

ICEBANK'S CREDITORS' REPORT

14 DECEMBER 2009



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- (a) Resolution of issues regarding the quantum of claims;
- (b) Additional claims being made against Icebank;
- (c) The realization method(s) used over time;
- (d) The impact of set off and netting, including in connection with derivative contracts;
- (e) Movements in currency exchange rates and interest rates;
- (f) Prevailing market conditions when assets are sold.

A special reference is made to the supplemental disclaimer regarding Financial Information, see appendix 2 to this Report.

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1. Background

1.1. World financial crisis

The world banking system became a centre stage of the current world financial crisis which started with the collapse of the US housing mortgage market.

Credit markets started to deteriorate significantly in 2007 and the trend continued in 2008. The business environment worldwide was extremely difficult for banks in general and financial institutions became very reluctant to lend to each other. The situation led to the fall of Lehman Brothers.

On September 29th 2008, the Icelandic authorities announced their plan to acquire a 75% stake in Glitnir bank, which had been encountering severe funding problems.

The financial markets had no confidence in the approach taken by the Icelandic government which resulted in a freeze in interbank lines and withdrawal of deposits.

Financial markets were also sceptical of the ability of the Central Bank of Iceland to provide necessary support to the Icelandic banking system.

On October 7, 2008, the Icelandic Parliament passed Act no. 125/2008 on the Authority for Treasury Disbursement due to Unusual Financial Market Circumstances etc. In the following week the FME took control of the three big Icelandic banks and decided to split each bank up, into the old and a new bank. Most claims on the banks were left in the old banks but domestic deposits were transferred to the new banks.

Icebank's largest assets were bonds issued by Glitnir, Kaupthing and Landsbanki.

The collapse of the major Icelandic banks had significant effect on Icebank's assets since most of its assets were investments in securities issued by Glitnir, Kaupthing and Landsbanki. Icebank had entered in to repo agreements, using the securities of Glitnir, Kaupthing and Landsbanki as collateral, with the Central Bank of Iceland. When Glitnir, Kaupthing and Landsbankinn collapsed, Icebank's collateral devalued significantly, which eventually resulted in a margin call by the Central Bank of Iceland and a consequent collapse of Icebank.

1.2. History of Icebank

Icebank was established in 1986 by the savings banks in Iceland. It was wholly owned by the savings banks until October 2007 when ownership was opened up to several local investors and the Bank's top management.

The original purpose of the Bank was to act as a central institution for the savings banks providing them with a range of services. In 2006, Icebank's owners agreed on a new strategic vision for the Bank. This was considered necessary because of the fundamental changes occurring in the Icelandic banking sector, not least the rapid and successful overseas expansion of the bigger Icelandic banks and the continuous growth of the larger savings banks, which made them more and more willing to act on their own rather than require the services of Icebank.

From 2006 until mid 2008 the Bank prospered and its balance sheet expanded significantly. Due to the significant business relationships with the biggest Icelandic banks the Bank did not manage to withstand their collapse and by a decision made on the March 21st, 2009, the Financial Supervisory Authority (FME) assumed the powers of a shareholders' meeting of Icebank and made decisions which the FME deemed necessary. On March 27th, 2009 the FME appointed a Resolution Committee for Icebank, which took over all powers and authority of the Board of Directors in accordance with the articles of Company Law - Act No.

2/1995 Respecting Public Limited Companies, in accordance with Article 100 a of the Act on Financial Undertakings.

To comply with the decisions of the Financial Supervisory Authority (FME) the Resolution Committee was obliged to transfer deposits to Byr, New Kaupthing and the Central Bank of Iceland. The decision to move deposits of savings bank to Byr, New Kaupthing and the Central Bank of Iceland has minimum effect on other creditors, as the savings banks would have been able to set off most of their liabilities against the Bank.

2. Timeline

September 2008 – February 2009

- Icelandic Parliament passes Act. 125/2008.
 - Its 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; and
 - Insolvency proceedings cannot be brought against those institutions that operate under the Act.
- FME takes control of Glitnir, Landsbanki and Kaupthing.
- Bills and bonds issued by the banks remain in the old banks.
- Icebank's largest assets are bills and bonds issued by the old banks, the value of which decreased significantly.
- Central Bank of Iceland announces rules to limit currency outflow.
- In November, 2008 Icebank starts negotiating restructure with key creditors.

March 2009

- The evaluation of the Central Bank of Iceland is that the position of Icebank is unacceptable and could have a negative domino effect on other financial undertakings; not least as Icebank is a clearinghouse for savings banks in Iceland.
- FME takes control over Icebank on March 21st, 2009.
- On March 23rd Icebank is granted Moratorium until June 15th, 2009. Tómas Jónsson is appointed Moratorium Appointee.
- FME appoints a Resolution Committee on March 27th, 2009. Appointed to the Resolution Committee were:
 - Þorvarður Gunnarsson (Chairperson) – Certified Public Accountant. Managing Director of Deloitte Iceland;
 - Erling Tómasson – Certified Public Accountant. Partner at Deloitte Iceland;
 - Hjördís Edda Harðardóttir – Supreme Court Attorney. Partner at Acta law firm;
 - Jón Ármann Guðjónsson – District Court Attorney. Partner at Lögborg law firm;
 - Áslaug Björgvinsdóttir - Associate Professor at Reykjavík University.

April – December 2009

- On April 22nd, 2009 the Icelandic Parliament amends Act. 44/2009. Its Key feature include:
 - provisions for the creation of a Winding-up Board
 - Winding-up procedure begins when the Act is passed by the Parliament.
- Þorvarður Gunnarsson commissioner and chairman of the Resolution Committee, Erling Tómasson commissioner of the Resolution Committee and Áslaug Björgvinsdóttir commissioner of the Resolution Committee resign.
- The District Court appoints a Winding-up Board for Icebank. Appointed to the Winding up Committee are:
 - Andri Árnason, Supreme Court Attorney, chairman
 - Berglind Svavarsdóttir, Supreme Court Attorney
 - Tómas Jónsson, Supreme Court Attorney
- The Resolution Committee appointed PWC , at the request of FME, to investigate potential irregularities in transactions undertaken prior to the bank's collapse.
- On 18 of June 2009 the District Court of Reykjavík granted an extension of Icebank's Moratorium until 15 of December 2009.
- On 3 November 2009 the deadline for submitting claims expired.
- On 27 November 2009 a meeting was held with Creditors of Icebank. The purpose of the meeting was twofold, to discuss list of claims and the decisions of the Winding-up Board and give the creditors their final opportunity to oppose these decisions and the meeting was also convened by the Moratorium Appointee of Icebank in accordance with Article 13 and 15 of Act No. 21/1991, in advance of the hearing at the District Court of Reykjavik on 15 December 2009..
- A hearing at the District court of Reykjavik regarding an extension of Icebank's Moratorium until 15 September 2010 will be held 15 December 2009.

