

Comments
of Björgólfur Thor Björgólfsson
on the Report of the Icelandic Parliamentary Special
Investigation Commission (SIC)
on the events leading up to and causes of
the collapse of the Icelandic banks, 2008.

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Contents

Introduction.....	4
Volume 1 – Section 2.....	5
Summary of the report’s main findings	5
Volume 1 – Section 6.....	8
Privatisation and the ownership of the three big banks	8
6.6. Findings of the Parliamentary Investigation Commission.....	9
Volume 2 – Section 8	12
Lending by the Icelandic banks	12
8.6.5.5.1 Landsbanki Íslands hf	12
8.6.5.5.1.1 Actavis.....	12
8.7.3.4 Björgólfur Thor Björgólfsson	14
8.7.5 Findings of the Investigation Commission	22
8.8.2.1 Participation of Deutsche Bank in the financing of the acquisition of Actavis	23
8.8.3.4 Landsbanki provides credit to cover Deutsche Bank’s margin call on the financing of the acquisition of Actavis	25
8.10.5 Landsbanki Luxembourg S.A.	28
8.10.5.1 Transfer of exposures from Landsbanki Luxembourg S.A. to Landsbanki Íslands hf.	29
8.10.6 Findings of the Parliamentary Investigation Commission.....	30
8.12.3.4 Björgólfur Thor Björgólfsson and related companies.....	31
Annex 7, published with the SIC report.....	38
Author: Jørn Astrup Hansen.....	38
Volume 3 – Section 10: The banks’ pay and incentive schemes.....	39
Section 10.4 The incentive scheme at Landsbanki Íslands	39
Box feature 1: Landsbanki’s offshore companies	39
10.4.7 Findings of the Parliamentary Investigation Commission.....	41
Volume 5 – Section 16: Regulation of the financial markets.....	44
16.5.7.3 The Financial Supervisory Authority’s examination of risk assessment at Landsbanki Íslands hf	44
16.5.7.9 The FSA report on credit risk at Straumur-Burðarás Investment Bank hf.....	45
Volume 6 – Section 19: Actions and responses of the public authorities	47
19.3.11 August 2008	47
Meeting between the prime minister of Iceland and Björgólfur Thor Björgólfsson, 6 August 2008.....	47

Volume 7 - Section 20: Course of events from Glitnir's request for special facilities up to the collapse of the banks	49
20.2.5 Attempts at amalgamation in the banking sector	49
20.4 The collapse of Landsbanki Íslands hf.....	51
20.4.1 General remarks	51
20.4.2 Findings of the Parliamentary Investigation Commission.....	61
Volume 7 – Section 21: Causes of the collapse of the banks.....	61
Volume 8 – Ethics and working practices in regard to the collapse of the Icelandic banks, 2008.....	63
Part 1: Financial ethics and banks' working practices	63
I.1 Privatisation and the responsibilities of owners and executives.....	63
Directors' responsibilities	66
<i>Working rules and procedures of banks' boards of directors and the power of the big</i>	<i>66</i>
Social responsibility and high living.....	66
Luxury lifestyle.....	66
I.4 Strategy and interaction: smallness in an international context	67
The self-image	67
Solidarity and breakdown: internal connections and mistrust	68
<i>Trust and mistrust in equal measures</i>	<i>68</i>

Introduction

On 17 December 2008 the Icelandic parliament (Althingi) passed Act no. 142 for the appointment of a commission charged with identifying ‘the truth of the events leading up to and causes of the collapse of the Icelandic banks in 2008 and related events’. This Commission submitted a detailed report on 12 April 2010 which was given the title Events Leading Up To and Causes of the Collapse of the Icelandic Banks, 2008, and Related Events (‘Aðdragandi og orsakir falls íslensku bankanna 2008 og tengdir atburðir’). In the report there are fairly frequent references to Björgólfur Thor Björgólfsson, companies under his control, his business activities, his actions and statements. For reasons that are still unknown, the Investigation Commission (SIC)¹ did not approach Björgólfur Thor for his information or views and explanations of aspects of the operations of the Icelandic banks in so far as they pertained to him. From this conspectus, put together on the initiative of Björgólfur Thor and in close collaboration with him, it emerges that, as regards those matters that Björgólfur Thor has knowledge of, the Investigation Commission has failed to carry out its task of seeking out the truth in a satisfactory manner, since various matters in the report are not in accordance with the facts and there are various simple assertions that are incorrect and do not reflect what actually happened. The report also contains assertions on the part of the Investigation Commission that appear to have been published without any attempt to verify the facts on which they are based: these assertions are both detrimental to Björgólfur Thor’s good name and misleading to anyone interested in the truth of the fall of the banks.

This conspectus brings together the sections of the Investigation Commission’s report that speak about Björgólfur Thor and present his comments directly following. The conspectus starts with Volume 1 of the report and works its way through to the end in order.

This document was sent to the speaker of the Icelandic parliament with a request that it be published on the Investigation Commission’s website, which is a subsite of the Icelandic parliament website, in the belief that a commission charged with uncovering the truth should have consulted Björgólfur Thor on matters that pertained to him and its failure to do so has resulted in serious errors appearing in its name. The covering letter requested that parliament demonstrate in practice that truth is important to the legislative body of the Icelandic nation and that this institution should honour the truism that the search for truth is never-ending and cannot be confined to the publication of a single report – however great its scope.

This conspectus will also be published on Björgólfur Thor Björgólfsson’s website, www.btb.is.

¹ Here are throughout. SIC is the Special Investigation Commission appointed by the Icelandic parliament to investigate the causes of the 2008 financial collapse. *Skýrsla rannsóknarnefndar Alþingis um aðdraganda og orsakir falls íslensku bankanna 2008*, Report of the Icelandic Parliamentary Special Investigation Commission (SIC) on the events leading up to and causes of the collapse of the Icelandic banks, 2008.

Volume 1 – Section 2

Summary of the report's main findings

From the report:

Page 32

At the time of the collapse of Landsbanki bank Björgólfur Thor Björgólfsson and companies affiliated to him were the bank's largest debtors. Björgólfur Guðmundsson was the bank's third largest debtor. Their obligations to the bank amounted in total to well over 200 billion krónur. This figure was higher than the aggregate shareholders equity of the Landsbanki group of companies.

Björgólfur Thor was also the biggest shareholder in the investment bank Straumur-Burðarás and chairman of its board of directors. Björgólfur Thor and Björgólfur Guðmundsson were each independently, together with affiliated parties, among the bank's largest debtors and together they constituted its largest group of borrowers.

Page 33

The banks' owners enjoyed substantial facilities through the banks' subsidiary companies that operated money-market funds. Investigation of investments made by money-market funds on behalf of the management companies of the three big banks revealed that the funds invested heavily in securities connected with the owners of the banks. It is difficult to see that these investment decisions were motivated purely by chance.

Comments

In the year 2008 the father and son Björgólfur Guðmundsson and Björgólfur Thor Björgólfsson were two independent investors. Their interests in Icelandic financial companies were comparatively straightforward. Together they owned equal holdings in the companies Samson Holding Company ehf, nearly a half each, and Samson Global Holding. The chief asset of Samson Holding Company ehf was for most of the period in question a 42% to almost 46% share in Landsbanki. The chief asset of Samson Global Holding was for most of the period a share of around 33% in the investment bank Straumur-Burðarás. Björgólfur Thor had significant assets outside these companies, including holdings in Actavis and telecommunications companies in Finland, Poland and elsewhere. He also owned indirectly a small share in Björgólfur Guðmundsson's investment company, Grettir. Björgólfur Thor owned over 60% of his assets alone or with people other than his father.

It is correct that companies affiliated to Björgólfur Thor constituted together one of the largest debtors of both Landsbanki and Straumur-Burðarás. It should here be borne in mind that by far the greatest part of the loans arose from the take-over of Actavis by companies affiliated to Björgólfur Thor in 2007; the bank's credit risk on these loans was borne by the management company Actavis Group hf and not by Björgólfur Thor. At the time of the take-over, Icelandic banks were paid a total of €550 million, or about 88 billion krónur, on account of currently existing loans and shareholdings. In this connection it should be pointed out that with the take-over Landsbanki's risk exposure

on lending on account of Actavis was reduced. It is also important to bear in mind that the banks actively solicited business with Björgólfur Thor and that only around a quarter of his companies' agreed loans were with Icelandic banks; three quarters of the business was with banks outside Iceland.

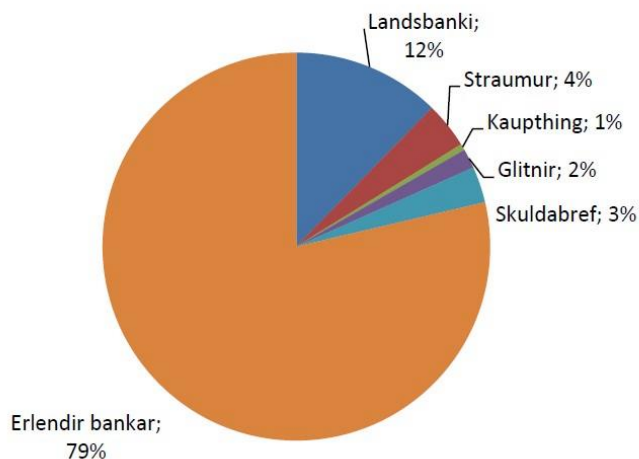
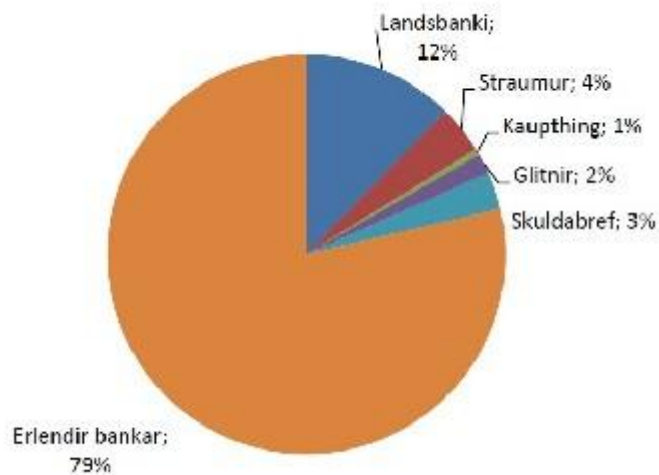


Figure 1: The total commitments of companies affiliated to Björgólfur Thor at the time of the collapse of the Icelandic banking system came to €5.567 million, of which €1.188 million was with Icelandic banks and €4.379 million with banks outside Iceland.

[key to figure:

Erlendir bankar Foreign Banks
 Skuldabréf Bonds

The other entries are names of Icelandic banks and investment banks.]

When the report speaks of the Björgólfur Thor and Björgólfur Guðmundsson and their companies having commitments to Landsbanki to the tune of, on the Commission's interpretation, around 200 billion krónur, it should be borne in mind that their own funds were greater than the aggregate equity of Landsbanki. At the start of the year 2008 the US business journal Forbes valued Björgólfur Guðmundsson's assets at around one billion US dollars and Björgólfur Thor's at around three billion. It is

essential to keep in mind that each of them independently had substantial assets over and above their joint assets in Samson Holding Company and Samson Global Holding.

It should also be pointed out that in its report the Investigation Commission uses a different interpretation of the rules on when the financial connections between banks' individual customers become so great that the risk on loans to them is considered to be one and the same from the one on which parties on the Icelandic financial market customarily operated. Based on their own premises, which run counter to long-standing practice and accepted interpretation, the Commission manages to make Björgólfur Thor's total commitments aggregate to a much higher figure than is permitted under the rules. When calculating the risk on credit granted to father and son Björgólfur Guðmundsson and Björgólfur Thor, their family connections are irrelevant, as opposed to their financial connections in other respects. The limited level of their financial connections becomes evident when one considers that, while one of them is now bankrupt, the other is not, despite large-scale personal liabilities. In addition, only one company in which Björgólfur Thor had a significant stake has been declared insolvent, viz. Samson Holding Company, which acted specifically as a repository for the holding in Landsbanki, these shares and their realisable value having been taken under State control.

Volume 1 – Section 6

Privatisation and the ownership of the three big banks

6.3.6.1. Focus on the interpretation of ‘foreign funds’ in contractual negotiations

From the report:

Page 271

In Samson Group’s correspondence with the Executive Committee on Privatisation (ECP, Icelandic *Framkvæmdanefnd um einkavæðingu, FnE*) and other government authorities on the course of the sale of Landsbanki, repeated reference was made to details of the group’s range of commercial activities outside Iceland, more specifically in connection with its ownership and operation of the brewing company Bravo in Russia and its sale of this production facility to the major corporation Heineken in 2002. For example, the group’s first letter to the ECP, dated 27 June 2002, contains specific reference to the group’s having built up considerable commercial experience; the letter mentioned, for instance, the expansion ‘of the Bravo brewery in Russia’. After the number of potential contracting parties in the negotiations over Landsbanki had been reduced to three, the ECP sent out a letter to the remaining bidders, the same in all cases, dated 28 August 2002, with questions concerning the criteria that the government then proposed as a basis for the sale, cf. the discussion here above. Samson’s reply, dated 2 September of the same year, stated, regarding the raising of the purchase price, that (to quote) ‘the total contract’ on the sale of their property in Russia had been ‘valued at’ US \$400 billion: see further the box opposite. There is also an email, dated 6 September 2002, from the acting representative at HSBC Edward Williams, the man charged with directing the bank’s advisory process on behalf of the Icelandic authorities, to a member of staff at the ECP, in which Williams describes a conversation he had had with Björgólfur Thor Björgólfsson regarding Samson’s bid. The conversation appears to have been part of HSBC’s consideration of the bidders for the bank. Williams cites Björgólfur for the information on the financing referred to opposite, including that ‘it’ – presumably referring to the Samson group – could finance the purchase outright from its own funds but preferred not to do so because this would reduce the returns on the investment.

Comments

When the Parliamentary Investigation Commission says that in Samson’s correspondence with the Executive Committee on Privatisation (ECP) ‘repeated reference was made to details of the group’s range of commercial activities outside Iceland’ it is basing this comment on two quotations, of which the second is an [answer to questions](#) from the ECP. It is difficult to see how just two instances in a large body of correspondence becomes ‘repeated reference’ in the Commission’s research. Samson’s first letter to the ECP includes the following: ‘The core investors have built up considerable commercial expertise, both through the development of the Bravo brewery in Russia and through its role as a leading player in the merger of Pharmaco hf with the Bulgarian pharmaceutical giant Balkanpharma. In connection with their operations detailed above, the core investors have come out positively from reliability analyses conducted by the International Finance Corporation, which is a division of the World Bank in Washington DC, Deutsche Bank, the European Bank of Research and Development (EBRD), Capital Research and Management, which is one of the world’s

largest fund management companies, and the securities company Merrill Lynch. The core investors thus have good connections in the international financial and economic system.’ The background to the sending of this letter can be found [here](#) and the [full text](#) here. It is unclear why the Investigation Commission sees fit in its report to highlight only the experience of Björgólfur Thor and colleagues in building up a brewing company when discussing their experience of international commerce. Regarding the financing of the purchase, there was never any dispute that Samson’s owners could finance the purchase of the State’s interest in Landsbanki Íslands entirely from their own funds. It was quite another matter that they had no particular interest in tying up such a large part of their capital in a single investment and they in no way attempted to conceal this position from the seller, viz. the Icelandic State, and gave specific details of their proposed loan financing at the very outset of the negotiations.

From the report:

Page 272

According to the above, at various stages in the sale process reference was made on Samson’s behalf, directly or indirectly, to the proceeds from the sale of assets abroad being available to the group as equity and that, if the group’s purchase of Landsbanki went ahead, it proposed to use a part of these funds as equity for payment of a third of the purchase price. The Icelandic State would thus receive a substantial part of the sales proceeds paid in foreign currency. Discussion in Samson’s correspondence shows that significant emphasis was directed on the part of the company to this position *vis-à-vis* the State as seller of the bank.

Comments

Samson’s owners emphasised that they had the financial resources to buy a stake in Landsbanki and that their equity in the transaction originated outside Iceland and would thus be a boost to the Icelandic economy. It should be borne in mind that Samson’s owners had no influence on the government’s decision to request that only something a little over a third should be put up as equity and that the government made no specific requirement that the purchase price should be paid entirely from sources outside Iceland – only that it be paid in US dollars. The government could have asked for a higher equity contribution or stipulated specifically that the money come from abroad. This it did not do. In this correspondence Samson’s owners stressed their ability to provide funds in foreign currency that came from outside the Icelandic economy, and in their [first letter](#) to the ECP they make it one of the preconditions of the deal that they might pay the purchase price in US dollars.

The owners of Samson have made all their correspondence with the government on the purchase of their 45.8% share in Landsbanki Íslands available for public scrutiny. For full details of the privatisation process, see [here](#).

6.6. Findings of the Parliamentary Investigation Commission

From the report:

This section provided an account of the main features of the agreements for the sale of Landsbanki and Búnaðarbanki, including matters relating to the buyers' financing. It was mentioned in passing above, among other things, that at the final stage of the sales process of the banks the government had added weight to its view that through the sale there should be an influx of foreign currency to the national exchequer; in this, particular regard was taken, among other things, of information that was available about a recently completed deal by the people behind the Samson Group on the foreign arena and the profits they had earned from it. From the papers from the sales process it is also clear that repeated reference was made on their part to the same matters in their dealings with the government. As part of their consideration of how matters concerning the buyer's financing were finally arranged in the terms of the purchase agreement for Landsbanki and how these terms were subsequently implemented, the Investigation Commission obtained documents from Kaupthing bank about the credit facilities the bank had granted to Samson Holding Company ehf. From the bank's documents it appears, cf. the discussion in sections 6.3.6.3 and 6.3.6.4, that two of the loans on which information was received were ultimately, i.e. irrespective of any short-term intermediate financing from other sources, granted with the purpose of financing Samson's two later payment instalments (out of three) on its purchase of Landsbanki. These payments amounted in total to around 70% of the bank's purchase price as it eventually became, taking into account settlement of deductible and discountable items under the contract. In this connection, the Investigation Commission draws attention to the fact that according to the Landsbanki purchase contract the equity ratio of the purchase price should be 34.5% and also that in the purchase contract there was, other than a clause prohibiting financing of the purchase through Landsbanki itself, no mention of any restriction on where the purchaser might raise the loan capital. (See Section 6.6.)

Comments

When the Investigation Commission writes that in documents from the Landsbanki sale process there was 'repeated reference' on Samson's part to a recent transaction by the company's managers outside Iceland it should be pointed out that out of around a dozen letters that Samson wrote to the ECP this matter is mentioned in two of them and on the second occasion as a result of enquiries from the ECP. What the Commission calls 'repeated reference' is in fact two instances. In its discussion here the Investigation Commission ignores the central point, that Samson fulfilled in full and all the terms of the contract made with the Icelandic State for the purchase of a 45.8% stake in Landsbanki. The Investigation Commission sets together in the same context, on the one hand Samson's statements in the run-up to the purchase and on the other its own ill-founded conclusions on the occasion of the particular loans made by Kaupthing to Samson, the loans in question having been made 15 months after the signing of the contract for the purchase of the stake in Landsbanki.

To recapitulate, the facts are that Samson bought a 45.8% stake in Landsbanki from the Icelandic State and paid for it in three instalments:

- The first payment was Samson's equity contribution and was paid on the signing of the contract. The payment was for the sum of US \$48,081,731. The payment represented around 35% of the total purchase price.
- The second payment was financed with a loan from the Icelandic bank Búnaðarbanki, later KB, and was paid on 30 April 2003. The payment was for the sum of US \$48,272,204. This payment represented around 35% of the total purchase price. This loan was repaid in full in April 2005.
- The third payment was also an equity contribution in the form of loans from shareholders and was paid on 29 December 2003. The payment was for the sum of US \$41,725,653. This payment represented around 30% of the total purchase price.

