

REPORT ON MORATORIUM AND
OTHER ISSUES CONCERNING
LANDSBANKI ÍSLANDS HF.

Landsbanki Íslands hf.
Resolution Committee | Skilanevnd
Winding-up Board | Slitastjórn

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ABBREVIATIONS

LBI	Landsbanki Íslands hf.
NBI	NBI hf. (New Landsbanki Íslands hf.)
FME	Financial Supervisory Authority
AFU	Act on Financial Undertakings
BCL	Luxembourg Central Bank (Banque centrale du Luxembourg)
CBI	Central Bank of Iceland
AB	Act on Bankruptcy etc.
KE	Kepler Equities
MC	Merrion Capital
MoFo	Morrison & Foerster
HoT	Head of Terms

CHAPTER 1
INTRODUCTION

1 INTRODUCTION

This report was prepared for presentation to a meeting of creditors of Landsbanki Íslands hf. (hereafter "LBI"), held on 23 November 2009. The report has been prepared by LBI's Resolution Committee and Winding-up Board in order to explain the bank's affairs, its moratorium and other issues considered to be of significance for the bank's creditors. The contents of the report are in part based on the rules which apply to information disclosure by the Resolution Committee and Winding-up Board, as laid down in the Act on Financial Undertakings, No. 161/2002. The objective is to provide a comprehensive overview of the bank's position, its operations, the handling of its assets and other measures of significance.

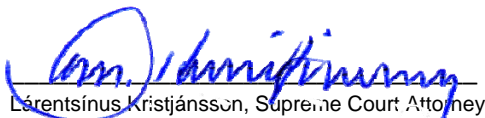
The report also contains various useful information for creditors to explain the legal framework which applies to the bank's moratorium. It gives details of the composition, activities and tasks of the Resolution Committee, the position of the Appointee and his tasks, the Winding-up Board and its activities, the bank's day-to-day operations in Iceland and abroad, and the main aspects of managing assets and measures taken in this regard. In addition, the report contains essential information on financial issues, a summary of assets and obligations, and an assessment as to whether the bank can fulfil its obligations.

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

This report is confidential and exclusively for the use of those parties who have lodged claims against Landsbanki Íslands hf.

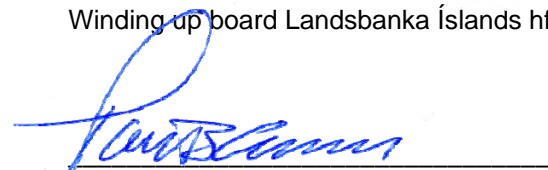
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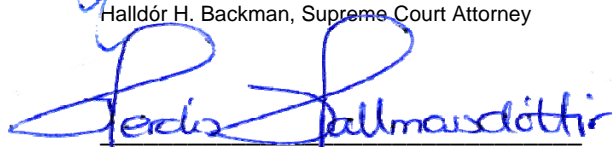
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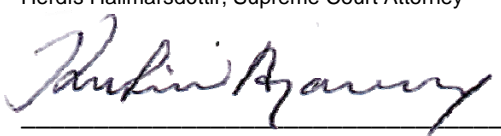

Lárentsínus Kristjánsson, Supreme Court Attorney


Einar Jónsson, District Court Attorney

Winding up board Landsbanka Íslands hf.


Halldór H. Backman, Supreme Court Attorney


Herdís Hallmarsdóttir, Supreme Court Attorney


Kristinn Bjarnason, Supreme Court Attorney

CHAPTER 2

HISTORICAL BACKGROUND

2 HISTORICAL BACKGROUND

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

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

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

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

2.1 EVENTS LEADING UP TO THE COLLAPSE

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

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

Following the insolvency of the US investment bank Lehman Brothers in September 2008, the situation deteriorated drastically and the government of Ireland declared that the Irish state would guarantee all claims against its banks for the next three years. International financial markets were in

turmoil and mistrust was rampant. Governments throughout the world imposed wide-reaching rescue measures to prevent the total collapse of the global financial system, as most financial undertakings were facing major difficulties.

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

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

Icelandic legislation on financial undertakings was not prepared to deal with the systemic collapse which developed at the beginning of October. As a result, special legislation was adopted on 6 October 2008, referred to as "the emergency legislation" (Act No. 125/2008). The Act amended certain provisions of the Act on Financial Undertakings, No. 161/2002 (hereafter "AFU"). The Act allowed the authorities to take over banks facing payment difficulties and introduced a variety of measures to ensure the continuity of banking activities in Iceland, as well as attempting to minimise creditors' losses insofar as possible. Pursuant to the emergency legislation, for instance, deposits as defined in the Act on Deposit Guarantees and an Investor Compensation Scheme, No. 98/1999, enjoyed priority as provided for in the first and second paragraphs of Articles 112 of the Act on Bankruptcy etc., No. 21/1991 (hereafter "AB"). This amendment clearly is of major significance for LBI's creditors, since the bank was to a substantial extent financed by deposits.

CHAPTER 3

RESOLUTION COMMITTEE

3 RESOLUTION COMMITTEE

On 7 October 2008 the Icelandic Financial Supervisory Authority (FME) took over LBI pursuant to the above-mentioned amending legislation. It assumed the authority of the shareholders' meeting, dismissed the Board of Directors and appointed a Resolution Committee for the bank. The Resolution Committee was to handle all LBI's affairs, supervise all handling of the bank's assets and direct its operations. The Resolution Committee appointed consisted of:

- Ársæll Hafsteinsson, District Court Attorney.
- Einar Jónsson, District Court Attorney.
- Lárentsínus Kristjánsson, Supreme Court Attorney.
- Lárus Finnbogason, certified auditor.
- Sigurjón G. Geirsson, certified auditor.

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

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

3.1 ROLE OF THE RESOLUTION COMMITTEE

The role of the Resolution Committee was originally defined by an FME Decision of 7 October 2008.¹ The Committee's principal task was to take over and manage the bank's operations, safeguard its assets and maximise their value to the benefit of all creditors. In essence the Resolution Committee holds powers similar to those of a board of directors. Due to market circumstances, the decision was taken immediately to preserve LBI's assets wherever possible and sell them only in instances where it proved necessary to do so to maximise their value.

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

The latter amendment provided, for instance, for the appointment of a Winding-up Board and instructions on the division of responsibilities between the Resolution Committee and Winding-up Board, as referred to in Point 3 of Temporary Provision V. Additional details about the amendments to the AFU are provided in Section 4.3 and further details of the composition and role of the Winding-up Board are provided in Section 5. The role of the Resolution Committee is now as follows:

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

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

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

Meetings for consultation are held weekly by the Resolution Committee and Winding-up Board. The two bodies review the most urgent tasks they are each dealing with, as well as taking decisions on matters of joint concern.

3.2 PRINCIPAL TASKS OF THE RESOLUTION COMMITTEE AT PRESENT

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

The Resolution Committee places major emphasis on active supervision of all its activities, including meetings of subcommittees which have been established for specific tasks (further details of the bank's administration are provided in Section 6).

The Resolution Committee places major emphasis on extensive information disclosure by employees to the Committee on the bank's day-to-day activities, regarding for instance, work on, and the condition of, its asset portfolio (further information on committees and reports is provided in Section 3.2.7). In addition, the committee works on various issues apart from day-to-day arrangements, such as those listed below.

The Resolution Committee emphasises ensuring that all LBI's regulatory framework and procedures comply with law and are reviewed regularly.

3.2.1 PROTECTING CREDITORS' INTERESTS

In accordance with the role of the Resolution Committee and the AFU, the primary aim of the Committee is to maximise the value of LBI's assets while minimising costs to ensure that as much as possible will remain to pay claims. To this end, the Resolution Committee has divided the bank's asset portfolio into asset classes and adopted a specific strategy for handling each asset class which bank employees must follow (see Section 7). The loan portfolios in Iceland and in LBI's operating units abroad are its principal assets. Given the unfavourable conditions in international markets, the Resolution Committee has attempted to avoid sales of assets wherever possible. The bank's assets

are strictly supervised and the Resolution Committee reviews the bank's entire asset portfolio at 6-8 week intervals, applying a line-by-line valuation. LBI's Risk Management division directs this work.

The Resolution Committee requested that Deloitte review and assesses its working procedure for asset portfolio valuation. This covered the methodology, application, archiving, direction and supervision, as well as an assessment of accounting quality. Deloitte's conclusion was that working procedures in general complied with recognised practice and documented working procedures, and that the bank's asset portfolio was well managed and its risk of loss properly assessed.

Regarding supervision of assets of the Netherlands branch and LBI' subsidiary in Luxembourg, it should be pointed out that the Resolution Committee has not had complete control of asset recovery there due to the involvement of foreign administrators appointed by the respective authorities against the wishes of the Resolution Committee (*vide infra*). Furthermore, Heritable Bank and Landsbanki Securities were placed in liquidation in October 2008.

3.2.2 CONTROL OF HANDLING OF FOREIGN ASSETS

Immediately after its appointment the Resolution Committee began compiling a picture of LBI's activities, making every effort to obtain control of the activities of foreign branches and subsidiaries in order to ensure maximum value for LBI's creditors. The actions of the Resolution Committee to this end are described in the subsequent sections.

3.2.2.1 AMSTERDAM BRANCH

On 13 October 2008 the bank's Amsterdam branch was placed in a special administration procedure in accordance with the emergency rules of Dutch legislation on financial undertakings. Two administrators were appointed for the branch. Despite concerted efforts to co-operate as well as possible with the Dutch administrators, the results leave much to be desired. Management of the branch's loan portfolio appears to have proceeded successfully, but the cost of these arrangements has, been very high and in the opinion of the Resolution Committee completely unnecessary. The Resolution Committee and Winding-up Board believe that the administration proceedings in the Netherlands is unlawful and is based on incorrect information about the bank's situation. The Resolution Committee and Winding-up Board are therefore currently attempting to regain control of the branch's affairs and have instructed LBI's legal counsel in the Netherlands to initiate litigation in the Dutch courts. The bank's charges were not sustained in the court of first instance and appellate court proceedings are currently underway. Meanwhile, the Resolution Committee and Winding-up Board are in discussion with DNB reviewing the options to have the Dutch administration terminated on a consensual basis. More details of the situation of the Amsterdam branch are provided in Section 6.10.2.

3.2.2.2 LANDSBANKI LUXEMBOURG

The Resolution Committee lost control of Landsbanki Luxembourg (LLUX) when the demand of the regulatory authority that the bank be placed in moratorium and an administrator named to control it was accepted on 9 October 2008. Despite the Resolution Committee's objections, the bank was subsequently placed in liquidation on 12 December at the moratorium administrator's request. The Resolution Committee sought to reach an agreement with the Luxembourg authorities from the beginning of the crisis and continues to do so. Agreement is crucial to maximise the potential recovery for LBI. A detailed review of the situation of LLUX is provided in Section 6.13.

3.2.2.3 GLOBAL EXPOSURES

At the time of the bank's collapse, it owned substantial assets held by various financial undertakings abroad, either in the form of deposits or other rights and assets connected with international financial instruments. Actions were taken immediately to retrieve all deposits and assets wherever possible. Claims by counterparties for set-offs were encountered in many cases and efforts have been directed at resolving such issues. Following the appointment of the Winding-up Board, both bodies have worked jointly with the assistance of the bank's specialised employees and outside experts.

