

Straumur-Burdaras Investment Bank hf Informal Meeting of Creditors

6 August 2009

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1. Purpose of the Meeting

- The purpose of the meeting is to:
 - Provide creditors with an update on Straumur's current situation
 - Present the draft restructuring proposal, which is expected to be finalised and submitted to creditors by the Winding-Up Board within the next few weeks
 - Provide creditors with an opportunity to provide feedback and raise questions on the draft restructuring proposal
 - Outline the next steps for the completion of Straumur's restructuring
- The meeting has not been called by the Moratorium Assistant or the Winding-Up Board and is not a formal meeting required by law and therefore cannot make any binding decision as a matter of Icelandic law
- However, the Moratorium Assistant, the Winding-Up Board and the Resolution Committee are supportive of the meeting and its objectives
- This presentation builds upon earlier presentations to creditors, which include more detailed financial and other background information, and should therefore be read in conjunction with Straumur's previous presentations to creditors, dated 16/17 April 2009 and 5 June 2009 (the "Previous Presentations to Creditors")

2. Background

Events Subsequent to the Appointment of the Resolution Committee

- The Previous Presentations to Creditors provide significant detail on the background to Straumur's current situation, which is not repeated in this presentation
- This presentation focuses only on the key events which followed the FME's decision to assume control of Straumur and appoint a Resolution Committee under the Emergency Act on 9 March 2009
- Following this decision, Straumur was immediately closed for business and entered into a Moratorium on 19 March 2009. This Moratorium was for an initial period of twelve weeks, which has subsequently been extended for a further period of six months (covering the period to 11 December 2009) to allow the completion of the restructuring process
- The Moratorium process is recognised throughout the EEA and the Moratorium Assistant has also obtained recognition of the process in the US, Canada and the Cayman Islands in order to protect the assets held by Straumur in these jurisdictions
- Following the enactment of new laws in April 2009, a Winding-Up Board was appointed to Straumur on 11 May 2009. The key role of Straumur's Winding-Up Board is to oversee the Composition process
- During the period from 9 March 2009, management has been focused on downsizing operations to reduce costs and limit liabilities, preserving the value of assets and developing a future state business plan and restructuring proposal which maximises value for creditors
- The development of the business plan, which is based on a managed work-out of the assets over a period of up to five years, and the related restructuring proposal has been undertaken with support from Straumur's financial and legal advisers (Talbot Hughes McKillop LLP, and Lovells LLP and Jonsson & Hall respectively)

2. Background (cont'd)

Events Subsequent to the Appointment of the Resolution Committee (cont'd)

- These plans have been developed taking into account feedback and input from Straumur's Informal Creditors' Committee (the "ICC") in order to try to ensure that the plans and proposals put forward meet the objectives of the general body of unsecured creditors as far as possible
- The Winding-Up Board and the Resolution Committee have reviewed the business plan and the restructuring proposal and are supportive of them
- Straumur's cash position continues to be tightly managed and the latest available cash flow projections (which are discussed at Section 7) indicate that Straumur will have adequate cash resources to complete the managed work-out of the assets without the need for any additional funding
- Straumur has obtained an exemption from the Central Bank in respect of foreign exchange restrictions which would otherwise impact upon the proposed restructuring
- Finally, management is still in discussions with the UK FSA regarding the lifting of the FSA Notice, which prevents Straumur's London branch from selling, reducing or repatriating assets without the FSA's permission

2. Background (cont'd)

Deposits

- On 3 April 2009, Straumur issued a bond of €267m⁽¹⁾ to Íslandsbanki as consideration for the transfer to Íslandsbanki of €238m⁽¹⁾ of Icelandic deposits by Straumur, which qualified as priority claims, and a loan of €29m⁽¹⁾ from Íslandsbanki for the purpose of repaying Danish depositors. The Bond is secured by a pledge over certain of Straumur's assets
- These arrangements do not cover deposits totalling €165m⁽¹⁾ which had originally been in the form of bonds and which had been converted to deposits in the six months prior to the FME intervention and the Moratorium. This decision was based on the legal advice obtained by the FME that the actions to convert these obligations to deposits would be rescindable on a Bankruptcy or Composition
- The Winding-Up Board has rescinded the conversion of the bonds into deposits, with the effect that these creditors will be treated as unsecured creditors rather than priority creditors
- Straumur understands that certain of these “depositors”, who were not covered by the transaction with Íslandsbanki, may be planning to challenge the actions of the Winding-Up Board in rescinding the priority status of their claims
- Straumur will need to defend any such proceedings and may, in order to secure a confirmation of the Composition, need to agree a temporary arrangement with these “depositors” pending resolution of the disputes. Any such agreement may require a commitment on the part of Straumur not to make any repayments to Composition Creditors until the legal proceedings are resolved
- If these “depositors” are successful in such proceedings, their claims will have priority status and will be payable in advance of the claims of Composition Creditors. This will significantly reduce recoveries to Composition Creditors. This position would be the same in the event that Straumur were to be placed into bankruptcy proceedings

(1) ISK denominated liabilities have been translated using the Central Bank of Iceland exchange rate as at 31 March 2009 (ISK163.5:€1)

3. Options Available to Unsecured Creditors

- Notwithstanding the positive progress that has been made to stabilise the position and develop a restructuring plan, Straumur remains subject to a Moratorium and is insolvent
- **The only realistic options to exit the Moratorium are for Straumur to agree a Composition with the Composition Creditors or for Straumur to be placed into Bankruptcy proceedings. Any such bankruptcy proceedings will be controlled by a trustee appointed by the Court**
- Straumur has assessed these alternatives and concluded that a Composition, which will enable a managed work-out of Straumur's assets, will result in a significantly better outcome for unsecured creditors than the outcome for unsecured creditors in the event of a bankruptcy
- **Straumur's analysis indicates that a Composition followed by a managed work-out of the Company's assets will result in a recovery to unsecured creditors of approximately 51%, compared to a recovery of approximately 8% assuming a liquidation of the assets in a distressed sale scenario following Straumur's bankruptcy**
- On 24 March 2009, KPMG were jointly instructed by Straumur and the agents to three of Straumur's banking syndicates to provide a high level review for the sole purpose of assisting the banking syndicates to address certain scenarios at that time. See Appendix 1
- The Winding-Up Board's view is that the Composition is in the best interests of unsecured creditors, and therefore will be formally proposing the Composition to the Composition Creditors within the next few weeks
- Straumur's plans for a Composition have, at different stages, been presented to the FME, who will ultimately need to formally approve the Composition