3. The Resolution Committee

3.1. Role of the Resolution Committee

The Resolution Committee has control of all matters concerning Icebank. It has oversight of the treatment of all assets and the handling of all other business. It operates the Bank in co-operation with the Moratorium Appointee: Tómas Jónsson, Supreme Court Attorney, partner at Lögfræðistofa Reykjavíkur law firm.

3.2. 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:

- Hjördís Edda Harðardóttir, Supreme Court Attorney. Partner at Acta law firm;
- Jón Ármann Guðjónsson, District Court Attorney. Partner at Lögborg law firm;

3.3. Objectives and goals of the Resolution Committee

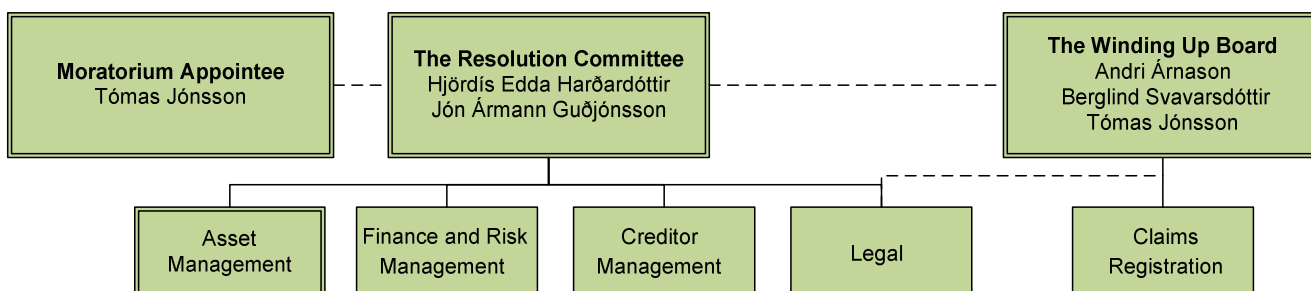
The Resolution Committee is focused on the protection of Icebank's assets and, ultimately, the maximisation of the realisation of those assets.

Given the current market conditions, the Resolution Committee does not believe it is in the best interest of stakeholders to sell assets and it will act to avoid the possibility of a fire sale of assets. The Moratorium ensures that the Resolution Committee has time to build an effective and suitable asset realisation strategy.

The Resolution Committee is currently systematically assessing the assets of Icebank and preparing a future strategy to maximise value by reviewing and analysing the potential strategic options available. The Resolution Committee has engaged teams of experts, both internally and externally, to *inter alia*, assist with the analysis and preparation of a future strategy and to provide a case by case evaluation of Icebank's assets with the aim of maximizing the realisation of the Bank's relevant assets.

In May 2009, the Resolution Committee, at the request of the FME, engaged the international accounting firm Pricewaterhouse Coopers ("PwC") to investigate whether the Bank or parties connected to it, had before the collapse of the Bank deviated from its internal rules or violated the rules governing the activities of financial undertakings, the securities transactions act or the general penal code. A report was submitted to the FME on 19 November 2009.

4. The Organizational Structure of the Bank



The Resolution Committee's main aim is to maximize the value of the Bank's assets. In order to achieve this goal, the Resolution Committee must possess the necessary expertise to manage the assets. The Resolution Committee has therefore engaged experts in various fields to manage the Bank's assets, which include the loan portfolio, bonds, shares and derivative contracts. The Bank operates today as an asset management company for which long term goals are dominant. It is apparent from discussions with several creditors that the main focus of creditors is to recover as much of their claims as possible, but the time frame for getting reimbursed is more flexible.

The Resolution Committee has established four divisions in the Bank which report directly to the Resolution Committee and each division has a managing director responsible for the operation of that division.

4.1. Asset Management

Currently asset management is the core function of Icebank. The Asset Management is divided into two functions, Asset recovery and Daily operations relating to the Asset recovery. Belonging to the Asset management are therefore all employees of the bank, except the General Counsel and the Head of Treasury and risk. The number of people in Asset Management is 23. The role of the Asset Management Team is to maximize the value of Icebank's assets as well as to protect and preserve the Bank's assets.

The Asset Management Team is focusing on the total asset portfolio and actively dealing with the non-performing part of the loan portfolio. The team is working on restructuring processes on number of units in order to secure and maximize value and recovery. An action plan has been implemented in which the focus has been set on organizing the portfolio and to synchronize it. The employees have been grouped up in teams to focus on sectors in order to generate specialty within the team as well as to secure that knowledge stays within the Bank. General guidelines towards non-performing loans have been implemented as well as General rules regarding responses towards debtors that are facing short time payment problems. The General guidelines towards non-performing loans are a step by step plan empowering employees with the sufficient tools needed for the work out of nonperforming loans in order to secure and maximize the bank's assets and recovery. The General rules regarding responses towards debtors that are facing short time payment problems have been set in order to meet the needs of a growing number of small business units with funding in foreign currency that would face bankruptcy in the short term unless they would get assistance. In these cases the payment profile of the loans are set as it was on the 2nd of May 2008 fixed for 12 months and the surplus is added to the total loan amount. Then a Loans Overdue Committee has been created focusing on non-performing loans as well as to control the debt collection. This active work with the non-performing loans as well as the debt collecting control will lead to better recovery for the creditors of Icebank.

Through the Asset Management Team Icebank has signed an agreement with a Portfolio Management company that is focused on and specialized in retail management. This Portfolio Management company will monitor and take supervisory management of all retail and retail related assets that Icebank either owns 100% or has a majority stake in. Until now Icebank has obtained 100% ownership in four operating companies, two in Iceland and two in the Baltic's. This management agreement will secure that the retail assets of the Bank are monitored and managed by industry specialists in order to maximize their future recovery value. Icebank receives weekly reports from the Portfolio Management company enabling the Bank to stay focused on the recovery. Together with the Portfolio Management company Icebank structures a 90 day turnaround plan for the enforced asset. This turnaround plan is then implemented by the Portfolio Management company with the goal to make the enforced asset self fundable and self standing with the ultimate goal to generate value so that the asset can be sold at a reasonable price in order to recover the loan. The minimum workout period for these enforced asset turnaround cases is estimated 12-18 months.

