# Glitnir Bank hf.

## Financial Statements
## for the year 2009
## ISK

Glitnir Bank hf.
Sóltún 26
105 Reykjavík
Iceland

Reg. no. 550500-3530

# Contents

# Endorsement by the Resolution Committee, Winding-Up Board and Managing Director

The Resolution Committee of Glitnir Bank hf. ("Glitnir" or the "Bank") was appointed by the Financial Supervisory Authority of Iceland (FME) on 8 October 2008 in accordance with the authority provided the FME by Act No.125/2008 on the Authority for Treasury Disbursements due to Unusual Financial Market Circumstances (the emergency law). On this date the Resolution Committee took over all authority of the Board of Directors of Glitnir in accordance with the articles of the Company Law, including oversight of all treatment of its assets, as well as the handling of all other business. It proved impossible for the Icelandic government to back up the Icelandic banking system and in order to preserve the Icelandic payment system it was decided to spilt Glitnir into two banks as was also the case with two other commercial banks in Iceland. At 15 October 2009 a new bank, Íslandsbanki hf., was founded and all domestic assets and deposits were transferred from Glitnir to Íslandsbanki hf. based on the decision of FME. All foreign assets and all liabilities except for deposits remained with Glitnir.

In May 2009 the Icelandic parliament passed a Bill of Legislation to amend the act of Financial Undertakings No. 161/2002. The Bill has new rules about the winding-up proceedings of financial institutions. According to these new rules the Bank's Resolution Committee will continue to operate and to perform certain tasks and in so doing to handle the administrative aspects of the winding-up proceedings which would otherwise be entrusted to the Winding-Up Board. The Resolution Committee will continue to act under the direction of FME. On 12 May 2009 the District Court of Reykjavik appointed a Winding-Up Board which handles those aspects of the winding-up not dealt with by the Resolution Committee.

The Resolution Committe´s and Winding-Up Board´s principal tasks have been and continue to be:

To serve as Glitnir Board of Directors and exercise the rights and obligations formerly held by the Board and shareholders' meeting;

To administer Glitnir´s authorised activities under the supervision of the FME and the District Court of Reykjavík;

To work towards obtaining the highest possible value for the bank's assets, to ensure that the Bank's assets and rights are disposed of in the most cost-effective manner, that claims and amounts on deposit are collected, that no rights are lost which could be of value and that all necessary actions are taken to prevent damage to the Bank's interests;

To decide on creditor´s claims both by rank and amounts and ensure creditors are treated equally according to the law; and

To convene and direct creditors' meetings, as deemed suitable, to present the measures taken by the Resolution Committee and the Winding-Up Board.

On 19 February and 19 November 2009 the District Court of Reykjavík ruled in favour of Glitnir's request for an extension to the Moratorium order originally granted on 24 November 2008. The current extension period is due to end on 13 August 2010. The Moratorium can be extended at the maximum to November 2010. According to the current legislation Glitnir is in winding-up proceedings as well as being in a Moratorium. When the Moratorium ends the winding-up proceedings will automatically continue. Therefore the ending of the Moratorium will not have any effect on the Bank´s operation.

The time limit for lodging claims in Glitnir's winding-up proceedings expired on 26 November 2009 and at a creditors' meeting on 17 December 2009, the Winding-Up Board presented the list of claims and explained the decisions which had already been taken. The list indicates the nature of each claim, its amount and the priority requested for each claim. The Winding-Up Board provided creditors with a report providing a summary of how decisions on claims had been taken. Creditors also had an opportunity to object to decisions taken by the Winding-up Board on individual claims.

A total of 8,685 claims were lodged in Glitnir's winding-up proceedings amounting to ISK 3,436 billion. This is a maximum figure, which may decrease as the Winding-up Board reviews individual claims. In addition, in some instances the same claim has been lodged more than once. For more information regarding claims see note 16.

# Endorsement by the Resolution Committee, Winding-Up Board and Managing Director, contd.:

On 15 October 2009, Glitnir's Resolution Committee decided, on behalf of its creditors, to exercise the option provided for in its agreement with the Icelandic state and take over 95% of share capital in Íslandsbanki hf. Glitnir's ownership in Íslandsbanki hf. is through a separate wholly-owned subsidiary of Glitnir, ISB Holding ehf. At the end of December 2009, FME authorised ISB Holding ehf.'s qualifying holding in Íslandsbanki hf. The permission was granted following the agreement between Glitnir and the Icelandic Ministry of Finance, relating to Glitnir's acquisition of a 95% holding in Íslandsbanki hf. upon fulfilment of certain conditions.

According to the Income Statement loss for the year 2009 amounted to ISK 458,113 million. Total equity as at 31 December 2009 was negative by ISK 1,878,840 million according to the Balance Sheet. Comparative amounts in the Income Statement and the Balance Sheet for the year 2008 are based on management accounts. The Income Statement amounts reflect the total operations of Glitnir from 1 January 2008 until the split in October that year and in addition the operations of Glitnir after the split from October until 31 December 2009. The Balance Sheet amounts as at 31 December 2008 reflect the financial position of Glitnir after the split.