3.2.2.4 RECOGNITION OF MORATORIUM

Following the granting of the moratorium, on the initiative of the Appointee and with the assistance of the legal offices of Morrison & Foerster LLP, the Resolution Committee requested that the moratorium be recognised to protect the bank's assets from collection actions of individual creditors, including those located in the US and Canada. The recognition process is explained in more detail in section 4.1.6.

Further information on the situation of overseas assets is provided in Section 6.

3.2.3 NEGOTIATIONS BETWEEN LBI AND THE MINISTRY OF FINANCE

Negotiations with the Ministry of Finance and New Landsbanki Íslands (hereafter "NBI") on the value of those assets transferred from LBI to NBI at the decision of FME have been the largest and most time-consuming task of the Resolution Committee in recent months. These negotiations are based on FME's decisions on how assets were to be divided between the banks.

3.2.3.1 FME DECISIONS ON DIVISION OF ASSETS

On 9 October 2008² FME made its first decision on the division of assets as authorised in Art. 100a of the AFU, cf. Article 5 of Act No. 125/2008, on the Authority for Treasury Disbursements Due to Unusual Financial Market Circumstances etc. FME's decision would subsequently be amended repeatedly. Pursuant to FME's decision, all assets of any and every sort, including real estate, moveable assets, cash, holdings in other companies and claims rights, were delivered to NBI immediately. NBI also took over contractual rights to use of real estate and moveable assets. Furthermore, NBI assumed all security rights, including collateral rights, guarantees and other similar rights in connection with the bank's claims. According to the above-mentioned FME decision, NBI also took over intangible assets and rights, including trademarks and patents, registered or unregistered, trade names, databases, software and licenses, and all other similar rights.

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

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

² For further information: <http://www.fme.is/lisalib/getfile.aspx?itemid=5731>

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

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

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

Oliver Wyman and Deloitte were engaged by FME to assess the value of the assets and liabilities delivered to NBI. Settlement between the two banks was reached as of 9 October 2008, including agreement regarding the value of such assets and liabilities. This decision took effect immediately and was based on the information and documentation available. The settlement terms provided that if the documentation proved to be incomplete or information incorrect, FME would amend the decision accordingly. With reference to this proviso, which was agreed to in light of need for an expedited the decision, FME's decisions have been amended eleven times to date.

1. The first amendment was made on 12 October 2008³ when it became clear that NBI could not take over the rights and obligations under the derivative contracts as provided for in the previous decision. The concern was that if the decision of 9 October 2008 were not modified, it would result in NBI failing to fulfil obligations under the contracts with unforeseeable consequences.
2. On 19 October 2008⁴ the decision was amended for the second time, by adding several new items to the previous decision and a new annex listing the assets that would not be transferred to NBI.
3. On 9 January 2009⁵ the decision was amended for the third time. By this time it had become clear that it would not be possible to conclude the valuation by the time stated in the decision. On this basis it was decided to postpone the valuation of assets and obligations and FME was allowed to decide when the valuation would be made available.
4. On 14 February 2009⁶ the previous decision was amended with a decision that the valuation of assets and obligations should be available no later than 15 April 2009.
5. On 6 March 2009⁷ a fifth amendment, was made, which provided for the terms of the debt instrument to be issued by NBI to LBI to be available no later than 18 May 2009.
6. On 15 May 2009⁸ FME was granted discretion to decide when the terms of the instrument would be made available.
7. On 15 June 2009⁹ the decision was altered for the seventh time, providing the terms of the instrument were to be available no later than 17 July 2009.
8. On 20 July 2009¹⁰ the decision was amended yet again to provide that the debt instrument for settlement of the disposition of LBI's assets and liabilities to NBI was to be issued by the parties no later than 14 August 2009.

³ For further information: <http://www.fme.is/lisalib/getfile.aspx?itemid=5729>

⁴ For further information: <http://www.fme.is/lisalib/getfile.aspx?itemid=6020>

⁵ For further information: <http://www.fme.is/lisalib/getfile.aspx?itemid=5918>

⁶ For further information: <http://www.fme.is/lisalib/getfile.aspx?itemid=6259>

⁷ For further information: <http://www.fme.is/lisalib/getfile.aspx?itemid=6258>

⁸ For further information: <http://www.fme.is/lisalib/getfile.aspx?itemid=6345>

⁹ For further information: <http://www.fme.is/lisalib/getfile.aspx?itemid=6423>

9. On 14 August 2009¹¹ this decision was postponed to 18 September 2009.
10. The tenth amendment was made on 21 September 2009¹² and provided that capitalisation of NBI and the issuance of a financial instrument for a final settlement of the delivery of LBI's assets and liabilities to NBI should be completed no later than 9 October 2009.
11. The last postponement was made on 14 October 2009¹³ extending the deadline to 6 November.
12. The negotiations are still ongoing. The FME has not amended its formal decision but has been informed on the status of the negotiation. FME has requested that the negotiating parties present a realistic timeline for finalizing the agreement.

As is evident from the above list of amendments, the negotiations have been much more time-consuming than anticipated for numerous reasons. To begin with, uncertainty prevailed as to the scope and arrangements of the negotiations. According to the FME decision of 9 October 2008 and the announcement which followed it, the Resolution Committee originally thought that an agreement was to be reached on the basis of the valuation prepared by Deloitte for FME. Following discussions with FME and amendments which it later made to Point 11 of the above-mentioned decision, it became clear in the spring months that the Resolution Committee was expected to negotiate the value of the transferred assets concerned independently of Deloitte's valuation. As a result, the Resolution Committee considered it both proper and necessary to carry out due diligence on the transferred assets concerned and NBI. From the beginning, the Resolution Committee has invited the participation of all the bank's creditor groups (i.e., the representatives of deposit holders in the UK and the Netherlands, of bondholders and of foreign banks). Efforts were made to provide these parties with access to all necessary documentation to ensure their support in the negotiations and for the eventual agreements. The delay in approving this approach by the Resolution Committee delayed the negotiation process, but eventually FME consented to the Resolution Committee's demands in late summer. All of the parties involved in the agreements were members of the ICC referred to in Section 3.2.5.

The Resolution Committee engaged Barclays Capital (hereafter "Barclays") as financial advisor to direct the negotiations. It also engaged the services of the international legal office Morrison & Foerster (hereafter "MoFo") as legal advisors. The creditors referred to above also participated in carrying out due diligence and in the negotiations. Thus the Resolution Committee was not only aided by experts from Deloitte, Barclays and MoFo, but also highly qualified and experienced individuals from among its creditors' advisors in the areas of due diligence and negotiation work.

On 10 October 2009 LBI and NBI signed a heads of terms (hereafter "HoT"). According to the HoT, NBI shall issue a debt instrument to NBI in the amount of ISK 260 billion, in addition to which LBI will acquire a holding of ISK 28 billion nominal value (equivalent to a holding of 18% based on the parties' premises in signing the HoT), in NBI. Due to differences between expectations of NBI and LBI on the future value of certain assets transferred to NBI, an agreement was subsequently reached that LBI will receive 85% of any possible increase which may occur to a specific NBI portfolio over the next three years (i.e. the increase in the value of the assets in question from 8 October 2008 to 31 December 2012). If this does materialise, the supplementary payment from NBI to LBI will be made in the form of a contingent A bond of the same type as referred to above. Applying a certain methodology, the contingent A bond is substituted for the above-mentioned share capital so that the greater the increase is in the value of the defined portfolio, the more LBI's equity holding decreases proportionally. The contingent bond could amount to as much as ISK 90 billion; if this limit is reached then

¹⁰ For further information: <http://www.fme.is/lisalib/getfile.aspx?itemid=6459>

¹¹ For further information: <http://www.fme.is/lisalib/getfile.aspx?itemid=6540>

¹² For further information: <http://www.fme.is/lisalib/getfile.aspx?itemid=6650>

¹³ For further information: <http://www.fme.is/lisalib/getfile.aspx?itemid=6701> (in Icelandic)

correspondingly LBI's holding in the bank will be fully wiped out. LBI will be able to have considerable influence on the handling of these assets during this period. The contract amount is within the range of the valuation which parties, working on behalf of FME, prepared. It should be added that LBI's estimated recovery rate increased with the signing of the HoT. In LBI's calculations prior to the contracts, total payment for the assets was estimated at around ISK 284 billion. As of 30 June this year, the amount was ISK 346 billion, the debt instrument ISK 318 billion (issued in foreign currencies based on the exchange rate of 30 September 2008) and share capital of ISK 28 billion.

3.2.4 INTERNAL AUDIT

At FME's request an internal audit was carried out shortly after the Resolution Committee was appointed. Employees of Deloitte were engaged for this project. Their task was to examine whether the bank or connected parties had taken actions during the final 30 days prior to its collapse which violated the bank's regulatory framework or Icelandic legislation. Their report in its entirety was delivered to FME for review in December.

After the appointment of the Winding-up Board, it was decided to investigate the bank's actions further and these investigations cover a longer period than Deloitte's preliminary investigation. This examination is discussed further in Section 5.2.7. The Resolution Committee has, in addition, been in contact with the Special Prosecutor investigating the banks' collapse, with FME and with the Parliamentary Investigation Committee concerning investigation of the bank's activities; the compliance officer handles information disclosure to these parties.

3.2.5 RELATIONS WITH CREDITORS

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

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

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

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

One formal creditors' meeting has been held concerning the bank's moratorium. Section 4.1.2 will discuss the agenda of that meeting in more detail. The next formal creditors' meeting of LBI will be

held on 23 November this year. Further information on the nature and powers of creditors' meetings is provided in Section 5.3.

3.2.6 CLAIMS COLLECTED AND COLLATERAL APPROPRIATED.

In order to deliver the highest amount possible to creditors, ensuring that payments on loans are received by LBI is naturally a priority. To this end, the Resolution Committee and its employees are constantly in contact with the bank's debtors to seek ways of maximising recovery, having regard for the position of the contracting party, the bank's collateral, the legal situation in each case and innumerable other aspects. However, if the Resolution Committee does not consider it to be to the advantage of creditors to conclude agreements with debtors, or if there is no wish to do so on the part of the contracting party, the loans in question are sent for legal collection and the bank appropriates any available underlying collateral. In Iceland, the bank's Legal Collection department looks after collecting claims in default in the vast majority of cases, although the Resolution Committee also engages the assistance of domestic and foreign legal firms to enforce claims against creditors as deemed necessary. The bank's establishments abroad use the services of experts in the country concerned as needed to enforce claims. The collateral that the bank appropriates is handled by the Appropriated Assets division or, as the case may be and depending upon the nature of the asset, other departments. A specific policy has been adopted on the handling of such assets (see further in Section 7).

3.2.7 ORGANISATION OF THE RESOLUTION COMMITTEE'S DAY-TO-DAY ACTIVITIES

The Resolution Committee or its subcommittees where the members of the Resolution Committee are members hold regular meetings each working day. Additional meetings, outside of the set meeting hours of standing committees and working groups, are held as necessary. Regular meetings are also held abroad to exchange information and supervise activities in overseas establishments, as well as meetings aimed at securing various creditors' interests, negotiations with the Ministry of Finance concerning NBI, and ICC meetings. Meetings of the Resolution Committee are of two types, regular meetings and general meetings. At general meetings issues which are most urgent at any given time are dealt with; general meetings also include meetings with public authorities and regulators.

The Resolution Committee has members on five committees concerned with various LBI issues, in addition to which employees must deliver a variety of reports and analyses to the Resolution Committee. Information on LBI committees, analyses and reports are provided in the following section.

