

# Glitnir banki hf – Creditor Update – Interim Distributions

## 1 What is this update?

The Winding up Board (“WuB”) and Resolution Committee (“ResCom”) of Glitnir banki hf. (“Glitnir”) are providing this update to creditors of Glitnir in order to inform creditors on the progress being made towards making a first interim distribution of cash to creditors.

## 2 What do creditors need to do?

Creditors need not take any action as a result of this update. This update is for information purposes only. As the time for making the first interim distribution approaches, Glitnir will inform creditors registered on the claims database before setting out any steps that creditors need to take. The WuB and ResCom will also notify creditors of any open creditors’ meeting called in order to for the WuB to propose the first interim distribution, allowing creditors to seek clarification or make any objections to the proposed payments. Further information about this is set out in this update.

Although creditors do not need to take any action in response to this update, creditors are invited to provide feedback to the WuB and ResCom and/or ask questions of the WuB and ResCom in relation to the process for making distributions to creditors. **Comments and questions should be sent by email to [distributions@glitnirbank.com](mailto:distributions@glitnirbank.com)**

Please note that this document constitutes the WuB’s and ResCom’s preliminary position on how distributions should be made, after consultation with advisers and the Informal Creditors’ Committee (“ICC”).

The final proposal on the first interim distribution may differ from that outlined in this information update. Changes may result from feedback from creditors, the ICC, or as a result of further analysis and considerations of the WuB and ResCom. Therefore, creditors will be required to read the actual proposal put to the open meeting of creditors and consider their position based on this proposal when it becomes available.

The WuB and ResCom will update creditors on significant developments as they occur in the meantime.

## 3 Background

At the open creditors’ meeting on 2<sup>nd</sup> December 2010 the WuB set out the main priorities of the WuB and ResCom, which are repeated below:

- “ – The goal of the Resolution Committee is to protect and maximise the net present value of Glitnir’s assets for its creditors.
- The goal of the Winding-Up Board is to ensure that the value that is realised through this process is returned to creditors as rapidly as is reasonably possible.
  - The Resolution Committee and the Winding-Up Board consider that the best commercial solution to achieve these goals, at the present time, is a combination of the wind-down of Glitnir's assets over a number of years; and
  - a series of interim distributions paid out to creditors on a periodic basis.
- The Resolution Committee and the Winding-Up Board acknowledge that at an appropriate time a Composition should be implemented.

Accordingly, the Resolution Committee and the Winding-Up Board have been exploring the possibility of making the first interim distribution in 2011.”

At the open creditors' meeting on 2<sup>nd</sup> December 2010, the WuB and ResCom set out what they saw as the key challenges to overcome when preparing for a first interim distribution.

- “
- reducing the number of unresolved priority claims;
  - reducing the number of objections to Winding-Up Board Decisions. Creditors should note that whilst significant numbers of objections remain unresolved, it will not be possible to make a distribution;
  - determining the currency or currencies of payment within the constraints of the Icelandic Government Foreign Exchange Controls;
  - identifying an appropriate paying bank to facilitate payments;
  - developing robust accounting systems and controls for managing payments;
  - ensuring that the distribution plan that is adopted is compliant with Icelandic legislation; and
  - ensuring that the distribution plan will be supported at a creditors' meeting.”

This update provides creditors with information on progress being made against those challenges, together with other important information regarding a first interim distribution.

## **4 Progress Update**

During the period since the open creditors' meeting on 2<sup>nd</sup> December 2010 the WuB and ResCom, together with their external advisors, have been working on the planning for a first interim distribution. As part of this planning, the WuB and ResCom have been consulting with members of the ICC. Although the ICC has no formal responsibilities, the WuB and ResCom consider that it is important that the distribution mechanism and process takes into account the needs of the different types and classes of creditor, to the extent that doing so is consistent with the Icelandic legal framework and overall responsibilities of the WuB and ResCom.