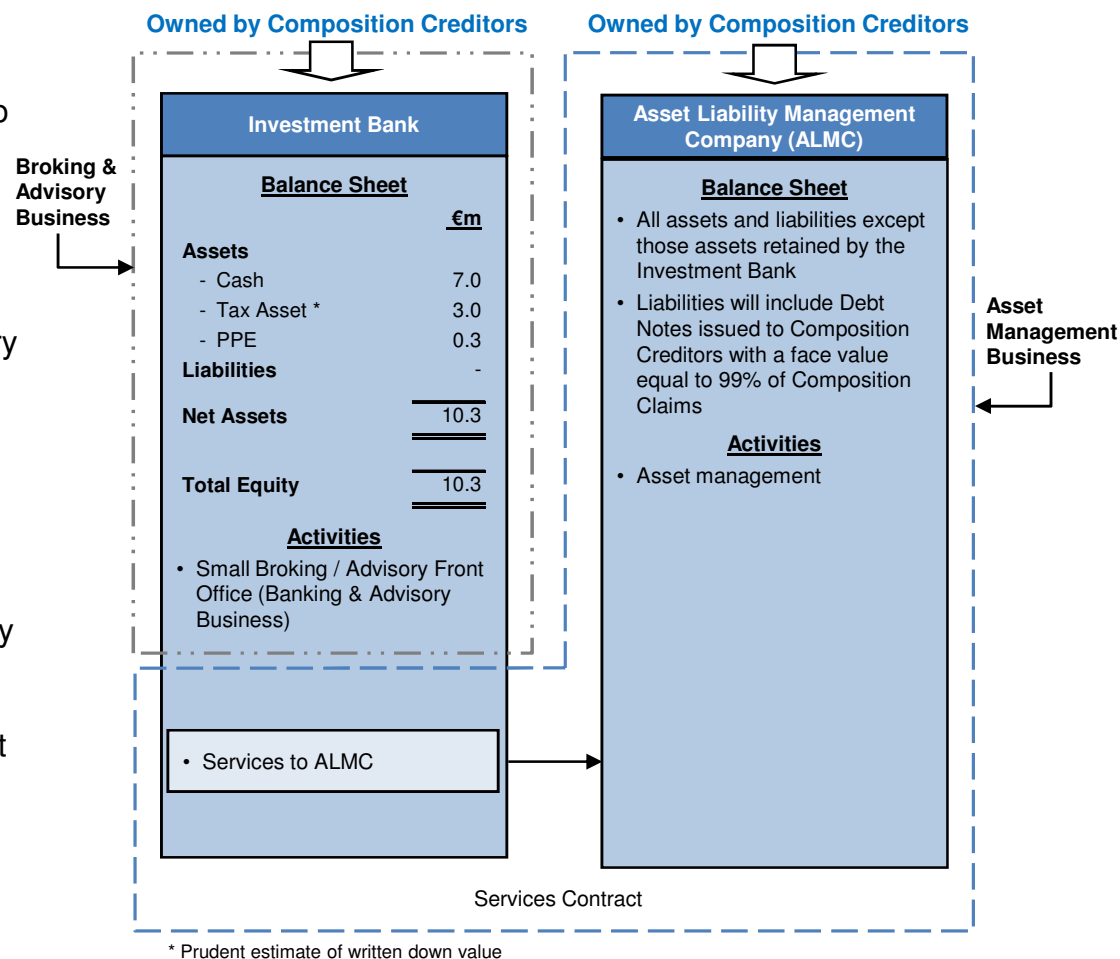
3. Options Available to Unsecured Creditors (cont'd)

- **The approval of the Composition requires the approval of 60%, in both value and number, of Composition Creditors entitled to vote at a meeting to approve the Composition. A failure to vote by a Composition Creditor entitled to vote will effectively operate as a “no” vote**
- If approved by the requisite majorities of Composition Creditors, the Winding-Up Board will apply to the Court to have the Composition confirmed
- If the Composition proposal put forward by the Winding-Up Board is not approved by the Composition Creditors, the Winding-Up Board will be legally required to request that the Court place Straumur into bankruptcy proceedings
- The very low recoveries to unsecured creditors in the event of bankruptcy mainly reflect the fact that the assets will be realised under the supervision of a trustee appointed by the Court. The trustee will not be familiar with the assets and will not necessarily be experienced in dealing with and realising assets of the nature owned by Straumur. The nature of Straumur’s assets are such that they require careful management to maintain and increase their value. In addition, the trustee is also likely to be very cautious in making decisions to provide funding to support assets if this is required
- Finally, bankruptcy will also mean that secured creditors will be able to enforce their security and realise secured assets for their own benefit
- By contrast, the approval of the Composition will mean that Straumur’s assets will continue to be managed by existing management who know them well, and will be realised in an orderly manner over time for the benefit of all creditors
- **Bearing in mind the voting thresholds and mechanics for the approval of the Composition set out above, it is important that Composition Creditors who support the Composition vote in favour of the Composition put forward by the Winding-Up Board if Straumur is to avoid being placed into bankruptcy proceedings**

4. Restructuring Plan

Overview

- Under the proposed restructuring, the ownership and control of Straumur will be transferred to the Composition Creditors, who will also hold Debt Notes in the restructured business with a nominal value equal to approximately 99% of the value of their Composition Claims. The planned operating and legal entity structure of the business, which remains subject to final legal, regulatory and tax advice, is summarised in the chart opposite
- Whilst the option of separating asset management activities into a distinct legal entity remains under review, it is currently envisaged that asset management activities will be undertaken within the same legal entity that will hold the vast majority of Straumur's assets and all of its liabilities. This entity is referred to as the Asset Liability Management Company (the "ALMC") throughout this presentation
- Cash retained by the Investment Bank in the form of equity will be €7m, subject to final regulatory approval



4. Restructuring Plan (cont'd)

Legal Entity Structure

- It is currently envisaged that Straumur's future operations will be organised across two entities as set out in the operating structure on the previous page:
 - The ALMC will hold the vast majority of Straumur's assets (other than the assets retained by the Investment Bank) and all of the post Composition liabilities, including the Debt Notes to be issued to the Composition Creditors on completion of the restructuring. It is currently planned that the ALMC will employ 21 asset managers and will be managed by two joint CEOs
 - The Investment Bank, which will retain the Icelandic banking licence, will comprise the Broking and Advisory Business and will employ 21 support staff to undertake the services to be provided to the ALMC under the Services Contract
- As shown above, the Asset Management Business comprises the ALMC and the services provided to it by the Investment Bank
- The future legal entity structure will be implemented through a de-merger of Straumur into the Investment Bank and the ALMC, which will occur as part of, and simultaneously with, the Composition
- Due to the fact that the ALMC and the Investment Bank will be established as a result of a de-merger under Icelandic law, both of these entities will be domiciled in Iceland following the completion of the restructuring