Committees

- **Credit Committee** The Credit Committee controls all lending by LBI on a group basis. The Credit Committee holds two regular meetings each week and more frequently if necessary. The Credit Committee is comprised of the Resolution Committee and Ársæll Hafsteinsson. When netting is being discussed, the Winding-up Board is summoned as well to participate in the decisions. Furthermore, the Appointee in moratorium now attends Credit Committee meetings as such and also as representative of the Winding-up Board, with the right to speak and make proposals. A separate Credit Committee operates in Landsbanki London branch, with limited authorisation to take minor decisions on leveraged lending which has already been granted.
- **Market Risk Committee** The Market Risk Committee, a subcommittee and part of the Credit Committee, is comprised of the same committee members. It makes decisions concerning LBI's fixed-income and equity holdings. The same general principles apply to the activities of this committee as to the Credit Committee. The Risk Management division prepares

committee meetings and handles all reporting on the assets concerned and underlying risk factors.

- **Operations Committee** The Operations Committee meets every other week to deal with the most urgent operating issues within the mandate of the Resolution Committee at any given time. The Operations Committee also reviews invoices weekly which must be approved by the Resolution Committee. The Operations Committee is comprised of the Resolution Committee and Ársæll Hafsteinsson. Meetings of the Operations Committee are prepared by the committee secretary and the director of the Finance and Operations division.
- **Audit Committee** An Audit Committee has been established within the bank to supervise all its activities. The Audit Committee is comprised of members of the Resolution Committee and the Winding-up Board. Furthermore, five permanent working groups, involving bank employees and consultants, operate under the auspices of the Audit Committee. The working groups are responsible for implementing, supervising and following up on specific issues within the bank, while also providing the employees involved in these issues with support and direction. Specifically, these working groups are:
 - Credit, domestic derivatives and nettings.
 - Fixed-income and equity assets.
 - International financial instruments and nettings.
 - Voiding of measures in accordance with rules of the AB.
 - Claims against third parties.
- **Write-offs Committee** The Write-offs committee meets quarterly concerning final write-offs and credit loss provisions. Before the Write-offs Committee makes its decisions, LBI's Audit Committee must have dealt with the issues in question. The Risk Management division is responsible for preparing meetings and implementing decisions. Decisions must be recorded by the secretary of the Write-offs Committee in minutes of its meetings. The Write-offs Committee is comprised of the Resolution Committee, Ársæll Hafsteinsson and the Winding-up Board if necessary.

Analyses and main reports

- **Portfolio monitoring** LBI's entire portfolio is reviewed at 6-8-week intervals. This is the responsibility of the bank's Risk Management division. All the bank's asset classes, of any and every sort, are examined in detail with the bank employees concerned and the experts providing advice in each instance. Each individual asset is examined specifically and a value set for its recovery rate. The director of LBI's Risk Management division is responsible for this work and reports regularly to the Resolution Committee. In addition, the Resolution Committee has the Risk Management division and, as the case may be, outside experts prepare ad hoc reports on individual issues in connection with the bank's portfolio.
- **Cost and operations analysis** Each month the Finance and Operations division prepares a detailed cost and operations analysis for the LBI group. The CFO is responsible for regular reporting to the Resolution Committee on the bank's situation on a group basis.
- **Reporting by heads of operating units on the main aspects of daily activities** The Resolution Committee secretary requests monthly information from heads of departments in the bank's

headquarters and in operating units abroad (branch managers in London and Amsterdam and the managing director of Labki Finance Ltd.) concerning the principal tasks of the division/department/branch/subsidiary concerned. This information is gathered in monthly reports on activities which are presented to the Resolution Committee at meetings of the Operations Committee. The reports furthermore provide an account of the Resolution Committee's main activities each month.

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

CHAPTER 4

THE MORATORIUM AND
APPOINTEE

4 THE MORATORIUM AND APPOINTEE

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

In adopting this legislation, regard was had for opinions expressed by foreign experts and major creditors, that a moratorium was necessary to maximise the value of the banks' assets and that it would likely be necessary and to the benefit of all creditors to gain protection from litigation, collection measures and other depletion of assets. Prior to the amendment, a moratorium could originally be granted for three weeks, with a possible extension of up to an additional five months. Following the amendment, financial undertakings can obtain a moratorium for 12 weeks, with a possible extension of up to 21 months in addition, but with each individual extension limited to 9 months.

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

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

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

4.1 LBI DURING THE MORATORIUM

LBI's moratorium is aimed at safeguarding the bank's financial position and providing an opportunity for necessary restructuring. The moratorium directly affects creditors' legal status, since, subject to certain limited exceptions, any legal proceeding that was brought against LBI prior to the moratorium is stayed and legal proceedings cannot be initiated against the bank post-moratorium. As a result, creditors cannot enforce their claims by execution, nor can they apply to put LBI into local insolvency, bankruptcy, administration, winding-up or similar proceedings. The conditions of the European Directive on the Reorganisation and Winding-up of Credit Institutions (2001/24/EC) are satisfied¹⁴ and the moratorium therefore affects LBI's legal status throughout the European Economic Area (hereafter the "EEA").

4.1.1 DISPOSITION OF ASSETS AND RIGHTS DURING MORATORIUM

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

¹⁴ Sjá <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2001:125:0015:0023:EN:PDF>

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

During the moratorium period, the bank was not authorised to pay debts or fulfil other commitments except to the extent such commitments would be fulfilled or debt paid according to the ranking of creditors if liquidation were to follow in the wake of the moratorium. It was, however, authorised to pay a debt or fulfil another commitment if such was considered necessary to prevent material loss.

Nor could the bank acquire new debt or other commitments, or place restrictions on its assets and rights, except to continue business operations or prevent material loss and if it were evident that such an action would be to the benefit of creditors if liquidation were to follow in the wake of the moratorium.

4.1.2 MORATORIUM: 5 DECEMBER 2008 - 26 FEBRUARY 2009

As previously mentioned, LBI was granted a moratorium on 5 December 2008. At first a moratorium was granted for 12 weeks, or until 26 February 2009, on the basis of the amendment to legislation previously referred to.

According to the provisions of the AB, the Appointee must hold a creditors' meeting in the bank's legal venue no later than 72 hours before the moratorium is to be reviewed by the District Court. Such a meeting was held on 20 February 2009 at 9:00 am at Hilton Hotel Nordica, Suðurlandsbraut 2, Reykjavík. Special rules in the second paragraph of Art. 98 of the AFU apply to convening the meeting, as amended by Art. 2 of Act No. 129/2008.

Any party presenting itself at the meeting location and maintaining to have a claim against LBI, that the bank recognised or was proven with documentation, was entitled to attend the meeting. To facilitate the actual holding of the meeting, the meeting announcement requested that those parties planning to attend register on the bank's website. Some 400 parties registered but only around 150 attended the meeting.

At the meeting the Appointee reviewed the events occurring after FME assumed control of LBI and appointed a Resolution Committee for the bank and what measures had been taken during the moratorium period. A summary of the bank's assets and obligations was provided as of the reference date. It was announced that LBI intended to apply for an extension of its moratorium for up to 9 months when the case was reviewed by the Reykjavík District Court on 26 February 2009. An account was provided of what the bank's activities could be expected to consist of during the extension of the moratorium period. At the meeting the Appointee invited attendees to express their position towards the bank's plans and their proposals for actions. There was some discussion, in which attendees presented their views and at the same time requested further information on specific issues. The Appointee, the Resolution Committee and experts assisting these parties sought to explain what was considered unclear to answer the questions raised. Further information on the meeting is available on LBI's website, www.lbi.is.

4.1.3 MORATORIUM: 26 FEBRUARY 2009 TO 26 NOVEMBER 2009

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

4.1.4 MORATORIUM: CONTINUATION

The Reykjavík District Court will re-examine LBI's moratorium on 26 November this year. If deemed necessary LBI will request an additional extension of up to 9 months. The chronology of events below shows the significant moratorium dates as provided for in the legislation referred to above:

5 December. 2008	Reykjavík District Court grants a moratorium.
6 February 2009	Creditors' meeting held in Reykjavík.
26 February 2009	Extension of moratorium granted for 9 months.
23 November 2009	Creditors' meeting held in Reykjavík.
26 November 2009	Reykjavík District Court meets to review moratorium.
4 December 2010	Maximum length of moratorium provided for by law.

4.1.5 IMPACT OF MORATORIUM

LBI's moratorium did not affect its operating license, nor the fact that the bank continues to be regulated by FME as provided for by law. The same rules of the AFU therefore continue to apply to the activities of the bank as apply to activities of other financial undertakings as appropriate. On the other hand, due to the moratorium rules, certain aspects of the bank's activities fall under the jurisdiction and control of the Reykjavík District Court which, for instance, is authorised to cancel its moratorium if the laws concerning moratoria are not complied with.

4.1.6 RECOGNITION OF LBI'S MORATORIUM ABROAD

For the purpose of safeguarding the interests of LBI's creditors and protecting its assets from collection actions by individual creditors, efforts were made to obtain recognition for the bank's moratorium in those countries where it has interests at stake. Legal protection within the EEA has been ensured, in accordance with the relevant rules. Outside the jurisdiction of the EEA, where the bank has substantial assets, suitable measures were taken to have the moratorium recognised. An example of this is the recognition by a US Federal Court under Chapter 15 of the US Bankruptcy Act of a foreign main proceeding, together with legal protection in those provinces of Canada where the bank has interests at stake.

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

4.2 MAIN TASKS OF THE APPOINTEE PRIOR TO THE ENTRY INTO FORCE OF ACT NO. 44/2009

During the first weeks of the moratorium, the daily activities and measures taken by the bank were divided between two committees, a Credit Committee and an Operations Committee (see further on LBI's committees in Section 3.2.7). All of the Resolution Committee members were on both of these committees and the Appointee attended their meetings and participated in dealing with issues.

In addition to the committee meetings referred to, the Appointee and the legal advisors assisting him were in daily contact with the bank's Resolution Committee. The Appointee has also exchanged communications regularly with the bank's employees, including those in its branches in London and subsidiary in Halifax. Due to the nature of the administration proceedings underway in the bank's Amsterdam branch, where Dutch administrators were appointed to look after its affairs, the involvement of the Appointee there has been limited (see further in Section 6.10.2).

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

The entry into force of Act No. 44/2009, amending the AFU, on 22 April 2009 made a number of changes to the legal requirements that apply to the bank's moratorium. Furthermore, various other changes were made relating to the bank's activities, such as the changes made to the tasks of the Resolution Committee with the advent of the Winding-up Board. Section 5 will discuss specifically the Winding-up Board, its composition and tasks.

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

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

As described above, the bank is in a moratorium which has certain special characteristics deemed necessary by the government. Furthermore the bank will, upon the conclusion of the moratorium period, automatically enter into winding-up proceedings. The winding-up proceedings have, in fact, begun

during the moratorium period, since all the main rules of winding-up proceedings apply during the moratorium.

4.3.1 TASKS OF THE APPOINTEE AMENDED

The adoption of the above-mentioned Act No. 44/2009 made major changes to the legal effect of LBI's moratorium and the role of the Appointee. It stipulated that Chapter IV of the AB should not apply to the new moratorium and that the Appointee should supervise measures taken by the Resolution Committee as provided for in Article 103 of the AFU, cf. Article 7 of Act No. 44/2009. According to this provision, the Resolution Committee is to dispose of the bank's assets according to the same rules which apply to the winding-up of an insolvent estate by an administrator.