Given the current financial and liquidity crisis, there are limited active markets for many of the financial instruments held by the Bank. To the extent that the estimated value of assets and computation of liabilities are based on inputs that are less observable or unobservable in the market, the estimation of value requires more judgement. Accordingly, the Resoloution Committee and Winding-Up Board have applied considerable judgement in determining the estimate of values for certain assets and liabilities, notably those relating to loans to customers, unlisted equity instruments, complex derivative products and set-offs.

**Statement by the Resolution Committee, Winding-Up Board and Managing Director**

The Financial Statements for the year ended 31 December 2009 have been prepared in accordance with the Icelandic Financial Statements Act.

In our opinion the Financial Statements give a true and fair view of the financial performance of the Bank for the year 2009, its financial position as at 31 December 2009 and its cash flows for the year then ended.

Furthermore, in our opinion the Financial Statements and the Endorsement by the Resolution Committee, Winding-Up Board and Managing Director give a true and fair view of the development and performance of the Bank´s operations during 2009 and its financial position at year end and describe the principal risks and uncertainties faced by the Bank.

The Resolution Committee, Winding-Up Board and Managing Director have today discussed the Financial Statements of Glitnir Bank hf. for the year 2009 and confirm them by means of their signatures.

Reykjavík, 12 April 2010.

The Resolution Committee

Árni Tómasson
Heimir V Haraldsson
Þórdís Bjarnadóttir

The Winding-Up Board

Steinunn Guðbjartsdóttir
Páll Eiríksson

Managing Director

Kristján Óskarsson

# Independent Auditors' Report

To the Resolution Committee, Winding-Up Board and Shareholders of Glitnir Bank hf.

We have audited certain parts of the accompanying financial statements of Glitnir Bank hf., which comprise the balance sheet as at 31 December 2009, and the income statement and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes. Our audit was limited to the assets in the balance sheet and administrative expenses in the income statement. The financial statements of Glitnir Bank hf. as of 31 December 2008 have not been audited.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Icelandic Financial Statements Act. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

**Auditor's Responsibility**

Our responsibility is to express an opinion on certain parts of these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the certain amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Opinion**

In our opinion, the financial statements give a true and fair view of the assets of Glitnir Bank hf. as at 31 December 2009, and of its administrative expenses included in the financial performance for the year then ended in accordance with the Icelandic Financial Statements Act.

**Emphasis of matter**

Without qualifying our opinion, we draw attention to the Endorsement by the Resolution Committee, the Winding-Up Board and Managing Director, which describes that Glitnir Bank hf. has been granted a Moratorium. Furthermore, we draw attention to note 2 to the financial statements, which describes that the financial statements have been prepared on the basis that Glitnir Bank hf. is able to manage the realisation of its assets and transact its ongoing business having appropriate regard to the interests of all its creditors.

Reykjavík, 12 April 2010.

***KPMG hf.***

Sæmundur Valdimarsson
Helgi F Arnarson

# Income Statement for the year 2009

| | Notes | 2009 | 2008 |
|---|---|---|---|
| Interest income | | 176.999 | 213.335 |
| Interest expenses | | (85.748) | (202.837) |
| **Net interest income** | 3 | 91.251 | 10.498 |
| | | | |
| Net impairment losses | | (704.544) | (1.156.472) |
| Provision for financial guarantees | | (126.570) | 0 |
| Subordinated loans rejected by the Winding-Up Board as unsecured claims | | 198.384 | 0 |
| **Net interest income less impairment losses and write-offs** | 4 | (541.479) | (1.145.974) |
| | | | |
| Fee and commission income | | 729 | 21.970 |
| Fee and commission expenses | | (68) | (1.332) |
| | | | |
| **Net fee and commission income** | | 661 | 20.638 |
| | | | |
| Net financial income and expenses | 5 | 87.450 | (323.686) |
| Other net operating income | | 0 | 165 |
| **Net operating income** | | (453.368) | (1.448.857) |
| | | | |
| Administrative expenses | 6-8 | (5.713) | (25.356) |
| Net gain (loss) on asset sale | | 968 | (69.038) |
| **Loss before income tax** | | (458.113) | (1.543.251) |
| | | | |
| Income tax | 9 | 0 | 3.374 |
| | | | |
| **Loss for the year** | | (458.113) | (1.539.877) |

*Financial Statements of Glitnir Bank hf. 2009* 6 *All amounts are in ISK million*