### **4.1 Unresolved Priority Claims**

Priority claims are those which have been made under Articles 109 to 112 of the Icelandic Bankruptcy Act. A total of 519 priority claims have been submitted. To date, decisions have been taken by the WuB on 498 priority claims. Of these, only 56 have been closed and a further 33 have been withdrawn. All of the other priority claims on which decisions have been made are subject to objections submitted at open creditors' meetings. They are therefore subject to mediation or court procedures.

The great majority by both number and value of the priority claims are under Article 112 and relate to wholesale depositors (ISK51.5bn) and money market depositors (ISK50.6bn). The rejection by the WuB of the priority claimed for these liabilities has been referred to the Icelandic Courts. A hearing in the District Court on two wholesale depositors' claims was held on 11 March 2011, and a judgment is expected shortly.

### **4.2 Unresolved unsecured claims**

Unsecured claims are those which have been made under Article 113 of the Icelandic Bankruptcy Act. A total of 7,887 unsecured claims have been submitted. To date, the WuB has made decisions on 7,353 unsecured claims (including 1,769 decisions where the claim for ranking has been rejected since it was contractually agreed that the liability would be subordinate to other claims (i.e. Article 114)). Of the decisions made, 1,747 claims have been closed and a further 35 have been withdrawn. 938 claims have been accepted as Article 113 claims, and in respect of which the WuB has either accepted, or accepted with amendments, the claimed amount, and no objections to those decisions remain outstanding. All of the other unsecured claims on which decisions have been made are subject to objections submitted at open creditors' meetings. They are therefore subject to mediation or court processes.

6,654 of the unsecured claims on which a decision has been made by the WuB relate to bonds issued by Glitnir. Decisions have been made on the majority of these bonds, however, there are 12 complex structured bonds for which decisions have not yet been made by the WuB. The process for adjudicating claims on bonds

involves an assessment of the amount due by an independent calculation agent, with support from the WuB's external financial and legal advisers. The calculation of the amount due on each bond for which a decision has been made by the WuB has been made available to creditors on Glitnir's secure website. This provides transparency to creditors about calculations of principal, interest and other amounts on the bonds. As part of the process leading to the first interim distribution, meetings will be held with representatives of many of the bond holders. The WuB is also initiating Icelandic Court processes for selected claims on the bonds which will address key issues raised by bond holders in their objections to the WuB's decisions. It is hoped that these Court processes will lead to clarification of these issues in time for a first interim distribution to be paid in 2011. It is open to objecting creditors to withdraw their objections at any time. Similarly, if the court processes indicate that decisions made by the WuB need to be changed, it is open to the WuB to make those changes.

### 4.3 Decisions of the Winding-Up Board

On 2<sup>nd</sup> December 2010 the WuB notified creditors that it had made substantial progress with making their decisions on claims registered by creditors. At that meeting creditors were notified that the next meeting would be held on 14<sup>th</sup> April 2011 and that the WuB hoped to be in a position to complete and publish their remaining decisions at the 14<sup>th</sup> April meeting. The outstanding claim decisions relate mainly to complex structured bonds and derivative claims. The total value of claims registered for which formal decisions have not been made is ISK803bn – representing approximately 23% of the value of total claims registered. Although substantial progress has been made, the WuB will not complete all their remaining decisions by 14<sup>th</sup> April 2011. Therefore, it will be necessary for the WuB to hold a further meeting. This meeting is likely to be held on Wednesday 31<sup>st</sup> August 2011, and further information in this regard will be made available to creditors at the meeting on 14<sup>th</sup> April 2011.

### 4.4 Timing

The WuB considers that in order to propose a first interim distribution and have sufficient confidence that creditors will support such a distribution, the WuB needs to have achieved the following key milestones:

- The WuB needs to have made a decision on all remaining claims registered by creditors.
- Sufficient progress needs to have been made with respect to resolving objections made against claims decisions of the WuB.

