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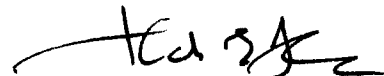
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Vísað er til úrskurðar nr. A-510/2013, dags. 13. desember sl. þar sem úrskurðarnefnd um upplýsingamál úrskurðar að fjármála- og efnahagsráðuneytið skuli afhenda yður fundargerðir sérstakrar stýrinefndar undir forystu fjármálaráðuneytisins, dags. 20. mars, 27. mars, 2. apríl, 17. apríl, 29. apríl, 6. maí, 11. maí, 19. maí, 20. maí, 27. maí, 6. júní, 18. júní, 25. júní, 4. ágúst og 6. ágúst 2009.

Meðfylgjandi sendast yður umræddar fundargerðir.

Fyrir hönd ráðherra


Sigurður H. Helgason


Hafsteinn S. Hafsteinsson

Frjálst form

Minutes - 2nd Meeting of Gov. Steering Group and Hawkpoint

Málsnúmer: FOR09030068

Númer skjals:

Skráð: 20. mars 2009

Eigandi skjals: Tómas Brynjólfsson/FOR/NotesSTJR

Auðkenni

Vinnsla

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Staða: Í vinnslu

Fyrirtæki:

Geymslustaður skjals: GoPro

Nafn:

Minutes: 2nd meeting of the Government's Steering Group and Hawkpoint (the Government's Financial Advisor) at 10 am on 17 March 2009, Ministry of Finance, Reykjavík.

Present

Guðmundur Árnason (Chair in the absence of Indridi H. Þorláksson), Mats Josefsson, Þórhallur Arason, Þorsteinn Þorsteinsson, Helga Valfells on behalf of the government. Danfel Svavarsson from the Central Bank. Paul Baines, Andrew Lynn, Charles Williams, Andrew Speirs and Rupert Pepper from Hawkpoint. Tómas Brynjólfsson, Secretary to the committee.

1. Guðmundur Árnason review the steering group's first meeting on 10 March.

2. Mr. Baines led a presentation of Hawkpoint's draft initial assessment that was circulated to the committee. He said that the instrument had the potential to very complex. There were also questions as to whom Deloitte was working for that needed to be cleared up for all concerned. Mr. Baines also stated that the creditors were pleased that something was now happening and that they had someone to talk to.

Mr. Árnason said that it was important to keep a disciplined dialogue with the creditors. There needed to be a common understanding of who is mandated to talk to whom. He said that it is important not to interfere in the relationship between the resolution committees and the creditors. The state wants to appease the creditors to the extent possible. The negotiations are, however, bilateral between the state and the financial advisors of the old banks.

Mr. Baines said that Hawkpoint had received numerous requests for meetings from creditors. Hawkpoint is happy to listen at the moment but meetings would be confined to informal conversations. The Resolution Committees should, however, not be cut out of the process. Mr. Baines said that it was important to get the structure of the banks right. The government needed to realize what it wants to achieve. He said that Hawkpoint does not consider it in the Government's best interest to offer equity to outside investors through the instrument.

3. Hawkpoint highlighted principle issues facing the banks:

- a. credit quality.
- b. FX imbalances.
- c. indexation mismatch.
- d. Funding (stability of deposits)
- e. post-transfer movements.

a. Credit quality

- Loans to holding companies were impaired by 75% in October. Deloitte will not be surprised if this ratio turns out higher.
- Individuals appear to be servicing their debt.
- Largest problems related to FX loans. These loans are in many instances not being fully serviced because of government decisions.

Andrew Lynn said that the banks knew the task at hand. Hawkpoint, however, questions whether the banks have sufficient resources even though they have the right mind set. Good people are leaving the banks. He also questioned whether the were sufficient legal resources to resolve all the companies. The banks appear to be

waiting for the Deloitte process. The banks say that they need the Deloitte results to bring the process forward.

Mr. Josefsson said that he was scared that the no-one was monitoring the banks. He said that it might take additional two months to set up the AMC.

Hawkpoint said that the boards of the banks had to realize that restructuring was their most important operational activity at the moment. The banks' owner has in this condition to try to maximize value in the restructuring process. There was a fear that the staff were not experienced and motivated enough to carry through the restructuring process against highly trained and experienced international restructuring experts. The process is extremely complex and there is a need for the government to set oversight in place. Loan forgiveness is the most dangerous process under the current conditions according to Hawkpoint.

Ms. Valfelss questioned whether the boards had the right skill sets to take on this process.

Mr. Speirs said that Boards did not see restructuring as their main project.

Mr. Portseinson asked whether the IMF could send a restructuring Technical Assistance Team. Mr. Josefsson said that the IMF could not give advice to individual companies (the banks). He suggested that the World Bank or the IFC as possible substitutes. He said that the IMF had foreseen a 20-30 person private sector team being hired. They could go into the banks and pick up non-performing loans. Some loans would be moved to the AMC. The aim was, however, to hold as large a share as possible within the banks and that the banks needed to pay for these services.

Hawkpoint said that it was important that the AMC structure was set up to help the banks, not in opposition to them.

Mr. Svavarsson said that the government had to be instrumental in setting the rules on corporate culture.

Mr. Arnason said that it was important for the owner to set the structure and assess its interests. Policy needed to be set by the Ministry of Finance and implemented within each bank. There seems to be a lack of focus and capacity with regards to restructuring.

Mr. Arason said that the MoF had already hired an expert on these issues.

b. FX imbalances

Hawkpoint stated that the instrument could not cater for the entire FX imbalance. There is a need to resolve this problem swiftly as the banks have large negative carry on FX denominated loans. Hawkpoint presented a number of ways to resolve the FX imbalances: through the instrument, through the government in a swap arrangement, through restructuring of FX loans into domestic loans and through swaps with the old banks as counterparties. Hawkpoint said that it was important to use a swap with the Central Bank for a large share of the problem.

Mr. Svavarsson pointed out that there were certain problems with the swap, e.g. that the banks are largely long Swiss francs and Japanese yen. The swap could also only solve a part of the problem. The banks needed to redenominate those loans that they could. He wanted the banks to bring proposals on the swap to the government. These proposals would then be evaluated.

Mr. Þorsteinsson urged the FX imbalance to be swapped out from October to eliminate the negative carry since then and wipe out the banks' losses from this problem. The swap should be for a limited time to allow the banks to run down their FX lending. He also wanted the swap to eliminate the interest rate risk.

Mr. Svavarsson pointed out that a swap from October could be problematic vis-a-vis other financial institutions. The MoF had already discussed this problem. The cost could also be of a concern due to the IMF agreement on no further socialization of losses.

Mr. Williams stated that the banks were assuming that this risk would be swapped out and that they would not need to address it themselves. He said that the banks needed to drive the process but it had to be monitored and overseen by the government.

Mr. Josefsson pointed out that all of these imbalances had to be rectified before the audit is completed on 15 April.

Mr. Williams and Mr. Josefsson said that the owner of the banks needed to focus the banks' attention on leading this exercise.

Mr. Arason said the working group on the FX imbalance would shortly deliver its final proposal and that everyone (at the MoF) understood the problem.

Mr. Josefsson and Mr. Svavarsson stated that it was key that the state could not incur any further costs due to the IMF program.

c. Index Imbalances

Hawkpoint pointed out that lower inflation helps the index imbalances. The index mismatch is also more manageable through the instrument than the FX imbalance. There is also a ready financing route through the HFF. Changes to the laws and regulation limiting indexation to longer-term loans could also partially resolve this problem.

The banks, however, expect the instrument to solve this mismatch as well.

Mr. Svavarsson reiterated that the banks needed to clean up these imbalances before expecting a swap arrangement with the Central Bank.

Mr. Þorsteinsson wants to fix the index imbalance through a swap arrangement. The CB also needs to set rules on indexing as there were less possibilities of hedging out the risk in the current environment.

Ms. Valfells said that the Central Bank was calculating the cost of the mortgage freezing.

d. Funding (stability of deposits)

Hawkpoint stated that deposits could be run down following lifting of capital controls. Pension funds are also extremely liquid at the moment. There is a possibility that these deposits will fall considerably as they move into other investments.

e. Post-transfer movements

Mr. Árnason stated that there had been two large transfers of assets that did in fact belong to the foreign part of the bank (intrinsically linked to old bank). He said that transfers from new to old banks had to be approved. According to detailed conversations with Landsbanki, all transfers had been fully approved.

Mr. Josefsson said that he did not like the asset transfers as they blur the picture. He wanted to know who initiated the transfers.

Mr. Williams said that it was most important to document all transfers and that the rationale was clear and in line with the initial split.

Mr. Árnason suggested that the question of asset transfers should be taken up with the Co-ordination Committee.

4. Progress thus far

Hawkpoint has met with all the financial advisors (FAs) to the old banks. Morgan Stanley is considered the most difficult to handle while Barcap feels that they have less information than others. They also fear that creditors will bring their disputes to the courts. The FAs want an independent parties to have access to detailed information in the Deloitte process. There is a need to clarify which data should be delivered from the New Banks to the FAs. Hawkpoint is concerned of governance because of government ownership.

Mr Williams pointed out that the FME has sent out a letter regarding the exchange of information. Those guidelines have, however, been interpreted differently. It was agreed that the MoF would have to act as an owner on this issue while the FME sets the rules.

Hawkpoint was invited to give a 10 minute presentation at the Co-ordination Committee's first creditor meeting (3rd Wednesday of every month). Their presence to show that all parties to the process are working together.

Mr. Árnason said that the relationship with the creditors had been becoming better in the last few weeks. The process needed to be clear and sequenced.

5. MoU

Hawkpoint suggested that a MoU would be signed between the resolution committees, the government and the new banks on outstanding issues when the process has been brought further and there is a body of information (including audits, detailed business plans and relevant swaps) that leaves the process close to being concluded. This MoU would be made public and set the stage for the final solution. This MoU could be a clear stepping stone as the current timetable appeared unrealistic. The capital injection could not be finalized until after the instrument had been agreed to. The instrument needed to work with the capital reserves.

Mr. Williams said that the recapitalization and the instrument would have to be concluded at the same time. The boards of the banks would need and agree to the business plans and sign off the audit. All the current work streams would come together at one point.

Mr. Þorsteinsson said that there was a need a date from the banks.

Mr. Josefsson said that the audits were the main problem.

Mr. Svavarsson explained that the IMF was expecting the instrument to be in the form of equity. There was a need to consider Debt Sustainability in the formation of the instrument. The instrument had at least to be as equity like as possible. The IMF also looked closely at the contingent liabilities of the government. With government as sole owner these liabilities would increase sharply.

Ms. Valfells pointed out the there was a reluctance in Iceland to issue regular preference shares.

Mr. Arason stated that the MoF was working on a policy paper on the government's role as owner.

Mr. Þorsteinsson said that this was important for creditors.

Concerns were expressed that the Deloitte process for valuation could lead to overvalued assets.

Mr. Þorsteinsson expressed interest in using Hawkpoint as an advisor on the capital injection.

Hawkpoint and Mr. Þorsteinsson were requested to push banks on start work on correcting what they can of the imbalances. The banks were also to be asked for more detailed information and state what kind of contracts they would like. The government had not agreed to a swap and needed to see what the banks wanted.

6. The next meeting was set for Tuesday 24 March.

Frjálst form

Minutes - 3rd Meeting of Gov. Steering Group and Hawkpoint

Málsnúmer: FOR09030068

Númer skjals:

Skráð: 27. mars 2009

Eigandi skjals: Tómas Brynjólfsson/FOR/NotesSTJR

Auðkenni

Vinnsla

Dagsetning:

Staða: Í vinnslu

Fyrirtæki:

Geymslustaður skjals: GoPro

Nafn:

Minutes: 3rd meeting of the Government's Steering Group and Hawkpoint (the Government's Financial Advisor) at 11 am on 24 March 2009, Ministry of Finance, Reykjavík.

