



Dear Voting Creditor,

## **SUPPLEMENT TO COMPOSITION PROPOSAL AND INFORMATION MEMORANDUM AND UPDATE RELATED TO ICELANDIC LEGISLATIVE AMENDMENTS**

This Composition Proposal and Information Memorandum Supplement is provided to Voting Creditors to reflect (i) certain non-material changes to the *Composition Proposal dated 13 October 2015 and the accompanying Information Memorandum and annexed appendices for LBI hf.* and (ii) recent legislative amendments adopted by the Icelandic Parliament<sup>1</sup>. Composition Creditors can obtain the full text of the updated documents, including a redline comparison against the original documents, by emailing [composition@lbi.is](mailto:composition@lbi.is) or by going on LBI's website maintained by the Winding-up Board at: <https://composition.lbi.is>. The Winding-up Board does not consider the changes to the Composition Proposal and the Information Memorandum to be material.

**VOTING CREDITORS DO NOT NEED TO RE-VOTE IF THEY HAVE ALREADY VOTED ON THE COMPOSITION PROPOSAL.**

### **I. Legislative Update**

On 4 November 2015, the Icelandic Parliament passed a legislative amendment that requires changes to the Information Memorandum. The legislative changes, as they relate to LBI, are:

1. Composition Voting. The legislative amendment changes the voting percentage of claims required to approve a Composition Proposal to 85%, by value, of those Composition Claims that actually voted at the Composition Meeting.
2. Deadlines Related to Imposition of the Stability Levy. Pursuant to the legislative amendment, the deadline to obtain confirmation of the Composition in order to avoid liability to pay the Stability Levy has been extended from 31 December 2015 to 15 March 2016, so long as LBI applies to the District Court for confirmation of the approved Composition Proposal before year end 2015.
3. The legislative amendment only applies to financial undertakings that have not yet held a meeting to vote on a composition proposal.

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<sup>1</sup> All capitalized terms used but not otherwise defined herein shall have the meanings ascribed to them in the original Information Memorandum.

## II. Composition Meeting

Because of the pending legislative amendments, LBI did not officially provide notice of the Composition Meeting. LBI has now provided official legal notice that the Composition Meeting will be held on **23 November 2015 at 10:00 a.m. (GMT)** at the Hilton Hotel Nordica, Suðurlandsbraut 2, Reykjavík, Iceland.

## III. DBTCA Direction and Instruction Deadline

The deadline for beneficial owners to return their DBTCA Direction, Instruction and Proxy forms to Epiq or their DTC Participant has been extended to **5:00 p.m. prevailing Eastern time on 18 November 2015.**

## IV. Composition Proposal

The Composition Proposal has been amended to clarify the following sections:

1. Section II of the Composition Proposal has been amended to clarify that 112 Claims have been converted into ISK under applicable Icelandic law.
2. Section II, Point 3 has been amended to include the defined term “FX” in order to clarify that LBI may use “any liquid funds which may be available in FX” to pay 112 Claims after Claims with higher ranking priority have been paid or reserved for.
3. Section IV, Point 1 has been amended to clarify that the ISK amounts in the table showing the time schedule for settlement of LBI’s assets is based “solely on estimated recoveries in ~~foreign currencies~~ FX based on the respective rate(s) against ISK on 30 June 2015.”

## V. Information Memorandum

### 1. Definitions.

The following defined terms have been amended:

- a. “Available Cash” means (i) all FX held by the Issuer on the Effective Date, (ii) all FX realised by the Issuer after the Effective Date, (iii) all FX reserved for Disputed Claims, Contingent Claims, Disputed Priority Claims or Contingent Priority Claims, which become available for application in payment on the Bonds after resolution of any such Claims, but excludes any FX necessary to pay and/or fund (a) Priority Claims in accordance with the Composition, (b) any Reserves or amounts standing to the credit of accounts established in respect of these Reserves, and (c) the total amount of operational or other expenditures denominated in FX as set out in the Budget for each applicable financial year.
- b. “Composition Meeting” means the meeting of Creditors intended to be held at the Hilton Hotel Nordica, Suðurlandsbraut 2, Reykjavík, Iceland and currently

scheduled for 23 November, 2015 at 10:00 a.m. GMT or a meeting held in accordance with Article 51 of the Bankruptcy Act, cf. Article 103 A, paragraph three of the Financial Undertakings Act;

