



Glitnir banki hf.

Creditors' meeting

22 September 2009

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1. Introduction and appointment of a Chairperson
2. Creditor update
3. Islandsbanki recapitalisation
4. Statement of Assets and Liabilities
5. Estimated timetable and example Composition of Creditors

# Introduction

## Arni Tomasson, Chairman of the Resolution Committee

### Reasons for the meeting

- The main purposes of the meeting are:
  - provide creditors with an update on Glitnir's current situation;
  - provide a summary of the agreements between the Ministry of Finance and Glitnir on the recapitalisation of Islandsbanki hf. ("ISB") and next steps; and
  - provide creditors with an opportunity to provide feedback and raise questions.
- Under Icelandic law, no binding decisions can be made at this meeting.
- **The meeting is primarily to update creditors on the negotiations regarding the recapitalisation of Islandsbanki.**

### Appointment of a Chairperson

- Arni Vilhjalmsson has been appointed independent chairperson for this meeting.

# Introduction

## Agenda



### Agenda for the meeting

- Creditor update -- -- -- -- -- Glitnir - Steinunn Guðbjartsdóttir (Moratorium Appointee and member of the Winding-Up Board)
- Islandsbanki recapitalisation:
  - Overview of the process and signed agreements -- -- -- -- -- Glitnir - Arni Tomasson (Resolution Committee Chairman)
  - Legal due diligence -- -- -- -- -- Morrison & Foerster - Jim Tanenbaum
  - Financial due diligence -- -- -- -- -- UBS - Adriaan Van Der Knaap and Rob Baston, Houlihan Lokey - Max Ziff
  - Priority issues, upside potential for Islandsbanki -- -- -- -- -- ISB - Birna Einarsdottir (CEO)
  - The negotiation process and creditors views on agreements -- -- -- -- -- Bingham McCutchen - Chip Fisher (member of the ICC)
  - Comparison of the two alternatives, an assessment of the current situation -- -- -- -- -- UBS - Adriaan Van Der Knaap and Rob Baston
- Break (10 minutes)
- Q&A, comments from creditors, discussions
- Lunch break (30 minutes)
- Statement of Assets and Liabilities as at 30 June 2009 -- -- -- -- -- Glitnir – Kristjan Oskarsson (CEO)
- Key milestones and next steps going forward -- -- -- -- -- Glitnir - Steinunn Guðbjartsdóttir



1. Introduction and appointment of a Chairperson
2. **Creditor update**
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# Creditor update

## Current status overview

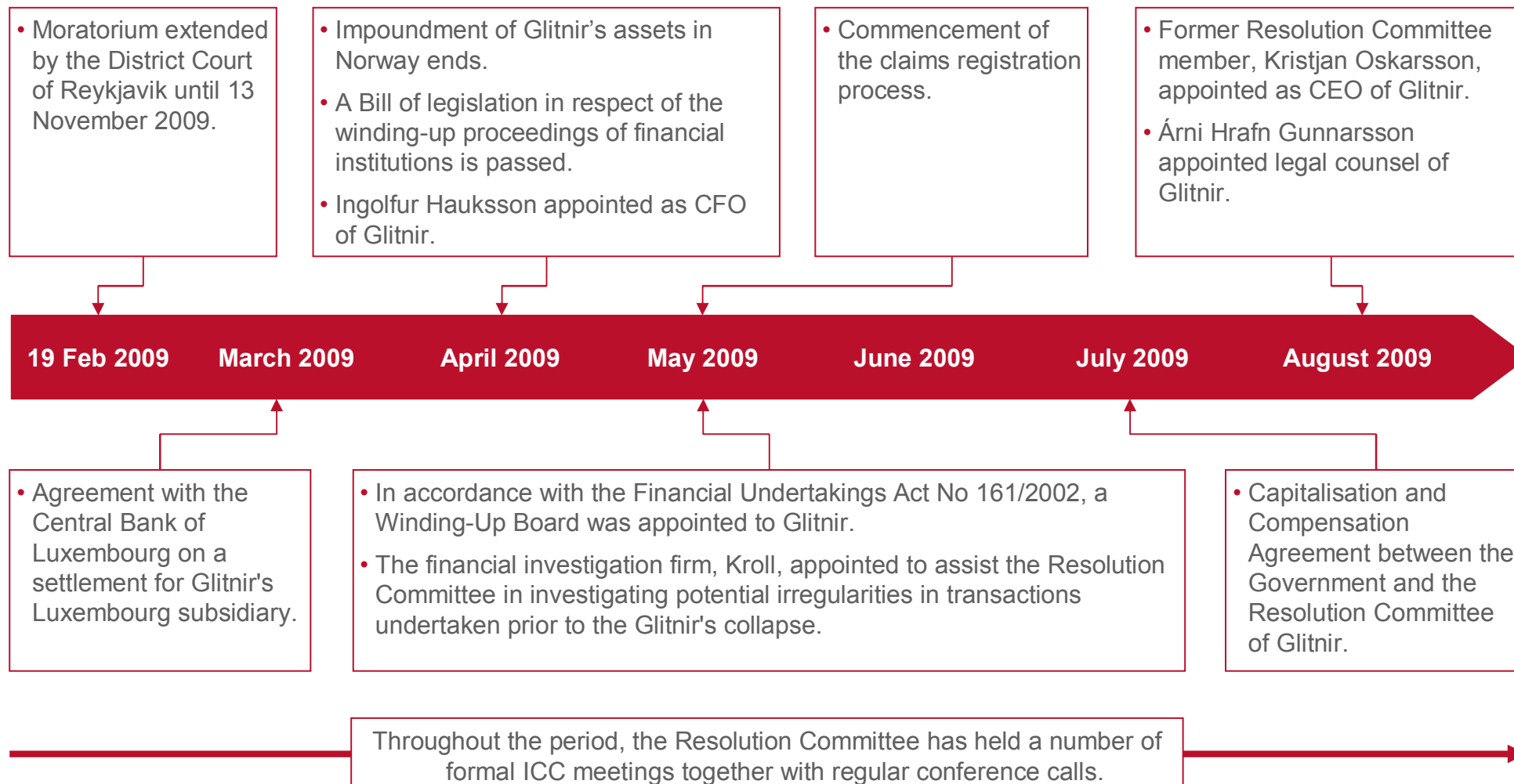
The logo for Glitnir, featuring the word "GLITNIR" in white capital letters on a red rectangular background. A white curved line is positioned below the text.

### Current status

- The Resolution Committee of Glitnir was appointed by the Icelandic Financial Services Authority (the “FME”) on 8 October 2008. The Resolution Committee is currently comprised of:
  - Árni Tómasson (Chairperson);
  - Heimir Haraldsson;
  - Erla Árnadóttir; and
  - Þórdís Bjarnadóttir.
- Kristjan Oskarsson has relinquished his position on the Resolution Committee and has accepted the position of CEO of Glitnir, reporting to the Resolution Committee.
- Initially, the Resolution Committee operated in consultation with the FME. However, after a Moratorium status was granted to Glitnir on 24 November 2008, the Resolution Committee became virtually independent from any government body. It currently operates Glitnir in co-operation with Steinunn Guðbjartsdóttir, a Supreme Court Attorney and the Moratorium Supervisor.
- The principal task of the Resolution Committee is to protect the value of Glitnir’s assets and to maximise the recovery of claims on behalf of the Bank’s creditors. In essence, the Resolution Committee holds the powers of the board of directors.

# Creditor update

## Key events since 6 February 2009 - overview





# Creditor update

## Key events since 6 February 2009

The logo for Glitnir, featuring the word "GLITNIR" in white capital letters on a red rectangular background. A white wavy line is positioned below the text.

### **Moratorium extension**

- On 19 February 2009, Glitnir's Moratorium status was extended by the District Court of Reykjavik until 13 November 2009, on which date a further extension may be applied for.
- The Moratorium provides Glitnir with appropriate protection from legal actions, such as the freezing of assets, and ensures that it is able to maintain a banking license sufficient to support its assets.
- The Moratorium Appointee convened a creditors' meeting on 6 February 2009. In accordance with the Bankruptcy Act, no matters were voted upon nor were any formal decisions made. The meeting was held for information purposes for creditors in light of the court hearing of 13 February 2009 where a petition was filed by the Resolution Committee's for a nine-month extension to the Moratorium period.
- On 19 February 2009 the District Court of Reykjavík agreed to the request for the extension of the Moratorium until 13 November 2009. On that date a new open hearing will be held to consider the matter and decide on whether a further extension of the Moratorium will be granted.
- Prior to the hearing a further creditors' meeting will be held. The meeting will be held on Thursday, 5 November 2009, at 10:00 am at the Hilton Reykjavík Nordica, Suðurlandsbraut 2, Reykjavík.
- The maximum time period for the Moratorium is 24 months. According to a new Act no. 44/2009 amending Act no. 161/2002 on Financial Undertakings, the Moratorium can effectively end in three ways:
  - a winding up process;
  - an insolvent liquidation; or
  - a Composition of Creditors – an arrangement between Glitnir and its creditors similar to a Reorganisation Plan or Scheme of Arrangement in other international jurisdictions.

# Creditor update

## Key events since 6 February 2009

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### **Agreement with the Central Bank of Luxembourg**

- Glitnir and the Central Bank of Luxembourg (“BCL”) signed an agreement in March 2009 providing for settlement of debts for Glitnir’s subsidiary, Glitnir Bank Luxembourg.
- The agreement meant that an important financial interest of Glitnir and its creditors would be safeguarded. Glitnir Luxembourg has up to five years within which to maximise the value of its assets and repay all debts owed to BCL.
- The agreement also secured that certain securitised loan portfolios, pledged to BCL, and which include loans to Glitnir’s Icelandic and international loan customers, would continue to be administered by Glitnir’s Resolution Committee.