Icebank has also through the he Asset Management Team signed an agreement with a company focusing on LBO/LP Management. This LBO/LP management company will monitor and manage the LBO and LP portfolios as well as to work on liquidating these two portfolios with a view to achieving the highest value. The portfolios have been valued by KPMG and the LBO/LP Management company both in terms of liquid value as well as to if these assets can be sold and then when the best selling point would be. This LBO/LP management company is also working with assets belonging to other Icelandic banks in order to generate a large enough sellable units for foreign investors.

4.2. Treasury and Risk Management

The current Treasury objective is to manage all liquid assets with regards to currency, interests, counterparty and currency risk. Also, the objective is to support the Asset Management Team in all financial transactions needed in relation to the management of the asset portfolio, mostly receiving payments from performing loans. Additionally, the Treasury is responsible for managing the foreign bond portfolio. It is emphasized that all decisions regarding sale of assets must be approved beforehand by the Resolution Committee and the Moratorium Appointee.

Treasury will clear outstanding points in respect of the "winding down" process of the Bank. These include various projects such as:

- Final settlement with banks which have closed derivative contracts before maturity by terminating bilateral ISDA contracts, in cooperation with Legal Division. These include credit derivatives such as CDOs, LCDs and CEOs.

- Final settlement of derivative contracts with customers and supporting outsourced debt collection cases if needed.
- Systematic closing of foreign bank accounts (nostro accounts).
- Final settlement regarding outstanding Savings Banks debt in cooperation with the Resolution Committee.
- Reviewing claims on Icebank originated from the funding part of the Treasury.

The Risk Management function is still active within the Resolution Committee framework, although the function is now limited to one employee. The main objective of the Risk Management function can be categorised as follows.

- Maintain active and alive all Risk Management Report functionality developed when Icebank was fully operating. This involves keeping up to date the comprehensive databases and reports developed by the Risk Management regarding all major risk factors, loan positions, security positions, internal limits, FX balances, etc.
- Consultant role in various committees, e.g. Asset Management Committee, Loans Overdue Committee, Set-off and Netting Committee, and in a case-by-case basis in projects lead by the Asset Management Team, as well as close cooperation in general with asset management.
- Responsibility for various external reporting, e.g. to the FME and the Central Bank.
- Assistance in extensive historical analysis on all the Bank's activities before and after the financial collapse which involves answering various requests from the authorities or with regard to a special investigation on all the fallen banks initiated by the Resolution Committee at the behest of FME.
- Responsibility for regular provision estimate. This work is performed every three months and includes thorough overview of all the asset portfolio in cooperation with Asset Management Team and Finance Department.
- Various other projects in cooperation with Finance, Legal, Asset Management and Resolution Committee in relation to tying up "loose ends" regarding the "winding down" process.

4.3. Legal Division

The Legal Division is now limited to one employee, but there are currently also three lawyers working within the Asset Management Division. The Legal Division provides support and legal advice to the Resolution Committee, and all other divisions with the Bank, as needed. The General Counsel provides consultant role in two committees, Asset management Committee, and the Set-off and Netting Committee. The Legal Division supervises the hiring of outside legal experts, both in Iceland and abroad, and the work they provide, *inter alia*, in close cooperation with the Asset Management Team. The Legal Division provides assistance in historic analysis on all the Bank's activities before and after the Moratorium, which involves answering various requests from the authorities or with regard to a special investigation of all the fallen banks initiated by the Resolution Committee at the behest of FME. Finally, the Legal Division oversees, final settlement with banks which have terminated bilateral ISDA contracts, in cooperation with external experts and the Treasury and Risk management, as well as preventing any freezing orders of the Bank's assets and/or to facilitate the retrieval of the Bank's assets.

4.4. Creditor Management

Creditor Management is responsible for relations with creditors. The division supervises information distributed to creditors. In addition, it maintains the online information centre for creditors at www.icebank.is.

4.5. Internal committees

Three working committees have been established with the aim of further strengthening the operations of the Bank. The committees meet regularly to address current issues which fall under each working committee's scope.

Asset Committee

The Asset Committee's (former Credit committee) role both comprises credit and investment matters in the Bank. The Asset Committee includes all members of the Resolution Committee, the Moratorium Appointee and three employees of the Bank: The General Counsel, the Head of Finance and Risk management and the Managing Director of the Asset Management division and they have a consulting role within the committee. Each case related to the assets of the Bank is presented by a memo prepared by the employees responsible and can range from simple request for a waiver to a more complex request for a debt restructuring of a borrower. All drawdown requests or requests for disposal of assets which the Asset Committee wishes to approve are passed to the Moratorium Appointee for approval.

Loans Overdue Committee

The Loans Overdue Committee is a sub-committee of the Asset Committee. Its role is to review all loans and claims which are overdue and recommend or initiate action on a case by case basis, in accordance with the Bank's internal rules. The committee, which is comprised of the Head of Finance and Risk management, Senior Legal Adviser from the Asset Management Team and a Manager from the Loan administration, provides monthly update to the Resolution Committee. Prior to all meetings, the committee receives comments and suggestions from Asset Managers on individual overdue cases. Loans which are overdue are managed in accordance with internal rules of the Bank.

Set-off and Netting Committee

The Set-off and Netting Committee is responsible for all set-off and netting cases. The Set-off and Netting Committee consists of one member from the Resolution Committee, one member from the Winding-Up Committee and two employees from Icebank, the General Counsel and the Head of Finance and Risk Management. This committee's role is to evaluate claims Icebank owns and claims brought against the Bank, that might be used for set-off or netting. The participation of the Winding-up Board relates to its role to evaluate all claims against the Bank, including those that might be used for set-off and netting.

5. Creditor relations

The aim is to update this report regularly and by that provide necessary information to the creditors. The Resolution Committee also welcomes questions about the work in the Bank. All queries should be sent to creditorcontact@icebank.is.

6. Financial Information

6.1. Estimated value of assets and computation of liabilities

The financial information in this Creditors' Report (the "Financial Information") is subject to the qualifications and explanations set out in Appendix 1 and Appendix 2. The Financial Information provided is presented in ISK throughout, with values translated at the mid rates published by the Central Bank of Iceland for 30 September 2009 for assets and as creditor balances are being crystallised in ISK as at 22 April 2009, i.e. the reference date, liabilities are translated at the mid rates published by the Central Bank of Iceland as at 22 April 2009.

