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UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK

In re	:	Chapter 15
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	:	
LANDSBANKI ÍSLANDS HF.,	:	Case No. 08- _____
	:	
	:	
Debtor in a Foreign Proceeding.	:	

**DECLARATION OF KRISTINN BJARNASON IN SUPPORT OF VERIFIED
PETITION FOR RECOGNITION OF A FOREIGN MAIN PROCEEDING
AND MOTION FOR PERMANENT INJUNCTION AND RELATED
RELIEF PURSUANT TO 11 U.S.C. §§ 1504, 1515, 1517, 1520, AND 1521**

Kristinn Bjarnason, pursuant to 28 U.S.C. § 1746, hereby declares under penalty of perjury as follows:

1. I am Kristinn Bjarnason, the Court-appointed assistant appointed to oversee the reorganization proceedings with respect to Landsbanki Íslands hf. (“Landsbanki”), currently under the supervision of the Icelandic Financial Supervisory Authority (the “FME”). I am authorized to act as the foreign representative of Landsbanki and commence this Chapter 15 case.

2. I submit this declaration in support of the Verified Petition filed on behalf of Landsbanki for recognition of a foreign main proceeding and motion for permanent injunction and related relief (the “Petition and Motion”) pursuant to sections 1504, 1515, 1517, 1520 and

1521 of title 11 of the United States Code (the “Bankruptcy Code”), filed contemporaneously herewith.

BACKGROUND

3. Landsbanki, which is incorporated in Iceland, is a full-service bank headquartered in Reykjavík, Iceland, providing retail, corporate and investment banking services. Founded as a state-owned bank on July 1, 1886, Landsbanki was privatized beginning in 1997. In 2003, the Icelandic state completed the sale of its remaining interest in Landsbanki. The registered offices of Landsbanki are located at Austurstraeti 11, Reykjavík, Iceland. Landsbanki, through its subsidiary Kepler Equities S.A. (“Kepler”), operates a licensed broker-dealer in the United States. Kepler’s offices are located in New York, New York. Kepler is not a party to this proceeding.

4. Landsbanki’s only known assets in the United States are (a) bank accounts, and (b) receivables for loans made to U.S. entities through Landsbanki’s non-U.S. operations, and (c) bonds and stocks held for hedging in trading positions (collectively, the “U.S. Assets”). Since 2006, Landsbanki has issued approximately five (5) tranches of short and long-term notes in the U.S., which aggregated over \$2.6 billion in original principal amount.

5. The economy of Iceland is in the midst of an unprecedented financial crisis. In late September 2008, as a result of a number of well publicized pressures on the banks in Iceland, including difficulties in refinancing their short-term debt and a run on bank deposits, each of Iceland’s three major banks (including Landsbanki) were on the brink of collapse, which in turn threatened the economy of the entire country of Iceland. As discussed below, the Icelandic government took emergency measures to resume governmental control over and attempt to stabilize the national economy. Despite these emergency actions by the Icelandic

government, the financial crisis has still had serious consequences to the Icelandic economy: the national currency has fallen sharply in value, the market capitalization of the Icelandic stock exchange fell almost 80% in value virtually overnight, and a severe economic recession is forecasted.

6. On September 28, 2008, it was publicly announced that another one of Iceland's three largest banks had experienced a liquidity shortfall and was forced to seek emergency funding from the Icelandic Central Bank. This spurred public speculation about the status of Iceland's other major banks, including Landsbanki. It soon became apparent that events were beginning to adversely affect the confidence of Landsbanki's international depositors and the banks began to see significant withdrawals. On October 5, 2008, Landsbanki requested a EURO denominated loan from the Icelandic Central bank, which refused the request on October 6, 2008. Landsbanki thereafter notified the Icelandic government that the bank would most likely not be able to meet its obligations.