4. Restructuring Plan (cont'd)

Asset Management Business

- The Asset Management Business will include the existing asset management team based in Reykjavik, Copenhagen and London and support staff across the risk, finance, IT, treasury, compliance and legal, and other support and back office functions
- The Asset Management Business currently plans to have 45 staff, comprising three Senior Managers, 21 asset managers employed by the ALMC, and 21 support staff employed by the Investment Bank:
 - The Asset Managers will comprise nine bankers / corporate financiers, nine analysts and three lawyers
 - It is planned that support staff will mainly be based in Reykjavik to take advantage of lower costs in Iceland. Projected support staff levels will represent less than 20% of the support staff that were employed by Straumur at the end of February 2009
- The headcount and operating costs of the Asset Management Business, which are unchanged from those set out in the Presentation to Creditors dated 5 June 2009, are projected to decline over the period of the managed work-out as assets are realised

4. Restructuring Plan (cont'd)

Broking and Advisory Business

- The Broking and Advisory Business offers benefits to the Asset Management Business, particularly in relation to improved staff retention, and the services it can offer to actively manage foreign exchange and interest rate exposures
- As a business in its own right, the Broking and Advisory Business will provide an access point for foreign investors / creditors into Iceland and a gateway for Icelandic companies to foreign markets
- Based on the significant market opportunity which exists in Iceland and Straumur's track record in foreign exchange broking, the Broking and Advisory Business is projected to be profitable from the outset. It will also offer an independent Icelandic platform which may be of interest to the Composition Creditors, and a potentially valuable platform for future growth
- As set out in the Presentation to Creditors dated 5 June 2009, the Broking and Advisory Business needs only 18 incremental employees to be operational compared to a standalone asset management operation. The operation will be based largely in Reykjavik, with only two brokers based in London
- The Broking and Advisory Business is planned to be relatively small in scale and, as set out above, will need only €7m of cash in the form of equity. This operation will also retain part of Straumur's existing tax losses, which can be used to reduce the tax payable on future profits, and a small amount of office furniture and equipment
- The modest planned scale of the business limits the downside risk for the Composition Creditors. In particular, given that the fixed costs of this business are estimated to be approximately €3m per annum, the business will be profitable at relatively modest income levels compared to the market opportunity

5. Key Terms of the Restructuring Proposal

Introduction

- Following the completion of the restructuring, Composition Creditors will hold:
 - **Debt Notes in the ALMC (“Debt Notes”)**: Composition Creditors will be issued with Debt Notes, which will have a face value equal to approximately 99% of the value of their Composition Claim
 - **100% of the shares in the ALMC (“ALMC Shares”)**: Composition Creditors will be issued with ALMC Shares with a nominal value equal to 1% of their Composition Claim
 - **100% of the shares in the Investment Bank (“Investment Bank Shares”)**: Each Composition Creditor will be issued with their pro rata portion of the share capital of the Investment Bank, calculated by reference to the proportion of the aggregate Composition Claims that each Composition Creditor's Composition Claim represents
- Composition Creditors may also receive a de minimis payment upon the Composition and De-merger becoming effective. The decision on whether to propose a de minimis payment is subject to the finalisation of Composition Claims by the Winding-Up Board, which will enable an assessment of the merits of making such a payment in order to reduce the number of Composition Creditors required to vote in favour of the Composition for it to be approved
- The key terms of the Debt Notes, the ALMC Shares, the Investment Bank Shares, and the Services Contract are discussed below

5. Key Terms of the Restructuring Proposal (cont'd)

Introduction (cont'd)

- Straumur believes that appropriate, market-based value protection and incentive schemes, which align the interests of senior management and key employees with the interests of the Composition Creditors, are a key component of the business plan
- However, the approval of the proposed schemes, which have been reflected in the financial projections set out at Sections 6 and 7 of this presentation, has been left as a matter to be agreed by the new Boards of Directors. These Boards of Directors will be appointed by the Composition Creditors in their capacity as shareholders immediately following the completion of the restructuring
- Straumur understands that the ICC is in the process of identifying potential candidates to serve on the Boards of Directors of the ALMC and the Investment Bank in order that an effective governance structure is in place immediately following the Composition and De-merger becoming effective

5. Key Terms of the Restructuring Proposal (cont'd)

Debt Notes

- The key terms of the Debt Notes, which will be issued to Composition Creditors following the completion of the restructuring, can be summarised as follows:

Key Terms of Debt Notes	
Description	<ul style="list-style-type: none"> Euro-denominated debt instruments with a nominal value equivalent to approximately 99% of the value of aggregate Composition Claims
Security	<ul style="list-style-type: none"> Straumur is exploring whether it is possible to grant junior ranking security to the holders of the Debt Notes. Straumur's initial view, based on the legal advice it has received, is that this presents significant practical difficulties and will be costly to implement relative to the potential benefit to the Composition Creditors. In addition, the granting of any such security will be subject to the existing secured lenders agreeing to waive their negative pledges. The approval of the Composition will not be conditional on the granting of security in order to avoid any delay to the completion of the restructuring
Maturity	<ul style="list-style-type: none"> Five years after the date upon which the Composition becomes effective, at which time the Debt Notes will convert into ordinary shares of the ALMC on the basis of the outstanding unpaid value of the Debt Notes
Repayment	<ul style="list-style-type: none"> No repayments can be made prior to the full repayment of the Islandsbanki Bond and until all claims by a "depositor" in respect of the rescission of the priority of their claim have been resolved Subject to the above paragraph, repayments will be made on a quarterly basis, if the Board of Directors of the ALMC considers that the quarterly accounts of the ALMC show sufficient available and uncommitted cash reserves. The Board of Directors of the ALMC will be obliged to make payments under the Debt Notes if the quarterly accounts show that available and uncommitted cash reserves exceed the following amounts: <ul style="list-style-type: none"> – €40m in the period up to 31 December 2012 – €30m in the period from 1 January 2013 to 31 December 2013 – €20m in the period from 1 January 2014 to maturity
Reporting	<ul style="list-style-type: none"> On a quarterly basis, the holders of the Debt Notes will receive a report including quarterly financial statements, an updated Estimated Outcome Statement and a summary of available and uncommitted cash reserves In addition, on an annual basis, the holders of the Debt Notes will receive an updated annual financial plan and audited annual accounts
Other	<ul style="list-style-type: none"> Governed by the laws of England and Wales

5. Key Terms of the Restructuring Proposal (cont'd)

ALMC Shares

- The key terms of the ALMC Shares, which will be governed by the provisions of Icelandic company law and the articles of association of the ALMC, can be summarised as follows:

ALMC Shares	
Board	<ul style="list-style-type: none"> Independent Board of Directors comprising between three and seven members appointed by the shareholders (ie the Composition Creditors) Board meetings to be held at least once every quarter
Governance	<ul style="list-style-type: none"> Credit and investment decisions will be taken by the Credit and Investment Committee (CIC), appointed by the Board of Directors CIC will comprise: <ul style="list-style-type: none"> <u>Voting Members</u> <ul style="list-style-type: none"> Two Composition Creditor Representatives Three executive members drawn from the Asset Management Business <u>Non-Voting Members</u> <ul style="list-style-type: none"> One Secured Creditor Representative (observer rights only) One Independent adviser (optional) Decisions concerning amounts which have an economic effect of less than €1 million will be made by a majority decision of a sub-committee of the CIC Monthly meetings of the CIC will be held to receive update reports from management. These reports will be used as a basis for preparing monthly updates for the Board of Directors Decisions of the CIC will be taken by a majority of voting members present (which must include at least one Composition Creditor Representative), subject to Composition Creditor representatives having a right of veto. Any veto can be appealed to the Board of Directors
Shares	<ul style="list-style-type: none"> Transfer: ALMC Shares are freely transferable, subject to the shares remaining stapled to the Debt Notes (see below) Tag Rights: No transfer may be made if this would result in any person or group acting in concert acquiring or holding (directly or indirectly) a stake of more than 40%, unless the purchaser makes an offer to buy all shares Stapling to Debt Notes: ALMC Shares cannot be transferred unless the corresponding Debt Notes are transferred to the same transferee

5. Key Terms of the Restructuring Proposal (cont'd)

Investment Bank Shares

- The key terms of the Investment Bank Shares, which will be governed by the provisions of Icelandic company law and the articles of association of the Investment Bank, can be summarised as follows:

Investment Bank Shares	
Board	<ul style="list-style-type: none"> Independent Board of Directors comprising between five and seven members appointed by the shareholders (ie the Composition Creditors) Board meetings to be held at least once every quarter
Governance	<ul style="list-style-type: none"> A management committee shall be established, comprising: <ul style="list-style-type: none"> Chief Executive Officer Chief Operating Officer Head of Capital Markets Head of Corporate Advisory
Shares	<ul style="list-style-type: none"> Transfer: Shares are freely transferable Tag Rights: No transfer may be made if it would result in any person or group acting in concert acquiring or holding (directly or indirectly) a stake of more than 40%, unless the purchaser makes an offer to buy all shares

5. Key Terms of the Restructuring Proposal (cont'd)

Services Contract

- As set out above, whilst the ALMC will employ asset managers who will manage individual assets, certain functions will be provided by the Investment Bank under the terms of the Services Contract
- The key terms of the Services Contract between the Investment Bank and the ALMC can be summarised as follows:

Key Terms of Services Contract	
Services	<ul style="list-style-type: none">• Financial management, including management of cash and liabilities, as well as overall reporting to all relevant stakeholders• Support services including, but not limited to, accounting, operations, risk monitoring, IT, payroll and other corporate services
Term	<ul style="list-style-type: none">• Five years, subject to termination by the ALMC on one year's notice, or in the event of a material breach
Fees	<ul style="list-style-type: none">• Services to be charged at cost to the ALMC. This will be on the basis of an open book arrangement by the Investment Bank in order to allow ALMC to verify the accuracy and reasonableness of the costs incurred by it

6. Estimated Outcome Statement

Summary

- The table opposite sets out the latest estimated outcome for creditors from the Asset Management Business under the Expected Case and the Liquidation Scenario described in the Presentation to Creditors dated 5 June 2009. Management's estimate of the likely potential range of outcomes from the Asset Management Business under a managed work-out scenario is also shown
- The Expected Case, which is intended to show a realistic estimate of the likely outcome, shows an estimated recovery to unsecured creditors of 51% (before accruing interest). This is significantly better than the 8% (before accruing interest) estimated recovery to unsecured creditors in the Liquidation Scenario
- This analysis shows an improvement in the projected recovery under a managed work-out scenario compared to the estimated outcome statement presented on 5 June 2009. This reflects the positive impact of the arrangements to be entered into with certain secured creditors, asset realisations to 30 June 2009, and Straumur's updated view on future asset realisations. In addition, where relevant, future cash flows from 1 August 2009 are based on the 31 July 2009 ISK:€ exchange rate of 180.8 ISK:1€ and the one month REIBOR interest rate of 8.9%
- Pending the finalisation of Composition Claims, Straumur has not adjusted the amount of Composition Claims

Estimated Outcome for Creditors from the Asset Liability Management Company

€m	Managed Work-Out			Liquidation
	Expected Case	Estimated Potential Range		
Available to Secured Creditors				
Asset realisations ¹	1,256	1,015	- 1,494	568
Less: Amounts due to Secured Creditors				
- Liability	(689)	(689)	- (689)	(687)
- Interest	(80)	(90)	- (73)	(98) ²
- Costs of Realisation	-	-	-	(60) ³
Surplus / (Shortfall) to Secured Creditors	487	236	- 732	(277)
Available to Priority and Unsecured Creditors				
Surplus available from Asset Realisations on Pledged Assets	487	236	- 732	-
Realisations from Assets not subject to Security ¹	417	339	- 508	156
Less: Cost of Realisation ⁴	(210)	(190)	- (230)	(14) ³
Available to Priority and Unsecured creditors	694	385	- 1,010	142
Less: Amounts due to Priority Creditors	(15)	(15)	- (15)	(20)
Available to Unsecured Creditors	679	370	- 995	122
Less: Due to unsecured creditors ⁵	(1,343)	(1,343)	- (1,343)	(1,343)
Less: Shortfall to Secured Creditors	-	-	-	(277)
Shortfall to Subordinated Creditors and Equity	(664)	(973)	- (348)	(1,498)
% Recovery - Secured Creditors	100%	100%	- 100%	23% - 95% ⁶
% Recovery - Priority Creditors	100%	100%	- 100%	100%
% Recovery - Unsecured Creditors	51%	28%	- 74%	8%

¹ Comprises proceeds from asset disposals, interest income, loan amortisation, opening cash (excluding funding for set-up of Investment Bank and an illustrative aggregate de minimis payment of €3m)

² Includes estimated interest claim for a period of 6 months post liquidation (assumed 30/09/09) in accordance with Article 114 of the Bankruptcy Act

³ Assumed at 10% of gross realisations in the Liquidation Scenario (excluding cash)

⁴ Includes operating expenses, asset support and management incentives in managed work-out scenarios

⁵ Includes a contingency of €25m against unknown and contingent claims from unsecured creditors and excludes claims from subsidiary and related companies on the basis that Straumur's analysis indicates that such claims ultimately have only a very minimal impact on recoveries to third party unsecured creditors after taking into account recoveries from intercompany receivables and from shareholdings in these entities