According to Point 4 of Temporary Provision V, the Appointee shall automatically take a seat on the Winding-up Board when the District Court Judge appoints the bank a Winding-up Board. This appointment was made on 29 April 2009 and the Appointee has served as a member of the bank's Winding-up Board and performed those tasks assigned to the board from that time onwards, as well as performing the duties of Appointee. The role of the bank's Credit Committee did not change upon the entry into force of Act No. 44/2009. According to the Act, decisions that could be regarded as measures provided for in Art. 103 of the AFU shall be taken by the committee. Since the Appointee took his seat on the Winding-up Board, he has as a rule not attended Credit Committee meetings, but prior to each Credit Committee meeting he has received all cases with which the committee is to deal, together with the proposals for dealing with them and the minutes of the last meeting. In this manner the Appointee has regularly followed the measures taken by the Resolution Committee as well as holding meetings with the Resolution Committee and the bank's employees. The Appointee has, together with others in the bank's Winding-up Board, attended consultation meetings with the Resolution Committee.

Since the entry into force of Act No. 44/2009, extensive efforts have been directed towards reaching a conclusion on the amount and type of repayment from NBI due to the difference in the value of the obligations and assets transferred to NBI with the decision by FME to transfer LBI's assets to NBI on 9 October 2009 (see further Section 3.2.3). Although the Appointee has not been directly involved in discussions on this matter, he has followed their progress.

According to Article 25 of the AB, the Appointee must notify the District Court Judge in writing if he expects the moratorium will be unsuccessful or if the debtor is not co-operating with him in good faith or has taken measures contrary to Articles 19-21 of the AB. Having regard to the legal basis upon which LBI originally was granted a moratorium and how the legal effect of the moratorium was amended by Act No. 44/2009, the Appointee has seen no reason to notify the District Court Judge that the bank's moratorium will not be successful. The Appointee has not been aware of any failure to act in good faith towards achieving the objectives of LBI's moratorium. Nor is the Appointee aware of any measures taken during the bank's moratorium which infringe against Articles 19-21 of the AB or Art. 103 of the AFU, cf. Article 7 of Act No. 44/2009.

CHAPTER 5
WINDING-UP BOARD

5 WINDING-UP BOARD

On 29 April 2009 the Reykjavík District Court responded to a written request by the Resolution Committee that a Winding-up Board be appointed for LBI. Supreme Court Attorneys Halldor H. Backman and Herdís Hallmarsdóttir were appointed by the court to the Winding-up Board, which they constitute together with moratorium Appointee Kristinn Bjarnason, Supreme Court Attorney, as previously mentioned.

Following the entry into force of the above-mentioned Acts, the Resolution Committee and Winding-up Board jointly manage the bank's affairs in accordance with the division of responsibilities provided for in Points 3 and 4 of Temporary Provision V in the AFU.

One of the main tasks of the Winding-up Board is to handle all claims against the bank in accordance with the procedure provided for in the Act amending Act No. 44/2009.

5.1 PROCEDURE FOR LODGING CLAIMS

Once the time limit for lodging claims has expired, the Winding-up Board shall compile a list of claims submitted and make independent decisions on recognising claims, including the priority given to them. The decision on priority of claims shall comply with the provisions of Articles 109-115 of the AB, with the exception resulting from amendments to Acts, that claims on deposits, in accordance with similar provisions of the Act on Deposit Guarantees and an Investor Compensation Scheme, have priority.

The form and contents of claims lodged against LBI are based on the rules of Art. 117 of the AB.

Due to the scope and quantity of claims the Winding-up Board must prioritise its work. An attempt will be made to conclude first decisions on various priority claims, lodged on the basis of Articles 109-112 of the AB, after which general claims, as referred to in Article 113 of that same Act, will be dealt with. Having regard for the final sentence of the first paragraph of Article 119 of the AB, no decision will be made on subordinate claims, i.e. claims covered by Article 114 of the Act.

If a claim is rejected in full or in part by the Winding-up Board, this must be notified to the creditor no later than 16 November 2009 (i.e. one week prior to the creditors' meeting). A special notice will also be sent prior to the same deadline to those creditors concerning whose claims it has not been possible to take a decision, within the timeframe set forth above. An announcement will be made of a follow-up creditors' meeting no later than at the meeting on 23 November, if such has not been previously sent to creditors. A list of claims lodged will be made accessible to the bank's creditors as of 16 November 2009, by providing all creditors with access to a restricted area on the bank's website where the list of claims and various other documentation will be available.

Creditors with legitimate interests may object to a decision by the Winding-up Board on any claim lodged, provided that such objections are made no later than at the creditors' meeting where the claim and decision concerning it is presented. All objections shall be recorded and the Board shall endeavour to resolve all questions of dispute. Should this not prove possible, the dispute shall be referred to the District Court.

Following the creditors' meeting held by the Winding-up Board, the Winding-up Board may pay claims which have been recognised in full or in part. This is subject to certain conditions:

- Only recognised claims will be paid (i.e. undisputed claims or claims concerning which a dispute has been resolved).
- It must be ensured that the bank's assets are sufficient to pay all creditors of equivalent priority an equal proportion of their outstanding claims.

- If a dispute concerning a claim which could be entitled to a proportional payment is not resolved, funds shall be set aside to enable it to be paid if recognised.

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

5.2. WORK AND TASKS OF THE WINDING-UP BOARD

In addition to handling the claims process, the Winding-up Board is entrusted with numerous tasks including but not limited to the following.

- The Winding-up Board takes decisions on and/or resolves any legal actions, litigation and/or actions by individual creditors against the bank.
- The Winding-up Board voids actions as provided for in the rules of the AB.
- Together with the Resolution Committee, the Winding-up Board undertakes forensic examination of the bank's accounts.
- Together with the Resolution Committee, the Winding-up Board undertakes to recover assets and attempts to retrieve assets which have been lost for any reason due to any sort of creditor actions.
- The Winding-up Board supervises reciprocal contractual rights and implements decisions concerning them, as provided for in the relevant provisions of the AB..
- The Winding-up Board is involved in netting decisions, in particular those aspects concerning enforcement of claims against the bank through netting.
- The Winding-up Board handles the preservation of the bank's funds and their disbursement to creditors when the time comes and as provided for by law.

Finally, the Winding-up Board handles the conclusion of the winding-up proceedings as described in Article 103 a of the AFU. This includes full payment of all obligations and guarantees or the conclusion of composition with creditors once assets have been recovered and maximised and all disputes concerning claims and other issues have been settled.

The Winding-up Board sits on the Audit Committee together with the Resolution Committee and members of the Winding-up Board participate in working groups under the auspices of the Audit Committee, as described in more detail in Chapter 3.2.7

5.2.1 INVITATION TO LODGE CLAIMS, RECEPTION AND PROCESSING OF CLAIMS LODGED

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

Creditors from a member state of the EEA or the European Free Trade Association were authorised to submit claims in the language of that state. Such claims submissions had to be accompanied by an Icelandic translation; claims could be submitted in English, however, without an accompanying translation. Other creditors could, furthermore, submit their claims in Icelandic or English. All

documentation accompanying the claims lodged was to be accompanied by an English or Icelandic translation if not in either of these languages.

The Winding-up Board set up an organised reception procedure for claims lodged, together with a special database to manage the claims lodged and all accompanying documentation which would serve as a basis for a list of claims lodged.

5.2.2 PROCESSING OF CLAIMS AND DECISIONS

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

5.2.3 RECIPROCAL CONTRACTUAL RIGHTS

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

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

5.2.4 NETTING (SET-OFFS)

In handling netting, a decision must be taken both as to whether legal requirements are satisfied and whether the bank's obligation which is set off is legitimate. For this reason the Winding-up Board's tasks have included co-operating with the Resolution Committee on handling and deciding on any and all set-offs by the bank. In certain instances this work has required consultation with NBI, as it is stated in Point 9 of the FME decision of 19 October 2008 that the transfer of claims rights from LBI to NBI shall not affect the rights of debtors to a set-off to which they were entitled towards the previous creditor.

5.2.5 LEGAL PROCEEDINGS AGAINST THE BANK

According to the fourth paragraph of Article 102 of the AFU, the rules of Chapter XVIII of the AB apply to claims against the bank. Provisions which apply to bringing suit against the bank are laid down in

the initial Article of Chapter XVIII, i.e. Article 116 of the AB. According to the first paragraph of Article 116 of the AB, suit may not be brought unless there are specific grounds for so doing, as described in detail in the provision. However, it can be concluded from the second paragraph of Article 116 of the AB that litigation that had already been initiated may continue, provided the plaintiff notifies the Winding-up Board thereof.

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

5.2.6 VOIDING OF MEASURES

During LBI's moratorium and subsequent winding-up proceedings, measures which have been taken previously may be voided in accordance with the same rules which apply concerning voiding measures of an insolvent party upon liquidation. The rules of Chapter XX of the AB apply in this respect. The basic principle is to ensure that creditors receive equal treatment. Creditors as a general rule are equally entitled to disbursements from the bank's assets. The purpose of voiding rules is to further ensure non-discrimination among creditors. They authorise the Winding-up Board to reverse specific actions undertaken by the bank itself or others prior to the moratorium. This could involve measures which have resulted in losses for the bank, decreased its value or resulted in individual creditors having their claims paid or in other respects obtaining a better position than they would otherwise have had.

The Winding-up Board has received suggestions concerning voidable measures and work is underway on examining them in co-operation with those experts who have been engaged to investigate the bank's financial affairs. One voiding measure has already been concluded with payment from the counterparty involved and a considerable number of such cases can be expected. In investigations of the bank's affairs special attention is also paid to checking for improper measures of other types, which will be responded to in each instance as provided for by law.

5.2.7 INVESTIGATIONS OF THE BANK'S AFFAIRS

As previously mentioned, the Winding-up Board and Resolution Committee are jointly overseeing had a comprehensive investigation of the bank's affairs, its activities, assets and rights. The investigation is carried out as authorised by and on the basis of the rules which apply to liquidators' duties and working practices, according to the rules of the AB, although it was deemed imperative to engage outside experts for the purpose. With the assistance of the bank's foreign legal counsel, an agreement was concluded with a specialised team from Deloitte (see further Section 6.14.3 on Deloitte).

Their investigation includes potential voidable measures (cf. the above). Deloitte will, for instance, investigate the possibility of voiding measures, having regard to whether:

- Individual measures, such as debt reduction or cancellation, have reduced the bank's assets.
- Individual measures have resulted in financial obligation for the bank to the detriment of creditors in general.
- Measures were taken which involved discrimination among creditors, with the result that enforcement of their claims has been altered from what it would have been, for instance,

through payment of debts prior to their maturity or if one creditor was later provided with security for payment of its claim.

- Unlawful or punishable activities occurred within the bank, with the result that the bank could have claims for damages against those persons responsible for such activities.

As can be expected, this investigation is very wide-reaching and encompasses the entire activities of the bank during the past two years. The principal aspects of its activities at which the investigation is directed are: loans, deposits, derivative trading, securities trading, transactions with subsidiaries, cross-border financial transfers, complex financial instruments and employee remuneration and transactions. Given the nature of the issues, transactions with related parties will be examined specifically.

It should be pointed out that the Winding-up Board will fulfil its obligations pursuant to Article 84 of the AB and inform the authorities if there are reasonable grounds to suspect punishable offences were involved in the bank's activities. Due to the nature of these matters, no further details of the investigation can be disclosed at this time.