7. On October 6, 2008, the Icelandic parliament passed Law no. 125/2008, which provided extraordinary emergency powers to the Financial Supervisory Authority of Iceland (the "FME"). The FME is a regulatory body in Iceland charged with overseeing the activities of Iceland's banks and other financial institutions. Under the statute, the FME can, among other things, in an appropriate situation, assume the powers of a shareholders' meeting, dismiss the Board of Directors and appoint a Resolution Committee for a distressed financial company. The FME is also authorized to take over the distressed company's operations or dispose of the company or its assets, including through its merger with another entity.

8. On October 7, 2008, the FME used those powers to take control of Landsbanki. The FME assumed the powers of a meeting of the shareholders of Landsbanki and immediately

dismissed Landsbanki's Board in its entirety. Further, the FME appointed a committee to oversee the reorganization of Landsbanki (the "Resolution Committee"), which took over all authority of the Board of Directors in accordance with the relevant statutes. The aim of the Resolution Committee is to preserve the value of the assets of Landsbanki.

9. Landsbanki still has a valid banking license. Landsbanki's assets will eventually be distributed to creditors in accordance with the relevant statutory priority scheme. According to Act No. 21/1991 on Bankruptcy, as amended (the "Bankruptcy Act"), which sets forth the priority of distribution in bankruptcy, creditors with claims of equal ranking will be treated equally. With respect to financial institutions, Act No. 125/2008, enacted on October 6, 2008, provides that claims of depositors have priority over most general unsecured claims. *See* Eyvindur G. Gunnarsson Pursuant to 28 U.S.C. § 1746 at ¶ 20, filed concurrently herewith. The FME has directed that all claims against Landsbanki be directed to Resolution Committee so that all of Landsbanki's remaining assets can be distributed to Landsbanki's creditors.

10. On December 5, 2008, the Resolution Committee filed an application to authorize the reorganization of Landsbanki and stay creditor actions under the Bankruptcy Act, which is made applicable to Landsbanki and other financial undertakings through Act No. 161/2002 on Financial Undertakings (the "Financial Undertakings Act"). On December 5, 2008, the District Court of Reykjavik (the "Icelandic District Court") issued an order approving Landsbanki's application (the "Moratorium"). During the Moratorium, Landsbanki remains subject to the Financial Undertakings Act and the supervision of the FME; however, the Icelandic District Court has exclusive jurisdiction over the enforcement of the Moratorium.

11. Simultaneously, the Icelandic District Court appointed me as the assistant (the "Assistant"), who is charged with overseeing the Moratorium and the Resolution Committee's

activities with respect to Landsbanki. The Bankruptcy Act provides that the Moratorium restricts the payment of claims or the disposal of assets without approval of the Assistant. The Assistant has the power to oversee the distribution of assets of a debtor and the payment of claims during the Moratorium. The Assistant must approve the transactions made by the debtor and ensure that no transactions are done in violation of the Bankruptcy Act. The role of the Assistant is to assist the debtor in its efforts to reconstruct its finances and make decisions on how to achieve the reorganization. The Assistant acts a fiduciary to the estate of the debtor to ensure the fair distribution of assets. The Assistant has a duty to inform the Icelandic District Court if the debtor does not abide by the Assistant's directions or provisions in the Bankruptcy Act.

12. The Petitioner, by commencement of the Chapter 15 case and the relief requested therein, seeks to have the Moratorium and related proceedings under the Bankruptcy Act and the Financial Undertakings Act (the "Icelandic Proceeding") made binding and enforceable in the United States. It is my understanding that the Icelandic Proceeding will be entitled to automatic recognition in the European Union member countries and the EEA countries as a financial undertaking's winding-up proceeding under Directive 2001/24/EC of the European Parliament and of the Council of 4 April 2001 on the reorganization and winding up of credit institutions (the "E.U. Directive").