# Balance Sheet as at 31 December 2009

| | Notes | 2009 | 2008 |
|---|---|---|---|
| **Assets** | | | |
| Cash and balances with central bank | 10 | 131.293 | 26.305 |
| Derivatives | 11 | 45.407 | 72.404 |
| Bonds and debt instruments | 12 | 10.702 | 19.286 |
| Shares and equity instruments | 13 | 45.188 | 21.571 |
| Loans to banks | 14 | 88.602 | 112.809 |
| Loans to customers | 14 | 197.353 | 197.653 |
| Investment in subsidiaries | 15 | 289.449 | 532.904 |
| Other assets | | 185 | 25.269 |
| **Total assets** | | 808.179 | 1.008.201 |
| **Liabilities** | | | |
| Derivatives | | 81.919 | 61.099 |
| Debt issued and other borrowed funds | | 2.521.485 | 2.132.361 |
| Subordinated loans | | 0 | 182.802 |
| Other liabilities | | 83.615 | 52.217 |
| **Total liabilities** | 16 | 2.687.019 | 2.428.478 |
| **Equity** | | | |
| Share capital | | 14.881 | 14.881 |
| Accumulated deficit | | ( 1.893.721) | ( 1.435.158) |
| **Total equity** | 17 | ( 1.878.840) | ( 1.420.277) |
| **Total liabilities and equity** | | 808.179 | 1.008.201 |

*Financial Statements of Glitnir Bank hf. 2009* 7 *All amounts are in ISK million*

# Statement of Cash Flows for the year 2009

| | Notes | 2009 | 2008* |
|---|---|---|---|
| **Cash in-flows** | | | |
| Loans to customers - principal and interest repayments ............................ | | 69.671 | |
| Loans to banks - principal and interest repayments .................................. | | 36.961 | |
| Interest income on bank accounts ............................................................. | | 3.867 | |
| Sale of subsidiaries ...................................................................................... | | 8.377 | |
| Other cash in-flows ..................................................................................... | | 2.402 | |
| **Total cash in-flows** | | 121.278 | |
| **Cash out-flows** | | | |
| Loans transferred and set-off with Íslandsbanki hf. ................................... | | ( 5.634) | |
| Trapped cash at external bank .................................................................. | | ( 5.297) | |
| Administrative expenses ............................................................................ | | ( 5.359) | |
| **Total cash out-flows** | | ( 16.290) | |
| **Increase in cash and balances with central bank ................................** | | 104.988 | |
| **Cash and balances with central bank at the beginning of the year ....** | | 26.305 | |
| **Cash and balances with central bank at the end of the year................** | 10 | 131.293 | |

***** Statement of Cash Flows for the year 2008 has not been prepared.

*Financial Statements of Glitnir Bank hf. 2009* 8 *All amounts are in ISK million*

# Notes

## 1. Reporting entity

Glitnir Bank hf. ("Glitnir" or the "Bank") is a company domiciled in Iceland. The address of the Bank´s registered office is Sóltún 26, 105 Reykjavík, Iceland. The Bank is in moratorium and winding-up process. The purpose of it´s operations during the moratorium is to obtain the highest possible value for the Bank's assets and to ensure equality with respect to creditors´ interest in accordance with law.

## 2. Basis of preparation

### a. Statement of compliance

The financial statements have been prepared in accordance with the Icelandic Financial Statements Act.

The financial statements were authorised for issue by the Resolution Committee, Winding-Up Board and Managing Director on 12 April 2010.

### b. Basis of measurement

The financial statements have 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 varies between available for sale, manage to sale, or hold to maturity. As such, the estimated values for certain asset classes represented in the financial statements are not necessarily intended to represent prices at which an orderly transaction could take place between market participants as at the reporting date. Rather, such values are intended to represent the value of assets based on a longer term estimate of recoverable values.

The Balance Sheet is shown on an unconsolidated basis. The estimated values attributable to investment in subsidiaries are based upon an estimate of the value of the underlying net assets of the subsidiaries and not the carrying value of the investment in the stand-alone company accounts.

The reported liabilities as at 31 December 2009 are based on the accounts of the Bank. Liabilities in foreign currencies have been translated into ISK at foreign exchange mid rates published by the Icelandic Central Bank for 22 April 2009, which is the lodge date of claims. According to law creditors´ claims do not bear any interest or indexation from that date. The process for agreeing claims is ongoing and so the liabilities included in the Balance Sheet may not be complete or accurate as a number of the existing and potential liabilities are subject to legal uncertainty. As a result, the liabilities included in the financial statements will be subject to change and clarification when the claims registration process is complete. It is likely that the ultimate liabilities determined by the Winding-Up Board or Courts will be different to those reported in the financial statements presented here and that the categorisation of liabilities by priority will change.

### c. Functional and presentation currency

The financial statements are presented in Icelandic Krona (ISK), which is the functional currency of Glitnir Bank hf. All amounts are in ISK million unless otherwise stated. Throughout the financial statements, unless otherwise stated, foreign currency values are translated at the mid rates published by the Icelandic Central Bank for 31 December 2009. A significant proportion of the assets of Glitnir are denominated in foreign currencies. As a result, the estimated values presented herein may be materially impacted by movements in foreign exchange rates. Foreign currency transactions have been translated at the spot exchange rate at the date of transaction.