Samson had thus completed payment in full of its purchase of the State's 45.8% share in Landsbanki by the end of 2003, or within a year of the signing of the purchase contract. All the payments, in total just short of US \$140 million, were paid into the Icelandic Treasury's account at the US Central Bank in New York. The purchase was financed 65% with equity from the owners and 35% with a loan.

It is important to note that Samson's financing of its purchase in Landsbanki was fully in accordance with the terms and conditions of the company's purchase contract with the Icelandic State. The loans in question had all been paid off at the time the bank collapsed.

It should also be stated here that Samson's loan with Kaupthing, which was taken out in December 2005 and has been called the last loan under the sun that should be written off, was included as part of Björgólfur Thor Björgólfsson's debt restructuring procedures in July 2010.

In this connection it is interesting to consider the requirements made of the so-called S-Group¹ on the privatisation of another bank, Búnaðarbanki. So far as can be seen, the bank Hauck & Aufhauser was only nominally involved in the purchase. There is no evidence to suggest that the public authorities made any material enquiries into where the equity payments actually originated from and whether this was the case of a domestic loan that was settled on the merger of Búnaðarbanki and Kaupthing within three months of the signing of the purchase contract early in 2003. It is a moot point therefore whether there was any inflow of foreign currency to Iceland at any point as a result of the sale of Búnaðarbanki. The SIC report sheds no light on how S-group financed its purchase of Búnaðarbanki. No explanation is provided of the Investigation Commission's lack of interest in this aspect of the privatisation of the banks.

¹ *S-hopur*, a group of companies headed by *Samband íslenskra samvinnufélaga*, the Icelandic Federation of Co-operative Societies

Volume 2 – Section 8

Lending by the Icelandic banks

8.6.5.5.1 Landsbanki Íslands hf

8.6.5.5.1.1 Actavis

From the report:

Page 127

In a letter from the Financial Supervisory Authority (FSA, Icelandic *Fjármálaeftirlitið*) dated 22 March 2007, serious comments were made about the implementation of the rules on large exposures. First, there are comments relating to how Landsbanki defined financially related parties in certain instances; second, the FSA considered that the bank had underestimated exposures exceeding 10% of the bank's capital base; third, there was a discrepancy in figures in the bank's reporting; fourth, the conditions for deductions from large exposures had not been satisfied in all cases; and fifth, there was a lack of specifically attributable information on special facilities. In their letter the FSA requested that these observations be brought to the notice of Landsbanki's board of directors and suitable measures put in place to rectify the matters raised. The bank should provide details of how matters then stood not later than 20 April 2007. Landsbanki's responses were received in a letter dated 30 April 2007. In this letter, the FSA's interpretation of the implementation of the rules on large exposures was contested on several significant points. The biggest point at issue concerned whether Actavis Group hf should be treated as being a financially related party to Björgólfur Thor Björgólfsson and affiliated parties. It was contended on Landsbanki's part that this should not be the case, while the FSA had arrived at the opposite conclusion. There were no further developments in this matter in other respects before September 2007, when Actavis Group hf was taken over and refinanced. The matter was then dropped on the part of the FSA, by which time almost two and a half years had elapsed since the Authority had initiated the appraisal described above. Throughout this entire period there were large exposures to Björgólfur Thor and affiliated parties above the maximum set under the rules on large exposures, if one accepts the FSA's interpretations of control and financially affiliated parties as regards Regulations no. 216/2007 and comparable provisions in the older Regulations no. 531/2003. From FSA memo no. 2 it appears that an in-house meeting was held at the institution on 29 March 2007 at which the liabilities of Björgólfur Thor and affiliated parties came in for particular discussion. The memo notes that the FSA saw no grounds to change its opinion that the exposure to Actavis Group hf should be treated as an exposure to Björgólfur Thor and affiliated parties. However, the memo notes that, in spite of this, the FSA has agreed to authorise Landsbanki to enter these liabilities as separate items in their reporting as at 31 March 2007 but that this arrangement would not be accepted at the next reporting thereafter.

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Page 128

The main point in the dispute between the FSA and Landsbanki concerned whether Actavis Group's commitments to the bank should be treated as an exposure to BTB [Björgólfur Thor Björgólfsson] and various companies that were indisputably financially connected with him. At this time the bank's exposure on account of Actavis Group hf amounted to 10.2% of the bank's capital base. The FSA took the view that BTB and affiliated parties exercised effective control over Actavis Group hf and the commitments should thus be treated as a single exposure. At the time, BTB held a 38.84% share in Actavis Group hf. The FSA took the view that BTB's links with Landsbanki and Burðarás hf (later Straumur-Burðarás), who then together controlled 8.5% of Actavis Group hf, were so close that their holdings should be aggregated with those of BTB. The FSA also took into consideration that Actavis's other shareholders only had minor holdings and it would thus be necessary to work on the basis that BTB held a controlling interest under the terms of the rules on large exposures. Landsbanki rejected this interpretation in a special covering letter dated 30 April 2007. In this letter Landsbanki argued that that BTB and affiliated parties did not exercise a controlling interest in Actavis Group hf and that there was no danger of financial difficulties spreading between these parties because of the strong financial position of BTB and affiliated parties in other respects. Landsbanki's letter refers in particular to a covering letter from Novator on this matter and dated 18 April 2007 in which this interpretation is argued in greater detail. As noted above, the FSA had not applied its power of enforcement at the time when Actavis Group hf was taken over and refinanced in the second half of 2007.

Comments

In the SIC report it is stated that in the first half of 2007 the FSA had come to an 'opposite conclusion' from Landsbanki, which defined Actavis Group hf as not being financially affiliated to Björgólfur Thor Björgólfsson. It is probably rather overstating the case to talk about an 'opposite conclusion'. The FSA had not come to any clear conclusion: the Authority disagreed with the bank on the grouping of exposures and entered serious observations on the way in which the bank was treating this matter. From this ensued a difference of opinion between the FSA and the bank's executives, which is the right and proper channel for disputes of this kind. The dispute was resolved by agreement and the government did not apply any punitive sanctions. No clear material conclusion to this process was reached before changes occurred in the ownership of Actavis and so the situation remained unaltered. There is in fact a contradiction in the Investigation Commission's written records, since it is also said in the text specified above that the FSA 'agreed to authorise Landsbanki to enter these liabilities as separate items in their reporting as at 31 March 2007'. The report thus says on the one hand that the FSA came to the conclusion that Actavis Group hf and Björgólfur Thor Björgólfsson should be treated as a single exposure and then, on the other, that the FSA gave authority for these liabilities to be treated as separate. It is not clear why there is so great a discrepancy in the Investigation Commission's account of these important points unless perhaps to introduce an element of doubt into dealings between the bank and the authority.

It is the job of banks and the chief executives of banks to interpret the regulations on financial undertakings. Landsbanki's dealings with the FSA were in the hands of the bank's executives and CEO. It was a fundamental issue that the bank's administrators should take decisions on lending and credit risk on their own premises, especially in the case of loans to major shareholders of the bank.

Björgólfur Thor at no time held a position on the board of directors of Landsbanki but was chairman of the board of Samson Holding Company ehf and Björgólfur Guðmundsson was the representative of this company on the board of Landsbanki. The CEOs and other executives of Landsbanki did not report regularly to the bank's directors on the bank's communications with the FSA but a summary of the FSA's observations and enquiries was generally submitted twice a year at meetings of the audit committee. The FSA's letter of 22 March 2007 was not brought up for discussion by the bank's directors before 10 March 2008, or after the FSA's final report was received on 20 February. Landsbanki's letter of reply from December, signed by the head of the bank's legal department, was presented at this meeting. To quote from this letter:

'An agreement was reached with the FSA in March 2007 not to aggregate BTB and Actavis. With its report on large exposures as at 31/3/2007 the bank was to send its reasons for treating the exposures to these parties separately. The FSA would respond to these reasons. Since the FSA's response to the bank's arguments had not been received as at 30/6/2007, the bank continued to treat the exposures in question separately. Following this, BTB took over Actavis and since then the bank has treated these exposures as a single entity. The bank disagrees entirely that the FSA's contention that the exposures to these parties should be taken together had been received as at 30/6/2007.'

In a summary of the activities of the bank's board of directors produced for the board of directors and sent to the Parliamentary Investigation Commission, an account is given of the board's communications with the FSA. This summary does not appear among the Investigation Commission's papers that were released to the public on the publication of the Commission's report.

8.7.3.4 Björgólfur Thor Björgólfsson

From the report:

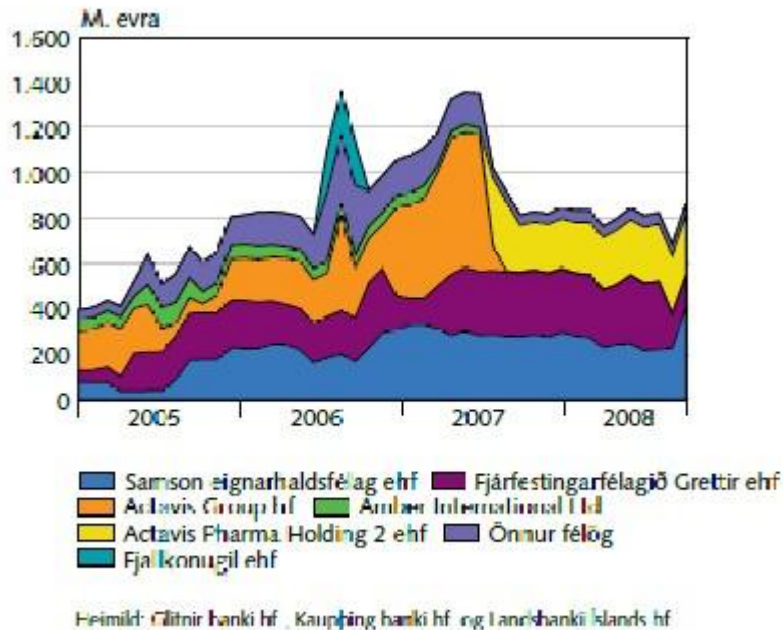
Page 144

From the middle of 2005 Björgólfur Thor Björgólfsson was half-owner of Samson Holding Company alongside his father, Björgólfur Guðmundsson, and Samson was the largest owner of Landsbanki Íslands, with an over 40% share. Alongside this, Björgólfur Thor was the largest shareholder and chairman of the board of Straumur-Burðarás.

Figure 61 shows the total loans to Björgólfur Thor and affiliated parties with the parent companies of the three big banks. The three largest individual items were Samson, Actavis (and affiliated companies) and the investment company Fjárfestingarfélagið Grettir. Björgólfur Guðmundsson in fact held a majority shareholding in Fjárfestingarfélagið Grettir, while Björgólfur Thor's actual share in the company through Samson and Novator was just over a fifth. As discussed in section 8.6.4.5, Landsbanki treated Actavis as not being affiliated to Björgólfur, who was chairman of the company's board of directors. At their highest loans to Björgólfur Thor's group amounted to over €1.3 billion, principally with

Glitnir and Landsbanki. The share of ‘other companies’ in the group here is considerable: see Table 4 in Annex 3 to this section, which shows all the main companies that were treated as members of the group under the methodology employed.

Figure 61



[key to figure:

M. evra

Million euros

Önnur félög

Other companies

The other entries are the names of companies.

Heimild:...

Source: Glitnir Bank hf, Kaupthing Bank hf and Landsbanki Íslands hf]

Tafla 4. Aðilar¹ skilgreindir sem tengdir Björgólfi Thore Björgólfssyni

Aðilar	Hæsta útlánstöðla	Dagsetning stöðu
Actavis Group hf	603	30.6.2007
Samson eignarhaldsfélag ehf	468	30.9.2008
Actavis Pharma Holding 2 ehf	398	30.9.2008
Fjárfestingarfélagið Grettir ehf	313	30.11.2004
Amber International Ltd	242	31.10.2005
Fjallkonugil ehf	191	30.9.2006
Herkonugil ehf	152	30.9.2006
Actavis Pharma Holding 1 hf	116	30.6.2008
Fjárfestingarfélagið Klaki ehf	112	30.6.2007
Samson Properties ehf	67	31.10.2007
AB Capital ehf	56	31.5.2008
Samson Partners - Properties 1	42	31.7.2006
Vann og land ehf	19	26.2.2007
Fausdóttir ehf	16	31.1.2008
Actavis hf	6	31.1.2007

1. Aðilar með hæstu útlánstöðu yfir 5 m. evra.

Heimild: Glitnir banki hf., Kaupþing banki hf., Landsbanki Íslands hf. og Strömmur-Burðarís Fjárfestingabanki hf.

[key to table:
heading

Table 4. Parties¹ defined as related to Björgólfur Thor
Björgólfsson

Fjárhæðir í milljónum evra

Figures in million euros

Hæsta útlánastaða

Highest loan position

Dagsetning stöðu

Date of position

All the entries in the table are the names of companies.

1. Aðilar með hæstu...

Parties with highest loan positions of over €5 million

Heimild: Glitnir...

Source: Glitnir Bank hf, Kaupthing Bank hf, Landsbanki Íslands hf, and Straumur-Burðarás Investment Bank hf]

Comments

The details given here are highly misleading and present an incorrect impression of Björgólfur Thor's borrowing activities. Here all the liabilities of companies which he owned only in part or in which he only had a small share or precious little involvement are conflated into the total liabilities of companies affiliated to him. This runs counter to the relevant legal instruments. The following points should be made clear:

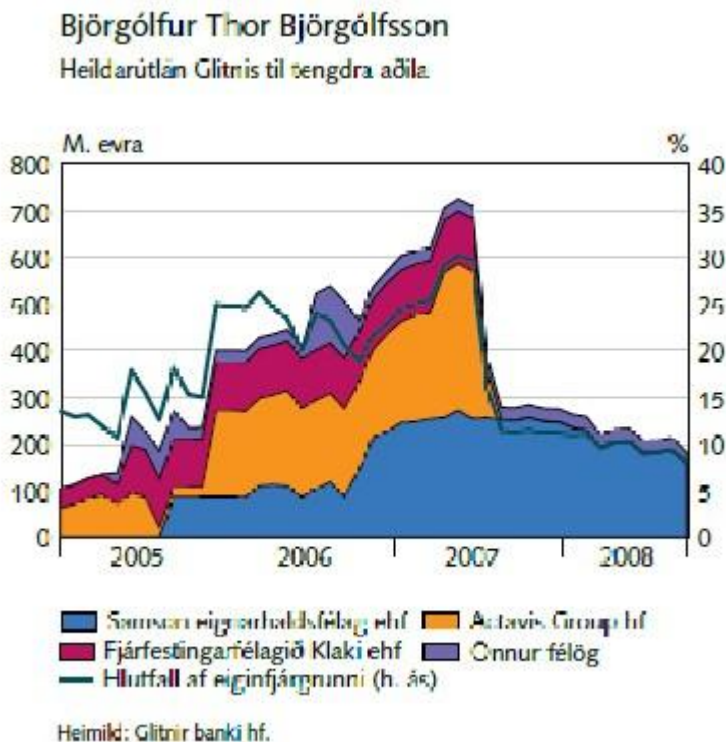
- All the liabilities of Samson Holding Company ehf are included; Björgólfur Thor owned less than a half of this company.
- All Actavis' liabilities up to the time of its take-over in the second half of 2007 are counted as liabilities of Björgólfur Thor; up until the take-over, Actavis was a public limited company listed on the Iceland Stock Exchange and Björgólfur Thor at no point up to this time exercised control over the company.
- The liabilities of companies under the Actavis umbrella, Fjallkonugil ehf and Herkonugil ehf, which were set up especially on account of Actavis's bid for the Croatian pharmaceutical company Pliva, are included. Apart from the fact that Björgólfur Thor was never directly involved with these companies, their liabilities were settled in 2007.
- The liabilities of Fjárfestingarfélagið Grettir ehf are counted as belonging to Björgólfur Thor; his indirect share in this company was only around 12% and not 'rather over a fifth' as stated in the SIC report. In addition, he was never involved in the running of this company.
- The liabilities of the real-estate companies Samson Properties ehf., Samson Partners – Properties 1, Vatn og land ehf and Rauðsvík are counted as belonging to Björgólfur Thor in full even though he controlled only 35% of these companies' share capital.

It is correct as stated here that Björgólfur Guðmundsson owned a majority holding in Fjárfestingarfélagið Grettir. Björgólfur Thor was a passive investor through Samson. Grettir's decisions to invest in Eimskip and Icelandic Group in 2007 were taken entirely by the company's majority shareholder. When considering Grettir's commitments to Landsbanki it is important to bear in mind that Landsbanki originally lent Grettir the money to buy shares in Eimskip and Icelandic [sc. Group] at a time when Grettir was in the majority ownership of persons other than Björgólfur Guðmundsson. Björgólfur Guðmundsson took over these debts when he became Grettir's majority shareholder in the winter of 2006-2007, and to secure the bank's position still further he took on personal liabilities beyond the level required under law. He was thus not personally responsible for contracting these debts with Landsbanki. Landsbanki made only one

loan to Grettir during the time Björgólfur Guðmundsson was the majority shareholder in the company. It is also important to bear in mind that Eimskip and Icelandic Group were among the group of major Icelandic companies that had had business relations with Landsbanki going back decades. Thus Figure 61 above from the SIC report ascribes to Björgólfur Thor debts from the years 2005 and 2006 that belonged to a company that neither he nor his father owned at the time. In addition, the Commission assigns to Björgólfur Thor debts that belonged to Actavis, a company that he did not control until after its take-over in the second half of 2007. These errors on the part of the Investigation Commission could easily have been avoided by asking some obvious questions during their information gathering process.

This breakdown of Björgólfur Thor’s total commitments is incorrect and highly misleading. What the breakdown shows is the total debts of a number of companies in which Björgólfur Thor was a major shareholder or was later to become a shareholder. It is difficult to see the significance of the statement that ‘at their highest loans to Björgólfur Thor’s group amounted to over €1.3 billion’. It is also difficult to understand the principles on which this breakdown by the authors of the SIC report is based, since they are not grounded in the Law that was in force at the time to which the Commission is referring.

From the report:



[key to figure:
Mynd 62
Heildarútlán Glitnis...
M. evra
Önnur félög

Figure 62
Total loans granted by Glitnir to related parties
Million euros
Other companies

The other entries are the names of companies.

Hlutfall af eiginfjárgrunni... Percentage of capital base (right axis)

Heimild:... Source: Glitnir Bank hf]

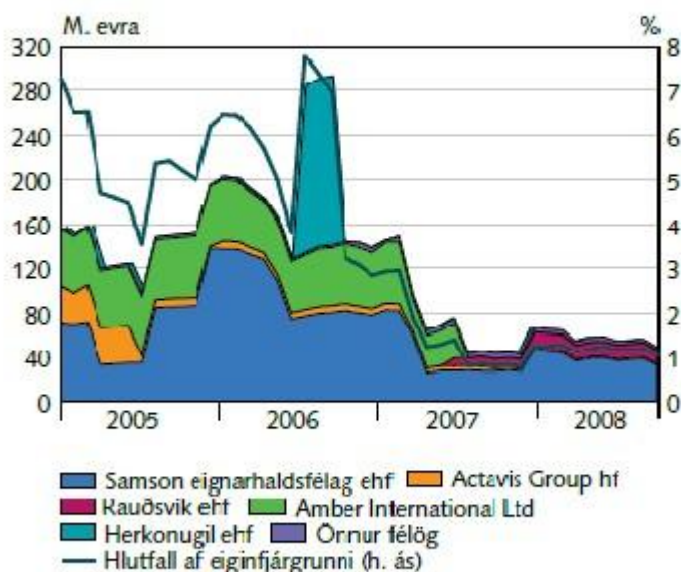
Figure 62 shows the movements in loans granted by Glitnir to the Björgólfur Thor group. Fjárfestingarfélagið Klaki ehf was owned by Björgólfur Thor as a shell for holding shares in Actavis. Loans by Glitnir to Björgólfur Thor's group can thus effectively be split into two: on the one hand to Samson and on the other to Actavis and Klaki. In 2007, total loans to the group exceeded 30% of Glitnir's capital base. On Björgólfur Thor's acquisition of Actavis in the middle of 2007, as discussed in section 8.8, the bank's loans to both Actavis and Klaki were paid off and thereafter the group's debts were primarily on account of Samson, at around 10% of Glitnir's capital base.