Present

Indriði H. Þorláksson (Chair), Mats Josefsson, Þórhallur Arason, Þorsteinn Þorsteinsson, Helga Valfell on behalf of the government. Andrew Lynn, Charles Williams, Andrew Speirs and Christian Kent from Hawkpoint. Tómas Brynjólfsson, Secretary to the committee.

Hawkpoint presented a process update for 24 March 2009

1. Process

1.a. Update on identified workstreams

Audits and Business Plans

Christian Kent: Hawkpoint has met with each bank to follow-up on the FME *business plans*. No substantial work has started on the *audits*. Two banks state they can deliver by beginning of May and 1 by end of May. The business plans are detailed bottom-up plans. Letter was sent to the banks Friday with an answer requested by today. Banks have agreed to work with April 8 as a delivery date.

FX Imbalances

Hawkpoint identified *FX imbalances* as the single most important issue in the near-term. There is a need to fully stratify the positions and evaluate all the options. It is necessary to start discussion with the Central Bank to table issues. The two processes, within the banks and with the Central Bank, have then to be drawn together.

Þorsteinn informed the committee that working committee on the FX imbalances is finishing its work and handing the problem over to Hawkpoint that is to bring it to conclusion through this workstream. Ministry of Finance is to ask Central Bank to negotiate on behalf of the state with the new banks.

Capital Requirements

According to Hawkpoint, the capital requirements remain a work in progress and will i.e. come out of the business plan. Hawkpoint is building a financial model to sit on top of the data to test different capital requirements.

Mr. Josefsson asked whether the banks had been requesting a 15% CAD ratio.

Mr. Speirs answered that the banks had not requested a specific ratio. The main concern for Hawkpoint is not the exact ratio but rather that it works. Absence of guidance leads to increased discussions on the capital ratio.

Mr. Josefsson reminded that the original letter of intent states that the banks are to be recapitalized up to 10%.

Mr. Arason stated that the FME is also working with 10% as its assumption.

Information Provided

Mr. Williams said that each bank had a different approach. Kaupthing had received a detailed due diligence list from Morgan Stanley. They have set up a detailed data room and have established a confidentiality agreement.

Íslandsbanki had given some high level information and set up a data room. Hawkpoint had stopped this work until clear guidance can be given. Landsbanki waits instructions. There is a need to give same access in all cases and therefore follow the largest common denominator. Kaupthing's actions will, therefore, set a precedent. Access to information is also the most pressing point from a creditor's viewpoint according to Hawkpoint.

Mr. Speirs thought this question was rather a political issue rather than a substantive one. The creditors need the business plan and the Deloitte process and understanding of it to assess the value of the transferred assets. He also stressed that it is important to set up flow and regulate interaction between the parties. Hawkpoint has attempted to streamline this process and give messages on communications between resolution committees and the new banks.

Mr. Josefsson asked how much data the new banks had.

Mr. Williams said that the key pieces are the audits and the business plans in addition to recent trading. The data rooms would help the financial advisors to contextualize the Deloitte process and may speed it up.

Mr. Þorsteinsson said that he felt that the financial advisors to Kaupthing and Íslandsbanki were ahead of Hawkpoint. This work was, however, partly in vain. It was, however, not up to the steering committee to decide on work carried out by the financial advisors.

Ms. Valfells commented on press releases from the banks in relations to an article in Morgunblaðið on 24 March on possible mergers of banks. She questioned whether Morgan Stanley was issuing press releases related to the process.

Mr. Speirs said Hawkpoint had good meetings with creditors and quite a good dialogue. They raised questions over the process and communications. This dialogue had raised expectations and it is good to raise expectations. He asked whether the Coordination Committee had received any feedback.

Mr. Josefsson said that the communication was largely one-way. The best dialogue was on the winding-up data. They were, however, keen on knowing the timetable.

Mr. Speirs said the creditor's main concerns regarding the timetable were connected to progress and whether they had long-enough time to consult and give input into the process.

Andrew Speirs said that the creditors needed to understand the process to be able to state at home that they have done everything they can. The government also had to identify what it needs from the creditors. The agreement is with the resolution committees and their financial advisors. The creditors had to see it as a fair deal. It would be helpful to get input from a significant body of creditors and an endorsement from them. Such an endorsement would be extremely important for the government and show other creditors that this was not expropriation. This is foremost in Hawkpoint's mind.

Mr. Josefsson said that it would be positive if an agreement supported by creditors could be reached – if they want to reach a deal.

Mr. Speirs answered that the creditors wanted to reach a deal. They were, however, concerned that they will not get much value and that they can't do much about it. They have been threatening to use the current situation against Icelandic interests abroad. They will not act on this if they get something.

Mr. Josefsson said that he did not believe that the creditors would act on their threats.

Hawkpoint suggested that the resolution committees could put agreements to an endorsement vote. If the creditors approved the deal it would be more difficult to raise issues outside Iceland.

The question of an international legal advisor has also been raised. Possible actions and resources outside Iceland had to be identified.

Mr. Þorláksson said that it was important to look at which creditors are most important to Iceland. These are especially the large banks Iceland has been in relations with for a long time. We should not be considering giving them a better deal - but rather listening to their concerns and demands.

Mr. Williams agreed that considerations had to be made regarding getting the Icelandic banks back into the system.

Mr. Josefsson asked what would happen if a narrow majority of creditors would oppose the agreement.

Mr. Williams said that the resolution committees had to agree and sign the agreement. They had to feel comfortable. He said that if the appearance of expropriation could have serious consequences.

Ms. Valfells said that the Resolution Committees fear litigation.

Mr. Williams said that the most involved creditors should have most to say.

Mr. Speirs said that his perception was that the Resolution Committees are led by advisors.

MS are the most attuned to creditors' concerns. See them as their real clients. They are furthest up the learning curve and are most aggressive. Creditors feel that MS is most involved.

Barcap have a decent team in place but are further down the curve.

UBS is working too much for Íslandsbanki. Creditors would be concerned if they know how UBS is conducting themselves.

Mr. Þorsteinsson said that there was a lack of owner involvement. FX imbalances are the most important, not least because of the negative carry. The government is supporting FX lenders. There is a need to address this quickly. A possible political problem. Banks also have substantial losses from buying assets of money market funds. ISK 30 bn from LAIS.

Mr. Speirs asked about the concerns of the IMF

Mr. Josefsson answered that the Funds focus was largely on fiscal policy.

Mr. Þorláksson said that he would address this point at his meeting with the IMF's Permanent Representative the following day.

Mr. Williamson pointed out that if losses of banks were pushed into the private sector this would weaken it further with consequent additional weakness on the banks' balance sheets.

1.b. Timetable.

- Key milestones and deliverability

- Communication (Government, IMF, New Banks, Resolution Committees)

- Release of Deloitte Report

Mr. Williams introduced a new detailed timetable that showed that end-May early June would be feasible to conclude the process. End of May was, however, not Hawkpoint's expected delivery date. This timetable did, however, not factor in the events surrounding SPRON and Icebank. The effects of this needed to be scoped further.

The process is currently in a preparatory face with three complicated workstreams. The Deloitte report would be available in 31 March. The main question is whether the financial advisors receive access to part 2 of the report. There could be enough information by 24 April to begin the negotiations. The final date would depend on the complexity of the instrument, final audits, swaps and then getting the right people into a room to negotiate.

Mr. Josefsson asked whether this timetable could be brought forward. He feared that delaying the process into June could be problematic for the LOI. This would lead to additional 2 month uncertainty for the banks.

Mr. Williamson and Mr. Speirs stated that this timetable was as tight as possible. The timing was fraught with the risk and everything had to be in place by third week of April. The banks are already on a timetable but they have to wait in part or results of the Deloitte process. The business plan would have to be drafted by Easter.

Mr. Josefsson said that it was in the interest of the banks to delay the process. He asked how much pressure had been put on banks to speed up this process.

Mr. Williamson said that he did not believe that the banks were delaying the process but they had not proper business plan.

Ms. Valfells said that the banks are currently overstaffed and some of this staff could be used to speed-up the process.

Andrew Lynn said there was also a need to speed up the process at the National Audit Office. Banks had been expecting the Deloitte process to define an opening balance and instruments to deliver all the answers. The banks want to resolve this now but the process is delayed.

Mr. Þorláksson said that the banks should have known 3-4 weeks ago that the Deloitte process would not lead to a definite number they could use.

Mr. Speirs said that the timetable offered by Hawkpoint was "heroic". The banks had to be reinvented in only 2 months and Hawkpoint had been trying to kick-start the whole process.

Mr. Josefsson said that further delays could be detrimental to Iceland's international standing. He asked whether the process could be brought forward by 10 days. Bringing the process into May would make the cooperation with the IMF much easier.

Mr. Williamson said that the process had been brought forward as much as possible. Hawkpoint would have selected late June-mid July if it was up to them.

Mr. Josefsson asked where the weak spots were.

Mr. Williamson said that the question of whether the Deloitte process was acceptable was the main question.

Ms. Valfells asked whether it was possible to manage expectations for the Deloitte report.

Mr. Williams said that this had already taken place to some extent.

Mr. Þortsteinsson said that publication of part 2 would speed up process.

Mr. Þorláksson said that there was a need for a realistic but aggressive timetable.

Mr. Þorsteinsson said that this delay puts more pressure on the MoU. The addition work following it would be more technical. The MoU would say to the outside world that there is progress being made.

Hawkpoint put great emphasis on the need for a proper business plan to be in place. It would have to take notice of the imbalances. Hawkpoint has doubts that the business plans can be delivered in sufficient quality before Easter.

Mr. Þorláksson: work should continue according to the Hawkpoint timetable. Possibilities of bringing it forward should be considered but it is not reasonable to expect an earlier date. The issue would be taken up the following day with the IMF Perm. Rep.

Hawkpoint offered to discuss the timetable with the IMF.

Mr. Speirs said that the recapitalization could not take place until the instrument is ready and the imbalances are fully understood.

Mr. Josefsson did not agree. Expects a partial recapitalization to be able to take place as CAD is mainly decided on the assets - the instrument would therefore not be needed for it. Such partial recapitalization would look better for the state.

Mr. Speirs said that the SPRON and Icebank developments also made the matter more difficult. New liabilities on the books of Kaupthing. Also, the creditors did not understand the process. There was a lack of control over the process and inexperience on the side of SPRON and FME in the process.

Governance

Governance structure is important for creditors, with the Holding Company playing an important role. Hawkpoint wants to raise questions of control of the banks with creditors. Hawkpoint outlined at the 2nd meeting its concerns with giving the creditors equity. Send a letter to Resolution Committees and Financial Advisors and request their thoughts on these issues but state that no decision has been taken as of yet on equity to creditors.

Ms. Valfells: the Minister for Business Affairs is open to foreign ownership of banks.

Mr. Josefsson wants a memo on the pros and cons of foreign ownership to be prepared for government. Focus should, however, remain on other issues, such as the imbalances.

Mr. Þorsteinnsson pointed out that with a swap against the government, it would be difficult to have a foreign owner of the banks. The swap would likely not be on complete market terms. If the creditors own the banks, they should be on the swap.

AMC

Mr. Josefsson was asked by Hawkpoint to list the main points related to the AMC. The AMC needed operational guidelines. It needed to be in place ASAP. There was a need to hire the management team and a debt restructuring team. Most loans would remain on balance sheets of banks and the costs would be carried by banks. Common large exposures could be moved into the AMC as well as some worthless assets.

Mr. Williams: There is a need to ringfence value and understand how this would work with the AMC. The new bank management teams needed to understand the process.

Mr. Josefsson said that the only concrete steps taken to date were to prepare a law and send to parliament. Guidelines for decision making were being developed.

Mr. Arason. 2 People have been hired to work on the AMC. MoF sent bill to parliament and views it as a weapon in its armory. It could be used for socially important companies. Most restructuring would, however, be carried out by the banks.

Mr. Þorláksson said that the law would be passed this week or the following one. English summary was to be sent to Hawkpoint by the MoF.

