companies. While the bank intends to divest its shares when market conditions allow, it neither needs nor wishes to sell unless acceptable prices can be achieved.

6.2 SECURITIES

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

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

6.3 LIQUID ASSETS

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

6.4 REAL ESTATE

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

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

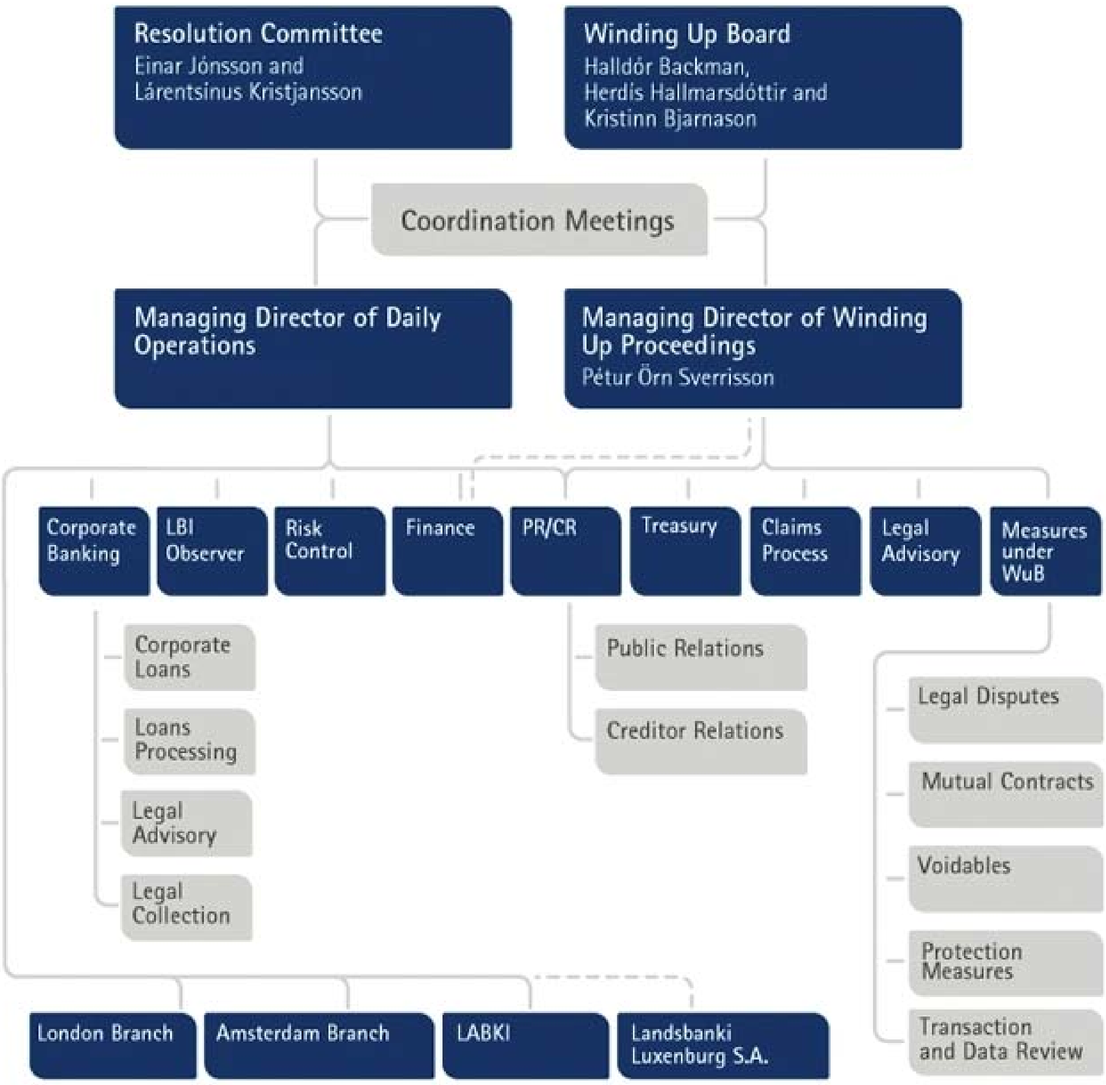
CHAPTER 7

LBI’S ACTIVITIES

7 LBI'S ACTIVITIES

7.1. ADMINISTRATION

The RC and WuB jointly control LBI, as explained in the preceding section. Although the RC and WuB cooperate closely in almost all functions certain responsibilities fall under each board according to law as further described below. Ársæll Hafsteinsson and Pétur Örn Sverrisson direct daily operations in their divisions of responsibility.



Decisions on LBI matters are principally arrived at via committees designated for certain functions. The committees compliment decisions made by the RC and arrived at during consultative meetings of the RC and WuB. Regular reports are compiled and submitted to the RC and WuB for information purposes; decisions are based on the conclusions of such reports. The RC provides governmental agencies and regulatory bodies with various information in accordance with regulatory requirements and relevant legislation. The RC emphasizes a quick and detailed response to all such requests.

7.1.1 COMMITTEES

Credit Committee: The Credit Committee controls all lending by LBI on a group basis. The Credit Committee holds two regular meetings each week and more frequently if necessary. The Credit Committee is comprised of the RC and the managing director of daily operations. The WuB also appoints a observer who participates in decision-making at meetings, as appropriate. A separate Credit Committee operates in Landsbanki London branch, with limited authorisation to take minor decisions on leveraged lending which has already been granted.