Loans from Kaupthing to Björgólfur Thor's group are shown in Figure 63 and were significantly less than with the other banks. The biggest borrower was Samson, followed by Amber International, another company owned by Björgólfur Thor as a shell for holding shares in Actavis.

Mynd 63

Björgólfur Thor Björgólfsson

Heildarútlán Kaupþings til tengdra aðila



Heimild: Kaupþing banki hf.

[key to figure:

Mynd 63

Heildarútlán Kaupþings...

M. evra

Önnur félög

The other entries are the names of companies.

Hlutfall af eiginfjárgrunni...

Figure 63

Total loans granted by Kaupthing to related parties

Million euros

Other companies

Percentage of capital base (right axis)

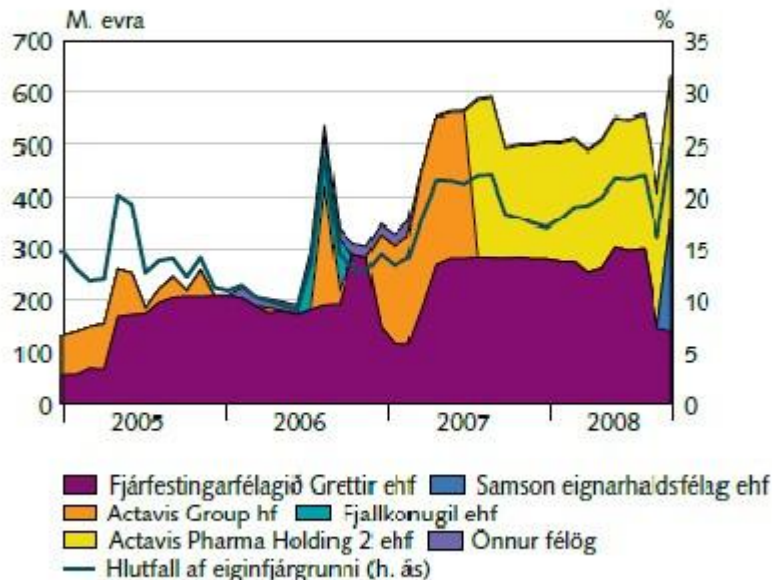
Heimild:...

Source: Kaupthing Bank hf]

Mynd 64

Björgólfur Thor Björgólfsson

Heildarútlán Landsbankans til tengdra aðila



Heimild: Landsbanki Íslands hf.

[key to figure:

Mynd 64

Heildarútlán Landsbankans...

M. evra

Önnur félög

The other entries are the names of companies.

Hlutfall af eiginfjárgrunni...

Heimild:...

Figure 64

Total loans granted by Landsbanki to related parties

Million euros

Other companies

Percentage of capital base (right axis)

Source: Landsbanki Íslands hf]

Figure 64 shows loans granted by Landsbanki to the Björgólfur Thor group. The loans were almost entirely to Fjárfestingarfélagið Grettir and companies linked to Actavis. The graph shows that, on Björgólfur's acquisition of Actavis, Actavis paid off its debt to Landsbanki but a slightly higher loan was issued to Actavis Pharma Holding 2, a company set up around the time of the take-over. This is described in more detail in section 8.8. In September 2008 Landsbanki granted Samson a loan of £168 million, which according to the minutes of Landsbanki's loan committee was on account of the insolvency of XL Leisure Group and was allocated entirely towards a reduction in commitments to the bank. In the last 18 months before the collapse of Landsbanki, total loans by the parent company to Björgólfur Thor's group fluctuated at around 20% of the bank's capital base.

Comments

The SIC report is in error here. Firstly, when it says in the report that Landsbanki granted a loan to Samson on account of the insolvency of XL Leisure Group, it is

important to state that this was not a matter of a new loan commitment with the bank: this commitment to the bank was already present. The loan was originally made to a company that was at the time unrelated to the owners of Samson. With the insolvency of XL Leisure Group it looked as if this old loan commitment would fall on Eimskip, with serious consequences for the company, and then on Landsbanki as a result of Eimskip's large debts with the bank. Samson agreed to guarantee these commitments that would otherwise have passed to Eimskip and then onto the bank and so onto all its shareholders. The truth is that Landsbanki's position was strengthened under this guarantee. It is thus incorrect to speak of a loan to Samson; the most important consideration in arranging this transaction was the interests of Landsbanki. Björgólfur Thor and Björgólfur Guðmundsson accepted a considerable personal risk over and above other shareholders in Landsbanki, though all shareholders benefited from their action. It is not clear why the SIC should present this matter incorrectly and turn matters on their head, since all the information on this affair has long been available. The Investigation Commission however rightly points to the fact that this 'loan' was allocated entirely towards reducing commitments to the bank.

Here we may see that Björgólfur Thor was adding to his own level of liability and providing banks with increased protection in the uncertainties that prevailed in autumn 2008. This is not the only example of such action on Björgólfur Thor's part that passes unmentioned in the Investigation Commission's report. The report, however, contains examples of managers at other banks having done the opposite.

Secondly, it is not correct that the new loan that Actavis took out after the company had been taken over and paid off its older debts to Landsbanki in 2007 was higher. This loan was lower: for further details, see pages 18-19.

From the report:

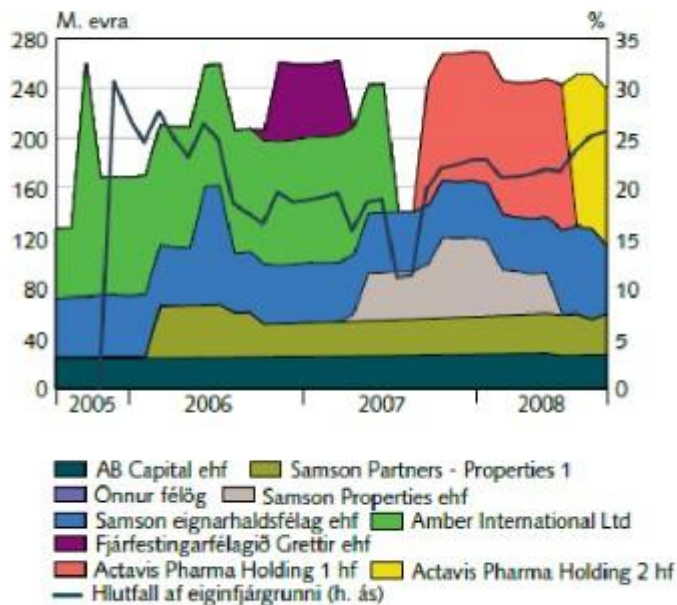
Page 145

Alongside this, Björgólfur Thor was by far the largest risk exposure at Landsbanki in Luxembourg, as discussed in section 8.10, viz. to the tune of over €300 million at the end of September 2008. This corresponded to just under 12% of the banking group's capital base at the middle of the year 2008. In addition, Landsbanki's outstanding guarantees on account of two companies in the group from March 2008 were still in place at the end of September 2008. Guarantees on the liabilities of Novator Telecom Bulgaria Ltd came to around €40 million and guarantees on account of Novator Partners LLP to around €20 million.

Mynd 65

Björgólfur Thor Björgólfsson

Heildarútlán Straums-Burðarás til tengdra aðila



Heimild: Straumur-Burðarás hf.

[key to figure:

Mynd 65

Heildarútlán Straums-B...

M. evra

Önnur félög

The other entries are the names of companies.

Hlutfall af eiginfjárgrunni...

Heimild:...

Figure 65

Total loans by Straumur-Burðarás to related parties

Million euros

Other companies

Percentage of capital base (right axis)

Source: Straumur-Burðarás hf]

Figure 65 shows loans by Straumur-Burðarás to Björgólfur Thor and affiliated parties. As at the other banks, Samson and Actavis were affiliated companies which were responsible for a large part of the group's loans from Straumur-Burðarás. In addition, the bank had issued loans to real-estate companies linked to Björgólfur, e.g. AB Capital, Samson Properties and Samson Partners – Properties 1. Straumur-Burðarás also provided guarantees on the commitments of both Björgólfur himself and AB Capital ehf. The guarantee on behalf of AB Capital was provided in June 2008 and stood originally at €18.5 million but at the end of September 2008 it had risen to €28 million. The guarantee on account of Björgólfur was provided in September 2008 and stood at around €12 million.

Comments

It is incorrect, as stated here in the SIC report, that Straumur-Burðarás provided guarantees for Björgólfur Thor's liabilities. The fact of the matter is that Björgólfur Thor stood personal surety for debts incurred by his father in the running of the English football club West Ham United, of which he was then the owner. By this he

strengthened the position of the bank. Here again we may see that Björgólfur Thor is adding to his own liabilities and providing banks with increased protection in the uncertainties that prevailed in autumn 2008. This is not the only example of such action on Björgólfur Thor's part that passes unnoted in the Investigation Commission's report.

It is also important to make clear that when Straumur-Burðarás provided AB Capital ehf with the loan mentioned in 2005, the bank was a shareholder in the company. On the refinancing of the company, Björgólfur Thor provided back-up guarantees for this loan. The guarantees in question were not on account of new loans. By this action the position of the bank was strengthened.

A [statement](#) issued by Björgólfur Thor on 19 April 2010 concerning the report's discussion of his loan arrangements contains the following: 'The Investigation Commission's report details only the amount that was lent but says nothing about any guarantees backing these loans or when the loans were taken... Many of Björgólfur's loans were secured by collateral in the form of deposits and thus there is no question of any credit risk, i.e. the bank guaranteed that it would not suffer loss even if the borrower defaulted on his commitments by having adequate security in the form of assets. Companies linked to Björgólfur held over 50 billion krónur (€300 million) in liquid assets in deposits at Landsbanki in Luxembourg at the time of its collapse. These were funds that represented the profits on the sale of assets outside Iceland and were in no way connected with economic affairs within Iceland. In addition, assets have been sold and the loans specified in the table have been repaid, cf. Novator Finland Oy.'

It should also be mentioned that agreements have been reached covering all these debts and liabilities. It is notable that the debts of a large number of parties to Icelandic banks are discussed in detail in the SIC report without any consideration of whether they are capable of honouring their debts or not.

8.7.5 Findings of the Investigation Commission

From the report:

Page 171

The Investigation Commission is of the opinion that the concentration of risk at the Icelandic banks had been dangerously high for some time before their collapse. This applies to both the loans granted to certain groups within each bank and to the same groups having built up large exposures at more than one bank. As a result, systemic credit risk on loans had reached significant levels. The clearest example of this concerns Baugur Group and related companies. Exposure to Baugur Group had reached excessive levels at all three of the major banks and at Straumur-Burðarás. The banks' risk management procedures are seriously at fault for having permitted this risk to build up. Irrespective of the major risk from Baugur Group at each of the banks individually, it should have been clear to all the banks that the group's debt accumulation at other banks was also substantial. At all the banks the solutions to this problem seem to have centred on arguing with the regulatory authorities that there was no serious risk concentration involved, rather than facing up to the actual risk and attempting to reduce it. Similar comments apply to Exista, Björgólfur Thor Björgólfsson, Björgólfur

Guðmundsson and Ólafur Ólafsson, though the risk arising from these parties was rather less than that from Baugur Group.

Comments

Björgólfur Thor was chairman of the board of Straumur[-Burðarás]. As early as 2007 concerns had been expressed that Baugur's total commitments to Icelandic banks were large, but then, as now, it was not within the remit of individual banks to divulge the overall debt position of individual customers in the Icelandic system. Straumur stopped making new loans to Baugur in 2007. Björgólfur Thor and the CEO of Straumur, William Fall, were aware of the large-scale commitments of Icelandic business groups at Icelandic banks and regarded this as the Icelandic disease which they wished to attempt to eradicate at Straumur, as shown in publicly available [documentation](#). Björgólfur Thor was not in the same kind of position at Landsbanki to influence the bank's policy.

8.8.2.1 Participation of Deutsche Bank in the financing of the acquisition of Actavis

From the report:

Page 173

Late in July 2007 the take-over of the pharmaceutical company Actavis by Björgólfur Thor Björgólfsson and companies connected with him was completed. The sale was the largest single deal that had ever taken place on the Icelandic stock exchange: the day the deal went through saw the highest turnover [on the stock exchange] and with the sale enormous sums of money were pumped into the Icelandic stock market; the OMX Iceland 15 index of leading companies touched an all-time high almost simultaneously with this deal. The financing of the take-over can be broken down into four parts: an equity contribution from the purchasers, loans from Landsbanki and Straumur, and a substantial part in the form of a loan from the German bank Deutsche Bank. The Icelandic banks and Deutsche Bank, however, financed the purchase in different ways and accepted very different risk positions.

Comments

It is highly misleading on the part of the authors of the SIC report to say that Deutsche Bank 'took part' in financing the acquisition of Actavis. It is correct that Icelandic banks participated in the financing of Deutsche Bank, though only to a small extent. Icelandic banks were involved in 5.5% of the total financing of this deal and about 7% of the loans raised. Deutsche Bank saw to the financing of the take-over and directed the project and provided around 93% of the loans raised. The German bank participated in the financing of all loan categories and thus to some extent lent on the same terms as the Icelandic banks. Fewer Icelandic banks were involved in raising the capital than wanted to be but two Icelandic banks had the opportunity to provide lending towards the acquisition.

From the report:

The take-over bid for Actavis was in euros, €1.075 a share, and the entire transaction was for just under 3.2 billion shares. The purchase price thus came to just under €3.5 billion. It was the company Actavis Pharma Holding 5 that bought Actavis and paid the stated purchase price to the sellers of Actavis. Actavis Pharma Holding 5 was at the head of a chain of five companies with very similar names: Actavis Pharma Holding (APH) 1, 2, 3, 4 and 5. The chain was built up as follows:

Shareholders in APH 1 put about one billion euros into the company. This equity contribution was in fact the holding in Actavis owned by companies linked to Björgólfur Thor prior to the take-over. This equity contribution was put into APH 2 as share capital. Alongside this, APH 2 received a loan of around €1.2 billion. APH 2 put all its assets, the proceeds from the loan and the equity contribution, into APH 3. APH 3 put the funds into APH 4, which also received a loan of around €800 million from Deutsche Bank. These aggregate funds were then put into APH 5, which bought Actavis. This chain was in fact set up so as to effect a priority structure in the financing. Through the chain arrangement, it was actually the loan that was granted to APH 4 that had first claim on Actavis and the loan to APH 2 that had the second claim, with the shareholders who had put share capital into APH 1 at the bottom of the claims priority order.

According to the loan books of Landsbanki and Straumur-Burðarás, Landsbanki originally lent APH 2 €300 million (at the time about 25 billion krónur) but in September Straumur-Burðarás took over a third of this financing. Thus, these two Icelandic banks provided loans into a subordinated part of the financing, while Deutsche Bank had first claim on Actavis through APH 4. This subordinating nature of the funding was reflected in the terms of the loans to APH 2, which carried a high rate of interest of 23% on funding in euros.

Comments

The fundamental point here is the fact, mentioned in the Investigation Commission's report, that this arrangement was employed to ensure a priority structure in the financing, a practice that is commonplace in international financing agreements.

The Icelandic banks saw to around 7% of the total financing of the acquisition of Actavis. When it is said that the owners of the Icelandic banks misused the situation, it is worth bearing in mind that Deutsche Bank also provided financing towards the same part of the loan as the Icelandic banks that received an interest rate of 23% in euros! At the beginning of July 2007, inter-bank lending rates for one year in euros were around 4.5%, compared to 13.5% in Icelandic krónur. 23% interest in euros was thus approximately equivalent to 32% interest in Icelandic krónur at the time. On top of this there was a loan management fee of 3%.

The banks were of course taking a risk but this was offset by a high rate of interest. At the take-over the Icelandic banks received around €550 million paid out, or around 88 billion krónur, and some of them elected to invest a part of these funds back into Actavis. Landsbanki decided to reinvest in Actavis in the form of a loan and share capital. It decided to invest again in its own name for something over €65 million and concurrently to provide a loan of €200 million. The banks showed very great interest in participating in the take-over, this being one of the largest take-overs in Europe of all time. Glitnir, for example, made considerable overtures, as well as UBS, Citi Bank, Credit Suisse, Barclays and Lehman Brothers. One of the reasons that fewer got to

participate than wanted to was that Björgólfur Thor wished to hold as large a stake as possible himself, being convinced at the time that the acquisition represented a sound commercial proposition.

For full details of Novator's acquisition of Actavis, see [here](#).

8.8.3.4 Landsbanki provides credit to cover Deutsche Bank's margin call on the financing of the acquisition of Actavis

From the report:

Page 176

In the loan agreement between Actavis and its principal loan provider, Deutsche Bank, there were terms covering specific capital adequacy ratios. Landsbanki Íslands lent around €200 million in the form of a subordinated loan to the company (the companies structure) at the time of the original purchase.

In the middle of 2008 Actavis's performance had not come up to expectations and there was thus a risk that these ratios might drop below the negotiated minimums. Actavis's principal owner, Björgólfur Thor Björgólfsson, therefore approached Landsbanki for credit facilities to forestall Deutsche Bank calling in its loan to Actavis.

According to a loan agreement dated 25 June 2008, Landsbanki Íslands in Luxembourg was to provide the company BeeTeeBee Ltd a loan of €50 million guaranteed in full by Landsbanki hf. BeeTeeBee Ltd was a company in the ownership of Björgólfur Thor with residence in the British Virgin Islands. Three months later, on 30 September, a top-up was made to this loan agreement and the loan increased to €153 million. This contract was signed by Tómas O. Hansson on behalf of the borrower and Marínó Freyr Sigurjónsson on behalf of the lender. According to Sigurjón Th. Árnason, this loan was made to enable BeeTeeBee to make a long-term subordinated loan to Actavis to meet Deutsche Bank's call for an increase in the company's equity.

Comments

As a result of operating difficulties that came up at Actavis, including the temporary closure of a factory in the USA in the first half of 2008, the company needed operating capital to be able to meet its commitments. When this became clear in March of that year it was decided to increase the company's share capital and so Novator entered into an agreement with Landsbanki regarding the financing of its share in this increase.

Since Actavis did not require delivery of all the funds immediately, the increase in share capital was financed in stages. Companies in the ownership of Björgólfur Thor made their first transfer of funds to Actavis in April 2008, the loan being financed by Landsbanki in Luxembourg, and thereafter piecemeal until agreements were reached with Deutsche Bank in September 2008 for an increase in share capital against refinancing. The last payment took place at the end of September. Payments made to Actavis are as shown in the table below:

	EUR
April	15
May	15
June	20
July	20
August	20
September	64
Total	154

It is thus incorrect, as might be inferred from the SIC’s account of the loan facilities granted by Landsbanki to Björgólfur Thor’s company in late September 2008, that this was a matter of new lending. It was in fact the final instalment of a loan that had been agreed in March 2008. The loan was secured on a convertible bond in Actavis, which in effect means that the securitisation was on Björgólfur Thor’s shares in Actavis, plus the unconditional personal guarantee of Björgólfur Thor as well as other backing in the form of valuables that were assessed as financially secure.

The loan formed part of Björgólfur Thor’s total debt resolution procedures in July 2010.

