Report of the Winding-up Board

Presented to a Creditors' Meeting in the Winding-up Proceedings of LBI hf. 12 March 2015

Table of contents

1 Introduction 7

2 Legal Situation and Amendments to Legislation regarding the Winding-up Proceedings 9

2.1 On legal status in general 9

2.2 Amendments to the Act on Financial Undertakings 14

2.3 Amendments to the Act on Foreign Currency and LBI's situation in this regard 14

2.4 Other amendments to legislation 15

2.5 Court conclusions of concern for LBI's legal situation 16

2.5.1 Judgement of the European Court of Justice of 24 October 2013 16

2.5.2 Judgements of the Supreme Court of Iceland on legal status after the appointment of a Resolution Committee 17

3 Overview of LBI's assets and operations as of 31 December 2014 20

3.1 General 20

3.2 Disposition of assets and other rights 21

3.2.1 Highland Group Holdings Ltd. (House of Fraser) 21

3.2.2 Vendors' loan note in connection with Iceland Foods Group Limited 21

3.2.3 NYOP Education (Aberdeen) Limited 23

3.2.4 Landsbankinn hf. 24

3.2.5 Loans to customers 27

3.2.6 Other asset classes 28

3.3 Summary of operating costs 29

3.4 Progress of various legal actions to recover assets 32

3.4.1 Legal actions in England 32

3.4.2 Legal action in Belgium 34

3.4.3 Legal action in France 34

3.4.4 Civil cases pursued before Icelandic courts concerning derivative claims 35

3.5 Bank tax – Financial administration tax 36

3.5.1 In general 36

3.5.2 Special Tax on Financial Undertakings 36

3.5.3 Financial Administration Tax 37

4 List of claims and handling of disputes 41

4.1 Decisions on claims 41

4.1.1 Claims for administration of the estate lodged with reference to Art. 110 of the BA 41

4.1.2 Priority claims with reference to Art. 112 of the BA 43

4.2 Disagreements due to decisions on claims ... 43
4.3 Proprietary claims lodged with reference to Art. 109 of the BA ... 46
4.3.1 Finally recognised claims with reference to Art. 109 of the BA ... 47
4.3.2 Finally recognised general claims with reference to Art. 113 of the BA ... 47
4.3.3 Claims finally rejected ... 47
4.3.4 Rejected claims which are disputed ... 48
4.4 Claims for administration of the estate lodged with reference to Art. 110 of the BA ... 50
4.4.1 Finally recognised claims with reference to Art. 110 of the BA ... 51
4.4.2 Claims rejected ... 51
4.5 Secured claims lodged with reference to Art. 111 of the BA ... 52
4.5.1 Claims rejected ... 53
4.6 Priority claims with reference to Art. 112 of the BA ... 54
4.6.1 Finally recognised claims with reference to Art. 112 of the BA ... 55
4.6.2 Claims rejected ... 55
4.7 General claims with reference to Art. 113 of the BA ... 56
4.7.1 Finally recognised claims with reference to Art. 113 of the BA ... 57
4.7.2 Claims finally rejected ... 58
4.7.3 Decisions postponed ... 59
4.8 Claims lodged too late ... 60
4.9 Summary ... 60
5 Partial payments etc. ... 63
5.1 Basis for partial payments and legal situation ... 63
5.2 Winding-up Board's principal considerations in determining partial payments ... 65
5.3 Partial payments which have been made to date ... 66
5.3.1 First partial payments ... 67
5.3.2 Second partial payments ... 67
5.3.3 Third partial payments ... 67
5.3.4 Fourth partial payments ... 68
5.3.5 Fifth partial payments ... 68
5.3.6 Summary of partial payments and the status of escrow accounts ... 68
5.4 Tax issues of contention concerning partial payments and escrow accounts. ... 69
5.4.1 Tax on financial income in connection with escrow accounts ... 69
5.4.2 Tax on financial income in connection with the interest portion of recognised claims upon partial payment ... 70

5.5 Reserve fund 71
5.6 Capital controls and requests for exemption 72
6 Suits for damages – voiding 75
6.1 Introduction 75
6.2 Actions for damages 75
6.2.1 Bank guarantee which was not enforced 75
6.2.2 Loan to an Icelandic financial undertaking at the beginning of October 2008 77
6.2.3 Disbursements on 6 October 2008 78
6.2.4 Purchase of shares in LBI in Trading Book II 79
6.2.5 Claims for damages in connection with auditing and consultancy services 79
6.3 Voiding cases pursuant to Chapter XX of the BA, cf. the fourth paragraph of Art. 103 of the AFU 80
6.3.1 Payment of bonds and bills prior to maturity – repurchases 80
6.3.2 Payment of money market deposits 83
6.3.3 Payments of salaries, bonuses, premia and stock options 84
6.3.4 Payments made by set-off and for purchase of securities 85
6.4 Summary 87
7 Conclusion 91

Disclaimer

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

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

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

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

This report is issued in Icelandic and in an English translation. In case of any discrepancy the Icelandic text prevails.

Abbreviations

BA	Act on Bankruptcy
AFU	Act on Financial Undertakings
BCL	Luxembourg Central Bank (Banque centrale du Luxembourg)
bn	Billions
CBI	Central Bank of Iceland
DNB	Dutch Central Bank (De Nederlandsche Bank)
FME	Icelandic Financial Supervisory Authority
FSA	UK Financial Services Authority
FSCS	The Financial Services Compensation Scheme
GMSLA	Global Master Securities Lending Agreement
ICC	Informal Creditors Committee
IFGL	Iceland Food Group Limited
ISDA	International Swap and Derivatives Association Master Agreement
LB	Landsbankinn hf. (New Landsbanki Íslands)
LBI	LBI hf. (in winding up proceeding)
LI Lux	Landsbanki Luxembourg
m	Millions
TIF	The Depositors' and Investors' Guarantee Fund

CHAPTER 1

INTRODUCTION

1 Introduction

At a creditors' meeting held on 28 November 2012, LBI's Winding-up Board presented its report on the progress of the winding-up proceedings, describing the principal aspects of the proceedings and the status of individual issues. It was announced at this meeting that such reports would be compiled on a regular basis and subsequently disclosed that the Winding-up Board intended to present reports on the progress of the winding-up proceedings at creditors' meetings in March each year for the duration of the winding-up proceedings. This report is presented to the creditors' meeting held on 12 March 2015, and for further details reference is made to previous reports from the Winding-up Board as applicable.

In other respects, information disclosure to creditors is provided principally at creditors' meetings as provided for by law. Creditors' meetings have been held regularly during the moratorium and subsequent winding-up proceedings. The Winding-up Board intends to hold creditors' meetings twice each year, at approximately six-month intervals, until the winding-up proceedings are concluded. To date, creditors' meetings have been held on the following dates:

20 February 2009

23 November 2009

24 February 2010

27 May 2010

23 August 2010

1 December 2010

19 May 2011

17 November 2011

31 May 2012

28 November 2012

30 May 2013

2 October 2013

12 March 2014

23 - 24 October 2014

CHAPTER 2

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

2 Legal Situation and Amendments to Legislation regarding the Winding-up Proceedings

2.1 On legal status in general

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

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

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

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

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

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

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

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

According to the first paragraph of Art. 9 of the AFU, the Financial Supervisory Authority (FME) may withdraw a financial undertaking's operating license in full or in part, for instance, when a Ruling has been pronounced ordering its winding-up pursuant to Chapter XII of the Act, cf. Point 6 of the provision. Despite this the Winding-up Board may, according to the third paragraph of Art. 9 of the Act, continue activities subject to license with the approval and under the supervision of FME, to the extent this is necessary in connection with winding-up proceedings and disposition of the estate's interests. On this basis the authorised activities subject to license involved in LBI's winding-up proceedings were restricted by a FME Decision notified in a letter of 15 September 2011. It took the needs of the winding-up proceedings at that time into consideration while at the same time giving notice that these authorisations would be reviewed regularly and regard had for the needs of the winding-up proceedings in each instance. Such a review was most recently carried out in 2014 and thereafter, in consultation with LBI's Winding-up Board, the Board of FME decided at a meeting on 6 October 2014 to revoke LBI's limited authorisation to pursue activities subject to license. In fact, it was evident at that time that no longer did any of the activities in LBI's winding-up proceedings comprise activities subject to an operating license in the context of the AFU, and therefore it was no longer necessary for LBI to have a special operating license.

No change has occurred in LBI's activities following the revocation of the operating license and the company's legal status is unchanged. The winding-up proceedings continue, in other words, in accordance with the rules of Chapter XII of the AFU and FME continues to exercise special supervision of the company's activities as provided for in Art. 101 a of the Act. It could be pointed out, however, that as LBI no longer pursues activities subject to license the company is not regarded as a credit institution in the understanding of Act No. 65/1982, on Tax Liability of Credit Institutions. This results,

among other things, in the cancellation of the exemptions from remittance of withholding tax on financial income, as provided for in Act No. 94/1996, but does not alter the company's tax liability nor result in a higher tax burden on an annualised basis.

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

a. According to the first paragraph of Art. 102 of the AFU, the rules of the BA apply concerning reciprocal contractual rights of the estate and claims against the estate. This includes, firstly, Chapter XV of the BA (Articles 89 to 97), which contains the rules which apply to reciprocal contracts and their treatment in liquidation, and secondly, Chapter XVI of the BA (Articles 99 to 108), which contains specific basic principles concerning claims against an insolvent estate, including the conversion of claims in foreign currencies ranked in priority with reference to Articles 112 to 114 of the BA to ISK and the conditions for the right to set-off of debts against an insolvent estate and by what means. *An important derogation, however, results from the fact that the provision of the first paragraph of Art. 99 of the BA does not apply to the winding-up of financial undertakings; accordingly claims against a financial undertaking do not automatically fall due even when it is placed in winding-up proceedings.*
b. According to the second paragraph of Art. 102 of the AFU, the rules of the BA apply to the winding-up proceedings concerning the invitation to creditors to lodge claims, its legal effect, the deadline for lodging claims etc. This concerns in particular Articles 85 and 86 of the BA.
c. According to the third paragraph of Art. 102 of AFU, the rules of the BA concerning priority of claims apply to winding-up proceedings, i.e. provisions of Chapter XVII (Articles 109 to 115), with the exception, however, that *deposits, as defined in the Act on Deposit Guarantees and an Investor Compensation Scheme, are priority claims as referred to in the first and second paragraphs of Art. 112 of the BA.*
d. The provisions of Chapter XVIII of the BA (Articles 116 to 121) and of Part 5 of the BA (Articles 166 to 179), apply to the treatment of claims in the winding-up proceedings, the contents of claims lodged, the effect of failure to lodge a claim etc. It should be pointed out especially that the provision of Art. 116 of the BA completely prohibits the bringing of court action against a financial undertaking in winding-up proceedings in the same manner as applies to liquidation.

e. According to Art. 103 of the AFU, the rules of the BA on the administrator's control of the estate apply in the main to the Winding-up Board of a financial undertaking. Here reference is made in particular to provisions of Chapter XIX of the BA (Articles 122 to 130). There is, however, the important exception *that the objective of the Winding-up Board is to maximise recoveries on the assets of a financial undertaking in winding-up proceedings and it is not bound by the obligation of an administrator in liquidation to expedite the liquidation and disposition of the assets and rights to the extent practicable. In this connection the Winding-up Board may, for instance, disregard a resolution by a creditors' meeting contradicting this objective.*
f. It was previously stated that according to the fourth paragraph of Art. 101 of the AFU, the same rules apply in the main to the Winding-up Board as apply concerning the rights, duties and responsibility of administrators under the provisions of the BA. Rules on the status of the administrator, his/her duties and conduct appear in many provisions of the BA, primarily in Chapter XIII of the BA (Articles 75 to 84).
g. It derives from the status of LBI and the fourth paragraph of Art. 103 of the AFU that all provisions of Chapter XX of the BA concerning voiding of measures apply to the winding-up proceedings. Special time limits apply for bringing suit, however, according to the AFU, as well as a special rule on legal venue. Further details of this will be provided in Section 2.2 below.

The sixth paragraph of Art. 102 of the AFU contains special rules which apply to partial payments (interim distributions) to creditors in the winding-up proceedings of a financial undertaking. More details of these rules will subsequently be provided in a special section on partial payments and measures taken by the Winding-up Board in this respect in Chapter 5 of this report.

Rules on the conclusion of winding-up proceedings are contained in Art. 103 a of the AFU. If it is evident that the winding-up proceedings cannot be concluded with full payment of all recognised claims against the financial undertaking concerned, in accordance with the instructions of the first and second paragraphs of Art. 103 a, the Winding-up Board can seek composition with creditors when it deems the time to be appropriate, according to the detailed instructions in the third paragraph of Art. 103 a of the Act, with the aim of concluding the winding-up proceedings. Reference is made to the principal rules of the BA on how composition is to be sought and on the sanctioning of composition. A special rule applies, however, on the proportion of votes required to approve composition in winding-up proceedings. According to this rule, a scheme of arrangements is considered to be approved if it receives at least the same proportion of votes weighted by the amounts concerned as is equivalent to the proportion of claims waived under the agreement; *however, it must at minimum receive votes*

representing at least 60% of the claim amounts. Furthermore, it must be approved by *at least 70% of the voters exercising their voting rights on the composition*. As a result of the above-mentioned rules of Art. 103 a of the AFU, the Winding-up Board alone can submit a scheme of arrangements and determine its substance, as it considers appropriate and according to law, in the interests of all creditors. Furthermore, the Winding-up Board performs the role which an administrator would otherwise carry out in seeking composition in liquidation. As composition means that all contracting parties will be bound by its substance, whether or not they have approved the scheme of arrangements, strict requirements are naturally made regarding form and substance in drafting such an agreement.[2]

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

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

If composition is not accepted or if the Winding-up Board considers it evident that the premises will not exist for seeking composition pursuant to the rules of the third paragraph of Art. 103 a of the AFU, when this is timely in other respects, the Winding-up Board must request liquidation of the estate of the financial undertaking concerned, as provided for in detail in the fourth paragraph of Art. 103 a of the AFU.

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

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

2.2 Amendments to the Act on Financial Undertakings

Since the publication of the Winding-up Board's last report no amendments have been made to the Act on Financial Undertakings which have a significant effect on the status or progress of LBI's winding-up proceedings. Previous reports have discussed changes resulting from Acts Nos. 78/2011 and 146/2011. The last report also referred to Act No. 47/2013, which altered the arrangements in the fourth paragraph of Art. 52 of the AFU regarding directors of a financial undertaking who are at the same time attorneys. As before such directors may not undertake legal work for other financial undertakings unless specific conditions are satisfied.

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

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

Previous reports of the Winding-up Board have given an account of the main amendments which have been made to Act No. 87/1992, on Foreign Currency, especially those amendments made by the adoption of Act No. 127/2011, Act No. 17/2012 and Act No. 16/2013. Reference is made to that account. It is underlined, however, that the amendment in the last-mentioned Act made exemptions from the capital controls amounting to over ISK 25 billion in a single year[4] now subject to consultation of the Central Bank of Iceland with the Minister responsible for the sector concerned and the Minister responsible for financial market affairs, and a previous presentation to the Minister of the economic impact of the exemption in question to the parliamentary Economic and Trade Committee. This condition applies, for instance, to exemptions for a financial undertaking in winding-up proceedings according to a ruling by a court or for a legal entity for which the Financial Supervisory Authority has appointed a Resolution Committee or provisional Board of Directors.

Minor changes were made to the Act on Foreign Currency by Act No. 67/2014, which took effect in May 2014. It could be pointed out that a special provision on sanctions was added in Art. 16 a of the Act, authorising the levying of fines against legal entities for violations of the Act and rules adopted by virtue of it without regard as to whether this involved a culpable offence or not by a manager or employee of the legal entity, and without regard as to whether the manager or employee him-/herself

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

had been subjected to punishment for the violation. In addition to fines, a violation may result in the revocation of the legal entity's operating rights if certain conditions are satisfied.

Attention is drawn to the fact that on 18 June 2014 the Central Bank of Iceland adopted Foreign Currency Rules No. 565/2014, replacing previous rules No. 300/2013 on the same subject. The rules were set on the basis of an authorisation in the Foreign Currency Act, No. 87/1992, and contain various more detailed instructions than are laid down in the Act, including on cross-border capital movements in domestic currency, cross-border currency movements and capital movements in foreign currency, withdrawals of foreign currency and payment of contractual instalments, interest, indexation and dividends.

LBI's legal situation with regard to foreign currency matters is such that if LBI's Winding-up Board intends to conclude a capital movement or a foreign currency transaction in the sense of the Act on Foreign Currency for any purpose other than to purchase goods or services it must request a special exemption from the Central Bank of Iceland. It then depends upon the amount of the request for exemption whether there is need to consult the Ministers as described above. Partial payments to creditors as provided for in the sixth paragraph of Art. 102 of the AFU are dependent in this manner upon exemption from the Central Bank of Iceland.

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

2.4 Other amendments to legislation

This section mentions various statutory amendments which are regarded as possibly being of significance for LBI's winding-up proceedings, or which are in other respects of such nature that the Winding-up Board considers it advisable to point them out. The discussion and points mentioned are not exhaustive.

The adoption of Act No. 132/2012, made certain amendments to Act No. 99/1999, on Payment of Cost due to Official Supervision of Financial Activities. The amendment provided for a reduction to the fixed fee levied on financial undertakings in winding-up proceedings according to the provisions of the AFU, making LBI's annual fee ISK 6 million instead of the previous ISK 35 million. This fee will still enjoy priority with reference to Point 2 of Art. 110 of the BA. It could be mentioned that the judgement of

the Supreme Court of Iceland in case no. 62/2014, which was pronounced on 5 February 2014, confirmed the priority of claims of this sort in the winding-up proceedings of financial undertakings.

Near the end of 2013 the Icelandic parliament *Althingi* passed Act No. 139/2013, on Revenue Measures in Connection with the 2014 Budget Bill. It made certain changes to Act No. 155/2010, on a Special Tax on Financial Undertakings. The changes involved in particular making legal entities in winding-up proceedings under Art. 101 of the AFU, including those which a District Court has ruled should be liquidated, subject to tax on the same basis as other Icelandic financial undertakings. The tax rate was increased from 0.041% to 0.376% of the tax base and the tax base in the case of those legal entities concerned here was defined as the principal of recognised claims plus interest and costs, as of the end of each year, after deducting a tax-free exemption of ISK 50 billion. According to interpretative sources, recognised claims in this connection are *firstly*, claims which the Winding-up Board has recognised and are considered finally recognised and, *secondly*, claims which were disputed but have been recognised with a final judgement. These tax claims are to enjoy priority with reference to Point 3 of Art. 110 of the BA. A more detailed examination of the tax levied in 2014 on LBI's activities and the Winding-up Board's actions in this regard can be found in Section 3.5.2 below.

On 6 June 2014, Act No. 66/2014, on a Financial Stability Council, entered into force. The role of the Financial Stability Council is to serve as a formal forum for authorities on financial stability. Its role is to promote and safeguard financial stability for the public good, increase financial system resilience and prevent the accumulation of systemic risk. The Council is comprised of the Minister of Finance, the Governor of the Central Bank and the Director General of the Financial Supervisory Authority.

2.5 Court conclusions of concern for LBI's legal situation

2.5.1 Judgement of the European Court of Justice of 24 October 2013

On 24 October 2013 a judgement was pronounced by the European Court of Justice in case no. C-85/12. The case had been referred to the Court by the Supreme Court of France and concerned the interpretation of certain points of Directive 2001/24/EC ("the Directive"), on the reorganisation and winding up of credit institutions. Specifically, the issue in dispute was, *firstly*, whether Articles 3 and 9 of the Directive, which specify that a decision by the public authorities or courts marks the commencement of restructuring or winding-up, could be interpreted to mean that LBI's winding-up proceedings, which began following the adoption of Act No. 44/2009, were considered valid and, *secondly*, whether the provisions of Icelandic law prohibiting enforcement actions were in opposition to Art. 32 of the Directive. It was not disputed that from 22 November 2010 onwards LBI was in winding-up proceedings according to general rules on the basis of a Ruling from the Reykjavík District Court that day. Prior to that time LBI was in moratorium according to a Ruling of that same Court, first

pronounced on 5 December 2008. Briefly speaking, the conclusion of the European Court of Justice was that those substantial rules of the winding-up proceedings which derived from Act 44/2009, while LBI's moratorium was in force, were valid in the sense of the Directive, as they were based in any case on LBI's moratorium, which was and had been decided by a court action. The Court emphasised that the law of the home state had to apply in this respect and that regard should be had for the principle of the Directive on equal treatment and unity of creditors in support thereof.