### d. Creditor set-off

For assets and liabilities held with the same counterparty the Bank has used the claims registration database as the known source of liabilities and netted against corresponding identifiable asset positions with the same counterparty. Balances subject to set-off included in the Balance Sheet represent an estimate of the effect of both legal netting and creditor set-off based on an interpretation of the potential rights of the Bank and its counterparties. If the rights of the Bank and the counterparties were ultimately to prove different to that assumed, the estimated value of the Bank´s assets and the computation of its liabilities may be materially impacted.

## 2. Basis of preparation, contd.:

### e. Use of estimates and judgement

The methodology used to estimate the values of assets within each class has been based on the application of the Bank´s present asset realisation strategy. The assumptions used to estimate the value of assets are sensitive to changes in market conditions such as interest rates, foreign exchange rates, equity prices, market indices and counterparty credit worthiness.

Given the current economic climate, particularly the financial and liquidity crisis, there are limited active markets for many of the financial instruments held by the Bank. To the extent that the estimated asset values and computation of liabilities are based on inputs that are less observable or unobservable in the market, the estimation of value requires more judgement. Accordingly, the Resoloution Committee and Winding-Up board has applied considerable judgement in determining the estimate of values for certain assets and liabilities, notably those relating to loans to customers, unlisted equity instruments, complex derivative products and set-offs.

## 3. Interest income and expense are specified as follows:

| | Interest income | Interest expense | Net interest income |
|---|---|---|---|
| **2009** | | | |
| Cash and balances with central bank | 2.790 | | 2.790 |
| Derivatives | 2.711 | (15.960) | (13.249) |
| Loans to banks | 39.208 | | 39.208 |
| Loans to customers | 132.110 | | 132.110 |
| Debt issued and other borrowed funds | | (60.924) | (60.924) |
| Subordinated loans | | (8.112) | (8.112) |
| Other | 181 | (752) | (571) |
| Total | 176.999 | (85.748) | 91.251 |

From 22 April 2009 creditors' claims do not bear any interest. Therefore interest expense disclosed in the table above is the interest expense accrued from 1 January to 22 April.

## 4. Net impairment losses

Impairment losses for the year 2009 are specified as follows:

| | Derivatives | Bonds | Loans | Subsidiaries | Other | Total |
|---|---|---|---|---|---|---|
| Balance at the beginning of the year | 0 | 103.406 | 485.143 | 80.316 | 490.678 | 1.159.543 |
| Impairment for the year | 277.479 | 178.642 | 60.876 | 197.577 | (10.029) | 704.544 |
| Provision for financial guarantees | | | | | 126.570 | 126.570 |
| Write-offs | | (28) | (93.919) | | (565.191) | (659.138) |
| Recoveries of loans previously written off | | | 6.077 | | | 6.077 |
| Provision at year end | 277.479 | 282.020 | 458.176 | 277.894 | 42.027 | 1.337.596 |

On 5 November 2009 Glitnir announced the potential increase in its liabilities of ISK 126,570 million, relating to certain transactions identified as a result of Glitnir´s ongoing claims registration process. The Bank´s Resolution Committee engaged Deloitte hf. (“Deloitte Iceland’) to review these transactions in order to provide further information in relation to their nature and potential quantum. The conclusion of Deloitte Iceland´s review was that the potential liabilities regarding these transactions at the time of Glitnir’s collapse totalled to approximately ISK 142,740 million. These liabilities have been added to the liabilities in the Balance Sheet, ISK 16,170 million recognised as loans to customers and the difference, ISK 126,570 million, expensed as a separate line item in the Income Statement.

*Financial Statements of Glitnir Bank hf. 2009* 10 *All amounts are in ISK million*

**4. Net impairment losses, contd.:**

At the end of 2008 the value of the instrument from Íslandsbanki hf. was unknown, and no attempt was made to estimate its value at that time. The estimated value of the instrument at 31 December 2008 was ISK 422,000 million, based on the estimate published by the FME on 14 November 2008. At 31 December 2009 the valuation of Íslandsbanki is ISK 104,500 million. The changes in the estimated value of Íslandsbanki hf. is recorded as impairment losses in the Income Statement. The ultimate value realised through the shareholding in Íslandsbanki hf. could be materially higher or lower than the estimate provided. The value of, timing of and mechanism for realising value from the shareholding remains subject to considerable uncertainty.

Statement of liabilities is prepared on a going concern basis. Subordinated debt, has been rejected as unsecured claims in accordance with act no. 21/1991, amended by act no. 24/2009. Other claims, not lodged with or rejected by the Winding-Up Board, have not been written off in accordance with this act.