### **Freezing of Glitnir’s assets in Norway ends**

- During April 2009, Glitnir’s assets in Norway, which had been frozen since the Bank’s collapse in October 2008, were released.
- The action gave the Resolution Committee unrestricted control over its assets in Norway, which are valued at approximately ISK100bn (approximately EUR557m).
- This was an important outcome, as it ensured that the Bank would be able to fulfil all its commitments in Norway and thereby maximise the value of its assets for creditors.
- In addition, it ensured a more equal treatment of creditors, as those that demanded the frozen assets in Norway must now, like all other creditors, direct their claims to the Bank in Iceland, where any disputes arising will be resolved by the Icelandic courts.

# Creditor update

## Key events since 6 February 2009

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### The winding-up proceedings

- On 22 April 2009, a Bill of Legislation was passed to amend the Act of Financial Undertakings No. 161/ 2002. This Bill contains rules in respect of the winding-up proceedings of financial institutions. The rules are similar to the rules on insolvency proceedings according to the Bankruptcy Act.
- All the principal rules of the winding-up proceedings in the Bill apply to Glitnir, whether the Moratorium is in effect or not.
- In accordance with the new Bill, on 12 May 2009 the District Court of Reykjavik appointed a Winding-Up Board, comprised of:
  - Steinunn Guðbjartsdóttir, Supreme Court Attorney and formerly a member of the Resolution Committee;
  - Einar Gautur Steingrímsson, Supreme Court Attorney; and
  - Páll Eiríksson, District Court Attorney and formerly legal counsel to Glitnir.
- The main task of the Winding-Up Board is to handle the claims registration and recognition process through which the identity and quantum of Glitnir's creditors will be decided.
- In addition, the Winding-Up Board will handle the payment of recognised claims at the appropriate time.
- As part of its role, the Winding-Up Board can challenge and claim rescission of actions of the Bank in accordance with the rules on rescission in the Bankruptcy Act.
- Both the Winding-Up Board and the Resolution Committee are dedicated to working together in the best interests of Glitnir and its creditors.

# Creditor update

## Key events since 6 February 2009

The logo for Glitnir, featuring the word "GLITNIR" in white capital letters on a red rectangular background. A white curved line is positioned below the text.

### **The appointment of Kroll**

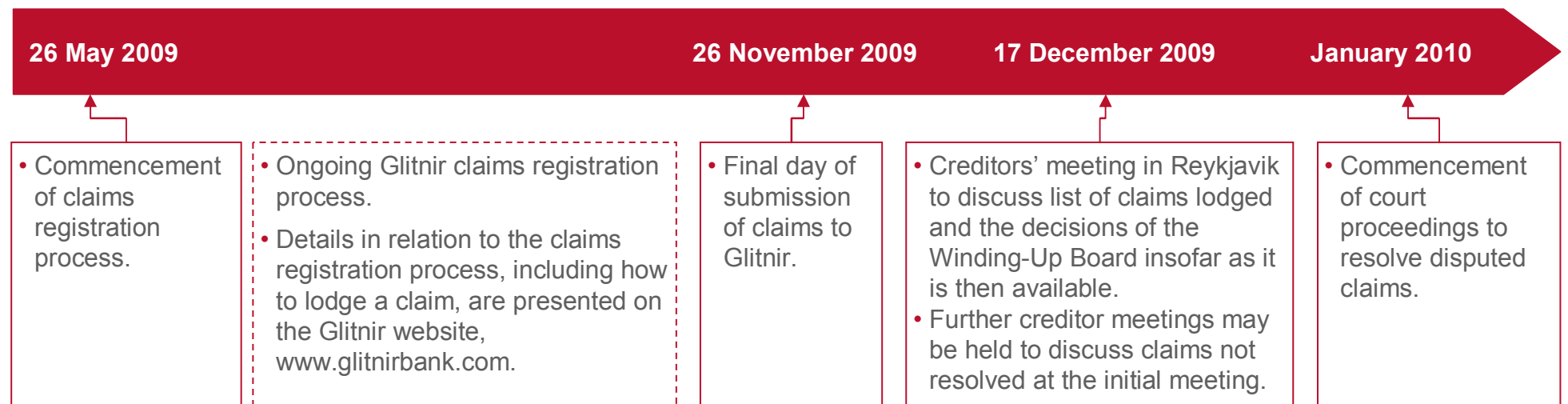
- Glitnir appointed the London office of the financial investigations firm Kroll to assist it in investigating potential irregularities in transactions undertaken prior to the Bank's collapse.
- The aim of the investigation is to pursue and recover any assets from those who may have benefited from, or were responsible for, such irregularities.
- Kroll is a global independent forensic investigation firm and considered a leader in its field.
- The team appointed to this case has a proven track record in investigating alleged wrongdoings prior to corporate collapses, as well as conducting large scale, asset recovery actions.
- This appointment reflects the determination of the Resolution Committee and the Winding-Up Board to identify any deliberate wrongdoing and maximise recoveries for the benefit of the creditors.
- At this point in time, it would be inappropriate for the exact nature and findings of Kroll's work to be discussed, as this may prejudice the interests of Glitnir and its creditors.

# Creditor update

## Key events since 6 February 2009

### Claims registration process

- The claims registration process commenced on 26 May 2009. Since this date, creditors have been submitting claims and will be permitted to do so up to and including 26 November 2009. **All claims submitted after this date will be deemed to be null and void, as provided for in the Bankruptcy Act.**
- Details in relation to the process for registering claims, including claims forms, are shown on the Glitnir website at [www.glitnirbank.com](http://www.glitnirbank.com)
- A meeting has been scheduled for 10am on 17 December 2009, at Hilton Hotel Nordica, Suðurlandsbraut 2, 108 Reykjavík. At this meeting, the Winding-Up Board will present and discuss the claims submitted and its decisions regarding these claims insofar as these are available.
- A list of claims lodged will be available to those that have submitted claims at least one week before the meeting, i.e. no later than 10 December 2009.



# Creditor update

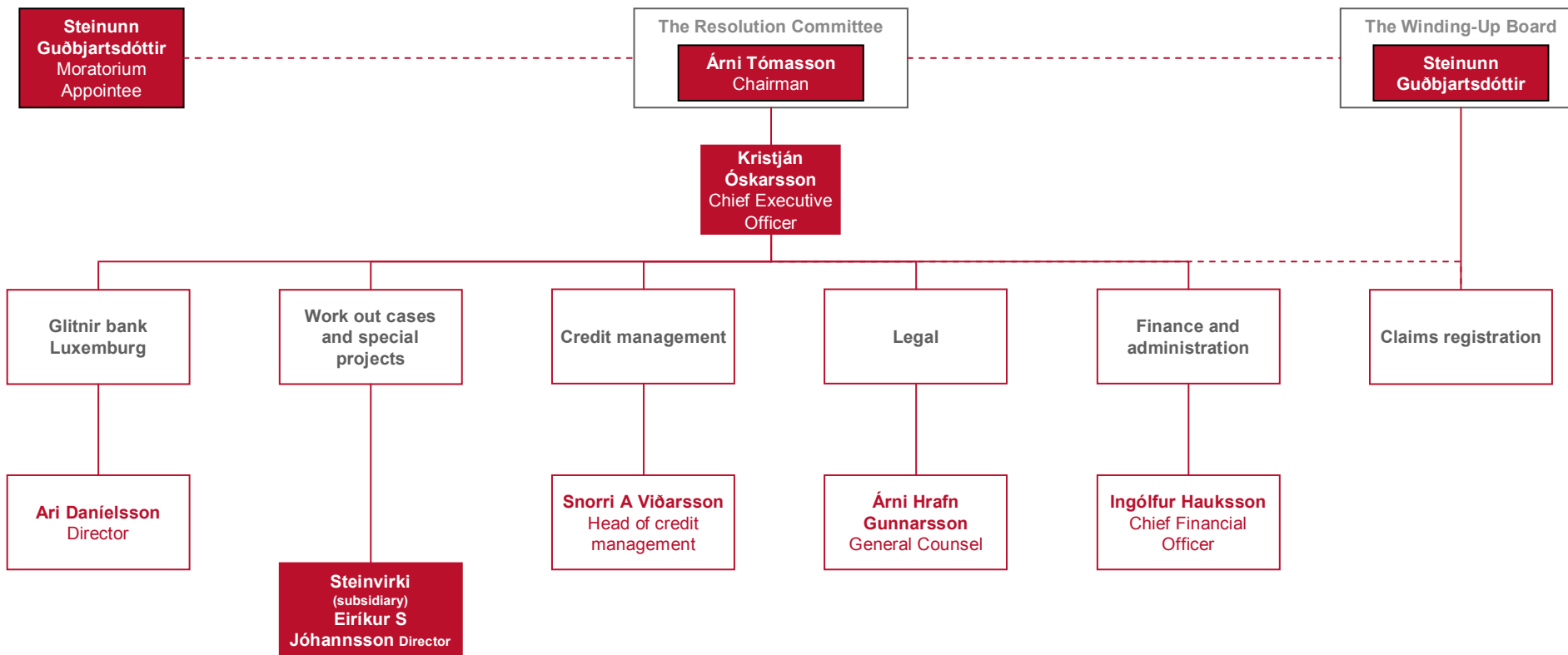
## Key events since 6 February 2009

### **The Informal Creditors' Committee**

- The Resolution Committee established an Informal Creditors' Committee ("ICC") in November 2008 in order to ensure a co-ordinated and efficient mechanism of communicating and consulting with creditors of Glitnir.
- Since establishment, there have been seven formal face-to-face meetings of the ICC, together with regular telephone conference calls.
- The members of the ICC represent a broad cross-section of Glitnir's global creditor base.
- The ICC has no formal powers, and its role is purely consultative. Members of the ICC do not benefit from any special treatment in respect of any claim its members may have against Glitnir.
- Members of the ICC were required to enter into strict confidentiality undertakings prior to attending ICC meetings.
- In essence, the ICC was established in order to:
  - act as a body which can be consulted on major strategic decisions being taken regarding the protection, maximisation and realisation of Glitnir's assets; and
  - to be consulted on proposals relating to Glitnir's restructuring solutions, aimed at returning value to creditors.