Regarding the latter issue of contention the court upheld LBI's view that Art. 32 of the Directive concerns only court cases and not enforcement actions. The provisions of Icelandic law prohibiting enforcement actions, and thereby collection actions by individual creditors, even if such a prohibition were applied retroactively, were therefore not in opposition to the Directive. The court also pointed out that any other conclusion would be contrary to basic principles of unity and equal treatment of creditors.

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

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

The Supreme Court of Iceland has, in four different instances, reached the conclusion that LBI's status prior to its takeover by the Financial Supervisory Authority (FME) and the appointment of a Resolution Committee on 7 October 2008 and until the commencement of winding-up proceedings on 22 April 2009 can to a certain extent be equated to one where liquidation of the company's estate had commenced. Firstly, there is the Court's judgement of 28 November 2011 in case no. 441/2011, where LBI's status was equated with liquidation, "with regard to the entitlement of others based on ownership rights to monies in its custody". A similar conclusion was expressed in this regard in the Court's judgement of 13 February 2014 in case no. 72/2014. Secondly, there is the Court's judgement of 22 March 2012 in case no. 112/2012, where LBI's status was equated with one where liquidation had commenced during the period from 7 October 2008 until 22 April 2009 regarding a claim for reimbursement due to overpayment to LBI which took place in November 2008; the claim for reimbursement was recognised as a claim for the administration of the estate with reference to Point 3 of Art. 110 of the BA. A similar conclusion was expressed in this regard in the Court's judgement of 6

May 2013 in case no. 211/2013. Thirdly, there is the Court's judgement of 16 January 2014 in cases nos. 191, 356, 359, 412 and 413/2013, where LBI's status was equated with liquidation, with the result that the voiding rules of Chapter XX of the BA could "not be applied to overturn measures taken by or on the responsibility of the Resolution Committee ..." after 7 October 2008.

Finally, mention could be made of the judgement of the Supreme Court of 25 February 2013 in case no. 17/2013 (Kaupthing), where the parties' legal status after the appointment of a Resolution Committee was equated with one where liquidation had commenced, with the result that certain provisions of Chapter XV of the BA on reciprocal contractual rights were applied in resolving the dispute.

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

CHAPTER 3

OVERVIEW OF LBI'S ASSETS AND OPERATIONS AS OF 31 DECEMBER 2014

3 Overview of LBI's assets and operations as of 31 December 2014

3.1 General

In accordance with the third paragraph of Art. 103 of the Act on Financial Undertakings (AFU), the Winding-up Board is to inform creditors of all major actions involving the sale or disposition of assets or other rights of a financial undertaking at meetings convened by the Winding-up Board in the normal manner. Section 3.2 below discusses the most significant dispositions of assets and other rights made since the last creditors' report was presented to LBI's creditors at a meeting on 12 March 2014.

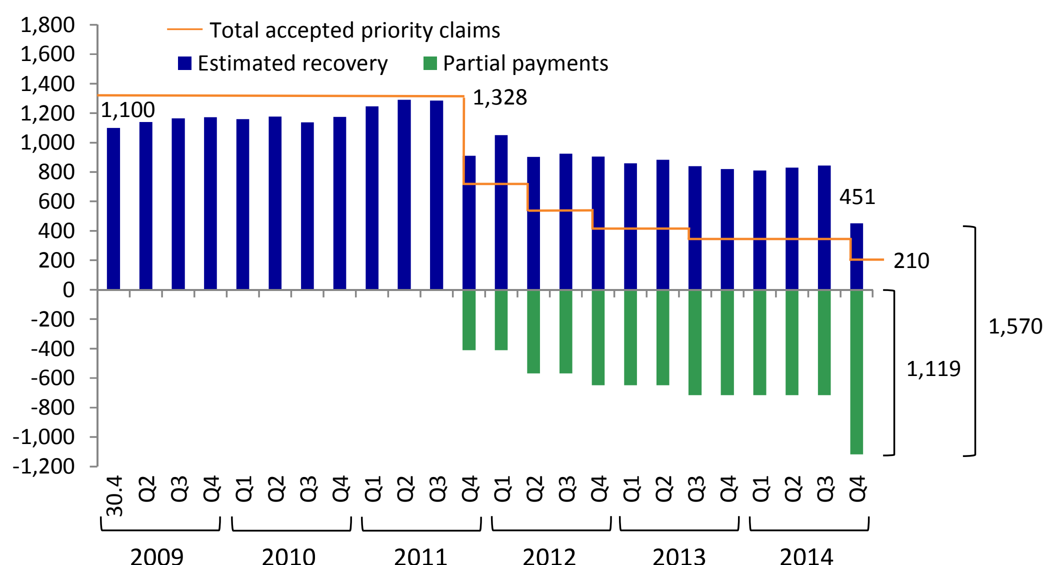
The position of the asset portfolio is as of 31 December 2014:

Development of estimated recovery in 2014

ISK billion	31.12.2013	31.3.2014	30.6.2014	30.9.2014	31.12.2014	Total changes in 2014
Cash	317.7	332.6	362.9	468.0	111.8	(205.9)
Loans to Financial Inst.	27.7	26.6	29.6	28.6	32.6	4.9
Loans to Customers	183.3	171.3	159.9	71.9	61.3	(122.0)
Bonds	45.9	42.1	42.1	39.7	40.3	(5.3)
Equities	2.4	2.0	3.5	2.0	1.6	(0.8)
LB Financing	237.7	231.9	228.7	230.2	200.4	(37.3)
Derivatives	0.5	0.5	0.5	0.5	1.3	0.9
Non current assets	2.4	2.8	2.6	2.4	1.7	(0.7)
Total assets	**818.1**	**809.0**	**829.7**	**843.2**	**451.5**	**(366.6)**

Summary of changes in portfolio value during the period from 30 April 2009 to 31 December 2014 (blue columns) and partial payments made towards priority claims (green columns), which have reduced the amount of priority claims from ISK 1,328 billion to ISK 210 billion (red line).

Development of the Estimated recovery - using FX rates at each reporting date (ISKbn)



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

3.2 Disposition of assets and other rights

3.2.1 Highland Group Holdings Ltd. (House of Fraser)

In April 2014 the owners of 89% of the share capital in Highland Group Holdings Ltd., the holding company of the UK retail chain House of Fraser (HOF), signed an agreement with the Chinese company Nanjing Xinjeikou Department Store Co. Ltd. (NXDS) for the sale of all their share capital in HOF.

Based on the selling price of the above-mentioned shares and the company's debt position the enterprise value was GBP 480 million, or over 8x EBITDA in its last operating year. The sales process was led by HOF's Chairman of the Board, Donald McCarthy. The transaction was to be completely concluded within 4-6 months of the signing of the above-mentioned agreement, subject to the approval of shareholders of NXDS and the Chinese authorities. This was achieved and the transaction was completed at the beginning of September 2014. In the sales process HOF's shareholders were advised by Reorient Group while the purchaser's advisor was Bank of America Merrill Lynch.

Among the shares sold was a 34.9% stake of BG Holding ehf (BGH) which was furthermore pledged to LBI under BGH's debts to LBI. The pledge and other related rights of LBI were recognised by the administrator of BGH in the UK, who was appointed by English courts in 2009, as the company's principal activities were in the UK. The administrator's sale of BGH's holding was enacted in consultation with LBI's Winding-up Board.

BGH's estate is also being liquidated in Iceland, where there is a dispute with the company's administrator concerning the pledge rights and LBI's claims against BGH.

In December 2014 LBI received a distribution from the English administrator of close to GBP 38.9 million towards the secured debts. This consisted of the selling price of the shares net of cost. Due to the dispute with BGH's administrator in Iceland, this amount is not available for the winding-up proceedings of LBI at the moment nor will it be until the outcome of the dispute with BGH's administrator in Iceland is established. Further details of this dispute are provided in Chapter 4 below.

3.2.2 Vendors' loan note in connection with Iceland Foods Group Limited

As has been related in previous creditors' reports and discussed at earlier creditors' meetings, LBI sold its shares in Iceland Foods Group Limited (IFGL) in March 2012. The selling price of the company's entire share capital (equity value) was GBP 1,550 million, of which GBP 1,300 million were paid in cash

and GBP 250 million with a vendors' loan note (VLN) granted by LBI and Glitnir to the buyers pro rata with their respective shareholdings. LBI's share of the VLN was therefore around GBP 216 million, or around 86.5% of the total amount of the loan, while Glitnir's share was around GBP 34 million or about 13.5% of the total loan amount.

The principal terms of the VLN were as follows:

i. Principal: GBP 250 million.
ii. PIK interest, which was compounded daily to the principal, was as follows:
    a) For the first four years 5% annual interest.
    b) For the fifth year 8% annual interest.
    c) For the sixth year 12% annual interest.
    d) For the seventh to tenth years 14% annual interest.
iii. Subordinated loan, which was subordinated to other loans granted to the debtor.
iv. No collateral.
v. The due date for payment of principal and interest was 10 years from the date of issue (in 2022).
vi. The debtor could prepay the principal and accrued interest in full or in part at any time during the loan term, but with a minimum payment of GBP 10 million in each instance.

In its estimated recoveries, LBI's Winding-up Board expected a 100% recovery of the loan amount plus interest. It was also considered appropriate to hold the loan until maturity rather than attempting to sell it on the market with a foreseeable discount. Another factor in this was the expectation that due to rising interest rates the debtor could be expected to pay off the loan no later than 2016. This fitted in with the Winding-up Board's plans to conclude payment of priority claims in 2017.

During the latter half of 2013 and the first half of 2014 IFGL made suggestions of prepayment of the VLN at a considerable discount. Following examination of the proposal by LBI's Winding-up Board and upon the advice of an international investment bank as to the potential value of the loan, IFGL's suggestions were rejected. Further discussions between the parties confirmed that IFGL aimed at refinancing in 2016.

Following Glitnir's sale of its holding in the VLN in June 2014 the matter was once more on IFGL's agenda, and an offer was made to LBI for prepayment of the loan at the same price as Glitnir had sold its holding, according to announcements in that regard. This price was higher than the market price which the advisors of LBI's Winding-up Board had considered realistic. LBI's Winding-up Board rejected IFGL's bid but discussions between LBI and IFGL afterwards resulted in an increase in the latter's bid to 98% of par value. The Winding-up Board regarded this bid as acceptable given LBI's interests and its

obligation to maximise the value of assets and for this reason accepted it. This assessment took into consideration the fact that it was a subordinated loan and that underlying risk factors, such as credit risk, market risk and refinancing risk, supported selling at this price, which was somewhat higher than could be expected from sale on the open market. The updated position of the loan at this time was GBP 243 million, of which accrued interest was around GBP 27 million. Accordingly LBI's recovery amounts to 98% of this amount.

The Winding-up Board handled all contracting itself with the assistance of its legal advisors in the UK, with the result that there was no need to pay a price-linked commission on the prepayment. Such a commission could easily have amounted to 0.5-1.5% of the selling price.

3.2.3 NYOP Education (Aberdeen) Limited

In August 2014 the Winding-up Board sold LBI's loan position in connection with NYOP Education (Aberdeen) Limited (NYOP), which was granted in connection with a special financing project of the UK government for construction of school buildings in the UK. Furthermore, the Winding-up Board disposed of all the shares in Bryni UK Limited, a subsidiary of LBI, which owned both a subordinated loan of NYOP and all share capital in that company.

The final maturity of the loans was in 2037 and the management agreement in connection with the school buildings ran until 2039. The position of NYOP's senior loan was, as of August 2014, around GBP 98.8 million. The interest rate on the loan was LIBOR + 0.775%. Barclays Bank provided an interest rate swap contract to NYOP to mitigate interest rate risk on the lending, the terms of which included a negative break cost at the time equivalent to GBP 14 million. The balance on the subordinated loan, which Bryni UK Limited had lent to NYOP, financed by a loan from LBI, at the same time was around GBP 13.6 million. The interest rate on the subordinated loan was fixed 10% annually.

In the light of the long maturity of the loans, low interest rates and the fact that LBI would foreseeably have to dispose of its positions before the final maturity in 2037, LBI's Winding-up Board had for some time been examining the possibility of selling the above-mentioned loans and related rights/obligations. While the credit risk was not considered to be significant, on the other hand the owners' risk on the school buildings, their condition and operation until 2039 actually rested with LBI through the above-mentioned subsidiary. In addition LBI was obligated to provide further lending to the project, thereby increasing its exposure by as much as GBP 5.4 million, if certain conditions were satisfied.

The low interest rate on the senior loan did not give reason to expect that refinancing would be a reasonable option, in addition to which such refinancing could be expected to be more time-consuming and costly than the sale of the loan on the secondary market. On the other hand, there

were hopes that a premium could be obtained for the subordinated loan due to its high interest rate. Advice was obtained from The Land Group, which specialises, among other things, in projects of this sort and 15 selected investors in this area were contacted (including investment funds and pension funds) and invited to submit bids.

The total of the highest bids for both the loans and share capital in Bryni UK Limited amounted to around 93% of their book value, or around GBP 100.1 million. The figure was comprised of the purchase price of the senior loan (around 87% of par value) and the purchase price of the subordinated loan (around 119% of its par value). The highest bids were accepted and net of selling cost LBI's recoveries with everything included amounted to around GBP 99 million. In addition, LBI is free of the risk of operation and ownership as previously mentioned and avoided the swap breakage fees. Recoveries on these assets were 3% higher than estimated. It could be pointed out that if the payments collected on the loans up until the time of sale is added to the selling price LBI's total recoveries amount to around 111% of the original loan amount.

3.2.4 Landsbankinn hf.

The last report to creditors provided an account of the progress of discussions with Landsbankinn hf. in connection with the bank's bonds up until December 2013, and reference is made thereto. The following is an account of the principal developments since that time.

Around mid-December 2013 LBI's Winding-up Board informed Landsbankinn on what basis discussions could be held on extending the maturity of the bonds. These were principally:

i. That as much as possible of the debt would be paid in the agreed currencies during the original term of the bonds, i.e. until 2018.
ii. That the market value of the bonds would be maximised.
iii. That Landsbankinn would seek to refinance the bonds on the market as promptly as practicable.
iv. That LBI's Winding-up Board would be authorised to distribute foreign currency collected to creditors.

These basic premises were furthermore made known to the Central Bank of Iceland and to the Ministry of Finance.

On 16 January 2014 LBI delivered to Landsbankinn detailed terms for discussion, based on the above-mentioned basic premises. These provided for a payment by Landsbankinn on the principal equivalent to around ISK 50 billion, in a mixture of the currencies in which the bonds were issued, and that payments on the principal in 2014 and 2016 would be equivalent to around ISK 30 billion each year. It

was assumed that the interest rate margins would be unchanged until October 2017, after which they would increase in steps as a function of maturity. The outstanding balance, totalling the equivalent of around ISK 130 billion, would be paid on specified due dates during the period from 2018 to 2025, through a series of new bonds.

LBI's terms for discussion were rejected by Landsbankinn on 29 January 2014 with reference to those terms which the bank had itself set out in November the previous year. Thereafter there was further exchange of letters and communications between LBI and Landsbankinn in February and March 2014. LBI's Winding-up Board sent new terms for discussion to Landsbankinn on 10 April. A copy of these was sent to the Central Bank of Iceland, which was furthermore informed that the principal premise for amending the terms and conditions of the bonds and their interest rates was that in tandem with this, specific exemptions from capital controls would be granted. The new terms for discussion were furthermore based on enabling Landsbankinn to finance payments on the bonds without having to turn to the domestic FX market until 2018, and it was assumed that bonds with due dates after that would be refinanced on the international capital markets.

Formal negotiations between LBI and Landsbankinn recommenced on 23 April 2014 and Heads of Terms, providing for the main points of the amended terms for the bonds and pledge agreement, were signed on 8 May 2014. The necessary documentation was expected to be completed no later than 12 June that year and this was achieved. Furthermore, it was a condition for the entry into force of the agreement on the part of LBI that specific exemptions from capital controls would be granted by the Central Bank of Iceland as provided for by Act No. 87/1992, on Foreign Currency. A deadline of three months from 8 May 2014 was agreed on for concluding the matter.

The principal amendments to the terms of the bonds were as follows:

i. Initial payments would be made towards Landsbankinn's debt to LBI equivalent to around ISK 16 billion in specified foreign currencies.
ii. The outstanding balance on the debt and those bonds issued based on previous agreements would be replaced by thirteen new bonds, in specified currencies and amounts, with due dates up until and including 2026.
iii. Instead of the quarterly amortisation payments, each bond would have one bullet payment at maturity, in October, and the bonds would fall due at two-year intervals from 2014 until 2026.
iv. The interest rate margins would be unchanged until 2018, after which time they would be stepped up on bonds with due dates after that according to their maturity.

v. Landsbankinn would be authorised to pay dividends to shareholders without needing to redeem the bonds by the same amounts, provided they were made in ISK and fulfilled all the requirements of Acts and rules on Landsbankinn's financial situation, including capital adequacy requirements.

Various minor amendments were also made to the terms, which are related in the presentation summarising the completion of the amendment and extension of the Landsbankinn Bonds published on LBI's creditors website on 8 December 2014.

On 12 June 2014 LBI and Landsbankinn concluded a framework agreement on new Heads of Terms and alterations to the form of the bonds and pledge agreement. As previously mentioned, the entry into effect of the agreement was subject on LBI's part to the granting of specific exemptions by 8 August that year. In the event, however, this time limit was extended a total of five times, for the last time until 31 December 2014.

On 4 December 2014, following the granting by the Central Bank of Iceland of exemptions from capital controls which were considered acceptable by LBI's Winding-up Board, the agreement between LBI and Landsbankinn was finally completed together with the issuance of the new bonds based upon it. The Winding-up Board was assisted by external advisors from Great Circle Advisors, Barclays Bank and Morrison & Foerster LLP and also obtained the views of principal creditors, in its assessment of the overall interests of LBI in relation to this arrangement.

Specific changes were made to the terms and conditions of the bonds and the parties' framework agreement right up until this time, as follows:

i. Three bonds which were to fall due in October 2014 were not issued but instead their equivalent value was added to Landsbankinn's initial payment, which therefore increased to a value equivalent to around ISK 30.6 billion in the specified currencies. This initial payment was delivered on 4 December 2014.
ii. Under certain conditions Landsbankinn has the option, during a specific period of 2018, of unilaterally deciding to extend the maturity of part of the bonds which mature in 2018 and 2020, with the accordant impact on the interest terms and pledge agreement.
iii. The ownership threshold for Landsbankinn's obligation to prepay the bonds in the event of a change of control via a private sale of equity was relaxed somewhat.
iv. Changes were made to covenants regarding the bank's capital ratio, updated them to reflect regulatory changes.