**5. Net financial income and expenses**

Net financial income and expenses are specified as follows:

| | **2009** |
|---|---|
| Dividend income | 896 |
| Net loss on financial assets and liabilities | ( 51.401) |
| Net foreign exchange gain | 137.955 |
| Total | 87.450 |

**6. Administrative expenses**

| | |
|---|---|
| Cost associated with current operation: | |
| Salaries and salary related expenses | 300 |
| Outsourced services from Íslandsbanki hf. | 728 |
| Outsourced services from external advisors | 3.377 |
| Other operational cost | 166 |
| | 4.571 |
| Cost associated to previous operation: | |
| Salaries and salary related expenses, including taxes, allowed to pay according to Financial Undertakings Act no. 161/2002 as per law no. 74/2010 | 591 |
| Other operational cost neccessary to preserve value and operational functions | 551 |
| Total administrative expenses | 5.713 |

**7. Salaries and salary related expenses are analysed as follows:**

| Salaries and related expenses are analysed as follows: | **Current operation** | **Previous operation** | **Total** |
|---|---|---|---|
| Salaries | 248 | 257 | 505 |
| Contribution to defined contribution plan | 30 | 269 | 299 |
| Other salary-related expenses | 22 | 65 | 87 |
| Total salaries and salary-related expenses | 300 | 591 | 891 |

During 2009 Glitnir employed on average 22 people in Iceland. In addition five people worked for Glitnir outside of Iceland as contractors.

*Financial Statements of Glitnir Bank hf. 2009* 11 *All amounts are in ISK million*

## 8. Compensation of the Resolution Committee, Winding-Up Board and Managing Directors

Compensation of the Resolution Committee, Winding-Up Board and Managing Directors is specified as follows:

| | 2009 |
|---|---|
| Kristján Þ. Davíðsson, former Managing Director | 19 |
| Kristján Óskarsson, Managing Director | 11 |
| Resolution Committee | 140 |
| Winding-Up Board | 133 |
| Total | 302 |

The FME paid the fees of the Resolution Committee until April 2009. Payments to the Resolution Committee and Winding-Up board include value-added tax of 24.5%.

## 9. Income tax

It is considered very unlikely that the bank will have taxable profit in the future so as to utilise its tax losses carried forward. Therefore the Bank does not recognise deferred tax assets in the Balance Sheet or recognise the income tax effect of losses in the Income Statement.

## 10. Cash and balances with central bank

Cash and balances with central bank are specified as follows:

| | |
|---|---|
| Cash and balances with banks | 45.894 |
| Cash balance with Central Bank of Iceland | 36.560 |
| Luxembourg funds | 18.273 |
| Restricted cash | 30.566 |
| Total | 131.293 |

Approximately 50% of Glitnir's cash and balances with banks is held with Glitnir´s subsidiary, Íslandsbanki hf. Under the terms of the Íslandsbanki recapitalisation agreement with the Icelandic Government, ISK 25,000 million in cash is required to be held by Glitnir at Íslandsbanki hf. until January 2011.

The Luxembourg funds relate to a fund managed by Íslandsbanki on behalf of Glitnir, principally in relation to sovereign bonds. As at 31 December 2009, 25% of the fund was invested in US sovereign debt, 25% in French sovereign debt, 25% in German sovereign debt, 20% in deposits and 5% in other liquid assets.

## 11. Derivatives

Derivatives are specified as follows:

| | International counter-parties | Domestic counter-parties | Total |
|---|---|---|---|
| Total derivatives, pre-netting | 22.732 | 54.889 | 77.621 |
| Balance subject to set-off | ( 11.388) | ( 20.825) | ( 32.214) |
| Total | 11.344 | 34.063 | 45.407 |

**International counterparties:**

In accordance with ISDA protocol, Glitnir received 'event of default notices' soon after the Bank's collapse. Counterparties have designated a range of 'Early Termination Dates', the validity of which is being examined by the Bank and which may impact on the value of the derivative asset and liabilities. The estimated realisable value ascribed to the derivative portfolio is based upon these close-out dates or 7 October 2008, where that applies under the relevant terms. The Bank has been working with Morrison & Foerster as legal advisors to support the assessment of claims and recovery of value on derivative assets.

*Financial Statements of Glitnir Bank hf. 2009* 12 *All amounts are in ISK million*

## 11. Derivatives, contd.:

**International counterparties, contd.:**

Counterparties, as the non-defaulting party under ISDA terminology, have provided close out statements and details of their valuation methodology. The Bank has entered into dialogue with counterparties to follow–up where inadequate detail has been provided to enable a complete reconciliation to be performed against their own records.

Given the volatility at the time of collapse the timing of the valuation and differences in key valuation inputs can have a significant impact on the value of the derivative assets. The Bank has engaged a calculation agent to help understand the drivers of the difference and will continue its dialogue with counterparties.

**Domestic counterparties:**

Principally business was undertaken under the Bank's general Terms and Conditions (i.e. Non-ISDA agreements).