# Creditor update

## Operational overview of Glitnir



- The above chart sets-out the departments and key staff within Glitnir and its main subsidiaries.
- Excluding the Resolution Committee and Winding-Up Board, Glitnir currently has approximately 30 employees. The majority of these employees are based in Iceland, although Glitnir also has staff in Luxembourg, the UK and Norway.

# Creditor update

## Operational overview of Glitnir



### Committees

- In addition to the Resolution Committee and Winding-Up Board, the following committees operate within Glitnir:
  - Credit committee – deals with all credit related matters below ISK5bn. All matters above this amount are referred to the Resolution Committee; and
  - Derivatives Working Group – a temporary working group established to deal with the close and valuation of derivative contracts.

### Service agreement with Islandsbanki

- Glitnir has outsourced various parts of its operations to Islandsbanki. The agreement allows for outsourced services in the following areas:
  - operational services and IT;
  - financial accounting support;
  - credit control assistance;
  - treasury and capital markets;
  - payroll and human resources; and
  - risk management.





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# Islandsbanki recapitalisation

## Overview of process to date

<b>October 2008</b>	<ul style="list-style-type: none"><li>• Glitnir is split into two, based upon emergency legislation.</li><li>• Domestic assets and all deposits transferred to New Glitnir banki hf. (now Islandsbanki hf.).</li><li>• All remaining assets (mostly non-Icelandic assets) and liabilities are retained within Glitnir.</li><li>• FME announces that creditors of Glitnir will be compensated with a debt instrument based upon a valuation of assets and liabilities of ISB by independent experts.</li></ul>
<b>December 2008</b>	<ul style="list-style-type: none"><li>• FME engages Deloitte UK and Oliver Wyman to value the assets and liabilities transferred to ISB.</li></ul>
<b>March / April 2009</b>	<ul style="list-style-type: none"><li>• Deloitte UK and Oliver Wyman present their valuation, based on “through the cycle” valuation.</li></ul>
<b>April / May 2009</b>	<ul style="list-style-type: none"><li>• Management of ISB present their valuation based on IFRS valuation.</li></ul>
<b>May – July 2009</b>	<ul style="list-style-type: none"><li>• Creditor due diligence teams invited to review the valuations.</li><li>• UBS (on behalf of the Resolution Committee) and Houlihan Lokey (on behalf of certain bondholders) commence due diligence on ISB financials.</li><li>• Negotiations between the Resolution Committee and Ministry of Finance took place.</li><li>• ICC members nominate their representatives to join the negotiation. Close contact with ICC members through telephone and in-person meetings.</li></ul>
<b>20 July 2009</b>	<ul style="list-style-type: none"><li>• Heads of terms signed.</li></ul>
<b>20 July 2009 – 13 September 2009</b>	<ul style="list-style-type: none"><li>• Due diligence work continues.</li><li>• Additional heads of terms signed on 31 July 2009 and 4 September 2009.</li></ul>
<b>13 September 2009</b>	<ul style="list-style-type: none"><li>• Final signing of documents.</li></ul>

# Islandsbanki recapitalisation

## Overview of agreements made to date

- On 13 September 2009, the following agreements were signed in respect of the recapitalisation of ISB.

### Joint Capitalisation Agreement (“JCA”)

- Glitnir has the right to acquire 95% of ISB before 30 September 2009 without any payment – by cancelling bonds A, B and C and the equity option.
- The Government will provide ISB with additional Tier II capital of ISK25bn and a liquidity facility of a further ISK25bn.
- Dividends can be paid to the same amount as instalments of bonds under the Alternative Capitalisation Agreement, fulfilling other requirements.

### Alternative Capitalisation Agreement (“ACA”)

- The Government will own 100% of ISB and capitalise the bank with ISK65bn.
- Glitnir will receive Bond A of ISK52bn (€ denominated) from ISB.
- Glitnir will receive Bond B of ISK 0-80bn (€ denominated) based on 90% of accumulated excess profit of ISB until year-end 2011.
- Glitnir will receive Bond C of ISK 0-17bn (€ denominated) based on 90% of accumulated excess profit of ISB until year-end 2009.
- Bond B plus Bond C are capped at ISK80bn.
- Glitnir will receive Equity Option to buy up to 90% of the shares in ISB until year-end 2014.

# Islandsbanki recapitalisation

## Overview of agreements made to date



### **“ACA” Equity Option**

- Option for Glitnir to purchase up to 90% of shares in ISB until year-end 2014.
- The price is ISK65bn + (Risk free rate in ISK + 5% per year) from 15 October 2008.
- If the option is exercised it has to be paid in cash.
- Option period 30 days after each publication of the annual accounts.

### **“ACA” Equity Option Waiver Letter**

- If Glitnir decides for the JCA (to own 95% of ISB) the Equity Option will be terminated.

### **“ACA” Bond A**

- Issued from ISB to Glitnir if ACA is selected. ISK52bn = € 346,182,012 as of 15 October 2008.
- Interest 15 October 2008 - 14 October 2011 = EURIBOR+3%; from 15 October 2011 - 14 October 2015 = EURIBOR+4%.
- Payment of principal starting 15 January 2013, 12 quarterly instalments.
- Payment of interest starting 15 October 2009, 25 quarterly instalments.
- Secured by way of a pledge over a defined asset pool of ISB.
- Can be rescheduled under English law at Glitnir’s decision.
- Change of control covenants if Government ownership goes below 50%.

# Islandsbanki recapitalisation

## Overview of agreements made to date

### “ACA” Bond B

- Issued from ISB to Glitnir if ACA is selected at 31 March 2012.
- Value of Bond B to be decided as 90% of the “Excess of Accumulated Profits” of ISB from 1 January 2009 to 31 December 2011. Capped at ISK80bn less the value of Bond C.
- Excess Accumulated Profits of ISB = net profit based on audited annual accounts less a calculated return on equity at the beginning of each year based upon a risk free rate + 4%.
- Interest 1 January 2012 – 14 October 2015 = EURIBOR+4%.
- Payment of principal starting 15 January 2013, 12 quarterly instalments.
- Payment of interest starting 15 April 2012, 15 quarterly instalments .
- Other items identical to Bond A.

### “ACA” Bond C

- Issued from ISB to Glitnir if ACA is selected at 31 March 2010.
- Value of Bond C to be decided as 90% of Excess Accumulated Profits of ISB from 1 January 2009 to 31 December 2009. Capped at ISK 17bn.
- Excess Accumulated Profits of ISB = net profit based on audited annual accounts less a calculated return on equity at the beginning of each year based upon a risk free rate + 4%.
- Interest 1 January 2010 – 14 October 2011 = EURIBOR+3%; from Oct 15, 2011-14. Oct 2015 = EURIBOR+4%.
- Payment of principal starting 15 January 2013, 12 quarterly instalments.
- Payment of interest starting 15 April 2010, 23 quarterly instalments.
- Other items identical to Bond A.

### “ACA” Bond Issue Agreement

- ISB agrees to issue Bonds A, B and C to Glitnir if ACA is selected and other conditions are met.
- ISB has granted the Pledge to Glitnir as security for the payment obligations under the bonds.

# Islandsbanki recapitalisation

## Overview of agreements made to date



### **“ACA” Escrow Agreement**

- ISB and Glitnir agree to transfer the Bond B and Bond C to an Escrow Account and deliver the documents to an agreed Escrow Agent.
- With reference to the Bond Issue Agreement and under the instruction of ISB and Glitnir, the Escrow Agent shall insert the principal amount and the issue date of the Bonds into the Escrowed Bonds and thereafter the bonds shall be released.

### **“ACA” related issues mentioned in other agreements**

- Glitnir has the right to nominate one Board member if ACA is decided.
- Glitnir has the right to prepare an incentive plan to management at its own cost if ACA is decided.

### **Set-off Agreement**

- Agreement between ISB and Glitnir regarding set-off arrangements between the two parties due to assets, liabilities and contingencies transferred from Glitnir to Islandsbanki.

### **Possessory Pledge Agreement**

### **Term Sheet on SPV structure**

### **Receivable Pledge Agreement (draft form)**

- Agreements determining the Pledged asset pool of ISB as a security for Bonds A, B and C owned by Glitnir.
- Details on how to determine, maintain and revalue the asset pool.
- Default clauses, change of control issues, specified events, etc.

### **“JCA” Bond A, B and C Waiver Letters**

- If Glitnir decides for the JCA (to own 95% of ISB) the Bond Issue Agreement will be terminated.
- Bond A, B and C will be replaced by the 95% equity in ISB.

# Islandsbanki recapitalisation

## Overview of agreements made to date

### “JCA” Government Capitalisation Agreement

- If Glitnir decides for the JCA (to own 95% of ISB) ISB will issue € 138,106,287 = ISK 25bn Tier II Unsecured Subordinated Notes, in exchange for liquid government bonds earning market rates.
- The Subordinated Note will be 10 year bullet Note from date of JCA.
- Interest rate EURIBOR + 4% for the first 5 years, EURIBOR + 5% years 5 – 10.
- No change of control covenants due to sale of ISB to other “fit and proper” parties.

### “JCA” Liquidity Facility Agreement

- An agreement between the Government as Liquidity Facility Provider and Islandsbanki as Borrower.
- ISK25bn as a cap.
- Termination date 30 September 2012 .
- Interest: Risk Free Rate + 3% up to 5% based on amount drawn.
- Glitnir is required to extend the maturity of ISK25bn of its deposits with ISB for 15 months (to 13 December 2010).

### “JCA” Shareholders Agreement

- An agreement between Glitnir and the Government if JCA is decided.
- The Government is entitled to one Board member (of 5).
- The Board member has veto rights of i) dividends for the first 3 years exceeding payments from Bonds A, B and C under the ACA ii) transactions taking place between Glitnir and ISB outside the normal line of business and not offered to other independent parties.
- Drag-Along and Tag-Along clauses.
- Other standard clauses.

### Icelandic Legal Opinion

- An opinion issued by the Icelandic legal advisers to the Government of the documents being according to Icelandic law.
- Opinion of other legal issues.