In the Creditors' Report issued 16 October 2009 Financial Information was presented as at 31.08.2009. The Financial Information presented in this Creditors' Report are based on information provided at the Open Creditors' Meeting convened on 27 November 2009 and are considered to be more reliable due to more extensive work on reconciliation. More detailed Financial Information is available at www.icebank.is.

Assets				
ISKm	30.09.2009	Set-off	30.09.2009	30.04.2009*
Cash and balances with CBI	3.471		3.471	4.754
Cash in other credit institutions	4.101		4.101	
Loans to credit institutions	32.148	-27.676	4.472	10.173
Loans and advances	29.913		29.913	34.918
Old bank securities	18.633	-18.633	0	0
Securities	26.177	-18.662	7.514	9.110
Other assets	481		481	481
Assets totals	114.925	-64.972	49.953	59.436
Liabilities				
	22.04.2009	Set-off	22.04.2009	30.04.2009*
Central bank	195.654	-37.296	158.358	187.263
Loans from credit institutions	27.728	-25.952	1.776	88.359
Deposits	2.345		2.345	2.345
Borrowings	85.457	-1.724	83.733	2.123
Subordinated loans	3.993		3.993	3.993
Other debt	200		200	973
Liabilities and equity total	315.377	-64.972	250.405	285.056

*According information provided at the Open Creditors meeting 9 June 2009

There is considerable uncertainty regarding the ultimate realisable value of the Bank's assets. The Financial Information has been prepared on the basis that the Bank is able to manage the realisation of its assets and transact its ongoing business having appropriate regard to the interests of all its creditors. Accordingly, the estimate of value attributed to each asset is dependent on the realisation strategy presently adopted for assets, which vary between available for sale, manage to sale, or hold to maturity. As such, the estimated values for certain asset classes represented in the Financial Information are not necessarily intended to represent prices at which an orderly transaction could take place between market participants as at 30 September 2009. Rather, it is intended to represent the value of assets based on a longer term estimate of recoverable value.

The balance sheet is shown on an un-consolidated basis. Icebank has subsidiaries in the Baltics and the Nordics. Those are corporate financial services entities with no banking operation and therefore will have minimal effect on the balance sheet of Icebank.

Set of included in the financial information 30.9.2009 represents estimate of the effect of both legal netting and creditor offset based on an interpretation of the potential rights of Icebank and its counterparties. The largest creditor of Icebank is the Central bank of Iceland. In the Financial Information Icebank has valued the underlying collaterals based on quoted marked prices as at 30.9.2009 and set off against the liability to the Central bank of Iceland. The Central bank of Iceland has claimed penalty interests on their claim from October 2008.

Reference is made to further financial disclaimers in appendix 2 of the Report.

6.2. Operational costs

Below is an updated information on Operational costs for the first eight months of the year 2009, as it was presented at the Open Creditors' Meeting convened on 27 November 2009:

Operational Costs	
ISKm	1.1- 30.09.2009
Staff costs (remaining employees)	137
Staff costs (resigned employees)	370
Resolution Committee and Winding Up Board	58
Professional advisors	75
IT costs	164
Other costs	60
	864

- Staff costs due to resigned employees are payments to employees during their termination notice and are in accordance with Icelandic laws.
- IT costs are mostly due to payments to Teris for use of the financial systems.

7. The Moratorium

7.1. Introduction

On 23 March , 2009 the Bank filed an application with the District Court of Reykjavik, pursuant to Bankruptcy Act to stay creditor actions in order to facilitate the financial reorganization of the Bank. On the same date the Bank was first granted a Moratorium on payments until 15 June 2009.

The Moratorium Appointee convened a meeting of the Bank's creditors on 9 June, 2009 and sought the opinion of the attendees regarding the Bank's position.

Matters were not voted on nor were any formal decisions made as such actions are not provided for under the Bankruptcy Act. The meeting was thus held for informational purposes for creditors in light of the court hearing of 15 June, 2009 at which a petition was filed by the Moratorium Appointee on behalf of the Bank for an extension to the Moratorium. On June 18th, 2009 the District Court of Reykjavik agreed to the request for the extension of the Moratorium until 15 December, 2009. On that date a new hearing will be held to consider the matter and decide on whether a further extension of the Moratorium will be granted. The hearing will be open to the public.

The Moratorium is a procedure under Icelandic law which has provided the Bank 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 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 end in two ways; i) an insolvent liquidation or iii) a scheme of arrangement between the Bank and its creditors.

For further details of these options see discussion in section 7.6.

7.2. Rationale for the Moratorium

One of the main tasks of the Resolution Committee and its employees has been to protect assets and safeguard the interests of creditors. The Bank's Resolution Committee believes that the interests of the creditors are best served by restructuring the Bank's operations and delaying the sale of assets until the market conditions improve, as previously mentioned.

The Resolution Committee is of the opinion that a sale of assets is a poor option under the current circumstances, since, as a result of the economic downturn and difficulties affecting most western economies, there are few meaningful potential buyers. The value of the Bank's assets is at a historical all-time low, access to credit for potential buyers is heavily restricted, to give but a few reasons.

The Resolution Committee believes that the interests of the creditors are better served if the Bank's assets are held to maturity or sold over a longer period. The creditors and the experts consulted by the Resolution Committee are in agreement on this approach.

This should mean that creditors recover a higher proportion of the claims than they would if assets were sold under the present circumstances.

Applying for the Moratorium was, in the opinion of the Resolution Committee, a necessary step to ensure that all creditors of the Bank are treated fairly and appropriately in accordance with Icelandic law through the protection of the Bank's assets.

The Resolution Committee is committed to protecting the interests of creditors by preventing the provisional attachment or freezing of assets. The Moratorium has provided the Bank with appropriate protection from legal actions, such as the freezing of assets, and ensured that it maintains a banking license sufficient to support its assets. In the European Economic Area the Bank can seek recognition of the Moratorium on a case-by-case basis on grounds of the EU Winding-Up Directive No. 2001/24/EC.

The Moratorium has and will continue to provide the "breathing space" needed for the Resolution Committee to concentrate on the tasks at hand within the Bank so that it can achieve its objectives to protect creditors' interests, maximize the recovery rate of claims and ensure equal treatment of creditors.

While protecting the Bank from certain actions by creditors, restrictions are also placed on the Bank in regards to its authorization to dispose of assets, to discharge liabilities and to assume new liabilities.