Market Risk Committee: The Market Risk Committee, a subcommittee and part of the Credit Committee, is comprised of the same committee members. The WuB also appoints a observer who participates in decision-making at meetings, as appropriate. It makes decisions concerning LBI's fixed-income and equity holdings. The same general principles apply to the activities of this committee as to the Credit Committee. The Risk Management division prepares committee meetings and handles all reporting on the assets concerned and underlying risk factors.

Operations Committee: The Operations Committee has meetings every other week to deal with the most urgent operating issues within the mandate of the RC at any given time. The Operations Committee is comprised of the RC and the managing director of daily operations. Meetings of the Operations Committee are prepared by the committee secretary and the director of the Finance and Operations division.

Global exposures: The committee meets approximately every six weeks to review various matters concerning the recovery of LBI's assets from foreign financial institutions. Representatives from both the RC and WuB sit on the committee; they are jointly responsible for projects and assets / liabilities that fall under the purview of the committee. These assets include custody accounts for cash and securities with foreign banks and various other transactions, such as derivatives in accordance with ISDA contractual conditions and securities lending in accordance with the terms of the GMLSA agreement. Projects include reviewing the bank's overall exposure towards individual counterparties and estimating whether set-off has been performed in accordance with current agreements, laws and price estimates (see further in Section 10.1.3)

Voiding of measures: The committee meets every other week to discuss possible voiding of measures aimed at recovering funds (see further in Section 10.1.1). The managing director of WuB daily operations, two members of the WuB and two members of the RC act as observers and participate in decision-making at meetings, as appropriate. Committee meetings are prepared by two LBI employees and one external advisor.

Claims against third parties: The committee discusses matters concerning the possible liability of parties who, through their actions or failure to act, caused the bank to suffer financial losses prior to the collapse. The role of the committee is to review submitted cases and set policies in these matters as well as direct which cases need to be investigated further as appropriate (see further in Section 10.1.4).

Write-offs Committee: The Write-offs committee meets quarterly concerning final write-offs and credit loss provisions. Before the Write-offs Committee makes its decisions, The Risk Management division is responsible for preparing meetings and implementing decisions. The Write-offs Committee is comprised of the RC, Ársæll Hafsteinsson and a member of the WuB.

Set-off Committee. The Set-off committee operates on the basis of the agreement between LBI and NBI The committee has four members, NBI has two members and the RC and the WuB have one member each.

Landsbanki Cash Management Committee (the "LCMC"): Decisions regarding cash management on a group level are taken by the LCMC. The committee works according to a Cash Management Policy. Fundamentally, it is the aim of LBI to preserve cash in a sound and secure way so that the risk of loss and set offs is minimized. It must also be ensured that interests on cash positions are acceptable. The committee is comprised of one member of the WuB, the managing director of daily operations, the managing director of the winding-up proceedings, a managing director from the London Branch and the Head of Treasury. These meetings are prepared by the Treasury department.

7.1.2 ANALYSES AND MAIN REPORTS

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

Cost and operations analysis. Each month the Finance and Operations division prepares a detailed cost and operations analysis for the LBI group and presents to the RC. The CFO is responsible for regular reporting to the RC on the bank's situation on a group basis.

Operational report: The RC's secretary requests quarterly information from heads of departments in the bank's headquarters and in operating units abroad (branch managers in London and Amsterdam and the managing director of Labki Finance Ltd.) concerning the principal tasks of the division/department/branch/subsidiary concerned. This information is gathered in quarterly reports on activities which are delivered to the RC and WuB. Meetings concerning it's content are held as necessary.

Reporting to external authorities. As provided for by law, LBI delivers regular reports to regulators and public bodies, including the FME and the Central Bank of Iceland (CBI).

7.1.3 PERSONNEL OF LBI

Upon the appointment of a Resolution Committee for LBI, all Icelandic personnel not re-engaged by NBI was laid off, since all domestic activities were originally transferred to NBI (see chapter 8). In December 2008, some assets were transferred back from NBI to LBI. Accordingly, domestic staff was hired to work towards maximising the value of these assets. Since the greatest cost-efficiency could be achieved by basing support services in Iceland, it was also necessary to retain domestic back office staff. When the WuB commenced its work, more personnel was needed to work on tasks related to winding-up procedures, cf. discussion in Section 5.

Overseas establishments employed in excess of 400 individuals. Offices with no significant activities were closed (see Section 7.14.5) and efforts made to reduce personnel where possible with the result that at year-end 2008, full-time positions overseas had been reduced to just over 100. The number of full-time positions abroad have since continued to dwindle and personnel needs are reviewed regularly in light of the project flow of each establishment.

7.2 CORPORATE BANKING AND LEGAL DIVISION

The two sections of this division are Corporate Banking and the Legal Department.

Corporate Banking is comprised of Corporate Loans and Loans Processing. Customer relationship managers and an officer of the Credit Committee handle credit matters. The relationship managers look after specific loans in LBI‘s loan book; there is a specific relationship manager responsible for every loan in the loan book. Their objective is to maximise the value obtained for LBI‘s loans, whether this is achieved through paying off the loans, restructuring them or by collecting on the loans to maturity. Five employees work in the corporate loans section under the direction of a senior manager who is reponsible for day-to-day activities, such as preparing cases submitted to the Credit Committee, regular preparations for portfolio monitoring meetings or meetings on write-downs.

