



# Glitnir banki hf

Presentation to the Informal Creditors' Committee

13 November 2008

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# Glitnir's pre-crisis operations

## Nordic bank with an international reach

### Iceland – Universal Bank

- 49% of Group Net Operating Income
- A 20-35% market share across products and client spectrum

### Nordics – Corporate Bank providing integrated services

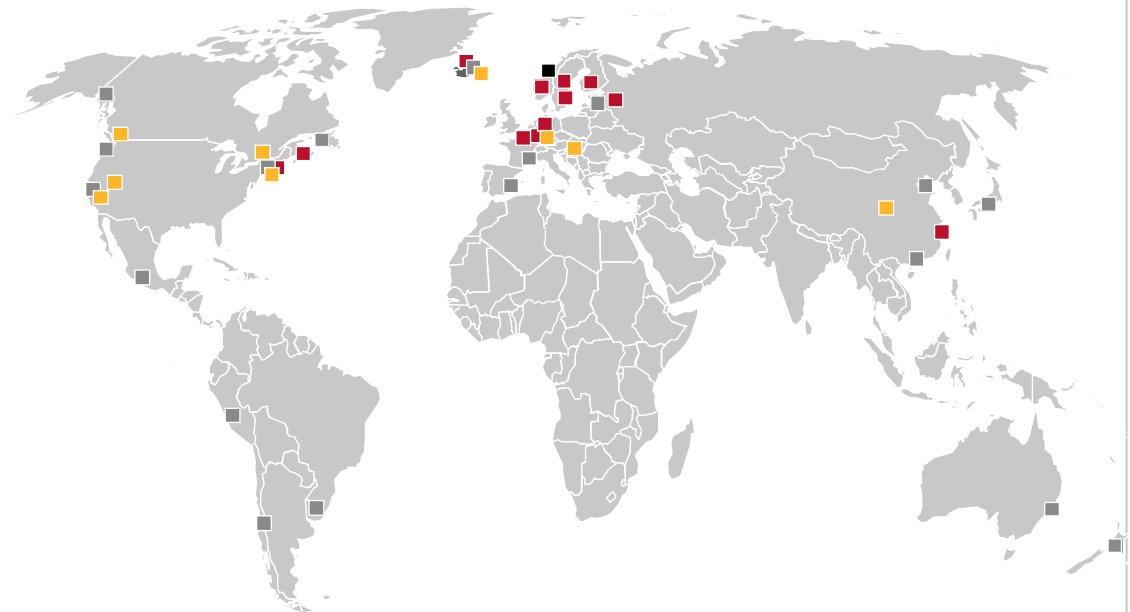
- 26% of Group's Net Operating Income
- Capital markets, corporate finance, asset management
- Significant deposit base

### International – Leading player in the selected niches

- 15% of Group Net Operating Income
- 50% of top 100 seafood companies as clients
- Client relations with companies representing 10% of the world geothermal production