The following is an overview of the bonds issued by Landsbankinn and delivered to LBI on 4 December 2014[5]:

Bond	Principal	Currency	Initial margin/Step-up margin	Maturity date
B1	99,000,000	EUR	LIBOR + 2.90%	9 October 2016
B2	18,000,000	USD	LIBOR + 2.90%	9 October 2016
B3	66,000,000	GBP	LIBOR + 2.90%	9 October 2016
C1	132,000,000	EUR	LIBOR + 2.90%	9 October 2018
C2	24,000,000	USD	LIBOR + 2.90%	9 October 2018
C3	88,000,000	GBP	LIBOR + 2.90%	9 October 2018
D	271,000,000	USD	LIBOR + 2.90% / 3.50%	9 October 2020
E	192,000,000	EUR	LIBOR + 2.90% / 3.65%	9 October 2022
F	271,000,000	USD	LIBOR + 2.90% / 3.95%	9 October 2024
G	192,000,000	EUR	LIBOR + 2.90% / 4.05%	9 October 2026

In parallel to the agreement between LBI and Landsbankinn referred to above and the issuance of the ten bonds listed above, the Central Bank granted exemptions to LBI from capital controls regarding the four already existing requests for exemptions which concerned liquid funds held by LBI's Winding-up Board for the purpose of making payment towards priority claims in accordance with authorisation to this effect in the sixth paragraph of Art. 102 of the AFU. These exemptions were of value equivalent to around ISK 402.6 billion. The partial payments were made on its basis on 16 December 2014, cf. the further discussion in Chapter 5 below.

Furthermore, the Central Bank of Iceland provided a goodwill promise that additional exemptions would be granted for liquid funds available for the purpose of paying priority claims in LBI's winding-up proceedings with reference to Articles 109 to 112 of the BA, provided that in each instance such exemptions were not considered to upset stability in exchange rate and monetary policy, cf. the second paragraph of Art. 7 of Act No. 87/1992, on Foreign Currency, and were in accordance with the perspectives on which decisions on granting such exemptions were based.

3.2.5 Loans to customers

The estimated value of loans to customers decreased substantially in 2014, or by the equivalent of ISK 122 billion, falling from ISK 183.3 billion at year-end 2013 to around ISK 61.3 billion at year-end 2014.

The principal explanations for the decrease in the estimated value of the loan portfolio are prepayments on the vendors' loan note (VLN) to Iceland Foods and the sale of loans to NYOP, cf. the discussion in Sections 3.2.2 and 3.2.3 above. Several other loans were also paid off during the year. No

[5] Assuming the extension option, discussed in limb ii above, is not applicable or not used by Landsbankinn.

specific discussion is given of such prepayments in this report, as they do not comprise special measures in the winding-up proceedings.

3.2.6 Other asset classes

Changes to asset classes other than loans to customers are shown in the table below. The decrease in liquid funds can be attributed in particular to partial payments made on 16 December 2014, cf. the detailed discussion thereof in Chapter 5 below. Changes in the amounts of Landsbankinn's bonds are the result of payments made by the bank, especially in connection with amendments to the terms and conditions of the bonds, cf. the discussion thereof in Section 3.2.4 above. Other changes in asset classes are not of significance.

The position of the portfolio as of 31 December 2014, with a breakdown by asset class, is as follows:

Development of estimated recovery in 2014

ISK billion	31.12.2013	31.3.2014	30.6.2014	30.9.2014	31.12.2014	Total changes in 2014
Cash	317.7	332.6	362.9	468.0	111.8	(205.9)
Loans to Financial Inst.	27.7	26.6	29.6	28.6	32.6	4.9
Loans to Customers	183.3	171.3	159.9	71.9	61.3	(122.0)
Bonds	45.9	42.1	42.1	39.7	40.3	(5.3)
Equities	2.4	2.0	3.5	2.0	1.6	(0.8)
LB Financing	237.7	231.9	228.7	230.2	200.4	(37.3)
Derivatives	0.5	0.5	0.5	0.5	1.3	0.9
Non current assets	2.4	2.8	2.6	2.4	1.7	(0.7)
Total assets	**818.1**	**809.0**	**829.7**	**843.2**	**451.5**	**(366.6)**

At year-end 2014 the value of LBI's asset portfolio totalled around ISK 451.5 billion, of which cash was almost ISK 112 billion and the remaining ISK 340 billion unrealised assets. The estimated value of the LBI's ten largest uncollected assets totalled around ISK 300 billion and that of its 20 largest uncollected assets around ISK 320 billion. Bonds issued by Landsbankinn comprised LBI's largest individual asset, with a value of around ISK 200.4 billion.

3.3 Summary of operating costs

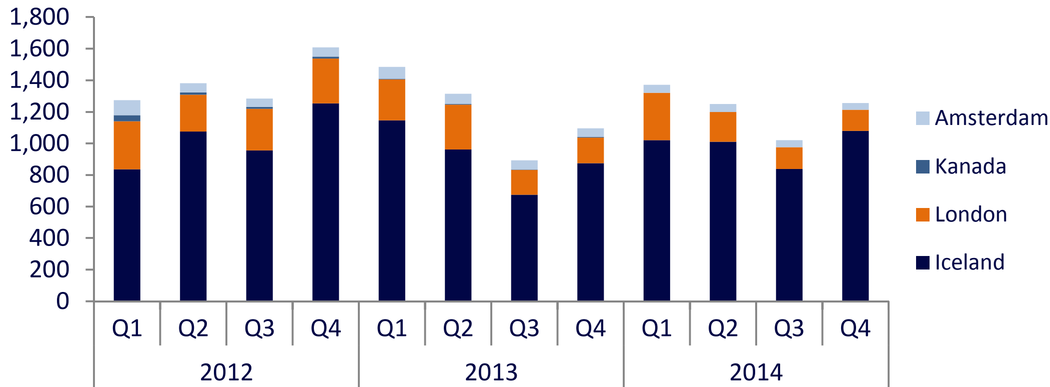
Cost incurred in the winding-up proceedings of a financial undertaking is included with so-called claims for administration of the estate, as provided for in Point 2 of Art. 110 of the BA. Such claims therefore enjoy priority in winding-up and are generally paid as they fall due, as is usually the case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

The following table provides a summary of operating cost from 2012 to 2014.

	2012				2013				2014				Change
ISK million	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**YoY**
Housing and logistics	60	33	78	42	37	41	32	41	36	36	36	43	(0%)
Payroll and benefits	493	426	417	442	440	474	362	356	498	316	289	288	(15%)
Icelandic legal cost	300	205	158	215	208	194	157	223	181	210	157	246	2%
Icelandic expert cost	102	61	84	95	87	70	41	25	45	49	50	54	(11%)
Non-Icelandic legal cost	71	175	165	422	290	241	136	160	258	482	358	350	75%
Non-Icelandic expert cost	107	362	219	251	247	149	49	154	197	37	24	210	(22%)
Other Operational costs	74	51	95	78	106	85	60	80	100	121	107	64	18%
SLA cost	68	68	68	62	71	61	58	57	57	0	0	0	(77%)
Breakdown by location													
Iceland	837	1,076	956	1,254	1,147	962	675	875	1,020	1,011	838	1,079	8%
London	304	231	263	282	259	284	157	163	301	187	139	135	(12%)
Canada	39	16	13	14	4	4	3	3					
Amsterdam	95	58	52	57	76	65	59	54	51	52	45	41	(25%)
Total	**1,275**	**1,382**	**1,284**	**1,608**	**1,486**	**1,315**	**894**	**1,095**	**1,372**	**1,251**	**1,021**	**1,255**	**2%**

Operating expenses in 2014 were equivalent to ISK 4,899 million, an insignificant increase of 2% over the previous year. Total operating expense from the beginning of LBI's winding-up proceedings currently amounts to around ISK 39.5 billion, or around 2,5% of total recoveries and about 8,4% of increase of total asset value during that time.

Cost has decreased considerably since inception of winding-up proceedings. A large portion of the cost reduction can be attributed to reduced activity abroad, with the accordant decrease in employee numbers, as well as to various actions to reduce costs in purchasing expert services. At the same time, a larger proportion of the cost is incurred at LBI's headquarters in Reykjavík. LBI's office in Amsterdam was closed near the end of last year and the scope of activities in London has shrunk considerably. The accompanying figure shows how the proportional cost which can be attributed to activities in Reykjavík has risen until now 81% of total expenses are incurred in the head office.



The decrease in cost which has been achieved by transferring tasks to Reykjavík in tandem with generally decreasing activity has resulted in proportionally higher cost in ISK, as is shown in the accompanying figure. The average proportion of expenses paid in ISK in 2014 was around 50%, while for comparison the average for 2012 and 2013 was 56%. The decrease in the share of expenses paid in ISK is explained by an increase in costs for expert services abroad.

Wage cost in 2014 amounted to the equivalent of around ISK 1,391 million, a decrease of 14% YoY. Wage cost, however, has decreased by almost 50% from its peak in 2009. The principal reason for this is the decrease in number of employees, mainly at establishments abroad, in tandem with the transfer of tasks to Iceland. The cost of each full-time equivalent position in Iceland is considerably lower than the average cost per position in foreign establishments. In the estimation of the Winding-up Board for some time yet there is still a need for an establishment in London to support assets and maximise their

value. A major portion of the tasks of the London office has already been transferred to Iceland and these matters will be subject to ongoing evaluation.

The cost of expert assistance in the winding-up can be roughly divided between domestic and foreign experts. The largest components in this cost are legal services, services of auditing firms and financial advisory services. Total payments for expert services have been decreasing since the beginning of the winding-up proceedings. Such payments were highest in Q1 of 2010, at ISK 1,694 million, while in Q4 of 2014 they were ISK 859 million, or 49% less. It should be pointed out, however, that this cost item naturally fluctuates somewhat from one quarter to the next. This can be attributed to the fact that a substantial portion of expert cost is related to specific projects, such as sale of assets. It should be pointed out in this connection that in 2014 foreign legal expenses rose considerably, as can be seen from the above summary of overall expenses. The principal reason for this are court cases in which LBI has been involved, both in the UK and continental Europe, which has resulted in increased expense. In one case the court outcome upheld all of LBI's claims, including claim for cost and as a result the major share of the cost incurred there will be reimbursed by the counterparty. This involves a sum in the area of ISK 400 - 500 million.

It should also be pointed out that information on the cost of winding-up is presented on an accrual basis, as a result of which cost is recognised depending upon when the experts providing the services send invoices for their services. Thus it is common that tasks which extend over a period of several months are paid upon the conclusion of the project, making fluctuations of this sort unavoidable. A summary of the development of expert costs and the split between foreign and domestic expert costs is shown below.

Expert services purchased comprise around 51% of the total cost in LBI's winding-up proceedings. This cost is around 3.6% of the increase in the value of assets since 2009 and around 4.5% of the total value

of assets in the winding-up proceedings, as estimated on 31 December 2014. The share of costs for foreign experts was close to 65% of the total cost of expert services purchased in the years from 2010 to 2013, and 66% in 2014.

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

The cost of LBI's premises has been dropping in recent years, although there is no YoY decrease between 2013 and 2014. This item will decrease substantially in 2015 due to the closing of the office in Amsterdam and the move of the London office to more economical premises.

The cost of the services from Landsbankinn hf. has declined as service items have decreased in number in tandem with reduced needs; this cost decreased by 77% YoY in 2014. The only remaining service which has to be purchased from Landsbankinn hf. is information service. The reason this is necessary is especially due to the fact that according to a decision by the Financial Supervisory Authority (FME) Landsbankinn hf. has all LBI's accounting data from the period prior to 9 October 2008. As has previously been explained, a decision was taken in 2013 to transfer the operation of IT systems to a new service provider. This was effected in March 2014. The reduction in the cost of the SLA with Landsbankinn hf. is due to a considerable extent to this change but results, on the other hand, to in an increase to other operating expenses. It should be pointed out that the change resulted in considerable savings.

3.4 Progress of various legal actions to recover assets

3.4.1 Legal actions in England

3.4.1.1 Judgement of the High Court of Justice in London on 24 November 2014

In recent years LBI's Winding-up Board has pursued court actions before English and French courts to recover two real estate mortgages which a foreign customer received from Landsbanki Luxembourg SA prior to its collapse, secured by a mortgage on a London property, on the one hand, and a ski chalet in Courchevel, France, on the other. These loans were among those assigned to LBI under an agreement between LBI's Winding-up Board and the administrator of Landsbanki Luxembourg SA in 2012. Court actions concerning them had already commenced and LBI's Winding-up Board took over pursuit of the case. Landsbanki Luxembourg SA, however, continued to have a standing in the case at the debtor's demand, due to issues in dispute concerning its alleged counterclaims against that party which it was undisputed would affect LBI's claim as assignee.

LBI's claim before the High Court of Justice in London concerned recognition of the existence of the debt provided for by both the above loan contracts, as well as enforcement of mortgage rights to the London property by having it turned over to LBI as mortgagee. In parallel to this, LBI's Winding-up Board submitted its claim to French courts that the mortgage rights to the mortgaged property in that country be enforced in accordance with national rules there. It should be pointed out that the case is still in progress in France.

The debtor had brought counterclaims against the loan assignor, Landsbanki Luxembourg SA, and furthermore at later stages it had brought counterclaims against LBI which it maintains should be used for set-off. This resulted in its counterclaims against LBI being lodged in LBI's winding-up proceedings in Iceland based on Art. 118 of the BA. The Winding-up Board has rejected the counterclaims, both with regard to their form and substance, and the dispute has been referred to the Icelandic courts, cf. Chapter 4 below. If the court accepts that the counterclaims should be admitted and that they are to any extent valid this will clearly affect LBI's recoveries on the said real estate mortgages.

With regard to LBI's claims a judgement was pronounced by the High Court of Justice in London on 25 November 2014 upholding LBI's claims in the case on all points and the debtor was ordered to pay GBP 17.4 million and EUR 5.7 million plus accrued interest. On the other hand, the legal effect of this judgement was suspended until the right to appeal was established as well as the outcome of the Icelandic courts concerning the debtor's counterclaims in Iceland. The debtor's counterclaims against Landsbanki Luxembourg SA were completely rejected. A claim for the delivery of the London property was postponed until mid-2015 and the debtor given the opportunity to entrust a real estate agent to attempt to sell it on the open market for seven months in consultation with LBI. In the meantime all rental income on the properties are to accrue to LBI.

This court case has been highly costly for both LBI and Landsbanki Luxembourg SA, due not least to the manner in which the debtor has conducted its pleadings in recent years. At the demand of LBI and Landsbanki Luxembourg SA the debtor was ordered to pay all costs in the case to indemnify them. It is therefore hoped that this expense will be recovered for the most part.

3.4.1.2 Case against a financial undertaking concerning derivative settlement

LBI brought a case against a Dutch bank before English courts in April 2013. LBI's maximum claim in the case is for payment of over EUR 73 million plus interest and costs. The Defendant demands to be acquitted of LBI's claims. The parties’ dispute concerns settlement of a currency swap contract concluded under the ISDA Master Agreement on derivatives. For its part, LBI maintains that the closing of the contract was not carried out in good faith nor in a fair manner, as is required under the ISDA Master Agreement. The parties' principal disagreement concerns what ISK reference exchange rate

should be used for the settlement. The question of set-off is also in dispute, as LBI maintains that the Defendant was not authorised to set off a bond claim in the amount of EUR 5 million, which it acquired on 28 November, against the settlement amount, as the requirement in Art. 100 of the BA is not satisfied. Oral pleadings are scheduled for the end of April this year and are estimated to take eight days.

3.4.2 Legal action in Belgium

LBI brought an action against a Belgian bank (hereafter, “the bank”) in October 2013 which is being processed in a commercial court (court of first instance) in Brussels. LBI's primary claim in the case is for payment of principal amounts of EUR 77 million and USD 7 million, plus interest and costs, while the bank's primary claim is to be absolved. The case concerns payments received after the appointment of LBI's Resolution Committee on 7 October 2008 to a deposit account in EUR, held by LBI with the said bank, which was overdrawn. On the part of the bank it is maintained that it was authorised to set off payments deposited into the account by LBI's customers after the said point in time against LBI's overdraft owed to it. LBI contends, on the other hand, that following the appointment of the Resolution Committee it was unauthorised to dispose of these deposits towards the overdraft and that therefore the bank should repay to LBI those funds which it accepted from that time. The parties have submitted written briefs and documentation.

3.4.3 Legal action in France

For many years now two cases have been pursued in France against two of LBI's creditors who acquired pledge rights to certain of LBI's assets in that country for their bond claims in November 2008. The bondholders concerned have in addition lodged their claims in LBI's winding-up proceedings, but are attempting nonetheless to enforce their claims directly, in direct opposition to the principle of equal treatment of creditors and the basic principles of Icelandic law in this regard. This concerns the same case as was dealt with by the European Court of Justice in case no. C-85/12, which was discussed in Section 2.5.1 above. Upon receiving the conclusion of the European Court of Justice, the High Court in France (Cour de cassation) decided in a Ruling of 24 June 2014 to invalidate the previous judgements of a Paris appeal court and instructed that court to re-try the case, at LBI's demand. This and the conclusion of the European Court of Justice means that the appeal court in Paris must make a decision on LBI's claims, in part based on Icelandic law and Directive 2001/24/EC on the reorganisation and winding up of credit institutions.

LBI's pleading for the subsequent round of court action in the case is under preparation and it is hoped that the case will be scheduled for the Paris appeal court before the middle of this year. Although the cost of pursuing this suit is not negligible, the Winding-up Board considers it likely that part of the cost

will be reimbursed, in addition to which the issues are such that there was no avoiding the clarification of LBI's legal position and that of the company's creditors as a whole.

3.4.4 Civil cases pursued before Icelandic courts concerning derivative claims

Seven cases are currently in progress before the Reykjavík District Court which LBI has brought against six parties, demanding payments based on derivative contracts. Specifically, these are cases brought against four fisheries enterprises, one enterprise in the printing industry and one individual. In all instances the counterparties demand to be absolved.

In the case of the fisheries enterprises, *firstly*, there is a case where LBI's claims are based on eight currency swap contracts and its primary claim is for a principal amount of ISK 756 million, plus penalty interest from the due date of the contract. The main hearing of the case has not been decided but the judgement of the District Court is expected to be available this year.

Secondly, there are two cases brought against the same party, i.e. one based on forward contracts for share purchases and the other based on currency swaps. A judgement of the Reykjavík District Court in last December accepted all of LBI's claims concerning the forward share contracts. The defendant was ordered to pay LBI ISK 255 million plus penalty interest from the due date of the contracts in return for assignment of specified shares in Landsbanki Íslands hf. (now LBI) and DNO International ASA. It has not been established whether the case will be appealed to the Supreme Court or not by the defendant. In the case concerning currency swaps LBI's claim is for a principal amount of ISK 263 million, plus penalty interest from the due date of the contracts. The main hearing of the case has not been decided but the judgement of the District Court is expected to be available this year.

Thirdly, there is a case where LBI's claims are based on seven currency swap contracts and its primary claim is for a principal amount of ISK 98 million, plus penalty interest from the due date of the contract. The main hearing in the case is scheduled for September 2015.

Fourthly, there is a case where LBI's claims are based on four currency swap contracts and its primary claim is for a principal amount of ISK 92 million, plus penalty interest from the due date of the contract. The main hearing in the case is scheduled for April 2015.

In the case against the printing company LBI's claims are based on a swap contract and forward equity contracts. LBI's claim is for a principal amount of ISK 550 million, plus penalty interest from the due date of the contracts. The main hearing in the case is scheduled for May 2015.

LBI's claims in the case against the individual are based on a currency swap contract and two forward currency contracts. LBI's claim is for a principal amount of ISK 13 million, plus penalty interest from the due date of the contracts. The main hearing in the case is scheduled for September 2015.

It could be mentioned that the judgement of the Supreme Court of Iceland in case no. 320/2014 ordered a domestic financial undertaking to pay LBI a debt arising from a currency swap in the amount of ISK 147 million plus penalty interest from August 2009, for a total of ISK 291 million. The amount was paid in full in January 2015.

3.5 Bank tax – Financial administration tax

3.5.1 In general

Previous Winding-up Board reports have not discussed LBI's tax issues specifically, apart from the accounts given of amendments to taxation legislation insofar as this has been regarded as applying to LBI's tax liability.

Since new legislation and the tax authorities' interpretation of it has resulted in the levying of substantial taxes and payments by LBI a special account will be provided here of the status of these issues.