- c. “DBTCA Direction and Instruction Deadline” means ~~42~~ 18 November 2015, the date by which Epiq must receive all DBTCA Direction, Instruction and Proxy Forms or Master Direction, Instruction and Proxy Forms to be included in Epiq’s tabulation of directions and instructions to be certified to DBTCA for purposes of voting on the Composition Proposal and/or related issues;
- d. “FX Costs Reserve” means the reserve account established by the Winding-up Board in the name of and maintained by LBI, established to (a) pay any and all reasonable post-Effective Date FX-denominated fees, costs and expenses incurred by LBI in connection with the fulfillment of the Composition, including, without limitation and without double-counting (i) fees and expenses incurred by any persons employed by LBI, (ii) attorneys’ or other professionals’ fees and expenses incurred by LBI, including with respect to the fees of the Bond Trustee, the U.S. Trustee and/or any Agent and/or any costs or expenses incurred by the Bond Trustee, the U.S. Trustee and/or any Agent in connection with the performance of their duties with respect to the issuance and ongoing obligations in respect of the Bonds, (iii) insurance fees, (iv) taxes, (v) escrow expenses, (vi) costs associated with any maintenance, liquidation and administration of any going concern as part of the wind down of such going concern’s business operations, (viii) costs to maintain certain assets while they are held for sale, and (ix) fees incurred in connection with the payment of any principal on the Bonds; (b) fund LBI’s post-Fulfilment Date FX-denominated operating expenses consistent with the Budget; and (c) fund any top-up obligation of LBI with respect to the Indemnity Reserve or to fund LBI’s indemnification obligations pursuant to the Indemnity (as defined in Section 10.3);
- e. “ISK Costs Reserve” means the ISK-denominated reserve account established by the Winding-up Board in the name of and maintained by LBI, to which shall be credited the ISK Costs Reserve Amount, established to pay and/or fund (a) any and all reasonable post-Effective Date ISK-denominated fees, costs and expenses incurred by LBI in connection with the fulfillment of the Composition (save for management incentive schemes or performance payments), including, without limitation and without double-counting (i) fees and expenses incurred by any persons employed by LBI, (ii) attorneys’ or other professionals’ fees and expenses incurred by LBI, (iii) insurance fees, (iv) taxes, (v) escrow expenses, (vi) costs associated with any maintenance, liquidation and administration of any going concern as part of the wind down of such going concern business operations, and (viii) costs to maintain certain assets while they are held for sale; and (b) LBI’s ISK-denominated post-

Fulfilment Date operating expenses consistent with the Budget. To the extent any portion of the ISK Costs Reserve Amount remains on 31 December 2018 after paying all post-Effective Date ISK-denominated fees and expenses of LBI, such amounts shall be transferred to the ISK Reserve and form part of the Stability Contribution;

2. Indicative Timetable.

The indicative timetable has been updated to advise creditors that the Composition Confirmation Hearing is expected to take place in December 2015.

3. Executive Summary.

a. Section 3.3, has been amended to reflect that the Composition will become effective if :

- at least (a) 60% of the votes by number of Voting Creditors that actually vote on the Composition Proposal and (b) ~~85.62~~85% by value of Composition Claims held by Voting Creditors that actually vote ~~in favor of~~ on the Composition Proposal. ~~Voting Creditors should take notice of the fact that not using their rights to vote on the Composition is in effect a NO vote in terms of the value voting threshold.~~

**Note:** Similar changes have been made to Sections 3.7, 8.5 and 12.2.

b. Section 3.5.2 has been changed to clarify that the estimated cost of the *De minimis* Payment is ISK 2.5bn, not ISK 2.65bn.

c. Section 3.6 has been amended to reflect the legislative changes that the deadline to obtain confirmation of the Composition in order to avoid liability to pay the Stability Levy has been extended from 31 December 2015 to 15 March 2016 so long as LBI applies to the District Court for confirmation of the approved Composition Proposal before year end 2015.