Hawkpoint went over how little the banks had already done regarding company restructuring. Not enough resources. More people are needed as there is a massive shortfall in restructuring.

Hawkpoint said that there was a sense in having a central group but control should be kept in banks. There needed to be oversight of the system. Information from Landsbanki were that many companies did not want to engage in restructuring.

The meeting was ended at 01.15 pm.

Frjálst form

Minutes - 4th Meeting of Gov. Steering Group and Hawkpoint

Málsnúmer: FOR09030068

Númer skjals:

Skráð: 2. apríl 2009

Eigandi skjals: Tómas Brynjólfsson/FOR/NotesSTJR

Auðkenni

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Fyrirtæki:

Geymslustaður skjals: GoPro

Nafn:

Minutes: 4rd meeting of the Government's Steering Group and Hawkpoint (the Government's Financial Advisor) at 11 am on 24 March 2009, Ministry of Finance, Reykjavík.

Present

Indriði H. Þorláksson (Chair), Björn Rúnar Guðmundsson (in the absence of Guðmundur Árnason), Þórhallur Arason, Þorsteinn Þorsteinsson, Helga Valfells on behalf of the government. Andrew Lynn, Rupert, Andrew Speirs, Rupert Pepper and Claire Harwood from Hawkpoint. Tómas Brynjólfsson drafted the minutes (absent for first 30 minutes).

Hawkpoint presented a process update for 31 March 2009.

Next meeting set for 16 April at 10 a.m.

Workstreams - description and responsibility

1. Audit

2. Business Plans

3. Imbalances

Mr. Speirs led a discussion on the banks' imbalances. The FX imbalances are now seen as the most important immediate concern. It needs to be solved for the process to continue. Banks do not have a positive net income, which is problematic to a recap. He stated that the regulatory and legal issues need to be addressed if the right economic solution is found.

To solve the FX problem through non-ISK equity. The banks need to have at least 50% of their income in foreign currency.

Solving the imbalances through a swap with the government/Central Bank would have an extensive negative impact on government finances with tens of billion ISK cost a year and extensive FX risk. This would also lead to a substantial problems with the IMF, even though the swap was rather small. Both of these methods would lead to a considerable funding problem for the government as it has to put in additional resources. There is also a problem with the swap parties being able to impact the key variables in the swap.

Hawkpoint has requested a breakdown of FX loans from banks. There is a need to see the non-performing loans as they can be pushed into ISK loans.

Mr. Guðmundsson said that there was a need to exchange as much of the loans into ISK loans as possible. A large part of the FX loans is not to natural FX borrowers, i.e. the ISK 240 bn in mortgages. There has, however,

been a strong political pressure not to go this way.

Ms. Valfell said that this was a large political macroeconomic problem. There has not been willingness to lengthen the loans further as this would cause additional problems for the banks and would lead to a difficult debt situation from many homes. The need to treat all borrowers equally under the law had also complicated earlier attempts to solve this problem.

Mr. Speirs pointed out that the most secure asset in the economy, a deposit at government owned banks, is yielding 14% interest rates. The high interest rate is encouraged by IMF. It is problematic to make banks pay high interest rates as it prevents them from making profits.

Ms. Valfell pointed out that both inflation and interest rates were going down.

Mr. Speirs said that the IMF policy was ensuring that the banks cannot function.

Mr. Gudmundsson said that the IMF is likely conceptually aware of the effects of the high interest rates on the banking sector. He was, however, not certain that the Fund had done the math but that they have the sentiment that there are losses at the banks. The magnitude may, however, not be clear by them.

Mr. Speirs said that the loan book was degrading fast. Developments are not clearly visible and it is not clear what the banks are doing regarding recovery.

Ms. Valfell stated that the payment holiday was to end on 1 April. Minister of Business Affairs is working on ways for borrowers to service their loans. The IMF also wants a culture of servicing of loans. She said that it is not possible to force people to switch their loans into ISK. It is also problematic for the macroeconomic situation to give more people 70 year loan.

Mr. Guðmundsson said that there had been no intention to force people into ISK loans.

Ms. Valfell asked if these loans could not be incentivised?

Mr. Þorláksson said that there was a need to take this matter to the relevant ministers. Mr. Guðmundsson would take the problem to the IMF.

Information Provision

Mr. Speirs said that the information sharing had slowed down, especially with regards to Landsbanki and Kaupthing. the Resolution Committees and their financial advisors were starting to realize that the available information would not get them far enough. Hawkpoint held a conference call with Barcap last week. ICC meetings of Glitnir and Landsbanki would be held this week. Mr. Speirs added that the communications with the creditors, the resolution committees and their financial advisors were going reasonably well. Everybody is starting to realize that meaningful information is being created. Phase 2 of the Deloitte report is to be available in a physical data room. There would also be a one day workshop with Q&A from Deloitte. Creditors are now happy with the transparency and increased confidence in the process. Landsbanki is currently the slowest with regards to information provisions. Their confidentiality agreement has been sent to Barcap but to released to Mr. Þorsteinsson as the other banks have done.

Mr Pepper said that both Glitnir and Kaupthing have set up on-line data rooms that Hawkpoint would get access to as well. Landsbanki was to do the same.

Timetable

Mr. Pepper introduced two timetables. Timetable A had a MoU signed 15 May and the process completed by end of 1st week of June. This is seen as an accelerated timetable and requires all parties to deliver the relevant information on time.

Timetable B was an extended timetable with the MoU being signed at the end of May with the whole of June to reach an agreement.

Deloitte is to sit down with the new banks this week or the beginning of next week on part 2 of its report.

First round of business plans are to be in place by 8 April.

According to timetable A, April is to be used to prepare information that is to be sent to the resolution committees by beginning of May. The government proposal is also to be prepared and presented to the resolution committees in the beginning of May. There is a need to solve the imbalances and deliver the results by 8 May. Resolution Committees would then have a week to respond and negotiate. This is the tightest part of the program, but not impossible.

Timetable B would give an extra week to prepare information by 8 May. Negotiations would be delayed from May 15 to May 29.

Creditor communication

Mr. Speirs said that Hawkpoint and Mr. Þorsteinsson had sent a letter to the resolution committees and the financial advisors on issues to do with equity. They had been asked about potential solutions. Need to understand their position. The creditors should, however, not be made aware of whether they would get equity or not until the negotiations had started.

Mr. Þorláksson said that there was a need for the government to review the timetable on its own side.

Mr. Speirs reiterated that the most important work now was regarding the FX imbalances. Hawkpoint would be willing to help but that this was outside its terms of reference.

Mr. Þorsteinsson said that in conclusion, communications with the creditors were going well. Information is being given by Deloitte and the government's plans. The main problem, however, sits with the banks. The FX imbalances have to be solved before putting anything to creditors. This was certainly the major problem facing the committee at the moment.

Everyone agreed. Mr. Þorsteinsson said that there was a need to coordinate regarding the timetable. There is also a need to clarify issues regarding ownership.

Mr. Speirs asked on the IMF's view of the timetable. Creditors see that the current timetable can't work.

Mr. Guðmundsson said that the government was aiming at finalizing the first review before end-April. Much depended on the negotiations with creditors that have to be concluded. Discussions this week could lead to a final agreement. There was, however, a diminishing likelihood that the agreement could be finished in April. The date for recapitalization was still open in the Letter of Intent. It remains a flexible process. The elections are impacting the process but Iceland does not have an immediate short-term financing need. There is therefore no such specific time pressure on reaching an agreement with the IMF on the first review.

Mr. Þorsteinsson stated that he had suggested to Mr. Þórhallsson that these issues should be taken up with the IMF permanent representative.

Mr. Speirs said that the banking sector was losing a lot of money. There is a possibility to push this cost into the personal sector or onto the government. This cannot be done because of the agreement with the IMF. This is an unpleasant message.

Ms. Valfell said that the Minister of Business was up to date on the problems. It may be important to manage expectations.

Mr. Guðmundsson said that it is important to get the managers of the banks to work on their problems. Their managers lack incentives. They have been led to believe that the government would solve all of their problems.

Mr. Guðmundsson said that the banks were doing a good job in the beginning. The delay has pushed morale down. There is a need to put the ownership issues in place.

Mr. Speirs suggested that a committee be established with the bank managers or the chairman, the FME and the government to review their progress and the need for action. Their common interest would be discussed but not issues that could have competitive issues.

Mr. Lynn said that such an inclusive process was needed.

Mr. Speirs added that the government needed to be seen as helping the banks. The bank managers would get positive peer pressure. There is value in competition in getting their houses in order.

Ms. Valfells said that the bank managers were under pressure because of the calls for new CEOs.

Mr. Guðmundsson said that it was scary that there were no managerial accounts.

Mr. Lynn said that the banks were running on net liquidity. They were not looking into their gross liquidity positions. He said that the banks were not cutting costs. The focus has not been on this. They do not want to destroy human resource potential.

Mr. Speirs said there are huge problems within the banks but that the banks were not admitting them. Problems are being managed rather than attacked. There is a lack of information and therefore a lack of confidence.

Mr. Lynn said that Hawkpoint has requested, but not received, information on such issues as cash flows.

Mr. Lynn said that there is now more acceptance of the larger problems but many of the smaller are not being considered.

Mr. Gudmundsson said there is scope to solve some of these problems. They need to be incentivised. There is a need to push harder on this.

Mr. Speirs said there is a need for radical steps being considered to stop the loss making, e.g. to only guarantee deposits with up to 1% interest.

Ms. Valfells and Mr. Þorsteinsson both commented on the asset overhang in the system and the need to solve it.

Mr. Speirs said that deposits are held by those with no problems. The pain of adjustment is not being fairly shared. There is a need to solve this before going to the creditors. Timetables assume imbalances being sorted out.

Mr. Þorsteinsson said that solving this problem was not part of Hawkpoint's workstream. But could be tasked to handle the problem.

Mr. Arason said that his department was working on the bank holding structure.

Ms. Valfells asked whether it was possible to hire in strong foreign bankers to help with the restructuring.

Mr. Speirs said that this was a good idea but had a number of problems: outsiders cannot be running the show, global banking problems have hoovered up all the best restructuring people. It is of the utmost importance to task the right people.

Mr. Arason said that he has met with all the banks on methods and progress. He felt confident over the process, but the enormous impairments formed the big task.

Mr. Þorsteinsson said that the banks said that they didn't need any help but there was a possible problem with the legal system.

Legal advisors

Mr. Þorsteinsson said that there were two proposals on the table. One is more slow. A note would be circulated with recommendations on who should be engaged. This would be sent in an email.

Mr. Speirs said that the legal advisors need not to start work before Easter. They were important in preventing litigation in different jurisdictions. There is a chance that a strong legal advisor could stop legal processes. The legal advisors could suggest steps to take and point out risks and benefits.

Mr. Þorsteinsson said that there is a policy in place within the banks in corporate restructuring.

The meeting ended at 12:30

Frjálst form

Minutes - 5th Meeting of the Gov. Steering Group and Hawkpoint

Málsnúmer: FOR09030068

Númer skjals:

Skráð: 17. apríl 2009

Eigandi skjals: Tómas Brynjólfsson/FOR/NotesSTJR

Auðkenni

Vinnsla

Dagsetning:

Staða: Í vinnslu

Fyrirtæki:

Geymslustaður skjals: GoPro

Nafn:

Present

Indriði H. Þorláksson (Chair), Guðmundur Árnason, Þórhallur Arason, Þorsteinn Þorsteinsson, Helga Valfell on behalf of the government. Andrew Lynn, Andrew Speirs, Charles Williams and Paul Baines from Hawkpoint. Tómas Brynjólfsson drafted the minutes.

Hawkpoint presented a process update for 16 April 2009.

Íþ announced that Hawkpoint had been requested to expand its role to assist the banks with their business plans and to work on resolving the banks' FX imbalances.