3.5.2 Special Tax on Financial Undertakings

As described in Section 2.4, Act No. 139/2013, which entered into force on 31 December 2013, cancelled the exemption of financial undertakings in winding-up proceedings from the special tax on financial undertakings provided for in Act No. 155/2010 (bank tax). The amending Act made the tax base of financial undertakings in winding-up proceedings their finally recognised claims at year-end in excess of ISK 50 billion. The tax rate was also increased from 0.041% to 0.376%.

LBI submitted its 2014 tax return for the 2013 tax year with a reservation regarding the legal basis of levying the bank tax on the company, reserving itself all rights in this connection.

When taxes were levied on legal entities in the autumn of 2014, LBI was assessed taxes amounting to ISK 7.7 billion on a tax base amounting to ISK 2,040 billion, which was calculated on the outstanding balance of finally recognised claims as of year-end 2013 amounting to ISK 2,090 billion, net of the ISK 50 billion allowance.

LBI paid the bank tax as assessed on the mandatory due dates, with a reservation regarding its legitimacy, at the same time demanding repayment and reserving the right to interest as provided for by Act No. 29/1995, on Repayment of Excess Taxes and Fees Collected. The Icelandic state has

acknowledged receipt of the reservation and demand for repayment, and furthermore has rejected this demand.

The above-mentioned reservation concerns principally that the provision of Act No. 139/2013 contravenes Articles 40, 65, 72 and 77 of the Constitution of the Republic of Iceland, Act No. 33/1944, and the first paragraph of Art. 1 of Protocol 1 of the European Convention on Human Rights and Art. 14 of the Convention.

If there is no change in the position, it is likely that the legitimacy of levying a bank tax on financial undertakings in winding-up proceedings will be tested in court. It is not yet established by what means this would be done, including whether a test case could be brought concerning the issues in dispute and in the eventuality what the case would be.

3.5.3 Financial Administration Tax

The adoption of Act No. 165/2011, which entered into force on 30 December 2011, introduced a so-called Financial Administration Tax.

Firstly, this is a general tax on financial activities, as provided for in Art. 4 of the Act. Its tax base is all types of wages or remuneration for work, of any and every sort, which are taxable under Point 1 of Part A of Art. 7 of Act No. 90/2003, on Income Tax, as specified in that provision. Secondly, this is a special tax on financial activities. The latter was enshrined in law by Art. 18 of Act No. 165/2011, on Financial Administration Tax, which comprised an amendment to the third paragraph of Art. 71 of Act No. 90/2003, on Income Tax. It reads as follows:

a. *"To the third paragraph of Art. 71 two new sentences shall be added, which shall read as follows: Notwithstanding the provisions of the first and second paragraphs and the first sentence of this paragraph, a special financial administration tax shall also be levied on parties liable for tax pursuant to Art. 2 of the Act on Financial Administration Tax. The special financial administration tax shall be 6% of the income tax base in excess of ISK 1,000,000,000, cf. Point 2 of Art. 61.*

b. *A new Temporary Provision shall be added, which shall read as follows:*

   Payment shall be made in advance towards the assessed special financial administration tax as provided for in the second sentence of the third paragraph of Art. 71 on 1 April 2012 for January, February and March 2012 and subsequently each month in 2012. Payments shall be based on a tax base of regular activities as of year-end 2010 and the tax rate referred to in the second sentence of the third paragraph of Art. 71, regardless of joint taxation and losses carried forward."

Art. 12 of Act No. 142/2013, which entered into force on 1 January 2014, added a new sentence to the third paragraph of Art. 71 of Act No. 90/2003, stating that in levying special financial administration tax no regard should be had for joint taxation and losses carried forward.

According to this the base for the special financial administration tax is the income tax base of legal entities as referred to in Chapter II of Act No. 90/2003 in excess of ISK 1 billion, having regard for the deduction allowed to these parties under Art. 31 of the Act, apart from the fact that no consideration is given to joint taxation or losses carried forward.

In LBI's estimation the company is not a taxable entity as referred to in the above-mentioned provision. It should be pointed out that for this reason no explanation is given of the said Act in Chapter 2 of this Report.

The question of who are considered to be taxable entities both with regard to the general and special financial administration tax is discussed in Art. 2 of Act No. 165/2011. It reads as follows:

> *"The following parties are taxable pursuant to this Act:*
>
> 1. *Public limited companies, insurance companies and European Companies (Societas Europea, SE), as referred to in Act No. 56/2010, on Insurance Activities, as well as other entities which on a commercial basis or as independent operators provide work or services which are excluded from value-added tax as provided for in Point 9 of the third paragraph of Art. 2 of Act No. 50/1988, on Value-Added Tax.*
> 2. *Commercial banks, savings banks, credit institutions, investment firms, securities brokers, management companies of UCITS, as well as other financial undertaking as referred to in 161/2002, on Financial Undertakings, which on a commercial basis or as independent operators provide work or services which are excluded from value-added tax as provided for in Point 10 of the third paragraph of Art. 2 of Act No. 50/1988, on Value-Added Tax.*
> 3. *Branches, agents and others who represent foreign parties with activities in Iceland as referred to in Points 1-2."*

Should it be decided, which LBI considers doubtful, that it is possible to interpret the provisions of Art. 2 of the Act to mean that financial undertakings in winding-up proceedings are included under "other financial undertakings" the tax liability of such a party will be determined by whether it provides, on a commercial basis or as an independent operator, work or services which are excluded from value-added tax as provided for in Point 10 of the third paragraph of Art. 2 of Act No. 50/1988. This provision exempts the services of banks, savings banks and other credit institutions as well as securities brokerage from value-added tax.

The Explanatory Notes to the bill which was adopted as Act No. 50/1988 state regarding the said provision:

> *"Services of banks, savings banks and other credit institutions are exempt for technical reasons, cf. Point 10 of the third paragraph. This exemption also covers parties pursuing securities brokerage. The exemption provision covers only actual banking and lending activities. If these parties operated a print shop, for example, for their own purposes then such activities would be considered taxable, cf. the second paragraph of Art. 3."*

In LBI's estimation the company's winding-up proceedings do not comprise "actual banking and lending activities", as understood in Point 10 of the third paragraph of Art. 2 of Act No. 50/1988, as its activities concern only those functions which must be carried out by law to achieve the mandatory objectives of the winding-up proceedings which are discussed in Chapter 2 above, cf. also the third paragraph of Art. 9 of Act No. 161/2002 (AFU).

On the other hand, the position of the tax authorities is that LBI is a taxable party as referred to in Art. 2 of Act No. 165/2011 and on this basis the company was assessed general financial administration tax for 2012 and 2013 totalling ISK 92.6 million.

LBI paid the general financial administration tax as assessed with a reservation regarding its legitimacy, at the same time demanding repayment and reserving the right to interest as provided for by Act No. 29/1995, on Repayment of Excess Taxes and Fees Collected. The Icelandic state has acknowledged receipt of the reservation and demand for repayment, and furthermore has rejected this demand.

The above-mentioned reservation maintained principally that LBI should not be considered a taxable entity. If there is no change in the position, it is likely that the legitimacy of levying a financial administration tax on financial undertakings in winding-up proceedings will be tested in court. It is not yet established by what means this would be done, including whether a test case could be brought concerning the issues in dispute and in the eventuality what the case would be.

No special financial administration tax has been levied on LBI, as up until now no tax base has existed for such a levy according to the company's tax return.

CHAPTER 4

LIST OF CLAIMS AND HANDLING OF DISPUTES

4 List of claims and handling of disputes

This Chapter reviews decisions taken by the Winding-up Board on claims received since the most recent creditors' meeting. It also discusses those claims which were not dealt with in previous creditors' reports. In the same manner as has been done previously, an account will be given of the status of disputes and final conclusions on claims.

The claims are discussed in order of the priority ranking claimed and explanatory tables and figures show the status of dispute resolution in terms of the amounts concerned for each provision and as a whole. As before, the discussion in this Chapter will be limited to those changes which have occurred since the last creditors' report and to claims or groups of claims amounting to more than ISK 1 billion.

Regarding the process of lodging claims in general, transfer of claims and LBI's decision process, reference is made to previous reports which have been presented at creditors' meetings in March 2013 and November 2012. Creditors' reports are accessible to creditors on the restricted creditors' area of the website www.lbi.is.

4.1 Decisions on claims

Since the Winding-up Board last presented its decisions on recognising claims at its meeting on 23 October 2014, three claims have been received, with a breakdown as follows according their priority as lodged:

Claims lodged with reference to Art. 110	2
Claims lodged with reference to Art. 112	1
Total	**3**

According to Art. 121 of the Act on Bankruptcy etc. (BA), the Winding-up Board is to take decisions on whether and if so how to recognise claims received after the expiry of the time limit for lodging claims as provided for in the second paragraph of Art. 85 of the BA.

4.1.1 Claims for administration of the estate lodged with reference to Art. 110 of the BA

The Winding-up Board received two claims for administration of the estate as indicated above. One of them was a claim from Kaupthing hf. (in winding-up proceedings), which was received on 21 October 2014. The principal of the claim is ISK 8,069,091,352 and in addition interest is claimed with reference to the first paragraph of Art. 8 of Act No. 38/2001, from 6 October 2008 until 20 October 2014, in the amount of ISK 3,040,868,604, and penalty interest from 20 November 2014 until the date payment is made. This claim therefore amounts to over ISK 11 billion and is said to be based on the contention

that at some time after the appointment of the Resolution Committee for Landsbanki Íslands hf. (now LBI) funds were taken illegitimately from accounts of the foreign company Empennage with the bank and disposed of in an unspecified manner, with the result that they are no longer available to satisfy debts owed by that company to Kaupthing hf. The company Empennage is registered in Panama and, according to the Winding-up Board's information, was connected with the stock option system of employees of Landsbanki Íslands hf. prior to the bank's failure.

In the estimation of the Winding-up Board the claim is completely improperly lodged and does not fulfil the requirements of the second and third paragraphs of Art. 117 of the BA. Nor is it possible to determine on what basis LBI's alleged obligation to make payment is based and the same applies as to whether the requirements for admitting the claim in the winding-up proceedings, as provided for in Point 5 of Art. 118 of the same Act, are satisfied. In other respects the Winding-up Board reserves the right to take a substantial decision on the claim at later stages, should the need arise. The creditor was informed of this decision by the Winding-up Board and given an opportunity to object to the decision. The Winding-up Board received the creditor's objection to this decision on 3 March 2015.

The other claim was received from the real estate company A16 fasteignafélag ehf. (13262). The amount of the claim including interest and cost is ISK 30,584,808, but the creditor has furthermore reserved the right to present a higher claim for penalty interest and collection costs. It is maintained that the claim should be admitted on the basis of Point 3 of Art. 110 of the BA, cf. Point 5 of Art. 118, of the same Act. This is a claim in connection with a dispute on the interpretation of a leasing agreement for the premises at Austurstræti 16 in Reykjavik, where LBI had its offices from 2009 until September 2012. The creditor does not appear to have taken any steps to follow up on its claim against LBI since 2012. In the estimation of the Winding-up Board, the claim should not be admitted, as it has not been demonstrated that it was lodged without undue delay, which is a requirement under Point 5 of Art. 118 of the BA. Furthermore, the Winding-up Board is of the opinion that even if the claim were admitted it should all the same be rejected substantially. The creditor's objection to this decision was received by the Winding-up Board on 2 March 2015.

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

One priority claim has been lodged since the creditors' meeting on 23 October 2014. Josephus Antonius Maria Van Raamsdonk lodged a claim (201501-9001) for contractual interest on an Icesave deposit which he received in other respects fully repaid from the Dutch deposit insurance scheme. Since the claim was not lodged within the time limit for lodging claims as provided for in the second paragraph of Art. 85 of the BA it has lapsed towards LBI, as it is evident that the exceptions provided for in Points 1-6 of Art. 118 of the BA do not apply.

4.2 Disagreements due to decisions on claims

The Winding-up Board has taken decisions on almost 12,000 claims which have been discussed at creditors' meetings to date. Insofar as no objections are received to decisions by the Winding-up Board on recognition of claims, at the latest at the creditors' meeting where the claim was discussed, the decision of the Winding-up Board is considered final. On the other hand, if the Winding-up Board's decision has been objected to, an attempt must be made to resolve the disagreement; if this is not successful the dispute is referred to the Reykjavík District Court for resolution as provided for in Articles 120 and 171 of the BA. At year-end 2014, 171 cases were in progress before the courts. Most of the cases concern claims demanding priority with reference to Articles 109 to 112 of the BA, where the disputes concern derivatives transactions and liability for damages due to alleged losses resulting from the settlement of money market funds of Landsvaki hf. Work is underway on referring claims concerning subordinated bonds to the courts.

The discussion of the list of claims and the subsequent discussion here is based on the decisions as recorded in LBI's systems as of year-end 2014. The following figure shows the amounts of claims recognised by the Winding-up Board and the proportion of these which are considered final. It also shows payments towards claims and the outstanding balance of debts after payment.

Claim Priority - Liability type (Amounts in bn ISK)	Accepted Amounts	Final*	Settled by other means	Paid from recoveries	Escrow allocations	Liabilities 31/12/2014	
109 - Proprietery Claims	**9.6**	**100%**	**4.8**	**4.8**	**-**	**-**	
110 - Administrative Claims (Third paragr.)	**14.3**	**100%**	**0.9**	**13.3**	**-**	**-**	
111 - Secured Claims							
Deposit - Retail	6.3	100%	6.3	-	-	-	
Loans from Financial Institutions	48.9	100%	48.9	-	-	-	
Other borrowings	2.8	100%	2.8	-	-	-	
Total Secured Claims	**58.0**	**100%**	**58.0**	**-**	**-**	**-**	
112 - Priority Claims							
Deposit - Retail	1,167.0	100%	-	984.5	1.0	181.5	
Deposit - Wholesale	145.4	100%	-	119.7	-	25.7	
Loans from Financial Institutions	14.2	100%	-	11.9	0.1	2.3	
Loans from Financial.Inst.- Rejected	-			-	-	-	
Other liabilities	0.9	100%	-	0.7	0.0	0.1	
(Claims settled by lump sum payment)	0.7	100%	-	0.7	-	-	
Total Priority Claims	**1,328.2**	**100%**	**-**	**1,117.5**	**1.0**	**209.6**	
113 - General Claims							
Deposit - Retail	0.2	99.99%	-	-	-	0.2	
Deposit - Wholesale	10.4	100%	-	-	-	10.4	
Derivatives	205.5	99.99%	-	-	-	205.5	
Loans from Financial Institutions	49.3	100%	-	-	-	49.3	
Other borrowings	186.2	98.07%	-	-	-	186.2	
Other liabilities	10.6	99.05%	-	-	-	10.6	
Securities Issued	1,231.5	98.47%	22.3	-	-	1,209.3	**
Total General Claims	**1,693.9**	**98.67%**	**22.3**	**-**	**-**	**1,671.6**	
Grand Total	**3,103.9**	**99.27%**	**86.0**	**1,135.6**	**1.0**	**1,881.3**	

* Percentage of accepted amounts that has been finally accepted

** Securities Issued is lowered by 22.3 bn due to payments by set-off

The amount of recognised claims has increased since the Winding-up Board's last report by ISK 26.5 billion and the proportion of finally recognised claims has risen from 80.97% to 99.27%.

The following summary shows the amounts of finally recognised as well as disputed claims. It also shows the amounts of claims rejected by the Winding-up Board together with the amounts in dispute.

Claim Priority - Liability type	Lodged claims	Changed priority	Agreed Final	Agreed Disputed	Decision Postponed	Rejected Final	Rejected Disputed
109 - Proprietery Claims	**128.5**	**- 23.6**	**9.6**	**-**	**-**	**6.2**	**89.1**
110 - Administrative Claims	**61.8**	**6.3**	**14.3**	**-**	**-**	**42.7**	**11.1**
111 - Secured Claims							
Deposit - Retail	346.1	6.3	6.3	-	-	346.1	0.0
Loans from Financial Institutions	115.1	- 39.8	48.9	-	-	26.4	-
Other borrowings	41.9	- 0.9	2.8	-	-	5.9	32.3
Total Secured Claims	**503.0**	**- 34.4**	**58.0**	**-**	**-**	**378.3**	**32.3**
112 - Priority Claims							
Deposit - Retail	2,216.9	0.7	1,167.0	-	-	1,049.4	1.2
Deposit - Wholesale	326.9	4.8	145.4	-	-	186.2	-
Loans from Financial Institutions	108.7	- 4.6	14.2	-	-	89.9	-
Other liabilities	164.5	- 8.2	0.9	-	-	22.8	132.6
(Claims settled by lump sum payment)	1.1	0.0	0.7	-	-	0.4	-
Total Priority Claims	**2,818.0**	**- 7.3**	**1,328.2**	**-**	**-**	**1,348.7**	**133.9**
113 - General Claims							
Deposit - Retail	0.4	0.0	0.2	0.0	-	0.1	0.0
Deposit - Wholesale	10.5	-	10.4	-	-	0.1	-
Derivatives	398.6	1.4	205.5	0.0	-	162.4	32.0
Loans from Financial Institutions	2.2	47.1	49.3	-	-	-	-
Other borrowings	192.8	-	182.6	3.6	-	6.5	0.0
Other liabilities	169.3	8.0	10.5	0.1	5.8	62.4	98.5
Securities Issued	1,755.8	2.5	1,212.7	18.8	-	524.1	2.7
Subordinated securities issued	123.4	-	-	-	-	109.6	13.8
Total General Claims	**2,653.0**	**59.0**	**1,671.3**	**22.5**	**5.8**	**865.3**	**147.0**
114 - Subordinate Claims	**43.2**	**-**				**43.2**	
Grand Total	**6,207.5**	**-**	**3,081.4**	**22.5**	**5.8**	**2,684.4**	**413.5**

A final outcome has been obtained on the Winding-up Board's rejection of claims of ISK 2,684.4 billion, however claims amounting to ISK 413.5 billion which the Winding-up Board has rejected are still disputed.

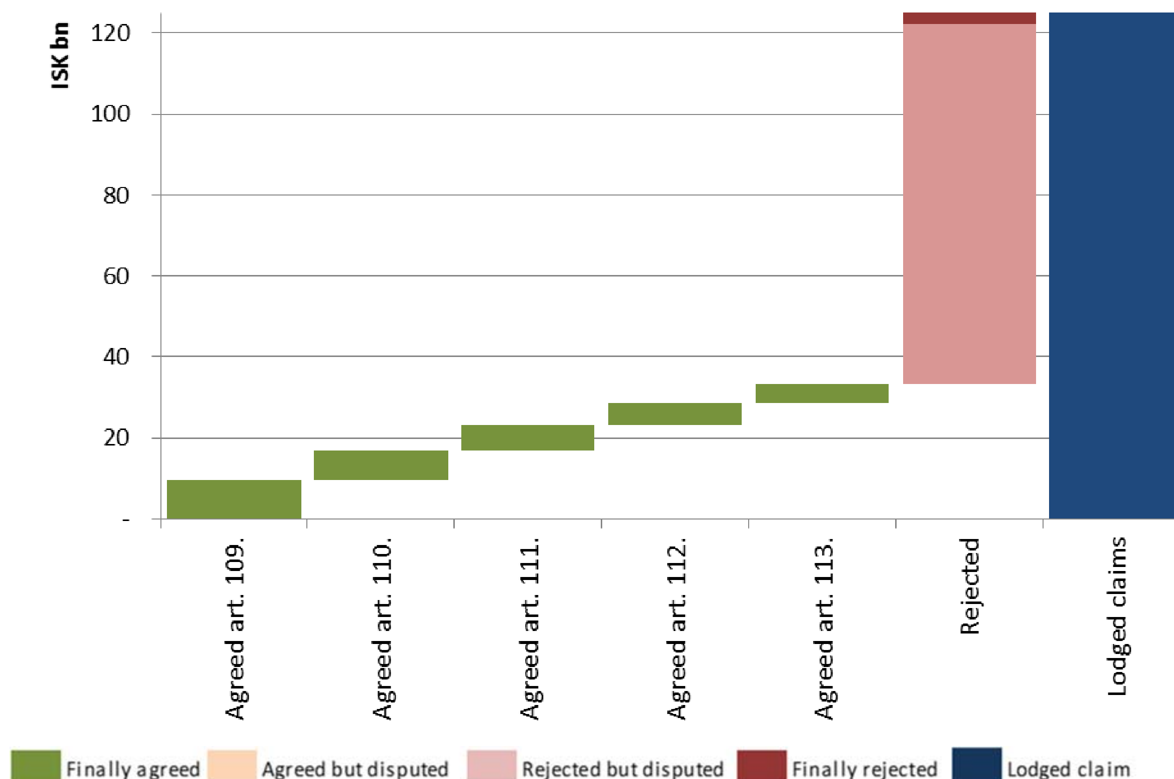
Since the publication of the Winding-up Board's last report in March 2014, claims totalling around ISK 72.4 billion have been added claiming priority with reference to Articles 109 to 111 of the BA.