⁶ The range of estimated recoveries for secured creditors reflects different estimated recoveries for each secured creditor

6. Estimated Outcome Statement (cont'd)

Potential Sensitivities

- As set out in the Presentation to Creditors dated 5 June 2009, the outcome for unsecured creditors is sensitive to changes in exchange rates and interest rates
- The conversion of certain of Straumur's secured loans from ISK denominated loans to Euro denominated loans, together with the fact that the Debt Notes to be issued following the Composition will be Euro-denominated, means that Straumur's liabilities are better matched to its assets in currency terms
- The table opposite provides an illustration of the potential impact of changes in the ISK:€ exchange rate and 1 month REIBOR interest rates on the outcome for unsecured creditors in the Expected Case

Illustrative Sensitivity Analysis on Estimated Recoveries to Unsecured Creditors (Expected Case)

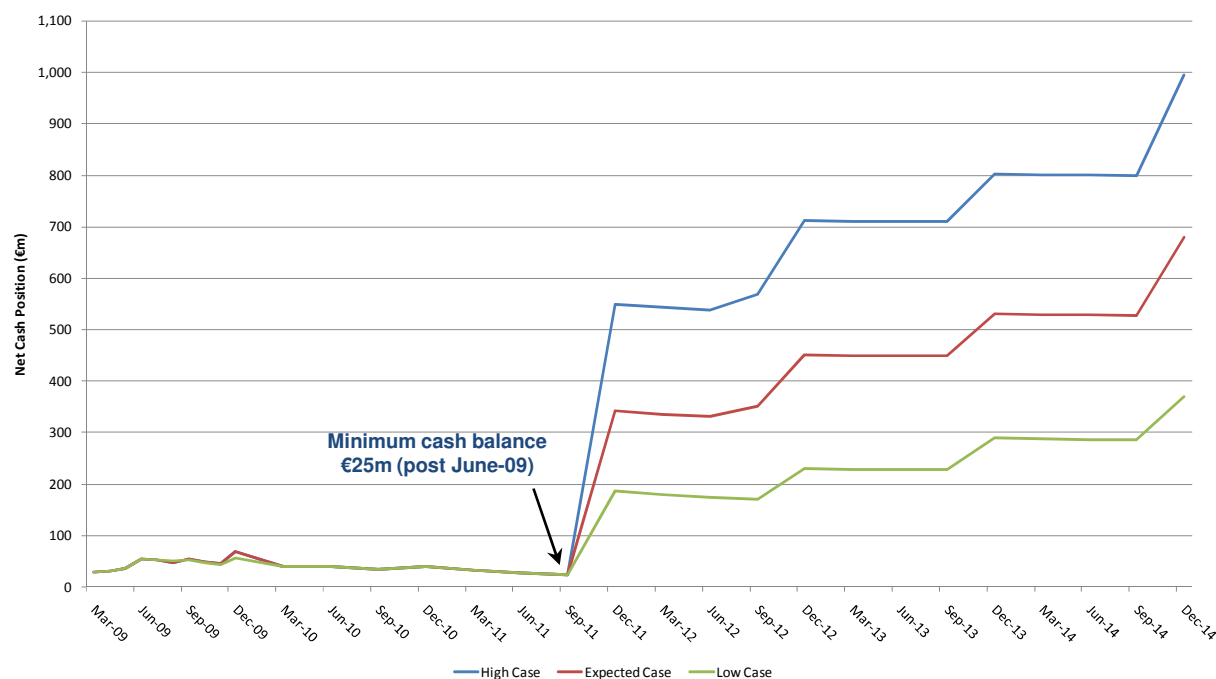
ISK/€	+ 20%	217.0	55%	54%	53%
	Expected Case	180.8	52%	51%	49%
	- 20%	144.6	47%	45%	44%
			5.9%	8.9%	11.9%
			-3 pp	Expected Case	+3 pp
1 Month REIBOR					

7. Projected Cash Flow for the Asset Management Business

Summary

- The graph below shows the latest projected cash flow for the Asset Management Business over the period to 31 December 2014 under the Low, Expected and High Case asset realisation scenarios, as described in the Presentation to Creditors dated 5 June 2009. The cash position is shown before distributions to unsecured creditors
- The cash flow projection reflects actual cash flows to 30 June 2009, Straumur's latest view on realisations from assets and the impact of changes to the terms agreed with certain secured creditors. In addition, where relevant, future cash flows from 1 August 2009 are based on the 31 July 2009 ISK:€ exchange rate of 180.8 ISK:1€ and the one month REIBOR interest rate of 8.9%
- The total amount available for distribution to Composition Creditors over the period to 2014 has increased, and the projected timing of repayments to unsecured creditors has accelerated slightly, from the position presented in the Creditors' Meeting on 5 June 2009
- The Low Case Cash Flow, which reflects a number of sensitivity adjustments to the amount of certain asset realisations projected in the Expected Case, shows a minimum cash balance of approximately €25m (September 2011) over the period to 2014
- Straumur considers that this provides adequate headroom against any further potential vulnerabilities and therefore does not consider that any additional funding should be required during the period of the managed work-out to 2014

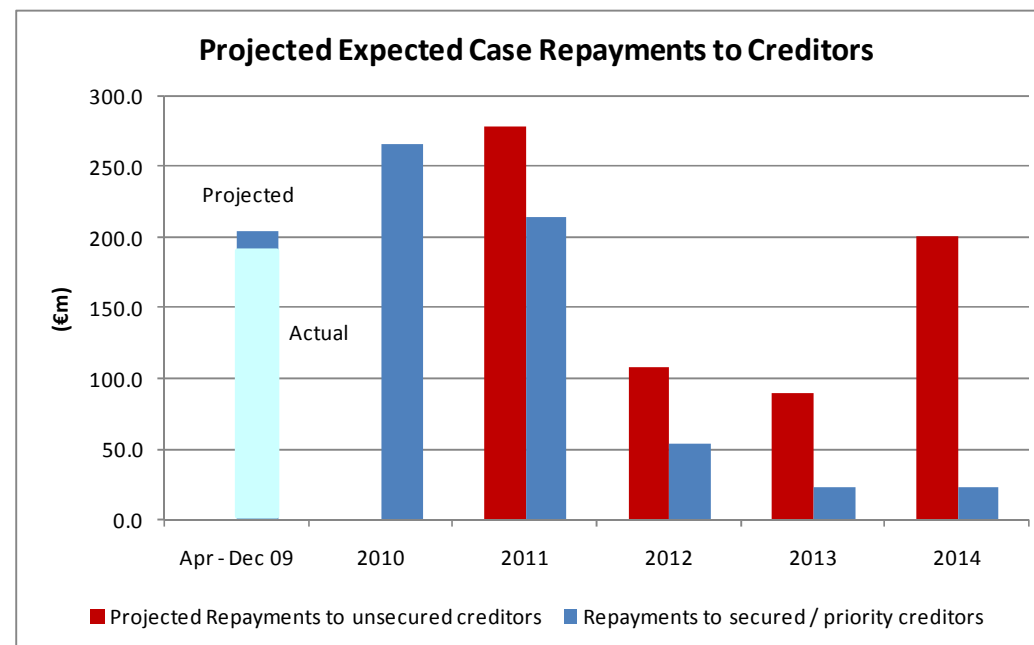
Asset Management Business Projected Cash Flow Before Distributions to Unsecured Creditors