With respect to resolving objections, the WuB's preliminary view is that all significant priority claims and 60% - 75% of all unsecured claims (by value) need to have been unconditionally resolved. This means that objections must have been resolved by mediation or withdrawal, or there must have been a final court decision in respect of the objection – including a decision of the Supreme Court of Iceland, if appropriate. In this regard, it is the WuB's view that where there is an objection to any part of the WuB's decision on a claim, the whole of that claim should be treated as unresolved, even if there is provisional agreement between the creditor and WuB on part of the claim.

Considerable progress remains to be made in order to resolve disputed claims. To date, major priority claims await decisions of the Icelandic Courts and, due to the prevalence of certain creditors objecting to decisions on other creditor's claims, a very low proportion by value of unsecured creditor claims have been unconditionally resolved. Therefore the milestones set out above have not been met at this time.

In relation to this there are aspects of the claim resolution process that are not in the WuB's control. These include the approach to mediation and litigation taken by objecting creditors and the timing of District and Supreme Court hearings in Iceland (noting the heavy burden that the failure of the Icelandic banks has placed on the Icelandic Court system).

The WuB has reviewed the actions which need to be carried out before it can propose a first interim distribution at an open meeting of creditors. The WuB believes there to be a reasonable prospect that

sufficient progress can be made to enable this to be done before the end of 2011. However, the WuB notes that matters outside its control could result in it being unable to propose a first interim distribution until 2012.

## 5 Process for making a first interim distribution

The process for making a first interim distribution is complex and time-consuming. Listed below are key steps required as part of this process. This is not an exhaustive list, merely the most significant items that the ResCom and WuB have identified at this stage.