### Services provided to Nordic and niche clients globally

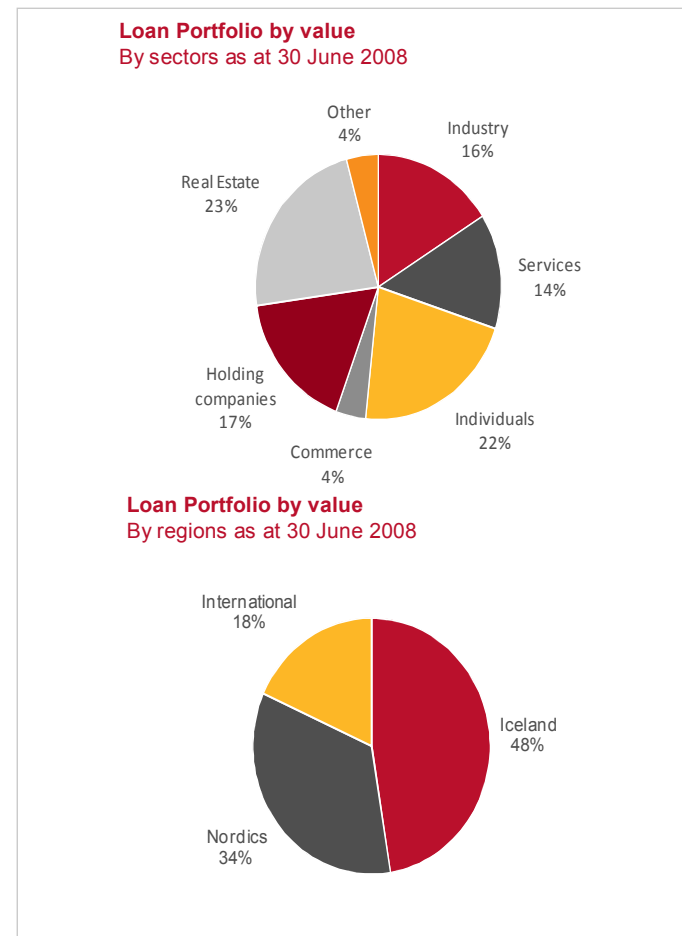
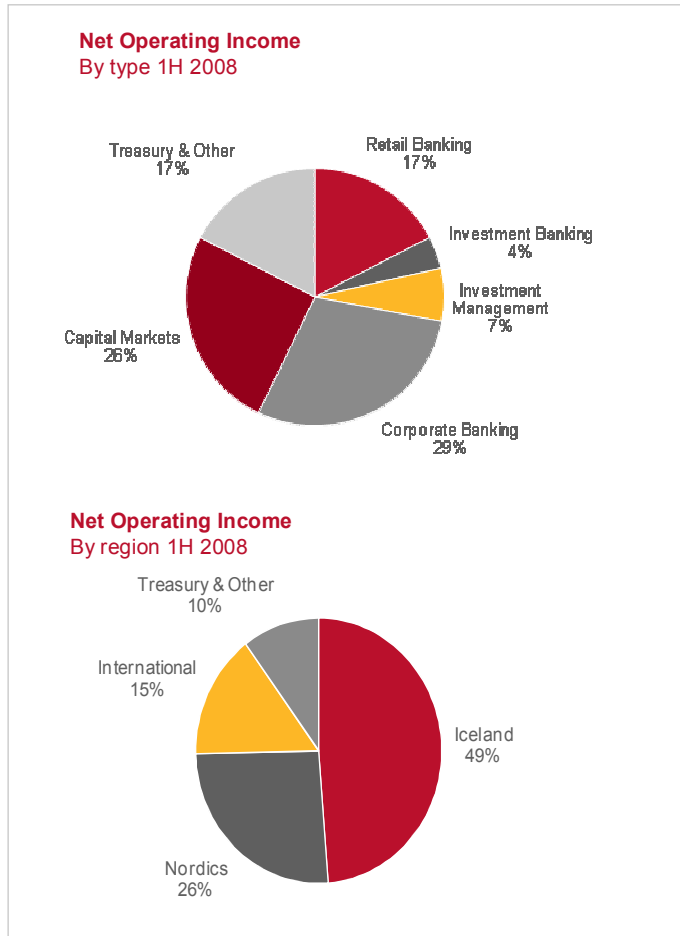
Corporate banking Investment banking Capital markets Asset Management



- GLITNIR OFFICES
- SEAFOOD BANKING
- SUSTAINABLE ENERGY BANKING
- OFFSHORE SERVICE VESSELS BANKING

# Glitnir's pre-crisis operations

Domestic markets represented the largest segment of net income and loan book value pre-crisis



- Further details in relation to the financial position of Glitnir banki hf as at 31 December 2007 and 30 June 2008 are shown later in this presentation

# Background and recent events

## Background to Government and FME action

### Economic context

- The liquidity position of Icelandic banks deteriorated significantly in late September 2008 as interbank markets froze and financial institutions became very reluctant to lend to each other. This was made worse by the collapse of Lehman Brothers.
- The curtailment of interbank lines followed as a result, along with increased demand for pre-funding and guarantees.

29 September - 6 October 2008

- Government announces takeover of 75% share in Glitnir and EUR 600 m equity injection.
- S&P, Moody's and Fitch downgrade Icelandic sovereign, Glitnir, Landsbanki and Kaupthing debt.
- Trading in shares in Glitnir banki hf. is suspended.
- Icelandic Parliament passes 125/2008 Act. Key features include:
  - FME has powers to assume control of distressed financial institutions;
  - Resolution Committees can be appointed to take executive control of distressed financial institutions;
  - Insolvency proceedings cannot be brought against those institutions that operate under the Act;
  - Powers to split financial institutions into Old and New Bank; and
  - Provision of a priority for certain depositors.

7 - 8 October 2008

- FME takes control of Glitnir under terms of emergency law.
- The UK government freezes certain assets of Kaupthing and Landsbanki in the UK.
- Further downgrades by S&P, Moody's and Fitch of Icelandic sovereign, Glitnir, Landsbanki and Kaupthing debt.