Among those claims lodged with reference to Art. 112 of the BA is a claim from the UK Financial Services Compensation Scheme, FSCS, (1270) in connection with LBI's guarantee of obligations of Heritable Bank. The claim is based on deposits in that bank and amounts to ISK 132.2 billion. Claims of various other depositors in the same bank were also lodged as general claims with reference to Art. 113 of the BA, based on this guarantee, amounting to around ISK 59 billion. LBI's Winding-up Board has recognised the claims as general guarantee claims with ranking with reference to Art. 113 of the BA, including the above claim from FSCS, but without an amount since creditors' final recoveries from Heritable Bank are not yet established. For this reason they are classified among the rejected and disputed claims for the moment. Distributions from Heritable Bank currently amount to 94.02% of recognised claims and further distributions are expected. The Winding-up Board of LBI therefore does not expect substantial increases to the amounts of finally recognised claims ranked with reference to Art. 113 of the BA when the matter is settled.

4.3 Proprietary claims lodged with reference to Art. 109 of the BA

The list of claims as of year-end 2014 includes claims totalling ISK 128.5 billion demanding priority with reference to Art. 109 of the BA. Of these, final conclusions have been obtained concerning claims totalling ISK 39.4, while claims amounting to ISK 89.1 are still disputed. The total amount of claims lodged in this class has increased by ISK 44.3 billion since the last creditors' report.

See the breakdown in the accompanying explanatory figure.



	Final	Disputed	Total
Recognised with reference to Art. 109	9.6		9.6
Recognised with reference to Art. 110	7.1		7.1
Recognised with reference to Art. 111	6.3		6.3
Recognised with reference to Art. 112	5.5		5.5
Recognised with reference to Art. 113	4.6		4.6
Rejected	6.2	89.1	95.4
Total	**39.4**	**89.1**	**128.5**

An account will be given below of the changes which have occurred since the Winding-up Board’s last report; in other respects reference is made to previous reports. In other words the claims discussed here have either been finalised or they are claims which have not been discussed in previous reports. Only individual claims amounting to over ISK 1 billion will be discussed.

4.3.1 Finally recognised claims with reference to Art. 109 of the BA

Claims of Nordea Bank Finland PLC (1179, 13145, 13146 and 13147) were settled with a consent decree. The total amount of these claims was ISK 9.2 billion. They arose from three currency contracts governed by an ISDA Master Agreement on derivatives. The creditor fulfilled its obligations while LBI failed to do so. The consent decree was issued, in part based on the precedent set by the Supreme Court in case no. 17/2013, and it was agreed to return payments amounting to the equivalent of ISK 4 billion. It should be mentioned that the consent decree also provided for payment by Nordea Bank Finland of almost EUR 6 million to LBI. In connection with this and with the settlement Nordea Bank Finland agreed to return deposits in DKK and SEK and Nordea Bank Norge agreed to return a deposit in NOK. Claim no. 1179, in the amount of ISK 5.2 billion, was withdrawn, together with three other claims lodged with reference to Art. 113 of the BA.

Other claims which were finally recognised with priority with reference to Art. 109 of the BA were claims of Glitnir hf. and Kaupthing hf. in connection with their involvement in mediating payments from foreign parties to recipients in Iceland. It should be pointed out that only a small portion of Glitnir’s claims was recognised in this class, cf. the discussion in the following Section 4.3.2 for details. The amount of claims finally recognised in this class increases from the Winding-up Board's last report from ISK 4.8 billion to a total of ISK 9.6 billion.

4.3.2 Finally recognised general claims with reference to Art. 113 of the BA

The judgement by the Supreme Court of Iceland in case no. 72/2014, which concerned claims lodged by Glitnir hf. claiming priority with reference to Art. 109 of the BA in connection with involvement in mediating payments, only recognised them with a different priority ranking to a limited extent, as has been mentioned. The Winding-up Board's arguments that Glitnir's claims should be recognised as general claims with reference to Art. 113 of the BA were accepted insofar as they concerned entries made prior to the appointment of a Resolution Committee for LBI; this applied to the greatest portion of these claims by Glitnir, amounting to ISK 2.1 billion.

Other claims lodged as proprietary claims but which have now been finally recognised as general claims are claims amounting to ISK 1 billion in connection with derivatives, bonds and invoices. Therefore the amount of claims which the Winding-up Board has recognised with reference to Art. 113 of the BA increases from the last report by ISK 3.1 billion, rising from ISK 1.5 billion to ISK 4.6 billion.

4.3.3 Claims finally rejected

The Winding-up Board has rejected 83 claims lodged claiming priority with reference to Art. 109 of the BA. The total amount of claims finally rejected as well as the difference between the amount as lodged

and the amount recognised in cases where the Winding-up Board recognised a lower amount, is around ISK 6.2 billion.

The amount of claims which have been finally rejected by the Winding-up Board has increased by ISK 0.8 billion since the last report; these are claims of various sorts, such as subordinated bond claims, profit participation loans, derivative claims and other claims. A final outcome was reached, for instance, rejecting a claim by ALMC (13136)6 with a judgement by the Supreme Court on 11 December 2014 in the Supreme Court's case no. 746/2014.

4.3.4 Rejected claims which are disputed

Still disputed are 7 claims lodged claiming priority with reference to Art. 109 of the BA which were rejected by the Winding-up Board. The total amount of these claims is around ISK 89.1 billion and the increase has been around ISK 35.8 billion. This increase is explained by a claim received from Glitnir hf. (13209) on 12 September 2014, lodged in the amount of GBP 260,473,137, or around ISK 49.8 billion. Glitnir's claim was based on a guarantee declaration of 14 September 2008, in which Glitnir provided LBI with surety for the fulfilment of a specific loan contract by a third party. LBI lodged a claim in Glitnir's winding-up based on this guarantee in the amount of ISK 22.5 billion, which was rejected by Glitnir's Winding-up Board. The dispute is now being heard by the Reykjavík District Court. For its part, Giltnir hf. now maintains principally that the guarantee agreement between the parties should be interpreted to mean that Glitnir hf. acquired a share in the value of assets pledged by the primary debtor of the loan contract which the company guaranteed and which LBI appropriated to enforce the borrower's debt. Therefore it demands principally priority with reference to Art. 109 of the BA, and alternately priority with reference to Art. 110 of the BA and as a second alternate claim with reference to Art. 113 of the Act, and furthermore that the right be recognised to set off the claimed amount against the claim for which LBI may obtain recognition in an action brought in connection with its surety claim against Glitnir. The Winding-up Board rejected the claim completely. The rejection is based on Glitnir having placed the contested issue concerning the parties' agreement of 14 September 2008 in a dispute brought regarding LBI's surety claim, rather than lodging a claim based on the agreement prior to the expiry of the deadline for lodging claims. In addition, the claims are neither supported by the parties' agreements nor by law. The creditor objected to the Winding-up Board's decision and further action has been suspended for an unspecified period until a conclusion has been obtained in a dispute on LBI's claim against Glitnir hf.

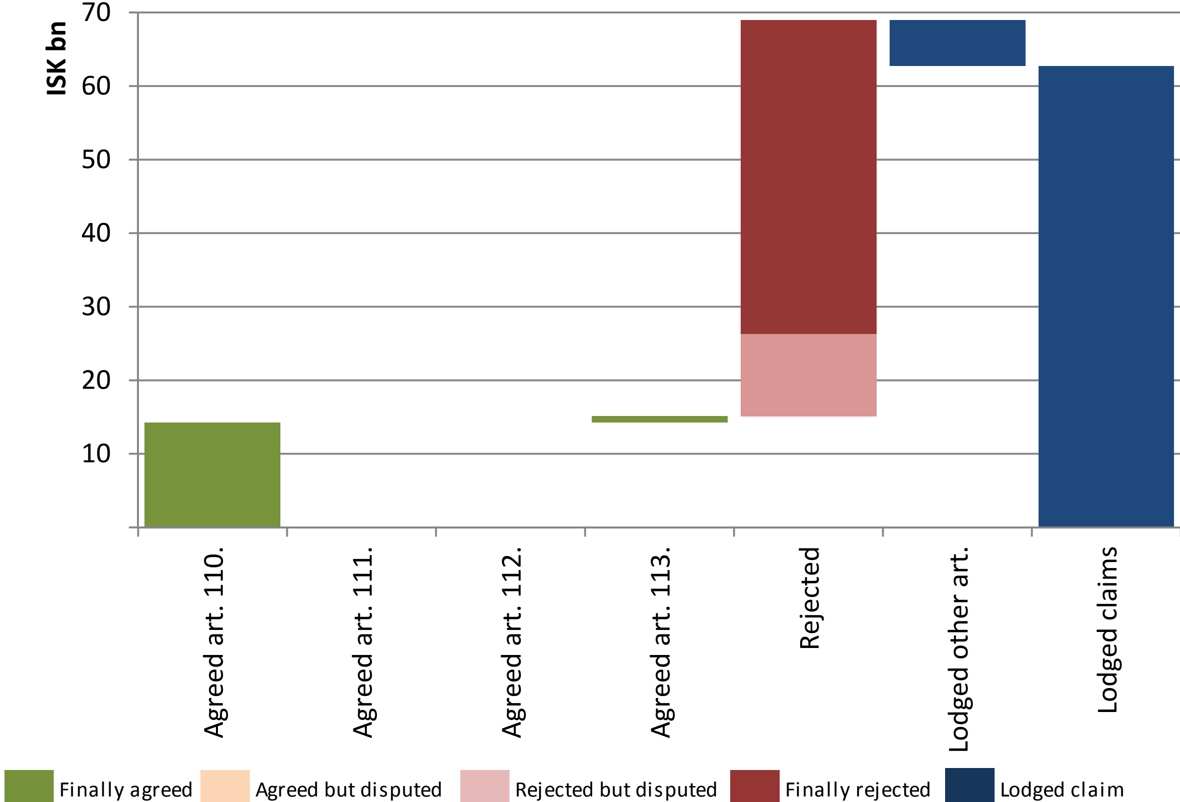
[6] ALMC's claim was discussed on p. 47 of the Winding-up Board's report for 2012.

If Glitnir's claim is excluded, the amount of disputed proprietary claims has in fact decreased by ISK 13.9 billion since the Winding-up Board's last report. As mentioned previously, these include claims from Nordea Bank, Glitnir and Arion Bank.

4.4 Claims for administration of the estate lodged with reference to Art. 110 of the BA

LBI's Winding-up Board has received claims for a total amount of ISK 69 billion primarily requesting priority with reference to Art. 110 of the BA. Since the last creditors' report new claims amounting to ISK 11.1 billion have been received. A final conclusion has been obtained on claims amounting to ISK 57.8 billion, which is an increase of ISK 19.1 billion from the last report. Still disputed are claims equivalent to around ISK 11.1 billion.

See the breakdown in the accompanying explanatory figure.



	Final	Disputed	Total
Recognised with reference to Art. 110	14.3	-	14.3
Recognised with reference to Art. 111	-	-	-
Recognised with reference to Art. 112	-	-	-
Recognised with reference to Art. 113	0.9	-	0.9
Rejected	42.7	11.1	53.8
Total	**57.8**	**11.1**	**69.0**

	Amounts as lodged
Transferred from other categories	6.3
Lodged with reference to Art. 110	62.7
Total	**69.0**

An account will be given below of the changes which have occurred since the Winding-up Board's last report; in other respects reference is made to previous reports. In other words the claims discussed here have either been finalised or they are claims which have not been discussed in previous reports. Only individual claims amounting to over ISK 1 billion will be discussed.

4.4.1 Finally recognised claims with reference to Art. 110 of the BA

Administration claims finally recognised amount to ISK 14.3 billion. The amount of claims recognised has increased by ISK 5.8 million since the last report, rising from ISK 8.5 billion to ISK 14.3 billion.

A claim was recognised which was lodged by the Housing Financing Fund (12288) in the amount of ISK 3.5 billion in connection with losses suffered by the Fund when it lost rights to set-off with the transfer of HFF bonds from LBI to Landsbankinn. The Fund's original claim was for ISK 10 billion. Similarly, agreement was reached on a claim from Landsbankinn (13140) in the amount of ISK 2.3 billion for interest on the principal which was recognised by the Supreme Court's judgement in case no. 112/2012. The claim as lodged amounted to around ISK 7.1 billion.

4.4.2 Claims rejected

Finally rejected

Since the publication of the Winding-up Board's last report a final conclusion has been obtained concerning claims amounting to around ISK 42.7 billion which the Winding-up Board hadrejected. Since this same time additional claims amounting to around ISK 4 billion have been finally rejected. These include two claims from Landsbankinn. One is a claim (13141) in the amount of around ISK 2 billion which was finally rejected based on an agreement for the settlement of claim 13,140, which was discussed above. The other claim (13121) was in the amount of ISK 1.95 billion in connection with LBI's alleged obligations in a back-to-back guarantee towards a third party in 2003. The dispute on the Winding-up Board's decision to reject the claim was referred to the District Court for resolution. A Ruling of the Reykjavík District Court of 26 May 2014 in case no. X-55/2013 upheld the Winding-up Board's decision to reject the claim. The Ruling was not appealed to the Supreme Court and therefore the Winding-up Board's decision to reject the claim is considered final.

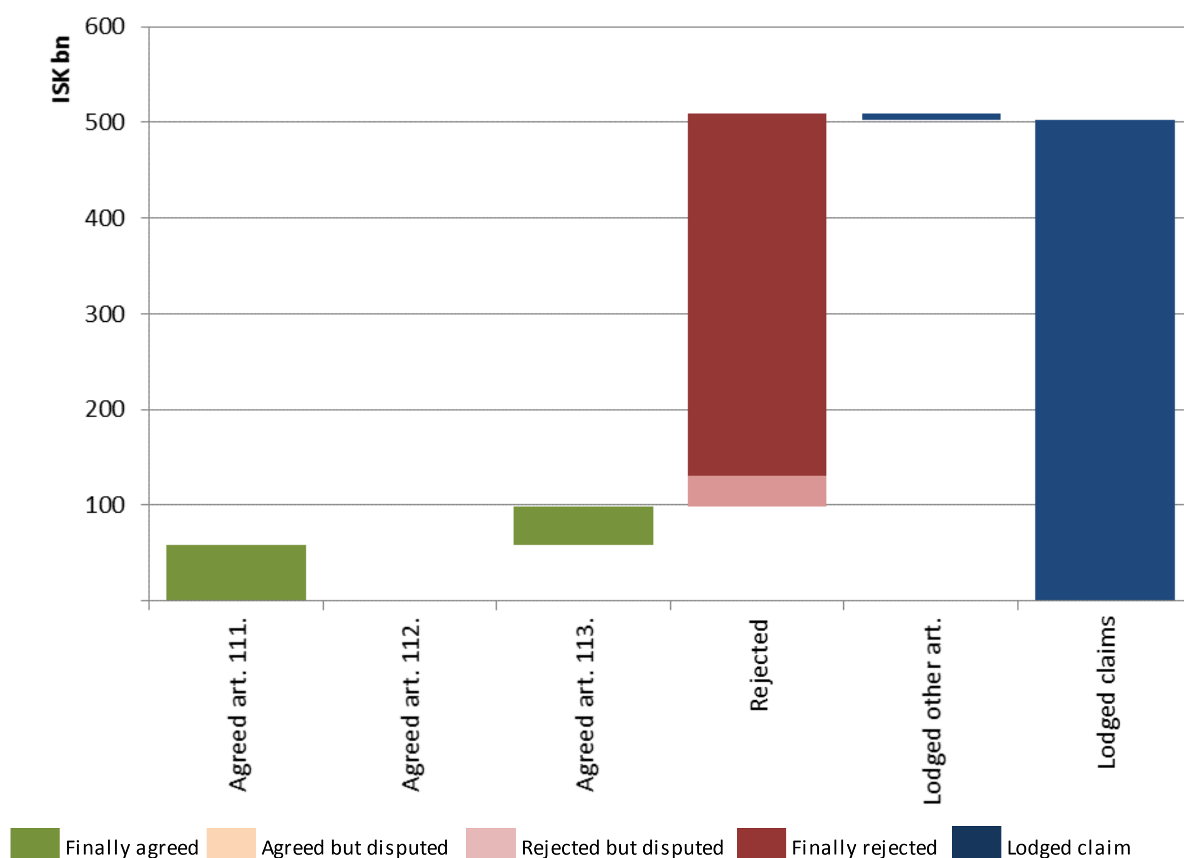
Rejected claims which are disputed

A disputed claim from Kaupthing (13254) in the amount of ISK 11.1 billion, was discussed in Section 4.1.1 and reference is made to that discussion.

4.5 Secured claims lodged with reference to Art. 111 of the BA

LBI's Winding-up Board received claims amounting to ISK 509.4 billion requesting priority with reference to Art. 111 of the BA. A final conclusion has been obtained on claims amounting to ISK 477 billion, which is an increase of ISK 346.1 billion from the last creditors' report. At year-end 2014 disputed claims amounted to ISK 32.3 billion.

See the breakdown in the accompanying explanatory figure.



	Final	Disputed	Total
Recognised with reference to Art. 111	58.0	-	58.0
Recognised with reference to Art. 113	40.7	-	40.7
Rejected	378.3	32.3	410.6
Total	**477.0**	**32.3**	**509.3**

	Amounts as lodged
Transferred from other categories	6.3
Lodged with ref. to Art. 111	503.0
Total	**509.3**

An account will be given below of the changes which have occurred since the publication of the Winding-up Board's last report; in other respects reference is made to previous reports. In other words

the claims discussed have either been finalised or they are claims which have not been discussed in previous reports. Only individual claims amounting to over ISK 1 billion will be discussed.

4.5.1 Claims rejected

The Winding-up Board has rejected claims for a total amount of ISK 410.6 billion lodged with reference to Art. 111 of the BA.

Finally rejected

Of those claims rejected by the Winding-up Board claims amounting to around ISK 378.3 billion are finally rejected. This is an increase of ISK 346.1 billion from the Winding-up Board's last report. The increase is mainly due to a final decision on three claims. DNB lodged a claim (2) with reference to Art. 111 of the BA concerning a deposit which LBI held with DNB in the amount of some EUR 20 million. The Winding-up Board refused to recognise either the lien right or DNB's right to set-off and a dispute on this decision was heard by the courts. A judgement by the Supreme Court in case no. 120/2014 upheld the Winding-up Board's decision.

The Depositors' and Investors' Guarantee Fund (TIF) lodged two claims (1243 and 1245) totalling around ISK 340 billion in connection with LBI's Icesave deposits in the bank's Amsterdam branch. It demanded principally priority with reference to Art. 111 of the BA and alternately with reference to Art. 112 of the BA. The Winding-up Board rejected both claims completely and TIF withdrew its objections early in 2014 after all the Fund's claims had been referred to the District Court for resolution. The decision is therefore final.