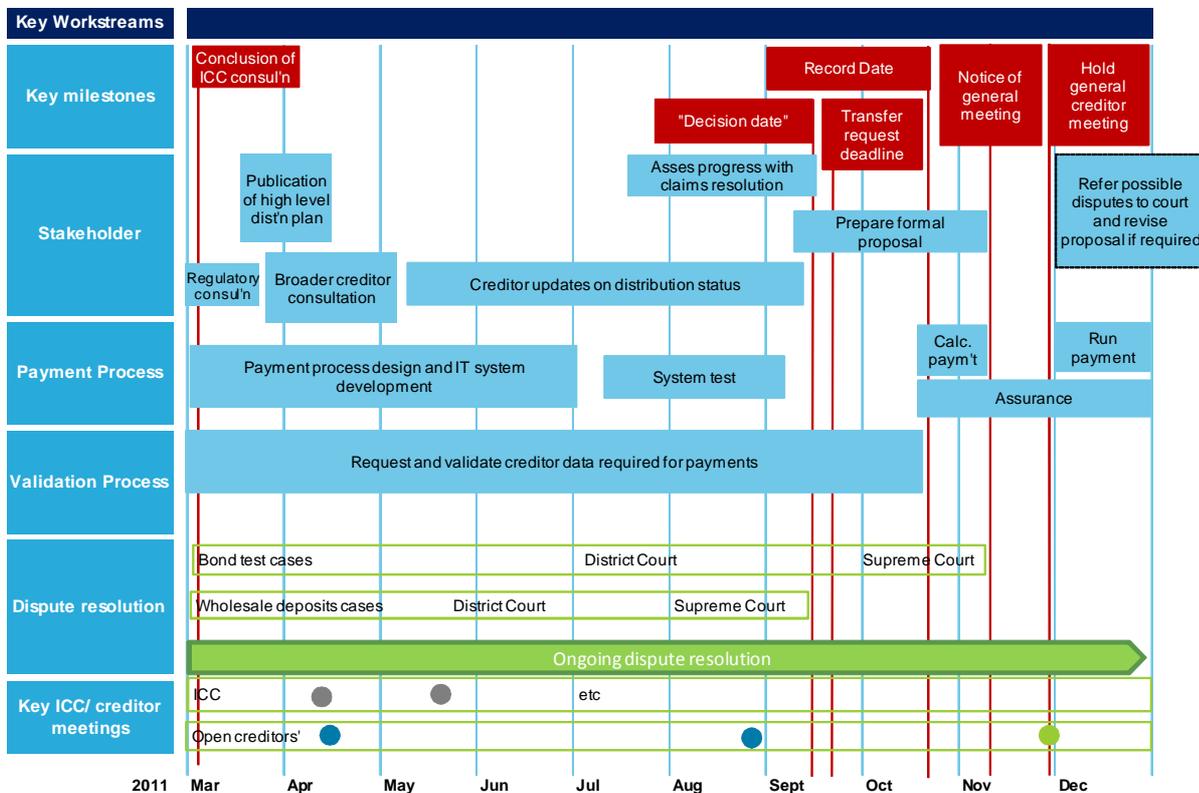
- a. Some creditors have made priority claims and the WuB has rejected the priority nature of many of these claims. Further details are provided in Section 4.1. If the Icelandic courts decide that the priority status of these claims is valid, they will need to be discharged in full at the same time as or before unsecured creditors receive a distribution. If a payment to priority creditors is to be made before the first interim distribution to unsecured creditors, this priority creditor payment is likely to be the subject of a proposal at an open meeting of creditors held earlier than the meeting to consider the first interim distribution. Further information is contained in Section 7.4.
- b. The WuB and ResCom will consult with and seek feedback and support from ICC members, and creditors generally, on steps that can be taken to accelerate dispute resolution.
- c. The WuB and ResCom will develop the systems and processes to control, implement and validate payments to creditors.
- d. An open creditors' meeting will be required for creditors to consider the first interim distribution proposal. This is likely to be held shortly before the payment is made
- e. When the WuB is satisfied that the milestones in Section 4.4 above have been achieved and that it is viable to propose a first interim distribution to unsecured creditors it will consult with the ICC, and with support from the ICC will put a notice for creditors on Glitnir's website. This decision date is likely to be approximately 10 weeks prior to the open creditors' meeting to consider the first interim distribution.
- f. In the meantime the WuB will take steps to collect data from creditors to facilitate payments to them, including verifying bank account details in various currencies in which payments are likely to be made (or addresses to which cheques should be sent).
- g. When the WuB is ready to propose the first interim distribution, the WuB will need to close the claims register in order to calculate payments due to each creditor. It is likely that the claims register will initially be closed to new transfer requests and about one month later will be completely closed (the latter being the Record Date). The first interim distribution will be paid to those creditors on the claims register at the Record Date. The Record Date is likely to be at least 6 weeks prior to the open creditors' meeting.
- h. For any unsecured claim that remains disputed at the Record Date, a payment equal to the first distribution on the full amount claimed will be made into a protective account<sup>1</sup> (see Section 7.5). It is anticipated that as and when unsecured claims become unconditionally resolved, payments from the protective account to the relevant creditors (or back into the general asset pool of Glitnir) will be made on a regular basis.
- i. Once individual creditor payments have been calculated and verified as at the Record Date, a notice of an open creditors' meeting will be issued and published. From that time, the formal proposal on the distribution will be available for inspection at Glitnir's office as well as being published on its secure website. The notice period for the meeting will be at least 2 weeks.
- j. All creditors will be entitled to attend the open creditors' meeting to make enquiries of the WuB and to object to the proposed distribution if they consider it appropriate to do so.

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<sup>1</sup> The WuB is considering the provisions of Icelandic insolvency law relating to the account into which payments in respect of all unresolved priority and unsecured claims must be paid. For the moment, this account is being described as a "protective account", but its precise legal characteristics remain to be decided.