Agreed action points:

A. Imbalances Meeting

- Meeting to be arranged to discuss all issues relating to imbalances and debate potential solutions
- Hawkpoint to prepare a paper summarizing the information received to-date from the banks to assist in the analysis of the scale and specific nature of the imbalances

B New Bank Governance (Thindridi.h.thororsteinn Thorsteinsson & Helga Valfell)

- Further consideration to be given to governance issues for the New Banks
- Explore further the creation of a separate holding company to act as the formal owner of the equity in the New Banks
- Legal input to be sought to ensure no anti-trust are created by potential holding structures
- Consideration also to be given to the establishment of separate layers of decision making bodies to negate any potential anti-trust issue which otherwise cannot be avoided

C. Press co-ordination (All parties with specific input from Hawkpoint)

- Prime Minister's office and Ministry of Business Affairs to provide draft press release to outline holding position following completion of Deloitte report
- Hawkpoint to provide input on that draft and prepare Q&A to enable all parties to field questions from press after release
- Press officers of each Government department to be briefed that no formal statements should be made around the ongoing process without first seeking the input of Thorsteinn Thorsteinsson

1. Audit

AL said that Landsbanki is making good progress with KPMG. The intention is to use their work as a template for the other banks to follow. The delay in engaging audit firms has not helped the timetable. The information coming out of the banks has been insufficient as the banks have been waiting for the conclusion of the Deloitte process. Deloitte has not been formally engaged to do the audit for Íslandsbanki. Waiting for Deloitte to conclude the evaluation process.

CW said that the delay in the Deloitte process should not delay the whole timetable much as the workstreams should be carried out in parallel.

2. Business plans

BP said that Landsbanki has an appropriate model but remains cautious. Kaupthing has spent less time looking at their books loan-by-loan. They remain on track to deliver by 30 April. Íslandsbanki has made the least process. They insist that they will be able to deliver by 30 April. These statements should, however, be taken with caution. There will be follow-up meetings next week.

CW said that the banks were now aware that the imbalances would not be solved by a swap agreement. They have, however, not factored this into their business plans.

AL said that good information had been received from Landsbanki regarding the loan book performances. The information had been delivered to Danfel Svavarsson at the Central Bank. The data show significant negative carry. The book is also not performing the way it should be. Hardly any positive net interest even if it was performing fully.

CW said that the data indicate a 3-4 bn. negative carry for Landsbanki each month since October. The negative carry has decreased somewhat with lower interest rates.

PA said that the FX committee's final report would be available next week. A formal letter on the swap agreement would also be received from the Central Bank.

IP said that there was a need to make a decision in the immediate future. The level of interest was too high. It has to be lowered with all means possible. The boards of the banks need to understand the problem.

Hawkpoint agreed to deliver a short report on the cost of the imbalances.

CW said that the banks knew they were running at a loss but had been expecting a swap agreement to solve the problem.

BP said that the banks needed to take ownership of the problem.

AS said that Hawkpoint had been attempting to understand what the FX assets really were. For Landsbanki, only 24% of the corporate FX loans were really FX income before impairment.

CW said that there were problems with the data from Kaupthing. HP would go back and attempt to get the correct data.

IP said that there was also a need to look at indexed loans in the restructuring - pushing FX loans into indexed loans.

PP said that it was important to present the FX report and the Central Bank letter to the banks to make clear that a swap agreement was not to be expected. There was a need to come up with proposals that the steering committee would have to accept and bring to ministers and bring forward proposals after the election.

AS said that there was a need for the government and the banks to look at the problem together.

IP suggested setting up a working group of the three ministries and banks to work with HP on the problem.

AS said that the CB suggestion was to bring assets back to old banks. He was concerned with opening up the split. Could lead to a number of problems. He said that re-denomination was the long-term solution

GÁ informed the meeting that the FX problem had been discussed extensively in the Coordination Committee

the previous day.

HV said that it was important to incentives the re-denomination and use restructuring to re-denominate.

AS suggest that it might be important to have a legal input into the working group taking the FX problem forward with Hawkpoint.

GÁ said the General Council had been against retail loan forgiveness that extended only to some individuals.

ÞÞ said that it was important to help banks by reducing deposit rates.

CW suggest that the working group should meet with the banks Monday or Tuesday. The problem and process should be defined within the next 24 hours.

ÞA said that he would relay the message to the committee on the FX imbalances that was meeting later that day.

3. Instrument

HP passed out a separate discussion paper.

Letter had been sent out to the Resolution Committees regarding views on compensation (including equity stake).

AS said that Landsbanki creditors wanted certainty of value. Landsbanki would, however, be the key battleground for lawsuits. Very damaging if foreign depositors preferences are pushed out. German creditors say that depositor preference is unconstitutional. Giving equity in Landsbanki could help with non-depositor creditors.

ÞÞ said that Íslandsbanki was interested in buying foreign fisheries and geothermal loans from Glitnir. HP said that Íslandsbanki was not ready to pay the asked price and creditors were not keen on further movements between the banks.

GÁ said that there had been outside interest in these loans.

CW said that there is still some movements between the banks under FME oversight.

AS said that government guarantee of the instrument has been raised.

BP advice against such guarantees in general.

CW said that the bond to cover the 83 bn of liabilities moved from SPRON to Kaupthing had not materialized. This is a significant additional risk for Kaupthing.

HV said that the FME is certain that there are assets in SPRON to cover the deposits. She said that the FME had indicated that this problem would be solved within a week.

AS said that it was not the banks' preference to be seen as agents of the government.

AS said that there is a need to offer some form of a fixed instrument. Might require a small government guarantee.

The committee was generally opposed to such guarantees.

AS said that giving the creditors a seat on the boards might be helpful.

BP said the government needed to lead the debate on government structure.

AS said that the current board structure is not seen as optimal by the creditors.

CW suggested that it was important to get an appropriate government group to guide the feedback and put down guidelines. Need to clarify today who will be at the table. It is important to get started soon and get something in writing.

HV said that MoB working on changes to the corporate governance law - expected in this Autumn.

IP said that there was a need for something stricter than guidelines.

GÁ said that the holding company structure should be included.

AS said that greater support and oversight was needed between government and managers of the banks.

IP said that competition rules may hinder the holding company.

GÁ said that he would be interested in seeing a legal opinion on the matter as ownership of the banks was already concentrated in the hands of the MoF.

AS said that it could be possible to define rules for each board and give them different functions. This could prevent future competition problems.

4. Information Strategy

CW said that there is a need for a consistent and coordinated PR policy. FME has not yet issued a press release as planned. Common speaking notes would be required.

GÁ said that the 2nd Strategy Note was being prepared. There is a need to discuss points pertaining to the steering group. A new timetable would be in the appendix. The SN would be published after the election.

GÁ said a draft press release on the process had been sent to the Ministry of Business Affairs.

HP agreed to prepare Q&A on the process to be handed out to those in contact with the press.

5. Legal Advice

Three sets of offers been received and shared with the steering group. Similar cost. PP thought that Lovells might get up to speed quicker because of its earlier work for the government.

Frjálst form

Minutes - 6th Meeting of the Gov. Steering Group and Hawkpoint

Málsnúmer: FOR09030068

Númer skjals:

Skráð: 29. apríl 2009

Eigandi skjals: Tómas Brynjólfsson/FOR/NotesSTJR

Auðkenni

Vinnsla

Dagsetning:

Staða: Í vinnslu

Fyrirtæki:

Geymslustaður skjals: GoPro

Nafn:

Present

Indriði H. Þorláksson (Chair), Guðmundur Árnason, Þórhallur Arason, Þorsteinn Þorsteinsson, Helga Valfells on behalf of the government. Charles Williams from Hawkpoint. Tómas Brynjólfsson drafted the minutes.

Action points:

A committee from the MoF, MoBA, PMO and the CB to be formed to come up with concrete proposals for government and the banks to solve the FX problem.

Next meeting set for Thursday 30 April at 12:30.

CW informed the committee that Hawkpoint would receive the first go at the business plans from the banks Tuesday and Wednesday next week. They would likely not be in as advanced state as HP would have liked. The FX imbalances receiving extensive attention. Banks have to put a higher discount rate on the FX loans than shown in the Deloitte report. This could have extensive consequences. There is a need to be coherent in this regard with the creditors. HP and ÞÞ will also meet with the CB to discuss the FX problem and the impact from monetary policy.

ÞÞ pointed out that forcing the FX loans into ISK rates at this moment would reduce the value of the loan book compared with the Deloitte process.

HV said with regards to suggestion on increased cooperation between the banks that a written statement from the competition authority could be sought and received on them cooperating in a general manner with regards to industry-wide problems. SSF has also expressed willingness to cooperate.

IP suggested that a working group should be established to work with the banks and HP to solve the FX problems. The three ministries represented in the tripartite committee should be represented as well as the Central Bank. ÞÞ and ÞA are to come from the Ministry of Finance, Björn Rúnar Guðmundsson from the Prime Minister's Office and Áslaug Árnadóttir from the Ministry of Business Affairs. The work should be based on the FX/swap letter from the CB and the FX report delivered by the FX working group headed by BRG. The aim is to come up with concrete proposals for government and the banks. This should be on an operational and technical level. ÞÞ is to chair the group. IP is to discuss the proposal with the CB governor.

ÞÞ stressed the need for banks to be more involved than before.

Communication strategy was then discussed. Deloitte report is still being held up.

GÁ said that FME had received 2 reports. One last night. Oliver Wyman to give final view Wednesday. He also stressed that some sort of a timetable was important for the next Strategy Note. There needs to be an agreed common language.

CW took up governance. IP said that more preparatory work was needed.

GÁ said that the PMO wanted TB to work on the governance question with the committee.

Frjálst form

Minutes - 7th Meeting of the Gov. Steering Group and Hawkpoint

Málsnúmer: FOR09030068

Númer skjals:

Skráð: 6. maí 2009

Eigandi skjals: Tómas Brynjólfsson/FOR/NotesSTJR

Auðkenni

Vinnsla

Dagsetning:

Staða: Í vinnslu

Fyrirtæki:

Geymslustaður skjals: GoPro

Nafn:

Present

Indriði H. Þorláksson (Chair), Björn Rúnar Guðmundsson, Þórhallur Arason, Helga Valfélis and Jónína Lárusdóttir on behalf of the government. Charles Williams, Andrew Lynn, Andrew Speirs, Rubert Pepper and Christian Kent from Hawkpoint. Tómas Brynjólfsson drafted the minutes.

Action points:

Hawkpoint to hand in a memorandum of its work to the Coordination Committee Tuesday next week.

Next meeting scheduled for Thursday 7 May at 12.30.

AS highlighted FX imbalances as the biggest issue still getting in the way of the timetable. HP has met with each of the three banks on the imbalances with representatives of the Central Bank.

AL said that Íslandsbanki and Kaupthing had accepted the concept of re-denomination, even though the process at Kaupthing was less developed. Íslandsbanki wants to negotiate on commercial basis with its customers. The banks are thinking about the value required to address the problem. Both banks will report on progress next week. Landsbanki has a different opinion on re-denomination, i.e. whether it should happen. They are keen on an alternative route. HP asked Landsbanki for a paper explaining the bank's views. A re-denomination strategy was also requested.

HP has discussed the deposit rate with the Central Bank with some scope being seen on the interest rate corridor. It is, however, not clear who decides on the corridor following the changes to the Central Bank structure. The decision would, however, be seen as a major policy decision. This suggestion was tabled before the new banks. They pointed out that this might lead to problems for the smaller banks. This problem would, however, be much smaller than the FX imbalances.

AS pointed to three main factors related to the imbalances:

1. The need to re-denominate.
2. The financial cost from the negative carry.
3. The state of the borrowers. What kind of a return could banks get on re-denominated loans.

AS said that HP had suggested a restructuring advisors for the banks. Banks acknowledged the problem but wanted to nominate their own advisors. Their suggestions had not been received yet. Even though this may lead to some delay, the banks need to see themselves as part of the process.

AS said that the focus for the creditors would now shift towards the Deloitte valuation. Banks were, however, not able to give a bond at the moment.