5.2.8 RESPONSE TO COLLECTION ACTIONS ABROAD

The Winding-up Board has made an effort to maintain legal protection for LBI overseas. This involves, firstly, applying for recognition by the authorities in those states where the bank has interests at stake of the legal protection provided by the provisions of the AB (the so-called recognition process discussed in Section 4.1.6) and, secondly, responding to collection actions already undertaken by various creditors, in particular overseas. As previously mentioned the provisions of Article 116 of the AB apply to the bank's moratorium and winding-up proceedings. According to the third paragraph of Article 116, and with the exception implied in the fourth paragraph, "a debt enforcement action, attachment or injunction cannot be requested against [the bank]". The Winding-up Board has had to apply this legal protection in several instances where foreign creditors have attempted to enforce their claims through actions directed at the bank's assets abroad.

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

5.2.9 CLAIMS FOR DAMAGES AGAINST THIRD PARTIES

The Winding-up Board and Resolution Committee have jointly recorded various claims for damages against third parties. Claims for damages in this sense refer to financial claims which may exist and can possibly be brought against third parties, either through legal action or by set-offs against claims directed at the bank. Due to the nature of such matters, further details of individual cases or suits cannot be disclosed at this time. Work on these tasks is in part connected to the investigation referred to above.

5.2.10 CASH MANAGEMENT

The Winding-up Board is responsible for supervising and preserving the bank's cash. More details of cash management are provided in Section 6.5.

5.3 CREDITORS' MEETINGS

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

Under certain circumstances, however, creditors' meetings are mandatory. The Winding-up Board must, for instance, hold a meeting as provided for in Article 85 of the AB, for the purpose of presenting the list of claims lodged, cf. further section 5.1 above. More detailed rules on creditors' meetings are provided in Article 79 of the AB.

The Appointee in the bank's moratorium must also hold a meeting with creditors to discuss the bank's finances and whether an extension of the moratorium will be requested and on what grounds.

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

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

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

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

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

If a vote taken at a creditors' committee meeting is not unanimous, the opinion of the majority will generally be followed, unless the majority has abused its voting majority to the detriment of the minority. In the case of a tie, the Winding-up Board and Resolution Committee will determine the question, or submit it once more to a creditors' meeting. A decision can only be binding, however, on measures which have yet to be taken. Creditors cannot overturn what the Resolution Committee and Winding-up Board have done in a binding manner on the bank's behalf.

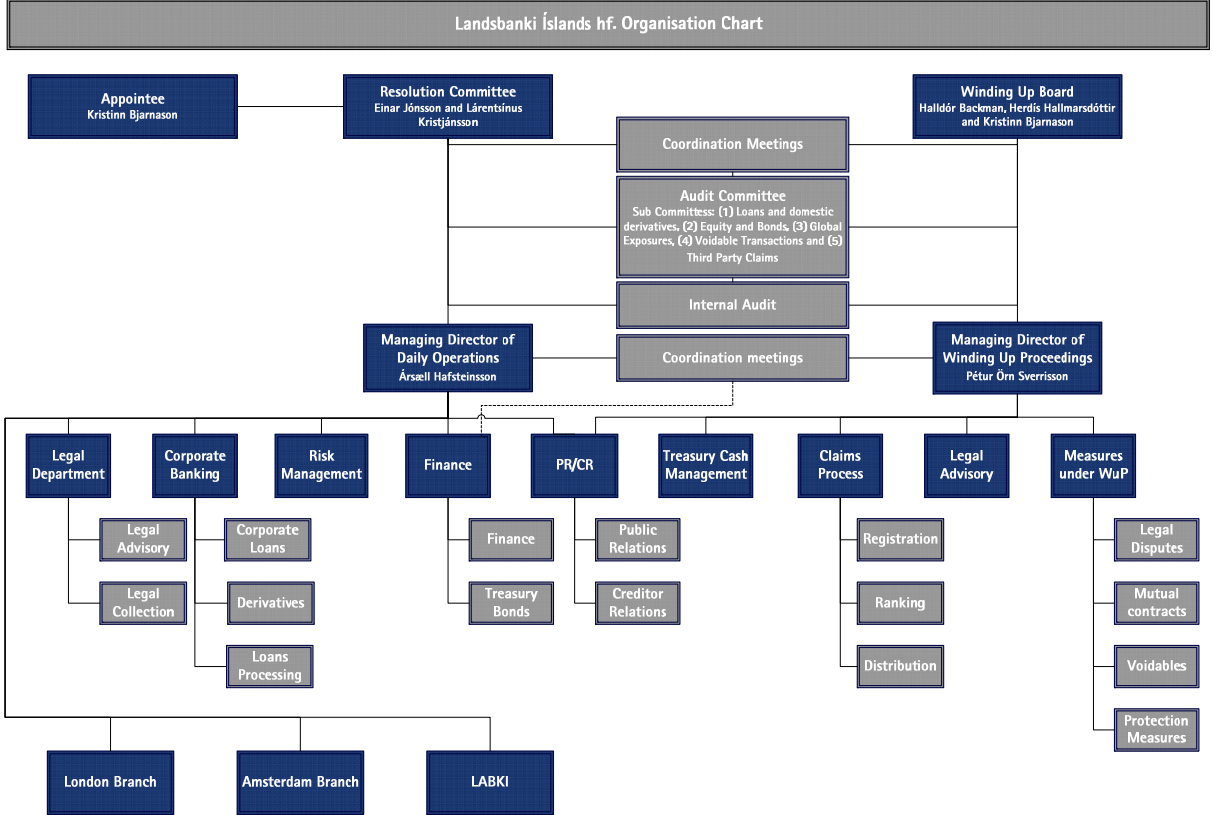
The Winding-up Board and Resolution Committee have authority to take decisions concerning all the bank's interests. As a matter of course, full regard must be had for creditors' views, as the disposition of the estate's interests directly affects their interests. However, Icelandic law recognizes that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

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

CHAPTER 5
LBI'S ACTIVITIES

6 LBI'S ACTIVITIES

The Resolution Committee and Winding-up Board jointly control LBI, as explained in the preceding section.



Ársæll Hafsteinsson and Pétur Örn Sverrisson direct daily operations in their divisions of responsibility as shown in the organisational chart above. The following sections provide a brief account of the tasks of each of LBI's operating units.

6.1 LEGAL DIVISION

LBI's Legal Division consists of Legal Advisory and Legal Collection.

LBI's Legal Advisory provides legal advice to the Resolution Committee and Corporate Banking as required. Six persons work in Legal Advisory, two of them in part-time positions.

Legal Collection handle enforcement of the bank's claims in Iceland. The Director of Legal Collection is responsible for seeing that all claims which are being collected by the department follow proper and correct collection channels. Five persons work in Legal Collection, plus one other employee who supervises appropriated assets in the form of real estate and moveable assets.

6.2. CORPORATE BANKING

Corporate Banking consists of three departments: Credit, Derivatives and Loan Administration. Customer Relations Managers and the Credit Committee's employee work on credit issues. The Customer Relations Managers supervise specific loans in LBI's loan portfolio, all of which have a designated Customer Relations Manager who is responsible for them. Their objective is to maximise the value which can be obtained from LBI's loans, whether this involves repayment of loans, restructuring them or collecting payments on them for the duration of the loan. Seven employees work

in the credit department. The director is responsible for daily activities, such as preparing cases for submission to the Credit Committee, preparing regular monitoring meetings and preparing meetings for write-offs and write-downs.

Four employees work in the Derivatives department, which is responsible for collecting on derivative contracts in co-operation with Legal Collection. The department also handles LBI's domestic equity holdings and is expected to assess when market conditions are favourable for selling equities.

Five persons work in Loan Administration. The department's tasks involve primarily keeping track of LBI's loans in the bank's systems as well as handling archiving of loan documentation together with the Credit Committee's employee.

6.3 FINANCE AND OPERATIONS

Finance and Operations handles accounting for the bank's daily operations in Iceland. The division is also responsible for the bank's accounting and results on a group basis, as well as various group financial and operational issues.

6.4. RISK MANAGEMENT DIVISIONS

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

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

Risk management directs work on proposals for final write-offs of loans and derivatives and presents these proposals at special Resolution Committee meetings on loan write-offs, where write-downs of assets are also discussed and decided.

The Risk Management division will also supervise the asset portfolio which will be used as reference for a possible contingent A bond, as discussed in Chapter 3.2.3.1, which discusses payment by NBI to LBI for transferred assets in accordance with the agreement signed on 9 October 2009.

6.5 PUBLIC RELATIONS AND CREDITOR RELATIONS

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

The creditor relations officer handles communications with creditors as appropriate and, in addition, supervises the informal creditors' committee (ICC). The creditor relations officer has also been involved in negotiations between LBI and the Ministry of Finance in co-operation with the Resolution Committee's advisors from Barclays.

6.6. CASH MANAGEMENT

The bank's cash management is controlled from Reykjavík. It should be pointed out, however, that due to actions by authorities in the Netherlands, management of liquid assets at the Amsterdam branch is completely in the hands of the administrator in that country and LBI's Cash Management has no access to the affairs of the branch.

Cash Management places primary emphasis on having funds preserved in a dependable and secure manner, minimising the risk of loss and risk of set-offs. Apart from this, it must be ensured that funds are invested to provide an acceptable return.

LBI's principal counterparty in Iceland is NBI hf. There LBI has concluded FX and securities transactions, as well as investing its liquid assets with the bank. The policy has been recently been adopted of investing liquid assets of the bank's headquarters primarily with the Central Bank of Iceland and work to this end has been underway in recent weeks. In the opinion of LBI, the return on liquid assets in Iceland has been very acceptable and the security of these funds is ensured.

London branch has several counterparties in FX and securities transactions. Liquid assets have to a large extent been deposited in accounts with the Bank of England, as enormous emphasis was placed on the security of London branch's assets since the branch operated until this summer under the constraints of anti-terrorist legislation and in an extremely difficult environment. The deposit account with the Bank of England has not borne any interest despite repeated requests to this effect. The aim is to reduce substantially the amounts on deposit in this account in coming weeks. A business relationship has been established with a new custodian and preparations for purchases of bonds are in the final stages. Furthermore, liquid funds are to be invested to an increasing extent with solid banks in the UK. To this end, an investment strategy for the bank is being drafted, prioritising security, liquidity and short duration of investments. The possibility of turning to an international consultancy in this connection is being examined, since it is very important that this be successful.

6.7 CLAIMS PROCESS

Claims Process is responsible for registering and classifying claims which were received prior to the expiration of the time limit for lodging claims. Arrangement of the decision-making procedure and responsibility for information in the list of claims also among the tasks of this division. Claims Process prepares a list of claims as provided for in Article 119 of the AB. Carrying out disbursement as provided for in Chapter XXII of the AB is also prepared by Claims Process.

6.8 LEGAL ADVISORY OF THE WINDING-UP BOARD

The Legal Advisory of the Winding-up Board provides legal advice to all departments under the direction of LBI's Winding-up Board. The two employees of Legal Advisory work in close co-operations with the managing director of the winding-up procedure and the Winding-up Board. The tasks of Legal Advisory include LBI's entire winding-up process, including legal advice connected with the procedure of lodging claims, i.e. the reception and registration of claims lodged and decision making by the Winding-up Board, disputed legal questions concerning creditors, the bank's mutual contracts, netting and voidable measures.

6.9 ACTIONS DURING THE WINDING-UP PROCEDURE

Upon the appointment of the Winding-up Board, various provisions of the AB come into force obliging the Winding-up Board to take specific actions. These include provisions of Chapter XV of the AB on reciprocal contractual rights, which are the responsibility of this division. The most extensive task of the department is examination of measures taken by LBI prior to the reference date to see if the

voiding measures of the AB should be applied. Several such cases are currently in process and the recovery rate has been increased in this manner.