**Note:** Similar changes have been made to Sections 3.6, 3.8(b), 4.9, 5.1(a), 6.7, 7.1, 7.5 and 8.5.

4. Treatment of Claims under the Composition.

a. Section 6.1.1 has been amended to clarify that 112 Claims are converted to ISK as required by Icelandic law, but 109 Claims, 110 Claims and 111 Claims are not converted into ISK.

b. Section 6.4, paragraph 2 has been amended as follows: Payment of the *De minimis* Payment will be in the form of a cash ~~FX~~ transfer from LBI in an amount in Euro which is equivalent to the *De minimis* Payment calculated based on the published selling rate of the CBI at the date of payment.

c. Section 6.6.1 (*Shares*):

LBI has agreed that any new business or change in the nature of its existing business as at the date of adoption of the Articles of Association shall require approval by a majority vote at a shareholder's meeting, unless the Board of Directors has resolved (acting reasonably) that such actions will be beneficial to the holders of the Bonds and would not have adverse tax consequences for LBI.

Also see Article 22.1(e) in the Articles of Association.

d. Section 6.6.2(d) (*Conversion Price*) has been amended as follows:

Any conversion of the Bonds shall take place at the Conversion Rate specified in the Conditions. Given that the Class A Shares issued pursuant to a conversion may not be denominated in Euros, the Conditions have been amended to allow for the conversion into Euros of the nominal amount of the Class A Shares, by reference to the EUR/ISK exchange rate fixed by the Central Bank of Iceland on the day that is two (2) Business Days prior to any Conversion Date.

Also see Condition 6.3(b) in the Conditions of the Bonds.

e. Section 6.6.2(g) (*Events of Default*) has been amended as follows:

The Event of Default referred to in Section 6.6.2 (g)(ii) relating to a failure by LBI to perform any of its material obligations under the Trust Deed and/or the Conditions of the Bonds has been amended by extending the 60 day calendar day cure period to 90 calendar days.

Also see Condition 11(b) in the Conditions of the Bonds.

f. Section 6.6.2(h)(viii) (*Covenants*) has been amended as follows:

A new covenant has been included, requiring the Issuer to notify Bondholders as soon as possible to the extent that an Event of Default has occurred or if, in the opinion of the Board of Directors, an Event of Default is reasonably likely to occur.

Also see Condition 4.9 in the Conditions of the Bonds.

g. Section 6.6.2(i)(ii) (*Financial Information*) has been amended as follows:

The Issuer's covenant to prepare and post quarterly unaudited accounts has been brought forward from the first quarter in 2017, to commence following the first quarter in 2016.

The Issuer has agreed to provide certain additional information when delivering its financial statements, including (i) an asset-monetisation plan,

prepared on a 12 month look-forward basis and (ii) a summary of amounts released from Reserves, also prepared on a 12 month look-forward basis.

Also see Condition 4.7(b) and (d) in the Conditions of the Bonds.

- h. Section 6.6.2(j) (*Amendments*) has been amended as follows:

Where previously, certain reserved matters (including making amendments to the maturity of the Bonds, reducing or cancelling the principal amount of the Bonds, modifying the provisions relating to Events of Default, enforcement or conversion, amending the currency of the Bonds, or amending any Bondholder rights), could not be effected by Bondholder resolution, such amendments are now possible but only with the unanimous consent of all the Bondholders holding outstanding Bonds. For all other matters, amendment is possible if approved by Extraordinary Resolution, which now only requires 66<sup>2</sup>/<sub>3</sub>% of Eligible Persons voting (reduced from 75%). However, any such changes may only be made to the extent that they effect all outstanding Bonds and Bondholders equally.

Also see Annex 1 to the Conditions of the Bonds.

## 5. Financial Projections of LBI.

- a. Section 7.5 adds the following table to set out the underlying Asset categories in the Projected Case Recovery:

Estimated Projected Case Pro Forma Distributable Value (ISK bn)	Assets for Claimants	(–)	Satisfaction of 112 Claims	=	Est. Pro Forma Value for 113 Claims
Cash	221.6	(–)	210.6	=	11.0
Loans to Financial Institutions	12.5	(–)	–	=	12.5
Loans to Customers	46.4	(–)	–	=	46.4
Bonds	–	(–)	–	=	0.0
Equities	0.8	(–)	–	=	0.8
LB Financing	151.8	(–)	–	=	151.8
Derivatives	0.3	(–)	–	=	0.3
Non-current Assets	1.6	(–)	–	=	1.6
Damage/voiding cases	7.1	(–)	–	=	7.1
<b>Estimated distributable asset value</b>	<b>441.9</b>		<b>210.6</b>		<b>231.4</b>