Four employees look after loan processing, which includes primarily processing loans in the bank‘s systems and their documentation in co-operation with an officer of the Credit Committe.

The Legal Department is comprised of Legal Advisory and Legal Collection.

Legal advisory is comprised of three employees who provide legal advice to the RC as appropriate.

Legal Collection handles enforcement of the bank‘s claims in Iceland. Its six legally qualified employees and two additional personnel look after all appropriated assets (real estate, securities and liquid assets), Additional employees will be hired on a part-time basis next winter to assist in preparing collection actions. The director of Legal Collection is responsible to ensuring that all claims are directed through proper channels for collection. The department also represents the bank in collection actions in the courts and communicates closely with those insolvent estates on which LBI has claims. Some 200 cases are currently listed with Legal Collection.

7.3 LBI OBSERVER

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

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

Seven employees work for the LBI Observer.

7.4 FINANCE AND OPERATIONS

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

7.5 RISK MANAGEMENT DIVISIONS

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

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

The division has four employees.

7.6 PUBLIC RELATIONS AND CREDITOR RELATIONS

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

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

7.7 TREASURY

The bank's Treasury in Reykjavík handles LBI's liquid funds on a group-wide basis. Day-to-day transactions, however, are handled in London for the branch there and in Canada for the subsidiary located there. There are no restrictions on the bank's transfers of liquid funds between operating units, which has had a positive impact on its possibility of obtaining a return on these funds, and is a major change from the previous situation.

A Treasury Committee has been established within the bank (see Section 7.1.1) which implements the treasury management policy adopted. This committee takes all the principal decisions concerning management of the bank's liquid funds.

Treasury places main emphasis on ensuring funds are preserved in a reliable and secure manner, to minimise the risk of loss or set-off. It is also necessary to ensure an acceptable return on these funds.

For the most part, liquid funds are placed in deposit accounts with solid foreign banking institutions. Part of the funds are placed domestically, both with the Central Bank of Iceland and commercial banks. The bank furthermore invests in short-term treasury paper issued by states with a high credit rating. The return on the bank's liquid funds is, in LBI's assessment, acceptable and in line with what is generally available on the short-term market.

This section has two employees.

7.8 CLAIMS PROCESS

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

7.9 LEGAL ADVISORY OF THE WINDING-UP BOARD

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

7.10 ACTIONS DURING THE WINDING-UP PROCEDURE

Upon the appointment of the WuB, various provisions of the AB came into force obliging the WuB to take specific actions. These include provisions of Chapter XV of the AB on reciprocal contractual rights, which are the responsibility of this division. The most extensive task of the department is examination of measures taken by LBI prior to the reference date to see if the voiding measures of the AB should be applied. Several such cases are currently in process and the recovery rate has increased as a result. The division has three employees but the majority of these projects is carried out by advisors, as the nature of these projects disqualifies bank employees from involvement on grounds of eligibility. However, employees assist the advisors on various points.

7.11 FOREIGN BRANCHES/SUBSIDIARIES

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

7.11.1 LONDON BRANCH

The principal activities of the branch in London prior to the bank's collapse were loans to small and medium-size corporates, primarily European but also American. As mentioned in section 6.1 the branch's loan portfolio broadly consists of three types of loans; asset-backed finance, structured/leveraged finance and trade finance. In addition to managing these loans, the branch brokered and acquired bonds and brokered and set up derivatives, but such activities were still in the early stages. The branch also accepted deposits, but these aspects were outsourced completely to LBI's subsidiary Heritable Bank and all administration to UK service providers.

The branch's primary assets today are loans to companies. As well as working on the loan book the branch also assists Reykjavík operations in managing holdings in UK companies. In addition a collection of equities and bonds is managed by the bank but due to favourable market conditions, a significant portion of the listed equity portfolio was sold in the fall of 2009 and a large part of the bond portfolio was sold in the beginning of 2010, with emphasis on bonds with long maturities.

The bank emphasises close co-operation with those companies which are in full operation to ensure that the bank's interests are fully secured while at the same time these companies and their managers can operate independently and successfully since the bank's interests are often best served through continued operations.

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

At the beginning of October 2008, the London Branch had 193 employees, the branch now has 53 employees, 17 of whom are connected with asset-backed loans while others handle general banking operations and administer other loan portfolios and the bank's asset portfolios. The majority of the branches' employees are foreign. The continued need for London Branch's employees will solely be based on the size and nature of the projects that the branch will be working on for LBI. The emphasis is on retaining competent and experienced employees to manage the asset portfolio.

By the beginning of December 2008, loans from the Bank of England had been repaid with income and collections from the asset portfolio. Since the RC began governing LBI, operations have been successful and collections have been satisfactory, 42% of LBI's portfolio has been collected and deposited in the United Kingdom as well as on mainland Europe (see further in Chapter 7.7).

7.11.2 AMSTERDAM BRANCH

Three employees currently work in the branch office in the Netherlands. The branch also outsources back office tasks to the London Branch and various aspects of its activities are handled by Reykjavík-based bank staff.