- k. In the event that any creditor does object and a mediation meeting does not resolve that objection, the WuB may apply to the District Court to have the distribution proposal ratified notwithstanding the creditor objection. Any objecting creditor would have to be represented by an Icelandic lawyer at such a court hearing. If a representative of an objecting creditor does not appear in court, that creditor thereby withdraws his objections. The WuB and any objecting creditor could appeal to the Supreme Court against the decision of the District Court if they so wish.
- l. The WuB intends to distribute only Euros to unsecured creditors in its first interim distribution. Distributions of one or more other significant currencies are likely to be made within a few months after the first interim distribution. Each time the WuB intends to make a further distribution, it is likely to put the proposal before an open meeting of creditors convened to consider it.
- m. Shortly after the first interim distribution is made the claims register will reopen and transfers will be processed.

The timeline below provides an illustration of the process described in a. to m. of this section. This assumes that the decision date referred to in e. above is 15<sup>th</sup> September 2011. For the avoidance of doubt, the occurrence of this decision date is dependent upon progress with the claims dispute resolution and other matters as described above. So 15<sup>th</sup> September 2011 has been chosen for illustrative purposes only.



## 6 Financial Information

At this stage it would be speculative to estimate the amount and timing of future cash distributions to unsecured creditors. Nonetheless the following is intended to provide creditors with an outline of the process the WuB intends to follow when setting the amount of the first interim distribution.

On 13<sup>th</sup> March 2011 Glitnir published its updated Statement of Assets and Liabilities as at 31<sup>st</sup> December 2010, which is available on the Glitnir website. In addition, its audited financial statements were published on the same date and are also available on Glitnir's website.

Further, the ResCom has prepared a detailed business plan which estimates and projects that a significant proportion of all asset realisations of Glitnir will be achieved by 2015. A summary of this business plan was

published in the presentation to creditors at the 2<sup>nd</sup> December 2010 creditors' meeting, and an updated version will be published shortly.

The WuB and RC ask creditors to consider the material uncertainties inherent in making projections on the ultimate asset realisations of Glitnir or the timing of such realisations, and note the various limitations published in those documents.

When proposing a first interim distribution to unsecured creditors, the WuB will need to take into account a number of factors, including:

- The currencies held by it and the amount of cash in each currency.
- That prior to or at the same time as making any distribution to unsecured creditors, the WuB intends to make payment in full to priority creditors whose claims have been resolved (see further in Section 7). Provision will need to be made for any remaining disputed priority claimants.
- Provision will also need to be made to:
  - retain sufficient cash to cover the operating costs of Glitnir,
  - for any additional lending to Glitnir's borrowers where that would protect and maximise the ultimate realisation of loan assets, and
  - for indemnities and other potential priority calls on Glitnir's cash.

At this stage, the WuB is not in a position to state with any degree of certainty the actual amount of the first interim distribution.

However, and for illustrative purposes only, if a first interim distribution were to be made at the end of 2011, the WuB currently anticipates being in a position to distribute €500 – €800 million to unsecured creditors (either by payments to creditors or into protective accounts for disputed unsecured creditors – see Section 7).

Based on current registered claim analysis, and assuming the Icelandic Courts find in favour of the WuB's decision regarding major priority claims under Article 112 (see section 4.1), this would represent a distribution percentage to unsecured creditors of perhaps between 4% and 5% of agreed value (or registered claim value if the claim is subject to an objection at the Record Date).

If the Icelandic Courts find in favour of those priority claimants under Article 112 objecting to the decisions of the WuB, the WuB anticipates a lower range of potential distributions to unsecured creditors, perhaps between €300 – €500 million.

Based on current registered claim analysis, and assuming the Icelandic Courts rule in favour of the priority claimants objecting to the decisions of the WuB, this would represent a distribution percentage to unsecured creditors of perhaps between 2% and 3% of agreed value (or registered claim value if the claim is subject to an objection at the Record Date).

**The WuB requires creditors to note that the actual first interim distribution amount and percentage may be higher or lower than those illustrated above.**

## 7 Key features of the likely distribution mechanism

### 7.1 Currency of payment

In accordance with Icelandic law, all creditor claims were translated into Icelandic Krona (ISK) as at 22<sup>nd</sup> April 2009. The starting point under Icelandic law is that distributions should be made to creditors in ISK.<sup>2</sup> However, due to currency controls currently in place, the WuB do not consider it would be in most creditors' interests to make distributions in ISK. Nor would it be practicable to do so.