The Resolution Committees and their financial advisors have been given information on the FX imbalances. They were given the sense that the problem is large and that the assumptions in the Deloitte report do not take account of the FX funding. Major discussions on value remain 1-2 weeks away.

New banks have formed a view on value to compare with the Deloitte evaluation. This is important for discussion. The Oliver Wyman report spells out certain problems clearly.

AL said that it was unlikely that the re-denomination of FX loans will be concluded before the recapitalization due to time concerns. There is a need to have a strategy ready that is accepted. HP needs to understand monetary policy environment of Iceland and have discussions on the interest rate environment. Historically banks have been run at a 2-2.5% margin in the UK. The new banks said that they required 2-3% margin while Landsbanki said it needed 4%. The banks say that they need a deposit rate of 7-8% and a lending rate of 10%. Landsbanki, however, wanted a 4% policy rate.

AL said that the re-denomination process is greatly impacted by exchange rate expectations.

AS pointed out that it is extremely difficult to manage a decline in a currency. Exchange rate expectations are important. It might be important for the government to seem happy about the current exchange rate.

HV said that the different horizons of corporates and households had to be taken into account.

AS pointed to three important factors. 1. exchange rate expectations, 2. interest rate movements, 3. degree to which customers see banks acting because they have to but not taking advantage of them. For the last point, it may be important for the government to focus on prudent banking. FME could take action on the FX lending to non-FX earners. Focus on prudent banking may create degree of expectation change. These three factors have to be managed to conclude the re-denomination process.

IP asked whether some sort of a discount to the borrower was the only way (as indicated by Íslandsbanki and Kaupthing).

AL said that the banks needed to pass some of the discount to the customers. In some instances solutions should be thought of for homogenous pools while larger loans have to be done on a loan-by-loan basis. The banks have been asked to assess this.

HV said that companies might not be paying as they expected a write-down.

AL suggested that a window of opportunity be offered for re-denomination. After that the payment moratorium would end. Would give both a carrot and a stick.

HV there is a need to think about whether this should be carried out by the FME or SFF instead of the government. Parties needed to be aware of certain constitutional issues. There is also a problem with different banks having different windows.

BRG asked whether the FME would sign off the banks with the FX imbalances?

AS said that the business plans needed to cover these problems and have re-denomination en route.

BRG said that one could not recap unsigned banks. The voluntary approach might delay the process. It should also be remembered that the households are a small part of the re-denomination.

AS pointed out that the approach towards the retail loans would guide the corporate book. Retail solutions may work for households as well.

JL asked whether it was necessary to re-denominate the retail book?

BRG pointed out that the Central Bank will soon conclude its review of the debt and asset status of households. This should be an important factor into the retail loan book. FX report would then be published Monday.

Representatives from Lovells are to attend the meeting next week. Issue of conflict of interest has been raised with them and they state no-conflict. Preliminary business plans will also be discussed.

Hawkpoint to hand in a memorandum of its work to the Coordination Committee Tuesday next week.

Frjálst form

Minutes - 8th Meeting of the Gov. Steering Group and Hawkpoint

Málsnúmer: FOR09030068

Númer skjals:

Skráð: 11. maí 2009

Eigandi skjals: Tómas Brynjólfsson/FOR/NotesSTJR

Auðkenni

Vinnsla

Dagsetning:

Staða: Í vinnslu

Fyrirtæki:

Geymslustaður skjals: GoPro

Nafn:

Present

Indriði H. Þorláksson (Chair), Björn Rúnar Guðmundsson, Þórhallur Arason, Helga Valfells, Jónína Lárusdóttir and Þorsteinn Þorsteinsson on behalf of the government. Charles Williams, Andrew Lynn, Andrew Speirs and Rubert Pepper from Hawkpoint. Tómas Brynjólfsson drafted the minutes.

Action points:

The committee agreed to continue work on assessing the banks' restructuring capacity with an expert assessment starting next week.

Terms of reference for restructuring expert to be sent to BRG.

AS to discuss hold harmless letter with Elaine Murphy from BL.

Next meeting scheduled for Tuesday 11 May at 10.00.

1. Imbalances

CW stated that there had been significant progress on a number of fronts lately. Interest rates have been lowered and all the banks were focusing clearly.

AS said that both Íslandsbanki and Landsbanki are considering the impact from the swap not being available. Both banks have pulled back from a quick redenomination. Íslandsbanki wants to discount FX loans in terms of the funding costs since October. There is need to do due diligence on the suggestion. It will lead to a mess in their accounting. This will allow them to record profit over time. Landsbanki wants the interest rate on the instrument to be very low because of the low earnings.

These suggestions do not solve the FX imbalance issue. Re-denomination done over 5 years (as little as 2-3 years).

ÞÞ said that banks think they need to be able to offer 7-8% interest rates. FX loans now have rates of 4-5%.

Landsbanki does not think that there is a need for a coordinated approach with regards to the FX problem.

ÞÞ said that re-denomination of mortgages had to be coordinated. Kaupthing could also not go the same route as Landsbanki and Íslandsbanki as there is likely no instrument.

CW said that Íslandsbanki would require more capital.

AS said that Íslandsbanki's proposal was not going well with creditors. Íslandsbanki is looking at the problem as a buyer of assets. Not a position they want to be in. Creditors do not want to be sellers of assets. Both may request the government to make up the gap between the two positions. The Landsbanki position may appeal more to their creditors.

BRG pointed out that there are close connections between the Icesave negotiations and the Landsbanki instrument.

ÞÞ said that Landsbanki was very much opposed to revisiting the split. AS said that there was merit in not changing the route.

JL said that the October route was chosen to maintain domestic banking. Changing that may lead to legal

problems.

ÞÞ said that the definition of the split was problematic with negative instrument in Kaupthing and very low in Íslandsbanki.

ÞÞ said that the banks were now much more pro-active than they were in early March.

2. Business Plans

CW said that Hawkpoint was encouraged by the depth of the business plans. They need more work and will be discussed at more depth next week.

AS said that rates in the BP are based on MoF calculations with interest rates at 4% low in 2011. The banks are much less profitable at a 10% interest rate. Banks are showing profitability in their BP but going down different routes in their approaches.

AL said that HP has a good working relationship with the banks. There was, however, an element of frustration as they want something back.

AL said that there is a need to stress test the business plans.

3. New Bank Restructuring

Íslandsbanki considers its staff levels appropriate. Kaupthing and Landsbanki expect to close branches and reduce staff over the coming years. No radical cost cutting.

AS said that cost is not the biggest problem.

HV said that the banks required operational changes to get value from assets.

AS said that Deloitte believes that there is significant work to be done in improving restructuring capacity of the banks. They are not wedded to the idea of doing it outside the banks.

HV said that part of the problem is that the most experienced people had been working in the foreign operations of the banks.

CW said that the banks' knowledge base has improved over 2-3 months. All of the banks welcome independent review and external assistance. Kaupthing would like a Scandinavian.

AS said that the banks' restructuring capacity would improve greatly with a hard copy of the Deloitte report as a tool to work with.

ÞÞ said that the task for each bank is different. The easiest is for Kaupthing while Landsbanki has many small corporate clients. Kaupthing has hired an experienced restructuring person and 20-30 people are dedicated to this task in each of the banks. The legal system is, however, delaying.

BRG informed the meeting that Mats Josefsson believes that it is a waste of time to hire experts to scope the problem. The problem is real and the need is to attack it.

AS said that there had been huge progress with the banks over the past two months with regards to improving the relationship with the MoF. The banks had been encouraged to take responsibility. There is a need to continue this process of cooperation and bank responsibility. This assessment process would last 2-3 weeks and could start early next week.

AL said that the banks say that they would welcome assistance. HP had, however, not enough information to decide whether the AMC route was feasible. The AMC would, however, not be used if it was voluntary.

HV said that the AMC would have to be voluntary if liabilities would remain on the banks' books but restructuring to go on in the AMC.

The committee agreed to continue work on assessing the banks' restructuring capacity with an expert assessment starting next week.

Frjálst form

Minutes - 9th Meeting of the Gov. Steering Group and Hawkpoint, 12 May 2009

Málsnúmer: FOR09030068

Númer skjals:

Skráð: 19. maí 2009

Eigandi skjals: Tómas Brynjólfsson/FOR/NotesSTJR

Auðkenni

Vinnsla

Dagsetning:

Staða: Í vinnslu

Fyrirtæki:

Geymslustaður skjals: GoPro

Nafn:

Present

Indriði H. Þorláksson (Chair), Björn Rúnar Guðmundsson, Þórhallur Arason, Helga Valfell, Jónína Lárusdóttir and Þorsteinn Þorsteinsson on behalf of the government. Charles Williams, Andrew Lynn (via teleconference), Andrew Speirs, Rubert Pepper (via teleconference), and Julia Peroni from Hawkpoint. Joe Bannister, Richard Brown and Meagan Morrison from Lovells. Tómas Brynjólfsson drafted the minutes.

Action points:

Government to contract Icelandic legal council. Lovells to redo draft paper after these initial discussions.

Working group formed with government officials and representatives of the three banks to formulate solutions to the FX imbalances. Government lawyers to provide legal backing.

Hawkpoint to discuss further issued related to Hold Harmless letters with German Creditors.

1. Business Plans

RP said that both Íslandsbanki and Landsbanki are seeking ways to work around the FX imbalances. Kaupthing has not addressed the redenomination.

ÞÞ said that MoF has advised Kaupthing to focus on other solutions than the swap. The three banks all consider the low end of the Deloitte evaluation too high. Landsbanki is working with the low end but considers it too high. Requires a lower rate on the instrument to cover for the higher price. (

BRG asked whether the banks are expecting to be recapitalized despite being well outside the CB's FX imbalance rules.

CW said that this was the expectation.

ÞÞ said that Íslandsbanki's approach followed Basel II rules. The market risk is offset with more capital. Kaupthing's business plan was the most preliminary. The split is more problematic for Kaupthing than the other banks.

CW said that the Kaupthing background material was, however, more advanced.

ÞÞ pointed out that there are differences between the profit and loss statements and cash flows.

4. Audit

AL said that the audits were not fully on track. National Audit Office is to issue guidelines on the process. The audits will require input from open positions before being closed.

5. Capitalization

Business plans need to be stress tested.

BP said that the banks will request more capital than needed.

6. Creditors

Not much movement over past two weeks.

Third process letter with workstreams has been sent out. Will help creditors to understand the process and move away from May 18 date.

BRG said that the German creditors had issues with the hold harmless letters.

AS is to contact the BL representative to discuss the problem.

7. Instrument

All of the new banks are focusing on the instrument and how it fits into their business plans.

AS said that a number of creditors, e.g. the German banks, did not want equity. The bond holders are more keen on the idea. He believes it would be better to hold the equity and sell it to one foreign owner rather than to have it diffused through the creditor process.

HV asked whether it may strengthen the government's position to have offered the creditors to take over the banks if they decline. Certain rules could be added on to the equity.

AS said that this was a good idea, but would need more exploration.

JL said that foreign ownership could solve many of the problem earlier discussed.

CW government will have to put in hard equity. Need to know if constituency of ownership is correct.

8. Legal Issues

AS said that depositor preference was more hurtful to creditors than bank split.

Preliminary discussions have been held with Lovells. They will give a presentation Tuesday. Icelandic legal advisor would also be important.

AS lined up three ways to reach a deal:

1. Formal composition with all creditors voting. This could be difficult but is widely recognized.
2. Creditor vote. This would ratify the decision but not legal need. This could entail jurisdiction hopping.
3. Support from individual creditors.

It will, however, be difficult to get a deal while depositor preference is not cleared up.

JL said that the coordination committee had discussed forming a group on legal support.

2. Audit

AL said that there is still debate about the approach. Preparatory work was still ongoing. Auditors need more information soon to create the opening balance sheets, both on the instruments and capitalization. Their work will therefore halt until early June. The National Audit Office needs to publish guidelines to the auditors basing the approach on acquisition of a business and finalize discussions with Ernst and Young. There will be meetings with the banks' CFO's and the audit firms today. The final guidelines are expected Wednesday.