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

The appointment was deemed to be in contradiction to Icelandic law and Directive 2001/24/EC of the European Parliament and of the Council (Winding-up Directive). Initial attempts to liaise with the Dutch administrators yielded limited results. Some progress was made in late 2009 when the RC and WuB received copies of various documents that had been requested. Nevertheless, costs related to settlement of the estate are beyond the control of the RC and the WuB and information in that regard was not forthcoming. The same applied to individual actions undertaken by the administrators. The cost of the administration in the Netherlands is in the opinion of the RC and WuB mostly a result of doing the same things twice and it is not clear that the efforts of the Dutch administrators will in any way benefit LBI. None of the expenses incurred by the Dutch administrators have been approved by the RC and WuB; on the contrary, full rights have been reserved to claim recourse against any party legally responsible for losses suffered by LBI.

In early 2009, the RC and WuB, together with the bank's lawyers in the Netherlands, appealed to Dutch courts to end the administration in that country. These efforts were finally rewarded with a ruling by the District Court of Amsterdam on 8 March 2010, rejecting a plea to extend the appointment of the administrators. The RC and WuB represented that continued administration in the Netherlands would contradict all basic European rules on the winding-up of financial institutions; furthermore, that it would threaten the entire winding-up process to the detriment of all claimants.

Following the ruling, it was clear that the Dutch administration would end on 13 April. A dialogue was subsequently established with the Dutch administrators to facilitate the transfer of management of the branch and delivery of documents. In addition, due diligence was carried out on those branch affairs which had been under the control of the Dutch administrators. Work on the transferral and due diligence began in March and was finalised with the signing of an agreement with the Dutch administrators on 8 April 2010, in Amsterdam.

It should be mentioned that court proceedings brought by the RC and WuB in 2009, demanding recognition of the illegality of the administration or its invalidation are still unresolved. Demands to this effect were rejected in the lower court, the judgment was appealed, and the appellate court in Amsterdam recently rejected LBI's claims. The case is currently being analysed and a decision will be taken on further action, in particular with a view to possibly reclaiming the illegal administration expenses in some manner.

7.11.3 LABKI FINANCE

A decision was taken to establish a subsidiary for the activities of the branch in Canada due to uncertainty at first as to whether the Canadian Office of the Superintendent of Financial Institutions (OSFI) would authorise the continuing operation of the branch in its original form and whether legal protection from actions by creditors would be recognised in Canada on the basis of the Icelandic moratorium.[3] It was therefore decided to place the assets of the branch, which consist of loans and cash, into a subsidiary to protect them against collection and enforcement actions by individual creditors. Both of the RC members are on Labki's Board of Directors, which meets regularly. Labki currently has six employees. The company obtains its loan administration and credit control services from the bank's headquarters. LBI also supervises its loan book.

7.12 SERVICE LEVEL AGREEMENT

For operational and financial reasons it was decided to outsource specific tasks to NBI. In addition, the RC has in many instances required the specialised expertise of NBI employees in resolving certain tasks. In concluding the service agreement with NBI, the work performed by individual departments for LBI was examined in detail, a list made of individual aspects and the work contribution assessed. Among the services obtained from NBI are the financial updating of specific claims, technical services, human resources and various other services. The service level agreement will be taken under review for 2011.

7.13 ACTIVITIES NO LONGER CONTROLLED BY LBI

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

[3] Such recognition was, however, eventually obtained in April and May 2009.

7.13.1 KEPLER AND MERRION

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

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

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

7.13.2 HERITABLE

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

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

Ernst & Young LLP is the administrator during the administration proceedings Reports are published on the website (www.heritable.co.uk). LBI has filed a claim of GBP 86mn (GBP 81 and EUR 6mn) for senior unsecured debt, GBP 50 mn for subordinated debt, and a claim for GBP 1,011mn in respect of potential liabilities to Heritable’s creditors under the guarantees provided for their benefit.

The Heritable Administrators initially filed a claim against LBI for ca. GBP 900mn which was rejected for the most part. The claims were lodged as set-offs against LBI‘s claims on Heritable. A distpute arose as to whether resolution of the validity of Heritable‘s claims should be determined by Icelandic or Scottish courts. When the verdict of courts both in Iceland and Scotland was that Icelandic courts had jurisdiction, all Heritable‘s claims against LBI were withdrawn during the winding-up proceedings and have therefore been removed from the list of claims. The dispute concerning jurisdiction is now exclusively being heard by a Scottish appellate court to which Heritable has appealed the lower court‘s conclusion. In LBI‘s estimation, the withdrawal of Heritable‘s claims means that they are finally cancelled against LBI. This also means that they cannot be used as set-offs against LBI‘s claims This is disputed and Heritable‘s administrator intend to use their alleged claims against LBI as set-offs, despite their having been withdrawn in the winding-up and that they have not been deemed valid by that court which alone is competent to determine the validity of claims against LBI. LBI´s GBP 86 mn claim against Heritable is not disputed by the Heritable Administrators but they have rejected distribution to LBI on the basis of set-off against the before mentioned claims filed in the Icelandic proceedings.

LBI contends, in Heritable‘s action in the Scottish courts, that any disputes on set-off of Heritable‘s alleged claims against LBI must await the final outcome of Icelandic courts,, as they alone are competent to hear actions concerning claims lodged against LBI. Since the claims were withdrawn, they are cancelled finally, with the same legal effect as if an Icelandic court had rejected them substantially. For this reason alone they cannot be used for set-offs in any respect.