7. Projected Cash Flow for the Asset Management Business (cont'd)

Projected Repayments to Creditors

- The chart opposite sets out the projected amount and timing of repayments to the unsecured creditors, in their capacity as holders of the Debt Notes, and to secured and priority creditors, based on the Expected Case
- The projected amount and timing of repayments to unsecured creditors is dependent upon the amount and timing of realisations from the sale of a relatively small number of assets. These realisations are, in turn, dependent on a number of factors, including, for example, general economic and financial market conditions, which are very difficult to predict
- The projected repayments set out in the graph opposite are based on the maximum cash sweep thresholds contained in the Debt Notes, as discussed at Section 5
- As set out at Section 5, this threshold can be adjusted downwards by the Board of Directors of the ALMC



8. Next Steps

Next Steps for the Winding-Up Board and Management

- The Winding-Up Board and management are currently finalising the formal documentation required for the Composition, and the related legal documentation that will need to be implemented on the completion of the restructuring. This requires the finalisation of a number of open issues. These issues are expected to be resolved shortly, but they could potentially cause a delay to the timetable outlined below
- It is currently intended that the Composition proposal and the notice of the meeting to vote on the Composition will be sent to Composition Creditors in the second half of August 2009
- There is a legal requirement to give a minimum of two weeks notice of this meeting, but (given summer vacations) it has been decided that this meeting will not be held prior to mid September 2009, regardless of when the Composition proposal is sent out to Composition Creditors

Next Steps for Composition Creditors

- Any creditor that has raised objections to any Composition Claims, or their treatment, should attend the meeting convened by the Winding-Up Board to discuss these claims
- The substance and key terms of the Composition proposal outlined today are not expected to change. It is therefore recommended that Composition Creditors begin their credit approval process, and any other necessary internal approval processes, in relation to the proposal which is set out in this document as soon as possible. As indicated above, it is currently planned that the formal Composition proposal from the Winding-Up Board will be sent to Composition Creditors in the second half of August 2009
- Voting on the Composition proposal can take place either in person at the meeting or in writing. A written vote must be received by the Chairman of the meeting before voting is completed. A written vote must be signed by the creditor (or its power of attorney) and the signature confirmed by two witnesses, a professional district court or Supreme Court lawyer or a notary public

9. Summary

- Straumur is in a Moratorium process and is insolvent
- The only realistic exit options are for Straumur to agree a Composition with its Composition Creditors or for Straumur to be placed into bankruptcy proceedings, which will be controlled by a trustee appointed by the Court
- Straumur has developed a draft restructuring plan and Composition proposal which will enable a managed work-out of Straumur's assets over a period of up to five years
- The analysis prepared by Straumur indicates that a managed work-out will result in an estimated recovery for unsecured creditors of 51%, compared to 8% in the Liquidation Scenario
- If the proposed Composition is not approved by the Composition Creditors, the Winding-Up Board will be legally required to request that the Court place Straumur into Icelandic bankruptcy proceedings. This will result in a very low recovery to unsecured creditors
- The approval of the Composition requires a majority of more than 60% of Composition Creditors in both value and number to vote in favour of the Composition
- Given that any Composition Creditor failing to vote will effectively be counted as a "no" vote, it is vital that all Composition Creditors who support the Composition vote in favour of it

Appendix 1 – Extracts from KPMG draft report dated 3 June 2009

Appendix 1 – Extracts from KPMG draft report dated 3 June 2009

1.1 Introduction

KPMG has prepared a draft report dated 3 June 2009 (the “KPMG draft report”) addressed solely to Straumur-Burdaras Investment Bank hf (“the Company” or “Straumur”) and two agents of its bank syndicates, Bayerische Landisbank (“Bayern”) and Fortis Bank NV (“Fortis”).

The KPMG draft report has been prepared solely for the confidential use of the Company, Fortis and Bayern alone and nothing in KPMG’s scope of work assumed any involvement in the Composition process. In this context attention is drawn to the fact that the draft KPMG report does not take account of Composition proposals, including, but not limited to, De Minimis Payments and the assumption that Composition Creditors will receive their returns in euros.

The KPMG draft report was prepared in accordance with agreed terms of reference and for a specific purpose. No liability will be accepted for use of the KPMG draft report for a purpose for which it was not intended. KPMG’s draft report must be read in its entirety. Individual extracts from the report could be misleading if considered in isolation from each other.

This Appendix contains extracts from the KPMG draft report.

In preparing the KPMG draft report, KPMG was given access to documentary evidence held by the Company to allow KPMG to investigate matters on which it was engaged to report. KPMG relied on the integrity of the information provided by the Company. KPMG did not take account of any information they did not receive, nor or any inaccuracies in the information provided to them by the Company.

Nothing in this Appendix constitutes a valuation. Where present values for different scenarios are shown they are provided for illustrative purposes only and are subject to the assumptions set out in this Appendix.

No liability other than to the Company, Bayern and Fortis will be accepted by KPMG as a result of the KPMG draft report or these extracts from it. KPMG does not and will not accept any responsibility or liability or duty or care to any creditor or shareholder or employee of the Company or any other person. Nor does KPMG accept any responsibility or liability or duty of care to any entity or person whatsoever due to any misunderstanding of any aspect of the KPMG draft report or these extracts from it. In particular, neither the KPMG draft report nor anything contained in this Appendix should be construed either as an investment advertisement or investment or other advice in any jurisdiction whatsoever.

The extracts from the KPMG draft report that are included in this Appendix should be read in conjunction with the scope and limitations of KPMG’s work.