HP is looking at the business plans in greater detail and assisting the banks through written observations and questions paper at the end of this week. Three things need to happen on the business plans.

The business plans need to be brought together and stress tested.

A redenomination and restructuring strategy set in place.

Information required on capital and instrument.

AS said that the restructuring advice work starting this week would give granular information on the loan book and how banks are tackling the problems.

HV asked whether there was a difference between an Anglo-Saxon approach and a Scandinavian approach to restructuring as Kaupthing has requested a Scandinavian to do the work.

BP said that the work would give information on the AMC.

CW said that it would be possible to draw on the work of the restructuring expert while the work is being carried out. The work would also give real time input into the business plans.

3. Imbalances

HP distributed a short draft paper on the FX imbalances.

The banks are concerned about asking their customers to re-denominate. They would prefer for the government to tell them to do this.

AS said that it was important to use a mix of tools to accomplish the redenomination. There is a need to look at this loan-by-loan. It is also possible to have a concession rate for a certain period with capital payments on ISK depreciation after that to encourage the move. There could also be some sort of a compensation scheme. These tools needed to be worked out with the banks and policy guidance from the FME and the MoBA

BRG said that the thinking of the government committee on the FX imbalances had been similar. The paper has been handed in.

CW said that the right forum to set the carrots and sticks is required. The work would have to be carried out with the banks, get them to say what they can re-denominate with these tools.

BP asked whether this should be a formal government program.

JL said that such a program would raise legal questions, e.g. on equal treatment.

Joe Bannister from Lovells said that the government could set out guidelines of best practice.

HP laid out 3 types of government policy.
FME prudent banking policy
macroeconomic policy from the MoF and the Central Bank
Government policy as the owner of the three banks.

HV said that the FME route was politically appealing and that the CB rules on FX imbalances could be used.

CW suggested that a working group would be established with representatives of the banks and the government's experts on the imbalances. Legal opinion would also be required.

AS said that it was important to have Icelandic legal input.

There was agreement that the working group and the group giving legal backing would meet soon.

4. Capital Requirements

More detail to be provided later through Business Plans

5. Compensation Instrument

A short paper to be provided at next meeting.

6. Creditor Communication

There has been a delay in dissemination of the Deloitte Report. Some Creditors do not see the previously set 18 May deadline as having been disavowed.

ÞÞ said that the board of FME is to take a decision on timing. It is to be announced after the Wednesday creditor meeting.

AS stated that he had discussed the Hold Harmless letters with the German creditors as agreed in the previous meeting. Further discussion to take place this afternoon.

7. Legal Aspects

Lovells presented a draft paper. It was agreed that it was of the utmost importance to get an Icelandic law firm involved as soon as possible.

JL and ÞÞ said that Lovells should focus on the instrument and not go into issues related to the old banks. The core of their work should be around documentation of the compensation instrument.

ÞÞ asked what would happen if government and Resolution Committees did not reach an agreement. What would then be the process?

AS said that there is risk to both sides of not reaching an agreement. There is bound to be a gap between the two sides. They may request that the government bridge that gap in some way.

AS suggested that Lovells and the Icelandic council would look at what routes creditors may take to attack the Icelandic government or the new banks.

BB government to find Icelandic legal council to discuss with Lovell, which would then redo the paper. The government is now waiting for answers on conflict of interest from possible law firms.

Frjálst form

Minutes - 10th Meeting of the Gov. Steering Group and Hawkpoint, 19 May 2009

Málsnúmer: FOR09030068

Númer skjals:

Skráð: 20. maí 2009

Eigandi skjals: Tómas Brynjólfsson/FOR/NotesSTJR

Auðkenni

Vinnsla

Dagsetning:

Staða: Í vinnslu

Fyrirtæki:

Geymslustaður skjals: GoPro

Nafn:

Present

Indriði H. Þorláksson (Chair), Björn Rúnar Guðmundsson, Þórhallur Arason, Helga Valfells and Þorsteinn Þorsteinsson on behalf of the government. Charles Williams, Andrew Lynn, Andrew Speirs, Rubert Pepper and Charles Kent from Hawkpoint. Tómas Brynjólfsson drafted the minutes.

Hawkpoint presented a new Process update for 19 May 2009.

1. Business Plans / Imbalances

BRG expressed reservations about redenominating the FX corporate loans but not retail loans.

AS said that banks were asking for policy support.

HV pointed out that perhaps 90% of corporations required restructuring and this was the time to carry it and redenomination out.

CW said that in the first instance there was a need to mitigate the risk and reduce the capital burden. The focus should be on large corporate exposures.

AS said that the question of a retail loan policy could be worked on at the same time and worked on as soon as the problems it faced were solved.

AL said that it was difficult to separate redenomination from restructuring.

BRG said that the process from here on with the FX imbalances was to work with the working group already in place. A template document would be presented next week. There was a need to get banks on board and get the policy through the coordination committee. The committee would have to quickly form an opinion.

IP said that he believed that it was better to keep the work within the three relevant ministries instead of going to the Co-ordination Committee. It should only be informed.

PP pointed out that the redenomination process was partly a broader project outside the remit of the tripartite committee.

AS said that creditors may become worried that through the redenomination process the government would be giving "their" value away. They should, therefore, be informed as much as possible about the policy and it should be attempted to get unofficial buy-in.

CW said that there were timetable pressures in getting an approach agreed by the end of the next week. There was need to create a paper, present it in the right forum, get buy-in from the banks, discuss next steps (Tuesday next week) and adopt the policy and get it into the business plans.

2. Capital Requirements

HP presented a paper. Discussed the need for the banks to lead their capital requirements. These needed to be

based on Basel II rules.

Total capital in the plans stands at around ISK 385 bn. This includes all losses to date. The banks are waiting for the FME to respond to their ICAAP reports.

ÞÞ said that the banks will have a tendency to request more capital than is really needed. FME is also likely to want more capital than government.

CW said that the next step would be to get FME feedback. Banks are updating their work to be consistent with business plans. There is a need to discuss with the FME the appropriate level of capital.

HP pointed out that the initial plan to use bonds now on the books of the government and the Central Bank was flawed as the banks will not be able to use these bonds in repo operations.

CW said that an important next step would be to analyze the governments the government's/CB's bond assets. These assets could be put into a SPV to be used to back government issuances. In the end, banks would be able to buy assets out of the SPV with their special government bonds. Risk would then be transferred onto the banks.

ÞA said that there had been the intention to switch assets for equity. The new method would increase the gross debt burden in the beginning.

CW said that this had been raised with the IMF. The Fund had requested a follow-up meeting. The government, however, has around ISK 150 bn. in realizable assets at the moment that could be used. HFF bonds would, however, increase the banks' indexation risk.

3. Work processes

HP presented a new flow chart outlining the various work process. HP needs to be told what government buy-in is required. It is important to know who will be representing the creditors and how they will interact with the resolution committees. Íslandsbanki is to give an initial presentation to UBS this week.

HP expects 4 weeks until negotiations can start in earnest. This is provided that all parts fall in place, including the imbalances. This would be followed by 4 weeks of negotiations.

CW said that he believed that creditors understood the process better after meetings with HP.

ÞÞ said that there was a need to take up the point of what happens if no agreement is reached. ÞÞ to take the issue and the Lovells possible conflict of interest up with Jónína Lárusdóttir.

4. Legal Issues

ÞÞ informed the committee that Lovells had delivered a letter answering earlier concerns about conflict of interest. There is a need to give a more specific task to the firm and guide them through HP and the domestic legal advisor. A number of possible legal councils were discussed with Landslög being recommended by JL.

HV suggested that it could be a possible negotiation strategy to offer the New Banks back to the Old banks. This should not be a central policy, however.

ÞÞ said that UBS had requested a meeting with the Minister for Finance to discuss the split of Glitnir.

BRG warned that such re-mergers could violate the initial principles of the split.

AS recommended that the minister should have the meeting but he should be warned about the possible dangers.

Frjálst form

Minutes - 11th Meeting of the Gov. Steering Group and Hawkpoint, 26 May 2009

Málsnúmer: FOR09030068

Númer skjals:

Skráð: 27. maí 2009

Eigandi skjals: Tómas Brynjólfsson/FOR/NotesSTJR

Auðkenni

Vinnsla

Dagsetning:

Staða: Í vinnslu

Fyrirtæki:

Geymslustaður skjals: GoPro

Nafn:

Present

Björn Rúnar Guðmundsson, Þórhallur Arason, Jónína Lárusdóttir, Helga Valfells and Þorsteinn Þorsteinsson on behalf of the government. Charles Williams and, Rubert Pepper from Hawkpoint. Viðar Lúðvíksson and Grímur Sigurðsson from Landslög. Tómas Brynjólfsson drafted the minutes.

1. Business Plans / Imbalances

Business plans are to be completed by the end of this week. There is a need to factor in IMF input. ÞÞ sent a note to the banks' CEO's on the IMF discussions. These included. The macro assumptions had to be changed with higher interest rates. The IMF was against general redenomination strategy as it should be carried out with restructuring. The imbalances would be mitigate through 50% of the capital being in FX Tier 2. Interest rate on the subordinate debt had not been decided.

CW stated that without addressing the imbalances the banks may not be secure and banks would continue to run at losses. It was important to incentives the banks to redenominate.

BRG said that IMF believed that the banks' losses were being overestimated and that the government could capitalize the banks against the FX risk.

ÞÞ said that he could agree that this is a way to go forward and that a unilateral decision should be expected on the instrument as an agreement with the creditors was unlikely.

BRG said that if the FX imbalances were not to be addressed it would be important to work with the FME to assure that the banks would be signed off.

CW said that this position would make the equity injection more risky. Valuation would be lower so the fixed income instrument would be lower. This would therefore be worse from a creditor point of view. He had expected that initial discussion could take place next week after UBS/Íslandsbanki negotiations had already taken place.

ÞÞ said that business plans had to presented next week.

JL said that it was important to start working on a plan B with regards to how to finish the process without an agreement. Maybe the FME had to be brought onto this process.

ÞÞ said that FME was calling in lawyers to discuss its next steps as Deloitte would not be the fair process called for.

CW warned that the continued problems with Deloitte opened the process up to criticism.

CW said that it was important that the state give initial proposals but would impose its decision in the end in

light of the tight IMF framework of around 4 weeks.

DP said that the IMF lawyers were very conscious that the process would be considered fair.

VL said that the fairness issue was both important legally in Iceland and politically against future lenders. The process needed to be perceived as fair.

DP said that it may be important to be within the Deloitte valuation range.

CW said that the Deloitte report was fundamentally flawed regarding the FX loans.

CW said that the accelerated timeline from the IMF would increase the risks in the process. There was a need to have at least 3-4 weeks of negotiations for fairness.

DP said that the plan should then be for an early July recapitalization of the banks and the issuing of instruments. The balance sheets should be finalized and the audit performed.

HP is to look into the time plan with new cut-off time in mind.

2. Information sharing

IP asked about access to information. Hawkpoint had not heard anything.

DP said that some creditors were not signing. The FME and Deloitte disagree on a number of issues, e.g. regarding payments.

CW said that it was important to push this forward.

JL asked whether Hawkpoint and Landslög could prepare a note on a plan B regarding how to draw the line after four weeks and the risks involved.

VL said that FME was in final discussions with Deloitte. There are concerns over lack of due process in the making of the report.

CW said that the lack of creditor trust in the Resolution Committees and their Financial Advisors was a big problem.

3. Legal

A call needs to be set up with Lovells. A list of all legal issues should be prepared for discussion.

DP said that the drafting of documents should be starting. Banks could possibly have subordinate loan agreements they could use as templates.

CW said that Hawkpoint was to meet Oliver Wyman and the FME to discuss the FX imbalances and the business plans.

4. External relations

BRG said that there was a need to have something communicated soon.

HV said that there was a lack of information and information giving process.

A note was to go out to the creditors this week.