7.13.3 LANDSBANKI SECURITIES UK

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

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

7.13.4 LANDSBANKI GUERNSEY

In August 2006, LBI concluded the purchase of Cheshire Guernsey Ltd., a bank on the island of Guernsey in the Channel Islands, which became Landsbanki Guernsey, a subsidiary of LBI. The company was placed in administration on 7 October 2008. Rick Garrard and Lee Manning from Deloitte LLP were appointed as joint administrators during the administration proceedings, the former on 7 October 2008 and the latter on 10 October 2008.

7.13.5 OTHER ESTABLISHMENTS

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

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

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

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

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

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

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

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

7.14 LANDSBANKI LUXEMBOURG S.A.

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

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

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

In April 2009, negotiations between the parties resulted in some progress, in part due to efforts by the Icelandic government. Negotiations were dormant, however, for the most part during the summer of 2009, as a summary and statement of the LLUX’s position were being prepared by the administrator. This information was made available in draft form in September 2009 and meant that LBI could make a much better assessment of the interests at stake and therefore how much effort should be devoted to resolve the issue and maximise LBI’s recovery from LLUX. More detailed information from the administrator was then received in October 2009 and after that negotiations for a comprehensive solution began. On 19 May 2010 the Central Bank of Iceland (“CBI”) and BCL concluded an agreement regarding the CBI’s purchase of 98% of outstanding Avens B.V. bonds which were owned by LLUX but pledged to BCL as collateral. During the summer months of 2010 LBI, BCL and the administrator of LLUX reached a Global Agreement which the district court of Luxembourg has sanctioned. An agreement was made along side with other institutional creditors of LLUX where they agreed to a substantial discount of their claims. The Global Agreement gives all the creditors of the LLUX certainty over the future of their claims and the largest creditors have full agreement on close co-operation with the administrator of LLUX in order to maximize recoveries from assets of LLUX. Smaller creditors of LLUX will see an end to their claims process and be paid out much sooner than they would have otherwise.

The agreement involves an arrangement between the main stakeholders regarding long term management of the assets of the estate where part of the loan portfolio will be managed by an independent third party in Luxembourg (Reviva Capital S.A.), under control of the bank. The agreement also includes an agreement with BCL with regards to the financing and repayment terms of the claim of BCL and settlement agreements with the large institutional creditors of the estate over their claims.

7.15 LBI'S ADVISORS

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

7.15.1 MORRISON & FOERSTER LLP

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

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

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

7.15.2 DELOITTE

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

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

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

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

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

7.15.3 ERNST & YOUNG AS

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

7.15.4 OTHER PARTIES

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

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

- The legal office **Tavern Tschanz** in Switzerland has, among other things, worked on the removal of an attachment order in Switzerland.
- At the beginning of 2009, the RC engaged **Barclays Capital** as capital markets advisor to assist the RC in the negotiations of the agreements concerning the compensation instrument and also to partake in ICC meetings related to the compensation instrument. This project has now concluded

CHAPTER 8

THE CONCLUSION OF NEGOTIATIONS BETWEEN LBI AND THE MINISTRY OF FINANCE

8 THE CONCLUSION OF THE NEGOTIATION BETWEEN LBI AND MOF

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

On 9 October 2008[4] the FME made its first decision on the division of assets as authorised in Art. 100a of the AFU, cf. Article 5 of Act No. 125/2008, on the Authority for Treasury Disbursements Due to Unusual Financial Market Circumstances etc. the FME’s decision would subsequently be amended on a number of occasions. Pursuant to the FME’s decision, all assets, including real estate, moveable assets, cash, holdings in other companies and claims rights, were delivered to NBI immediately. NBI also took over contractual rights to the use of real estate and moveable assets. Furthermore, NBI assumed all security rights, including collateral rights, guarantees and other similar rights in connection with the bank’s claims. According to the FME decision, NBI also took over intangible assets and rights, including trademarks and patents, registered or unregistered, trade names, databases, software and licenses, and all other similar rights.

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

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

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

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

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

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

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

[4] For further information: http://www.fme.is/lisalib/getfile.aspx?itemid=5731

1. The first amendment was made on 12 October 2008[5] when it became clear that NBI could not take over the rights and obligations under the derivative contracts as provided for in the previous decision. The concern was that if the decision of 9 October 2008 were not modified, it would result in NBI failing to fulfil obligations under the contracts with unforeseeable consequences.
2. On 19 October 2008[6] the decision was amended for the second time, by adding several new items to the previous decision and a new annex listing the assets that would not be transferred to NBI.
3. On 9 January 2009[7] the decision was amended for the third time. By this time it had become clear that it would not be possible to conclude the valuation by the time stated in the decision. On this basis it was decided to postpone the valuation of assets and obligations and FME was allowed to decide when the valuation would be made available.
4. On 14 February 2009[8] the previous decision was amended with a decision that the valuation of assets and obligations should be available no later than 15 April 2009.
5. On 6 March 2009[9] a fifth amendment, was made, which provided for the terms of the debt instrument to be issued by NBI to LBI to be available no later than 18 May 2009.
6. On 15 May 2009[10] FME was granted discretion to decide when the terms of the instrument would be made available.
7. On 15 June 2009[11] the decision was altered for the seventh time, providing the terms of the instrument were to be available no later than 17 July 2009.
8. On 20 July 2009[12] the decision was amended yet again to provide that the debt instrument for settlement of the disposition of LBI's assets and liabilities to NBI was to be issued by the parties no later than 14 August 2009.
9. On 14 August 2009[13] this decision was postponed to 18 September 2009.
10. The tenth amendment was made on 21 September 2009[14] and provided that capitalization of NBI and the issuance of a financial instrument for a final settlement of the delivery of LBI's assets and liabilities to NBI should be completed no later than 9 October 2009.
11. The eleventh amendment was made on 14 October 2009[15] and extended the deadline to 6 November.
12. In response to a letter sent to the FME from the RC and MOF dated 8 November 2009, requesting a postponement from the FME of the 6 November deadline in order to complete the agreements, the FME noted that "further latitude for extension was running short" and requested that negotiation parties put forward a realistic time plan regarding the final agreements.