## 12. Bonds and debt instruments

Bonds and debt instruments held at 31 December 2009 are specified as follows:

| | Realisable value | Estimated set-off | Net position |
|---|---|---|---|
| Governments | 5.996 | | 5.996 |
| Financial institutions | 14.165 | ( 13.785) | 380 |
| Corporates | 4.326 | | 4.326 |
| Total | 24.487 | ( 13.785) | 10.702 |

As a result of the claims registration process the Bank has a more complete view of its assets and liabilities with other Icelandic banks. Bond positions are therefore shown on the Balance Sheet at face value at the default date and then set-off against corresponding claims. As at 31 December 2009 the recorded Balance Sheet included ISK 13,785 million of Icelandic Bank positions shown at nominal value which were then set-off in full.

## 13. Shares and equity instruments

Shares and equity instruments held at year end 2009 are specified as follows:

| | 2009 |
|---|---|
| Listed shares | 1.720 |
| Unlisted shares | 43.467 |
| Total | 45.188 |

## 13. Shares and equity instruments, contd.:

| Concentration by location of shares and equity instruments | 2009 |
|---|---|
| UK | 34.349 |
| Iceland | 2.825 |
| Canada | 2.027 |
| United States | 1.696 |
| Norway | 651 |
| Other | 3.639 |
| Total | 45.188 |

During the year 2009 ISK 4,543 million of equity positions arose from restructure of loans.

*Financial Statements of Glitnir Bank hf. 2009* 13 *All amounts are in ISK million*

# Notes, contd.:

## 14. Loans to banks and customers

The Bank monitors concentration of credit risk by industry sector and by geographic location. The following table breaks down the Bank´s credit exposure at year end 2009 as categorised by the industry sectors of the Bank´s counterparties.

| | Loans and advances to banks | | Loans and advances to customers | |
|---|---|---|---|---|
| | Gross amount | Estimated realisable value | Gross amount | Estimated realisable value |
| **Concentration by sector** | | | | |
| Banks and other financial institutions ................................ | 92.320 | 88.602 | | |
| Corporate: | | | | |
| Financial Institutions ....................................................... | | | 10.833 | 6.733 |
| Fisheries ........................................................................ | | | 79.324 | 73.749 |
| Holding Companies ........................................................ | | | 246.544 | 19.812 |
| Manufacturing ................................................................. | | | 46.232 | 25.356 |
| Property and Real Estate ................................................ | | | 32.907 | 3.233 |
| Retail ............................................................................... | | | 4.875 | 3.641 |
| Utilities ............................................................................ | | | 2.930 | 2.721 |
| Other ............................................................................... | | | 105.421 | 62.107 |
| Total ................................................................................. | 92.320 | 88.602 | 529.065 | 197.353 |
| | | | | |
| **Concentration by location** | | | | |
| Norway ............................................................................ | 82.357 | 82.357 | 116.465 | 103.929 |
| United States .................................................................... | 4.879 | 4.879 | 27.138 | 24.341 |
| Iceland ............................................................................. | 3.719 | 0 | 321.267 | 23.848 |
| UK .................................................................................... | | | 26.166 | 22.451 |
| Canada ............................................................................. | | | 6.497 | 6.019 |
| Germany ........................................................................... | | | 16.272 | 5.893 |
| Denmark ........................................................................... | | | 5.600 | 3.183 |
| Other ................................................................................. | 1.366 | 1.366 | 9.660 | 7.689 |
| Total ................................................................................. | 92.320 | 88.602 | 529.065 | 197.353 |

*Financial Statements of Glitnir Bank hf. 2009* 14 *All amounts are in ISK million*

### 15. Investments in subsidiaries

Investments in subsidiaries are specified as follows:

| | Country of incorporation | Ownership interest | Carrying amount |
|---|---|---|---|
| **2009** | | | |
| GLB Holding ehf. | Iceland | 100% | 124.328 |
| Glitnir Bank Luxembourg S.A. | Luxembourg | 100% | 164.724 |
| Moderna Finance AB | Sweden | 100% | 397 |
| Investments in subsidiaries total | | | 289.449 |

**GLB Holding ehf.:**

In October 2009 Glitnir´s Resolution Committee, on behalf of its creditors, decided to exercise the option porvided for in its agreement with the Icelandic state and take over 95% of share capital in Íslandsbanki hf. In December 2009 the ownership of the 95% share in Íslandsbanki hf. was transferred from Glitnir Bank to ISB Holding ehf., which is a a subsidiary of GLB Holding ehf. At the end of December 2009 FME granted ISB Holding ehf. a permission to own a qualifying holding in Íslandsbanki hf. on behalf of Glitnir Bank.

Net assets of GLB Holding ehf. consist of following:

| | |
|---|---|
| ISB Holding ehf. (95% share in Íslandsbanki hf.) | 104.575 |
| Other subsidiaries | 1.732 |
| Other assets | 18.021 |
| Total | 124.328 |

**Glitnir Bank Luxembourg S.A.**

The value attributed to Glitnir Bank Luxembourg S.A. is a function of the value attributed to the property loan portfolio of Glitnir Bank Luxembourg S.A. and the three special pupose vehicles (SPVs) of Haf, Holt and Holm less the outstanding obligation owed to the Central Bank of Luxembourg (BCL).