6.10 FOREIGN BRANCHES/SUBSIDIARIES

LBI's activities abroad currently consist of its two branches in London and Amsterdam, in addition to its subsidiary Labki Finance, previously its branch in Halifax. The largest share of its assets are in Iceland, primarily due to the fact that the debt instrument from NBI will be issued and accounted for by LBI in Iceland and stored there. The largest share of its loan portfolio, on the other hand, is in London while the loan portfolio in Canada is the smallest. As previously stated, the Resolution Committee meets regularly with employees of domestic and overseas operating units concerning their operations and asset valuation.

6.10.1 LONDON BRANCH

The principal activities of the branch in London prior to the bank's collapse were loans to small and medium-size corporates, primarily European but also American. Roughly speaking, the branch's loan portfolio consists of two types of loans: asset-backed finance, loans granted against charges on companies' inventories and receivables, and structured/leveraged finance, loans granted against charges on a company's entire operations. In this class the bank was sometimes lead arranger, but in most cases a participant in financing initiated by other banks. In addition, the branch brokered and acquired bonds and brokered and set up derivatives, but these activities were still in the beginning stages. The branch also accepted deposits, but these aspects were outsourced completely to LBI's subsidiary Heritable Bank and all administration to UK service providers.

The assets which were held by the branch following the collapse are primarily loans to companies which are still in full operation and branch employees will administer these assets and handle collection from clients, probably for the next 3-5 years. It also manages holdings in companies which have been appropriated due to debt collection.

The bank emphasises co-operating closely with those companies which are in full operation to ensure that the bank's interests are fully secured while at the same time these companies and their managers can operate independently and successfully.

At the beginning of October 2008, the London Branch had 193 employees. As of September 2009 that number had been reduced to 71, 28 of whom are connected with asset-backed loans while others handle general banking operations and administer other loan portfolios and the bank's asset portfolios.

Following the collapse, the situation in the branch was extremely uncertain, in part due to the freezing order imposed on the basis of terrorist legislation. With the assistance of the Bank of England, which provided short-term loans for the branch's activities, the branch's operations were stabilised. At the same time, all payment mediation and internal activities were reinforced to ensure that there would be no disruption due to the application of terrorist legislation. A large number of employees were made redundant, while still ensuring that sufficient staff would remain to administer the asset portfolio, since it appeared evident that its value would fall materially if the bank had been forced to sell it.

By the beginning of December, loans from the Bank of England had been repaid with income and collections from the asset portfolio. The sale of part of the loan portfolio for a residual value, and resulting losses in the tens of millions, had also been prevented. All operations this year have been highly successful, Collections have been high and in line with expectations.

6.10.2 AMSTERDAM BRANCH

Three employees currently work in the Netherlands. The Resolution Committee felt obliged to dismiss the bank's former management due to a dispute on remuneration and afterwards requested that branch employee Jan Van Andel assume the position of branch manager. Few employees are required at the Amsterdam branch, as the London branch provides the branch with most back office services.

On 13 October, the District Court in Amsterdam appointed administrators of a sort for the branch in the Netherlands at the request of the Dutch central bank (DNB). The administrators are from the Dutch legal firm DLA Piper. The appointment was made based on the contention that LBI had lost its banking license, but this basic assumption by the court was simply incorrect. The court's verdict, however, was not appealed on the advice of Dutch lawyers. In LBI's estimation, this intervention in the branch's affairs is in clear violation of Icelandic law and in direct contradiction to European Directive on the Reorganisation and Winding-up of Credit Institutions (2001/24/EC)¹⁵. Attempts to co-operate with the administrators in the Netherlands have brought very limited results. It has proven difficult to obtain information on the cost of operating the branch in the Netherlands and no costs have been approved by the Resolution Committee or Winding-up Board; on the contrary, objections have been raised and the right reserved to submit counterclaims. Although LBI has not obtained a breakdown of expenses it is reported that these are abnormally high. It is even possible that some payment may be in contradiction to Icelandic law concerning accrued cost and claims. This special administration in the Netherlands in general causes various obvious difficulties and uncertainty as to the legal position of certain creditors, and could even result in losses for them. All information on assets in the Netherlands, their disposition and the position of the branch in other respects is unclear and subject to change. Recently, however, the administrators have agreed to set up a data room, where representatives of the Resolution Committee/Winding-up Board will be able to acquaint themselves with the situation.

Numerous and varied attempts to remedy this situation remedied have not yet been successful. The Resolution Committee and Winding-up Board have attempted to obtain a court injunction to this effect and the case is now before a Dutch appellate court. In the meantime, discussions have taken place on options to have a peaceful resolution to the issue.

6.10.3 LABKI FINANCE

A decision was taken to establish a subsidiary for the activities of the branch in Canada due to uncertainty at first as to whether the Canadian Office of the Superintendent of Financial Institutions (OSFI) would authorise the continuing operation of the branch in its original form and whether legal protection from actions by creditors would be recognised in Canada on the basis of the Icelandic moratorium.¹⁶ It was therefore decided to place the assets of the branch, which consist of loans and cash, into a subsidiary to protect them against collection and enforcement actions by individual creditors. Both of the Resolution Committee members are on Labki's Board of Directors, which meets regularly. Labki currently has six employees. The company obtains its loan administration and credit control services from the bank's headquarters. LBI also supervises its loan book.

6.11 SERVICE AGREEMENT

Since it was not considered financially favourable to create in-house support units, a decision was made to outsource specific tasks to NBI. In addition, the Resolution Committee has in many instances required the specialised expertise of NBI employees in resolving certain tasks. In concluding the draft

¹⁵ For further information: <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2001:125:0015:0023:EN:PDF>

¹⁶ Such recognition was, however, eventually obtained in April and May 2009.

service agreement, the work performed by individual departments for LBI was gone over in detail, a list made of individual aspects and the work contribution assessed. Among the services obtained from NBI are the financial updating of specific claims, technical services, human resources and various other services. The contract has not been finalised, although the principal items have been put on paper. In the estimation of the Resolution Committee, however, the current draft should be revised, since the assumed need for service from NBI is highly overestimated and the need is falling rapidly.

6.12 ACTIVITIES NO LONGER CONTROLLED BY LBI

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

6.12.1 KEPLER OG MERRION

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

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

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

6.12.2 HERITABLE

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

Heritable Bank was placed in administration on 7 October 2008. Ernst & Young LLP is the administrator during the administration proceedings.

On 8 October 2008, the majority of Heritable Bank's deposits were transferred to ING Direct.

6.12.3 LANDSBANKI SECURITIES UK

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

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

6.12.4 LANDSBANKI GUERNSEY

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

During administration the administrators handle transactions and look after Landsbanki Guernsey's assets.

6.12.5 OTHER ESTABLISHMENTS

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

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

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

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

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

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

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

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

6.13 LANDSBANKI LUXEMBOURG S.A.

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

On 8 October 2008, one day after a Resolution Committee was appointed for LBI, LLUX was placed in moratorium at the request of the financial market regulator in Luxembourg, Commission de Surveillance du Secteur Financier (CSSF), and in parallel to this a Luxembourg court appointed an administrator for the bank during the moratorium. Since the appointment of the administrator, the Resolution Committee has attempted without success to reach an agreement on LLUX's affairs, with the aim of maximising the assets of the estate to the benefit of all creditors. Although LLUX's moratorium was valid until 8 April 2009, which meant sufficient leeway to find an acceptable solution for all parties, the bank was placed in liquidation proceedings on 12 December 2008, at the request of the moratorium administrator, on the grounds that the moratorium was not producing the desired results. It should be pointed out that at the same time two other banks in Luxembourg, owned by the Icelandic banks Kaupthing Bank hf. and Glitnir Bank hf., were in moratorium. Both of these banks were given considerably greater leeway to resolve the situation of their subsidiaries – in the case of Kaupthing Bank hf., to find a buyer and, in the case of Glitnir Bank hf., to reach composition with creditors.

The administrator during the moratorium was appointed one of two administrators in liquidation, but resigned from this position in May of this year. LBI has been under the opinion that a considerable amount of important information concerning the situation of LLUX has not been forthcoming, making it difficult to conclude agreements on handling the bank's affairs and delaying resolution of the issue. The Central Bank of Luxembourg (BCL) and LBI are by far LLUX's largest creditors, making it clear that reaching agreement with these parties will be crucial in determining the outcome of the LLUX estate. BCL's claim against LLUX arises from loans granted to LLUX. The loans were granted against collateral which LBI provided to its subsidiary, which subsequently re-loaned the funds borrowed from BCL to the parent company. The collateral was in the form of bonds with an A rating or higher. Upon the banks' collapse, BCL wrote down the value of these portfolios sharply and followed this up with a margin call for almost EUR 400 million. No sufficiently justified grounds have ever been provided for the calculations behind this margin call. It is the opinion of LBI that if an agreement can be reached to prevent a "fire sale" of the pledged assets, the collateral will cover the debt owed to BCL. Last April, negotiations between the parties made some progress, in part due to efforts by the Icelandic government. Negotiations were dormant, however, for the most part during the summer, as a summary and statement of the LLUX's position were being prepared by the administrator. This information was made available in draft form in September this year and meant that LBI could make a much better assessment of the interests at stake and therefore how much effort should be devoted to resolve the issue and maximise LBI's recovery from the bank. More detailed information from the administrator was then received in October this year and negotiations are currently underway between the parties to reach a comprehensive solution. The Resolution Committee has hopes that a conclusion may be achieved before year-end as to the route which will be taken.

6.14 LBI'S ADVISORS

LBI has availed itself of the assistance of a large number of foreign consultants and legal offices for various tasks. The bank's main legal advisor is Morrison & Foerster LLP. In part due to the urging of its largest creditors, the Resolution Committee engaged a special financial advisor to assist and advise it in the bank's negotiations with the Ministry of Finance concerning the assets transferred from LBI to NBI. LBI has, furthermore, required extensive assistance from auditors to review accounts and

investigate the bank's financial and other matters. An expert team from Deloitte in Iceland and in London has worked on these tasks.

6.14.1 MORRISON & FOERSTER LLP

Morrison & Foerster LLP (MoFo) is LBI's main legal advisor. Originally a US company, with roots going as far back as 1856, MoFo currently operates legal offices in 16 countries. Among the tasks which MoFo has carried out for LBI are:

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

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

6.14.2 BARCLAYS

At the beginning of this year, the Resolution Committee engaged Barclays as financial advisor. Barclays is an international bank with a history over 300 years old and offices in 50 countries. The various tasks undertaken by Barclays for the Resolution Committee, include first and foremost, negotiation of agreements between LBI and the Ministry of Finance concerning the value of the assets transferred to NBI. Among the tasks which Barclays has carried out are:

- Assisting LBI in assessing and analysing possible financial instruments.
- Assisting in negotiations on financial instruments.
- Assisting LBI in reviewing the assessments of NBI's assets compiled by a third party.
- Participating in ICC meetings.

LBI has benefited from the assistance of experts from Barclays' offices in the US and UK with extensive experience of corporate restructuring, negotiating techniques and drafting of agreements, balance sheet advisory and advising distressed companies.