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

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[5] For further information: http://www.fme.is/lisalib/getfile.aspx?itemid=5729
[6] For further information: http://www.fme.is/lisalib/getfile.aspx?itemid=6020
[7] For further information: http://www.fme.is/lisalib/getfile.aspx?itemid=5918
[8] For further information: http://www.fme.is/lisalib/getfile.aspx?itemid=6259
[9] For further information: http://www.fme.is/lisalib/getfile.aspx?itemid=6258
[10] For further information: http://www.fme.is/lisalib/getfile.aspx?itemid=6345
[11] For further information: http://www.fme.is/lisalib/getfile.aspx?itemid=6423
[12] For further information: http://www.fme.is/lisalib/getfile.aspx?itemid=6459
[13] For further information: http://www.fme.is/lisalib/getfile.aspx?itemid=6540
[14] For further information: http://www.fme.is/lisalib/getfile.aspx?itemid=6650
[15] For further information: http://www.fme.is/lisalib/getfile.aspx?itemid=6701 (in Icelandic)

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

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

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

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

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

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

Agreements between LBI, NBI and Ministry of Finance on the compensation for those assets transferred from LBI to NBI were signed on 15 December 2009 (see above). For technical reasons (an amendment to Icelandic law was necessary) a pledge agreement was not finalized by NBI at that time. LBI therefore agreed on an extension for its completion until 15 April 2010. LBI has since twice granted a further extension with reservations, most recently until 25 August 2010. LBI sees no reason why the pledge agreement cannot be finalised in the manner already agreed upon by both parties before that time and formally insisted that NBI finalise the above-mentioned agreement, which was formally signed on October 12th 2010.

CHAPTER 9

RELATIONS WITH CREDITORS

9 RELATIONS WITH CREDITORS

9.1 CREDITORS' MEETINGS

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

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

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

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

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

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

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

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

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

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

9.2 ICC

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

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

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

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

9.3 TIMELINE ON COMMUNICATIONS

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

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

2008
October
06 Monday
Emergency law introduced and passed by the Icelandic parliament
07 Tuesday

LBI taken over by the Icelandic Financial Authorities (FME)
Resolution Committee takes control of LBI
08 Wednesday
UK government freezes Landsbanki London assets based on anti terrorist legislation
09 Thursday
NBI takes over domestic operations of LBI
10 Friday
Statement from LBI: LBI did not transfer funds from the UK to Iceland
13 Monday
Freezing action by the Dutch court against Landsbanki Netherlands (following action on 7 and 9 October)
14 Tuesday
LBI requests to remove its listed equities from trading
30 Thursday
Announcement: Deloitte to assist with the communication with creditors of LBI
November
14 Friday
1st ICC Meeting in Reykjavík
21 Friday
Press Release: LBI's Resolution Committee meets with creditors
December
05 Friday
LBI applies for a moratorium
06 Saturday
LBI granted a moratorium
18 Thursday
2nd Meeting of the ICC in Reykjavík
19 Friday
Press Release: Kepler Capital Markets sold to management and staff through a management-led buy-out (MBO)
2009
February
02 Monday
Press Release: Moratorium of LBI recognised in the US
04 Wednesday
Press Release: LBI files for administration of BG Holding ehf.
05Thursday
Press Release: LBI exercises rights over selected securities held by BG Holding ehf.
06 Friday
Communiqué to stakeholders from FME in NAV of New Banks
09 Monday
Barclays Capital is engaged as capital markets advisor
19 Thursday
3rd ICC meeting
20 Friday
1st Creditors' Meeting

26 Thursday	
Extension of moratorium granted for 9 months, to November 2009	
March	
03 Tuesday	
Press Release: Moratorium extended until 26 November 2009	
11 Wednesday	
Press Release: Moody's downgrades LBI and will withdraw ratings	
12 Thursday	
Bill implementing winding up directive presented to Parliament	
31 Tuesday	
Release of Deloitte valuations	
April	
02 Thursday	
4th ICC meeting	
03 Friday	
Quebec ruling recognising Moratorium	
06 Monday	
New Brunswick ruling recognising Moratorium	
07 Tuesday	
Nova Scotia ruling recognising Moratorium	
08 Wednesday	
Newfoundland and Labrador ruling recognising Moratorium	
15 Wednesday	
Amendment to the act of Financial Undertakings No 161/2002 is passed in Parliament	
29 Wednesday	
Winding Up Board appointed	
Press Release: Submission of creditors' claims against LBI to begin shortly	
May	
04 Monday	
Release: Practical information about the Winding-up Board to be published soon.	
08 Friday	
Ontario ruling recognising Moratorium	
Release: Handling of Claims against LBI	
June	
03 Wednesday	
5th ICC Meeting	
Composition of ICC Negotiation and Diligence Teams for compensation from NBI	
15 Monday	
Press Release: The British Parliament passed the Statutory Instrument 'Landsbanki Freezing (Revocation) Order 2009'	
22 Monday	
Press Release: Activities and Current Situation of LBI	
30 Tuesday	
Press Release: News announcement from the Resolution Committee of LBI: Lárus Finnbogason resigned	
July	