The valuation consist of:

| | |
|---|---|
| Estimated recoverable value of the loan portfolio of Glitnir Bank Luxembourg S.A. | 90.733 |
| Estimated recoverable value of the loan portfolio of the three SPVs and other assets | 198.955 |
| Outstanding obligations to BCL | ( 124.964) |
| Total | 164.724 |

Glitnir's Resolution Committee and BCL signed in March 2009 an agreement providing for settlement of debts for Glitnir's subsidiary, Glitnir Bank Luxembourg S.A. BCL is part of the network of European central banks in member countries of the Eurosystem. This agreement facilitate Glitnir's Luxembourg subsidiary to be placed into a voluntary and solvent liquidation.

The agreement meant that important interests of Glitnir and its customers would be safeguarded; the Luxembourg subsidiary would have a period of up to five years within which to maximise the value of its assets and repay all debts owed to BCL. The agreement also foresaw that securitised loan portfolios, pledged to BCL, and which include, for instance, loans to Glitnir's Icelandic customers, would continue to be administered by Glitnir's Resolution Committee. According to the agreement, proceeds from the corporate loan portfolio of Glitnir Bank Luxembourg were furthermore to be used to repay debts to BCL. The portfolio principally includes mortgages on commercial and residential real estate in the Nordic countries, the UK and Germany.

At year end 2009 BCL have an outstanding claim of ISK 124,964 million (EUR 694.4 million) over the assets of Glitnir Bank Luxembourg. This is supported by direct collateral on the loan portfolio of the Notes Glitnir Bank Luxembourg holds in Glitnir´s special purpose vehicle (SPV) Haf, Holt and Holm and remainig assets of Glitnir Bank Luxembourg.

Financial Statements of Glitnir Bank hf. 2009 15 All amounts are in ISK million

### 15. Investments in subsidiaries, contd.:

**Repayment profile of the obligation to BCL:**

| | Per BCL repayment plan | Repayment plan (cumulative) | Actual repayments made | Balance 31 December 2009 |
|---|---|---|---|---|
| To be paid before end of 2009 | 28.241 | 28.241 | 63.138 | 124.837 |
| To be paid before end of 2010 | 28.241 | 56.482 | | |
| To be paid before end of 2011 | 37.595 | 94.077 | | |
| To be paid before end of 2012 | 46.949 | 141.026 | | |
| To be paid before end of 2013 | 46.949 | 187.975 | | |
| Total | 187.975 | | 63.138 | 124.837 |

The above table sets out the repayment plan to the BCL, as extracted from the agreement with the BCL in March 2009. Under the repayment plan, ISK 28,241 million was due to be repaid during 2009. Glitnir Luxembourg is significantly ahead of the repayment plan, having repaid a total of ISK 63,138 million during 2009. Early repayment of the CBL obligation reduces the interest cost for Glitnir Luxembourg, and reduces the time Glitnir is required to wait before it can recapture the remaining potential value for creditors.

### 16. Liabilities

The time limit for lodging claims in Glitnir's winding-up proceedings expired on 26 November 2009 and at a creditors' meeting on 17 December 2009, the Winding-Up Board did go over the list of claims and explain the decisions which had already been taken. Creditors also had an opportunity to object to decisions taken by the Winding-Up Board on individual claims.

A total of 8,685 claims were lodged in Glitnir's winding-up proceedings amounting to ISK 3,436 billion. This is a maximum figure, which may decrease as the Winding-Up Board reviews the individual claims. In addition, in some instances the same claim has been lodged more than once. At year end the Winding-Up Board has taken decision on just over 25% of claims lodged, in part or in full.

lodged claims and

| | Claimed amounts | Adjustments | Adjusted claimed amounts | Recognised in Balance Sheet | Difference |
|---|---|---|---|---|---|
| Derivatives | 323.983 | ( 64.256) | 259.727 | 81.919 | ( 177.809) |
| Debt issued and other borrowed funds | 2.621.337 | ( 272.022) | 2.349.315 | 2.521.485 | 172.170 |
| Subordinated bonds | 181.271 | ( 181.271) | 0 | 0 | 0 |
| Other liabilities | 146.012 | ( 126.546) | 19.466 | 83.615 | 64.149 |
| Off balance sheet items | 163.630 | ( 613) | 163.017 | 0 | ( 163.017) |
| Total financial liabilities | 3.436.233 | ( 644.708) | 2.791.525 | 2.687.019 | ( 104.507) |

As a result of the Winding-Up Board´s continuing work on registered claims, certain adjustments have been made to the initial registered claims. These adjustments relate to:

| | |
|---|---|
| Where claims have been rejected | ( 181.271) |
| Where claims have been withdrawn | ( 19.591) |
| Where there were errors or duplications in the claims registration list | ( 178.613) |
| Claims from Glitnir Luxembourg and the two SPVs (Haf and Holt) | ( 168.647) |
| Estimation of set-off | ( 96.585) |
| Total | ( 644.708) |