9 -14 October 2008

- S&P downgrades Glitnir to D.
- Central Bank announces rules to limit currency outflow.
- Glitnir banki hf. is split between Old Glitnir and New Glitnir.

# Background and recent events



## Reasons for Government action

- The Icelandic Government evaluated the situation over the weekend of 4/ 5 October.
- The pre-crisis gross assets total of Glitnir, Landsbanki and Kaupthing was approximately EUR110bn. Total Icelandic GDP was approximately EUR14.7bn, effectively preventing the option of nationalisation and the Icelandic Government providing a comprehensive guarantee for the three banks.
- The emergency legislation of 6 October allowed the Icelandic Government to:
  - take control of illiquid banks; and
  - suspend payments by the three banks in order to protect depositors.
- As it was impossible for the Icelandic Government to intervene in line with other Governments, the emergency legislation was passed in order to minimise the loss for creditors.
- By taking no action, it was expected that the Icelandic financial infrastructure would have collapsed, leading to greater losses for all stakeholders.



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# Resolution Committee



## Role and composition

### Role of the Resolution Committee

- The Resolution Committee has assumed control of all matters concerning Old Glitnir. It has oversight of the treatment of all assets and the handling of all business.
- The Resolution Committee abides by the decisions taken by the FME and operates in ongoing consultation with the FME.

### Composition of the Resolution Committee

- The members of the Resolution Committee have been selected by the FME from a broad cross-section of Icelandic business, legal and accounting backgrounds.
- The current members of the Resolution Committee are:
  - Árni Tómasson (Chairperson) – certified public accountant. Former chairman of Deloitte Iceland and former CEO of Bunadarbankinn;
  - Heimir Haraldsson – certified public accountant. Former Managing Director of KPMG Iceland;
  - Steinunn Guðbjartsdóttir – supreme court attorney. Specialising in liquidation and Moratorium cases;
  - Kristján Óskarsson – MBA. Former Managing Director, Finance & Credit, Glitnir Commercial Banking Iceland;



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# Informal Creditors' Committee (ICC)



## Rationale and composition

### Rationale for the creation of the ICC

- The purpose of the ICC is as follows:
  - to act as a body which can be consulted on the major strategic decisions being taken regarding the protection, maximisation and realisation of Old Glitnir's assets; and
  - to be consulted on proposals relating to Old Glitnir aimed at making distributions to creditors of Old Glitnir or restructuring solutions aimed at returning value to creditors of Old Glitnir.
- The ICC does not have any formal powers or duties under Icelandic law and will be purely consultative in nature.



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# Glitnir banki hf Balance Sheets



## Consolidated balance sheets as at 31 December 2007 and 30 June 2008

| (EUR million)                        | Assets           |                   | Liabilities and Equity                |                   |               |
|--------------------------------------|------------------|-------------------|---------------------------------------|-------------------|---------------|
|                                      | Audited<br>Q4 07 | Reviewed<br>Q2 08 | Audited<br>Q4 07                      | Reviewed<br>Q2 08 |               |
| Cash and balances with central banks | 368              | 249               | Short positions                       | 100               | 155           |
| Derivatives                          | 787              | 1.846             | Derivatives                           | 514               | 729           |
| Bonds and debt instruments           | 1.205            | 1.445             | Deposits from central banks and banks | 366               | 2.067         |
| Shares and equity instruments        | 255              | 476               | Deposits from customers               | 4.810             | 4.705         |
| Securities used for hedging          | 1.090            | 1.076             | Debt issued and other borrowed funds  | 11.580            | 14.867        |
| Loans to banks                       | 1.847            | 2.175             | Subordinated bonds                    | 674               | 968           |
| Loans to customers                   | 13.096           | 16.898            | Post-employment obligations           | 3                 | 5             |
| Investment in associates             | 19               | 4                 | Current tax liabilities               | 29                | 5             |
| Investment property                  | 37               | 37                | Defered tax liabilities               | 37                | 33            |
| Property and equipment               | 28               | 32                | Other liabilities                     | 316               | 752           |
| Intangible assets                    | 311              | 419               |                                       |                   |               |
| Defered tax assets                   | 8                | 13                |                                       |                   |               |
| Non-current assets held for sale     | 3                | 6                 |                                       |                   |               |
| Other assets                         | 501              | 939               | Equity                                | 1.127             | 1.329         |
| <b>Total assets</b>                  | <b>19.555</b>    | <b>25.615</b>     | <b>Total Liabilities &amp; Equity</b> | <b>19.555</b>     | <b>25.615</b> |

### Historical balance sheet summary

- The above analysis shows historical balance sheets on a consolidated basis, translated using the Icelandic Central Bank's rate as at 14 October 2008, the date of the split.