- Certain other documents, minutes and written resolutions were also signed.

# Islandsbanki recapitalisation

## Legal due diligence

### **Role of counsel to the Resolution Committee during negotiation process**

- Morrison & Foerster LLP has worked closely with the Resolution Committee and its financial adviser and other advisers to ensure that the negotiation timetable and process set forth by the Ministry of Finance permitted adequate opportunity for the Resolution Committee and stakeholders to undertake an assessment of Islandsbanki's business and affairs (part of the "due diligence" process).
- Morrison & Foerster has worked alongside Icelandic counsel to the Resolution Committee (Logos) and the Resolution Committee's financial adviser to conduct due diligence.
- Based on the learning from the due diligence process, the inquiries that arose in meetings with representatives of the Government and Islandsbanki, and the negotiating sessions, counsel worked with the Resolution Committee to evaluate the proposed terms of the compensation instruments.
- Counsel was able to identify areas of uncertainty, areas of legal risk and throughout the process work with the Resolution Committee to improve the terms of the compensation instruments.
- Finally, counsel assisted with the negotiation and documentation of the compensation instruments.



# Islandsbanki recapitalisation

## Legal due diligence

### Due diligence review

- Due diligence is intended to equip the Resolution Committee to make the most informed decisions relating to the negotiation of the terms of the instruments and to share with stakeholders (to the extent not prohibited by confidentiality undertakings) information regarding the process undertaken, the terms of the instruments and the risks associated with the instruments.
- There was a business and financial due diligence review in which Morrison & Foerster actively participated.
- In addition, Morrison & Foerster and Logos undertook a legal due diligence review.
- Islandsbanki made a business diligence dataroom available beginning on 30 July 2009.
- Islandsbanki made a legal dataroom available beginning on 10 August 2009.
- The materials shared in the legal dataroom included, among other things, corporate governance materials, employment agreements, vendor/supplier agreements, other material contracts, regulatory materials, materials regarding risk and credit policies and materials relating to Islandsbanki's five-year business plan.

# Islandsbanki recapitalisation

## Financial due diligence



### Financial due diligence

- UBS (as financial advisor to the Resolution Committee) and Houlihan Lokey (as financial advisor to bondholder creditors) have undertaken financial due diligence on ISB.

# Islandsbanki recapitalisation

## Financial due diligence

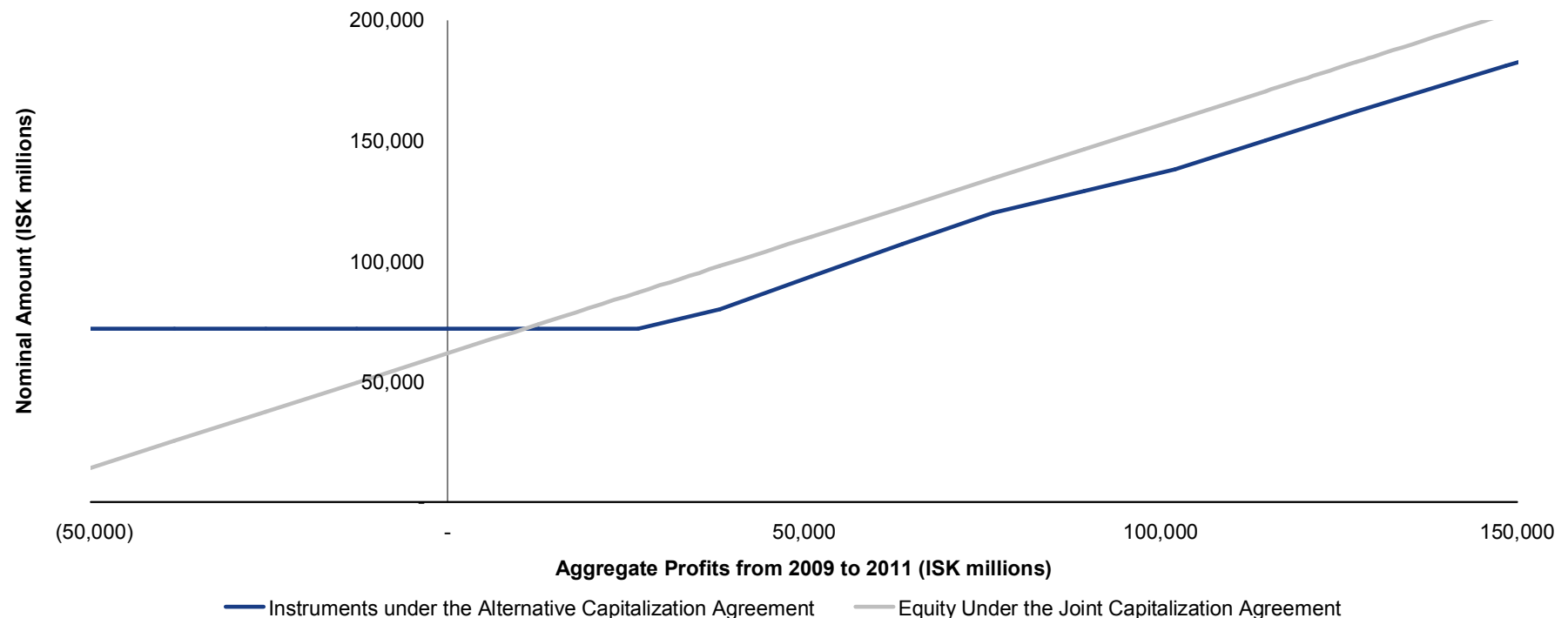
- The scope of the due diligence effort undertaken by the Resolution Committee and its advisors included a detailed review of, among other things, Islandsbanki's IFRS net asset valuation (and related assumptions), 5-year business plan, historical management reports (including liquidity and ALCO), individual profit center data and other specific work papers as requested
- The table below highlights the key IFRS net asset valuation differences identified over the two stages of due diligence
- While the Resolution Committee did not reach agreement on virtually any of these items, UBS proposed a “floating principal” compensation instrument (in Bond B/C) to be included in the ACA that would be structured to capture a majority of future increases in net asset value over a specific determination period
- As such, the IFRS valuation differences highlighted below have been applied to the cap on the principal amount of Bond B/C under the ACA

<b>Issue</b>	<b>Relevant loan portfolio</b>	<b>Potential Valuation Impact (ISK bn)</b>
Discount rate calculation	Retail/SME	
Nominal-ISK funding cost assumption	Retail/SME	
Impact of sub-REIBOR retail deposits	Retail/SME	
Discounting FX loans	Retail/SME	
Calculation of expected loss multiplier	Retail/SME	
Loan amortization assumption	Retail/SME	
Increase in seafood company multiples	Large corporate	
Share portfolio valuation	Bond portfolio	
Guarantees	Off balance sheet	
<b>Aggregate Impact Identified Prior to July 31</b>		<b>68</b>
Further consideration on valuation	Retail/SME	
<b>Total Aggregate Impact</b>		<b>80</b>

# Islandsbanki recapitalisation

## Financial due diligence

- The figure below illustrates the relative nominal amounts of each compensation option for a given range of aggregate profits from 2009 to 2011 in accordance with the definitions set out in the JCA and ACA
  - The illustration shows: (a) the nominal amount of Islandsbanki's common equity of which 95% will be owned by Glitnir under the JCA and (b) the aggregate nominal amounts of the compensation instruments under the ACA, comprising Bond A, Bond B, Bond C and the Equity Option (Option shown at intrinsic value only)
- Other assumptions in this illustration include, among others: (i) risk-free rate of 9.5%; (ii) ISK/EUR exchange rate of 181.00; and (iii) Icelandic corporate tax rate of 15%



Islandsbanki Valuation Diligence – Briefing to Creditors | September 22, 2009



**HOULIHAN LOKEY**  
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# Islandsbanki Valuation Diligence – Work Undertaken

*From mid-July, jointly with UBS team and on behalf of Engaging Bondholders, Houlihan Lokey has undertaken a review of Islandsbanki's (ISB) assets, performance and business plan*

## **Assets & Liabilities Valuation as of Oct-08**

- Analysis of ISB overall loan discounting methodology. Adjustments argued for ISB overall cost of capital, its deposit cost-base and FX loans.
- Reviewed a sample of 10 Large Corporate accounts, selected as:
  - representative of all main sectors of the portfolio,
  - those with meaningful provisions, in need of some restructuring but not in need of liquidation or full write-offs,
  - where provisioning differed significantly from other banks' cross-holdings.
- Analysis of SME & Retail portfolio valuation method, data and underlying assumptions. We have identified areas for adjustment:
  - overly conservative macro-economic assumptions
  - unduly simplistic and overly conservative estimate of cash flows
  - expected losses forecast based on a restricted statistical regression model
  - limited use of independent market references, lack of external forecasts to substantiate ISB-assumed future losses
- Review of Other Assets and non-deposit Liabilities, with some upward adjustments agreed in both categories

## **Performance To-Date and Business Plan analysis**

- Review and Discussion of Executive Board monthly reports from Oct-08 to-date
- Meetings with Management teams of all key ISB business units
- Review and Discussion of ISB monthly Liquidity reports
- Review and Discussion of 5-year Business Plan and Model and evaluation of sensitivities

# Islandsbanki Valuation Diligence – SME & Retail Valuation

- On SME & Retail portfolio we view ISB valuation as overly simplistic and conservative.
- HL valuation diligence team undertook further detailed analysis of this section (comprising about half the ISB gross portfolio) and pressed ISB for more complete disclosure of their regression analysis and portfolio data.
- Discussions focused around the following concerns:
  - Predictive power of the 14-point based regression analysis (1991-04) when forecasting losses in 2009-13
  - Using 95%-confidence level (which is a very wide range) versus mean loss forecasts for fair-valuing
  - Magnitude of difference between assumed cumulative losses and empirical evidence from previous crises globally
  - ISB's limited use of independent market forecasts to substantiate forecasted duration and amount of total losses
  - Inconsistency between ISB forecasts and year-to-date actual non-performing loans
- HL considered the above points and re-ran the ISB regression analysis independently based on our view of more justifiable inputs and also asked ISB to run three alternative loss curve scenarios for the purposes of valuation. The impact of those scenarios led to a substantial additional value attributable to the SME & Retail portfolio.
- We summarised our analysis and conclusions in a report presented to and discussed with ISB, Resolution Committee and Hawkpoint. An edited version of the report (with confidential ISB data blanked-out) was also presented to the ICC.
- This led to re-opening of the alternative compensation arrangements agreed with ISB and MoF earlier and resulted in:
  - a material upward adjustment to the maximum amount Revaluation Bond
  - agreement on a partial earlier revaluation on Dec-09, in addition to the Dec-11, in respect of the Revaluation Bond
  - acknowledgement of a minimum expected amount from the Dec-09 revaluation, based on conditions to-date



# Islandsbanki Valuation Diligence – Current Work

## **Business Plan and Model Analysis**

- The valuation diligence team has been reviewing the ISB Business Plan model to compare the ‘buy the bank’ option with the alternative compensation arrangements, and then sensitise the outcomes to key economic assumptions.