28 Tuesday
Press Release: Investigation on activities and financial matters- engagement of Deloitte in London
31 Friday
News Announcement from the Resolution Committee of Landsbanki Íslands hf.: no disagreement exists with Jón Ásgeir Jóhannesson and/or Ingibjörg Stefanía Pálmadóttir concerning their previous commitments to the bank
August
06 Thursday
Dutch court decision not to remove Dutch administrators (NL)
September
02 Wednesday
Press Release: Act on state guarantee
30 Wednesday
6th ICC Meeting
October
09 Friday
Heads of Terms signed on compensation from NBI to LBI
12 Monday
Press Release: Heads of terms executed between the Ministry of Finance and the Resolution Committee
3 Friday
Deadline for filing claims with Winding-Up Board
November
02 Monday
Press Release: Time limit to lodge a claim has expired
16 Monday
Notice to Creditors of LBI: publication of list of claims
20 Friday
Press Release: Schedule for Creditors' Meeting
23 Monday
2nd Creditors Meeting
7th ICC Meeting
26 Thursday
Petition submitted to the Reykjavík District Court for an extension of the Moratorium
27 Friday
A ruling by the court approving request for extension of the moratorium by an additional nine months, or to 26 August 2010
December
02 Wednesday
Press Release: Permission for an extension of a moratorium granted
07 Monday
Press Release: Reports from creditors meeting available on website
16 Wednesday
Joint press release by the Ministry of Finance and the Resolution Committee of LBI relating to agreements having been signed in relation to the instrument to be issued in relations to the transfer of assets from LBI to NBI
2010

February
17 Wednesday
Announcement: Updated list of claims released by Winding-Up Board
24 Wednesday
3rd Creditors' Meeting
8th ICC Meeting
26 Friday
Press Release: News announcement from LBI – Creditors Meeting 24.2.2010
March
08 Wednesday
Amsterdam District Court delivered its verdict on the petition by the administrators of Amsterdam Branch. The conclusion of the court is that the Dutch administration will come to an end on 13 April 2010
25 Thursday
Announcement from LBI on Nordic Partners
April
12 Monday
Announcement from LBI on Amsterdam Branch
13 Tuesday
Control of Amsterdam Branch Transferred from Dutch Administration to RC
May
05 Wednesday
9th ICC meeting
27 Wednesday
4th Creditors Meeting
10th ICC meeting
June
25 Friday
11th ICC meeting
August
23 Monday
5th Creditors Meeting
12th ICC Meeting
26 Thursday
End of the duration of the current moratorium period. Creditors meeting will be held in Reykjavik before this date.
September
01 Wednesday
LBI issues release on Extension of Moratorium.
LBI and NBI agree to extenstion of Debt Completion to 12 October.
October
04 Monday
NBI debt completion
12 Tuesday
Formal agreements with NBI signed
November
04 Thursday
Recognition of the winding-up proceedings in Canada

22 Monday
The District Court of Reykjavik grants petition to open winding-up proceedings for Landsbanki in accordance with the general rules of the Act on Financial Undertakings No 161/2002 as amended.
Desember
01 Wednesday
6th Creditors Meeting
13th ICC Meeting
2011
Mach
02 Wednesday
14th ICC Meeting
Upcoming Events
November
17 Thursday
7th Creditors Meeting

CHAPTER 10

MAJOR FINANCIAL PROJECTS

10 MAJOR FINANCIAL PROJECTS

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

10.1 INVESTIGATION INTO THE BANK’S AFFAIRS

Deloitte LLP (“Deloitte”) was engaged by MoFo, on behalf of the RC and WuB of LBI, in July 2009, to assist the RC and the WUB in identifying and taking (in conjunction with legal counsel) possible recovery actions, and/or the evaluation of claims and court actions, all to maximise the realisation of the assets of Landsbanki. Projects have been prioritized according to of the potential recovery for LBI. Part of this work therefore involved examining whether the bank’s interest had been damaged by culpable behaviour of managers, clients or other parties prior to its collapse and gather grounds to support such cases as necessary. If Deloitte’s or the bank’s investigations uncovers data that could give reason to suspect punishable behaviour, that information is handed over to proper authorities.

The project was divided into various work streams. Each work stream was then investigated with the ultimate goal of identifying avenues of asset recovery for the benefit of creditors. Some aspects of the investigation have been concluded and delivered to the WuB and RC while others are still in progress. On the whole, general examination of the bank’s accounts is now complete and work is underway on further examination of individual issues and cases arising from the investigation. The work has proven very successful and resulted in recovery of conciderable funds to the benefit of the bank‘s creditors.

The various work streams will be explained further in the text below.