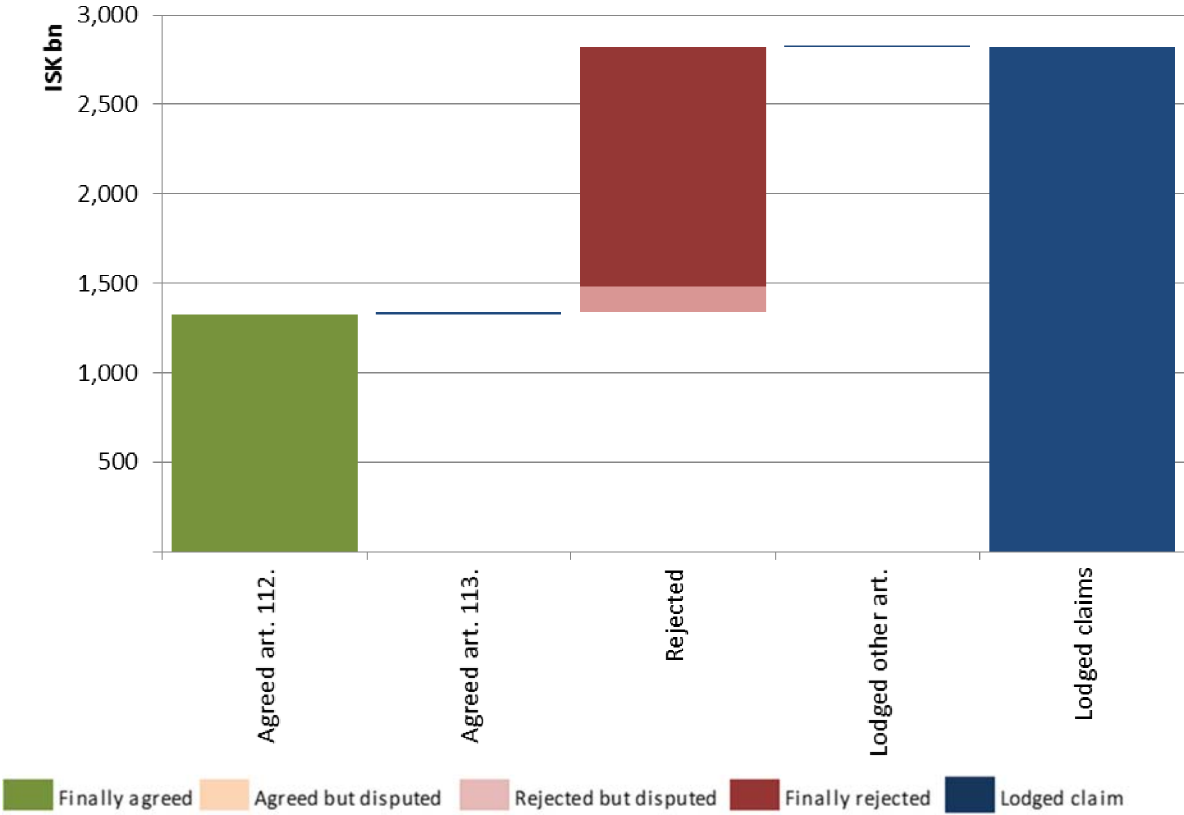
Rejected claims which are disputed

Six claims in this class rejected by the Winding-up Board amounting to a total of around ISK 32.3 billion are disputed. Of these, two claims received since the publication of the last report have not been discussed previously. These are claims from Kevin G. Stanford (13251 and 13252) totalling around ISK 11.6 billion, which were lodged as counterclaims for set-off against claims against him which were assigned to LBI from LI Lux. The counterclaims are lodged as claims for damages and it is maintained that they should be admitted for set-off on the basis of Point 3 of Art. 118 of the BA, cf. Art. 100 of the same Act. It should be pointed out that LBI won a court case against the creditor before the English courts on its claims, cf. the discussion in Section 3.4.1.1 above. Despite the amount of the counterclaims as lodged they can never exceed the amount of LBI's claims against the creditor.

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

The list of claims includes claims requesting priority with reference to Art. 112 of the BA for a total amount of ISK 2,824.1 billion. Final conclusions have been obtained concerning claims totalling ISK 2,684.4, while claims amounting to ISK 139.7 billion are still disputed.

See the breakdown in the accompanying explanatory figure.



	Final	Disputed	Total
Recognised with reference to Art. 112	1,328.2	-	1,328.2
Recognised with reference to Art. 113	12.8	-	12.8
Rejected	1,343.4	139.7	1,483.1
Total	**2,684.4**	**139.7**	**2,824.1**

	Amounts as lodged
Transferred from other categories	5.5
Lodged with ref. to Art. 112	2,818.6
Total	**2,824.1**

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

4.6.1 Finally recognised claims with reference to Art. 112 of the BA

The total amount of claims finally recognised has increased by ISK 3.1 billion since the Winding-up Board's last report. The Winding-up Board has now recognised a claim from UniCredit (1289) in connection with a money market deposit; the dispute between the parties concerned the creditor's right to a set-off. When the creditor withdrew its reservation regarding a set-off and agreed to pay its debt owed to LBI in the amount of EUR 9.7 million the Winding-up Board considered the conditions were satisfied to accede to its claim for the deposit.

4.6.2 Claims rejected

The Winding-up Board has rejected claims in this class totalling around ISK 1,483.1 billion. Of these, final decisions are available on claims totalling around ISK 1,343.4 billion.

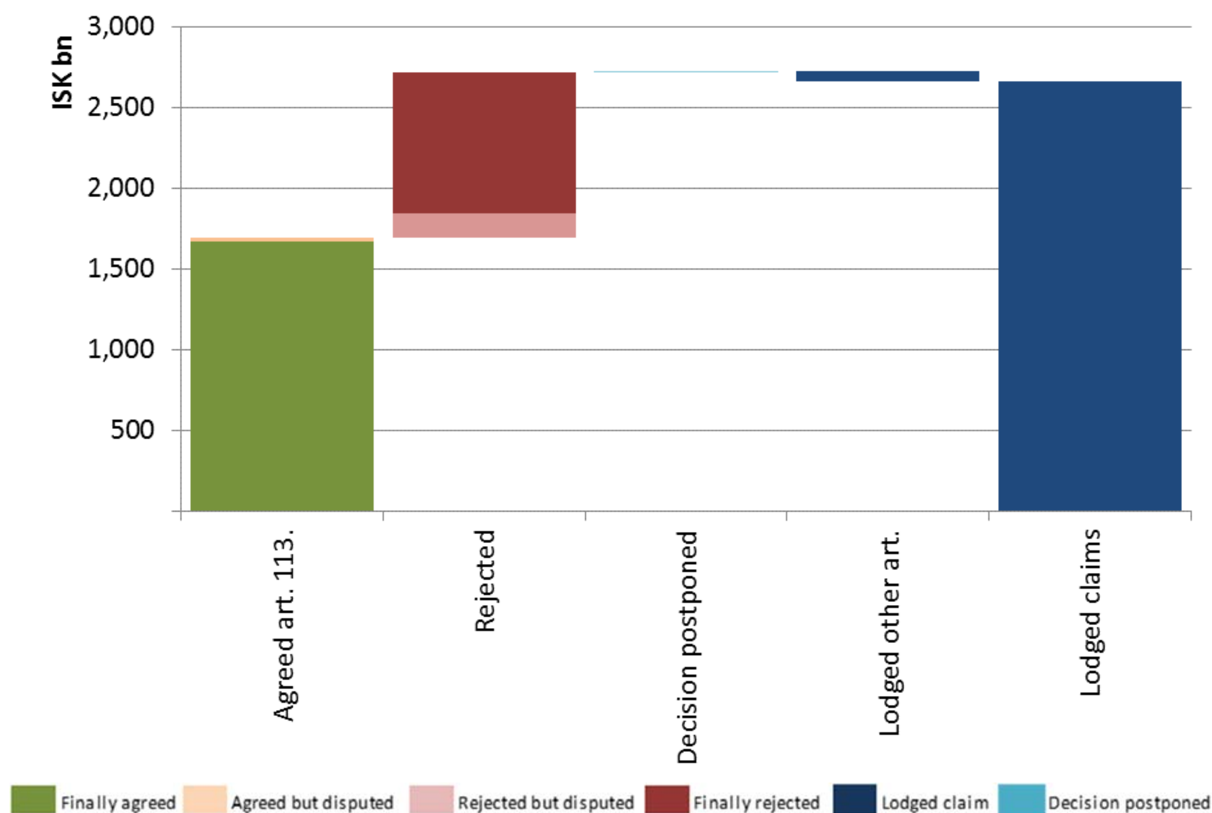
Claims finally rejected

A final conclusion has been obtained on the rejection of claims amounting to around ISK 1,110.7 billion in addition to the ISK 232.7 billion in the last report. These include five claims from TIF (1269, 1271, 1273, 1276 and 1300) totalling ISK 1,109.8 billion which had been referred to the Reykjavík District Court for Resolution. TIF withdrew these claims in a session of the Reykjavík District Court held on 10 January 2014.

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

The list of claims as of year-end 2014 includes general claims with reference to Art. 113 of the BA totalling ISK 2,721.9 billion. Final conclusions have been obtained concerning claims totalling ISK 2,546.2, while claims amounting to ISK 175.6 are still disputed.

See the breakdown in the accompanying explanatory figure.



	Final	Disputed	Total
Recognised with reference to Art. 113	1,671.3	22.5	1,693.8
Rejected	875.0	147.3	1,022.3
A decision is postponed		5.8	5.8
Total	**2,546.2**	**175.6**	**2,721.9**

	Amounts as lodged
Transferred from other categories	59.0
Lodged as general claims	2,662.9
Total	**2,721.9**

An account will be given below of the changes which have occurred since the Winding-up Board's last report; in other respects reference is made to the previous reports.

4.7.1 Finally recognised claims with reference to Art. 113 of the BA

General claims totalling around ISK 1,671.3 billion have been finally recognised. In addition to claims discussed in the last creditors' report a final outcome has been obtained on claims totalling ISK 575.3 billion.

A final conclusion has been obtained on recognising wholesale deposits amounting to ISK 10.4 billion which the Winding-up Board recognised as a general claim because the creditor had not lodged the claim with priority. This is an increase of ISK 2.2 billion since the Winding-up Board's last report. A judgement by the Supreme Court of 10 June 2014 in case no. 350/2014 upheld the Winding-up Board's decision to recognise a deposit claim of Robein Leven NV (2882) for a total amount of ISK 1.7 billion as a general claim with reference to Art. 113 of the BA, and not as a priority claim. The Court found that the creditor had to state this specifically in the claim as lodged if it wished the claim to enjoy another priority ranking than that of a general claim. The reservation in Art. 117 of the BA was not considered to be satisfied even if it were specified in the claim as lodged that the claim was a deposit claim based on a wholesale deposit. On the same basis a final conclusion has now been obtained concerning 3 wholesale deposits amounting to ISK 0.5 billion and 362 retail deposits amounting to a total of ISK 0.2 billion which are all finally recognised as general claims.

The Winding-up Board was been working on resolving disputed derivative claims and at year-end 2014 claims in this class amounting to ISK 205.5 billion had been finally recognised, an increase of ISK 102.9 billion from the Winding-up Board's last report. The Winding-up Board's report presented in November 2012 provided an account of the recognition of a claim of Avens BV (11961) lodged on the basis of the ISDA Master Agreement in the amount of ISK 97.3 billion. The creditor objected to the Winding-up Board's decision but it has been possible to resolve disagreement the dispute on the claim, which primarily concerned interest and cost, and it is therefore regarded as finally recognised. Claims of Clariden Leu Ltd. (2696) and Mizuho Corporate Bank Ltd. (2884) were lodged on the basis of FX transactions without underlying master agreements. They had been rejected as improperly lodged but an agreement was reached resolving the dispute at dispute resolution meetings. The parties disagreed as to the applicable legislation, method of settlement and interest rates. The claims were finally recognised as general claims in the amount of around ISK 4 billion. Additional disputes have been resolved concerning 14 derivative claims amounting to a total of ISK 1.6 billion, of which ISK 0.5 billion are lodged with priority with reference to Articles 109 and 112 of the BA.

An additional ISK 2.6 billion have been finally recognised on top of the ISK 46.7 billion previously recognised, making the total finally recognised loans from financial undertakings ISK 49.3 billion. Those concerned here are portions of claims by Glitnir and Kaupthing in connection with payment mediation

which were recognised as general claims but had been lodged claiming priority with reference to Art. 109 of the BA, cf. the discussion in Section 4.3.2 above.

Claims concerning other loans amounting to a total of some ISK 182.6 billion have now been finally recognised; this is an increase of ISK 141.9 billion from the last report.

A final conclusion has now been reached on claims of Deutsche Bank AG based on a loan contract on which EUR 300 million were drawn. The dispute concerning the claims was resolved when they were recognised in the amount of ISK 57.6 billion at a dispute resolution meeting in July 2014. One of the claims had originally been improperly lodged and a claim for set-off in the other claim was rejected.

The Winding-up Board has concluded the resolution of a disagreement on a EUR 600 million syndicated loan taken by LBI in the summer of 2006. The finally recognised amount is ISK 72.7 billion, and the additional amount finally recognised since the last report is around ISK 49.1 billion.

The Winding-up Board has made good progress towards resolving disagreement on claims concerning *Schuldschein* contracts. The amount of claims finally recognised by the Winding-up Board is around ISK 32.1 billion, and the additional amount finally recognised since the last report is around ISK 22.2 billion.

With regard to bilateral loan contracts, since the last report a final conclusion has been obtained to recognise a claim from Bayerische Landesbank (2610) in the amount of around ISK 12 billion after the creditor withdrew its objections.

In addition to other debts previously recognised, a further ISK 2.5 billion have been recognised, bringing the total amount finally recognised in this class of claims to ISK 10.5 billion. These are primarily claims concerning invoices as well as wages and other claims.

Work has continued on resolving disagreement on bond claims which the Winding-up Board had recognised but where this decision had been objected to. Since the last report bond claims totalling ISK 323.1 billion have been finally recognised, bring the total finally recognised to ISK 1,212.7 billion.

4.7.2 Claims finally rejected

The Winding-up Board has rejected claims totalling ISK 1,022.3 billion. Of these, decisions on claims amounting to ISK 875 billion are final while claims amounting to ISK 147.3 billion which are disputed. The former include both those claims where the Winding-up Board's decision was not objected to and claims where objections were withdrawn at later stages. This figure also includes cases where a claim has been are recognised with amendments and part of the claim has been rejected. No special account is given of the amounts of claims which creditors have decided to withdraw.

Since the last report, the Winding-up Board has obtained final outcomes on ISK 4.5 billion in the class of derivative claims. A total of ISK 162.4 billion in claims in this class are now considered finally rejected.

These include a claim of ALMC hf., previously Straumur-Burðarás Investment Bank hf. (2903) which was lodged in the amount of around ISK 1.5 billion.

A final conclusion has been obtained rejecting ISK 2.6 billion in claims classed as other loans. This reflects the difference between the amount of claims as lodged and the amount recognised.

A final conclusion has also been obtained rejecting claims lodged amounting to around ISK 60.2 billion which are classed as other debts. These consist primarily of three claims lodged by Landsvaki hf. (2590, 2668 and 2781) in connection with *in solidum* liability of Landsvaki hf. and LBI for alleged illegal and culpable behaviour of employees and/or managers of LBI. The dispute has been resolved, as the creditor has withdrawn its objections, and the Winding-up Board's decision to reject claims amounting to around ISK 41.5 billion is therefore final. There were some instances of individuals lodging claims on the same basis and a final conclusion has been obtained rejecting some ISK 4.1 billion in claims of this sort. Similarly, the pension fund *Eftirlaunasjóður íslenskra atvinnuflugmanna* has accepted the Winding-up Board's decision on its claims (2965, 3423, 3581 and 5211) totalling ISK 2 billion. Another 134 claims amounting to a total of ISK 1.5 billion in connection with deposits in the subsidiary Landsbanki Guernsey have been finally rejected. Finally there are various other claims amounting to ISK 1.2 billion. The figure reflects the difference between the amounts lodged and the amounts recognised.

Bond claims amounting to around ISK 38 billion have been finally rejected. By far the greatest share of this is the difference between the amounts lodged and those recognised. Such claims were completely rejected in several instances due to incorrect blocking numbers, a lack of such numbers or because the claims were wrongly directed at LBI, to mention several examples.

Claims lodged for subordinated notes have now for the most part been finally rejected. Since the publication of the Winding-up Board’s last report final conclusions have been obtained on 167 claims in this class amounting to a total of around ISK 6.3 billion.

4.7.3 Decisions postponed

A total of 44 claims have been received in connection with voiding cases brought in connection with purchases by Landsbanki Íslands hf. of its own bonds and bills totalling ISK 5.8 billion. These purchases have been voided and the cases are now being tested by the courts. Should the outcome be that these parties will be subjected to voiding and ordered to repay, they are permitted to have a claim for the original amount admitted in the winding-up proceedings, as provided for in Art. 143, cf. Point 6 of Art. 118, of the BA. As the outcome of the voiding cases is not yet available it was not time yet to take decisions on these claims.

4.8 Claims lodged too late

A total of 1,079 claims were received by the Winding-up Board with reference to Articles 111 to 113 of the BA after the deadline for lodging claims provided for in the second paragraph of Art. 85 of the BA had passed; the total amount of these claims is about ISK 33.7 billion.[7] In the discussion of claims lodged too late, an account will be given of the changes which have occurred since the Winding-up Board's last report; in other respects reference is made to the discussion in previous reports.

Since the last report was published two claims have been registered as lodged too late. One is a claim with reference to Art. 112 of the BA and the other a claim with reference to Art. 113 of the BA.

The decision on the priority claim will be presented at the meeting on 12 March 2015. The decision on the general claim was presented at the creditors' meeting on 23 October 2014. That decision was objected to and the dispute has been referred to the Reykjavík District Court for resolution.

4.9 Summary

The total amount of claims lodged against LBI amounts to ISK 6,207.5 billion. Of these the Winding-up Board has recognised claims amounting to a total of ISK 3,103.9 billion, which is an increase of ISK 13.5 billion from the last creditors' report. Claims which have been withdrawn are not included in the list of claims.

Claims lodged with reference to Art. 109	128,505,825,854
Claims lodged with reference to Art. 110	61,818,696,298
Claims lodged with reference to Art. 111	503,047,480,880
Claims lodged with reference to Art. 112	2,817,998,750,110
Claims lodged with reference to Art. 113	2,652,991,697,491
Claims lodged with reference to Art. 114	43,184,500,684
Total	**6,207,546,951,318**

Claims recognised with reference to Art. 109	9,602,986,614
Claims recognised with reference to Art. 110	14,255,028,447
Claims recognised with reference to Art. 111	58,027,182,365
Claims recognised with reference to Art. 112	1,328,156,968,544
Claims recognised with reference to Art. 113	1,693,871,806,594
Total	**3,103,913,972,564**

[7] Claims of Kevin Gerald Stanford (13.251 and 13252) are classed as rejected and disputed claims with reference to Art. 111, and not as claims considered to be lodged too late, as they are claims for set-offs and it is therefore maintained that they should be admitted on the basis of Point 3 of Art. 118 of the BA.

The Winding-up Board has recognised claims in the amount of ISK 9.6 billion as proprietary claims with reference to Art. 109 of the BA. Still in dispute are seven claims amounting to ISK 89.1 billion; work is underway on resolving disputes on all the claims.

Claims lodged for the administration of the estate which have been finally recognised with reference to Art. 110 of the BA total ISK 14.3 billion. There are five disputed claims totalling ISK 11.2 billion. Work is underway at resolving disputes on all administration claims.

The Winding-up Board has recognised claims in the amount of ISK 58 billion with priority with reference to Art. 111 of the BA. Still in dispute are six claims amounting to ISK 32.2 billion; work is underway on resolving disputes on all the claims.

The Winding-up Board has recognised priority claims totalling ISK 1,328.2 billion. Changes in priority claims since the Winding-up Board's last report are not significant.

The Winding-up Board has recognised general claims totalling ISK 1,693.8 billion. Of these, claims amounting to ISK 22.5 billion are disputed. Considerable progress has been made in resolving disagreements and disputes concerning recognised claims have been almost completely resolved. The total amount resolved in this manner is ISK 561.9 billion. In addition, claims rejected by the Winding-up Board amounting to ISK 147.3 billion are disputed. Therefore, since the last creditors' report disputes have been resolved and the Winding-up Board's conclusions have been upheld in finally rejecting claims for ISK 131.8 billion.