# Old Glitnir/ New Glitnir split



## Explanation of split – based on FME's decision and Act no. 125/2008 - Assets

### Principal methodology

- The overriding principal, as set out by the FME, in relation to the transfer of assets and liabilities from Glitnir banki hf. to New Glitnir is that the following are transferred:
  - all assets related to domestic operations; and
  - all domestic deposits from customers.
- All other assets and liabilities are retained within Old Glitnir.

|                    | Transferred to New Glitnir  | Retained in Old Glitnir   |
|--------------------|---|---|
| <b>Assets</b>      | <ul style="list-style-type: none"><li>• All domestic assets.</li></ul>                  | <ul style="list-style-type: none"><li>• All non-domestic assets.</li><li>• Shares in foreign subsidiaries.</li><li>• All derivative assets.</li><li>• Assets in relation to Landsbanki and Kaupthing.</li><li>• Other assets specifically identified – details TBA.</li></ul> |
| <b>Liabilities</b> | <ul style="list-style-type: none"><li>• All domestic deposits from customers.</li></ul> | <ul style="list-style-type: none"><li>• All liabilities other than domestic deposits from customers.</li></ul>  |



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# Old Glitnir asset overview

## Bond from New Glitnir to Old Glitnir

- Under the terms of the separation, New Glitnir will issue a bond to Old Glitnir.
- The value of the bond will represent the difference between assumed assets and liabilities after revaluation.
- To date no decisions have been made on the composition of the bond e.g. repayment schedule, currency, interest rates or any equity warrants. No comment has been made on whether the bond will be used to hedge currency, interest rate or maturity risk on the asset side of New Glitnir.

## Steps being taken to obtain a fair value estimate

- To date limited work has been undertaken in respect of obtaining a fair value estimate of assets and liabilities transferred to New Glitnir.
- An international and independent party will set out assumptions and methodology for fair value estimate and oversee the work.
- Accounting firms will deliver analysis based on assumptions and methodology set out by international independent party.
- The result of their work is expected to be completed in February 2009.

# Old Glitnir asset overview



## Asset disposals to date



- The Resolution Committee is committed to the protection of Old Glitnir’s asset base.
- In some cases, however, the Resolution Committee has disposed of overseas operations. These disposals have been driven by a mix of:
  - local regulatory authority pressure for a quick sale; and
  - the desire to protect intragroup loan assets within Old Glitnir.
- In each case, the Resolution Committee believes it put in place the best possible sales process given the limited time available.

# Old Glitnir asset overview



## Steps taken to date to protect Old Glitnir's assets

### Asset protection

- The Resolution Committee is focused on the protection of Old Glitnir's remaining assets and, ultimately, the maximisation of the realisation of those assets.
- A team of Old Glitnir employees has been retained in the London branch to specifically focus on maximising the value of Old Glitnir's London portfolio. They have been systematically assessing and categorising loans to identify potentially non-performing loans or loans which require or will require action on behalf of Old Glitnir (e.g. as a result of there being undrawn commitments).
- An equivalent team has been established in Iceland drawn from employees of New Glitnir whose services are provided under an arrangement between Old and New Glitnir.
- Currently these teams are reporting directly to the Resolution Committee and seeking approval for, e.g., disposals of assets or, potentially, for the disbursement of funds to maintain positions and/ or minimise liabilities.
- Steps are being taken to establish a credit committee to streamline this reporting and approvals process. A member of the Resolution Committee, with extensive experience in this area, will sit on this credit committee as chairperson, together with credit specialists. The terms of reference of the credit committee will provide for major decisions to receive the additional approval of the Resolution Committee.