10.1.1 VOIDING OF MEASURES

During LBI’s moratorium and subsequent winding-up proceedings, measures which have been taken previously may be voided in accordance with the same rules which apply concerning voiding measures of an insolvent party upon liquidation.

The time limit for demanding voiding of measures taken is 24 months from the date the WuB was entitled to make such demands, but the period only begins after the expiry of the deadline for lodging claims. This means that the period extends at least until 30 October 2011, possiblly longer in some cases.

Examination of possible measures which could be voided concerns, for instance the following:

- Individual measures which have reduced the bank‘s assets, such as cancellation of debts or relinguishing collateral.
- Individual measures which have created financial obligations for the bank causing a loss to its estate and thereby to creditors in general.
- Measures which resulted in discrimination among creditors, distorting the settlement of their claims. These include, for instance, prepayment of liabilities or subsequent provision of payment guarantees to individual creditors for their claims..

Examinations of the possibilities of voiding actions are fairly time-consuming, but quite a number of voiding actions have already been initiated and one verdict has been handed down, in the estate's favour. In addition, voiding actions have been resolved through agreements with the counterparties. A number of voiding actions in connection with paybacks of LBI's own shares have been brought and work is underway on bringing additional actions of the same sort. It is not possible to give further details about these cases, since that could result in the parties against whom the voiding actions may be directed taking measures which could reduce LBI's possible recovery.

10.1.2 INVESTIGATION OF LOANS

Deloitte has assisted in acquiring and analysing loans and debt instruments and in preparing analyses and due diligence to support certain potential recovery actions against natural and/or legal persons. Deloitte has also assisted in finding the remedies which can lead to optimal recoveries in these cases. Currently Deloitte is working on legal collections in specific cases.

10.1.3 GLOBAL EXPOSURE

Upon its collapse, LBI was involved extensively in a variety of dealings with international financial undertakings. These include, for instance, complex derivative instruments, fulfilment of which was guaranteed with LBI's assets, deposits or other rights, in many cases in the counterparty's custody. Every effort was made to demand the delivery of deposits and assets if at all possible. In many cases, LBI's counterparties have demanded set-offs or unilaterally declared set-offs, and appropriated or attempted to appropriate the bank's assets, often on questionable legal premises. Within the bank a specialised team was assembled to focus on resolving these cases. A complete overview has now been gained of all derivative positions and counterparties' calculations of close-out positions. In very many instances it has turned out that LBI's counterparties have not applied appropriate close-out methods. This work has succeeded in recovering sizeable amounts and is continuing in other cases were substantial interests are at stake. Since Deloitte began its work for the bank, it has taken an active part in this project. Its contribution has included preparing detailed analyses for LBI in support of the bank's position in negotiations with financial undertakings. Foreign law firms working for LBI have also made a substantial and decisive contribution to this project.

10.1.4 CLAIMS FOR DAMAGES AGAINST THIRD PARTIES

In conjunction with MoFo and Icelandic counsel, Deloitte has worked on identifying claims for damages against third parties who may have damaged or caused loss to LB. Claims for damages in this sense refer to financial claims which may exist and can possibly be brought against third parties, either through statutory claim, legal action or by set-offs against claims directed at the bank.

Deloitte‘s task has been primarily to analyse possible collections by LBI in such cases. At this point in time it is not possible to give details of individual cases or their circumstances, but it is possible to state that LBI has submitted a claim against insurers concerning specific cases and has sent letters to the parties considered liable explaining its views and claims. Preparations are underway to bring court action as appropriate, as the damage claims in question amount to tens of billions.

10.1.5 EQUITY

Deloitte has assisted with the analysis of transactions in LBI’s own shares over time including a review for the identification of any unusual purchases and sales. Deloitte is also assisting with the RC and WuB’s reporting obligations to the FME and the Special Prosecutor in relation to unusual share and related transactions. The WuB is furthermore examining whether some of these transactions can be voided in accordance with the rules of Chapter XX of the AB.

10.2 NETTING (SET-OFFS)

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

CHAPTER 11

LBI - NEXT STEPS

11 LBI - NEXT STEPS

The preceding sections have summarised the highlights of day-to-day activities at LBI since 7 October 2008 to the present date. No major changes are expected to occur to the bank's activities over the next months.

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

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

Handling of claims against LBI is among the main tasks of the WuB. Decisions have already been taken on the vast majority of claims against the bank, and it is hoped that this work will conclude in the coming months. The next creditors' meeting to present decisions on claims will be held on 17 November at the same location as previous meetings, i.e. Hilton Hotel Nordica in Reykjavík.

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

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

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

As previously described, an investigation into LBI's operations is undergoing with the assistance of Deloitte that will examine, for instance, whether measures can be voided on the basis of Chapter XX of the AB and whether the bank could have claims for damages against third parties due to losses that it has suffered. Work on voiding measures and bringing suit for damages will be initiated if and when information on such instances is obtained and documentary evidence has been gathered to support such actions.

DISCLAIMER

The report is issued by the RC and the WuB in accordance with Icelandic law. The report is governed solely by Icelandic law.

The report is intended to provide general information regarding the affairs of LBI. Information in this report may contain technical inaccuracies or typographical errors. The RC and the WuB may also make improvements, corrections and/or changes in the information at any time without notice. This report may contain other proprietary notices and copyright information, the terms of which must be observed and followed.

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