Frjálst form

Minutes - 12th Meeting of the Gov. Steering Group and Hawkpoint, 2 June 2009

Málsnúmer: FOR09030068

Númer skjals:

Skráð: 6. júní 2009

Eigandi skjals: Tómas Brynjólfsson/FOR/NotesSTJR

Auðkenni

Vinnsla

Dagsetning:

Staða: Í vinnslu

Fyrirtæki:

Geymslustaður skjals: GoPro

Nafn:

Minutes: 12th meeting of the Government's Steering Group and Hawkpoint (the Government's Financial Advisor) at 10 am on 2 June 2009, Ministry of Finance, Reykjavík.

Present

Indriði H. Þorláksson (Chair), Björn Rúnar Guðmundsson, Þórhallur Arason, Þorsteinn Þorsteinsson, Helga Valfell on behalf of the government. Charles Williams, Andrew Speirs, Christian Kent, Claire Harwood from Hawkpoint. Viðar Lúðvíksson and Grímur Sigurðsson from Landslög. Joe Bannister and Richard Brown from Lovells. Tómas Brynjólfsson drafted the minutes.

Action Points and Decisions:

Lovells to present an elaboration on possible arbitration mechanism.

The Tripartite Committee gave HP and ÞÞ remit to take the process forward according to the tabled memorandum.

Tripartite Committee to consider who gives HP and ÞÞ guidance on possible push back.

Tripartite Committee agreed that ÞA would join ÞÞ in the negotiations alongside HP.

Committee agreed that government officials should direct creditors towards the Resolution Committees and Hawkpoint as the negotiation process has started.

1. Process Update

CW: The whole timeline has been moved up following the IMF visit. The plans now incorporate a new higher policy rate and different exchange assumptions. The result is a worse macroeconomic framework for the banking sector. Landsbanki and Íslandsbanki have already updated their business plans but Kaupthing is to hand its plan in later today. Meetings have been set up with the Resolution Committees this week to get the negotiation process going according to the new time plan. According to the new plans, Landsbanki is profitable but only barely. It is now discounting loans at a higher interest rate, similar to the Íslandsbanki approach. Its valuation is around ISK 100 bn below the low-point of Deloitte range.

2. Capital

FME has not formally responded to capital suggestions. The FME was, however, involved in meetings of the business plans. Banks have updated ICAAP reports but they have not been reviewed by the FME. Hawkpoint views the banks remain volatile and risky. Part of capital could come through the instrument (T2)). Banks have been requesting large amount of capital. This has been pushed down somewhat. LAIS core Tier1 capital ratio is 12%. It falls to 7-8% in the worst stress test scenario.

LAIS has suggested capital of ISK 140 bn. Loss in Q4 of 20 bn. Tier1 then at 120 bn. This leaves it just under 12% of RWA. 40 out of 165 bn of capital is in T2 capital.

Íslandsbanki ISK 60 bn but T1 at 65 following profit of ISK 5 bn. HP wants the capital closer to ISK 55 bn. T1 would then be around 12-13%. 20 out of 35 bn would be in T2.

Kaupthing has not yet reached this stage. There is a hole in the balance sheet of around ISK 70 bn. This shortfall needs to be filled.

3. Instrument

Hawkpoint presented the committee with a memorandum on the instrument, in addition to appendices and a steps plan from Lovells.

An outline of a term sheet has been prepared for a possible equity upside. This would give creditors an equity option over government shares. This would give them a possibility to exercise the option from year 2 to year 5 with an escalating rate. According to JB, the transferability of the options is important for the creditors. For wider good of economy not ordinary shares to begin with. Minority interest is likely after that. It is important not to delay finality for banks. The focus should be on the government. HP also suggested that creditors should get board members from the outset (one out of five, two out of seven had also been suggested).

Joe Bannister expects the Resolution Committees to select someone for the board after consultation with the ICC.

The coupon on the debt instrument has been referred to as the Deloitte cost of funding, i.e. risk free + 300. This would be very low market rates for the banks.

4. Business Plans

CK: Outlines of business plans presented by HP. Íslandsbanki is focusing the ICAAP, capital and instrument and stress test. The main difference lies in Landsbanki's lower ROE.

HP views the three bp as well thought and detailed.

AS said that the Íslandsbanki business plan may be more problematic for the creditors.

5. Government capital

RP: The capitalization bond is expected to be a floating rate note with the CB bid rate. Repayable. IMF is keen for it to be tradable. The bond needs to be repayable on change of control. However, the connection between repayable and tradable needs to be considered in more detail by HP. Possible bidding process for government assets taken over from old banks has been tabled for new banks.

6. Kaupthing – Negative Instrument

AS laid out four possibilities to deal with this problem.

Transfer liabilities back. This is problematic from a political and legal perspective.

Create a priority claim into the old bank. This is being evaluated by Landslög. Likely problematic for creditors.

Move assets back to new banks. This is the easiest solution.

Handing all of New Kaupthing over to Old Kaupthing. This is not likely to be accepted by creditors and may cause a run by depositors.

AS said that depositor preference is the most important legal issue at the moment. Most

important government objective to prevent this from being overturned. There are questions over possible attacks in foreign courts.

JB said that from a legal point of view, it is important to keep deposits out of old banks.

CW warned that the creditors may not want to take part in the process if they feel that the time is being cut close. This is a concern with the new deadline.

AS said that the information set-up is not ideal. The Old Banks have not been the information channel to creditors as hoped. This could be move forward as FME and Deloitte have largely unblocked their earlier problems.

7. Legal Issues

JB said that there are three main issues as he presented a steps plan:

Basis of approach.

Instrument value

Possible risks.

Lovells presented a need to put forward an independent dispute resolution mechanism.

The committee agreed that an arbitration procedure warrants discussion with the Resolution Committees – even though it would not be put forward initially.

IP requested a memo on the issue from Lovells and a further discussion in the committee before it would be taken forward. Wants the suggestion to be discussed further.

CW said that such a process may allow the government to set up the banks and push the discussion away from the banks to allow them to focus on their work going forward.

The Tripartite Committee gave HP and BP remit to take the process forward according to the tabled memorandum.

AS said that the creditors could lose upside instrument in the arbitration process. There was a need to set an opening position and we could expect much pushback thereafter.

AS requested that the Tripartite Committee consider who gives HP and BP guidance on possible push back.

Tripartite Committee agreed that PA would join BP in the negotiations alongside HP.

HV informed the committee that a decision on the governance structure would move closer following a presentation to the Executive Committee on the Norwegian structure.

Committee agreed that government officials should direct creditors towards the Resolution Committees and Hawkpoint as the negotiation process has started.

JB informed the committee about Lovell's discussions with the IMF legal team. They consider the work progressing slowly but were happy that Iceland was taking steps towards mitigating the litigation risk. IMF is not imposing an end-June deadline – but this remains a prior action for the programme. Arbitration has not been discussed with the IMF legal team. Needs to be taken up.

Frjálst form

Minutes - 14th Meeting of the Gov. Steering Group and Hawkpoint, 16 June 2009

Málsnúmer: FOR09030068

Númer skjals:

Skráð: 18. júní 2009

Eigandi skjals: Tómas Brynjólfsson/FOR/NotesSTJR

Auðkenni

Vinnsla

Dagsetning:

Staða: Í vinnslu

Fyrirtæki:

Geymslustaður skjals: GoPro

Nafn:

Minutes: 14th meeting of the Government's Steering Group and Hawkpoint (the Government's Financial Advisor) at 10 am on 16 June 2009, Ministry of Finance, Reykjavík.

Present

Björn Rúnar Guðmundsson, Þórhallur Arason, Þorsteinn Þorsteinsson, Helga Valfells and Jónína Lárusdóttir on behalf of the government. Charles Williams, Andrew Speirs and (via teleconference) from Hawkpoint. Viðar Lúðvíksson and Grímur Sigurðsson from Landslög. Richard Brown and Meagan Morrison from Lovell's. Tómas Brynjólfsson drafted the minutes.

Action Points and Decisions:

HP presented a Process Update for 16 June 2009 and Glitnir's response letter.

The Committee and the legal advisors endorsed Hawkpoint's continued engagement with creditors. Landslög to present a short legal opinion on this.

1. Preparation for negotiations

CW presented recent milestones regarding the negotiations. Business plans have been presented to the Resolution Committees. They have been sent revised presentations without the Deloitte information to distribute to creditors. The flow of information has been good. The key problem is regarding the opening balance sheet of Kaupthing.

ÞÞ has suggested to FME that it could be possible to make use the SPRON solution as a way to solve the Kaupthing problem.

VL informed the committee that FME is negative on mixing up the asset transfer. Landslög has prepared a memo on a possible priority claim. RCs are not in agreement on Landslög's view on possible priority claim of the New Bank. The bond route (SPRON) is considered more secure.

CW said that the FME needed to finalize the opening balance sheet positions of the banks.

AS asked whether all deposits in Kaupthing were really deposits.

ÞÞ said that PWC had started to look into this question but not found anything. Did not expect the problem to be solved through this route.

In general, HP believes that there is engagement and focus in relations between the two sides. The Oliver Wyman stress test scenarios would, however, push capital ratios very high.

Needed to be adjusted.

CW said that starting next week, real responses were to be expected. Answer letters were already in from all the banks. They were, however, more exploratory than firm.

2. Status of Hold Harmless letters

Part 1 of the Deloitte Report is in process of being sent to the ICCs. The creditors are in three main groups. Depositors have signed the letters. Bond holders are considering whether or not to sign. The German banks are not willing to sign, but may change their view if the bond holders sign the letters. None of the creditors has seen Part 2. CW said that he believed that the German banks had real legal problems with signing the letters, were not attempting to sabotage the process. Hawkpoint has attempted to get around this problem by distributing the management plans.

3. Kaupthing

A proposal regarding Kaupthing cannot be put forward until due diligence has been concluded. This could take two weeks. Kaupthing wants full warrants with relations to SPRON. HP has no comfort with Old Bank dialogue with creditors and in the Resolution Committee (RC) having the support of their creditors in seeking to take over the New Bank.

ÞÞ received an email from the Chairman of the Kaupthing Resolution Committee. He complained about Hawkpoint contact with creditors. The IMF is adamant that good relations are continued with the creditors and they continue to request meetings. Creditor communication part of a general policy to involve creditors. The Committee and the legal advisors endorsed Hawkpoint's continued engagement with creditors. Landslög to present a short legal opinion on this.

The Kaupthing RC would like to put forward an ownership plan. Committee ready to discuss this if it is continued parallel with instrument plan. It could be possible for the creditors to buy the shares over time as is being considered in Íslandsbanki.

HV informed the committee that the Executive Committee had discussed the possibility of winding up Kaupthing and asked whether this was an option.

AS said that this would depend on the priority claim. Creditors would consider this a disaster that would likely lead to legal actions.

CW said that this would lead to increased need for capital for Íslandsbanki and make the recapitalization more problematic. It was very unclear whether this would decrease the total capital required from the government.

ÞÞ said it might be easier to merge the two banks at a later point and then take some of the capital out of them.

The next steps regarding the Kaupthing instrument is for the board of FME to rule on the final balance sheet. The FME has to rule on the negative balance. This has to be done this week as it will greatly impact the negotiations.

Ministry of Business Affairs is going to inform the FME on the importance of the timing for the whole process.

4. Íslandsbanki

Follow-up meeting has taken place with UBS. The two sides are not that far apart in thinking. The question is mainly on the quantity of equity they could acquire. There would be a bond and an equity option that would be the main flex point. UBS has set out principles. Would to have a convertible bond. Value reset after and agreed update. They would like hard equity rather than an option.

AS said that the government needed to decide what percentage of equity option it is ready to give.

5. Landsbanki

RC has not come back with any definite method. The valuation is the key issue as they are looking for hard value rather than an upside compared with the other banks. They are, however, very much engaged.

AS said that their thinking was not far from the governments view but that they would hit hard back at the valuation. They have contended that the bond put forward from the government into the bank is not to be valued at par. This is unacceptable.