## **Financial Information and Disclosure**

- HL have been pressing ISB Management for the current financial statements and/or actual (as opposed to semi-forecast) management accounts, in particular, detailing the actual bank’s cash flows from Oct-08 to-date, to complete the current liquidity risk assessment.
- We have asked ISB for critical information items to be disclosed to enable creditors take an informed view on the compensation alternative and together with the ResCom present on the following points:
  - Assets overview
  - FX Exposure details
  - Restructuring process
  - 2008 Financial Statements
  - 2009 Interim Results
  - Liquidity review
  - Portfolio performance since October 08
  - Exit strategies to realise value
  - Summary of pros and cons of the alternatives available.

# Islandsbanki recapitalisation

## Presentation from Islandsbanki management

- Birna Einarsdottir, CEO of Islandsbanki, will give a presentation in respect of Islandsbanki.
- Other members of the Islandsbanki management team (Rosant Torfason and Johannes Baldursson, Managing Directors) will also be present during the Q&A session later in this meeting.



Íslandsbanki

Creditor's meeting - 22 September 2009

# Universal banking services in Iceland

Extensive expertise in selected business areas

- Universal banking services for households, corporate clients and professional investors
  - Well positioned corporate bank
  - Leading Capital Markets operation
  - Efficient distribution network with a leading on-line bank
  - Leading fund manager in Iceland
- International reach through Seafood and Geothermal energy
  - Building on industry background and heritage in home market
    - Dedicated teams of industry experts
    - Services for investors and industry players to and from Iceland



Seafood



Geothermal Energy



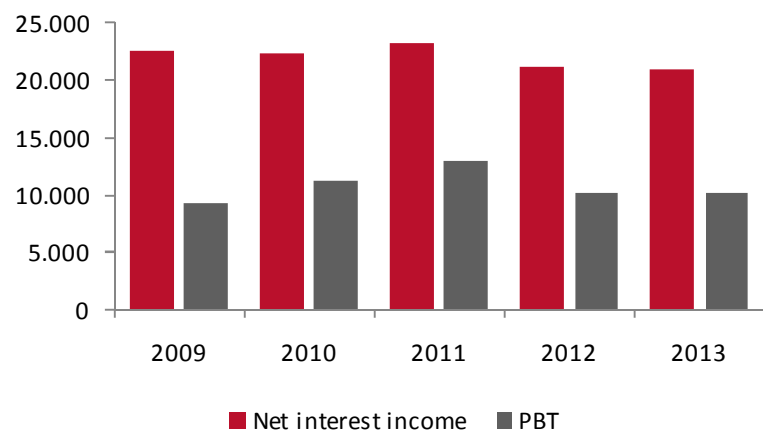
# Five year business plan prepared

Based on opening balance sheet given government ownership

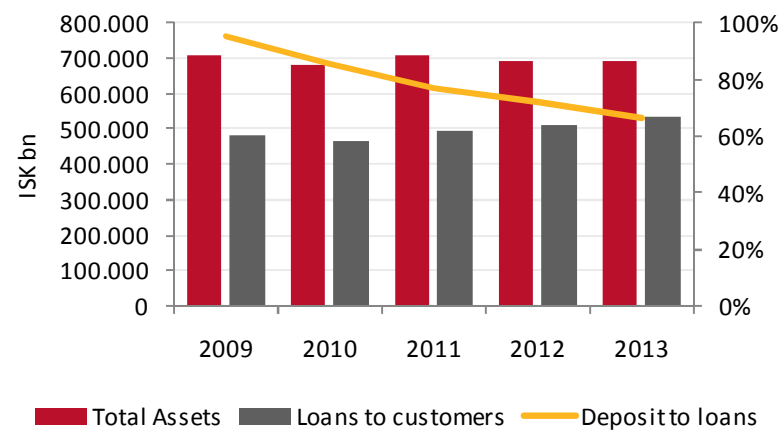
- Base case predicts moderate profits
  - Stable margins throughout the period
- Reasonable ROE over the forecasted period
  - Average of 10,8% from 2009-2013
- Key assumptions behind the business plan
  - No consolidation in the Icelandic market
  - No access to foreign currency funding
  - No niche lending in foreign markets
  - Asset valuation is correct, i.e. no gain on restructuring loan portfolio

## Key financials (ISK bn)

Development of net interest income and profit\*



Development of total assets and loan book\*



\* Íslandsbanki base case business plan based on IMF macro assumptions

# Opening balance sheet – parent company

Íslandsbanki's opening balance has recently been finalised

## Íslandsbanki's opening Balance Sheet – 15.10.2008 (ISK m)

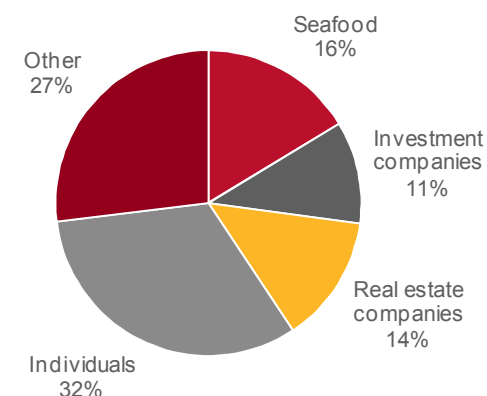
### Assets

Cash	53.829
Loans to banks	8.411
Loans to customers	477.069
Bonds and debt instruments	3.762
Shares and equity instruments	3.095
Investments in subsidiaries and associates	11.012
Property and equipment	1.475
Non current Assets	504
Unpaid share subscription	64.225
Other assets	5.878
<b>Total assets</b>	<b>629.260</b>

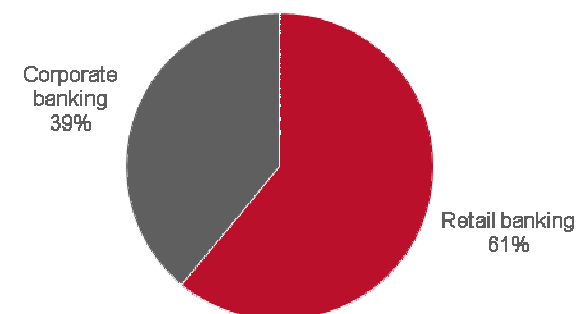
### Liabilities

Deposits from banks	51.891
Other deposits	372.144
Other liabilities	83.464
Guarantees granted to customers	4.761
Compensation instrument	52.000
<b>Liabilities</b>	<b>564.260</b>
Share capital	65.000
<b>Total equity and liabilities</b>	<b>629.260</b>

## Loan book split



## Retail vs. corporate banking





## 02. Currency imbalance and Liquidity position

# Substantial but manageable FX imbalance

Large portion of assets are non-ISK loans served with ISK cash flow

- Large part of the Bank's loan book is denominated in FX
  - Total FX gap of ISK 187bn
  - Loans to customers with ISK revenues (ISK-FX\*) are ISK 184bn
  - Current capitalization assumes this level of imbalance
  - Íslandsbanki has fully impaired for all FX movements on this portfolio
- Íslandsbanki will address the FX imbalance by
  - Offering redenomination to performing clients
  - Requiring redenomination as part of restructuring non-performing cases
  - Seeking to enter into appropriate FX swap agreements

	FX Gap
FX Assets	333
FX Liabilities**	-146
Gross Gap	187
Adjusted for ISK FX Assets	-184
Net Gap	3

\* Domestic borrowers of FX loans with ISK income

\*\* Assuming FX denominated compensation instrument

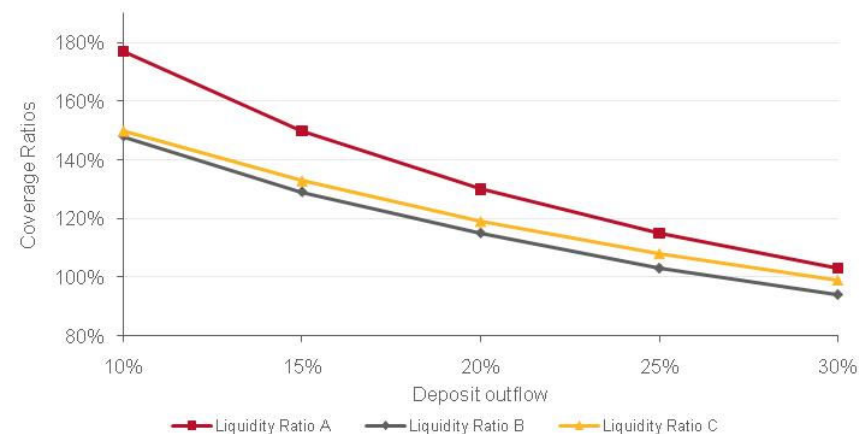


# Liquidity Management

Cover all outflows for at least 12 months without market access

- Íslandsbanki is currently well above all internal and regulatory requirements on stress outflow scenarios
- Íslandsbanki classifies liquid assets as
  - Immediately available assets (Liquid assets A)
  - Highly liquid assets (Liquid assets B)
  - Other liquid assets (Liquid assets C)
- Immediately available funds are predominately cash and government securities

Liquidity ratios sensitivity to deposits outflow\*



Deposit cash cover ratio

ISK bn	Deposits	Cash & Gov.	Cover
ISK	400	125	31%
FX	80	49	61%
	<b>480</b>	<b>174</b>	<b>36%</b>

Current liquidity coverage ratios (all currencies) \*\*

	up to 3 m	up to 6 m	up to 12 m
Liquidity Ratio A	<b>141%</b>	117%	107%
Liquidity Ratio B	147%	<b>122%</b>	112%
Liquidity Ratio C	161%	136%	<b>126%</b>

\* Deposit outflow sensitivity for current liquidity status. Assumed that the deposit outflow in ON to 1 week is 10%, 15%, 20%, 25% and 30% of total deposits.