The currency strategy of the ResCom is to hold cash in the currency in which it is realised. For example, if a Euro asset produces Euro interest or Euro redemptions, the cash received is held by Glitnir in Euros. The ResCom and WuB publish Glitnir's cash and asset position on a quarterly basis.

The WuB considers that while Icelandic law provides for ISK distribution, it also permits the WuB to make distributions to creditors in one or more currencies other than ISK, so long as creditors are treated equally. The WuB has considered selecting a single distribution currency. However, the WuB considers that to convert all currencies into a single distribution currency would be contrary to the current currency strategy and would require Glitnir to take unacceptable currency risk on behalf of creditors.

Therefore, the WuB is considering a proposal that distributions to unsecured creditors will take place in each of the significant currencies held by Glitnir. The WuB is yet to finalise what constitutes a significant currency, although they are likely to include Euro, US Dollar, British Pound, Norwegian Krona, Canadian Dollar and Icelandic Krona. The WuB is considering how to treat small holdings of non-significant currencies. Its current thinking is that all non-significant currency holdings will be translated into one of the significant currencies.

ISK distributions will not be made in the initial series of currency distributions to unsecured creditors. This is primarily because of Icelandic currency control restrictions on the ability of creditors to convert ISK into other currencies. As and when currency conversion restrictions are eased, the WuB will review its position on distributing ISK cash to unsecured creditors.

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<sup>2</sup> Article 99 of the Icelandic Bankruptcy Law states that: "Claims against a bankruptcy estate denominated in foreign currency shall, insofar as they cannot be settled as provided for in Articles 109-111, be converted into Icelandic currency at the registered rate of sale on the day when the bankruptcy order was issued." In Glitnir's situation, the relevant date was 22<sup>nd</sup> April 2009 and the Icelandic Central Bank foreign exchange rates were used to convert all non-ISK claims into ISK.

Icelandic Bankruptcy Law does not give the WuB specific guidance about the method of distribution of non-ISK currencies. The presumption underlying the law is that distributions will be made in ISK. However, the WuB is entitled to distribute "cash" and the WuB takes the view that this allows it to make distributions in ISK or in currencies other than ISK or a mixture of both.

There are no regulatory requirements which must be fulfilled in order for the WuB to make a distribution of currencies held outside Iceland, although Icelandic creditors receiving non-ISK currencies will be subject to exchange control restrictions. The WuB is, however, discussing its proposals for distributions with the Central Bank because of the effect which they could have upon ISK exchange rates.

The Bankruptcy Law does not give any guidance about the rate of exchange to be used when converting ISK obligations (all claims being denominated in ISK as described above) into non-ISK currencies. However, the Bankruptcy Law does require all priority creditors to be paid in full, or for full provision to be made for unresolved priority claims in a protective account, before a distribution can be made to unsecured creditors. This has the practical effect of preventing the WuB from using historic exchange rates (such as those used at 22<sup>nd</sup> April, 2009) to convert ISK claims into foreign currencies. This is because payment in full must be made in ISK terms. So where (as is currently the case) there has been an appreciation of the ISK since the conversion of claims into ISK, payment at a historic rate of exchange would mean that less than the full amount in ISK would be received by the priority creditor. The amount in ISK has to be measured at current exchange rates on the date on which payment is made to the priority creditor.

## 7.2 Interim distributions to unsecured creditors

The WuB is required to treat all creditors equally in each creditor class (e.g. priority or unsecured). The WuB proposes to distribute to each unsecured creditor its proportionate share of each significant currency when it is distributed. It is likely that the first interim distribution will be in Euros, to be followed as rapidly as possible by distributions in other significant currencies.