## 6. Risk Factors.

Each Composition Creditor’s attention is drawn to the following **Risk Factors** that have been added to the Information Memorandum, which supplement the other Risk Factors in Section 8 of the Information Memorandum:

- a. Section 8.3 (Risks Regarding LBI’s Liabilities)

*Prior to full payment of 112 Claims, fluctuations in the rate of the ISK against the currencies in which LBI’s assets are denominated may affect the recovery of Composition Creditors.*

LBI's liabilities on account of 112 Claims and 113 Claims have been converted into ISK in the Claims register as required by Icelandic law, based on the published selling rate of the CBI at the Reference Date. Pursuant to the decision of the Supreme Court in Case No. 553/2013, the applicable conversion rate with respect to payments in FX of Claims in ISK is the published selling rate of the CBI at the date of payment. As the distributable assets of LBI are denominated in currencies other than ISK, fluctuations in the rate of the ISK prior to payment of 112 Claims pursuant to this Composition Proposal may increase or reduce the amount of FX needed to pay the 112 Claims in full and therefore may negatively affect the expected recoveries of Composition Creditors.

b. Section 8.6 Securities-Related Risks

*ERISA may Restrict Investments by Benefit Plans in the Securities.*

A fiduciary (a "**Plan Fiduciary**") of a pension, profit-sharing or other employee benefit plan (a "**Benefit Plan**") considering an investment in the Securities should consider, among other things, whether such an investment is consistent with the fiduciary obligations under the US Employee Retirement Income Security Act of 1974, as amended ("**ERISA**"), including whether such investment might constitute or give rise to a prohibited transaction under ERISA, the US Internal Revenue Code of 1986, as amended (the "**Internal Revenue Code**"), or any substantially similar US federal, state or local law and, if so, whether an exemption from such prohibited transaction rule is available. Failure to satisfy the fiduciary standards of conduct and other applicable requirements of ERISA and the Internal Revenue Code may result in the imposition of civil and criminal penalties and could subject the Plan Fiduciary to equitable remedies. In addition, if an investment in the Securities constitutes a prohibited transaction under ERISA or the Internal Revenue Code, the Plan Fiduciary that authorized or directed the investment may be subject to the imposition of excise taxes with respect to the amount invested.

Where a Benefit Plan invests in an equity interest that is neither a publicly offered security in the United States nor a security issued by an investment company registered under the US Investment Company Act of 1940, as amended, both the equity interest and an undivided interest in each of the underlying assets will be treated as "plan assets" for purposes of ERISA and the Internal Revenue Code (the "**Look-Through Rule**"). However, there is an exemption from the Look-Through Rule when the Benefit Plan's equity participation in an entity is not "significant." Pursuant to the plan assets regulations of the US Department of Labor, equity participation in an entity by a Benefit Plan is "significant" if 25% or more of the value of any class of equity interests in the entity is held by the Benefit Plan (the "**25% Test**").

While it is likely that LBI's assets will not be deemed to constitute "plan assets" for ERISA purposes, LBI can make no assurances that less than 25%

of the total value of the Securities will be held at all times by Benefit Plans subject to ERISA for purposes of satisfying the 25% Test. As a result, it is possible that LBI's assets will be deemed to constitute "plan assets" for ERISA purposes. Holders of the Securities have (1) exclusive responsibility for ensuring that their purchase, holding and disposition of the Securities do not violate the prohibited transaction rules of ERISA or the Internal Revenue Code or any similar regulations that are applicable and (2) should consult with their legal counsel prior to directing any such purchase, holding or disposition of the Securities.

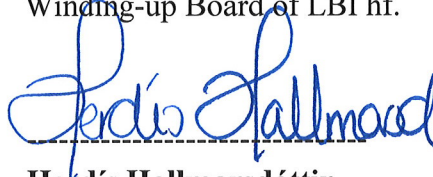
This Supplement provides Voting Creditors with a summary of the changes made to the Composition Proposal and the Information Memorandum. Each Voting Creditor is encouraged to review all changes made to these documents, which are available on LBI's website maintained by the Winding-up Board at: <https://composition.lbi.is>.

Reykjavík, 6 November 2015

Winding-up Board of LBI hf.



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