\*\* A, B and C types of assets are required to meet liabilities for upcoming 3 months (A), 6 months (A & B) and 12 months (A, B & C)



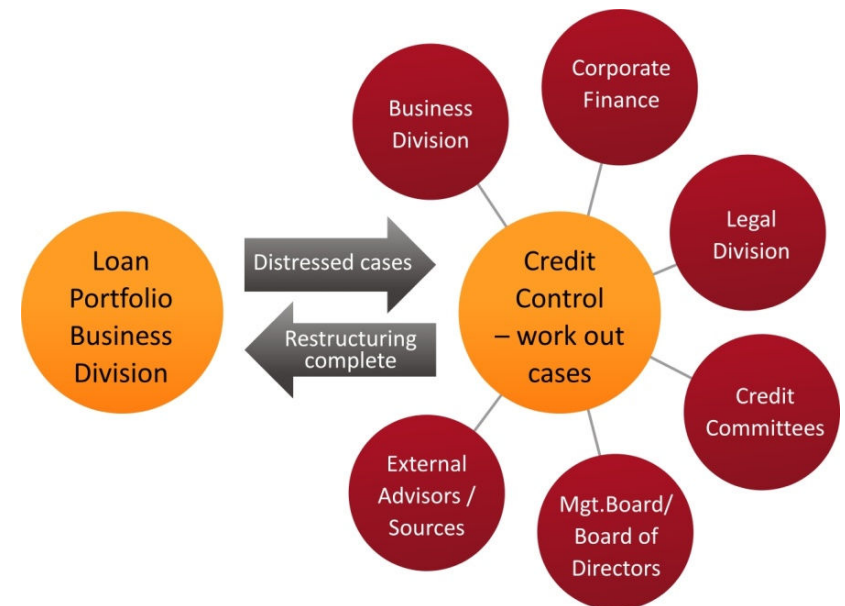
## 03. Restructuring process

# Well executed restructuring key to success

Private ownership provides more flexible solutions

- The process & resources have been scrutinized and validated by an international consultant
  - Transparency in decision making
  - Working guidelines publicly available
- Resources substantially increased
  - Substantially increased number of employees focusing on restructuring in close cooperation with retail and corporate banking
  - External advisors used in large and complicated restructuring cases
- The bank could benefit from private ownership
  - Able to make decisions on a strictly commercial basis
  - More flexibility in workout cases that can increase recovery
  - Performance based salaries for the restructuring team likely to increase recovery

Cross-divisional resources in restructuring efforts



# Assisting financially distressed homes and businesses

- Innovative approach in assisting indebted homes

- Solutions for customers with indexed mortgage loans and mortgage loans in foreign currency
- Emphasis on personal financial advice and guidance through branch network

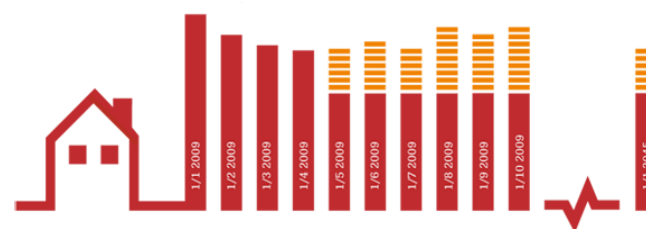
- Standardized solutions for distressed SME's developed

- Currently solved on a case-by-case basis
- Team of expert working on several standardised solutions on industry basis

- Case by case approach for large corporates

- Focus on available cash flow to service debt
- Debt to equity swap
- External advisors used in complicated cases

## Íslandsbanki's Payment Modification Scheme





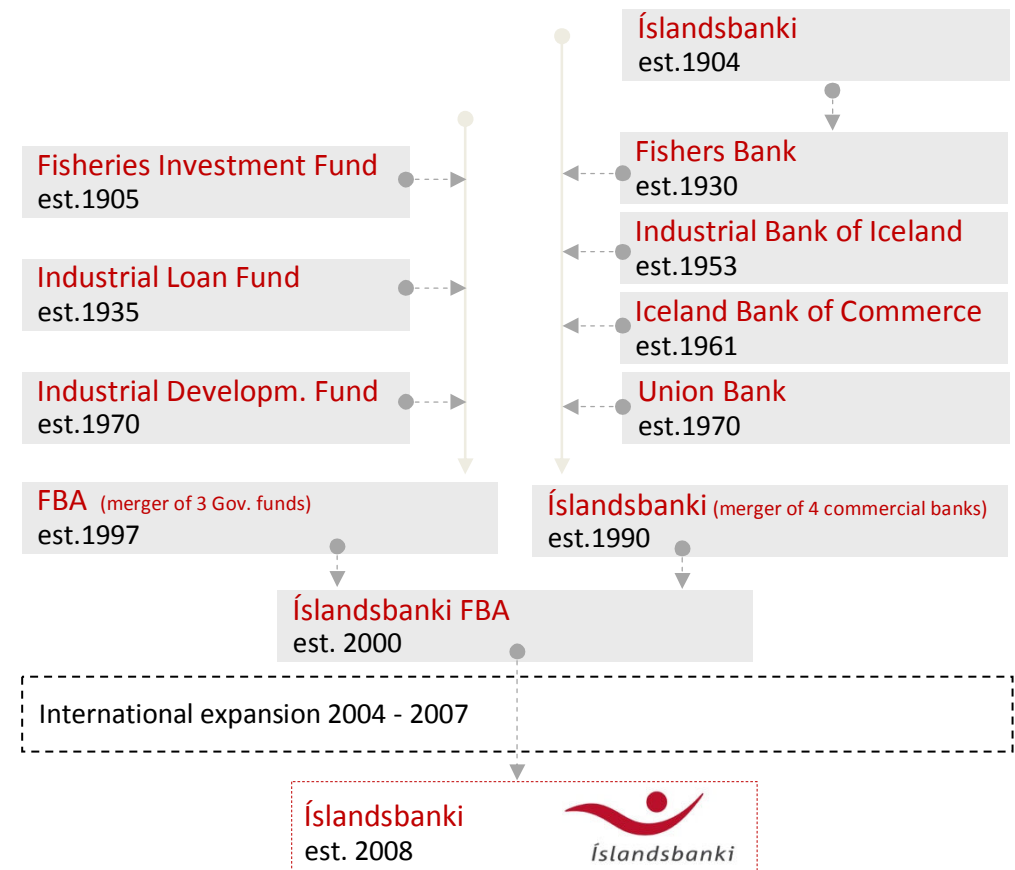
04. Going forward

# Íslandsbanki well positioned to lead future consolidation



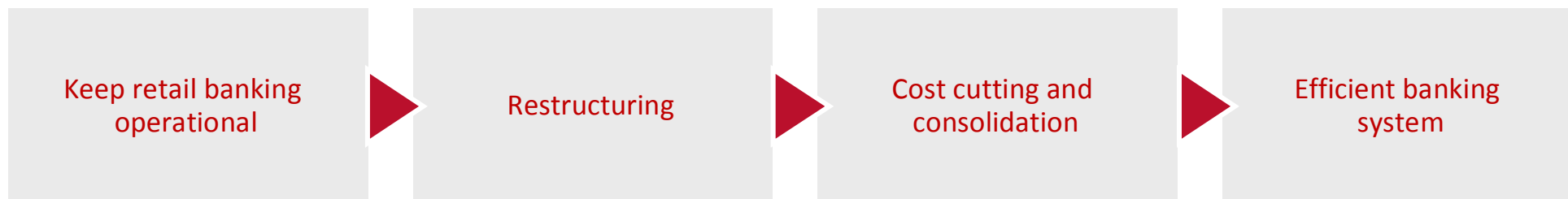
- Historically the bank has led domestic consolidation
  - Opportunities for consolidation in Iceland mostly exhausted by 2000
  - International expansion between 2004 and 2007
  - The bank has the same domestic presence as in 2004-2005, despite the collapse
  - The bank has currently 884 FTEs compared to 893 in 2003 despite 40% larger balance sheet
- Opportunities for consolidation re-emerging in current domestic environment
  - Over-branched market
- Íslandsbanki well positioned to take part in future consolidation
  - Know-how for successful execution
  - Possible to scale-up the balance sheet with marginal increase in operating cost

## Íslandsbanki's domestic development



# Restructuring the Icelandic financial system

## Opportunities for consolidation and rationalisation



### Since the October 08

- Focus on maintaining “business as usual” towards retail clients
- Protect value
- Gather the pieces
- Out of 31 financial institutions operating in January 2008 there are now:

	2009
In regular operation	3
Merged	6
New bank structure	3
In Receivership	4
Restructuring	15
<b>Total</b>	<b>31</b>

### Currently on-going

- Get a clear picture
- Review and present the options
- Client’s seeking regular banking functions
- Getting the capital markets in Iceland up and running again
  - Bond issues
  - New Equity raising

### Next phase

- Considerable opportunity for consolidation, especially in the Retail banking which is “over-branched”
- Opportunity in taking the lead offering restructuring solutions to retail and corporate clients
- Exploit foreign interest in local investments
  - Green Energy projects
  - Projects based on utilizing inexpensive energy
- Draw on extensive niche knowledge around
  - Seafood
  - Energy