7.3. The Moratorium Appointee

As discussed above, Tómas Jónsson, Attorney to the Supreme Court of Iceland and a partner of the Reykjavik Law Firm, was appointed as the Moratorium Appointee. He has been a Supreme Court Attorney since 1997 and his areas of expertise include bankruptcy law and company law.

The Moratorium Appointee has the power to oversee the distribution of assets of the Bank and the payment of claims during the Moratorium. He will work with the Resolution Committee, which will continue to wield the powers of the Board of Directors of Icebank and will as such continue to have decision making powers in accordance with Icelandic law. His aims are consistent with those of the Resolution Committee, namely to preserve assets and to optimize recoveries for the creditor body. He assists the Bank in its efforts to restructure its finances and to decide how best to achieve any reorganization.

7.4. Timeline for the Moratorium

According to Act No. 161/2002 on Financial Undertakings, the District Court can currently not authorize a Moratorium lasting longer than a total of 24 months from the court hearing of 23 March 2009 and the Moratorium can only be extended for a maximum of 9 months each time an extension is granted. The Bank has been granted extension until 15 December, 2009 when a court session shall be held to consider the matter.

At that time, as the Resolution Committee believes that it will be in the best interests of creditors to extend the Moratorium, a further extension will be requested by the Resolution Committee. In compliance with his obligations the Moratorium Appointee summoned the Bank's creditors to another meeting on the 27 November 2009. The development of the Moratorium process so far, can be seen below.

7.5. Analysis of the Moratorium legislation

The provisions governing a moratorium have been amended by Act no. 44/2009 which came into force on 22 April 2009. The Bank remains under the direction of the Resolution Committee which is responsible for the daily operations of the Bank in accordance with Act no. 44/2009 but remains also under the supervision of the Moratorium Supervisor. The Resolution Committee holds the powers of the board of directors as well the powers of the Bank's shareholders' meeting according to new provisions. The Bank remains subject to Act No. 161/2002 on Financial Undertakings and the general supervision of the FME.

The District Court of Reykjavik however has exclusive jurisdiction over the enforcement of the Moratorium, its extension and termination.

The provisions of Act no. 44/2009 stipulate that the Resolution Committee shall manage the interests of the Bank according to the same rules as a trustee would be subject to according to the Bankruptcy Act, although with some exceptions. The exceptions mainly concern the objective of the Resolution Committee to maximize the value of the Bank's assets which includes waiting for the Bank's outstanding claims to mature, instead of realizing them immediately. To this end, the Resolution Committee is allowed to disregard a decision of a creditors' meeting if the Resolution Committee deems such a decision contrary to its objective. This means that the Resolution Committee has ample time to safeguard the interests of the Bank and its creditors.

The reference to provisions governing the actions of a trustee under the Bankruptcy Act entail that the Resolution Committee has the capacity to manage the Bank's assets and it alone can dispose of its assets and answer for its obligations. The Resolution Committee acts for the Bank in court and executes agreements on behalf of the Bank as before. The Resolution Committee shall make sure that all assets are disposed of in the most efficient manner possible and shall enforce all claims owned by the Bank. The Resolution Committee furthermore takes such actions as necessary to prevent damage to the Bank.

The Resolution Committee can convene creditors' meetings as appropriate to explain measures taken in regard to the Bank's interests. In such meetings suggestions or decisions may be sought from creditors in regard to measures which have yet to be taken and suggestions may be sought on matters regarding the management of the Bank's interests. The creditors' meeting cannot affect measures which have already been taken by the Resolution Committee, only such measures which have yet to be realised. The Resolution Committee is allowed to consult with individual creditors in matters concerning the relevant creditor's interests.

A creditor's petition for the Bank to enter insolvent liquidation cannot be filed nor can its assets become subject to an attachment, an execution or a forced sale while the Moratorium remains in effect. No law suit can be commenced against the Bank while the Moratorium is in effect unless such action is specifically provided for by law or relates to criminal proceedings.

7.6. Potential closing of the moratorium process

As explained below in more details the bank entered into a Winding-up process on the 22 April 2009. All the rules governing the Moratorium, and which are mentioned above, will continue to apply in the Winding-up process. The Resolution Committee continues to operate under a Winding-up process with the same aim as before to maximize the value of assets. That includes waiting for the maturity of assets rather than disposing of them immediately.

According to Act no. 44/2009, there are two possibilities to conclude the Bank's operations if the assets of the Bank are found to be of less value than the amount of its liabilities. This applies both while in the Moratorium or Winding-up process.

The Moratorium process of the Bank would most likely conclude by means of either of the following:

i) Insolvent liquidation

If the Moratorium period is not extended on 15 December, 2009 and the Bank is forced into insolvent liquidation, the Moratorium Appointee and the Resolution Committee firmly believe that further value will be lost.

In a state of insolvency liquidation, the management of the assets of the Bank would vest in a liquidator as a trustee in bankruptcy. Claims against a bankruptcy estate denominated in foreign currency shall be converted into the Icelandic currency at the selling rate posted on the day when the bankruptcy order was issued and it is very likely that a trustee in bankruptcy will convert all liquid assets into the Icelandic currency in the event of insolvency in order to transfer the currency risk from the estate to the Bank's creditors. Such a measure would be understandable from the point of view of the trustee of the estate, but it is unlikely to be in the interests of the Bank's creditors.

According to the Bankruptcy Act, the trustee in bankruptcy shall ensure that the liquidation is concluded without undue delay. As stated above the Resolution Committee and the Moratorium Appointee believe that the interests of the creditors are best served by restructuring the Bank's operations and delaying the sale of assets until the market conditions improve. It is therefore clear that the obligations of the trustee in bankruptcy according to the relevant law may prevent this from happening. In addition, a bank in insolvent liquidation would forfeit its banking license, face forced asset sales and have less flexibility to support its assets and prevent freezing of its assets. It is likely that performing loans to customers as well as listed and unlisted assets would be sold at a substantial discount.

It is the opinion of the Moratorium Appointee and the Resolution Committee that this option would minimize debt recovery for the creditors of the Bank and it would not be in their best interests.

ii) **Scheme of Arrangement**

A scheme of arrangement seeks to solve a debtor's financial difficulties by proportionally reducing creditors' claims but at the same time allows the debtor to stay solvent. This arrangement endeavors to maximize debt recovery and preserves creditors' interest by granting the debtor the opportunity to be restructured and support assets instead of being forced into an immediate sale of assets. If the Moratorium process of the Bank were to be concluded by scheme of arrangement, potential restructuring options of the Bank can be considered and evaluated.