From the report:

Page 177

Under a guarantee agreement dated 30 September 2008, Landsbanki accepted security in Novator Telecom Poland S.a.r.l. for the loan. In addition to this, Landsbanki got Björgólfur Thor to provide a guarantee from the company Givenshire Equities S.a.r.l. for Björgólfur Guðmundsson’s commitments arising from an unconditional personal guarantee on the liabilities of Grettir Holding Company. Givenshire Equities S.a.r.l. held and managed Björgólfur Thor’s holding in Samson Holding Company. Sigurjón Th. Arnason described matters thus before a hearing of the Investigation Commission:

‘The way it ends, in the final week or something like that, is with us lending to Björgólfur Thor from our own funds so that he can meet certain obligations at Actavis, and in return he provides us with security on the second part – gets his father to provide security, in fact – so that Landsbanki is 100% secured on Samson Holding Company. [...] The next task then in connection with this is of course to find new owners to take the whole caboodle over.’¹

The €153 million loan to BeeTeeBee Ltd was transferred together with other loans from Luxembourg to Landsbanki in Iceland at the beginning of October.

¹ Here and throughout with other citations of evidence presented at hearings of the Investigation Commission. The original is a transcript typed up verbatim from recordings and contains hesitation features and anacolutha. These matters are tidied up in the translation where possible. In this particular case, the speaker is especially inarticulate and it is not always easy to make out his sense. The translation could thus be challenged in several respects.

Comments

From the testimony of one of the CEOs of Landsbanki, Sigurjón Th. Árnason, it is clear that Landsbanki is here protecting its own interests against its largest owners, who were also on this occasion its clients. The guarantees the bank accepted were financially sound and the bank secured its loans better and received securer collateral as regards Actavis. Björgólfur Thor was accepting a higher level of risk in this transaction. This is thus a third example of Björgólfur Thor increasing his own risk and providing banks with improved protection in the uncertainties that prevailed in autumn 2008. It can only be wondered at that the Investigation Commission's report should not highlight more clearly that here the bank's position was being strengthened.

In other respects, Björgólfur Thor finds the conclusion of this account by the bank's CEO Sigurjón Árnason surprising. He was in these last days of September providing new security in support of his business colleague and father, Björgólfur Guðmundsson, and increasing the security on Landsbanki's loans in good co-operation with the bank's CEOs – or so he thought. In fact, elsewhere in the report CEO Sigurjón Árnason is also quoted as saying that he had spoken to Kjartan Gunnarsson, deputy chairman of the board of Landsbanki, about this agreement opening the way for new owners at the bank.

Björgólfur Thor can think of no explanation of this testimony by the bank's CEO Sigurjón Th. Árnason. What the CEO says bears clear witness to his not having the interests of the biggest shareholder at heart, since he is seeking ways to allow the bank to find new owners. It is of course not the job of a bank's CEO to protect the interests of its biggest shareholders in preference to other shareholders. Here we can see clearly that – contrary to unsupported speculation in the media – the bank's CEOs worked independently and were in no way puppets of some shadow directors. Similarly, Sigurjón opposed ideas of a merger between Landsbanki and the prestigious Swedish investment bank Carnegie, a possibility which Björgólfur Thor for his part was interested in. After the amalgamation of [Straumur-]Burðarás and Landsbanki in 2005, Landsbanki became the largest single shareholder in that bank and the merging of these two banks was then a realistic proposition. Such a merger would possibly have threatened Sigurjón's position as the bank's principal CEO and this may in part explain his attitude, though one should also consider that he felt that the Swedish bank came at too high a price. The merger idea however dropped from the picture after Landsbanki sold its interest in Carnegie in April 2006 at a healthy profit. Similarly, Sigurjón consistently opposed ideas of merging Landsbanki and Straumur[-Burðarás], something that Björgólfur Thor was quite active in promoting; William Fall, the CEO of Straumur[-Burðarás], would always have become the principle CEO of the united bank and thus Sigurjón's superior.

These events are detailed here in order to demonstrate that there were disputes between the executives and principle owners of Landsbanki in the years 2003 to 2008. There was a struggle over policy and influence, as is natural and allowed for in the bank's statutes. It is a major misunderstanding – and one that has appeared frequently in media discussion of Landsbanki in these years – that everyone at the bank had been scratching each other's back. This was not the case. It is clear from what Sigurjón says that he was contemplating scenarios in which the bank had owners other than Samson, and it is

clear that Björgólfur Thor was at the same time seeking ways to reduce Sigurjón's influence over the bank's management and policy.

It should also be pointed out that the loan conditions offered to Björgólfur Thor's companies were in no way more favourable than those offered to other customers of the bank – even quite the opposite. It should be remembered that Björgólfur Thor knew nothing about the credit status or business terms of Landsbanki's other customers. The striking fact emerges from the SIC report that Landsbanki demanded better securitisation and personal guarantees from the bank's principal owners over and above the requirements it made of the bank's other loan holders such as Baugur and affiliated companies, who, as noted previously, owed Landsbanki far more than companies linked to Björgólfur Thor did. This can be seen as yet further confirmation that the business relations of Björgólfur Thor's companies with Landsbanki were on transparent and professional terms.

8.10.5 Landsbanki Luxembourg S.A.

From the report:

Page 196

Table 19. 20 largest borrowers at Landsbanki Luxembourg S.A.¹

<i>Borrowers on basis of company group</i>	<i>Exposure, million euros</i>	<i>Overall exposure (%)</i>
Björgólfur Thor Björgólfsson ²	305.09	23.05
Foreign individual	38.79	2.93
Erna Kristjánsdóttir	26.18	1.98
Kevin Gerald Stanform	21.96	1.66
Björgólfur Guðmundsson ³	16.50	1.25
Schaumann holding A/S	13.51	1.02
Ingunn Wernersdóttir	11.63	0.88
NA 3001512	11.17	0.84
Aurora Management Associates Limited	9.01	0.68
Foreign individual	8.65	0.65
Sunny Daze Limited	7.64	0.58
Foreign company	7.13	0.54
Baugur group hf	6.89	0.52
Foreign individual	6.82	0.52
Shelston Holdings Limited	5.74	0.43
GD Invest SA	5.44	0.41
Bogi Pálsson	5.11	0.39
Sigurður T. Kristjánsson	5.11	0.39
Foreign individual	4.72	0.36
Jón Ásgeir Jóhannesson	4.69	0.35
Others	801.56	60.57
Total	1,323.34	100.00

¹ 2 October 2008

² Shareholder

³ Shareholder / director

Source: Landsbanki Íslands hf

Table 19 shows the 20 biggest loan holders at Landsbanki Luxembourg S.A. as at 2 October 2008. The table is based on data obtained from an email from Landsbanki in Luxembourg to a member of staff at Landsbanki. What comes out most strikingly on an examination of the data is the sheer size of the exposures associated with Björgólfur Thor Björgólfsson as a proportion of the overall corporate risk at Landsbanki Luxembourg S.A, at around 23%. Björgólfur Thor was at this time one of the two owners of Samson Holding Company ehf, which was the largest shareholder in Landsbanki.

....

If one considers only the 20 largest borrowers at Landsbanki Luxembourg S.A., it appears that Björgólfur Thor Björgólfsson represented a share of over 58%. Figure 182 shows the breakdown among the 20 biggest debtors. The largest individual loan to a company linked to Björgólfur Thor was for €153 million and was to the company BeeTeeBee Ltd. This loan was made on 30 September 2008.

Comments

In Björgólfur Thor's [statement](#) and report of 19 April 2010 on his credit affairs with Icelandic banks it is shown that exposures attributable to Björgólfur Thor are overstated and that his cash deposits at Landsbanki in Luxembourg, which stood at around €300 million, are not taken into the equation, though he must almost certainly have been one of the very largest deposit holders at the bank. If deposit holdings had been set off against loans granted it would have emerged that debts in excess of deposits stood at just about €5 million, which would have put Björgólfur Thor in 18th place on the list rather than first. At this time Björgólfur Thor was a well-known international investor whom banks solicited for credit business. He considered it only proper to direct part of his business to Landsbanki, being its second largest shareholder. The SIC report also perpetuates the misconception that Björgólfur Thor received a loan to the sum of €153 million at the end of September. The truth of the matter is that the loan was agreed in March and paid out in instalments up to end of September.

[8.10.5.1 Transfer of exposures from Landsbanki Luxembourg S.A. to Landsbanki Íslands hf.](#)

From the report:

Page 198

In the period leading up to the collapse of the banks a request was issued for large exposures guaranteed with the parent company to be transferred in full to Landsbanki Íslands, the request for this transfer coming from the managers of Landsbanki Luxembourg. The loans in question were to a total value of €784 million (794 million prior to write-down for depreciation). When the loan holders are broken down on the basis of company group, it emerges that there were eleven relevant parties. See Table 22.

The largest loan holder affected by the transfer was Björgólfur Thor Björgólfsson, with around €225 million, including a loan of €153 million that was granted at the end of September 2008, as discussed in section 8.8

Comments

Here again we find repeated the error that Björgólfur Thor was granted a loan to the sum of €153 million at the end of September. The true situation is that the loan was agreed in March and paid out in stages up to the end of September.

8.10.6 Findings of the Parliamentary Investigation Commission

From the report:

Page 199

It is clear that Landsbanki in Luxembourg was used to a considerable extent to finance the business ventures of Björgólfur Thor Björgólfsson's companies. It is particularly noteworthy that a large part of these liabilities were incurred immediately prior to the fall of the bank.

Comments

The Investigation Commission here repeats its distrustful comments about a loan that was granted in connection with Actavis and negotiated in March; the report speaks of it having been granted 'immediately prior to the fall of the bank' on the grounds that it was paid over in instalments, starting in the spring and with the last instalment paid over at the end of September. The Investigation Commission chooses to completely overlook the fact that Björgólfur Thor was one of the very largest deposit holders at Landsbanki in Luxembourg. Loans to him were in the vast majority of cases fully secured against collateral in the form of ready cash or other secure assets. As stated in Björgólfur Thor's [report](#) of 19 April 2010, the credit risk to Landsbanki in Luxembourg on account of loans to him was in most cases nil. In view of this, it is incomprehensible why the Investigation Commission should attempt to sow seeds of suspicion by talking about Landsbanki in Luxembourg having been 'used' in some way. In July 2010 Björgólfur Thor signed an agreement for an overall resolution of all these debts.

It should be pointed out that on 21 July 2010 the courts in Luxembourg ratified an agreement between the estate in bankruptcy of Landsbanki in Luxembourg, Landsbanki Íslands, the Central Bank of Luxembourg, and some of the bank's biggest creditors which secures deposit holders, including Björgólfur Thor, full collection within a few months. The agreement ensures that deposit holders will have their claims paid in full and this payment will probably take place within 6-12 months.

This outcome was attained in part because the parties with the largest claims against the bank, Landsbanki Íslands and the Central Bank of Luxembourg and various companies, are subordinating their claims in favour of other creditors. In return, these parties will be granted tighter control over the management of the bankruptcy estate

and ensure that the assets are sold at the best possible price. Thus Landsbanki Íslands is securing its interest in recoveries from the bankruptcy estate. In addition, other major creditors, including all companies affiliated to Björgólfur Thor that had business relations with the bank, agreed to accept a 30% haircut on their claims against the bankruptcy estate to facilitate the agreement. The concession accepted by Novator was for an amount greater than the bank's total claims against the company.

The agreement ensures that Landsbanki Íslands will be able to maximise the amount it collects from the bankruptcy estate, in addition to which deposit holders will be repaid in full.

8.12.3.4 Björgólfur Thor Björgólfsson and related companies

Exposures October 2008: 170.4 billion krónur

From the report:

Page 216

Björgólfur Thor Björgólfsson has been an investor with wide-ranging interests, both in Iceland and abroad. Together with his father, Björgólfur Guðmundsson, and others, he operated the Bravo brewery in Russia, which they later sold to Heineken. On the privatisation of the banks, the father and son team, together with their colleague Magnús Thorsteinsson, bought a majority shareholding in Landsbanki Íslands hf through their holding company, Samson. Among Björgólfur Thor's other investments one might cite holdings in Actavis and Straumur-Burðarás. In addition, Björgólfur Thor has been very active in investments on the telecommunications market, for instance owning at one time major stakes in telephone companies in Bulgaria, the Czech Republic and Poland. Björgólfur Thor's investment company, Novator, also invested substantially in Finland, for instance in the Finnish telephone company Elisa. Among Novator's other investments in Iceland might be noted the telephone company Nova (100%), CCP hf (34% through the company NP ehf) and Verne Holdings ehf (50%).

Comments

It is necessary to correct an error in the SIC report where it says that 'the father and son team, together with their colleague Magnús Thorsteinsson, bought a majority shareholding in Landsbanki Íslands hf through their holding company, Samson'. This is incorrect: Samson bought a 45.8% share in Landsbanki; this is not a majority.

From the report:

In most cases Björgólfur Thor directed the operations of his companies personally but among his close associates might be named Tómas Ottó Hansson (on the board of Novator ehf), Sigthór Sigmarsson (on the board of Novator ehf), Heiðar Már Guðjónsson (CEO at Novator Partners LLP) and Andri Sveinsson (chief finance office at Novator Partners LLP). The last named also sat on the board of Landsbanki.

During the period January 2007 to October 2008, the debts of Björgólfur Thor and affiliated companies in Iceland krónur increased by around 97.0 billion. Taking account of changes in the euro, total commitments thus increased by 395.4 billion, or 51%, from the beginning to the end of the period:

Table 35. Björgólfur Thor Björgólfsson's risk exposures

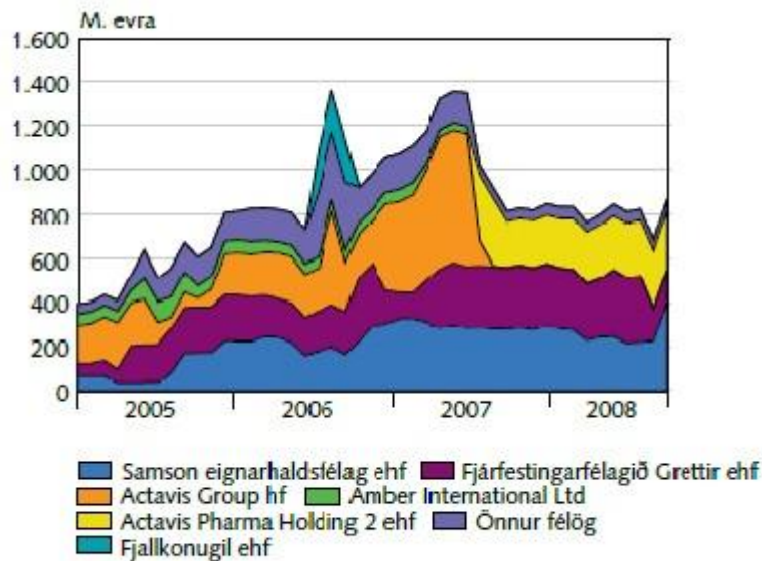
<i>Billion krónur</i>	<i>Jan 2007</i>	<i>Oct 2008</i>	<i>Change</i>	<i>Change %</i>
Landsbanki ¹	58.2	141.5	83.3	143
Kaupthing	0.0	0.0	0.0	0
Glitnir	0.0	0.0	0.0	0
Straumur[-Burðarás]	15.2	28.9	13.8	91
Spron	0.0	0.0	0.0	0
Sparisjóðabankinn	0.0	0.0	0.0	0
Total	73.4	170.4	97.0	132
Total in million euros	776.0	1,171.4	395.4	51

Source: Glitnir bank hf, Kaupthing bank hf, Landsbanki Íslands hf, Straumur-Burðarás Investment bank hf, Spron and Sparisjóðabankinn hf.

Comments

The Parliamentary Investigation Commission does not explain how it comes to the conclusion that the debts of Björgólfur Thor and affiliated companies increased by 97 billion krónur, or by 51% in terms of euros. In addition, the information given here conflicts with what is said earlier in the SIC report, where in Figure 61 in Section 8.7.3.4 the debts are said to stand at €1,100 million at the start of 2007 and to rise close to €1,350 million by the middle of that year, but to have fallen under €900 million before the end of September 2008. According to the table there, the debts have thus in fact decreased rather than increased as it says here.

¹ All the entries are banks, savings banks or investment banks.



Heimild: Glitnir banki hf., Kaupþing banki hf. og Landsbanki Íslands hf.

[key to figure:

M. evra Million euros

Önnur félög Other companies

The other entries are the names of companies.

Heimild:... Source: Glitnir Bank hf, Kaupthing Bank hf and Landsbanki Íslands hf]

It must be repeated here that in these calculations the SIC, in disregard of the provisions of Laws and regulations, includes among Björgólfur Thor's debts the debts of management companies in which he only owned a small share and in whose operations he was in no way involved.

From the report:

New loans granted on the decision of loans committees amounted to 50.0 billion krónur across the period. The proceeds of these loans were for the most part allocated to operating expenses (25.7 billion krónur), the purchase of securities (22 billion krónur) and other purposes (2.3 billion krónur). Refinancing of older loans in the period amounted to 21.6 billion krónur, or equivalent to 29% of the credit balance at the start of the period.

The majority of the new loans granted were unsecured or secured against currently existing collateral: 19.4 billion krónur was secured on shares, 100 million krónur on liquid assets, and other forms of security amounted to 8.4 billion krónur.

Comments

It is difficult to understand what the authors of the SIC report mean when they say that the majority of loans granted were 'unsecured or secured against currently existing collateral'. Loans are either secured or not. In the case of loans to Björgólfur Thor, no loans were unsecured, which makes the Investigation Commission's comments even harder to understand.

The increase in loans here under discussion arises almost entirely as a result of Novator's acquisition of Actavis in the summer of 2007 and from the increase in the same company's share capital in 2008. Securitisation for these loans was in the form of shares in Actavis and was held to be one of the best securities on the Icelandic loan market of 2007 and 2008. As stated earlier, domestic and foreign banks competed to provide credit for these investments. Agreement was reached for the settlement of these loans at the time of the financial restructuring of Actavis, announced in July 2010.

From the report:

The biggest increase in credit facilities to Björgólfur Thor was to the company BeeTeeBee Ltd, at around 23.7 billion krónur. Around 8 billion of this was granted at the end of June 2008 but at the end of September the agreement was changed, bringing the facility up to a total of 23.7 billion krónur (€153 million). This loan was granted with the purpose of allowing BeeTeeBee to lend on the money to Actavis as a long-term subordinated loan. At the time Deutsche Bank had let it be known that Actavis was on the point of breaching its loan conditions by allowing its equity to fall below adequate levels, and so a subordinated loan was required to support Actavis. This loan is discussed more fully in section 8.8.2.1. A second part of Landsbanki's increased facilities to Björgólfur Thor remains unexplained: the facility was granted through companies in Luxembourg and our access to information on loans granted there is limited. The matter in question took the form of increased credit facilities to Novator International Holding Ltd (6 billion krónur), Novator Asset Management (5 billion krónur) and Novator Finland Oy (7,8 billion krónur). Information on loans granted to Novator Pharma Holding is also limited. There is thus no information regarding the purpose of these loans, how they were secured, or other matters. There was a minor increase in the credit facility granted by Straumur[-Burðarás] to Björgólfur Thor and companies during the period under examination but primarily the services of the loans committee consisted of extensions and the refinancing of loans granted previously.

Comments

When it says in the SIC report that a 'part of Landsbanki's increased facilities to Björgólfur Thor remains unexplained', this is being economical with the truth, since explanations exist but the Investigation Commission failed to go looking for them. If the Commission had, for example, sought to interview Björgólfur Thor or called him for information, explanations could easily have been provided. Björgólfur Thor's [report of 19 April 2010 on his credit affairs with Icelandic banks](#) contains full explanation of the loans in question and how they were secured. This report includes the following information:

Re loan to BeeTeeBee: Securitisation took the form of a convertible bond in Actavis, which in effect means that the loan was secured on Björgólfur Thor's shares in Actavis, his personal guarantee, plus other valuables. This loan was settled as part of Actavis's financial restructuring in July 2010.

Re loan to Novator International Holding Ltd: The loan was secured on a sum of money held by the company on account at Landsbanki in Luxembourg. The risk to the bank from the loan was therefore nil and the loan has since been settled.