Each creditor has had its claim against Glitnir determined in ISK. Therefore once all claims have been resolved, an unsecured creditor's 'proportionate share' of the Glitnir estate will be determined by the creditor's claim in ISK divided by the total ISK unsecured claims.

If Glitnir is making a Euro distribution to unsecured creditors, each unsecured creditor will receive (or have paid into a protective account if its claim is unresolved) its proportionate share of that Euro distribution. Equally, if Glitnir is making a USD distribution, each unsecured creditor will receive its proportionate share of that USD distribution. The same principle will apply for a distribution in any other currency.

An example of how this will be applied is shown below. In this example, we illustrate how agreed and disputed claims will be treated for an interim distribution in Euros to unsecured creditors. For illustrative purposes, all amounts shown in the above example have been rounded to two decimal points. The workings supporting this analysis, however, are performed to an accuracy of nine decimal points.

Example 1:

Illustration of Mechanism for Payments to Unsecured Creditors														
All amounts are in millions														
Notes		A		B		F			E		G			
		ISK		€		Exch.	ISK		Exch.	ISK		ISK		
	Curr.	Claim in original currency	Exch. rate 22/04/2009	Claims Register	% of total	Amount to be distributed	rate Nov	Prelim distrib Formal Proposal	Prelim inary % of claim	rate Dec	Final distribution Payment Date	% of claim	Claims Register after distribution	
C	Agreed claim 1	USD	100.00	130.71	13,071.00	0.52%	2.61	158.83	415.21	3.18%	160.81	420.39	3.22%	12,650.61
	Agreed claim 2	€	200.00	169.23	33,846.00	1.35%	6.77	158.83	1,075.15	3.18%	160.81	1,088.56	3.22%	32,757.44
	Agreed claim 3	GBP	80.00	191.08	15,286.40	0.61%	3.06	158.83	485.59	3.18%	160.81	491.64	3.22%	14,794.76
	Agreed claims rest	ISK	1,937,796.60	1.00	1,937,796.60	77.51%	387.56	158.83	61,556.05	3.18%	160.81	62,323.41	3.22%	1,875,473.19
	Total agreed claims				2,000,000.00	80.00%	400.00	158.83	63,532.00	3.18%	160.81	64,324.00	3.22%	1,935,676.00
D	Disputed claim 1	USD	50.00	130.71	6,535.50	0.26%	1.31	158.83	207.61	3.18%	160.81	210.19	3.22%	6,325.31
	Disputed claim 2	€	40.00	169.23	6,769.20	0.27%	1.35	158.83	215.03	3.18%	160.81	217.71	3.22%	6,551.49
	Disputed claim 3	GBP	30.00	191.08	5,732.40	0.23%	1.15	158.83	182.10	3.18%	160.81	184.37	3.22%	5,548.03
	Disputed claims rest	ISK	480,962.90	1.00	480,962.90	19.24%	96.19	158.83	15,278.27	3.18%	160.81	15,468.73	3.22%	465,494.17
	Total disputed claims				500,000.00	20.00%	100.00	158.83	15,883.00	3.18%	160.81	16,081.00	3.22%	483,919.00
	Total claims			ISK	2,500,000.00	100.00%	500.00	158.83	79,415.00	3.18%	160.81	80,405.00	3.22%	2,419,595.00

A - In this illustration, it is assumed there are certain creditors with 'agreed' claims at the Record Date and certain claims which are subject to an objection/dispute. The value of the disputed claim for the purposes of the distribution will be taken at the amount claimed by the creditor. All claims were converted to ISK at the Central Bank offer rates on 22<sup>nd</sup> April 2009. In this illustration, there are ISK 2,500,000m agreed and disputed unsecured claims.

B - An unsecured agreed creditor will receive its proportionate share of any distribution calculated as the ISK value of its claim divided by the total of the agreed and disputed claims.

C - For example if a creditor has an agreed claim of ISK 13,071m (as for Agreed claim 1), and the total of the agreed and disputed claims is ISK 2,500,000m, its share of any distribution will be 0.52%. If the Euro amount to be distributed is determined by the WuB to be € 500m, as in this illustration, Agreed claim 1 would receive 0.52% or €2.61m.