The Winding-up Board is well advanced in resolving disagreement on claims lodged against LBI: over 99% of the total amounts recognised are final. Claims amounting to around ISK 402.4 billion which have been rejected by the Winding-up Board but are disputed remain to be resolved, but this is a considerable decrease from the ISK 1,641.4 billion in the last report. A major portion of the amount disputed is due to claims lodged in 2014, totalling around ISK 72.5 billion.

CHAPTER 5

PARTIAL PAYMENTS AND RELATED ISSUES

5 Partial payments etc.

5.1 Basis for partial payments and legal situation

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

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

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

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

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

events result in the creditor in question not being able to access its deposit, e.g. if rules of the Foreign Currency Act, No. 87/1992, prevent this. This situation exists with regard to part of those partial payments which were made in ISK in 2011.

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

As previously mentioned, the authorisation for partial payments is restricted to priority claims with reference to Articles 109 to 112 of the BA. This means that, if there are not sufficient funds to fulfil all the obligations of a financial undertaking in winding-up proceedings pursuant to Art. 103 a of the AFU, payments or distributions to general creditors, as referred to in Art. 113 of the BA, can either be made on the basis of a composition or, if composition cannot be achieved or it is considered certain that conditions for such will not exist in the future, by requesting liquidation. In the case of the latter, then payments to general creditors are governed by the rules of Chapter XXII of the Bankruptcy Act. It is established that the objective of LBI's Winding-up Board is to conclude the winding-up proceedings with composition in accordance with the rules of Art. 103 a of the AFU when the time is ripe with respect to final settlement of priority claims, which could be possible towards the end of year 2016, c.f. further discussion in Chapter 7 below.

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

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

In the estimation of the Winding-up Board no statutory obligation exists to convert LBI's foreign currency assets to ISK and distribute them to creditors[8]. The Winding-up Board is also of the opinion that this would not be a justifiable treatment of the company's assets given the circumstances which have existed, nor that it would serve the interests of creditors or the winding-up proceedings in general. Furthermore, the Winding-up Board considers the law clear that partial payments may be made in more than one currency and this understanding has now been confirmed by the courts.[9] Having regard for all of the above, partial payments to creditors in accordance with the above-mentioned authorising provision are made by delivering to the creditors concerned payments in the main currencies currently available in the winding-up proceedings[10]. Further details are given below of the amounts and the currencies of those partial payments which have already been made.

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

In accordance with the third paragraph of Art. 99 of the BA, claims in foreign currencies have been converted to ISK based on the quoted selling rate of the Central Bank of Iceland on the commencement date of the winding-up proceedings prescribed by law, 22 April 2009. It derives from this that the value of those foreign currencies which are used for partial distributions must be calculated in ISK against the claims towards which payment is made. This is done to determine the proportion of the payment comprised by the partial payment and thereby how large a portion of the said claims remains still

[8] See also for consideration the judgement of the Supreme Court of Iceland of 10 November 2014 in case no. 707/2014.
[9] Judgement of the Supreme Court of Iceland of 24 September 2013 in case no. 553/2013.
[10] As has been discussed at creditors' meetings, it should be reiterated that on grounds of cost-efficiency this should be restricted to the few principal currencies available, as making payment in more currencies, and in such case in lower amounts in each currency, would result in expense, inconvenience and risk for both LBI and creditors as a whole. On this basis, partial payments in foreign currencies have been made up until now in GBP, EUR and USD. Liquid funds in other currencies are converted to these currencies in tandem with the partial payments as is most practical in each instance.

unpaid and at the same time, and not least important, to determine when the claims have been fully paid.

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

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

When the conclusion of the Supreme Court of Iceland was obtained, work began on recalculating those partial payments which had been made up until that time and notifying the creditors concerned thereof. It should be underlined that the partial payments as such were not altered but instead only the manner in which their value was calculated with respect to the priority claims towards which payment was made and had been entered in ISK. It should be pointed out that this court conclusion made no difference to those lump sum payments amounting to 70% of the claim amounts which had been negotiated and which were accounted for in previous reports of the Winding-up Board and discussed at creditors' meetings.

5.3 Partial payments which have been made to date

The following section reviews in more detail those partial payments remitted by LBI's Winding-up Board in the winding-up proceedings based on the above-mentioned legal references, their amounts and premises, as the case may be having regard to recalculations following the Supreme Court's judgement in case no. 553/2013 in connection with those partial payments which had been made prior to the pronouncement of this judgement. Partial payments in this sense are the disbursements made

towards claims lodged with priority with reference to Art. 112 of the BA, as higher ranking claims which are finally recognised are paid in full or funds set aside to cover them, cf. also the discussion in Section 5.5 below.

5.3.1 First partial payments

The Date of Payment of the first partial payments by the Winding-up Board was 2 December 2011. The payments were made in the following currencies and amounts:

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

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

5.3.2 Second partial payments

The Date of Payment of the second partial payments by the Winding-up Board was 24 May 2012. The payments were made in a single currency:

GBP	850,000,000

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

5.3.3 Third partial payments

The Date of Payment of the third partial payments by the Winding-up Board was 5 October 2012. The payments were made in the following currencies and amounts:

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

Based on the quoted selling rate of the Central Bank of Iceland for EUR, GBP and USD against the ISK on the payment date, the third partial payments were equivalent to a total of ISK 80,049,000,000 or

to 6.029% of all recognised and disputed priority claims with reference to Art. 112 of the BA as of this payment date.

5.3.4 Fourth partial payments

The Date of Payment of the fourth partial payments by the Winding-up Board was 12 September 2013. The payments were made in the following currencies and amounts:

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

Based on the quoted selling rate of the Central Bank of Iceland for EUR, GBP and USD against the ISK on the payment date, the fourth partial payments were equivalent to a total of ISK 67,190,000,733 or to 5.062% of all recognised and disputed priority claims with reference to Art. 112 of the BA as of this payment date.

5.3.5 Fifth partial payments

The Date of Payment of the fifth partial payments was 16 December 2014. The payments were made in the following currencies and amounts:

EUR	1,034,500,000
GBP	865,800,000
USD	604,000,000

Based on the quoted selling rate of the Central Bank of Iceland for EUR, GBP and USD against the ISK on the payment date, the fifth partial payments were equivalent to a total of ISK 402,663,284,000 or to 30.307% of all recognised and disputed priority claims with reference to Art. 112 of the BA as of this payment date.

5.3.6 Summary of partial payments and the status of escrow accounts

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

The total of all the above-mentioned partial payments and lump sum payments as of year-end 2014, for both recognised and disputed claims lodged with reference to Art. 112 of the BA, was equivalent to around ISK 1,118.6 billion, or around 84.14% of the total amount of these claims as of year-end. Of this amount a total equivalent to around ISK 1.1 billion was in escrow accounts as of year-end, for claims which are still disputed. These funds will accrue to LBI once more to the extent that the respective claims are eventually rejected; otherwise they will go to the creditors concerned once the dispute has been resolved.

It should be pointed out that in addition to the above-mentioned funds in escrow accounts in foreign currencies approximately 8.3 billion in ISK still remained in the Winding-up Board's ISK escrow account in Iceland as of year-end 2014. These are funds which were disbursed in that currency when the first partial payments were made in 2011, cf. Section 5.3.1 above. The reason for this is that the creditors concerned have not provided satisfactory payment instructions for ISK, which in most cases is explained by the fact that they have not been able to access their portion of this amount due to restrictions resulting from the capital controls pursuant to rules of Act No. 87/1992, on Foreign Currency.

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

5.4 Tax issues of contention concerning partial payments and escrow accounts.

5.4.1 Tax on financial income in connection with escrow accounts

According to a letter ruling obtained from the Icelandic Directorate of Internal Revenue (RSK) and the assessment of the Winding-up Board and its advisors of the legal status with regard to taxation in other respects, the view is that tax liability in connection with interest income accruing on escrow accounts lies with those creditors who are entitled to the funds therein. Should a claim prove to be finally rejected then, on the other hand, LBI bears the tax liability. Tax liability depends, in other words, on who is the final owner of the funds and thereby bears the corresponding share of the taxable interest accruing on them. It makes no difference that the escrow accounts are formally in LBI's name.

Interest income accruing in this manner on foreign escrow accounts is not taxable in Iceland unless the creditor concerned is a taxable party in Iceland and as such bears liability for this income, or if the claim is finally rejected and the interest income belongs to LBI.

The case is different with regard to interest income accruing in Iceland on the Winding-up Board's ISK escrow account. Such interest income is taxable in Iceland and the tax rate depends upon whether the taxable party is a resident (currently 20%) or non-resident, i.e. a party with limited tax liability in the understanding of the Income Tax Act, No. 90/2003 (currently 10%).

According to confirmed information from RSK tax liability does not arise by law until the funds are available and due to the respective creditor (i.e. the final owner of the interest). This implies, among other things, that if a creditor has no access to a balance due to restrictions arising, for instance, from currency controls under the Foreign Currency Act, the interest is not due until the restriction is removed. Such a restriction cannot in fact be removed unless some sort of exemption is available from the Central Bank of Iceland.

If payment is made from escrow accounts, either in Iceland or abroad, tax obligations may come into consideration which could result in remittance of withholding tax on financial income and/or an obligation on the part of creditors to report the income in their home state and pay tax on this there. In this connection it should be pointed out that certain foreign creditors may be able to apply for an exemption from tax liability if specific conditions are satisfied by submitting an application to this effect to RSK in accordance with the instructions and directions of that office.

5.4.2 Tax on financial income in connection with the interest portion of recognised claims upon partial payment

A special question arises as to whether, and if so how, possible obligation to pay tax on financial income should be determined in those cases where a claim has been finally recognised in the winding-up proceedings and part of the recognised amount consists of interest or penalty interest. Generally speaking, such interest income paid by LBI is taxable if the recipient is liable to pay tax in Iceland. All domestic creditors to whom this applies are therefore liable for tax insofar as interest is paid on their claims in the winding-up proceedings. The tax liability of foreign creditors, with limited tax liability in the understanding of the Income Tax Act, No. 90/2003, in connection with interest of this sort, however, did not arise until amendments were made to Art. 3 of the Act on 29 June 2009 and therefore does not apply to interest income accruing prior to that point in time. Claims for interest after 22 April 2009 on claims with priority ranking with reference to Articles 112 or 113 of the BA are deferred claims with reference to Art. 114 of the same Act and therefore it can be concluded that the tax liability of creditors with limited tax liability is unlikely to be tested in this regard.

To the extent that liability for tax on financial income may arise, it can be regarded as likely that LBI will be the party responsible for withholding and remitting tax on financial income from its payments to creditors in such case, or ensuring by other means that the tax liability of individual creditors is not at the cost of or on the responsibility of LBI and the company's creditors as a whole.

It should be pointed out that LBI's Winding-up Board has specifically emphasised the view, in its written communications with RSK, that in cases where the recognised claim amount is in part in the form of accrued interest which may be taxable as referred to above, the tax liability should not come into consideration until the partial payments towards the claim in question total an amount higher than the principal portion of the claim. In other words, that the interest portion of the claim is not paid until the end, and that it will only be then possible to regard this as taxable profit on an investment. This view has not been objected to by RSK, although it has not been possible to obtain a letter ruling or formal position as yet. As stated in Section 5.3.6 above, partial payments now amount to around 84.14% of priority claims with reference to Art. 112 of the BA. There is still some way to go before tax liability on these premises could be tested. Similarly, the Winding-up Board is of the opinion that tax liability will not be considered in the case of those parties who previously agreed to a settlement of their claims with a lump sum payment of 70%.

5.5 Reserve fund

It is a prerequisite for making partial payments towards claims with priority with reference to Art. 112 of the BA that sufficient funds be retained to discharge possible claims of higher priority ranking in the currencies concerned. Higher priority claims in this context are claims ranked with reference to Articles 109 to 111 of the same Act. Furthermore, the Winding-up Board is obliged to ensure that sufficient funds are available to pay so-called administrative claims, i.e. claims in connection with LBI's winding-up proceedings and the statutory role of the Winding-up Board to safeguard the company's interests to the utmost and maximise recoveries on assets. With this in mind the Winding-up Board has established a so-called reserve fund and retained in this fund sufficient capital to be able to discharge the above-mentioned obligations and to fulfil the statutory obligations for making partial payments. The reserve fund does not consist of separately designated funds but rather funds in specific currencies which must be retained of its liquid assets and cannot be used for partial payments in each instance.

The Winding-up Board takes care to ensure that no more funds are retained in a reserve fund than is necessary. The scope and composition of the currency breakdown of the reserve fund is reviewed at regular intervals and assessed with regard to what is known regarding higher priority claims which have been lodged, operating expenses and other aspects of significance in each instance. In this regard it should be borne in mind that priority claims of higher ranking are for the most part not subject to

the deadline for lodging claims, cf. further Art. 118 of the BA, and can therefore arise long after the deadline for lodging claims provided for in the second paragraph of Art. 85 of the BA, as has in fact occurred.

The reserve fund includes both ISK and foreign currencies. That portion of the fund which is in foreign currency is in two parts: firstly, foreign currency held in Iceland, which can be used to pay obligations in foreign currencies to domestic parties or in connection with domestic assets and, secondly, foreign currency outside of Iceland, which can be used to pay obligations in foreign currencies to foreign parties or in connection with foreign assets. This distinction between types of foreign currency is based on instructions from the Central Bank of Iceland.

An account is provided of the status and scope of the reserve fund at creditors' meetings when there is cause for so doing. It is underlined that estimates of total recoveries in the Winding-up Board's financial information, cf. the discussion in Chapter 3, do not include the reserve fund nor potential higher ranking priority claims. Should such claims prove justified to some extent and correspondingly paid this will result in a corresponding decrease in the estimated recoveries of creditors with claims ranked lower in priority.

5.6 Capital controls and requests for exemption

Reference was made to the capital controls and Act No. 87/1992, on Foreign Currency, in Section 2.3 above. According to the rules of the Act, LBI's Winding-up Board must apply to the Central Bank of Iceland for exemption from the capital controls in order to make partial payments in the winding-up proceedings. This results from the amendment made to the Act in March 2012, when the general exemption for financial undertakings in winding-up proceedings was repealed. Special rules now apply to the procedure when requests for exemption concern amounts greater than the equivalent of ISK 25 billion in a single year, as previously mentioned.

As related in Section 3.2.4, the Central Bank of Iceland approved at the beginning of December 2014 all of the existing requests for exemptions from LBI's Winding-up Board at that time for partial payments authorised on the basis of the rule in the sixth paragraph of Art. 102 of the AFU. These requests in total were equivalent to around ISK 402.6 billion in specific foreign currencies. The partial payments were thereafter disbursed on 16 December 2014, cf. the discussion in Section 5.3.

The Winding-up Board continues to communicate regularly with employees of the Central Bank on issues of concern for the winding-up proceedings, endeavouring to ensure that all information and data from LBI is available to enable decisions on new requests for exemptions to be made as promptly as practicable after they are submitted.

It must be borne in mind that the exemption requests of LBI's Winding-up Board concern authorisation to pay specific, limited partial payments in accordance with a special authorisation in the sixth paragraph of Art. 102 of the AFU. This authorisation is limited to claims with priority ranking in accordance with Articles 109 to 112 of the BA. By making partial payments LBI's Winding-up Board aims to pay such priority claims in full, as discharging them is a premise for being able to conclude LBI's winding-up proceedings with composition, as is the intention. By comparison, it could be pointed out that similar priority claims in the winding-up proceedings of other financial undertakings, as far as can be determined, have been paid in full.

LBI's Winding-up Board will continue to communicate with the Central Bank of Iceland and submit further requests for exemptions as necessary and as funds are recovered in the winding-up proceedings. In this respect it can be considered probable that new exemption requests will have to be submitted in the first half of this year and it is hoped that these requests will be granted, not least in view of the good faith promise made by the Central Bank of Iceland, cf. the discussion in Section 3.2.4 above.

Finally, it should be pointed out that in January this year the Central Bank of Iceland altered the conditions of the auctions through which it purchases ISK in exchange for foreign currency, with the result that foreign owners[11] of ISK, which was acquired through payments towards recognised claims ranked with reference to Articles 109 to 112 of the BA, were given the opportunity of taking part in the auction. LBI's Winding-up Board endeavoured to assist parties who held part of the balance on the ISK escrow account who were able to and wished to participate in the auction. Most of them sought the assistance of Landsbankinn hf. which, together with other specified commercial banks in Iceland, was authorised to aggregate bids and submit them in the auction. The auction date was 10 February this year. The Central Bank of Iceland received 81 bids in all, amounting to a total of ISK 57.9 billion. Bids totalling ISK 11.8 billion were accepted and the single price for each EUR in the auction set at ISK 200. The amount concerned in bids received at this price was reduced proportionally by 51.8816% while the bids received for greater amounts were accepted in full. All bids for lower amounts were rejected. It turns out that bids made on the basis of funds belonging to foreign creditors in LBI's escrow accounts totalling around ISK 350 million were accepted, reducing the balance on the escrow accounts accordingly. Most of the creditors concerned had made bids of ISK 200 per EUR and were therefore subject to the percentage reduction referred to above.

[11] Foreign owners in this context means entites which are not domiciled or registered in Iceland.

CHAPTER 6

SUITS FOR DAMAGES - VOIDING

6 Suits for damages – voiding

6.1 Introduction

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

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

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

At creditors' meetings on 1 December 2010 and 31 May 2012, a brief report was presented on actions for damages and voiding. Reports presented to the creditors' meeting held on 28 November 2012 and 12 March 2014 gave an account of the suits for damages and voiding which had been brought, in addition to which the cases were discussed in more detail at the creditors' meetings.

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

6.2 Actions for damages

6.2.1 Bank guarantee which was not enforced

This case was brought against two former CEOs and the former MD of LBI's Corporate Banking division and their liability insurers.

The principal of the claim against parties is ISK 16.2 billion. Claims against the insurers are limited to their maximum liability which is equivalent to EUR 50 million according to the terms and conditions of the policy. Additional claims against the insurers under the same policy are discussed in sections 6.2.2 and 6.2.3.

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

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

The defendants have submitted their briefs, all of them demanding to be absolved on the basis that this does not comprise tortious conduct on their part. In addition, their insurers demand to be absolved on the basis that the insurance coverage was invalid due to incorrect or insufficient information disclosure. The case has been postponed for further gathering of evidence and it is not possible to say when a judgement can be expected from the District Court.

While the case has been in progress the insurers have endeavoured to gather extensive evidence with the intention of attempting to demonstrate that they received incorrect information when the insurance was approved on their part. The Reykjavík District Court rejected the first request by these parties to have expert assessors appointed by the court to evaluate these aspects. Thereafter a new request for assessment was submitted and was, in the judgement by the Supreme Court of Iceland in case no. 242/2014 pronounced on 29 April 2014, accepted with the exception that one question regarding assessment was rejected. Two expert assessors have been appointed to carry out the assessment, which is very broad in scope. When the assessment will be available is not certain, in addition to which it should be pointed out that both the parties requesting an assessment and/or parties subject to assessment may demand a review assessment.

In other respects this case is ready for the main hearing by the District Court, however, due to the uncertainty concerning the time needed to acquire an assessment and, as the case may be, a review assessment, it is impossible to say when this could take place.

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

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

The principal of the claim against parties is ISK 11.6 billion, while claims against the insurers are limited to their maximum liability which is equivalent to EUR 50 million according to the terms and conditions of the policy. Additional claims against the insurers under the same policy are discussed in sections 6.2.1 and 6.2.3.