Appendix 1 – Extracts from KPMG draft report dated 3 June 2009 (cont'd)

1.2 Background

- On 24 March 2009, Straumur made a presentation to a number of banks outlining a requested working capital facility in order to provide additional headroom to assist a more orderly wind down of the operations of Straumur and help protect the value of its assets. On this date KPMG were instructed to assess Management's forecasts including considering potential recoveries to unsecured creditors on a liquidation scenario as well as considering the indicative range on Management's controlled wind down scenario.
- Management stated that as Straumur is closed for new business and has no access to capital, and any future strategy needs to be focused on maximising value on behalf of creditors.
- Management have assessed two principal options to achieve this objective:
 - A sale of assets under a formal liquidation process, which is likely to result in a distressed sale process.
 - A managed work-out of the assets over a three to five year period by the existing Straumur team, potentially involving limited asset support to improve recoveries to the creditors. This alternative has been assessed by Management on the basis of an expected case, and a potential range of outcomes (low case to high case) based around the expected case in order to provide an indication of the potential range within which Management believe the managed work-out outcome is most likely to fall.

1.3 Scope and limitations of KPMG's work

- KPMG's scope of work included a brief review of Management's liquidation scenario and their managed work-out scenario.

KPMG's terms of reference for this review stated:

"KPMG will briefly assess management's forecasts with regard to:

Scenario analysis. We will perform a brief review of management's balance sheet as at 28 February 2009. We will undertake discussions with management and consider potential indicative recoveries to unsecured creditors on a liquidation scenario, as well as indicative high and low recovery ranges based on Management's controlled wind down forecast assuming requested working capital facilities are granted;"

The liquidation scenario represents an illustrative estimate of insolvency values and recovery percentages based upon hypothetical insolvency proceedings as at 31 March 2009 whereby assets are converted into cash. Where assets are denominated in foreign currencies, they will be subject to exchange rate fluctuations.

Appendix 1 – Extracts from KPMG draft report dated 3 June 2009 (cont'd)

1.3 Scope and limitations of KPMG's work (cont'd)

In so far as a managed work-out or liquidation might be events that occur in the future, the ultimate return to creditors will be determined by a series of circumstances relevant at the time of a work-out or liquidation. There may be unforeseen events, changes in economic conditions and many other potential variations that could impact upon and change these scenarios.

Furthermore, given the international nature of the company's assets and investments, estimating recoveries in a managed work-out or liquidation is an extremely difficult task. Any work-out or insolvency is likely to be a lengthy process. Unsecured creditors would not normally expect to receive their full entitlement until all the assets had been realised and all liabilities finally determined.

Neither the assumptions nor the scenarios provided by Management have been audited. While the values are presented with some specificity (and within ranges), the actual results achieved in a given scenario would in all likelihood vary, and could vary in ways that may be material. Accordingly, there can be no assurance that the assumptions employed in determining the value of assets will result in accurate estimations of such values.

KPMG's draft report states:

"Nothing in this report constitutes a valuation. The assessment of the loans and equity investments are subject to a great deal of uncertainty, driven in part by Straumur's current financial situation and also by a number of external factors beyond Management's control.

The high level review of the estimated values realisable in a liquidation scenario and a managed work-out scenario involved a review of scenario analyses provided by Management and discussions with Management. Our approach has focused on the top 20 loan assets, investments and equity on which we have had full disclosure on information requested. Where we have requested, we have also had discussions with relevant asset managers.

There are a number of wider risks that may influence potential recoveries, including the level of improvement in macroeconomic conditions, the underlying trading performance of assets, potential interest payable on claims, fluctuations in exchange rates and interest rates, rights to set-off and incentive payments. We note that the nature of many remaining assets within the loan and equity portfolio are subject to a large degree of uncertainty through being subject to restructuring processes, volatile markets (e.g. certain property or CLO markets) or turnaround processes."

KPMG's field work was completed on 14 May 2009 and KPMG have not updated their report for events or circumstances arising after that date.

Appendix 1 – Extracts from KPMG draft report dated 3 June 2009 (cont'd)

1.4 Gross realisations for Unsecured Creditors – basis on which scenarios are presented

KPMG's draft report states:

“Basis on which scenarios are prepared

Asset realisations – Management

Liquidation case

- Assumes no working capital facility is granted and Straumur would enter into an Icelandic insolvency process immediately. Assets would be realised by a court appointed lawyer, and it is assumed that they would be sold within a distressed sales process.

Managed work-out scenario

- Assumes assets will be managed and realised by incumbent Management over a period of five years. Additional cash, for asset support, is assumed to be provided to investments (assumed level of €83.0 million).
- Expected case – represents Management's view of a realistic estimate of the likely outcome;
- Estimated potential range – comprises Management's view of low and high case scenarios, based on flexing assumptions for all the underlying assets.”

Asset realisations – KPMG sensitised

- KPMG estimated an illustrative sensitised case for the 'liquidation' case and an illustrative sensitivity range for the managed work-out scenario. These sensitivities reflect downward adjustments to some of Management's assumptions noted during the course of their work.
- The sensitivity range is not intended to be directly comparable to Management's low, expected and high cases. Rather, it takes account of specific downside risks noted during KPMG's work. In line with Management's managed work-out scenario, the sensitivity range assumes that assets are supported and realised over a one to five year time period.
- There are also a number of wider risks that may influence potential recoveries, including the level of improvement in macro economic conditions, the underlying trading performance of assets, potential interest payable on claims, fluctuations in exchange rates and interest rates, rights to set-off and incentive payments. The nature of many remaining assets within the loan and equity portfolio are subject to a large degree of uncertainty through being subject to restructuring processes, volatile markets (e.g. certain property or CLO markets) or turnaround processes.

Appendix 1 – Extracts from KPMG draft report dated 3 June 2009 (cont'd)

1.5 Gross realisations for Unsecured Creditors – Estimated Recoveries to Unsecured creditors in a liquidation scenario

- The table below sets out the estimated indicative recoveries for Unsecured Creditors under a liquidation scenario as at 31 March 2009 and was prepared on 14 May 2009.

Estimated indicative recovery rates		
	Management	KPMG
€m	Liquidation	Sensitised liquidation
Gross asset realisations		
Opening cash at 31 March 2009	30	30
Cash, trading and other assets	201	201
Loan assets and equity investments	496	479
Interest, amortisation and other	-	-
Subtotal	727	710
Estimated realisation costs	71	71
Gross asset realisation after estimated realisation costs	656	639
Estimated claims		
Secured	754	754
Recoveries from assets offset with claims	-	-
Recoveries from other assets	514	514
Total recovery	514	514
<i>Percentage (a)</i>	<i>63.91%</i>	<i>68.10%</i>
Priority	20	20
Recovery	20	20
<i>Percentage</i>	<i>100.00%</i>	<i>100.00%</i>
Estimated realisation costs plus secured and priority recoveries^(b)	605	605
Estimated assets available for distribution to unsecured creditors	122	105
Estimated claims		
Unsecured ^(c)	1,607	1,607
Recovery	122	105
Percentage	7.6%	6.5%
Subordinated	101	101
Recovery	-	-
<i>Percentage</i>	-	-

Note: (a) A range of recoveries to secured creditors is stated to reflect different forecast recoveries for each secured creditor. These recoveries are stated before any recovery from any unsecured element of claims.