Re loan to Novator Asset Management: The loan is secured on Björgólfur Thor's 20% stake in an asset-management company in London; this company is not connected with Novator or Björgólfur Thor in any other way. The loan was for €39 million and has been settled except that €3 million remain outstanding from the balance of this loan and

agreement has been reached for the settlement of this part. The market value of the company was reckoned at around €500 million at the start of 2007 and it is assumed that dividend payments will be sufficient to pay off the company's outstanding loans within three years.

Re loan to Novator Finland Oy: The loan was secured on shares in listed Finnish companies. The loan was largely paid off in March 2008 and paid off in full on the sale of the shares on 2 July 2009.

Re Novator Pharma Holding: There were two Novator Pharma companies. One was a company handling the direct investment of Straumur[-Burðarás] and Landsbanki in Actavis Group stock. There was thus no loan in this case. Novator Pharma Holdings 2 (actually called Actavis Pharma Holdings 2 ehf) received loans to the sum of €200 million from Landsbanki and €100 million from Straumur. In both cases these were single-payment loans to 11 years. This was part of an international syndicated loan agreement, with Deutsche Bank as the principal member. The loan was in euros and carried an interest rate of 23%. On the financial restructuring of Actavis in July 2010 the loan was settled with Landsbanki and Straumur.

From the report:

However, in summer 2007 a large loan was issued on account of Björgólfur's purchase of Actavis Group, in total around 16.3 billion krónur (€180 million). This loan was simultaneously Straumur's biggest large exposure. The following is from the minutes of Straumur's loans committee for 16 August 2007:

'The loans and investments committee has agreed to participate to the tune of 180 million EUR out of a total amount of 1.2 billion EUR [in] a subordinated loan with accumulated interest in connection with Novator Pharma Holding 1 hf's acquisition of Actavis Group hf. Terms and conditions are as set out in the loans committee literature.

Under Article 24 of the International Accounting Standards (IAS) the loan is treated as being to related parties due to Björgólfur Thor's connections with the borrower and lender.'

The loan was a single-payment loan to 11 years at 15% interest payable accumulated on maturity. In February 2008 the terms were changed such that the part that bore the accumulated interest (PIK loan) was reduced and a mezzanine loan was raised in its place. In an annex it is stated that the operating plan is considered unrealistic (English 'aggressive') and on this basis it is unlikely that it will be possible to repay the loan on the due date: see the minutes for 4 February 2008:

'On 27 August 2007 Björgólfur Thor's investment company Novator completed its take-over of Actavis Group, a listed Icelandic pharmaceutical company with a market value of €3 billion. Initially the intention was to finance the €5.6 billion acquisition with a €4.5 billion loan package (including a subordinated loan with accumulated interest), corresponding to a 10.7 times EBITDA leverage ratio and a 19.9% capital adequacy ratio, based on projected profits for the year 2007 of €420.1 million before depreciation and taxes. At this time Straumur participated in a subordinated loan amounting to €100 million against 1.5% commission paid in advance. The rest of the financing was handled by Deutsche Bank and Landsbanki. Due to current market conditions it has not proved possible to sell the loan as was envisaged. As a result the loan providers have decided to review the loan structure and

valuation in the hope of making the loan more attractive to investors. The main difference between the new structure and the old lies in a reduction in the proportion of subordinated loans and second-lien loans and these have been converted into a mezzanine loan. The interest margin has also been raised on all loans.'

Comments

It is not correct that Straumur[-Burðarás] provided a loan of €180 million; the SIC is misinterpreting the entry in the minutes of Straumur's loans and investments committee. In the earlier citation from the minutes it says: 'The loans and investments committee has agreed to participate to the tune of 180 million EUR...' This does not mean that Straumur made a loan of €180 million as, as comes out correctly in the later citation, the loan amount was €100 million, in addition to which the investment bank decided to invest directly in the company to the tune of another €80 million. The bank's administrators took both these decisions without any involvement on Björgólfur Thor's part in the matter.

Prior to the acquisition of Actavis Straumur was one of the larger shareholders in the company and on the take-over received payment of around €160 million for its share. This can be confirmed from Straumur's papers and by former members of staff if can be anyone bothered to look. Straumur was not involved in any way in the refinancing of Actavis's share capital increase in 2008.

From the report:

Page 218

Landsbanki also had substantial liabilities arising from the take-over of Actavis, viz. around 49.5 billion according to a summary of the bank's large exposures dated 30 September 2008.

Björgólfur Thor was a majority shareholder in Landsbanki together with his father, Björgólfur Guðmundsson, through their company Samson Holding Company. They also had a majority holding in Straumur-Burðarás through another company, Samson Global Holdings, which was owned in equal shares by the holding companies of Björgólfur senior and Björgólfur junior. Björgólfur Guðmundsson was chairman of the board of Landsbanki and Björgólfur Thor was chairman of the board of Straumur. Björgólfur Guðmundsson was counted among related parties (Icelandic *venslaðir aðilar*) at Straumur but not among affiliated parties (Icelandic *tengdir aðilar*) as he did not sit on the bank's board, despite being a leading shareholder. Similarly, Björgólfur Thor was not counted among affiliated parties at Landsbanki as he did not have a seat on the bank's board of directors. Related parties are defined in Section III, item b of the guidance notes to the substance of regulations as per Article 54, paragraph 2 of Act no. 161/2002 on Financial Undertakings.

'The Financial Supervisory Authority considers related parties to be, among other things:

- 1) Primary and deputy board members, executives, key members of staff and close family relatives of these parties.
- 2) With reference to item 1), regard should be taken of corresponding persons at subsidiaries and affiliated companies.

3) Shareholders that directly or indirectly own a share of 5% or more in the financial undertaking, or are among its ten largest shareholders.

4) Companies that the parties detailed above own a share of 10% or more in, work for, or fulfil directorial duties for.’

Loans to affiliated parties required the special approval of the board. In December 2008, at a time when Straumur was undergoing liquidity problems, the bank lent Björgólfur Thor’s company €10 million so that it could repay a loan to the owner, but instead Björgólfur passed the sum over to Straumur as a loan, cf. the minutes of the loans committee from 12 December 2008:

‘Project Paper (agreed by email 8 December). Straumur will lend Novator One LP €10m for 6 months (intra-group loan). This will enable Novator One LP to repay a €10m loan from Björgólfur Thor Björgólfsson (BTB). BTB will allow the loan, €10m, to remain on loan with Straumur for 6 months. Straumur will take security (collateral) on the loan received to secure the loan with Novator One. The period of the loan out and the loan in will be 6 months and interest on the loan to Novator One will be the same as on the loan to BTB. This counts as a transaction between affiliated parties and requires the consent of the board.’

Loans from Straumur to Björgólfur Guðmundsson did not require discussion by the bank’s board of directors and the same applied at Landsbanki with respect to Björgólfur Thor.

Comments

Firstly, the Investigation Commission is incorrect in saying that Björgólfur Thor together with his father were majority owners at Landsbanki Íslands and at Straumur. There are any number of available sources to show that at neither bank did they own over 50% of the share capital.

Secondly, the Investigation Commission’s information here is deficient. From the report one might suppose that Novator One LP is owned by Björgólfur Thor but this is not the case; rather, this fund is owned by Straumur. At this time the fund was better placed financially than Straumur and it owed Björgólfur Thor €10 million, which it was thus possible to repay. Björgólfur Thor then put the money into Straumur as a subordinated loan. The SIC report here fails to mention that by this action Björgólfur Thor was strengthening the bank’s position in difficult circumstances. He gained little from this personally and he would have been able to place these funds elsewhere but he chose to use them to support Straumur. This was over two months after the collapse of Glitnir, Kaupthing and Landsbanki, but Björgólfur Thor remained convinced that Straumur would weather the storm and made every effort to ensure that this would happen. Explanation of the payment of this €10 million loan has already appeared, viz. in Björgólfur Thor’s statement to the newspaper Fréttablaðið from 15 April 2010. Here it says: ‘It has also been claimed that Björgólfur Thor received a loan from Straumur in December 2008. This is quite wrong. The fact of the matter is that Björgólfur Thor received repayment of a loan that he had provided to Novator One, a fund in the ownership of Straumur. This money he put straight back into the bank to strengthen its

capital position. It is clear that this loan has been completely lost but Novator One is operating successfully.'

From the report:

By a ruling of the district court of Reykjavík, 7 October 2008, Samson Holding Company ehf was granted a moratorium on payments. An application from the company for an extension of the moratorium was refused by a ruling of the same court on 4 November 2008 (case no. X-19/2008). Following this the company's board applied to the district court of Reykjavík for the company's assets to be taken into receivership.

This application was accepted. In March 2010 distribution of the assets was still in train. We have no information on the position of other companies in the ownership of Björgólfur Thor.

Comments

If the Parliamentary Investigation Commission had chosen to speak to Björgólfur Thor it would have been a simple matter to apprise them of the fact that no other company belonging to Björgólfur Thor has been taken into receivership.

Annex 7, published with the SIC report

Author: Jørn Astrup Hansen

From the report:

Page 306

In April 2008 a CAMELS rating assessment showed that loans issued by Landsbanki to affiliated parties had amounted to 11.3% of all loans issued, with an equivalent value of 84.8% of the bank's risk-weighted asset base (CAD ratio). The figures are much higher than those that Landsbanki itself declared in its half-yearly financial statement in 2008. The CAMELS rating drew particular attention to very large levels of lending to Björgólfur Guðmundsson and Björgólfur Thor Björgólfsson. In September 2008 the dam burst. On 5 September 2008 the board of Landsbanki provided a loan to Samson Holding Company ehf for no more nor less than £UK 168 million.

Page 316

Similarly, the liabilities of Björgólfur Guðmundsson and Björgólfur Thor Björgólfsson and companies under their direction had reach such levels that the collapse of just one of them would inevitably have brought down not only Landsbanki but also Glitnir with it.

Comments

The error is here repeated once again that Samson Holding Company ehf received a loan in September 2008. The truth is that the bank had lent this money a few years previously to Eimskip, which at the time was in serious difficulties. In September Samson provided a guarantee for the loan to Eimskip, thereby strengthening the bank's

position. Samson had considerable interests bound up with Eimskip and Landsbanki and therefore took on increased liabilities. It is a serious perversion of the truth to suggest that Samson was at this time receiving money on loan from Landsbanki.

The Danish economist J. A. Hansen then draws a strange conclusion, particularly in the light of the fact that by the time of the report's publication it had long been clear that the economic interests of Björgólfur Thor, Björgólfur Guðmundsson, and companies owned by or connected with them were by no means so interlinked that the collapse of one would result in the collapse of others.

It is correct that the commitments of Björgólfur Guðmundsson and Björgólfur Thor Björgólfsson and companies affiliated to them were large. But from this fact alone the Danish economist cannot draw the conclusion that the collapse 'of just one of them' would 'inevitably' have brought down Landsbanki and Glitnir with it.

Firstly, he is ignoring assets backing these debts. The putative collapse of these individuals would have had no effect on the underlying assets. The personal bankruptcy of Björgólfur Guðmundsson had no financial effects on the management companies in which he or holding companies affiliated to him were shareholders.

Secondly, business connections between Björgólfur Guðmundsson and Björgólfur Thor were limited to their common interests in Samson and Samson Global Holding, but in addition to this each of them owned substantial assets in other companies that were not connected in any way such that the collapse of 'one of them' would lead to the collapse of the Icelandic banking system.

Thirdly, it should be pointed out that the wording in the annex is imprecise when it says that the fall 'of just one of them' might result in the collapse of Landsbanki and Glitnir. These words may be understood such that the fall of one company, for example one of Björgólfur Thor's companies, could have set off a chain of events such as that described here. This is illusory. At this time various of the companies in Björgólfur Thor's ownership could have collapsed without this having had any effect on Björgólfur Guðmundsson or Landsbanki, let alone on Glitnir.

Volume 3 – Section 10: The banks' pay and incentive schemes

Section 10.4 The incentive scheme at Landsbanki Íslands

Box feature 1: Landsbanki's offshore companies

From the report:

Page 49

The strategies employed by Landsbanki Íslands hf to avoid disclosure requirements on the holding of Landsbanki shares intended to meet the company's commitments on staff share options and to increase the bank's capital base are described below. The offshore companies, e.g. Zimham Corp and Empennage Inc, were fully under the management and financial

control of Landsbanki and the bank put up sureties in its own name to guarantee their loans with Kaupthing and Glitnir. It is notable that Landsbanki did not need to provide a comparable guarantee with respect to Straumur and the largest shareholder was the same at both banks, viz. Björgólfur Thor Björgólfsson. Of the conceivable reasons behind the way these transactions were set up, the most salient appear to be that the principal motivations were: to increase Landsbanki's capital base; to inflate Landsbanki's share price through the buying pressure created by the purchase of shares on the market; to avoid triggering a take-over obligation on Samson Holding Company as a result of the issue of options agreements; and to avoid a reduction in Landsbanki's capital base.

Comments

Björgólfur Thor Björgólfsson was never at any point involved in Landsbanki's arrangements for staff stock options. He was never a member of the bank's board of directors and had no information about the volume of options or how they were implemented beyond what was announced on the market. The bank's executives did not consult core investors on the matter of stock options. The arrangements were already firmly established before Samson acquired its share in the bank. The options scheme dated back to the year 2000 when Landsbanki's core owner was the Icelandic State and it was not changed when Samson bought this share. Samson thus inherited this scheme on its purchase of the bank and never had anything to do how Landsbanki's stock options scheme was set up and operated. It is a explanation after the event to maintain that this design was chosen to avoid putting Samson in a position where it would be obliged to issue a take-over bid. For this reason the assertion that a 'conceivable reason behind the way these transactions were set up [was] to avoid triggering a take-over obligation on Samson Holding Company as a result of the issue of options agreements' is categorically denied.

(The SIC report here gives an account of each one of the companies.)

From the report:

Page 68

In a document submitted to the Parliamentary Investigation Commission by Kristján G. Valdimarsson, former head of tax at Landsbanki, it was stated that the largest shareholder in Landsbanki, Samson Holding Company ehf, had obtained an exemption from any take-over obligation on its purchase into Landsbanki on the basis that its holding would not go above the slightly over 45.8% share it had bought in the bank. The normal practice with call options is to issue extra shares when people redeem their options. In the case of Landsbanki, this would have led to a dilution of Samson's holding. If options agreements had been implemented in this way, the company would not have been able to guarantee maintaining its majority holding in the bank after redemption as the rules on take-over obligations might possibly have kicked in, according to what Kristján said, if Samson had later sought to increase its holding again.

Comments

Kristján Gunnar Valdimarsson's comments on 1) the rules on Samson facing a potential take-over obligation, and 2) the procedures followed in drawing up options agreements are here taken out of their proper context. It must be pointed out that it is an exaggeration on the part of the Investigation Commission to say that it is 'normal practice' to issue additional shares to those who exercise their option to buy. This was not the practice at the largest companies listed on the Iceland Stock Exchange such as Glitnir, Kaupthing, Actavis and others.

The rule applies generally, and not just to Samson and Landsbanki, that if a shareholder's stake goes above a certain level an obligation to make a take-over bid comes into play. This, however, has nothing to do with these stock options since a shareholder can only incur an obligation to issue a take-over bid by personally being the cause of changed proportions; no take-over obligation arises as a result of changes in which he has no part. This method, of having the stock options of bank staff held in offshore companies, had been in place for many years, going back to the year 2000 when Landsbanki was in the majority ownership of the Icelandic State. Certainly the bank's executives may be criticised for having allowed these offshore companies to build up so large holdings as they did, but Samson was never involved in these decisions.

It is a misleading *post facto* explanation to maintain that this course was adopted to serve Samson's interests. By its actions Samson demonstrated repeatedly that, when the bank's interests called for an increase in share capital, the company answered the call and bought the newly issued stock, thus maintaining its position at a constant level throughout. Over the years 2003-2008 Samson invested for around 18 billion krónur over and above 12 billion krónur paid for the 45.8% stake bought from the State.

10.4.7 Findings of the Parliamentary Investigation Commission

From the report:

Page 71

The SIC's findings on Landsbanki's method of protecting itself against the future costs of stock options programmes by buying corresponding shares in the bank at the same time as the options agreements were made with key staff members are as follows:

The financing of options agreements was originally in the hands of Landsbanki itself, but later the bank's administrators provided surety from Landsbanki (or financially connected parties, cf. Straumur's loan financing). This was thus not a question of protecting the bank against future commitments, since the risk was borne by the bank itself on all occasions.

Comments

This is not correct, except in so far as it pertains to the surety provided by Landsbanki to Kaupthing on loans with one company out of a total of eight. The financing was originally done through Landsbanki, but when another bank took on the financing the risk was of course transferred from Landsbanki to the bank in question. The risk attendant on these options agreements thus lay to a small extent with Landsbanki.

From the report:

The purchase of the shares and their lodging with offshore companies once the financing of the companies was assured created a buying pressure on Landsbanki shares that the managers directed and that served to inflate the bank's share price on the market or acted against a fall in its value.

Comments

Though this can be argued, it is hardly reasonable to do so in view of the fact that these purchases took place over a long period – almost ten years – going back to when the bank was in the majority control of the Icelandic State.

From the report:

It is plausible suggest that the bank's strategy of refusing to let staff exercise stock options that had come up for redemption on 1 December 2007 and for the next 90 days thereafter may have prevented a fall in Landsbanki's market share price. By its actions Landsbanki prevented staff members from being able to buy the shares at the agreed price, which would predictably have generated selling pressure on the bank's share price if staff had realised their profits on them.

Comments

Neither Björgólfur Thor nor Samson's representatives on the board of Landsbanki knew of the Landsbanki's policy of refusing to honour the redemption of the stock options. This decision was never discussed by the bank's board of directors and none of the senior managers at the bank heard about this strategy before the matter was over and done with.

From the report:

The decision of the bank's executives and core investors to finance the purchase of own shares with a view to 'protecting' the bank's position *vis-à-vis* stock options already issued, rather than to issue new shares as and when the options came up for redemption, guaranteed the core investor, the holding company Samson ehf, uninterrupted control over the bank. If the bank had not financed and/or guaranteed the 13.2% share in itself that was bound up in the options agreements and had taken the conventional course of issuing new shares to meet staff stock options, Samson Holding Company ehf might possibly have lost its control over the bank.

Comments

The SIC's attempt to portray core investors – presumably meaning Samson – as party to Landsbanki's decision 'to "protect" the bank's position *vis-à-vis* stock options already issued' does not stand up to inspection. The stock options scheme dates back to the year 2000 when the Icelandic State was the core investor in the bank. When Samson took over this role from the State the scheme remained unchanged. The shares were bought over a period of many years going back to the year 2000. However, one may safely second the view that the scheme meant that the 'float' of shares in the bank was limited, i.e. while the stock options companies owned a share of somewhere over 13%. It is important to point out that it is not correct that the bank had been financing or acting as guarantor for this 13% share, as the report says. The financing was through a third party and the greatest part of the financing was without the bank's guarantee.

Samson demonstrated repeatedly in action that, when the bank's interests called for an increase in share capital, the company answered the call and bought the newly issued shares, thus maintaining its position unaltered throughout. Over the years 2003-2008 Samson invested for around 18 billion krónur over and above the 12 billion paid for the 45.8% share it bought from the State. If the directors had taken the view that it would have been in the bank's interests to redeem stock options, Samson would have reacted by buying shares, as happened frequently in the years 2003-2008. It is misleading *post facto* explanation to maintain that this course was adopted to serve Samson's interests.

