

**Friday, 28 October 2011**

**No. 310/2011.**

**Arrowgrass Distressed Opportunities Fund Limited**

**Arrowgrass Master Fund Ltd.**

**CIG & Co Conseq Invest plc**

**Conseq Investment Management AS**

**CVI GVF (Lux) Master S. à r. l.**

**Fondo Latinoamericano de Reservas (F.L.A.R)**

**GLG European Distressed Fund**

**GLG Market Neutral Fund**

**ING Life Insurance and Annuity**

**ING USA Annuity and Life Insurance Co.**

**LMN Finance Ltd.**

**Lyxor/Third Point Fund Limited**

**Monumental Life Insurance Company**

**National Bank of Egypt (UK) Limited**

**Ohio National Life Assurance Corporation**

**PHL Variable Insurance Company**

**Phoenix Life Insurance Company**

**Reliastar Life Insurance Company**

**Security Life of Denver Insurance**

**Sun Life Assurance Company of Canada**

**Third Point Partners LP (US)**

**Third Point Offshore Master Fund LP**

**Third Point Partners Qualified LP**

**Third Point Ultra Master Fund LP (Cayman)**

**Värde Fund LP**

**Värde Fund V-B LP**

**Värde Fund VI-A LP**

**Värde Fund VII-B LP**

**The Värde Fund VIII LP**

**The Värde Fund IX LP/The Värde Fund IX-A LP Värde Investment  
Partners LP**

**Värde Investment Partners (Offshore) Master LP**

**(Ragnar Aðalsteinsson, Supreme Court attorney)**

**Bayerische Landesbank**  
**Bremer Landesbank**  
**Commerzbank AG**  
**Commerzbank International SA**  
**Erste Europäische Pfandbrief- und Kommunalkreditbank AG**  
**Eurohypo AG**  
**DekaBank Deutsche Girozentrale**  
**DekaBank Deutsche Girozentrale Luxembourg SA**  
**Deutsche Postbank International SA**  
**Düsseldorfer Hypothekenbank AG**  
**DZ BANK AG Deutsche Zentral Genossenschaftsbank**  
**Landesbank Baden-Württemberg**  
**LBBW Luxembourg SA**  
**Deutsche Hypothekenbank AG**  
**Raiffeisenbank International AG**  
**Österreichische Volksbanken AG**  
**Sparkasse Oberhessen**  
**Taunus-Sparkasse**  
**Sparkasse Pforzheim Calw**  
**Sparkasse-Jena-Saale-Holzland**  
**Sparkasse Hannover**  
**Nassauische Sparkasse Anstalt des öffentlichen Rechts**  
**Kreissparkasse Peine**  
**Die Sparkasse Bremen AG**  
**Sparkasse Oder-Spree**  
(Arnar Þór Jónsson, Supreme Court attorney)  
**Deutsche Bank Trust Company Americas**  
(Eyvindur Sólmes, Supreme Court Attorney) **and**  
**Landsbanki Guernsey Ltd.**  
(Gunnar Jónsson, Supreme Court attorney)  
**v**  
**Landsbanki Íslands hf.**  
(Kristinn Bjarnason, Supreme Court attorney) **and University of**  
**Oxford**

(Ólafur Eiríksson, Supreme Court attorney)

**and**

**Landsbanki Íslands hf.**

(Kristinn Bjarnason, Supreme Court attorney) v

**Arrowgrass Distressed Opportunities Fund Limited Arrowgrass**

**Master Fund Ltd. CIG & Co Conseq Invest plc**

**Conseq Investment Management AS**

**CVI GVF (Lux) Master S. à r. l.**

**Fondo Latinoamericano de Reservas (F.L.A.R)**

**GLG European Distressed Fund**

**GLG Market Neutral Fund**

**ING Life Insurance and Annuity**

**ING USA Annuity and Life Insurance Co.**

**LMN Finance Ltd.**

**Lyxor/Third Point Fund Limited**

**Monumental Life Insurance Company**

**National Bank of Egypt (UK) Limited**

**Ohio National Life Assurance Corporation**

**PHL Variable Insurance Company**

**Phoenix Life Insurance Company**

**Reliastar Life Insurance Company**

**Security Life of Denver Insurance**

**Sun Life Assurance Company of Canada**

**Third Point Partners LP (US)**

**Third Point Offshore Master Fund LP**

**Third Point Partners Qualified LP**

**Third Point Ultra Master Fund LP (Cayman)**

**Värde Fund LP**

**Värde Fund V-B LP**

**Värde Fund VI-A LP**

**Värde Fund VII-B LP**

**The Värde Fund VIII LP**

**The Värde Fund IX LP/The Värde Fund IX-A LP**

**Värde Investment Partners LP**

**Várde Investment Partners (Offshore) Master LP**

(Ragnar Aðalsteinsson, Supreme Court attorney)