6.14.3 DELOITTE

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

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

This past spring the Resolution Committee and Winding-up Board decided to begin a more detailed and exhaustive investigation of the bank's affairs, including an examination of voidable measures (see Section 5.2.6 for more details). Although LBI's administrative bodies play a major role in this work, it was clear immediately that foreign experts would be required due to the scope of the issue and the bank's activities and operations abroad. A "forensic and dispute" team from Deloitte in London was engaged to undertake this project while specialists from Deloitte in Iceland were also engaged to work alongside the foreign experts. Deloitte's experts have very considerable experience in investigating accounting irregularities, fraud, money laundering and corruption. Furthermore, they have experience of tracing and discovering assets in tax havens and countries where bank secrecy is strict.

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

Deloitte's office in Iceland has, furthermore, assisted the Resolution Committee in analysing the bank's accounts, adjusting the accounts due to the split of the bank into LBI and NBI, and analysing the valuation work and the bank's procedures. Deloitte's employees undertaking these tasks possess broad experience in providing financial advisory services, conducting due diligence, valuation and budgeting.

6.14.4 OTHER PARTIES

LBI has required the assistance of experts throughout the world. In addition to the experts already mentioned, the following parties have worked for the bank in individual instances:

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

CHAPTER 7
ASSET MANAGEMENT

7 ASSET MANAGEMENT

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

7.1 LOAN PORTFOLIO

LBI's aim is to collect payments on loans to maturity. Debtors' loans are restructured if it appears evident that this will increase the amounts recovered. Opportunities to renegotiate loan terms to increase interest or shorten the repayment period are generally taken. Opportunities to sell loans on the market are examined as they arise, but efforts will be made not to sell unless a sale can be made as close as possible to nominal value. Decisions on handling loans are taken in the Credit Committee, as explained previously (see Section 3.2.7.). In addition the entire loan portfolio is reviewed regularly. If a debtor is in default and it does not appear worth the while to restructure its debt, collection actions are undertaken. As previously mentioned, the Resolution Committee avails itself of assistance from Deloitte where the debtor's asset position internationally needs to be evaluated. LBI will seek assets anywhere, of whatever sort, to enforce its claims where such actions are deemed to be cost effective for LBI.

7.2 SECURITIES

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

An effort to dispose of smaller holdings in listed equities over the next 6-9 months has already commenced. The aim is to hold larger exposures until 2012 or 2013. Assets will be sold when a maximum price can be obtained. Movements of the securities portfolio are monitored daily, and an attempt made to obtain as clear a picture as possible on market developments from experts. In those instances where LBI has large holdings in companies, the bank will avail itself of expert advice to place the shares on the market so that it makes as little impact as possible on their price development. Unlisted securities will be disposed of with the assistance of experts or the companies themselves when an acceptable price can be obtained for them.

7.3 LIQUID ASSETS

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

7.4 REAL ESTATE

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

To date, none of the bank's real estate has been sold, although many properties have been listed for sale in accordance with decisions of the Resolution Committee. Emphasis is placed on ensuring that the sale process for real estate is transparent and open. In accordance with this objective, the Resolution Committee requires that the bank's real estate be advertised before being sold.

CHAPTER 8
FINANCIALS

8 LBI'S FINANCIAL INFORMATION

Presented here is the Resolution Committee's report in accordance with Paragraph 5 of article 102, cf. Interim Provision VI, of AFU. We note that the estimated value of assets is subject to considerable uncertainty due to the developing economic environment in Iceland and abroad which will likely influence the future value of the underlying assets. The amount of the financial instrument from NBI, in accordance with the HoT, dated October 12, 2009, is stated below.

In accordance with the above referenced AFU, as amended by Act no.44/2009, the computation of liabilities is calculated by using the Central Bank of Iceland selling rate as of 22 April 22 2009. The book value of assets and liabilities as of September 30th 2009 is presented in Icelandic Krona and calculated by using FX rates as of the same date. The claim amounts published are also subject to considerable uncertainty and could be subject to changes since the Winding-up Board of LBI is in the initial stages of its claim review and determination as of the date of this report due to the volume of claims filed.

Set out below is LBI's Balance Sheet as September 30th 2009.

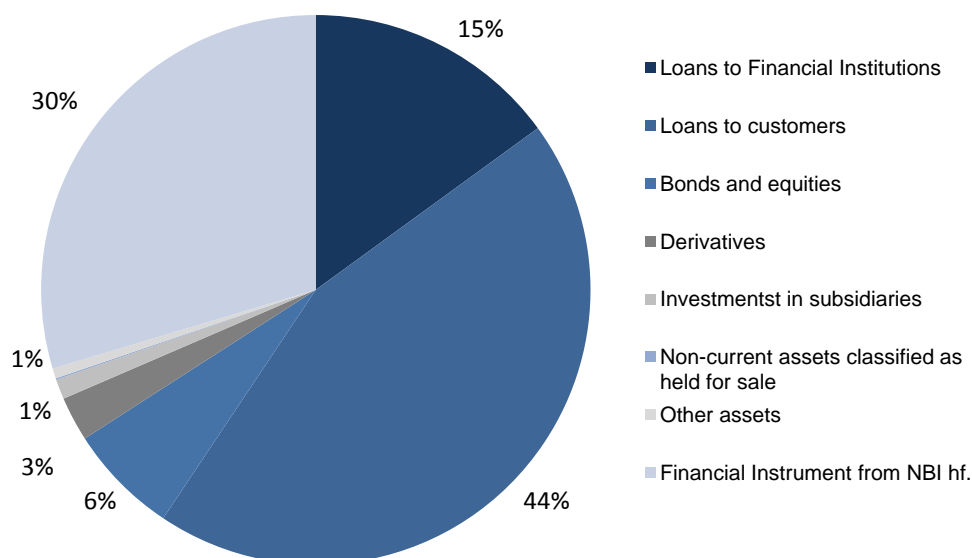
ISKm	Recorded balance sheet as of 30.9.2009	Estimated value of assets 30.9.2009
Loans to Financial Institutions	427,401	174,368
Loans to customers	1,301,277	516,497
Bonds and equities	268,212	75,908
Derivatives	125,845	30,418
Investments in subsidiaries	103,094	13,745
Non-current assets classified as held for sale	1,305	994
Other assets	20,024	6,910
Total assets without instrument from NBI hf.	2,247,158	818,840
Financial instrument from NBI hf.		
A Bond	303,962	303,962
Interest on A Bond	12,743	12,743
Financial instrument from NBI hf.	28,000	28,000
Total assets	2,591,863	1,163,545

ISKm	Book value as of 30.9.2009	Computation of liabilities using FX-rate 22.4.2009
Loans from Financial Institutions	283,790	263,501
Deposits from customers	1,393,077	1,318,905
Securities issued and other borrowings	1,650,877	1,364,872
Subordinated bonds	226,144	216,767
Derivatives	223,710	173,380
Other liabilities	88,560	89,260
Total liabilities	3,866,157	3,426,685

	FX RATES		
	22.04.09 ¹⁷	30.06.09	30.09.09
GBP:	191.1	209.9	197.8
CAD:	105.5	109.9	115.7
EUR:	169.2	179.0	181.0

¹⁷ CB sell rate

LBI's assets consist for the most part of loans to Financial Institutions and loans to customers. This information is set out in the chart below and is based on the estimated value of assets. The second largest part of LBI's assets is the instrument that LBI will receive from LBI in accordance to the agreement between LBI and the Icelandic Ministry of Finance.



Presented below is the book value and estimated value of assets as at the Second and third quarters of 2009. The instrument from NBI is presented in accordance with the HoT. We note that the agreement has not been finalized yet and therefore the final value of the instrument is uncertain.

	Book value of assets as of		Estimated value of assets	
	30.06.2009 after HoT	30.09.09	30.06.2009 after HoT	30.09.2009
ISKm				
Loans to Financial Institutions	435,297	427,401	142,397	174,368
Loans to customers	1,320,061	1,301,277	567,768	516,497
Bonds and equities	188,286	268,212	90,359	75,908
Derivatives	127,939	125,845	32,628	30,418
Investments in subsidiaries	103,094	103,094	13,745	13,745
Non-current assets classified as held for sale	0	1,305	0	994
Other assets	20,732	20,024	8,906	6,910
Total assets without instrument from NBI hf.	2,195,409	2,247,158	855,803	818,840
Financial instrument from NBI hf.				
A Bond	307,498	303,962	307,498	303,962
Interest on A Bond	10,770	12,743	10,770	12,743
Financial instrument from NBI hf.	28,000	28,000	28,000	28,000
Total assets	2,541,677	2,591,863	1,202,070	1,163,545

As noted above, the estimated value of assets in the end of the third quarter of 2009 is 1,164 ISKbn and the estimated value of assets at the end of the second quarter was 1,202 ISKbn. The decrease between the two periods is 38 ISKbn. The main reason for this difference is a decrease in the loan portfolio (which was partially offset by a recovery which is reflected in the cash balance). In addition there was also a decrease in the value of public securities held by LBI which was due sold securities during the period and currency changes. Changes in book value of assets has not changed

significantly except change in bonds. That change is explained by assets that were off-balance sheet but are now entered into book value. There is no estimated value of those assets because of high uncertainty.

Presented below is the estimated value of assets allocated by currency as of 30 September 2009 calculated by FX rate as of the same day. The estimated value of assets as of 30 June 2009 calculated by FX rate of 30 September 2009 is presented for comparison. When comparing the estimated value of assets for the two different periods calculated at the same FX rate we note that the decrease in assets between periods apart from FX changes is 17 ISKbn.

Assets 30.09.09							Estimated value of assets total
ISKm	ISK	USD	EUR	GBP	CAD	Other	
Loans to Financial Institutions	10,921	9,098	70,485	78,578	425	4,861	174,368
Loans to customers	31,663	85,410	171,001	163,048	33,025	32,350	516,497
Bonds and equities	32	8,415	8,858	57,297	564	742	75,908
Derivatives	30,418	0	0	0	0	0	30,418
Investment in subsidiaries	0	0	13,745	0	0	0	13,745
Non-current assets classified as held for sale	994	0	0	0	0	0	994
Other assets	744	0	845	5,321	0	0	6,910
Total assets without instrument from NBI hf.	74,772	102,923	264,934	304,244	34,014	37,953	818,840
Financial instrument from NBI hf.	28,000	94,226	165,107	57,372	0	0	344,705
Total assets	102,772	197,149	430,041	361,616	34,014	37,953	1,163,545

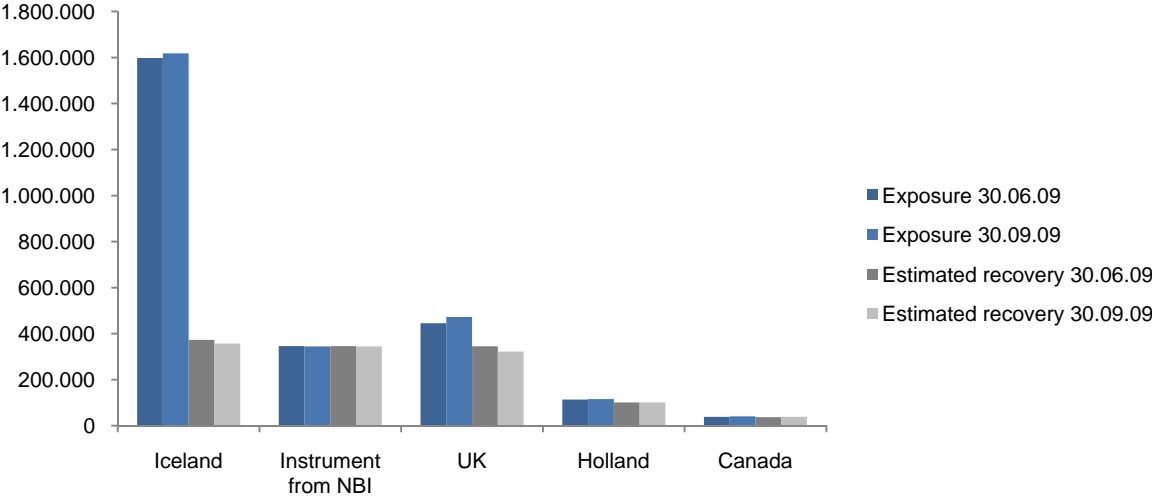
Assets 30.06.09 using FX rates 30.09.09							Estimated value of assets total
ISKm	ISK	USD	EUR	GBP	CAD	Other	
Loans to Financial Institutions	11,818	12,551	57,893	54,203	560	2,317	139,341
Loans to customers	28,910	98,898	203,712	160,998	33,442	32,710	558,670
Bonds and equities	120	13,206	12,527	58,635	27	1,966	86,482
Derivatives	32,628	0	0	0	0	0	32,628
Investment in subsidiaries	0	0	13,899	0	0	0	13,899
Non-current assets classified as held for sale	1,324	0	1,875	5,398	0	0	8,596
Total assets without instrument from NBI hf.	74,800	124,655	289,905	279,234	34,030	36,993	839,616
Financial instrument from NBI hf.	28,000	93,041	163,786	56,763	0	0	341,590
Total assets	102,800	217,696	453,691	335,997	34,030	36,993	1,181,206

As discussed earlier in this report, LBI operates in four countries; Iceland, UK, Holland and Canada. The following table presents the estimated value of assets and computations of liabilities allocated by country.