Volume 5 – Section 16: Regulation of the financial markets

16.5.7.3 The Financial Supervisory Authority's examination of risk assessment at Landsbanki Íslands hf

From the report:

Page 95

The fact that a large exposure to Björgólfur Thor Björgólfsson was allowed to reach 50% of Landsbanki's capital base has to be viewed as a serious breach of Article 30 of the Act on Financial Undertakings. The sums in question were large and the exposure went well beyond the statutory maximum for large exposures of 25% of the capital base. The bank's offence is especially culpable in that the borrower was one of its two principal owners. Along with the CEO of Landsbanki he had provided an undertaking to uphold and support the working rules and procedures of the bank's management and staff so as to ensure that Samson Holding Company's interest in the bank did not create any position of benefit to the company's owners beyond what was available to general shareholders from the healthy and profitable operations of the bank.

Among the measures that came into consideration once the Financial Supervisory Authority had reached its conclusion that an offence had occurred against the legal requirements on the limits of large exposures was to allow Landsbanki a period of grace to rectify matters formally and then to apply *per diem* fines once this period was over. It would have been possible to bring formal charges through the police, offences against Article 30 of the Act on Financial Undertakings being punishable by fines or incarceration of up to two years. Another possible recourse was to consider whether the conditions were present for an application of the provisions of Article 49 of the Act on Financial Undertakings, which lays down measures to be taken if an owner is ineligible to exercise a qualifying holding.

Comments

The SIC is appropriating judicial powers when it asserts that a serious breach of Article 30 of the Act on Financial Undertakings took place in the matter of Landsbanki's lending to companies connected with Björgólfur Thor. Behind the Commission's finding lies an erroneous understanding and interpretation of the laws and regulations on exposures. This serious allegation on the part of the Investigation Commission is contested vigorously. In taking on these commitments Landsbanki remained within the legal framework at all times. The Investigation Commission is here conflating the bank's exposures to Björgólfur Thor and those to all the companies the Commission believes should have been regarded as related to him. It assumes a considerably narrower definition of related companies than that set down in current law. In this, considerably the largest was Actavis, where the exposure at one time reached 21.8% of Landsbanki's capital base. At the same time, around the middle of 2007, the exposure to Björgólfur Thor stood at 11.8%. In neither case, therefore, was the statutory 25% maximum for large exposures exceeded. While these two exposures existed, they were always treated separately for the simple reason that they had no bearing one on the other. Actavis could have stood by its commitments even if Björgólfur Thor had encountered difficulties, and *vice versa*.

It should be noted that the Financial Supervisory Authority at one point issued a comment stating that Björgólfur Thor and Actavis should properly be regarded as related parties. Landsbanki contested this interpretation and presented reasons why, under the terms of the law, the two should not be treated as related parties. The FSA accepted Landsbanki's interpretation, with a time restriction, and the matter was later dropped, in autumn 2007, after Björgólfur Thor took over Actavis entirely and the company was delisted from the stock exchange. The FSA saw no reason to bring charges through the police or to apply *per diem* fines – in fact, in direct contradistinction to the SIC's appraisal of the case, it is impossible to see any cause for the imposition of such measures on the part of the public authorities.

16.5.7.9 The FSA report on credit risk at Straumur-Burðarás Investment Bank hf

From the report:

Page 111

Straumur-Burðarás's scheduled report to the Financial Supervisory Authority records three large exposures as at 30 June 2007, but it subsequently came to light that the company Baugur had been overlooked and the bank's large exposures were actually four in number. The FSA entered serious comments about guarantees not being specified in the bank's reporting and that one large exposure had been omitted. The FSA also entered comments on how the bank applied allowable deductions and that large exposures had been miscalculated, and let it be known that it was important for staff at the bank to familiarise themselves better with the rules on exemptions on large exposures. As regards allowable deductions in the calculation of liabilities, there was in the case of a loan to Landsbanki a breach of FSA rules no. 216/2007, where the specified commitment had been written down by the value of shares in Landsbanki that had been placed as security. On correction, exposure to Landsbanki rose from 10.1% of the capital base to 23.5%. Exposure to Björgólfur Thor Björgólfsson rose from 10% to 20.8% on the FSA's correction, since shares in Actavis placed as surety could no longer be set off against commitments. The exposure to Netia arose as a result of Straumur's shareholding in the company. In the view of the FSA, shares in Netia and shares in P4 should be treated as a single exposure, P4 being a company in the joint ownership of Netia and Novator One, which was part of the Straumur group. By this, exposure to Netia rose from 11.3% to 20% of Straumur's capital base. The FSA felt that the bank needed to consider whether Baugur's commitments ought to be taken together with those of certain companies over which Baugur had considerable influence. Exposure to Baugur had been written down by the value of shares in the relevant companies held as guarantees. The FSA came to no categorical conclusion in this matter but requested that Straumur to look into things and come back to the authority with its conclusions and the grounds on which they were based within four weeks. In the discussion of links between various parties that did not come under large exposures, it was stated that the FSA considered there was a question of whether the commitments of the father and son Björgólfur Guðmundsson and Björgólfur Thor Björgólfsson, each of whom owned a half share in Samson Holding Company, should be aggregated with Landsbanki's commitments, and asked for Straumur's comments and reasoning on this matter. Björgólfur Guðmundsson's commitments amounted to 9% of Straumur-Burðarás's capital base at this time, according to the figures given in the report, and

an aggregation of this kind would have created a large exposure, of over 50% of the capital base.

Comments

The Investigation Commission's comments on credit risk at Straumur-Burðarás are based on its view that different rules should have applied in the calculation of the capital base of financial companies from those required under law, regulations and customary practice going back many years. The Commission concludes, in retrospect, that banks should have applied different procedures from the ones they were obliged to by law and that had been agreed by the FSA. Thus in the Commission's report, Volume 3, Section 9, it is said in so many words that 'in spite of the practice' used in the accounting methods of financial companies in Iceland, it is the view of the SIC that there are pressing reasons for loans guaranteed solely by security in own shares to be deducted from the capital base of the relevant financial company. The same applied to items that were formally recorded as being in the ownership of a third party but 'for the account' of the relevant financial company. The Investigation Commission criticises the fact that the narrow interpretation applied by the financial companies in this regard resulted in their capital base being recorded as higher than if the Commission's interpretation had been adopted. It must, though, be clear to all that the Commission's interpretation from 2010 runs counter to generally accepted practice in the accounting procedures of financial companies in the years before the collapse and it is unjust to apply the Commission's criteria retrospectively. It is certainly correct on the part of the Commission that over-recording a bank's equity base increases its potential for growth. And so it is also possible to concur with the view that the banks' growth would not have been as rapid as it in fact was if capital adequacy ratios had been recorded in line with the Commission's retrospective interpretation of how things should have been done.

This said, there is reason to welcome the Investigation Commission's proposals on how the capital base of financial institutions should most accurately be calculated in future, for instance that consideration be given to establishing clearer rules on what kinds of own shares in a financial company should be deductible in the calculation of its capital base. However, such proposals cannot ever serve as a basis for judging how things were done in the past, in accordance with the rules in force at the time.

Volume 6 – Section 19: Actions and responses of the public authorities

19.3.11 August 2008

Meeting between the prime minister of Iceland and Björgólfur Thor Björgólfsson, 6 August 2008

From the report:

Page 213

On 6 August 2008 the prime minister of Iceland, Geir H. Haarde, held a meeting with Björgólfur Thor Björgólfsson. At a hearing of the Investigation Commission Geir described the background to the meeting as follows: ‘Then in August, Tryggvi Thór Herbertsson, who had then started working for me as an advisor, and I looked into this a bit; we went over where he was supposed to begin as a member of staff, and the outcome was that he went and spoke to, more or less, all the top people at the banks and everywhere else that was felt to be important, the Financial Supervisory Authority and the Central Bank of Iceland. The people at the Central Bank were reluctant to speak to him, taking the view that if they had things that needed saying to the prime minister’s office then they would only talk about them with me. There was a bit of pomposity in this, as usual. But he went and spoke particularly to the representatives of Landsbanki and Glitnir Bank hf about a possible amalgamation. There was a certain idea that had been floated, about it being possible to amalgamate these banks comparatively quickly and the State would put a certain amount into it – there was talk at the time of 30 billion krónur, which I found a lot, because I was tight-fisted from the time I was finance minister. But that was of course nothing compared to the costs that have arisen since, nor compared to the damage that has been done generally in other countries in the past as a consequence of banking failures. So if it had been possible to stave off the banking collapse by putting 30 billion in share capital into a new bank, then that would obviously have been well and good. They were not particularly taken by this idea.’ Next Geir said: ‘On 6 August I spoke to Björgólfur Thor, who came to see me, and particularly about this, and he said: “Well, it’ll maybe be possible to get this set up in Q3 and completed in Q4.” I remember this well; it is sort of “banker speak”. But he did not consider this to be the right time and entirely unnecessary to be rushing into it and getting it all done in one weekend or something like that, as one would naturally have preferred, to get it finished in August.’

Comments

Björgólfur Thor finds something very strange in this account. It seems extraordinary to him that the Investigation Commission should not have consulted him for information about this meeting since it sees fit to talk about it in its report. Björgólfur Thor had always emphasised, for instance in interviews with the Icelandic media, that it was creditors who were really in the driving seat as regards an amalgamation of the banks. He always made it quite clear that an amalgamation of debt-ridden banks would not be enough; an injection of new capital was needed.

Björgólfur Thor does not recall having heard mention of the figure of 30 billion krónur, either at meetings with Geir H. Haarde or at a meeting later with Tryggvi Thór Herbertsson. However, at the meeting on 6 August 2008 Björgólfur Thor brought to the prime minister's notice an excerpt from a report produced by Credit Suisse in the April of that year. There, among other things, the matter of a union between Landsbanki and Glitnir had been considered, but to make this a realistic proposition there needed to be an injection of capital from the State, either in the form of share capital or as a loan, plus credit from banks outside Iceland.

In Credit Suisse's analysis a note of caution is entered against the position of Glitnir and it is pointed out that the bank will not be able to see things through without support. Credit Suisse's dispassionate plan assumes a 60% write-down on loans provided, or the equivalent of €700 million. Two courses are then indicated for Treasury involvement: one by comparison to the British treasury's take-over of Northern Rock, the other to JP Morgan's take-over of Bear Stearns. The former had had serious consequences for the financial markets and proved expensive to the British exchequer. The latter had had minimal effects on the markets and the government loan will be repaid. The authors of the Credit Suisse report recommended the second course and it is stated that Credit Suisse was ready to provide loans for the project if a government guarantee could be forthcoming. A prerequisite for amalgamation was that agreement be reached with creditors on some payments and that the unified bank receive an injection of equity capital. Björgólfur Thor considered it unlikely that an amalgamation could be finalised in August because Glitnir's foreign creditors would have to be approached and foreign consultants brought in, and in August everyone was away on their summer holidays, but the matter would need looking into in September. By the time we get to September, events in the USA like the collapse of Lehman Brothers, and the collapse of Glitnir in Iceland, had accelerated the whole train of events such that it was now too late. It seems extraordinary, in view of the fact that the government was aware of the analytical work that had been carried out and the reports that existed on the preconditions for an amalgamation of the banks, that it should not have sought to work more closely with the banks at this time. Even if the reports produced at this time are still confidential, even today, Björgólfur Thor would have handed them over to the Commission if it had called him in for interview and requested information. It is very likely that the picture the Investigation Commission draws up of this part of the background to the collapse would then be different from what it actually is.

Volume 7 - Section 20: Course of events from Glitnir's request for special facilities up to the collapse of the banks

20.2.5 Attempts at amalgamation in the banking sector

From the report:

Page 39

In July 2008 Geir H. Haarde appointed Tryggvi Thór Herbertsson as his special economic advisor. Tryggvi then held talks with representatives from Glitnir and Landsbanki and canvassed whether there was any will for an amalgamation of the two banks. In addition to the amalgamation, the idea involved the State putting around 30 billion krónur into the merged bank. Geir took the opportunity to discuss this matter particularly with Björgólfur Thór Björgólfsson early in August 2008. Geir says that at the time Björgólfur did not consider an amalgamation to be opportune.

Comments

Björgólfur Thor is not aware of Tryggvi Thór Herbertsson ever having mentioned an injection of capital from the State to the sum of 30 billion krónur. He took the view that it would be difficult to amalgamate the banks until after the summer holidays in Europe since he knew, as was indeed the case, that it was essential to find foreign advisors for the project, especially as regards dealing with foreign claim-holders who, as things had developed, could prove highly significant. He had already had experts from outside Iceland look into the possibilities that existed on the Icelandic financial markets. These documents are confidential, but if the Parliamentary Investigation Commission had seen fit to speak to Björgólfur Thór he would have happily provided the Commission with access to the reports that were produced, which would have shed a clearer light on the background to his dealings with the public authorities and thus been able to elucidate the course of events during these days.

From the report:

At a hearing Tryggvi Thór Herbertsson described that his idea had been to amalgamate Glitnir and Landsbanki and then sell on their Scandinavian operations to FIH, a Danish subsidiary of Kaupthing Bank hf. Tryggvi says that, on discussing this with Björgólfur Thor Björgólfsson, he had realised that it would 'never work' as Björgólfur did not consider the idea timely.

Comments

Björgólfur Thor emphasised that it was necessary to bring an independent foreign bank in on the case as an advisor, e.g. Credit Suisse, which had already looked into the matter. Björgólfur Thor also considered it essential to reach an agreement with creditors if any amalgamation of the banks was to be feasible, and prime minister Geir Haarde and his advisor Tryggvi Thór accepted this; they had not previously seen any reason to take account of foreign creditors or other funding sources.

From the report:

Page 45

During questioning Sigurjón Th. Árnason described how, at around 18:00 on 28 September 2008, the CEOs of Landsbanki and Björgólfur Thor Björgólfsson had met with representatives from Glitnir at the headquarters of Novator. Sigurjón says that he thinks that Björgólfur Thor Björgólfsson did not actually want to speak to representatives from Glitnir but rather with the Central Bank.

Comments

Björgólfur Thor, chairman of the board of Straumur, and Sigurjón Árnason, CEO at Landsbanki, had a meeting with representatives from Glitnir at Samson's premises in Iceland on the afternoon of Sunday, 28 September. The representatives from Glitnir were Thorsteinn Már Vilhjálmsson, chairman of the board, Jón Sigurðsson, president of FL Group, and Jón Ásgeir Jóhannesson. The CEO of Glitnir, Lárus Welding, was not present.

- **Glitnir's owners did not realise the extent of Glitnir's overall difficulties, only that there was an imminent lack of liquidity.**
- **The possibility of amalgamating Landsbanki, Straumur-Burðarás and Glitnir was discussed. The books of neither Glitnir nor the other two banks were presented and thus it was not possible to have any material discussion on how such a merger might take place.**
- **The main subject discussed was the break-up of ownership and the composition of a board of directors.**
- **Björgólfur Thor asked to be provided with some kind of proposal for an amalgamation on which it would be possible to adopt a position. He requested that this be done within two hours.**

It is important to bear in mind that Björgólfur Thor had only heard of Glitnir's difficulties just before midday that same day. At midday he had had a meeting with the executives of Landsbanki and the chairman and deputy chairman of the bank's board of directors. As well as being one of the two principal owners of Landsbanki, Björgólfur Thor was chairman of the board of Straumur-Burðarás and there was a desire for this bank to be party to any potential amalgamation of the banks.

In the early afternoon Landsbanki had produced and forwarded to the Central Bank of Iceland a proposal for an amalgamation of Landsbanki, Straumur and Glitnir with the essential involvement of the Icelandic authorities. It is unknown whether the Central Bank's rejection of this proposal had been received when this meeting took place, but it was not clear to any of those present what the actual wishes of the Central Bank and government were at this time.

At the same time as this meeting was taking place, the deputy chairman of the board of Landsbanki was in a meeting with prime minister Geir H. Haarde, who had arrived back in Iceland that morning from the United States.

Björgólfur Thor was resolutely of the opinion, as he had explained to the prime minister early in August and was based on Credit Suisse’s analysis, that the public authorities – the Central Bank and the treasury – would have to be involved in any amalgamation of the banks. The banks would need an injection of new capital and at this time there was no question of the owners putting up these funds. On the other hand, Straumur had increased equity available, together with a team of non-Icelandic executives, and thus it was important to keep this bank in the picture on any talks about an amalgamation of the banks. It was for this reason that Björgólfur Thor thought it imperative to hear from the Central Bank, since at this moment the fate of Glitnir was in their hands.

20.4 The collapse of Landsbanki Íslands hf.

20.4.1 General remarks

From the report:

Page 143

According to a handwritten memo from Árni M. Mathiesen, representatives from Kaupthing Bank hf and Landsbanki met with government ministers at 17:00 on 5 October 2008. At a hearing of the Commission, Hreiðar Már Sigurðsson described how he, Sigurður Einarsson and Lýður Guðmundsson, the president of Exista, had had a meeting with Björgólfur Thor Björgólfsson a few days earlier. Hreiðar says that by then Björgólfur Thor had taken over the management of Landsbanki. Hreiðar says that the Kaupthing representatives had not received accurate information on the position of the bank. To quote Hreiðar: ‘[...] we were lied to. And we phoned him [Björgólfur Thor Björgólfsson] before the meeting on the Sunday about whether these questions had been resolved, obviously because we were pushing this idea to save both Landsbanki and ourselves, and he confirmed this to Sigurður, with me listening in on the call: “It’s OK, we’ve sorted this out.”’

...

At a hearing of the Investigation Commission Sigurður Einarsson described how, on the evening of the 3rd or 4th of October 2008, he had contacted Björgólfur Thor, ‘who, though he claims not to have been in the loop, was now clearly at the centre of all that was going on, and he assures me that Landsbanki has now sorted out its worst problems. I am obviously very happy about this and we go that morning and meet the ministers and all that crowd there at the Ministerial Residency [Icel. *Ráðherrabústaðurinn*].’ Sigurður Einarsson described the meeting with government ministers on the morning of Sunday, 5 October 2008, as follows: ‘And we start off outlining these ideas about it being best if Landsbanki and Kaupthing do this hand in hand, i.e. take over Glitnir and save the system. And we see a look of amazement coming over the ministers’ faces. And then we realise that Landsbanki has told them something different, and that they had not told us the truth the previous evening. Then they come in, the bank CEOs and Björgólfur Thor. I start talking to them a bit in the lobby, in the corridor. And Halldór Jón starts off into some extraordinary rigmarole about this all being over and so on. Then Björgólfur Thor comes and drags him off into some room and plainly doesn’t want us to get to talk together. I found this all very strange. Then later that day we

heard about these margin calls at the European Central Bank and so on, which Landsbanki had never told us about. And then [we] realised that Björgólfur Thor had not been telling me the truth. I don't know whether this had any effect on what happened afterwards, that we were not called back in to the Residency.'

Comments

The Investigation Commission is here propagating disconnected and uncontextualised material from ministerial memoranda. The minister's notes go back to people who today have the legal status of suspects in a criminal case that is under investigation with the special prosecutor. The Commission also reports negative comments here made about me by the same persons but sees no reason to ask for my explanations of what I said and did. It must be considered extraordinary that the Commission sees fit to publish much of this without finding cause to speak to Björgólfur Thor or seek his explanations. To shed a clearer light on what the Investigation Commission was supposed to be doing, the following needs to be said:

Firstly, there was never any meeting between Björgólfur Thor and these three men, Sigurður Einarsson, Hreiðar Már Sigurðsson and Lýður Guðmundsson. He had had a single meeting with Hreiðar Már and Lýður and Ágúst Guðmundsson at the headquarters of the Bakkavör company several weeks previously at which they discussed the current state and future of the Icelandic króna. Björgólfur Thor was asked at the time to use his influence to get Sigurjón Th. Árnason to work with Kaupthing on some solutions, because Sigurjón had always been reluctant to work with Kaupthing. Sigurjón Th. Árnason was however convinced that Kaupthing was dressing up its books and not to be trusted. On this, see further below.

Secondly, it should be pointed out that on Saturday, 4 October, Björgólfur Thor had a telephone conversation with Sigurður Einarsson and then later a meeting with Lýður Guðmundsson, the president of Exista, who was the biggest shareholder in Kaupthing. In these conversations there was general discussion about how matters stood and the possibility of some kind of amalgamation was broached. At this stage, no information was exchanged. Everyone was agreed that it was necessary to work night and day and that all the possibilities needed to be looked into and for people to keep in touch.