Landsbanki RC is looking for something to give to the non-depositor creditors. Might deter possible litigation against depositor preference.

6. Relations with the IMF

Luis Cortovaria informed PP that the IMF was worried about valuation and use of management valuation. It might be difficult to present to IMF board a valuation outside the Deloitte range. This is to be discussed further with Franek today. Further relations with Cortovaria and Mark Flanagan needed on this issue.

RB informed the committee that Lovells had been contacted by IMF legal team. They supported the arbitration route. They conveyed a message at the low end of the Deloitte valuation would have more legitimacy than a lower number. The lower valuation could also lead to additional legal disputes. The arbitration should then be driven by the new banks.

AS said that he considered it rather odd for the government to appeal its own process.

CW said that he thought that the IMF was still expecting there to be only a bond with no upside.

BRG said that this issue needed to be discussed more thoroughly with the IMF, especially with Luis and Mark.

7 Key Objectives for Government

According to the questionnaire, international best practice was important for the government. Results presented in HP's Process Update.

8 Legal

Independent Valuation and the Emergency Act

Solutions are being sought to satisfy the need for independent valuation according to the emergency act. There is a question whether Deloitte could redo the valuation under IFRS.

VL said that this may not satisfy creditors but may go towards satisfying requirements under the emergency act. It would be a step in the right direction to get Deloitte to produce an IFRS account.

CW said that this solution may be difficult due to time constraints and the strained relations between FME and Deloitte.

VL said that arbitration could also satisfy the requirements under the emergency act if it is sufficiently well constructed.

RB said that it would be important to close avenues for legal action on the basis that the government did not

follow its own laws to the letter.

Arbitration

RB said that A note has been prepared by lovells with advice and comments from Landslög. It may be difficult to force through arbitration and force out legal challenges in Icelandic courts. Arbitration may, however, be preferable to creditors. They may, however, challenge the arbitration process if they consider it a flawed process. IMF has bought into the concept of arbitration. lovells reiterated that even if the lower Deloitte number is taken there is still need for international independent tribunal.

Documentation

lovells to start drafting more detailed term sheets. They need more clarity given by one more week of discussion before drafting. The capitalization part should be getting started. VL said that this was in process.

9 Other.

A draft report on the banks' restructuring capacities will be finalized this week.

The audit process is still being delayed with the firms saying that they need few weeks from the conception of the instrument to the finalization of the audits. CW believes that this is taking too long. The auditors have been informed that the delay is not acceptable.

DP said that the auditors were still discussing the approach.

AS informed the committee that Deloitte would write to the FME and send factual information on the differences between the management accounts and the Deloitte report. The focus would be on difference in assumptions. The FX question remains difficult but they feel that the banks' views are a little simplistic. Deloitte will comment on its own valuation but not on the management accounts.

Frjálst form

Minutes - 15th Meeting of the Gov. Steering Group and Hawkpoint, 24 June 2009

Málsnúmer: FOR09030068

Númer skjals:

Skráð: 25. júní 2009

Eigandi skjals: Tómas Brynjólfsson/FOR/NotesSTJR

Auðkenni

Vinnsla

Dagsetning:

Staða: Í vinnslu

Fyrirtæki:

Geymslustaður skjals: GoPro

Nafn:

Present

Þorsteinn Þorsteinsson, Helga Valfells and Hjördís Dröfn Vilhjálmisdóttir on behalf of the government. Charles Williams and Andrew Speirs from Hawkpoint. Viðar Lúðvíksson, Grímur Sigurðsson and Jóhannes Karl Sveinsson from Landslög. Richard Brown (via teleconference) from Lovells. Tómas Brynjólfsson drafted the minutes.

Action Points and Decisions:

HP presented a Process Update for 24 June 2009 and a letter from the Glitnir's response letter.

HP is to raise with New Landsbanki the possibility of allowing Old Landsbanki to buy certain assets according to the New Bank valuation.

It was agreed that all the legal teams were to be brought together later that week to synchronize documentation. Landslög to prepare a full list of all legal documents stating responsibility for each.

1. Timetable

CW stated that good progress had been done on due diligence. Calls had been placed with advisors to all the old banks Monday to re-emphasize the tightness of the timetable. Further follow-up would take place Friday. Increased understanding of the required work on the other side and the formal position around the coming weekend.

A four week timetable was presented. First week for setting the framework, second for negotiations, third for documentation and fourth for final approval. The process needs to stop 14 July for cabinet approval with a memo likely to be sent to cabinet on Monday before the 17 July. Cabinet is being kept up to date through the presence of the three ministries on the tripartite group. ÞÞ suggested that a formal presentation be given to cabinet on 14 July for final approval after consultation.

HDV said that the Bank Institution (ISBA) would likely be approved in 2-3 weeks but work on selecting board members could start earlier.

New boards to be elected in general annual meetings in August. The old boards to sign off.

AS said that creditors were concerned that existing management is not maximizing value. Important to focus on governance structure, people and incentives. ISBA bill helps on structure. The people are a black box. May be helpful to know the board of the ISBA soon. Their selection should at least not be delayed. Old Landsbanki has expressed concern that they have crystallized value from assets transferred over to the old bank at a higher value than valued by the new bank.

ÞÞ said that the creditors have not expressed concern over the bank staff.

JKS said that it was important to remember that the management of the new banks has its own agenda and may be undervaluing assets to make more profits.

AS said that the Resolution Committees had not challenged management valuations as they do not have similar information as the new banks. The difference is to be tackled by a larger portion of the instrument having a variable structure. This would work if governance is well structured and management properly incentivised.

The committee discussed possible structure of creditor involvement on boards. No real difference for government whether to offer 2 of 7 or 1 of 5 members. ÞP views foreign creditor involvement on boards as positive for the banks.

AS said that the instructions given to the ISBA were very important. Ownership objectives had to be transparent and minimize political influence. There is a need to demonstrate to the creditors that the banks are to maximize profits. The structure influences whether the creditors litigate or work with the system.

HV asked whether IMF was willing to view the use of a lower valuation as a downside. CW said that HP had meeting with IMF permanent representative. He felt that after explaining to him the process and the valuation the IMF view had softened. An additional meeting would be held with Luis later that day.

JKS said that there was a need to review of ISBA bill if creditors were to be offered seats on bank boards and perhaps review the articles of association.

HVD said that the ownership policy would also have to take this into consideration.

AS said that for negotiation purposes it would be important to have as little as possible in the bill.

The question of incentives in the banks was discussed. It was agreed that this was for the ISBA to decide on.

Meetings have been set up with Deloitte and Resolution Committees. This is important to IMF.

ÞP informed the committee that Kaupthing Resolution Committee had again complained about creditors having contact with government representatives.

2. Status with Íslandsbanki

The dialogue is the strongest between new and old bank and their approach has been the least aggressive and the possibility for arbitration is less likely than for the other banks. Discussions are moving towards equity rather than a bond. They have had discussions with the ministry of business affairs and the ministry of finance on the way forward regarding foreign ownership. However, there is a danger in the Resolution Committee not carrying creditors, the largest risk in the three banks. Creditor representatives and information giving to creditors may minimize this problem.

3. Kaupthing

The Kaupthing Financial Advisors a further ahead in the due diligence than the others and have attempted harder to make their own valuation. They have also been thinking the most creatively, especially on the instrument and have proposed an asset protection assurance as in the US and the UK. This would, however, not be in line with IMF views. A draft letter has been sent to ÞP on the negative instrument where the FME states that the imbalance should be corrected. Does not specify how this should be done.

4. Landsbanki

Old bank has given up on the idea of acquiring the new bank. They have been thinking about taking assets back, but time constraints may hinder that. HP is to raise with New Landsbanki the possibility of allowing Old Landsbanki to buy certain assets according to the New Bank valuation. JKS said that this was a common feature of dispute mechanisms. CW said that these sales could create volatility within the bank with a higher capital requirement even though the balance sheet was made smaller.

5. Documentation

Two streams of documentation have been identified. First around the instrument. Lovells beginning to start drafting. RB said that they intended to have first draft ready by Friday. A rough draft on the arbitration agreement would also be available Friday. The second stream is on equity for the banks. Landslög is attempting to keep the new banks on track and have requested a timetable from them. ÞP is in regular contact with the

Central Bank on their portion.

RP pointed out that some documents may have to be share with the Resolution Committees.

AS said it may be helpful to have an English term sheet.

It was agreed that all the legal teams were to be brought together later that week to synchronize documentation. Landslög to prepare a full list of all legal documents stating responsibility for each.

6 Audit

ÞÞ sent a letter to the National Audit Office (NAO) and received an answer on 24 June. The answer says that the final audits would not be ready until 4-5 weeks after 17 July.

CW said that there was a need to have draft audit statements for the ICCs to approve subject to final audit. Those could be delivered in 2-3 weeks according to the letter.

ÞÞ to enquire the reason for the delay and the possibility for large changes in the audit results.

7 Capital

The proposed 12 + 4 solution is likely to be approved by the FME. This would leave ISK 100 bn left over. This could not be spent.

The 5th process letter to the creditors explains the reasons for the Deloitte delays. This is in accordance with the IMF's suggestion that reasoning for the delays be well documented even though creditors would not all agree to signing the hold harmless letters.

The government needs to inform the negotiation team how far it is willing to go regarding offering options. A draft paper on possible options presented. ÞÞ thought the solution was complicated.

Next meeting set Wednesday 29 June.

Frjálst form

Minutes - 1 July 2009 Meeting of the Gov. Steering Group and Hawkpoint

Málsnúmer: FOR09030068

Númer skjals:

Skráð: 4. ágúst 2009

Eigandi skjals: Tómas Brynjólfsson/FOR/NotesSTJR

Auðkenni

Vinnsla

Dagsetning:

Staða: Í vinnslu

Fyrirtæki:

Geymslustaður skjals: GoPro

Nafn:

Present

Þorsteinn Þorsteinsson, Helga Valfells, Þórhallur Arason and Indriði Þorláksson on behalf of the government. Charles Williams and Andrew Speirs led the reporting from Hawkpoint. Viðar Lúðvíksson from Landslög. Tómas Brynjólfsson drafted the minutes.

1. Meetings with RCs and creditor representatives

Meetings with the Kaupthing and Morgan Stanley were positive with a willingness to find a way through on valuation and structure. UBS has suggested that there is no need to have a meeting on Glitnir. Their proposal is not unlike government approach. They are working on a valuation route.

There are, however, difficulties regarding Landsbanki. Creditors are giving the RC the message that the October FME valuation route should be followed. Creditors not willing to engage in negotiations until FME formally changes view. ÞÞ said that the government would likely suggest assets being moved back to solve impasse. The RC will likely respond positively. New Landsbanki has been positive on this and perhaps done through a Texas auction. CW said that bond holders wanted to conduct due diligence on behalf of creditors. This would, however, be difficult within the timeframe. HP had earlier suggested that creditor due diligence be carried out in June.

CW said that both Kaupthing and Íslandsbanki were looking at a bond collateralised with assets. The upside would go to creditors. The banks would need to write back loans to match future funding costs and ringfencing of assets carried out. This idea had a number of problems, e.g. through structural unfairness in going through asset-by-asset and the creditors not paying for the effects of the government's capitalisation that makes value creation possible.

2. Íslandsbanki proposal

The Glitnir proposal includes bond and equity.

The bond would be in two parts. The first part would rank with depositors in the winding up and would carry a rather short maturity. The second bond would be a CD that would be adjustable to any upside in the loan portfolio. This would include ringfencing of the entire portfolio but upside from 80% of assets. This suggestion also includes an option over all of the government's shares in the bank as suggested in HP's proposal but with a lower hurdle rate. A fourth part would include Glitnir being granted 49% of the equity. The positive aspect is that they are working alongside the government's lines. These suggestions should perhaps be looked at as a menu for discussion. ÞÞ said that the RC is aiming for ISK 50-60 bn with around ISK 30 bn in bond A.