### 3-5 years ahead

- Fewer banks
  - Lower unit cost
  - Relatively less overhead
  - Reduced branch network
- Revenue growth in line with GDP growth
- Reorganization of business models

# Private ownership beneficial for the bank



## Supporting core income generation

### Support for management and employees

- Increases focus on efficiency and productivity
- Commercial based approach to business
- Easier to attract and retain best talent

### Positive step for niche activities

- Possible to benefit from Glitnir's international niche loans
  - Management of Glitnir's seafood and energy portfolio would create opportunity for continuing business
- Increased credibility in attracting securitised funding for niche lending
  - JVs, management of syndicated loans or fund mgmt.
  - Attractive fee business

### Maximise recovery

- Support in decision making on commercial terms
- Possible to implement international models of incentivised restructuring process
- Minimizes danger of political pressure

### Credibility towards customers and creditors

- Possible to offer wider range of products to clients
  - Hedging tools, such as FX crosses
- Improved support to clients domestically & internationally
- Improved access and credibility towards creditors
  - Potential to attract lower priced deposits
  - Stronger presence when issuing bonds and CPs



# Profitability sensitive to macro environment



Base case business plan assumes stable economy

Key factors	Likely impact		Possible scenarios
	Positive	Negative	
ISK policy rates	✓		<p><b>Lower ISK policy rates increase profits</b></p> <ul style="list-style-type: none"> <li>• Gain on CPI and FX imbalances at lower ISK policy rates and loss at higher rates</li> </ul>
Rates on deposits	✓		<p><b>Conservative view in base case scenario</b></p> <ul style="list-style-type: none"> <li>• Long term margin on deposits materially higher than current levels</li> </ul>
Loan book recovery	✓	✓	<p><b>Large potential upside</b></p> <ul style="list-style-type: none"> <li>• Impaired assets provide space for potential upside in an improving economy</li> <li>• In a prolonged recession, further losses can be expected</li> </ul>
ISK exchange rates	✓	✓	<p><b>Stable ISK assumed in the base case scenario</b></p> <ul style="list-style-type: none"> <li>• Appreciation of the ISK would increase potential loan book recovery</li> <li>• Depreciation of the ISK is likely to result in continued recession reducing recovery</li> </ul>
Access to FX funding	✓		<p><b>Access to FX funding supports international lending in niche sectors</b></p> <ul style="list-style-type: none"> <li>• Unlikely to take place without private ownership</li> </ul>
Inflation		✓	<p><b>Íslandsbanki is long inflation and benefits from higher inflation</b></p> <ul style="list-style-type: none"> <li>• However, higher inflation might result in increased impairments due to borrowers limited ability to pay</li> </ul>

# The bank is well positioned to take next steps

Private ownership likely to increase value and strengthen the bank

## Profitable and efficient business units

- Most efficient retail network with 13% of the branches and a 25% market share
- Leading bank in rebuilding the capital markets in Iceland
- The leading asset management house in Iceland since 1986
- Strong corporate banking division

## Proven strategy based on heritage

- Strong industries with growth potential
- Respected brand name
- Experienced professionals with the necessary industry expertise
- Strong presence with in the industries

## Private ownership beneficial to the bank

- Private ownership escalates strategic initiatives and supports the Niches
- Credibility towards foreign creditors could increase long term funding possibilities
- Decision making on strictly commercial terms
- Possible to take the lead in the consolidation process



**Catalyst for consolidation**



**Successful Niche strategy**



**Validation of business model**



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# Islandsbanki recapitalisation



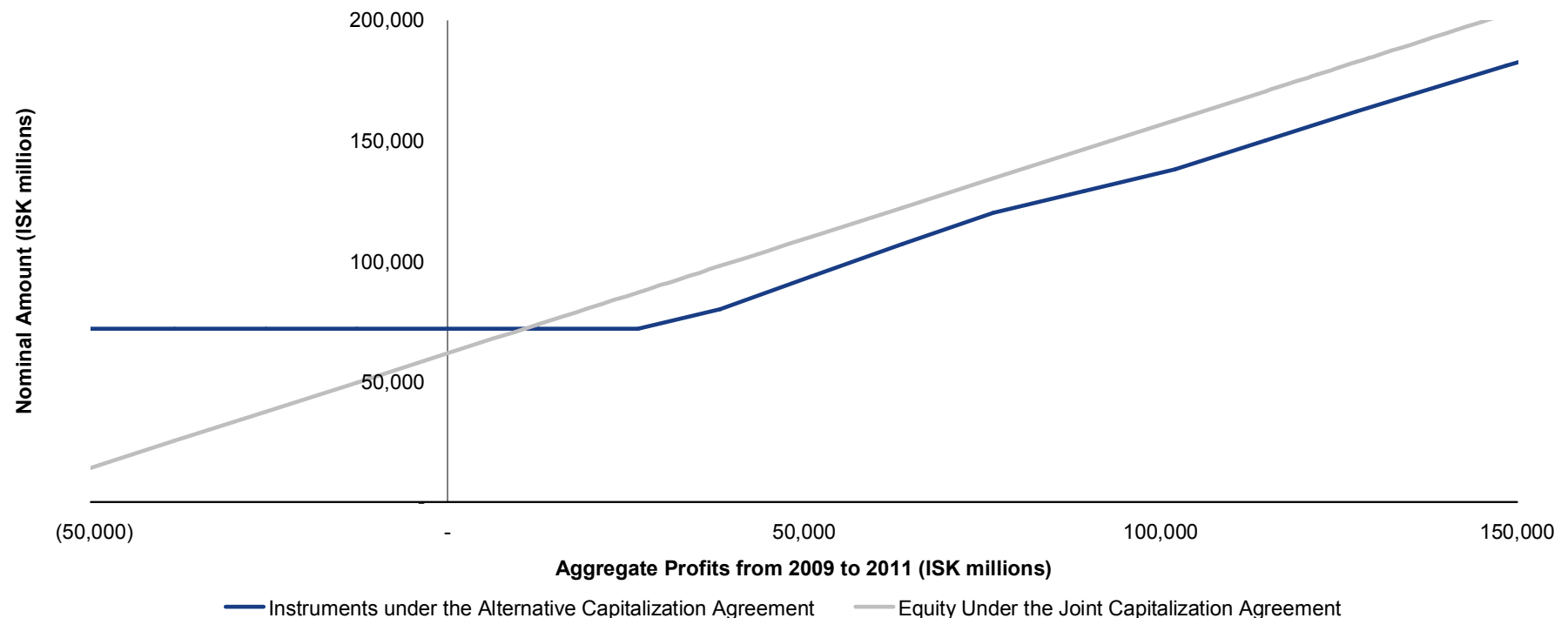
## Negotiation process and involvement of creditors

- Chip Fisher from Bingham McCutchen LLP will discuss creditor involvement in the process in respect of the recapitalisation of Islandsbanki.
- Bingham McCutchen LLP represents bondholder interests in Glitnir and is a member of the Informal Creditors' Committee.
- *No person or entity, other than clients of Bingham McCutchen LLP, may rely on any statements made by or on behalf of Bingham McCutchen LLP and Bingham McCutchen LLP expressly disclaims any client relationship with any person or entity that has not entered into an engagement letter with it.*

# Islandsbanki recapitalisation

## Comparison of the two alternatives—relative nominal amounts

- The figure below illustrates the relative nominal amounts of each compensation option for a given range of aggregate profits from 2009 to 2011 in accordance with the definitions set out in the JCA and ACA
  - The illustration shows: (a) the nominal amount of Islandsbanki’s common equity of which 95% will be owned by Glitnir under the JCA and (b) the aggregate nominal amounts of the compensation instruments under the ACA, comprising Bond A, Bond B, Bond C and the Equity Option (Option shown at intrinsic value only).
- Other assumptions in this illustration include, among others: (i) risk-free rate of 9.5%; (ii) ISK/EUR exchange rate of 181.00; and (iii) Icelandic corporate tax rate of 15%



# Islandsbanki recapitalisation

## Comparison of the two alternatives—upside and downside considerations

Option	Upside Considerations	Downside Considerations
<b>Equity Ownership under the Joint Capitalization Agreement</b>	<ul style="list-style-type: none"> <li>● Macro economic improvements resulting in substantial decrease in ISK policy rates, increase in FX rates and improved actual loan losses versus IFRS estimates</li> <li>● Entry to EU/adoption of Euro</li> <li>● Tax and operational synergies with Glitnir</li> <li>● Fair revaluation on ongoing basis and at exit/liquidity event</li> <li>● Potential for accelerated loan restructuring efforts</li> <li>● Management and employee motivation through private ownership</li> <li>● Profitable reinvestment of accumulated capital</li> <li>● Increased control of timing of exit</li> <li>● Beneficiary of potential consolidation of Icelandic banking system</li> <li>● Better oversight of management and board</li> </ul>	<ul style="list-style-type: none"> <li>● Further economic and home price deterioration via “double dip” recession</li> <li>● Potential depositor reaction to private ownership/stability of deposit base</li> <li>● Failure to entry to EU/adoption of Euro</li> <li>● Potential capacity limitation for restructuring effort, including staffing levels and systems</li> <li>● Further performance deterioration of un-restructured loan portfolio beyond what is estimated by management</li> <li>● Loan restructuring risks, including extension and re-default risk</li> <li>● Extent of access to wholesale funding markets in medium- to long-term</li> <li>● Requirement for incremental capital and/or liquidity injection in the event of further deteriorations in the Icelandic economy or the operating results of Islandsbanki</li> </ul>