Thirdly, it is important to say that a meeting took place on the morning of Sunday, 5 October, between on the one hand the CEOs of Landsbanki, Halldór J. Kristjánsson and Sigurjón Árnason, and Björgólfur Thor, and on the other the ministers Geir H. Haarde, Össur Skarphéðinsson, Árni Mathiesen and Björgvin G. Sigurðsson, the government's economic advisor Tryggvi Thór Herbertsson, the chairman of the board of the Financial Supervisory Authority Jón Sigurðsson, and the civil service chiefs at the prime minister's office and the ministries for finance and commerce, Bolli Thór Bollason, Baldur Guðlaugsson and Jónína Lárusdóttir. At this meeting the team from Landsbanki apprised the authorities of Landsbanki's position and they were urged by the ministers to hold talks with people from Kaupthing. The ministers told them that the people at Kaupthing had ideas about Landsbanki/Straumur and Kaupthing dividing up Glitnir between themselves. It was decided that the people from Landsbanki would meet those from Kaupthing and that there would then be another meeting later that day.

Fourthly, the group of three from Landsbanki, together with Yngvi Örn Kristinsson, managing director of the securities division at Landsbanki and former departmental chief at the Central Bank of Iceland, met with the representatives from Kaupthing, Sigurður Einarsson and Hreiðar Már Sigurðsson, at the premises of Exista on the Sunday afternoon.

Fifthly, the CEOs from Landsbanki, Halldór J. Kristjánsson and Sigurjón Th. Árnason, and Yngvi Örn Kristinsson and Björgólfur Thor then went together with the people from Kaupthing, Sigurður Einarsson and Hreiðar Már Sigurðsson, at around 17:00 to a meeting with the ministers, heads of ministries, etc. and presented a joint business proposal which was broadly as follows:

- Kaupthing would take over all Glitnir's domestic deposits and assets and sell on a part of them to Landsbanki.
- On this basis, the equity positions of both parties would be guaranteed and both would be provided with the necessary liquidity – Kaupthing with €500 million and Landsbanki with €1000 million.

This idea elicited no clear response from the government and ministers.

Sixthly, immediately after this meeting there was a conference call between the CEOs and deputy chairman of the board of Landsbanki and Hector Sants, CEO of the Financial Services Authority in the UK. The possibility was discussed of transferring Icesave into a British subsidiary within one week – five working days ('fast track') – in return for the bank having assets to transfer in exchange, so as to stabilise the balance of assets and liabilities in the company. The FSA's condition regarding liquidity payments remained but had been reduced from £400 million to £200 million, payable to the Bank of England. The people from Landsbanki intended to look into this possibility on their part. Landsbanki had earlier that day explained to officers of the FSA that ideas had been floated for an amalgamation of part of Glitnir with Landsbanki, which would provide the bank with additional assets to meet the FSA's request for a transfer of assets down to the British subsidiary and thereby also of the Icesave account into the subsidiary.

Seventhly, the European Central Bank notified Landsbanki on the Sunday that the restrictions on repurchase agreements that had been announced on the Friday would not be implemented for the time being. Repurchase agreements were therefore not reduced by €400 million as had previously been said. Landsbanki's need for loans or credit facilities was thus now much less than had been announced earlier in the day – closer to €500 million than €1000 million. The proviso for Landsbanki was, as before, that agreement could be reached with the Financial Services Authority on normal conditions for deposits in the UK.

Eighthly, messages and information about a proposal for fast-tracking were put through to the Central Bank of Iceland immediately after the conference call with the FSA, with a letter to the governor of the Central Bank. A request was made for credit facilities to the tune of €500 million. Messages on the FSA's proposal for fast-tracking were brought to the attention of a government representative, the economic advisor Tryggvi Thór Herbertsson, with a request for a meeting with the prime minister and minister for

commerce at 22:00 to explain the new developments. At the same time the good offices of the director general of the Icelandic Financial Supervisory Authority were requested in setting up a meeting with government ministers to explain this development. If agreement could be reached on this, the CEO of the FSA was ready to make a public statement the next day and thereby stem the flow of money out of Icesave and preferably stop it altogether. The fast-track agreement would thus have been a very desirable option in the situation. The CEOs of Landsbanki arrived at the Ministerial Residency at 22:00 to meet the prime minister and minister for commerce. While they were waiting they discussed matters in general with the prime minister's economic advisor and the director general of the Financial Supervisory Authority, who had acted as intermediary over the meeting. The ministers did not show up for the meeting with the people from Landsbanki but instead went straight to a meeting of the parliamentary party. Just before midnight the prime minister appeared on television and explained that no special measures were required.

Ninthly, it is clear from the words and memos of finance minister Árne Mathiesen that the government maintained more open lines of communication with Kaupthing than with Landsbanki. Árne's evidence details communications between Kaupthing and the government of which Björgólfur Thor had no knowledge. He believed that after the joint meeting of Landsbanki, himself as representative of Straumur, and Kaupthing with government ministers the bank's representatives had been working on a common solution. However, we here discover that people from Kaupthing were at this time feeding the minister with reports of Landsbanki's impotence. What is most surprising is that the government took what Kaupthing said at face value and saw no reason to have it confirmed from other sources or from Landsbanki itself.¹

From the above it is clear that many things were going on simultaneously and that the SIC's account of the course of events is defective in many respects. Björgólfur Thor rejects the assertion that he gave people at Kaupthing misleading information about Landsbanki's position. He was in possession of no significant information on Landsbanki since he knew nothing about how it was being run. The information was provided by the CEOs of Landsbanki. The joint proposals submitted to the government by Kaupthing and Landsbanki assumed the provision of a €1000 million credit facility to Landsbanki, making it plain that at this point the bank was not concealing anything from Kaupthing. Björgólfur Thor regarded himself as a representative of Straumur as well as being a kind of team manager for the Landsbanki delegation. He acknowledges having been optimistic and encouraging and having potentially overlooked uncomfortable facts. On the other hand, it is clear that Landsbanki had been working with some success on resolving its situation on the Sunday. By the evening it had proved possible to reduce the loan capital support requirement by €500 million and to bring Icesave matters on track for a solution. It is quite natural for someone to feel they had then 'sorted out' certain things and there is no doubt that the people at Landsbanki were feeling considerably more confident. However, it seems that government ministers and the Central Bank did not receive clear messages about how much progress Landsbanki had made in advancing their affairs. The ministers did not show up for the meeting with Landsbanki and, to judge from the confused account in the report, they had a meeting with just the people from Kaupthing there in the evening and gave ear to

¹ Árne Mathiesen's readiness to believe Kaupthing and his confidence in its managers comes out even more clearly in a book co-authored with the journalist Þórhallur Jóseppsson, *Árne Matt – Frá bankahruni til byltingar* ('Árne Matt – From bank failure to revolution'), Veröld books, 2010.

their assertions of Landsbanki's weakness. These assertions appear to have lain behind the minister's assessment of the position of the bank as that Sunday evening moved forward. At least, information about Landsbanki's success in mitigating its problems on the Sunday afternoon does not appear to have had any effect on the decision to provide lending to Kaupthing but not to Landsbanki. The SIC fails to present a clear picture of the complex course of events over these days or to shed light on the circumstances behind the government's momentous decision to lend to Kaupthing rather than Landsbanki and thereby to prevent straining the British FSA's readiness to reach a compromise over the fast-track transfer of Icesave within UK jurisdiction.

Kaupthing was the only bank to receive assistance from the Central Bank of Iceland, in the belief that this assistance might stave off the bank's collapse. The managers of Kaupthing obtained the ear of the public authorities, and they were the only bank administrators whose word was given credence. Since the picture presented by Kaupthing was taken as true, it is no wonder that Björgólfur Thor was believed to have lied about everything. Since then it has emerged that Kaupthing's balance sheet was falsified, among other things to conceal the risk on subprime loans, and that Kaupthing failed to provide details of their communications with the British authorities; they were also playing up the support of the pension funds for the bank beyond what was justified, as noted in the SIC report. The UK Serious Fraud Office is also looking into their placement of liquid assets in the last days before the collapse. From news reports one might suppose that the Central Bank's loan to Kaupthing was channelled mostly into companies with close relations to the managers and major clients of the bank, who were also its leading shareholders.

The picture the report presents of Björgólfur Thor is of a man who concealed the real position of Landsbanki and prevented staff at the bank from saying what they believed. This is totally incorrect. How was the decision arrived at to lend Kaupthing €500 million but at the same time deny Landsbanki the £200 million that would have sufficed to transfer Icesave within UK jurisdiction – despite Landsbanki's security being sounder than that offered by Kaupthing? In view of what has emerged subsequently, this decision is difficult to understand. However, it suits those who benefited by it, and who convinced the Central Bank to authorise this loan to Kaupthing, to present a picture of Björgólfur Thor as having acted dishonourably. This attempt has no ground to stand on.

It is clear that the Investigation Commission could have obtained a better picture of what happened that weekend if it had spoken to Björgólfur Thor and asked him what he knew. This the Commission did not do but instead sees fit to broadcast aspersions about him without offering him the chance to answer for himself.

The Parliamentary Investigation Commission has thus failed in its demanding task of drawing up a clear representation of the facts of the train of events on these fateful days.

From the report:

At a hearing of the Investigation Commission, Árni M. Mathiesen discussed his memos from the meetings with bankers that weekend (4-5 October). ‘These points I’ve written down here are details of meetings where the bankers were lying to us,’ says Árni. ‘And the worst was Björgólfur [Thor Björgólfsson] [...] and he was lying to the others too and they just came that evening and said, “You shouldn’t pay any attention to what this man says.” They were trying to find a way to amalgamate Kaupthing and Landsbanki so that they could get through this and Björgólfur was just saying “We’ll get this sorted out” over and over again.’

Comments

This account in the SIC report comes as a total surprise to Björgólfur Thor. Who was Björgólfur Thor supposed to be lying to? About what? When did he say to the minister he was going sort something out? Who for? Who were this ‘they’ that said this to the minister? The Investigation Commission sees no reason to thoroughly investigate the course of events it chooses to make the subject for discussion here. These are vague and uncontextualised allusions that remind one more of informal small talk among intimates than the investigation of responsible parties. To shed some light on what the Investigation Commission was supposed to be doing, the following points should be made clear:

Firstly, Björgólfur Thor believes that the discussions did not turn solely around an amalgamation of Landsbanki and Kaupthing as, in his mind, there was also on the table the matter of joining Straumur with the two banks, plus their joint take-over of the assets of Glitnir. Straumur was in a strong equity position, its equity being much the same level as Glitnir’s, and this might stand the amalgamated bank in good stead. Before the government took over Glitnir, and before the credit rating of the country and all the banks was lowered two days later, Straumur’s equity position was very strong, with the bank’s capital adequacy ratio in its half-yearly financial statement for 2008 standing at 25.4%. At the same time, Landsbanki’s liquidity position was felt to be strong, its funding being based on general international deposits rather than on wholesale deposits on the financial markets, which were frozen at the time. Under only slightly altered circumstances Landsbanki was fully financed up to the year 2010 and beyond. On the other hand, the bank’s capital adequacy ratio was weak. Thus an amalgamation of Landsbanki and Straumur seemed to make perfect sense and was in fact the precondition for these bank’s being able to weather further upheavals on the Icelandic financial markets. As things appeared, an amalgamated bank would then be comparatively securely capitalised, with a CAR of around 12.6%, as compared to Landsbanki’s then current CAR of 10.3%.

	Landsbanki Íslands	Straumur	Landsbanki Íslands + Straumur
Weighted assets*	ISK 3,098,125 million	ISK 547,742 million	ISK 3,645,849 million
Tier 1 – equity	ISK 252,507 million	ISK 126,820 million	ISK 379,327 million
Tier 2 – CAR	8.2%	23.2%	10.4%
Tier 2 – equity	ISK 319,600 million	ISK 139,122 million	ISK 458,722 million
Capital adequacy ratio	10.3%	25.4%	12.6%

*Assets on recorded risk-weighted basis

**Figures are based on the half-yearly financial statements of Landsbanki Íslands and Straumur-Burðarás for the middle of 2008. €1 = ISK 124.38

When Björgólfur Thor spoke of there being equity available, these were the possibilities he was thinking of. There is nothing to suggest that the public authorities fully understood the matters under discussion, nor any sign of will on their part to look in detail into the options available.

Secondly, Björgólfur Thor attended two meetings with Árni M. Mathiesen on 5 October but none on the fourth. The earlier meeting, held at the Ministerial Residency on the morning of Sunday 5 October, was attended by, on one side, by the CEOs of Landsbanki, Halldór J. Kristjánsson and Sigurjón Árnason, together with Björgólfur Thor, acting as both representative of the owners of Landsbanki and chairman of the board of Straumur, and on the other the ministers Geir H. Haarde, Össur Skarphéðinsson, Árni Mathiesen and Björgvin G. Sigurðsson, the government's economic advisor Tryggvi Thór Herbertsson, the chairman of the board of the Financial Supervisory Authority Jón Sigurðsson, and the civil service chiefs at the prime minister's office and the ministries for finance and commerce, Bolli Thór Bollason, Baldur Guðlaugsson and Jónína Lárusdóttir. At the second meeting, held early in the evening, around 17:00, those present were the same parties on behalf of the public authorities and, in addition to Björgólfur Thor, Halldór and Sigurjón, also the chairman of the board of Kaupthing Sigurður Einarsson, the CEO of the same bank Hreiðar Már Sigurðsson, and Yngvi Örn, managing director of the securities division of Landsbanki.

Thirdly, it should be noted that at the earlier meeting the CEOs of Landsbanki provided details of the bank's liquidity position. On the Friday evening the European Central Bank issued an instruction to reduce the volume of repurchase agreements by €400 million; up until then it had been expected that the bank would *increase* them on the Monday by €400 million, making the change-around €800 million. Also, the Financial Services Authority in the UK had issued a demand for an increase in liquidity guarantees of £400 million because the unease that followed the State's take-over of Glitnir was starting to impact on Icesave deposit accounts in the UK. It came out at the meeting that there had been talks about solutions with both the FSA and the European Central Bank, in addition to which Landsbanki was also investigating other means and had, for instance, requested credit facilities with the Central Bank of Iceland. Björgólfur Thor is happy to admit that he had been reasonably optimistic that solutions could be found and he does not rule out that he may have said something along the lines of 'We'll get this sorted out'. He denies categorically that he was trying to deceive or lie to people. At this time he was very little involved in the running of Landsbanki and in fact was not aware of all the facets of the problem facing them – unlike the two CEOs who were also at the meeting. From a reading of the book *Árni Matt – Frá bankahruni til byltingar* ('Árni Matt – From bank failure to revolution') which came out in autumn 2010, it is clear that the finance minister was in close contact with people at Kaupthing and that this testimony of his before the Investigation Commission, that Björgólfur Thor had said he was going to get something 'sorted out', is referring to a conversation between Björgólfur Thor and people from Kaupthing that they had passed on to the minister and that he passes off without comment as his own.

Fourthly, the SIC sees fit to publish the testimony of government minister Árni M. Mathiesen in which he quotes unnamed 'other people at the bank' as saying that Björgólfur Thor had been lying to them and that people should not pay any attention to what he said. This of course is hearsay. It seems reasonable to suppose that the people

at the bank whom the minister trusted and cited in his testimony were Sigurður Einarsson and Hreiðar Már Sigurðsson. In his book *Árni Matt – Frá bankahruni til byltingar* it emerges unequivocally that finance minister Árni Mathiesen had meetings with people from Kaupthing on the 4th and 5th of October of which people at Landsbanki knew nothing, and that information given to the minister by representatives from Kaupthing was instrumental in shaping his attitudes. He saw no reason to verify what the people from Kaupthing told him: he trusted them even though he speaks at the same time of bankers not trusting one another. As has come out in the media, both of them - Sigurður and Hreiðar Már – now have the status of suspects in a complex, many-sided and wide-ranging legal case concerning market abuse and false accounting, in addition to having been shown beyond question to have failed to inform the Icelandic authorities of important aspects of their dealings with the UK financial authorities in the events leading up to the British decision to resort to anti-terrorism legislation to enforce their demands on people in Iceland.

Fifthly, it should be borne in mind that on the Sunday most people were of the belief that Kaupthing was reasonably well placed. But there was one person who did not share this view – Sigurjón Árnason. Sigurjón did not believe what the people from Kaupthing were saying, as he testifies himself in his statement to the SIC. He maintained consistently that Kaupthing was embroidering its true position through a whole range of devices and that its representatives were thus in reality lying about their own strength. He knew that the bank was in difficulties and had taken a massive position against the Icelandic króna. He told Björgólfur Thor and Halldór Kristjánsson that Kaupthing was not as powerful as its managers maintained and suggested that its books contained serious errors. He was reluctant to work with the people from Kaupthing and many times when the ideas emanating from Kaupthing were discussed just before the crash he expressed the opinion that they were ‘crazy’. He was thus always dubious as to the advisability of getting into bed with Kaupthing and had no faith in any amalgamation with them. At the time Björgólfur Thor found these assertions questionable and considered it natural to look into matters further, which explains the difference in emphasis between Sigurjón and Björgólfur Thor. It was not until later that people came to understand Kaupthing’s true position at this time. By then the Central Bank had granted Kaupthing a loan of €500 million without this being able to save the bank. The bank’s problems were of a much greater order, as subsequently came to light: it had, for instance, financed the purchase of 60% of the bank’s share capital and concealed loans on the US subprime market. The Central Bank’s grant of credit to Kaupthing however is witness to the belief the government appeared to have in Kaupthing and the claims of its representative at this time.

From this it seems fair to take the view that the Investigation Commission has been very casual in its task of carrying out a detailed investigation of what happened, while not flinching from publishing vague and injurious comments about individuals whom the Commission later saw no reason to speak to.

From the report:

Page 144

The economist Jón Steinsson says that he arrived at the Ministerial Residency at around 16:00 on Sunday, 5 October 2008, and had to wait a little. Jón says that while he was waiting he heard various stories and related one as an example: ‘[...] there was one story that the people from Landsbanki had actually gone in and put some kind of plan before the government, and that it was obvious from Sigurjón Árnason’s body language that he had no faith in this plan, and Árni Matt had noticed this and after the meeting had broken up Árni Matt buttonholed Sigurjón and asked him something like: “Do you have any belief in this?” And then Björgólfur Thor had put his arm around Sigurjón’s shoulders and more or less pushed him out of the room and shut the door on Árni Matt. That was the story I heard.’

Comments

Once again the Parliamentary Investigation Commission sees fit to publish a third-hand account of an incident. A distinguished economist is cited for a story that he hears about Björgólfur Thor without giving any sources. This is pure tittle-tattle and hardly usable as evidence. Again the Investigation Commission saw no reason to speak to Björgólfur Thor himself, while wasting time and money publishing gossip about him in its report. The truth of the matter is, as stated above, that there was talk at this meeting of Landsbanki and Kaupthing taking over Glitnir in partnership. Sigurjón Th. Árnason had grave doubts about Kaupthing and was certain that the bank was in far greater difficulties than its representatives maintained. As a result, Sigurjón had no faith in any possibility of working towards a solution that involved collaboration with Kaupthing. Björgólfur Thor on the other hand had wanted to look into the matter in depth and not rule out anything.

From the report:

Page 145

Björgvin G. Sigurðsson, the minister for commerce, described these events differently during questioning: ‘The Landsbanki people were naturally always trying to convince us [that it would be possible to save Landsbanki] but even so it was really peculiar at the last meeting with them on the Sunday morning. Björgólfur Thor, Halldór and Sigurjón were there. Björgólfur was in fighting mood and then they were all walking out and everyone had left except Sigurjón, and then he says in a sort of stage whisper: “It’s all over.” And they more or less yanked him outside, and Össur said, “What did you say?” And then Árni Matt said, “No, let him go, let him go.” I don’t know if he said this unintentionally but of course they knew, it was dawning on them too that it was all over.’