# Old Glitnir asset overview



## Specific action taken to protect Old Glitnir's assets

### Action in Norway

- Actions have been initiated against the Old Glitnir in Norway by three creditors:
  - the Norwegian export finance company Eksportfinans ASA has issued two claims for a total of NOK 419 million and obtained freezing orders against assets of the bank which exceed the value of their claims;
  - KfW Bank has issued a claim for Euros 150 million and obtained a similar freezing order; and
  - Norsk Tillitsmann has issued a claim for NOK 500 million and obtained a freezing order against all assets of Glitnir in Norway.
- The ambit of the freezing orders obtained by Eksportfinans and KfW has been reduced through negotiation but the Norsk Tillitsmann order continues to freeze all the assets of Old Glitnir in Norway.
- The intention of these freezing orders appears to be to obtain 100% recovery for the applicants whether or not this would amount to a preference over the other creditors of Old Glitnir.
- Accordingly, the Resolution Committee is currently considering what steps to take next in response.

### Other action

- Old Glitnir has engaged an international firm of lawyers to advise on dealing with the claims filed in Norway, actions taken in the UK and on steps necessary to protect Old Glitnir's other assets worldwide.
- A team of lawyers from that firm is currently based fulltime in Iceland and is working closely with the Resolution Committee and its other advisers.



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# Icelandic Moratorium Process

## Explanation of process and potential implications

- Glitnir is likely to become subject to a Moratorium proceeding.
- A Moratorium proceeding has many of the same features as a UK Administration.
- The current legislation is based upon European legislation (under EEA arrangements).
- The Moratorium legislation is currently being updated. Any changes will be advised to creditors.

## Explanation of process and potential implications

- The Icelandic Moratorium grants protection to a debtor against certain actions by creditors. For example, the debtor must not pay any debts, other than those that would be required to be paid in full if it were in a bankruptcy (e.g. salary costs, liquidator fees, costs incurred in relation to the protection of assets etc. incurred in the period of the Moratorium).
- A debtor's application to the District Court for a Moratorium must contain a declaration from an attorney or CPA (appointed by the debtor) stating that he is willing to act as the debtor's appointee ("Appointee"). The role of the Appointee is to assist the debtor in its efforts to reconstruct its finances and make decisions on how to achieve this. The Appointee has a duty to inform the District Court if the debtor does not abide by the Appointee's directions. This would rapidly lead to the District Court's decision to terminate the Moratorium.
- If the debtor's application for Moratorium is successful, the Moratorium will be granted by a decree from the District Court for a period of 21 days (although legislation currently considered by the Althingi this may change).

# Icelandic Moratorium Process

## Explanation of process and potential implications

- A creditor meeting must then be held within that period to allow creditors to express their views concerning the debtor's plans.
- The debtor must also invite the creditors to attend an oral hearing at the District Court to deal with any application to extend the Moratorium period. At such hearing, creditors are entitled to make representations to the court opposing an extension if they so choose.
- The general rule is that dispositions of assets are prohibited unless deemed necessary in the day to day operation of the business or necessary to achieve a reorganisation of the finances and provided that a fair price is paid in return. The Appointee is entitled to make dispositions as if the company had been declared bankrupt. Payment of liabilities or the performance of other obligations are prohibited unless it is clear that, considering its rank in the order of preference, in the event of a bankruptcy following the Moratorium, the obligation would be fulfilled or the debt paid.
- Any transfer at undervalue made within a period of six months before filing for bankruptcy (including any made during a Moratorium period) is open to challenge in the bankruptcy estate. It cannot be challenged during the Moratorium period. The Icelandic legislation requires Appointees to act in the interest of creditors and, in practice, most appointees will seek an expert report if necessary before making certain disposals in order to avoid challenges by creditors.
- Under the current legislation there is no formal provision for a creditors' committee, although the current informal creditors' committee would likely continue to exist.



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# Estimated timetable



## Key milestones and next steps

| Milestone  | Estimated timing  |
|--|-------------------|
| Icelandic Moratorium process is applied to Old Glitnir               | November 2008     |
| Outcome of fair value estimate of transferred assets and liabilities | February 2009     |
| Finalisation of details of bond from New Glitnir to Old Glitnir      | Early Spring 2009 |

### Further ICC meetings

- The Resolution Committee recommends that a further ICC meeting is undertaken in December 2008.
- The agenda for the meeting is to be agreed.
  
- **The ongoing focus of the Resolution Committee is to maximise the realisation of assets in Old Glitnir. Next steps will be geared towards achieving this going forward.**



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# Appendix 1



## Glossary

|             |  |
|-------------|--|
| FME         | The Icelandic Financial Supervisory Authority  |
| ICC         | Informal Creditors' Committee  |
| New Glitnir | New Glitnir banki hf, the entity to which various domestic assets and liabilities were transferred from Glitnir banki hf |
| Old Glitnir | Glitnir banki hf   |