As discussed in section 8 *Icelandic composition legislation overview*, the minimum creditor support required for a scheme of arrangement is 60% in terms of value and the number of creditors voting. Claims are converted into ISK when the original composition application is made but distributions can be in any currency specified under the scheme.

It should be pointed out that the Resolution Committee, the Winding-up Board and the Moratorium Appointee are considering a solution whereby the restructuring of the Bank will be completed by a scheme of arrangement with creditors in order to prevent the Bank from entering insolvency proceedings, which would reduce the value of assets.

8. Icelandic composition legislation overview

Composition (scheme of arrangement) has the same objective as a Moratorium: to react to financial difficulties of a debtor. Unlike composition, a Moratorium gives the debtor a certain grace period for financial reorganization with the long term goal of increasing, or at least preserving the value of the debtor's financial interests. Composition on the other hand, seeks to redress the negative asset position or insolvency of a debtor through an agreement with his creditors with general terms that equally apply to all creditors that have composition claims against the debtor.

The new Act no. 44/2009 amending Act no. 161/2002 on Financial Undertakings, which came into effect last April, contains rules governing composition negotiations for financial undertakings that are in a Winding - up process.

According to these rules, the Winding-up Board of a financial undertaking may seek composition if it considers that the assets of the undertaking are not sufficient to fully satisfy all claims that have not been finally rejected in the winding-up process.

The general rule is that prior to seeking composition, a request must be submitted to a district court for its approval. However, that does not apply to financial undertakings in a winding-up process. When a financial undertaking in a winding up process seeks composition, the Winding-up Board serves the same role as a supervisor of composition negotiations or a liquidator of an estate would normally do and is responsible for holding creditor meetings.

If the Winding-up Board decides to seek composition, it prepares a composition proposal. It must state to what extent the debtor offers payment of the composition claims and the form of payments, the dates of the payments, whether interest, and if so, at what rate, will be paid on the composition claims from the date a composition agreement is concluded and until the date of payment, if deferred payment is envisaged, whether security, and if so of what kind, will be placed to secure performance of the composition agreement.

A composition agreement only affects claims against the debtor which are referred to as composition claims. The term is defined in a negative manner and applies to all the claims against the debtor which are not exempted from the composition.

Composition agreement does not affect the following claims:

- Claims originating after a court order has been issued granting a debtor license to seek composition;
- Claims for performance, other than payment of money, which can be performed in substance;
- Claims that would be ranked as provided for in Articles 109, 110 or 112 of Act no. 21/1991 on insolvency etc. if the debtor had been declared bankrupt at the date when a court order providing the debtor with a license to seek composition was issued;
- Claims that could have been settled by set-off had the debtor been declared bankrupt; and
- Any claims particularly exempted from composition under the terms of the composition agreement by reason of their full payment, cf. Paragraph 2 of Article 36 of Act no. 21/1991 on insolvency etc.

A creditor, who has claims against the debtor which the composition agreement does not affect, can relinquish that right, so that the composition agreement does affect its claims.

Composition also cancels any debts that would be ranked as provided for in Article 114 of Act no. 21/1991 on insolvency etc. if the debtor's estate had been declared bankrupt.

When a Winding-up Board decides that voting shall take place on the composition proposal, it convenes a meeting of creditors for that purpose. The meeting shall be convened with a notification in the "Legal Gazette" with at least two weeks' notice.

The Winding-up Board shall prepare a register of the rights to vote on the proposal, specifying the voting rights attached to each claim, both by number of creditors and by the value of their claims. The register shall include only the claims that have been recognized and to which voting rights are attached in the opinion of the Winding-up Board.

Each creditor with a composition claim against the debtor shall have one vote in number and a voting power proportionate to the value of his composition claim against the total value of all the composition claims. If a creditor has two composition claims or more, they shall be added together and counted as one claim and

one vote in number will be attached to the claims as a whole. One vote in number can also be divided between more than one creditor, if an assignment of a composition claim has taken place in the three months prior to the reference date. Voting creditors may vote on a composition proposal in writing, and such votes shall be taken into account if received by the Winding-up Board no later than when the voting is completed and no one is in attendance on the relevant creditor's behalf. A vote in writing shall only be valid if it expresses the stand the voting creditor has taken with respect to the proposal unequivocally and unconditionally, and the creditor's signature is confirmed by two witnesses, a district court or Supreme Court lawyer, or a public notary.

A composition proposal shall be deemed approved if supported by the same proportion of votes by creditors in number and by value of their claims, as the proportion of composition claims to be relinquished according to the proposal, provided this reaches 60 per cent. at a minimum. If the composition agreement stipulates something other than relinquishment, e.g. the exchange of debt claims for shares, it requires approval of 60 per cent. of the creditors in number and by value of their claims.

If the composition proposal is approved by the creditors, the Winding-up Board must obtain a confirmation of the District Court of Reykjavik of the composition agreement. If it obtains this confirmation a composition settlement is considered to be concluded.

The settlement will only be binding for creditors that have composition claims as defined above. If the composition settlement is confirmed, the Winding-up Board shall, as necessary, fulfill any obligations to creditors in accordance with the settlement and then conclude the winding-up proceedings. The settlement of a composition claim shall have the same effect as its settlement in its original form.

If, on the other hand, the composition proposal is not approved by the creditors or its confirmation has been rejected, the Winding-up Board shall request that the undertaking be declared bankrupt. A creditor may do the same if its claim has been recognized in the winding-up proceedings and either the composition negotiations have not yielded any results or the creditor demonstrates that the legal requirements for composition negotiations to take place are not fulfilled or that such a large number of creditors are opposed to composition that there is no possibility of achieving composition based on available information on the undertaking's financial situation. In order to uphold this claim, the creditor must, however, establish a legitimate interest for the insolvency proceedings to go ahead rather than continuing the winding-up proceedings.

9. The Winding-up procedure

9.1. The Winding-up Board

According to the new Act no. 44/2009 amending the Act no. 161/2002 on Financial Undertakings, the Bank entered into a Winding-up procedure on the 22 April 2009. In accordance with the provisions of Act no. 44/2009, the District Court of Reykjavik appointed a Winding-up Board for the Bank. The Winding-up Board comprises of three attorneys of the Supreme Court and one of them being the Bank's Moratorium Apointee. The Winding-up Board does not hold any power over the Resolution Committee or vice-versa. Both are however committed to work together in the best interests of the Bank and its creditors.