Comments

The course of events as reported in the SIC report here is imprecise. Significantly, the meeting referred to here took place before the European Central Bank had withdrawn its demand for repayment and before there had been any talk with the UK Financial Services Authority about the possibility of a rapid transfer of Icesave to the UK. These two factors completely changed Landsbanki’s position later that day, turning a bad situation into one that was tolerable. At the said meeting the outlook was, as said, bleak but this was later to change. After the CEOs and deputy chairman of Landsbanki had had their conference call with Hector Sants, CEO of the UK Financial Services Authority, at which the possibility of a fast-track transfer of Icesave accounts into a UK

subsidiary was discussed, the attitude of the bank's CEOs changed completely, especially Sigurjón Árnason. Details of these new circumstances were passed on in letter form to the Central Bank of Iceland and a meeting was planned with ministers that evening to keep them informed, but they failed to turn up.

From the report:

Page 145

At a hearing of the Investigation Commission Össur Skarphéðinsson, the minister for industry, described this meeting thus: '[The people from Landsbanki] came to tell us about something, an amazing proposal. And he [Björgólfur Thor Björgólfsson] sat there in his fine suit, quite the 'salesman', selling some idea that involved them getting their hands on Glitnir for free and all kinds of things and then the entire foreign currency reserves and some kind of "guarantee" on top. Halldór Kristjánsson sat there like a dog with his tail between his legs and didn't seem to go along with it much. Then the meeting was over. Sigurjón was there. There were buns on the tables, cut in two, big buns. Sigurjón's a big man with a big mouth and when they had gone out and he was left behind on his own, he took half a bun and stuffed it into his face and blurted out through the bun this sentence: 'I don't believe in this, I don't believe in this.' Then out came a hand with a gold watch and yanked him outside.'

Comments

It is interesting that the SIC sees fit to publish accounts of the same event by two ministers, plus a version by an economist with a description of what happened from some unnamed source, but does not seem to think it worth speaking to the main protagonist about the event in question. Björgólfur Thor was never consulted about comments made about him in the SIC report and he has never been given a chance to give his side of the case. Reference is made in some vague connection to his having interfered with the bank CEOs and what they said. This is gossip and half-truth.

Time at this point was very tight. The CEOs of Landsbanki were asked to meet with the CEO and directors of Kaupthing, and people needed to talk to the shareholders to see whether it would be possible to come to an agreement about adopting certain large-scale emergency measures to save the banking system. Björgólfur Thor was not a banker or an expert in banking operations and he had never sat on the board of Landsbanki and was thus not fully informed on all aspects of how the bank operated. He was called in as the largest shareholder in the bank and regarded himself as an overseer or team captain, as said earlier. Björgólfur Thor always works very swiftly and purposefully. He was fully aware that time was of the essence; every second was valuable. People had only a short time to try to rescue things. He reckoned it was in nobody's interests to chat over coffee and cakes while there were major tasks that needed attention. In other respects, please see what has been said earlier, that Sigurjón Th. Árnason did not believe that the people from Kaupthing were telling the truth about the state of their bank.

It is also worth considering that one of the ministers who occupied a key position that weekend, Össur Skarphéðinsson, should refer to Landsbanki's proposal in a way that makes it clear that he did not understand what was at stake. In his mind, this was 'something', 'for free and [getting] all kinds of things' and 'some kind of 'guarantee'.

The academic and former finance vice-minister of Germany, [Heiner Flassbeck](#), has expressed interesting ideas on how a lack of understanding among politicians and government ministers of the present-day financial system has played a major part in decisions that have served to make bad situations worse. It may well be that the ministers were right to reject Landsbanki's ideas, but it would have been better if they had tried to take these ideas on board and understand them before rejecting them.

20.4.2 Findings of the Parliamentary Investigation Commission

From the report:

Page 157

On 30 September 2008 Landsbanki issued a loan to the value of €153 million to a company in the ownership of Björgólfur Thor Björgólfsson. There is nothing to show that the bank's principal owners had a mind to or the capacity to provide the bank with the increased funds needed to allow it to continue in operation. (20.4.2)

Comments

As noted several times previously, the assertion that a loan was issued on 30 September is entirely erroneous. This loan was granted earlier in the year and drawn on in stages. The last payment was indeed the highest; but the loan itself was not issued on 30 September 2008.

Volume 7 – Section 21: Causes of the collapse of the banks

From the report:

Page 184

Björgólfur Thor held several loans from Landsbanki's parent company but was simultaneously by far the biggest debtor at Landsbanki in Luxembourg: see Figure 8. As noted in Section 8.12, the total liabilities to Landsbanki Íslands of Björgólfur Thor and companies connected with him amounted to nearly one billion euros in October 2008. A large part of the loans to Björgólfur Thor and related parties were on account of the pharmaceutical company Actavis, either directly to the company or to companies that owned shares in the company. Section 8.8 discusses subordinated loans granted by both Landsbanki and Straumur-Burðarás for the acquisition of Actavis by investors in the middle of 2007, with Björgólfur Thor owning over 80% of the company that bought Actavis. The loans were very risky and carried interest rates to match. In 2008 Landsbanki granted a further loan of €153 million to BeeTeeBee Ltd, a company owned by Björgólfur Thor, in order to inject equity into Actavis's holding company as a subordinated loan and thus meet Deutsche Bank's demand to increase the company's equity level. The loan was granted on 30 September, but by then the Central Bank of Iceland had already made an offer for a 75% share in Glitnir and the liquidity problems at Landsbanki, particularly in foreign currencies, were growing rapidly.

Comments

Once again we find repeated the error about a loan made on 30 September and the assertion that this was granted after the Central Bank of Iceland had issued its offer for 75% of Glitnir's share capital. This is wrong: the loan was granted in March 2008 and was drawn on in stages, with the last payment being at the end of the third quarter, i.e. at the end of September.

Halldór J. Kristjánsson, the former CEO of Landsbanki, provided an excellent account of the position of the bank at this time in an article published in the newspaper Morgunblaðið on 10 February 2010. To quote:

'Landsbanki took extensive emergency measures in response to the liquidity crisis throughout 2008. The balance sheet thus fell by 4% in the first half of 2008, the bank converted long-term assets into assets for repurchase agreements and spread its deposit system, both geographically and by increasing the level of fixed-term deposits. The bank raised the currency weighting of its equity with the full agreement of the Central Bank and the AGM in 2008 agreed that no dividend would be paid that year and to issue a convertible bond for €500 million to provide liquidity.'

Landsbanki thus had substantial liquid assets in Icelandic krónur and bonds suitable for repurchase agreements when the outflow from deposit accounts abroad began in the first days of October 2008. It was not possible to convert these funds into foreign currency to meet the outflow when push came to shove. At the same time the bank was in the final stages of preparation to liquidate large loan portfolios abroad during the fateful days at the start of October 2008. At the time Landsbanki had appreciable sums in currency with Icelandic institutional investors. These funds would have all been available in a few days under normal circumstances, but no bank can meet a large-scale run on deposits and everyone in the markets knew this. About this disclosure there was no misunderstanding among market traders.'

In his article Halldór J. Kristjánsson goes on to say that Landsbanki had no financial debts to the Central Bank of Iceland, either in krónur or other currencies, when the application was made for liquidity support in foreign currency on 5 October 2008. 'The generous recovery rate on claims against Landsbanki is among the best one finds among Icelandic banks. Conclusions about the quality of assets based on what will be payable on bond claims and claims from hedge funds and banks are incorrect since higher ranking claims such as deposits were comparatively more significant at Landsbanki than at other Icelandic banks.'

In the light of these comments from one of the CEOs at Landsbanki it is germane to point out that two of the three banks that asked for State support, viz. Glitnir and Kaupthing, received such support. The third bank, Landsbanki, got nothing – despite its being the bank that asked for least and also owed nothing, as stated in Halldór's article.

Volume 8 – Ethics and working practices in regard to the collapse of the Icelandic banks, 2008

Part 1: Financial ethics and banks' working practices

I.1 Privatisation and the responsibilities of owners and executives

Sigurður Einarsson, chairman of the board of Kaupthing, is quoted as saying that it seemed quite clear to him, from the comments of those in authority, that people at Kaupthing did not come into consideration as buyers of the banks Búnaðarbanki or Landsbanki. He goes on to say:

From the report:

Page 29

Other prospective buyers of the banks were, however, interested in enlisting the support of Kaupthing with a merger in mind. 'I recall having repeated meetings with both Björgólfur Thor and Björgólfur Guðmundsson about this and they were very keen on the idea of a merger between Kaupthing and Landsbanki,' said Sigurður...

Comments

The SIC would have done better here to look for further evidence. In 2001 Björgólfur Guðmundsson and Björgólfur Thor had a meeting with Hreiðar Már Sigurðsson and another member of staff at Kaupthing at the time, Hallsteinn Karlsson. Hreiðar Már and Hallsteinn said that Kaupthing had made a bid for Landsbanki and that people were reviewing the banking landscape in Iceland. On 11 September 2001 Sigurður Einarsson invited Björgólfur Thor to buy the share that the Icelandic savings banks held in Kaupthing. Björgólfur Thor was not taken by this idea. In view of the date – 9/11/2001 – they and the whole world had other things on their minds over the next days and nothing came of it. Björgólfur Thor was not thrilled by this idea any more than that of joining the Orca group which gained the upper hand at Íslandsbanki as it had earlier been offered.

However, Björgólfur Thor and Björgólfur Guðmundsson never had a meeting with Sigurður about a merger of Landsbanki and Kaupthing. Björgólfur Thor did, however, suggest that the two banks, Landsbanki and Kaupthing, join forces over the purchase of a Bulgarian bank in the winter of 2002-3. He wanted, among other things, to see how a collaboration on a 50:50 basis would work out. He met with, among others, the deputy finance minister of Bulgaria over the matter. The reason the idea got no further was that the ratings agency Moody's issued a strong warning that such an investment was fraught with uncertainty and its risk rating of Landsbanki would change, which would result in the bank's credit rating being lowered. The purchase did not go ahead.

It is clear that the SIC is presenting an incomplete account of the events leading up to the State's sale of its holdings in Landsbanki and Búnaðarbanki in the years 2002 and 2003. The conclusions of the Commission's ethical group thus stand on weak ground.

From the report:

Page 29

Where did the money come from?

The purchase by Óli Kr. Sigurðsson of the oil company Olís in 1986 attracted considerable attention among the Icelandic business community, not least in that he seems to have paid the first instalment out of the Olís current account. The Financial Supervisory Authority took pains to ensure that the new owners of the Icelandic banks did not pay for their shares with funding from the bank in question. The FSA does not appear to have considered the possibility that the new owners might raise loans one from another, as in fact happened, but it has been established that Landsbanki provided loans to the S-Group and Búnaðarbanki to Samson. Samson received a loan for two thirds of the purchase price of Landsbanki from Búnaðarbanki, later Kaupthing, to make the second and third payments on the purchase price. When the bank collapsed only half of the loan had been repaid and half was still outstanding.

Comments

This is incorrect. It was the shareholders of Samson that lent the company for the third and final payment. The loan the company took out with Kaupthing in 2004 was used for other purposes. The loan taken out with Búnaðarbanki for the second payment was repaid in full.

To recap, Samson paid the Icelandic State for a 45.8% share in Landsbanki in three instalments:

- **The first payment was Samson's equity contribution and was paid on the signing of the contract. The payment was to the sum of US\$ 48,081,731. This payment represented about 35% of the total purchase price.**
- **The second payment was financed with a loan from Búnaðarbanki, later KB, and was paid on 30 April 2003. The payment was to the sum of US\$ 48,272,204. This payment represented 35% of the total purchase price. The loan was repaid in full in April 2005.**
- **The third payment was also an equity contribution, in the form of loans from shareholders, and was paid on 29 December 2003. The payment was to the sum of US\$ 41,725,653. This payment represented about 30% of the total purchase price.**

Samson had thus completed payment in full for the State's 45.8% share in Landsbanki Islands by the end of 2003, or within one year of the signing of the purchase contract. All the payments, in total just short of US\$ 140 million, were paid into the account of the Icelandic Treasury at the US Central Bank in New York. The purchase was financed 65% with equity from the owners and 35% by a loan.

Finally, it needs repeating that all Samson's loans at Búnaðarbanki and Kaupthing arising from the privatisation of Landsbanki were repaid in full with interest. A second loan that was taken with KB Bank in December 2005 and remained unpaid at the fall of the banks was included as part of Björgólfur Thor Björgólfsson's debt restructuring procedures in July 2010.

From the report:

Page 30

When Landsbanki was privatised the expectation was that this would attract foreign capital to Iceland, which was felt to be some compensation for the fact that it had not been possible to involve foreign investors in the privatisation. At a hearing of the Investigation Commission Björgólfur Guðmundsson confirmed that Samson's owners had paid with funds originating outside Iceland. This will have been \$48 million out of the total purchase price of \$140 million.

Comments

To make matters clear once again, 65% of purchase price of Landsbanki was settled in funds from outside Iceland that Samson's owners brought into the country. 35% was financed by a loan. Under the terms of the purchase agreement with the Icelandic State, Samson was not obliged to put up more than 34.5% in own funds. There was absolutely no exclusion on Samson taking a loan for part of the purchase price so long as this was not done through Landsbanki, and it was in fact expressly stated in the contract that Samson would finance a part of the payments by loans. The authors of the ethical section of the report, on little grounds, conclude that 'The Financial Supervisory Authority does not appear to have considered the possibility that the new owners might raise loans one from another...' The obvious conclusion is that the government did not wish to circumscribe the financing of the purchase any further – obviously such restrictions were considered. The government could have set more stringent conditions than it did, and it is they who must answer for why they did not. The buyers followed the rules that the government had laid down.

The SIC's account of how payments were carried out and how the State's sale of its core holding in Landsbanki Íslands to Samson was completed fails to discuss clearly whether the buyers fulfilled the terms and conditions laid down by the seller, i.e. the State. Samson carried out the terms of the purchase agreement in all details and had paid off the loans that were taken out for the purchase within three years of the hand-over of the bank. From a reading of the SIC report, Samson's main fault seems to have been to fail to fulfil conditions that were never set. When the SIC ethical group goes on to build its own conclusions on those of the SIC, there is a danger of original errors being perpetuated. The findings of the ethical group rest on shaky ground. In any ethical judgement, the thing that ought to be of paramount importance is whether agreements and contracts are carried out faithfully or not.

Directors' responsibilities

Working rules and procedures of banks' boards of directors and the power of the big

From the report:

Page 38

In autumn 2008 Björgólfur Thor Björgólfsson owed around 170 billion krónur at Landsbanki and Straumur, of which he was the principal owner.

Comments

It has been explained repeatedly that the SIC report over-calculates the debts of Björgólfur Thor and related parties and under-calculates deposits in cash and other deductible items in its assessment of liabilities and total exposure.

From the report:

Page 39

Attention has also been drawn to the fact that Björgólfur Thor and his father Björgólfur Guðmundsson were not classified as related parties at Landsbanki.

Comments

The rules on related parties in banking transactions are clear. They relate to how independent legal entities apportion ownership shares in convertible and non-convertible assets when the risk on a transaction is assessed – not to blood or family ties as the Investigation Commission appears to be talking about here.

Social responsibility and high living

Luxury lifestyle

From the report:

Page 83

In the boom years after the turn of the century 2000 it was popular to talk about 'the new economy' or the economy of the 21st century. 'The new economy' was accompanied by new customs and practices that do not come out as precisely environmentally friendly. Many of the managers and representatives of the companies set up bases outside Iceland to attend to their expanding interests there. In 2004 the journal Frjáls verslun ('Free Trade') published an article about the number of Icelandic entrepreneurs that had moved to London. Some wealthy Icelandic businessmen bought themselves private jets for their international travel. Setting the trend here was Björgólfur Thor in 2005 when he bought himself a private jet costing well over a billion krónur, if reports in the media are to be believed.

Comments

Björgólfur Thor, who had lived outside Iceland for some years, bought this jet on his own account and no Icelandic bank was involved in financing its purchase. It is notable that the SIC does not look into who it was that paid for the private planes of Icelandic businessmen in these years. If it had done so it would probably have emerged that more often than not it was Icelandic PLCs that paid for the private planes of the biggest owners and executives and not they themselves. Björgólfur Thor was spending his own money when he flew in his aircraft – not other people’s.

From the report:

Page 84

Björgólfur Thor celebrated his fortieth birthday in a castle in Jamaica and had the rapper 50 Cents to entertain the guests. He invited 130 guests from Iceland and chartered an aeroplane to take them there.

Comments

It is difficult to see why the Investigation Commission should be interested in the birthday party of a private individual, which he paid for himself with his own money. It should be borne in mind that there is no verifiable information about this birthday party. What has appeared in public goes back mostly to the magazine *Séð og heyrt* (‘Seen and Heard’). The SIC saw no reason to furnish themselves with the details of events but still felt justified in commenting on them.

I.4 Strategy and interaction: smallness in an international context

The self-image

From the report:

Page 86

Drunk on Icelanders’ successes, one of Björgólfur Thor’s colleagues also raised a toast to Icelandic women in London in 2006 with the words: ‘Cheers to the genes, the money and the future!’

Comments

A single sentence from an off-the-cuff celebratory speech by a man who happened to work with Björgólfur Thor at this time is shorn completely from its context. The speech was delivered at a dinner party and Björgólfur Thor had absolutely nothing to do what went on at it. Can it be that the ethics committee, who are supposed to be responsible for Volume 8 of the report, put this into their report more from zeal than forethought? So far as one can see, this is an attempt to cast aspersions on Björgólfur Thor by referring to something that a colleague came out with at a party, while ‘drunk on

Icelanders' successes', in the objective and measured assessment of the ethics committee.

Solidarity and breakdown: internal connections and mistrust

Trust and mistrust in equal measures

From the report:

Page 105

Ideas of a possible amalgamation were again raised at the end of summer, this time by Tryggvi Thór Herbertsson, to whom the prime minister had assigned the project. Tryggvi held talks with various people, including Björgólfur Thor Björgólfsson, but he 'gave this idea a very cold reception', at which point Tryggvi realised it was a non-starter.

Comments

As stated earlier, this course was impracticable at the time without the involvement of creditors.

Everything that Tryggvi Thór Herbertsson says on the matter needs to be viewed in the light of his situation that autumn. Up until 1 August 2008 he had held the post of CEO at Askar Capital and it has since emerged that he continued to enjoy emoluments from this company while working in the name of the prime minister, as well as having major interests bound up with Askar. As an example, when he came to see Björgólfur Thor to discuss the possibility of an amalgamation of Landsbanki and Glitnir, acting of course in the name of the government, he began the meeting by suggesting that Landsbanki take over Askar Capital. He also mentioned several times that there should be no attempt to merge Landsbanki and Straumur, a matter which had been looked into in detail, but it would make much more sense to bring the Swedish investment bank Carnegie into the equation. Milestone, which owned Askar Capital, was also a major shareholder in Carnegie and had been since the autumn of 2007. Landsbanki, on the other hand, had sold its holding in Carnegie in the spring of 2005. As a result, Tryggvi Thór Herbertsson was distrusted; he appeared to be running errands on behalf of Milestone and Askar Capital.

After Glitnir had fallen, Tryggvi Thór Herbertsson announced to anyone that would listen that Landsbanki would be next. Two identifiable individuals repeated this after him in the presence of witnesses. At the same time, at meetings with representatives of Landsbanki, Tryggvi Thór declared himself to be 'their man'. As a result, Björgólfur Thor suggested to prime minister Geir H. Haarde that he should find someone else to keep track of these discussions. The then health minister, Guðlaugur Th. Thórðarson, was appointed to take over this task to some extent and he spoke to Björgólfur Thor on at least one occasion.