# Islandsbanki recapitalisation

## Comparison of the two alternatives—upside and downside considerations

Option	Upside Considerations	Downside Considerations
<b>Bond/Option Structure under the Alternative Capitalization Agreement</b>	<ul style="list-style-type: none"> <li>● Bond B/C and Equity Option are subject to the same upside potential as described under the Equity Ownership under the JCA</li> <li>● Bond A represents “floor value” based on IFRS valuation</li> <li>● Bond B structured to capture 90% of inflows to equity up to ISK 80bn during the revaluation period through:                             <ul style="list-style-type: none"> <li>– aggregate net profits and unrealized securities gains/losses</li> <li>– reversal of impairment losses through re-fair valuation</li> </ul> </li> <li>● Equity Instrument provides potential capture of equity upside in a takeout/liquidity event (e.g. sale, listing) through option to purchase 90% of Government equity</li> <li>● Bonds A, B and C represent senior claims on Islandsbanki secured by a pool of islandsbanki’s assets</li> </ul>	<ul style="list-style-type: none"> <li>● Bond B/C and Equity Option are subject to the same downside risks as described under the Equity Ownership under the JCA</li> <li>● Potential for short/medium-term trading discount on Bonds A, B and C due to, among other things, market conditions</li> <li>● Potential limitation on the implementation of a long-term incentive plan to maximize value of Bond B/C</li> <li>● Government hurdle rate on Bond B/C represents cost of “floor” provided by Bond A</li> <li>● Return upon execution of Equity Option will be reduced due to Government hurdle rate</li> <li>● Potential reduction of capital ratios if asset fair values grow substantially during revaluation period</li> <li>● Potential growth in FX imbalance if asset fair values grow substantially during revaluation period</li> </ul>



# Islandsbanki recapitalisation

## Comparison of the two alternatives—upside and downside considerations

- As mentioned, the Resolution Committee and its advisors have negotiated two compensation options, an “Equity Route” pursuant to the JCA and an “Bond Route” pursuant to the ACA
- The decision what option would maximize value for the creditors will be based on a number of considerations, including, but not limited to:
  - Upside potential in the value of Islandsbanki’s assets
  - Expected macro economic developments and the implications for the future fair valuation
  - Size and impact of the restructuring of domestic loan portfolio’s
  - Value of potential synergies with Glitnir (tax and operational)
  - Private versus Government ownership
  - Cost of capital payable to the government (reduces value of warrant)
  - Potential consolidation in domestic financial system benefitting Islandsbanki
- Due diligence performed by the Resolution Committee and its advisors has indicated Islandsbanki performed a conservative valuation for its business plan, thus providing a basis for upside potential
- A detailed comparison between the two compensation options resulted in a conclusion that the potential values of both options are similar, with a higher upside potential in the JCA resulting from the cost of capital payable to the government in the ACA
  - However, the ACA option has less downside risk as Bond A provides a floor
  - Other factors such as private ownership could have an impact on the scenario’s and should be included in the final decision

# Islandsbanki recapitalisation

## Q&A and Discussion



### Q&A process

- Creditors have the opportunity to ask questions to all presenters in relation to the recapitalisation of Islandsbanki.
- During the short break that follows, creditors wishing to ask questions should complete the Q&A form and present this as directed. Your question can either be read for you or you may ask your question in person.
- Given the time available, creditors are requested to keep their questions relatively concise and focussed on the matter in hand.
- All questions and answers will be documented and published on the website.

### Discussion

- After the Q&A session, creditors are invited to comment and express their views.



1. Introduction and appointment of a Chairperson
2. Creditor update
3. Islandsbanki recapitalisation
- 4. Statement of Assets and Liabilities**
5. Estimated timetable and example Composition of Creditors

# Statement of Assets and Liabilities



## Introduction

- Under the terms of the Moratorium on creditor proceedings granted to Glitnir banki hf. (“Glitnir” or “the Bank”) on 24 November 2008 by the District Court of Reykjavik, the Moratorium Appointee of Glitnir presented the assets and liabilities of Glitnir, together with an estimate of the value of the assets and a computation of the liabilities as at 31 December 2008.
- The Moratorium was extended on 19 February 2009 and the Moratorium Appointee and Resolution Committee now wish to present an updated estimate of the value of assets and computation of liabilities as at 30 June 2009 (the “Statement of Assets and Liabilities”).
- The Statement of Assets and Liabilities has been prepared by the Moratorium Appointee in conjunction with the Resolution Committee, and employees of Glitnir, incorporating the assistance of international professional service firms where appropriate. The Statement of Assets and Liabilities was approved by the Resolution Committee and the Moratorium Appointee on 11 August 2009.
- The Statement of Assets and Liabilities is principally presented in EUR and, unless otherwise stated, foreign currency values are translated at the mid rates published by the Icelandic Central Bank for 30 June 2009. A significant proportion of the assets and liabilities of Glitnir are denominated in foreign currencies. As a result, the estimated values presented herein may be materially impacted by movements in foreign exchange rates. Comparative balances as at 31 December 2008 have not been retranslated from the foreign exchange rates used as at that date.
- The notes included in this document form an integral part of the Statement of Assets and Liabilities and should be reviewed in conjunction with it along with the Statement of Assets and Liabilities and associated notes as at 31 December 2008.

# Statement of Assets and Liabilities



EURm	Notes	Recorded balance sheet amount as at 30.06.2009	Balances subject to set-off	Recorded balance sheet amount after set- off as at 30.06.2009	Estimated value of assets as at 30.6.2009 and computation of liabilities	Estimated value of assets 31.12.2008 and computation of liabilities
<b>Assets</b>						
Loans to customers	A	6.093	(2.574)	3.519	1.080	1.163
Loans to banks	B	2.529	(1.870)	659	649	664
Derivatives	C	789	(431)	358	358	426
Bonds and debt instruments	D	423	(315)	108	108	113
Shares and equity investments	E	198	-	198	198	127
Investment in subsidiaries	F	1.073	-	1.073	661	650
Cash and balances with central banks		422	-	422	422	155
Other assets		-	-	-	-	149
Total assets before instrument from Islandsbanki hf.		11.527	(5.190)	6.337	3.476	3.446
Instrument from Islandsbanki hf.		-	-	-	557 <sup>1</sup>	2.485
<b>Total assets</b>		11.527	(5.190)	6.337	4.033 <sup>2</sup>	5.932
<b>Liabilities</b>						
Debt issued and other borrowed funds	G	(15.734)	4.201	(11.533)	(11.533)	(12.210)
Subordinated bonds		(1.106)	-	(1.106)	(1.106)	(1.061)
Derivatives	C	(463)	-	(463)	(463)	(298)
Wholesale deposits		(374)	-	(374)	(374)	(324)
Deposits from central banks and other banks		(12)	-	(12)	(12)	(180)
Guarantees		-	-	-	(99)	(105)
Other liabilities		(140)	-	(140)	(140)	(43)
		(17.828)	4.201	(13.627)	(13.727)	(14.221)

1. The value and nature of the instrument from Islandsbanki hf. is currently uncertain due to the ongoing negotiations. The Resolution Committee has estimated the value of the instrument based upon its expectation of the likely outcome of such negotiations, and therefore the actual value and nature of the instrument may differ materially from this expectation.
2. As noted in Supplementary Note 2, Limitations, there is considerable uncertainty regarding the ultimate realisable value of the Bank's assets. In order to illustrate this uncertainty, the Resolution Committee has made an estimate of the range of likely outcomes for asset realisation of 'Total assets' being EUR3bn to EUR5bn. Due to the extent of the uncertainty and other factors that may change, the actual outcome may fall materially outside this range.



1. Introduction and appointment of a Chairperson
2. Creditor update
3. Islandsbanki recapitalisation
4. Statement of Assets and Liabilities
5. **Estimated timetable and example Composition of Creditors**

# Estimated timetable

## Key milestones and next steps

Milestone	Estimated timing
Finalisation of ownership structure of Islandsbanki hf.	30 September 2009
Creditors' meeting in respect of potential extension of the Moratorium on creditor proceedings	5 November 2009
Hearing at the District Court of Reykjavik in respect of potential extension of the Moratorium on creditor proceedings	13 November 2009
Final day of submission of claims under the claims registration process	26 November 2009
Creditors' meeting in respect of claims registration	17 December 2009
Commencement of court proceedings to resolve disputed claims	January 2010
Preparation of a Composition of Creditors	Dependent upon resolution of disputed claims

### Composition of Creditors

- The Resolution Committee and Winding-Up Board currently believe that the interests of creditors are best served through ultimately agreeing a Composition of Creditors. The timing of this, however, remains uncertain.
- An example Composition of Creditors under Icelandic law is shown on the following pages.

# Composition of Creditors

## Overview

### **General provisions and characteristics of a Composition of creditors under Icelandic law**

- An entity (the “debtor”) requiring a licence to seek a Composition shall have a written declaration of at least 25 per cent of the voting creditors, both by number and by amounts, that they recommend the Composition on the basis of the proposals put forward.
- A Composition agreement may provide for total relinquishment of debts, proportional relinquishment, deferred dates of payment, changes in form of payment, or all of these arrangements jointly.
- The right to vote on the debtor’s Composition proposal shall be restricted to the voting creditors who have stated their claims to the Winding-Up Board within the period granted for this purpose.
- A Composition proposal shall be deemed approved if supported by the same proportion of votes as the proportion of composition claims to be relinquished according to the proposal, provided this reaches 60 per cent at a minimum, by number of voting creditors as well as amounts. If neither proportional nor total relinquishment is proposed, a Composition proposal shall be deemed approved if supported by 60 per cent of all voting creditors by number as well as amounts.
- If the Composition procedure has ended with an approval of the debtor's proposal, the debtor shall submit a written petition for confirmation of the Composition agreement to the district court judge within one week from when this conclusion was announced at a meeting.



# Composition of Creditors

## Overview

### **The legal impact of a Composition agreement**

- A Composition agreement shall be regarded as concluded when the debtor's petition for confirmation of the agreement has been granted by a final court resolution.
- Having entered into effect, a Composition agreement shall be binding upon the creditors and their successors and assigns as regards their composition claims. The settlement of claim in accordance with the agreement shall have the same effect as performance of the original obligation.

### **Creditor contact**

- Creditors can post questions and comments to the Resolution Committee through the creditor contact email address: [creditorcontact@glitnirbank.com](mailto:creditorcontact@glitnirbank.com)