ISKm	Iceland	UK	Holland	Canada	Total
Loans to Financial Institutions	62,688	88,277	19,414	3,990	174,368
Loans to customers	187,490	213,390	80,888	34,729	516,497
Bonds and equities	60,937	14,971	0	0	75,908
Derivatives	30,418	0	0	0	30,418
Investment in subsidiaries	13,745	0	0	0	13,745
Non-current assets classified as held for sale	994	0	0	0	994
Other assets	558	5,398	954	0	6,910
Total assets without instrument from NBI hf.	356,830	322,036	101,256	38,719	818,840
Financial instrument from NBI hf.					
A Bond	303,962	0	0	0	303,962
Interest on A Bond	12,743	0	0	0	12,743
Financial instrument from NBI hf.	28,000	0	0	0	28,000
Total assets	701,535	322,036	101,256	38,955	1,163,545
Loans from Financial Institutions	258,751	0	4,751	0	263,501
Deposits from customers	7,536	979,487	331,882	0	1,318,905
Securities issued and other borrowings	1,364,872	0	0	0	1,364,872
Subordinated bonds	216,767	0	0	0	216,767
Derivatives	173,161	219	0	0	173,380
Other liabilities	71,959	15,918	1,383	0	89,260
Total liabilities	2,093,045	995,624	338,015	0	3,426,685

Holding companies, that hold shares in operating companies in Iceland and abroad, represent a significant part of the loan book. These companies were greatly affected by the economic crisis in Iceland and this explains the low percentage of recovery (estimated at 23%). The assets in the UK are principally leverage loans and commercial finance. The recovery rate of loans in the UK is estimated to be 62.9%. In Holland the bank is largely a participant in leverage lending led by foreign banks. The recovery rate of loans in Holland is estimated to be 83.9%. The operation in Canada consists principally of lending to companies in the fishery industry and similar sectors. Estimated recovery rate in Canada is estimated to be 95.1%.

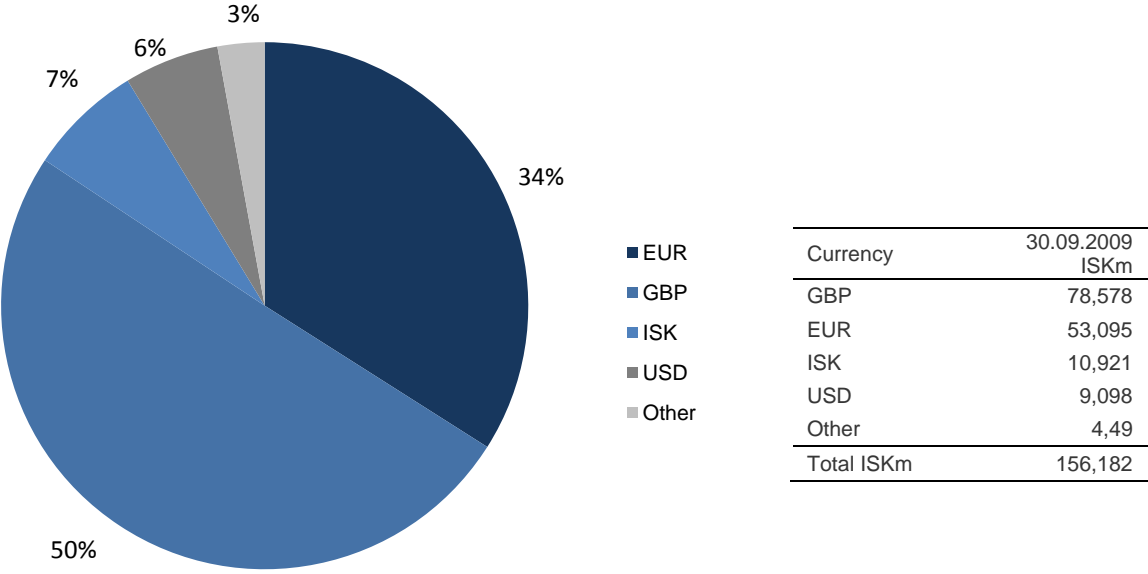
Presented below is a chart that shows the allocation of book value of assets by country for the second and third quarters of 2009.



Most assets in UK, Holland and Canada are to companies that are operational and the assets are being managed actively to achieve the best recovery. In Iceland the situation is somewhat different due to the number of defaulted counterparties and recovery is predominantly achieved through legal or enforcement actions. This explains the difference between exposure and recovery.

Cash at the end of September was 156 ISKbn compared to 121 ISKbn at the end of June using FX rate as of 30 September. As noted earlier actual cash increase is due to loan book collections, sales of equities and redemptions of bonds. More information regarding the management of cash balances can be found in chapter 6.6.

The chart and the table presented below show the allocation of cash balances by currency as of 30 September 2009.



Operational cost for LBI from 8 October 2008 to 30 September is as follows:

ISKm	2008	2009
	Oct - Dec	Jan - Sep
Payroll and benefits	1,022	2,465
Administration cost & support	0	178
Professional and Legal expenses	1,072	3,292
Accounting/Auditing	30	204
Dutch administration cost & support	121	432
Housing Costs	83	254
IT cost	119	33
Other Operational costs	224	578
SLA cost	450	975
Total ISKm	3,121	8,411
Total in Iceland - ISKm	579	3,400
Total in London - ISKm	2,204	4,167
Total in Canada - ISKm	97	184
Total in Amsterdam - ISKm	241	660

The Resolution Committee's costs from October 2008 until 22 April 2009 were paid by the FME. FME has lodged a claim against LBI for that cost but the claim has been rejected by the Winding Up Board.

Professional and legal expenses form a large part of operational costs for 2009. In light of LBI's multi-jurisdictional loan portfolio, as well as litigation and collecting activities in several countries, the largest part of these costs arises from the need to seek assistance from foreign specialists. The largest part of the cost for assistance from specialists for 2008 was in the UK.

The Dutch Administration cost concerns the Amsterdam branch. As noted elsewhere, those costs are disputed and all rights are reserved in that respect.

The Service Level Agreement cost (SLA) between NBI and LBI is estimated. The agreement has not been approved.

The Resolution Committee of LBI refers to information contained in the Report on the Moratorium and other issues concerning LBI, presented to the creditors meeting on 23 November 2009, especially chapter 8 of the Report. Furthermore the Resolution Committee refers to the list of claims filed before the time limit on submission of claims on 30 October 2009.

In light of this information on the financial situation of LBI. it is the Resolution Committee's assesment that there is no prospect of LBI being able to cover its obligations.

This statement is given in accordance to the requirement in limb 5 of Article 102 of the AFU No. 161/2002 cf. Interim provision V.

CHAPTER 9

LBI - NEXT STEPS

9 LBI - NEXT STEPS

The preceding sections have summarised the highlights of day-to-day activities at LBI since 7 October 2008 to the present date. If an extension of the moratorium of LBI will be accepted no major changes are expected to occur to the bank's activities during the next moratorium period, which can last for up to nine months from 26 November this year.

The bank plans to continue to operate its London branch and its subsidiary Labki in Halifax in a manner similar to current operations. Future activities in Amsterdam and the involvement of the Resolution Committee and Winding-up Board in these activities will depend to some extent on the liquidation of the branch based on Dutch legislation and talks with the Dutch authorities mentioned above. Its daily activities can be expected to continue relatively unchanged. Significantly, no information has been received indicating that the branch's loan portfolio is poorly administered—quite the contrary. The Resolution Committee and Winding-up Board are, however, concerned at the high cost arising from the dual administration procedures, which could eventually be borne by LBI's creditors.

Management of LBI's assets will continue to be in the hands of the bank's Resolution Committee in accordance with the requirements of Temporary Provision II of Act No. 44/2009. It is assumed that the policy will generally remain the same, with the result that claims will be collected as they fall due. Special emphasis will be placed on collecting claims in default, for instance, through focused examination of assets

Handling of claims against LBI will continue to be in the hands of the bank's Winding-up Board. The deadline for lodging claims was midnight, 30 October 2009 and the first creditors' meeting on claims lodged will take place on 23 November 2009. Once the deadline had passed, the Winding-up Board published a list of claims, including all claims lodged and the priority claimed. The Winding-up Board has made decisions on claims lodged in accordance with Articles 109-112 of the Bankruptcy Act, as indicated in the list of claims.

Those creditors who have lodged claims on which no decision has yet been taken have been informed that a decision on their claims has been postponed. A decision will be made on these claims as promptly as possible and a follow-up creditors' meeting will be held regarding them in the first half of 2010.

Insofar as objections are raised to decisions by the Winding-up Board on recognition of claims prior to or at the creditors' meeting on 23 November 2009, efforts will be made to resolve the differences concerning the claims in question. Disputes on claims which cannot be resolved will be referred to the courts for resolution. The Reykjavík District Court will rule on these disputed cases, as provided for in Article 171 of the Bankruptcy Act, cf. Chapter XXIV of the same Act. Rulings by the District Court may be appealed to the Supreme Court of Iceland within two weeks of their pronouncement. It is not clear when final verdicts may be expected in these disputes.

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

less than other creditors of equal rank will receive at a later stage, taking into consideration relevant factors such as whether their claims will bear interest until paid

In accordance with this provision, the Winding-up Board could begin to pay disbursements towards claims that have been finally recognised at the creditors' meeting on 23 November 2009 following the conclusion of that meeting, provided other conditions are fulfilled. If there are disputes regarding the decisions on recognising claims, towards which payment could otherwise be made, payments will not be made until the final outcome from the courts is available. Preparations for payment will be undertaken so that it will be possible to disburse monetary assets to creditors in a timely manner after legal requirements for distribution have been met.

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

LBI will request, when the Reykjavík District Court meets on 26 November 2009 to hear the case, that the bank's moratorium be extended for up to nine months, or until up to 26 August 2010. If a decision is eventually taken to request a further extension of the moratorium after that, a creditors' meeting will be held to present such plans and review the bank's situation.

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