The role of the Winding-up Board is to, among other things, call upon any creditors who have a claim against the Bank and take a position regarding their recognition. The Winding-up Board calls for claims to be made and sets the deadline for filing claims, which can be no longer than six months, counting from the day when a call for claims is announced. The Winding-up Board makes a register of filed claims and decides how they are ranked in the order of priority of payment of claims. It also deals with the payment of claims following the first creditors' meeting, which will be held upon expiry of the time limit for the filing of claims.

As discussed in paragraph 3.3. of this Report, relating to the main tasks of the Resolution Committee today, the Resolution Committee engaged PwC to investigate the Bank's decisions in the months before the collapse of the Bank.

The Report has been sent to the FME. The Special Prosecutor's office and a Parliamentary Investigation Committee will also be granted access to the report. In addition to the aforementioned report, the Resolution Committee and its employees have worked extensively to gather information which will be used in the preparation of the Winding-up Board's rescission action – which is the equivalent of proceedings relating to transactions at an undervalue or preferences.

The Bank's Winding-up Board is contemplating to engage PwC to investigate further and in more details measures taken by the Bank before it was granted a Moratorium, focusing particularly on the possible rescission, on the basis of the Icelandic Bankruptcy Act, of actions taken by a bankrupt party.

9.2. The claim process

The Bank's Winding-up Board published time limits to file claims against the Bank. Creditors were invited to submit their claims in writing within five months of 3 June 2009 being the date on which the formal claims notice was published in the Icelandic Legal Gazette (Lögbirtingablaðið).

Therefore, the deadline for submitting claims was 3 November 2009. On 27 November 2009 a meeting was held with Creditors of Icebank. The purpose of the meeting was twofold. On the one hand to discuss list of claims and the decisions of the Winding-up Board and give the creditors their final opportunity to oppose these decisions. On the other hand the meeting was convened by the Moratorium Appointee of Icebank in accordance with Article 13 and 15 of Act No. 21/1991, in advance of the hearing at the District Court of Reykjavik on 15 December 2009. A presentation was presented at the meeting which can be accessed on www.icebank.is.

In accordance with the provisions of Act no. 44/2009, a claim must be itemized as of 22 April 2009.

The filed claim must be in accordance with para. 2 and 3 of art. 117 of the Bankruptcy Act. That is claims must be precise and among other things, specify the amount being claimed, along with an itemized list of the principal of the claim, interest and costs. Creditors shall supply information on what forms the basis of their rights, along with documents to support their case. General rules of the Icelandic law regarding proof of claims shall apply.

If a claim is not filed within the abovementioned timeframe, it will be regarded as cancelled with respect to the Bank, unless the requirements for an exception are fulfilled (cf. art. 118 of the Bankruptcy Act).

The formal claims notice has also been published in Icelandic newspapers and sent to all known creditors of Icebank.

At the end of the deadline for the filing of claims, the Winding-up Board shall prepare a register of claims, i.e. a register of the claims received in which it shall state its opinion on whether and, if so, how each claim should be recognized. If the Winding-up Board does not recognize a claim exactly as it has been filed by a creditor, it shall notify the creditor at least one week prior to the creditors' meeting.

A creditor, who is unwilling to accept the Winding-up Board's decision as regards the recognition of the claim against the Bank, shall state the objection at a creditors' meeting or notify the Winding-up Board in a letter received by it no later than at that meeting. In the same manner, a creditor may object to the Winding-up Board's decision on the recognition of a claim filed by another creditor if the conclusion regarding the claim affects the interests of the objecting party. Insofar as no objection is raised against the Winding-up Board's decision on the recognition of a claim, its position shall be regarded as approved.

The claims register shall be presented at the creditors' meeting, as well as any objections that may have been made. At the creditors' meeting, the Winding-up Board shall provide those in attendance with the explanations they require regarding the subject matter of individual claims, as well as the reasons for its position towards the recognition of those claims.

If an objection is raised at the meeting against the Winding-up Board's decision on the recognition of a claim, the Winding-up Board shall endeavor to settle the dispute. If this is not successful, the parties concerned shall be called to a separate meeting for this purpose. If the dispute cannot be settled in this manner, the Winding-up Board shall refer the matter to the District Court of Reykjavik.

It is difficult to gauge how long it will take to complete the process of taking a position on the filed claims, both because of the amount of creditors involved and because the process of taking a position on many of the claims may be complex and time-consuming.

At the end of the first creditors' meeting, the Winding-up Board is authorized to pay the recognized claims in one lump sum or several payments and in part or in whole. If this is done, care shall be taken to ensure that the Bank's assets are sufficient to at least equally cover all the other claims, which are included in the same rank and which have not been rejected in the winding-up process.

The Winding-up Board shall also ensure that all creditors with recognized claims in the same rank are paid at the same time, although it is possible to deviate from this with the approval of those who do not get paid or by a decision made by the Winding-up Board if a creditor offers to relinquish a claim in exchange for a partial payment, which is deemed to be a proportionally lower amount than that which other claimants in the same rank would ultimately receive, taking into consideration, among other things, whether the claim bears interest until payment.

The main underlying principle of the Bankruptcy Act is the principle of equality of creditors. The Winding-up Board shall, however, also have to consider certain exceptions to that principle, such as the order of priority of payment of claims.

The Winding-up Board may not make any decisions regarding the sale of assets for the payment of claims. It is only the Resolution Committee that may make decisions regarding the sale of the Bank's assets, in accordance with Act no. 161/2002 on Financial Undertakings and subsequent amendments in Act no. 44/2009.

The Winding-up Board can also challenge and claim rescission of actions of the Bank in accordance with the rules on rescission in the Bankruptcy Act. In simple terms, the Winding-up Board can rescind certain unusual actions of the Bank which took place up to two years prior to December 15th, 2008 and can claim damages or repayment from parties benefiting from such actions.

The Winding-up Board shall also oversee possible composition negotiations, following an evaluation of the Resolution Committee as to whether the Bank has sufficient assets to meet its obligations. This entails, among other things, the Winding-up Board having to prepare a composition proposal, submitting it to a creditors' meeting and obtaining the creditors' approval of it and having the composition agreement confirmed by the District Court of Reykjavik if it has been approved by the required number of creditors. If the composition proposal is approved by the creditors and it is confirmed by the District Court of Reykjavik, the Winding-up Board must ensure that the agreement is performed.