**Bayerische Landesbank**

**Bremer Landesbank**

**Commerzbank AG**

**Commerzbank International S.A.**

**Erste Europäische Pfandbrief- und Kommunalkreditbank AG**

**Eurohypo AG**

**DekaBank Deutsche Girozentrale**

**DekaBank Deutsche Girozentrale Luxembourg SA**

**Deutsche Postbank International SA**

**Düsseldorfer Hypothekenbank AG**

**DZ BANK AG Deutsche Zentral Genossenschaftsbank**

**Landesbank Baden-Württemberg**

**LBBW Luxembourg SA**

**Deutsche Hypothekenbank AG**

**Raiffeisenbank International AG**

**Österreichische Volksbanken AG**

**Sparkasse Oberhessen**

**Taunus-Sparkasse**

**Sparkasse Pforzheim Calw**

**Sparkasse-Jena-Saale-Holzland**

**Sparkasse Hannover**

**Nassauische Sparkasse**

**Anstalt des öffentlichen Rechts Kreissparkasse Peine**

**Die Sparkasse Bremen AG**

**Sparkasse Oder-Spree**  
**WGZ Bank Luxembourg SA**  
(Arnar Þór Jónsson, Supreme Court attorney)  
**Landesbank Berlin AG**  
**Deutsche Postbank AG**  
**Caixa Geral de Depositos**  
**The Royal Bank of Scotland plc.**  
**ABN AMRO Bank NV, London Branch**  
**Sparkasse zu Lübeck AG**  
**Vereinigte Sparkassen im Landkreis**  
**Weilheim**  
**KfW Bankengruppe**  
**Arrowgrass Special Situations S. à r. l.**  
**Skiki ehf.**  
**Blómstri ehf.**  
**Íslenska útflutningsmiðstöðin**  
**hf.**  
**Óttar Yngvason**  
**Rakel Óttarsdóttir**  
(no one)  
**Deutsche Bank Trust Company Americas**  
**(Eyvindur Sólnes, Supreme Court Attorney)**  
**and**  
**Landsbanki Guernsey Ltd.**  
(Gunnar Jónsson, Supreme Court attorney)

Appeal. Financial undertakings. Winding-up. Priority of claim. Priority claim. Deposit.  
Loan contract. Constitution. Property rights. Retroactivity. Non-discrimination.  
Proportionality. European Convention on Human Rights. Limits of legal applicability.  
Contractual interest. Penalty interest. Dissenting opinion.

*A and others appealed a Ruling by the Reykjavík District Court where a claim of the University of Oxford in the UK was deemed to be a deposit and recognised as a priority claim with reference to Art. 112 of Act No. 21/1991, on Bankruptcy etc., in the winding-up of the bank LÍ hf. The claim was recognised with contractual interest from 10 January 2007 to 11 January 2009 and with 8% annual interest from 12 January 2009 to 22 April that same year. LÍ hf. appealed the District Court's Ruling for its part, as it considered that the claim for 8% annual interest from 12 January 2009 to 22 April that same year should be rejected. The plaintiffs based their case on various premises, among them that they had suffered losses*

resulting from the adoption of Act No. 125/2008, on the Authority for Treasury Disbursements due to Unusual Financial Market Circumstances etc., and that provisions in this Act were in violation of the Constitution of Iceland and specifically cited international conventions to which Iceland had acceded. On this aspect the Supreme Court's verdict stated that this case and ten additional cases tested the constitutionality of Art. 6 of Act No. 125/2008. In one of these cases, Supreme Court case no. 340/2011, the plaintiffs based their case on the same premises as was done in this case concerning the flaws in Act No. 125/2008; a verdict had been pronounced in this case earlier that same day. Section II of the above-mentioned Supreme Court verdict gave an account of the substance of Act No. 125/2008, quoting Art. 6 thereof, which was disputed in particular by the parties and which had altered the order of ranking of claims upon the winding-up of financial undertakings, making deposit claims priority claims with reference to Art. 112 of Act No. 21/1991. This same section of the verdict described the takeover by the Financial Supervisory Authority of the country's three largest commercial banks directly following the adoption of the Act, including the defendant LÍ hf., and the establishment of new banks on the basis of the older ones. Finally, this section of the verdict explained the views of the plaintiffs regarding the constitutional flaws of Act No. 125/2008 which should result in its being disregarded in resolving this case, together with the opposing views of the defendants in the case, who were of the opinion that the Act complied both with the Icelandic Constitution and international agreements to which Iceland had acceded. Section III of the above-mentioned verdict gave an account of the interpretative sources for the Bill which had become Act No. 125/2008, to the extent this was relevant for resolution of the parties' dispute. It furthermore explained that at the end of 2008, Act No. 142/2008, on Investigation of the Causes of and Events Leading to the Collapse of the Icelandic Banks in 2008 and Related Events, had been adopted, and those conclusions of the parliamentary Special Investigation Commission which were of significance here. Section IV of the above-mentioned verdict then resolved the dispute on the constitutionality of Act No. 125/2008, rejecting the plaintiffs' contentions that the Act violated the Constitution and international agreements. The discussion in sections II and III of the Supreme Court's verdict in case no. 340/2011 applies equally in the case to be resolved here as did furthermore the conclusions in section IV of the verdict. General considerations discussed there also applied in this case. Accordingly, the plaintiffs' contentions in this case, that the Act did not comply with the Constitution and international agreements, were rejected. The Supreme Court next turned to the question of whether the transaction of UO and LÍ hf. could be regarded as a deposit in the sense of Act No. 98/1999, on Deposit Guarantees and an Investor-Compensation Scheme. According to the third paragraph of Article 102 of Act No. 161/2002, on Financial Undertakings, the same rules shall apply to the winding-up of a financial undertaking as apply to the priority of claims against an insolvent estate. However, claims for deposits, as provided for in Act No. 98/1999, enjoy priority with reference to the first and second paragraphs of Article 112 of Act No. 21/1991. A deposit as referred to in the first paragraph of Article 9 of Act No. 98/1999, was according to the third paragraph of the provision [sic] any credit balance resulting from financial deposits or transfers in normal banking transactions, which a commercial bank or savings bank is under obligation to refund under existing legal or contractual terms. The Supreme Court described the legal relationship between the university and LÍ hf. in connection with those funds that the university had placed with the bank; the Court concluded that in accordance with what was presented there, cf. also the Supreme Court verdict in case no. 311/2011, which had been pronounced that same day, and in other respects with reference to the premises of the appealed Ruling, the conclusion of the Ruling should be upheld, that the university had held a deposit with the bank which should be regarded as a deposit in accordance with the third paragraph of Article 9 of Act No. 98/1999, and that this deposit should enjoy guarantee protection as provided for by that Act. As a result, the claim lodged by the university should enjoy priority with reference to Art. 112 of Act No. 21/1991 in the bank's winding-up. Also with reference to the premises of the