D - A disputed claim creditor would not receive any payment in a distribution, but the maximum amount that could be due to that creditor, if its claim were ultimately resolved at the claimed amount, will be paid into a protective account. See section 7.5 for further detail.

E - The ISK exchange rate of the distribution currency at the date that payment is made will determine the amount of ISK liability that is discharged. For the avoidance of doubt, the amount of ISK discharged relating to a disputed claim will be determined based on the exchange rate at the date the payment was made into a protective account. It should also be noted that the ISK liability discharged with respect to a disputed claim will be based on the principal paid to the creditor. A proposal to creditors on the distribution will be published at least two weeks in advance of the creditors' meeting. Assuming movements in exchange rates, there is the potential for the ISK liability that is discharged to change between the date of the proposal (shown in column F) and the date at which the actual payment is calculated (shown in column E).

F - see note E above. F relates to the exchange rate used to estimate the ISK liability discharged at the date of the proposal.

G - The payment in this illustration represents a discharge of 3.22% of all unsecured creditors' claims.

### 7.3 Discharge of Glitnir's liability

When each distribution is made to unsecured creditors a proportion of the ISK liability of Glitnir to the creditor will be discharged. This discharge will occur and be accounted for on the date that the payment is made to a creditor where the amount of the claim has been fully agreed by the WuB. For an unresolved claim, the payment will be made into a protective account pending resolution of all disputed elements of the claim. The Euro/ISK exchange rate for this purpose will be that prevailing at the date on which the payment was made. For unresolved claims it is intended by the WuB that this exchange rate will apply even though a payment to the relevant creditor out of the protective account may occur many months or even years later.

### 7.4 Priority claimants (Articles 109-112)

A number of creditors have registered claims under Articles 109-112 of the Icelandic Bankruptcy Act (priority claims) which, if valid, would entitle them to be paid in full ahead of unsecured creditors with claims under Article 113.

As creditors will be aware, the WuB has rejected a large number of priority claims (both as to priority and for other reasons). However, a significant proportion by value of such claims are now subject to a Court dispute resolution process. Once a priority claim has been resolved, the WuB is obliged to pay it as soon as possible. So depending on the timing of resolution of disputed priority claims, they may be paid ahead of any distribution to unsecured creditors. But if disputed priority claims are only resolved shortly before the first interim distribution to unsecured creditors, they will be paid in full at the same time as the first interim distribution is made.

The WuB considers that it could discharge priority claims by making full payment in ISK. However, the WuB is also aware that many priority creditors are international and have claims that originated in currency other than ISK, and that the Icelandic State currency controls make ISK unattractive to creditors (priority or unsecured). The WuB intends to consult with potential priority creditors and the ICC on an appropriate mechanism to distribute currency to priority creditors in a way which balances the interests of all creditors and which is capable of being ratified by the Icelandic Courts in the event an objection is made. Further details will be made available to creditors as the proposals for payments to priority creditors and the making of interim distributions to unsecured creditors are developed.

### 7.5 Protective account features

As described above, payments will be made into protective accounts relating to all unresolved creditor claims at the time of the first interim distribution (where an objection to a decision of the WuB has not been unconditionally resolved at the Record Date).

In the event that after the Record Date a claim is resolved wholly in favour of the creditor, the creditor will receive its full share of any distribution, in the currency it was made, out of the protective account and proportionate to its registered claim.

In the event that the WuB's decision is upheld in part, there will be a payment to the creditor out of the protective account proportionate to its resolved claim position. The residual balance held in the protective account for that claim will be paid back to the general assets of Glitnir and will be available for distribution to creditors generally.

It is anticipated that interest will be earned on each protective account. Icelandic law requires that a creditor receives a proportionate share of interest earned on funds in the protective account.

13<sup>th</sup> April 2011