10. Creditors' meetings

According to the new Act no. 44/2009 the matters considered at creditors' meetings are mainly threefold, first, there are matters concerning the management of the Resolution Committee of the interests of the Bank,

secondly, the recognition of claims by the Winding-up Board, and thirdly, to seek the creditors views on the further extension of the Moratorium.

The Resolution Committee can convene creditors' meetings, as it deems appropriate, to explain measures taken in regard to the Bank's interests. The Resolution Committee may seek proposals or decisions regarding measures that have yet to be taken, and provide for opportunities for making such proposals

The creditors' meeting cannot affect measures already carried out by the Resolution Committee. The Resolution Committee is allowed to confer with individual creditors in matters concerning the relevant creditors' interests.

A creditor is entitled to attend a creditors' meeting if the creditor has filed a claim against the Bank with the Winding-up Board and if such claim has not been finally dismissed by the Winding-up Board.

Creditors' meetings regarding the management of the Bank's interests and the recognition claims will not be held until the deadline for filing claims has passed. If a creditor does not attend a meeting, the relevant creditor may lose the right to oppose matters or present claims regarding matters which were decided or presented at the meeting.

Voting rights are determined by the amount of each creditors claim if matters regarding the management of the Bank's interests are put to a vote. For a creditors' meeting to be quorate, creditors holding at least a third of the total voting rights must be present at the meeting.

To disregard a decision of the majority of creditors, the Resolution Committee must in most cases have specific reasons. The Resolution Committee can thus disregard decisions of a creditors' meeting if they are contrary to law, dishonest, cannot be executed, contrary to interests of creditors not attending, discriminate against the minority or if the decisions are contrary to the goal of maximizing the value of the Bank's assets.

The Winding-up Board handles the aspects of the creditors' meetings which have to do with the recognition of claims. The Winding-up Board shall submit its registry of claims to the creditors' meeting as well as any objections which the Winding-up Board may have received in regard to submitted claims. The Winding-up Board shall offer explanations as to the recognition of claims and any objections which have been made against recognition of specific claims.

If a protest is made with regard to the recognition of claims at a creditors' meeting, the Winding-up Board will endeavor to resolve the dispute. If such a dispute cannot be resolved at the creditors' meeting, the Winding-up Board shall convene a separate meeting between the disputing parties. If the dispute cannot be resolved at such separate meetings, then the dispute will be referred to the District Court of Reykjavík. So far as protests are not made against the recognition of claims, then such recognition shall be considered as accepted.

In addition, the Moratorium Appointee shall convene meetings as appropriate to consider applications to the District Court of Reykjavík for the extension of the Moratorium.

Appendix 1

Glossary of term

CBI	Central Bank of Iceland
CDO	Collateralised Debt Obligation
CEO	Collateralised Equity Obligation
FME	The Icelandic Financial Supervisory Authority
ISDA	International Swaps and Derivatives Association Master Agreement
ISK	Icelandic Krona
Icebank	Icebank hf.
LBO	Leveraged Buy Out
LP	Limited Partnerships
Resolution Committee	The Resolution Committee of Icebank hf.
Winding-up Board	The Winding-up Board of Icebank hf.

Appendix 2

Disclaimer to Financial Information

The Financial Information in this Creditors' Report is, in addition to those qualifications and explanations described in the Report, also subject to the following qualifications and explanations:

1. The computation of liabilities as at the reference date, 22 April 2009, may not be complete or accurate as a number of the existing and potential liabilities are subject to legal uncertainty. As a result, the computation of liabilities included in the Financial Information has been estimated and will be subject to change and clarification over time.
2. The Act No. 125 / 2008 provides for claims for 'deposits' to have priority when distributing the assets of a bankrupt financial undertaking. It remains to be resolved which liabilities or deposits of the Bank this provision applies to, and how this Act should be implemented. It is possible that certain deposit creditors of the Bank will have an entitlement to be paid out in full, and that there will be a corresponding decrease in the assets available to make distributions to other unsecured creditors. No consideration of this has been included in Financial Information.
3. The computation of liabilities as at the Reference Date may not be complete or accurate as a number of the existing and potential liabilities are subject to legal uncertainty. As a result, the computation of liabilities included in the Financial Information has been estimated and will be subject to change and clarification over time.
4. The methodology used to estimate the values of assets within each asset class has been based on the application of the Bank's present asset realisation strategy. The methodology does not represent an exhaustive attempt to take into account all factors that the Bank or other market participants would consider when performing an in-depth valuation exercise.
5. The asset realisation strategy and valuation methodology are likely to change over time as the Bank continues its systematic assessment and categorisation of each asset class and refines its approach to realisation having appropriate regard to the interests of all its creditors.
6. The assumptions used to estimate value of assets are sensitive to changes in market conditions (including interest rates, currency rates, equity prices, market indices and counterparty credit worthiness) and, as such, the values presented are preliminary estimates based on the application of a high level asset realisation strategy at a point in time.
7. Given the current economic climate, particularly the financial and liquidity crisis, there are no active markets by reference to which many of the financial instruments held by the Bank can be valued. To the extent that the estimated asset values and computation of liabilities are based on inputs that are less observable or unobservable in a market, the estimation of value requires more than normal internal judgement rather than mark to market valuation. Accordingly, the Bank has applied considerable internal judgement in determining the estimate of values for certain assets and liabilities, notably those relating to loans to customers, unlisted equity instruments and complex derivative products.
8. The determination of the ownership of certain assets is not complete and in particular current estimates of the Bank's collateral will be subject to subsequent legal findings including rights of set-off and other claims. If the ownership of the Bank's collateral changes, the estimate of value of the Bank's assets and the computation of its liabilities may be materially impacted.
9. The estimated value of derivative positions is based on high level assumptions as to which of the Bank's counterparties have issued legal default notices. The Bank has applied assumptions regarding the issuance of legal default notices but these may not be complete or accurate, and it is likely that information regarding the issuance of legal default notices will be amended or otherwise

changed. Therefore, the actual realisable value of the Bank's assets and the amount of its liabilities may be different than the value set forth in this Financial Information.

10. This Financial Information was prepared using the Bank's information, based on current data and assumptions, which are subject to confirmation and change. The Bank may amend, supplement or otherwise change the information it provided for the preparation of this Financial information. Due to the related uncertainties, the actual realisable value of the Bank's assets and the amount of its liabilities may differ materially from the values set forth in this Financial Information.