*Supreme Court's verdict in case no. 340/2011, as well as the premises of the appealed Ruling, the conclusion was accepted in this case that the minimum deposit guarantee provided for in the first paragraph of Article 10 of Act No. 98/1999 made no difference to the fact that the insured deposit in its entirety enjoyed priority with reference to Art. 112 of Act No. 21/1991. The Supreme Court then turned to the dispute between UO and LÍ hf. on interest from 12 January 2009 to 22 April that same year. The Supreme Court's verdict agreed with UO and LÍ hf. that the law of that country should be applied with which the parties' contract had the strongest connections, cf. the first paragraph of Article 4 of Act No. 43/2000 on the limits of legal applicability in the law of contracts; in the estimation of the Court the contract in this sense had the strongest connections with the UK. The Court's verdict then stated that the dispute between UO and LÍ hf. with regard to interest was concerned primarily with whether the conditions of paragraph 3 of Rule 4.93 of the UK Insolvency Rules of 1986 were satisfied, that the bank's deposit obligation towards the university had been due in accordance with a written instrument, as that concept should be construed under UK law. If this condition was deemed to be satisfied the defendants agreed that as a result of the provisions of paragraph 6 of the same rules the university was entitled to 8% penalty interest annually on the amount of the deposit from 12 January 2009 until 22 April that same year, and this had been the conclusion of the District Court as previously mentioned. The Supreme Court's conclusion in this respect was that, when regard was had for the substance and wording of paragraph 3 of Rule 4.93 and consideration given to those verdicts of UK courts previously described, it could not be concluded that the confirmation of a deposit by LÍ hf. to UO could in accordance with its form and contents be considered a written instrument in the sense of UK law. Penalty interest from the due date of the deposit to the date of commencement of the winding-up proceedings of LÍ hf. could not therefore be awarded with reference to this provision. It was undisputed that the university had not sent the bank a claim for payment of the principal and interest as provided for in paragraph 4 of Rule 4.93 of the UK Rules, and for this reason alone penalty interest could not be awarded on the basis of this provision. As a result of the above, the university's claim for 8% penalty interest on the basis of paragraph 6 of the above-mentioned Rule 4.93 of the UK Rules should be rejected. The Supreme Court also rejected UO's second alternate claim for recognition of 5.85% contractual interest from 12 January 2009 to 22 April that same year, on the grounds that with reference to the wording of paragraph 1 of the above-mentioned Rule 4.93 the interest rate agreed on was not part of the debt after the commencement of liquidation. In accordance therewith and, as the university was not deemed to have presented arguments to support its entitlement on other legal grounds to interest on the deposit obligation after its due date, such interest could not be awarded. In accordance with all of the above, the outcome of the case was that UO's claim in the amount of ISK 1,141,463,934 was recognised with priority with reference to Art. 112 of Act No. 21/1991.*

---

Verdict:

The claim of the defendant, the University of Oxford, in the amount of ISK 1,067,641,177, against the defendant, Landsbanki Íslands hf., is recognised in the latter's winding-up. The claim is ranked in priority pursuant to Article 112 of Act No. 21/1991, on Bankruptcy etc.

The provisions of the appealed Ruling on court costs are upheld.

Appeal costs are waived.