The principal circumstances of the case are that LBI's former CEOs approved, on 2 October 2008, a loan to Straumur Investment Bank hf. (now and hereafter ALMC hf.) of ISK 19 billion, without any collateral being provided. ALMC did not pay the loan at maturity, the company was taken over by the Financial Supervisory Authority and thereafter was placed in winding-up proceedings which concluded with composition. A claim for the above-mentioned loan was among those included in ALMC's composition. The case is based on the contention that the CEOs made themselves liable for compensation by agreeing to make a loan to an Icelandic financial undertaking without security under the circumstances which prevailed when the loan was granted and given LBI's situation at that time. The defendants have submitted their briefs, all of them demanding to be absolved on the basis that this does not comprise tortious conduct on their behalf. In addition, their insurers demand to be absolved on the basis that the insurance coverage was invalid due to incorrect or insufficient information disclosure.

While the case has been in progress the insurers have endeavoured to gather extensive evidence with the intention of attempting to demonstrate that they did not receive correct information when the insurance was approved on their part. The Reykjavík District Court rejected the first request by these parties to have expert assessors appointed by the court to evaluate these aspects. Thereafter a new request for assessment was submitted which was, in the judgement by the Supreme Court of Iceland in case no. 241/2014 pronounced on 29 April 2014, accepted with the exception that one question regarding assessment was rejected. Two expert assessors have been appointed to carry out the assessment which is very broad in scope. When the assessment will be available is not certain, in addition to which it should be pointed out that both the parties requesting an assessment and/or parties subject to assessment may demand a review assessment.

In other respects this case is ready for the main hearing by the District Court, however, due to the uncertainty concerning the time needed to acquire assessments, it is impossible to say when this could take place.

6.2.3 Disbursements on 6 October 2008

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

The principal of the claim against parties is ISK 14.1 billion, USD 10.5 million and EUR 10.8 million. Claims against the insurers are limited to their maximum liability which is equivalent to EUR 50 million according to the terms and conditions of the policy. Additional claims against the insurers under the same policy are discussed in sections 6.2.1 and 6.2.2.

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

The defendants have submitted their briefs. All the defendants demanded to be absolved on the basis that this did not comprise tortious conduct on their part. In addition, the insurers demand to be absolved on the basis that the insurance coverage had lapsed due to incorrect or insufficient information disclosure.

Some of the defendants have demanded dismissal of the case. With a judgement by the Supreme Court in case no. 491/2013 the demand for dismissal was rejected and the District Court Judge instructed to accept the case for substantial hearing.

While the case has been in progress the insurers have endeavoured to gather extensive evidence with the intention of attempting to demonstrate that they received incorrect information when the insurance was approved on their part. The Reykjavík District Court rejected the first request by these parties to have expert assessors appointed by the court to evaluate these aspects. Thereafter a new request for assessment was submitted which was, in the judgement by the Supreme Court of Iceland in case no. 243/2014 pronounced on 29 April 2014, accepted with the exception that one question regarding assessment was rejected. Two expert assessors have been appointed to carry out the assessment which is very broad in scope. When the assessment will be available is not certain, in addition to which it should be pointed out that both the parties requesting an assessment and/or parties subject to assessment may demand a review assessment.

A judgement by the Supreme Court in Case no. 687/2014, which was pronounced on 3 November 2014, agreed to LBI's request for appointment of assessors by the Court to obtain further evidence concerning specific aspects of the damages demanded and two assessors have been appointed to carry out the assessment.

Due to the uncertainty concerning the time required to obtain the above-mentioned assessments and, as the case may be, review assessments it is not possible to say when the main hearing of this case by the District Court could take place.

6.2.4 Purchase of shares in LBI in Trading Book II

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

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

This case concerns the purchase by LBI's Brokerage of own shares and shares in two other companies during the period from April to July 2008 for its so-called equity Trading Book II, which was intended to hold assets for brokering to LBI's customers. The claims are based on the contention that in these purchases the defendants exceeded their authorisations to acquire shares for the Trading Book and failed to comply with the obligation to dispose of the shares when the violation was realised. In so doing they had caused a loss, as the shares were worthless upon the collapse of the bank. The insurers do not have a standing in this case but it should be pointed out that notification of loss and claims has been directed to them.

The main hearing of the case in the District Court was scheduled for 27 May 2014 but was postponed due to circumstances concerning the defendants. The main hearing of the case is now to take place on 14 April 2015.

6.2.5 Claims for damages in connection with auditing and consultancy services

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

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

The case is based on the contention that the auditing of annual financial statements and review of interim financial statements and advice on auditing and financial reporting was insufficient. The auditors also neglected to disclose to shareholders and competent authorities certain violations in LBI's activities. As a result thereof, the annual financial statements and interim financial statements did not

provide a true picture of LBI's financial position and activities, which resulted in losses to the bank and its creditors.

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

The Icelandic auditing firm submitted a request for the appointment of assessors which was objected to by LBI. The District Court agreed to the appointment of assessors to respond to three of the 36 assessment questions. The party in question submitted a new request for assessment and a judgement by the Supreme Court of Iceland in case no. 432/2014, which was pronounced on 25 August 2014, agreed to appoint court assessors to respond to four of the six questions for assessment.

The same two experts have been appointed by the Court to carry out the above-mentioned assessments. As both assessment are very substantial in scope, when the assessment will be available is not certain. In addition, it should be pointed out that both the parties requesting an assessment and/or parties subject to assessment may demand a review assessment.

Due to the uncertainty concerning the time required to obtain the above-mentioned assessments and, as the case may be, review assessments it is not possible to say when the main hearing of this case by the District Court could take place.

6.3 Voiding cases pursuant to Chapter XX of the BA, cf. the fourth paragraph of Art. 103 of the AFU

6.3.1 Payment of bonds and bills prior to maturity – repurchases

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

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

“Voiding may be demanded of the payment of a debt during the six months preceding the reference date, if such payment was made by unusual means or earlier than normal or if the amount of payment significantly impaired the payment capacity of the insolvent party, unless the payment appeared normal under the circumstances.

Rescission may be claimed of such payment to close relatives in the six to twenty-four months before the reference date, unless it is established that the bankrupt was solvent at that time, despite the payment.”

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

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

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

1. Should the first paragraph of Art. 30 of Directive 2001/24/EC on the reorganisation and winding up of credit institutions be interpreted to mean that rules on the voidness, voidability or unenforceability of legal acts refer to rules on voiding of measures taken by a financial undertaking pursuant to rules comparable to those which apply to voiding of measures taken by an insolvent under insolvency law?
2. If the response to the first question is yes, then should the first paragraph of Art. 30 of the Directive be interpreted to mean that it is sufficient for a party, at whom a claim for voiding is directed, to provide proof that voiding of a measure pursuant to the law of the member state which applies to the measure would be unauthorised with reference to any sort of rules, e.g. rules on time limits for initiating an action?

   If the response to the second question is no, then should the first paragraph of Art. 30 of the Directive be interpreted to mean that it is necessary for a party, at whom a claim for voiding is directed, to provide proof that conditions for voiding pursuant to the law of the member state which applies to the measure are obviously not satisfied, for instance, due to the fact that authorisation for voiding is completely lacking for the type of measure concerned?

The judgement of the EFTA Court in Case no. E 28/13 was pronounced on 17 October 2014, expressing the following opinion on the above-mentioned questions:

"1. The expression “voidness, voidability or unenforceability of legal acts” in Article 30(1) of Directive 2001/24/EC of the European Parliament and of the Council on the reorganisation and winding up of credit institutions also refers to rescission in bankruptcy law on the basis of avoidance rules, such as those included in Chapter XX of the Icelandic Bankruptcy Act No. 21/1991.

2. Under the second indent of Article 30(1) of Directive 2001/24/EC the beneficiary must prove that, whether for substantive or procedural reasons, under the law governing the act detrimental to the creditors as a whole there is no possibility, or no longer a possibility, to challenge the act in question.

A concrete assessment of the specific act in question must be undertaken. Consequently, even if the act can in principle be challenged under the law of the EEA State governing it, it is sufficient that the beneficiary proves that the requirements for such a challenge are not fulfilled in the case at hand.

It must be assessed according to the rules of the home EEA State whether or not the beneficiary has proved that the law applicable to the act does not allow any means of challenge.”

Further processing of other voiding actions of the same type was suspended in anticipation of this Advisory Opinion.

Gathering of evidence in connection with the conclusion of the Advisory Opinion is currently underway in all of these voiding cases. It is uncertain when this will conclude, but it be will determined principally by whether there is deemed to be a need for the Court to appoint expert assessors. There is no indication therefore as to when the main hearing of these cases could take place.

The Winding-up Board brought one case against an Icelandic financial undertaking in connection with payment of a debt in the manner described above. The Supreme Court pronounced its judgement in the case, no. 702/2011 on 27 September 2014, accepting the voiding and claim for repayment amounting to ISK 147.9 million plus penalty interest and court costs. The summary of the judgement in the registry of the Supreme Court of Iceland is as follows:

“L hf. demanded the voiding of two payments to R hf. which took place on 6 October 2008, for payment of two bills maturing on 5 November that same year; the bills were issued by L hf. Furthermore, it was also demanded that R hf. be made to reimburse to L hf. the amount which had been paid in connection with the bills. The parties disputed whether L hf. had, in making the

payments, repaid a debt pursuant to the bills earlier than normal, so that it authorised their voiding on the basis of the Act on Bankruptcy etc., or whether it had acquired the bills from R hf. The Supreme Court's judgement stated, among other things, that this had to be seen as L hf. having agreed to pay R's claim on it on 3 October 2008 and fulfilled this agreement with a settlement on the 6th of the same month. At that time there was around a month until the claim matured and L hf. had therefore paid its debt to R hf. earlier than was normal. R hf. had not shown it to be likely that it could have expected that the offer originated from a party other than L hf. due to its role as market maker, and therefore R hf. had not demonstrated that payment of the debt could have appeared normal under the circumstances. With reference to this the demand of L hf. for the voiding of the payment was accepted. The monetary claim of L hf. against R hf. was also accepted."

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

6.3.2 Payment of money market deposits

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

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

The Winding-up Board brought 19 actions for voiding and reimbursement on the above-mentioned basis which have been heard by the Reykjavík District Court. Three of these were brought against Icelandic financial undertakings and 16 against foreign financial undertakings. The principal of the claims in the summons totalled ISK 42.4 billion.

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

6.3.3 Payments of salaries, bonuses, premia and stock options

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

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

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

Three voiding actions were brought concerning settlement of bonuses and premia, including settlement of stock options of both the former CEOs and one department head concluded in September and the beginning of October 2008. It is established that LBI's Board of Directors agreed in September 2008 to settle with the CEOs concerning bonuses, premia and stock options not yet due. Payments made to each of them amounted to around ISK 300 million. Before the case was brought, one CEO repaid all but ISK 100 million which was paid to a private pension fund. The other CEO repaid an amount equivalent to ISK 100 million. Voiding actions against these parties demanded repayment of the difference between the amounts which they received and those they repaid. The principal of the claims for repayment amounted to ISK 300 million. The case brought against the CEO who repaid a smaller amount is currently being heard by the Reykjavík District Court. The District Court has decided, having regard to the third paragraph of Art. 102 of Act No. 91/1991, on Civil Proceedings, to postpone the main hearing until a conclusion has been obtained in the criminal case brought by the Special Prosecutor concerning the payments which are concerned in the voiding suit. An agreement was reached, however, with the other CEO on a settlement and this case is closed.

After the District Court had pronounced its judgement in a voiding suit against a department head, accepting the claim for voiding and repayment in the amount of ISK 89.1 million plus interest, an

agreement was concluded with him on a settlement and this case is also closed

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

A voiding suit against one of LBI's former CEOs is being heard by the Reykjavík District Court, demanding the voiding of a payment made to his private pension fund because of a trading loss on a specific transaction which it is maintained LBI had agreed to bear. The principal of the claim for repayment in this connection is ISK 35.1 million; voiding is based on Art. 131 of Act No. 21/1991, as it has not been satisfactorily demonstrated that LBI bore the obligation on which the payment was based. The main hearing of this case was to take place in the Reykjavík District Court on 4 June 2014 but was postponed due to the inability of the judge to attend. The main hearing is scheduled for 17 March 2015.

In a voiding action brought against a former department head of LBI's Brokerage voiding was demanded of bonus payments which he received during the last six months prior to the reference date. The principal of the claim for repayment was ISK 47.3 million The claim for voiding was based primarily on Art. 136 of the BA and the contention that the said party is considered closely related in the understanding of Art. 2 of the BA and that performance-linked salary payments in this manner were obviously unfair during the said period, given the operation and performance of the department which he managed and the bank's financial situation in other respects. Alternately, it is maintained that payment of the bonus comprised a gift in the understanding of the first paragraph of Art. 131 of the BA. A judgement by the Supreme Court in Case no. 489/2014 which was pronounced on 19 February 2015 upheld the District Court's judgement to acquit the party of LBI's claims for voiding and repayment.

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

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

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

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

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

This case was withdrawn by LBI following judgements by the Supreme Court of Iceland discussed in Section 6.3.2. The dispute regarding this set-off is a part of a court case between the same parties which is currently before the English Court, c.f. section 3.4.1.2 above.

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

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

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

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

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

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

A judgement by the Supreme Court in case no. 659/2013 confirmed the District Court's conclusion to dismiss the case, as the conditions for joinder in accordance with the first paragraph of Art. 19 of Act No. 91/1991, to bring suit in a single case against the management company Landsvaki and Landsbankinn, were not considered to be satisfied. After this conclusion it was not possible to further pursue the above-mentioned claim for set-off and LBI paid Landsbankinn the outstanding amount of the administrative claim which had been recognised in the Supreme Court's judgement in case no. 112/2012. Landsvaki was placed in winding-up according to provisions of Act No. 161/2002, on Financial Undertakings, by a Ruling of the Reykjavík District Court pronounced on 28 November last year and a Winding-up Board appointed for the company. Claims for voiding and repayment were lodged in this winding-up which Landsvaki's Winding-up Board rejected. LBI objected to this decision and now awaits the convening of a dispute resolution meeting by Landsvaki's Winding-up Board. The claim lodged is based on the ISK 17.2bn principal claim discussed above, which with accrued interest amounts to over ISK 20 billion, but it is evident, in view of the estimated assets in Landsvaki's winding-up, that only a small fraction of this amount will be recovered if the claim is recognised. It should be pointed out that in accordance with the Supreme Court's conclusion in cases nos. 359/2013 et al. it was evident that the voiding rules of Chapter XX could not be applied to payments received by Landsvaki after the appointment of a Resolution Committee and therefore claims for voiding and reimbursement were only lodged for measures taken prior to the appointment of the Resolution Committee.

6.4 Summary

As the above discussion indicates, it will be some time yet before final judgements are pronounced in the most extensive suits for damages, primarily because gathering of evidence, mainly through assessments to be obtained, is still underway. Assessors can be expected to take a considerable time to conclude the assessments which have already been agreed upon. The requests for assessments which are now being handled by the court are very extensive and, if they are accepted to any extent, it can be expected that it will take quite some time to conclude the assessments. It is worth pointing out that the parties in the case, both those requesting and subject to assessment, can request a review assessment if they are not satisfied with the assessments. It should be reiterated that this gathering of

evidence is taking place, firstly, on the part of the insurers, in those cases where they are the defendants, and secondly, in those cases where damages are claimed concerning auditing and consultancy services. This extensive gathering of evidence likely reflects how the parties involved assess the interests at stake in these cases.

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

Pending suits for damages	Currency	Principal Amount
Bank guarantee which was not enforced (section 6.2.1)	ISK	16,200,000,000
Loan to an Icelandic financial undertaking Oct. 2008 (section 6.2.2)	ISK	11,552,000,000
Disbursements on 6 October 2008 (section 6.2.3)	ISK	14,116,395,373
	EUR	10,840,714
	USD	10,547,970
Purchase of shares in LBI in Trading Book II (section 6.2.4)	ISK	1,208,244,352
Claims for damages in connection with auditing and consultancy services (section 6.2.5)	ISK	83,170,680,018
	EUR	64,931,514
	USD	11,188,670
Total	ISK	126,247,319,743
Total	EUR	75,772,228
Total	USD	21,736,640

Pending suits for voiding	Currency	Principal Amount
Payment of bonds and bills prior to maturity – repurchases (section 6.3.1)	CHF	25,476
	EUR	56,770,737
	USD	641,700
Payments of salaries, bonuses, premia and stock options (section 6.3.3)	ISK	300,000,000
	ISK	35,140,000
Payments made for purchase of securities (section 6.3.4)	ISK	17,198,929,371
Total	ISK	17,534,069,371
Total	CHF	25,476
Total	EUR	56,770,737
Total	USD	641,700

CHAPTER 7

CONCLUSION

7 Conclusion

Right from the beginning of LBI's winding-up proceedings it has been evident that the company would not be able to fulfil its obligations completely, and as a result its winding-up proceedings can only conclude with composition or liquidation, as provided for in Art. 103 a of the AFU.

Chapter 2 discusses LBI's legal position in general. It explains, among other things, that the Winding-up Board can seek composition with creditors when it considers the time to be right for so doing and, furthermore, that the composition does not affect claims with priority as provided for in Articles 109 to 112 of the BA.

Chapter 3 provides an account of the estimated value of LBI's assets and Chapter 4 discusses the list of claims, where LBI's liabilities are shown. According to the information in these sections, the Winding-up Board estimates that recoveries on LBI's assets will suffice to pay in full claims with priority with reference to Articles 109 to 112 of the BA and that there will be considerable funds available for disposition towards claims ranked in priority with reference to Art. 113 of the BA (general claims). Regarding the question of how much may be available for distribution towards general claims, which in the Act are referred to as composition claims, in connection with composition and seeking composition, considerable uncertainty prevails at this stage, in part due to disputed claims which have been lodged with priority with reference to Art. 109 and/or Art. 110 of the BA or claims intended for set-off, and due to disagreement on the legitimacy of the bank and financial administration taxes.

Section 3.4 discusses special taxes on financial undertakings which have been levied on LBI, together with their payment with reservations and claims for repayment. The amounts concerned are considerable, making it evident that the courts' final conclusion on the interpretation on which the tax authorities have based the tax assessments could be of major significance as to when and how LBI's winding-up will conclude.

Discussion of the disputes currently being resolved on claims which have been lodged claiming priority with reference to Articles 109 and/or 110 of the BA or claims intended for set-off, in total equivalent to a principal of around ISK 105 billion, is provided in the preceding Chapter 4. These are claims of the estates of BG Holding ehf., Glitnir hf., Kaupthing hf. and Kevin G. Stanford, all of which were lodged after the expiry of the time limit for lodging claims, making reference to Points 3 to 5 of Art. 118 of the BA. The first of these claims was lodged around mid-2013 while the other three were lodged in 2014. The Winding-up Board has rejected all the claims but it is not established when a final conclusion on the dispute can be expected.

As pointed out in Chapter 5 of the Report, around 84% priority claims with reference to Art. 112 of the BA have now been paid on the basis of the Winding-up Board's authorisation stated there to make partial payments. These payments at present total the equivalent of around ISK 1,118 billion. The outstanding balance on priority claims with reference to Art. 112 of the BA is therefore around ISK 210 billion. According to the existing estimates on recoveries and cash flow, and provided that disputed claims with a higher ranking in priority than those referred to in Art. 112 of the BA are eventually finally rejected, payment of priority claims could be completed before year-end 2016.

Due to all of the above the Winding-up Board does not consider the time to be ripe to assess whether the premises exist for concluding LBI's winding-up by presenting a scheme of arrangements to a creditors' meeting. It has not been demonstrated, in the understanding of the fifth paragraph of Art. 103 a of the AFU, that premises will not exist for seeking composition when the time is right in accordance with the above, and for this reason alone the conditions for requesting liquidation are not satisfied.

In no respect does it appear to serve the interests of LBI's creditors, or to have any advantage for them, to terminate the winding-up proceedings now with liquidation ensuing. On the contrary, liquidation at this point in time could negatively impact interests and assets and cause uncertainty and increase risk for LBI and thereby for its creditors. It should be reiterated in this connection that as long as the winding-up is in process, the Winding-up Board can make payments towards claims ranked with a higher priority than general claims in accordance with the sixth paragraph of Art. 102 of the AFU. Payment towards general claims can only be made on the basis of a composition or through liquidation.

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