*Financial Statements of Glitnir Bank hf. 2009* 16 *All amounts are in ISK million*

## 16. Liabilities, contd.:

**Claims are specified as follows:**

| | Claimed amounts | Adjustments | Adjusted amounts |
|---|---|---|---|
| Third party assets | 33.146 | ( 72) | 33.074 |
| Approval Costs | 25.316 | ( 684) | 24.632 |
| Secured | 40.725 | ( 11.630) | 29.096 |
| Priority | 258.129 | ( 89.896) | 168.233 |
| Unsecured | 2.973.195 | ( 542.303) | 2.430.892 |
| Deferred | 105.722 | ( 123) | 105.599 |
| Total | 3.436.233 | ( 644.708) | 2.791.525 |

## 17. Equity

Changes in equity are specified as follows:

| | Share capital | Share premium | Other reserves | Retained earnings (accumulated deficit) | Total |
|---|---|---|---|---|---|
| Equity as at 1 january 2008 | 14.730 | 58.330 | 7.025 | 72.493 | 152.578 |
| Purchased and sold own shares | 151 | ( 11.448) | | | ( 11.297) |
| Dividends paid | | | | ( 5.332) | ( 5.332) |
| Translation differences and other changes | | ( 46.882) | ( 7.025) | 37.557 | ( 16.350) |
| Loss for the year | | | | ( 1.539.876) | ( 1.539.876) |
| Equity as at 1 january 2009 | 14.881 | 0 | 0 | ( 1.435.158) | ( 1.420.277) |
| Changes in price of own share purchased | | | | 550 | 550 |
| Translation differences | | | | ( 1.000) | ( 1.000) |
| Loss for the year | | | | ( 458.113) | ( 458.113) |
| Equity as at 31 December 2009 | 14.881 | 0 | 0 | ( 1.893.721) | ( 1.878.840) |

According to a decision of FME on 7 October 2008 the Resolution Committee took over all the authority of shareholders meetings, including voting rights. Formal decision to write off the share capital has not been taken, but is expected to be taken in the winding-up process. Until formal decision has been taken the share capital will be presented as shown above.

## 18. Market risk

### a. Interest rate risk

The types of interest rate risk faced by the Bank is twofold. The Bank is subject to cash flow interest rate risk relating to those loans and other financial assets with floating rate of interest. Due to the significant uncertainty relating to timing of cash flows, impact of future restructuring of loans and recoverability, it is not possible to determine with any precision the impact of changes in interest rate on profit or loss. For instance an increase of interest on an impaired variable rate instrument will in many instances have no effect on the future recoverability of that asset.

The bank is also subject to fair value interest rate relating to assets, mainly government bonds, that are recognised at fair value through profit or loss. A change in interest rates will affect the fair value of those assets.

*Financial Statements of Glitnir Bank hf. 2009* 17 *All amounts are in ISK million*

## 18. Market risk, contd.:

### b. Breakdown by currencies

The table below summarises the Bank´s assets by currency of denomination.

**At 31 December 2009**

| | EUR | ISK | NOK | USD | GBP | Other | Total |
|---|---|---|---|---|---|---|---|
| Cash and cash equivalents ....... | 40.355 | 20.286 | 10.818 | 38.994 | 12.249 | 8.591 | 131.293 |
| Bonds and shares | 369 | 11.316 | 651 | 3.247 | 34.994 | 5.313 | 55.890 |
| Loans to banks .... | 76.439 | | 7.282 | 4.879 | | 2 | 88.602 |
| Loans to customers ......... | 25.022 | 4.362 | 82.681 | 43.908 | 19.991 | 21.388 | 197.353 |
| Investments in subsidiaries ...... | 164.724 | 124.328 | | | | 397 | 289.449 |
| Derivatives and other assets ...... | 4.390 | 34.248 | 480 | 6.474 | | | 45.592 |
| Total financial assets .............. | 311.299 | 194.540 | 101.912 | 97.502 | 67.234 | 35.692 | 808.179 |

The Bank´s liabilities, i.e. creditors´ claims denominated in foreign currencies were translated to ISK at the spot exchange rate as at 22 April 2009. They are therefore fixed in terms of ISK. However it is expected that the creditors will be paid in the currency in which their claims are denominated. Therefore, from the perspective of creditors with claims denominated in foreign currencies, a strenghtening or weakening of ISK against foreign currencies will affect the recovery of their claims as the claims are fixed in ISK.

## 19. Dispute with creditors

Under the terms of the Moratorium on creditor proceedings granted to Glitnir Banki hf. on 24 November 2008, as extended on 19 February 2009 and 19 November 2009, no legal claim may be brought against the Bank.

*Financial Statements of Glitnir Bank hf. 2009* 18 *All amounts are in ISK million*