13. An informal creditors committee ("ICC") has been formed with respect to Landsbanki. The ICC does not have any formal powers or duties under Icelandic law and will be purely consultative in nature. The Resolution Committee will consult with the ICC with respect to (a) major strategic decisions being taken regarding the protection, maximization and realization of Landsbanki's assets, and (b) proposals aimed at making distributions to creditors of Landsbanki or other restructuring solutions aimed at returning value to creditors of Landsbanki.

In addition, creditors will receive notice of proceedings before the District Court overseeing the Moratorium and will have an opportunity to be heard with respect to continuation of the Moratorium.

THE TRANSFER DECISION

14. As more specifically described below, by decision dated October 9, 2008 (the “Transfer Decision”),¹ the FME also transferred a part of Landsbanki’s operations to a new bank, New Landsbanki Íslands hf. (“NBI”), which is owned by the Icelandic Government. Pursuant to the Transfer Decision, NBI took over all of Landsbanki’s deposits in Iceland as well as the bulk of the bank’s assets that relate to its Icelandic operations, such as loans and other claims. Landsbanki retains all liabilities and assets not transferred to NBI. NBI is expected to issue a bond to Landsbanki in consideration for the transfer to NBI of Landsbanki’s Icelandic deposits. The split of assets and bond issuance provided for in the Transfer Decision have not yet been finalized.

15. Specifically, the Transfer Decision provides that all assets of Landsbanki (with the exception of certain “Excluded Assets” set forth below), contractual rights of use of property and liquid assets are immediately allocated to NBI. Further, NBI takes over all rights used to secure the performance of obligations of the debtors of Landsbanki, including all liens, guarantees and other comparable rights connected to the claims of the bank. Further, effective October 9, 2008 (the “Transfer Date”), NBI assumed all of the operations of Landsbanki that are connected to the transferred assets.

¹ The Transfer Decision was amended on October 12, 2008 and again on October 19, 2008. All discussions contained herein of the Transfer Decision refer to the Transfer Decision, as amended.

16. The Excluded Assets include the following:

(a) Claims of financial undertakings where the FME has taken action on the basis of the provisions of Article 5 of Act no. 125/2008;

(b) Securities issued by financial undertakings where the FME has taken action on the basis of Article 5 of Act 125/2008;

(c) Claims and cash flow due to claims collateralized to other financial undertakings;

(d) All assets of foreign branches of Landsbanki except for qualifying loans in Helsinki and qualifying loans related to fisheries in Halifax and Norway;

(e) Claims of Landsbanki on its foreign branches and subsidiaries;

(f) Shares in foreign subsidiaries;

(g) Certain loans with particular risk; and

(h) Certain other assets identified in the Transfer Decision.

17. The Transfer Decision further provides that the NBI assumes the obligations of Landsbanki's branches in Iceland due to deposits from financial undertakings, the Icelandic Central Bank and other customers. Deposits are transferred according to the balance and interest earned at the time of transfer. NBI also assumes obligations related to import and export guarantees, guarantees due to the discharge of contracts by companies and individuals regarding regular activities. Debt backed by collateral transferred to NBI is also being assumed by NBI. NBI, however, does not assume any obligations of Landsbanki relating to: (a) obligations of subsidiaries abroad, (b) companies under moratorium, composition or in bankruptcy, (c) obligations of those owning a qualifying holding in Landsbanki, and connected parties, (d) obligations to Icelandic financial undertakings, and (e) certain other liabilities set forth in the Transfer Decision.

18. The Transfer Decision further provides for the appointment of an appraiser to evaluate, within 90 days, the value of assets and liabilities allocated to NBI according to the

directive. Following this valuation, NBI will pay Landsbanki the difference between the value of assets and liabilities as of the Transfer Date. NBI will issue a bond to Landsbanki as payment of the remuneration. The terms of the bond shall be available within 10 days of the announcement of the conclusion of the appraiser. The value of the bond shall be verified by an internationally recognized appraisal company to be appointed by the FME.

RELIEF REQUESTED

19. Under the auspices of the FME and the Icelandic District Court, with the ancillary assistance of this Court, the ultimate goal of Landsbanki is to satisfy the claims of creditors and to try to preserve the value of the bank's assets to the extent possible.

20. To effectuate this goal, the Petitioner respectfully requests the assistance of the Court to bind creditors in the U.S. to the Icelandic Proceeding and to prevent the distribution of Landsbanki's property on a basis inconsistent with the regime applicable to the Resolution Committee's conduct of Landsbanki's affair through the Icelandic Proceeding.

21. Creditors in other jurisdictions, including, Luxembourg, Switzerland, Holland and the United Kingdom, have begun attachment proceedings in an attempt to satisfy their claims. While, it is my understanding that these proceedings will be stayed via the automatic recognition afforded by the E.U. Directive (as defined above), it is my belief that the relief requested herein is necessary to give effect to the Icelandic Proceeding in the U.S., protect the U.S. Assets, and to prevent creditors in the U.S. from taking actions that may frustrate the Icelandic Proceeding. Moreover, the relief requested in the Petition will best assure an economical, expeditious and fair administration of Landsbanki's business.

22. The relief sought will reasonably assure the just treatment of all creditors, as creditors in the U.S. will not be prejudiced or unduly inconvenienced in the processing of claims in accordance with the priorities in effect in Iceland.

23. Moreover, the relief sought in the Petition will ensure that claims of all creditors will be processed in an orderly and equitable manner.

STATEMENT PURSUANT TO SECTION 1515(c) OF THE BANKRUPTCY CODE

24. I have been informed that Section 1515(c) of the Bankruptcy Code provides that a “petition for recognition shall also be accompanied by a statement identifying all foreign proceedings with respect to the debtors that are known to the foreign representative.” 11 U.S.C. § 1515(c).

25. Landsbanki is subject to the Icelandic Proceeding. I believe that the Icelandic Proceeding is a “foreign main proceeding” as I have been advised that term is defined in section 1502(4) of the Bankruptcy Code. The registered office of Landsbanki in Reykjavik, Iceland, which is presumed to be Landsbanki’s center of main interests within the meaning of section 1516 of the Bankruptcy Code, and I am not aware of any facts that would serve to rebut this presumption.

26. Other than the Icelandic Proceeding, I am not aware of any other foreign proceeding, as such term is defined in section 101(23) of the Bankruptcy Code.

LIST PURSUANT TO BANKRUPTCY RULE 1007(a)(4)

27. I have been informed that Rule 1007(a)(4) of the Federal Rules of Bankruptcy Procedure, which provides as follows:

Unless the court orders otherwise, a foreign representative filing a petition for recognition under chapter 15 shall file with the petition a list containing the name and address of all administrators in foreign proceedings of the debtor, all parties to any litigation in which the debtor is a party and that is pending in the United States at the time of the filing of the petition, and all entities against whom provisional relief is sought under § 1519 of the Code.

Fed. R. Bankr. P. 1007(a)(4).

The Name and Address of All Administrators in Foreign Proceedings

28. I have been authorized to act on behalf of Landsbanki as its foreign representative in connection with any proceedings pursuant to Chapter 15 of title 11 of the United States Code in accordance with the Icelandic Proceeding. I am unaware of any administrator appointed in any foreign proceeding relating to Landsbanki.

The Name and Address of Parties to Litigation Pending in the U.S. at the Time of the Filing of the Verified Petition and Motion

29. I have been informed by Landsbanki that it is not a party to any litigation or arbitration currently pending in the U.S.

Name and Address of Parties Against Whom Provisional Relief is Being Sought Under Section 1519

30. The Petitioner is not seeking provisional relief in this Chapter 15 case.

I declare under penalty of perjury under the laws of the United States of America that the foregoing is true and correct.

Executed on this 8th day of December, 2008
in Reykjavík, Iceland,

/s/ Kristinn Bjarnason

Kristinn Bjarnason