(c) Unsecured creditors are net of €61.5 million which Management forecast will be offset during the period. Unsecured creditors in both liquidation scenarios are higher than work-out scenarios due to the inclusion of the short-fall to secured creditors

Source: Management information and KPMG analysis.

Appendix 1 – Extracts from KPMG draft report dated 3 June 2009 (cont'd)

1.6 Gross realisations for Unsecured Creditors – Estimated Recoveries to Unsecured creditors in a work-out scenario

- The table below sets out the estimated indicative recoveries for Unsecured Creditors under work-out scenarios as at 31 March 2009 and was prepared on 14 May 2009.

Estimated indicative recovery rates					
€m	Management			KPMG	
	Low	Expected	High	Sensitivity range	
Gross asset realisations					
Opening cash at 31 March 2009	30	30	30	30	30
Cash, trading and other assets	210	210	210	201	201
Loan assets and equity investments	1,014	1,322	1,667	919	1,209
Interest, amortisation and other	127	127	127	127	127
Subtotal	1,381	1,689	2,034	1,277	1,567
Estimated realisation costs	190	205	220	190	205
Gross asset realisation after estimated realisation costs	1,191	1,484	1,814	1,087	1,362
Estimated claims					
Secured	919	897	881	919	919
Recoveries from assets offset with claims	22	22	22	22	22
Recoveries from other assets	874	875	859	874	875
Total recovery	896	897	881	896	897
<i>Percentage^(a)</i>	<i>93-100%</i>	<i>99-100%</i>	<i>100.00%</i>	<i>93-100%</i>	<i>99-100%</i>
Priority	15	15	15	15	15
Recovery	15	15	15	15	15
<i>Percentage</i>	<i>100.00%</i>	<i>100.00%</i>	<i>100.00%</i>	<i>100.00%</i>	<i>100.00%</i>
Estimated realisation costs plus secured and priority recoveries^(b)	1,079	1,095	1,094	1,079	1,095
Estimated assets available for distribution to unsecured creditors	302	595	940	198	472
Estimated claims					
Unsecured ^(c)	1,390	1,367	1,367	1,490	1,467
Recovery	302	595	940	198	472
Percentage	21.8%	43.5%	68.8%	13.3%	32.2%
Subordinated	101	101	101	101	101
Recovery	-	-	-	-	-
<i>Percentage</i>	-	-	-	-	-

Note:

(a) A range of recoveries to secured creditors is stated to reflect different forecast recoveries for each secured creditor. These recoveries are stated before any recovery from any unsecured element of claims.

(b) Secured recoveries from assets offset with claims are not deducted as these assets are not included within asset realisations.

(c) Unsecured creditors are net of €61.5 million which Management forecast will be offset during the period. Unsecured creditors in both liquidation scenarios are higher than work-out scenarios due to the inclusion of the short-fall to secured creditors

Source: Management information and KPMG analysis.

Appendix 1 – Extracts from KPMG draft report dated 3 June 2009 (cont'd)

1.7 Gross realisations for Unsecured Creditors – Assumptions

Consolidation

- The balance sheet reflects Straumur's consolidated Management accounts as at 31 March 2009. Creditor BV and Novator One subsidiaries are held as investments and not consolidated.

Foreign exchange

- The EUR/ISK foreign exchange rate is assumed at 164 corresponding to the rate as at 31 March 2009.
- Straumur has in the past performed its foreign exchange transactions in the offshore market as opposed to the onshore market controlled by the Central Bank of Iceland and used average offshore rates to translate its balance sheet.

Loans investments and subsidiaries – Overview

- A high level review of 20 selected loan assets and equity investments was performed; these were selected initially on the basis of those invested with the largest value in Straumur's books; although in some cases, these values were subsequently adjusted.
- During the course of KPMG's work, Management's view of estimated realisations changed for some of the assets as events developed; KPMG were updated as to the rationale for these movements in values.

Loans investments and subsidiaries - Approach and information received

- Management prepared one page summaries for each of the 20 investments. These one page documents were updated during KPMG's review process on a case by case basis by Management where circumstances relating to those assets changed. Examples of typical information included in the summary were:
 - investment type, geography, headline financials;
 - current trading and outlook;
 - security held by Straumur; and
 - key assumptions that underpinned the estimated realisations in Management's liquidation, low, expected and high scenario's, e.g. exit EBITDA and exit multiples, or exit rents and exit yields
- This information was prepared by the local investment managers. KPMG discussed each of the assets with the investment managers as they considered appropriate.

Appendix 1 – Extracts from KPMG draft report dated 3 June 2009 (cont'd)

1.7 Gross realisations for Unsecured Creditors – Assumptions (cont'd)

Creditor priority

- Management provided advice received from their legal advisors in relation to the priority of creditor claims under an Icelandic insolvency process. KPMG have followed this priority order in estimating potential recoveries. This summarises creditor priorities as follows:
 1. The cost of liquidation and (b) liabilities incurred after the date of Moratorium. Management advised KPMG that there are no such liabilities under this heading.
 2. Secured claims. The 'senior secured' claims fall within this category. If the value of security is insufficient the outstanding amount ranks as an unsecured claim.
 3. Claims based on ownership/legal title – Management advised KPMG that there are no such claims against Straumur.
 4. Priority claims – employment related claims. Priority claims rank *pari passu* with each other.
 5. Unsecured claims – this relates to the majority of the creditors within the balance sheet.
 6. Subordinated claims.

Security

- Unless specifically stated KPMG have not sought to verify the validity of security documentation. For the purposes of the collateral assessment schedule in this report KPMG have assumed that the security charges are valid and rank in accordance with the wording of those charges.
- Any liquidator or insolvency supervisor would properly take independent legal advice as to the validity of the charges and the law is subject to change in this area.

Valuations

- KPMG are not professional valuers and do not hold themselves out as such. The estimates of realisable values included in this report are based on the assumptions set out in this report and KPMG's experience as advisers to troubled companies.
- The estimates of realisations are intended as a guide only and should lenders or any other party wish to rely on particular assets for their security it is recommended that they consider obtaining an independent professional valuation on an appropriate basis.

Appendix 1 – Extracts from KPMG draft report dated 3 June 2009 (cont'd)

1.7 Gross realisations for Unsecured Creditors – Assumptions (cont'd)

Liquidation

- The estimates of values on a liquidation scenario assume that the business, or part thereof, cannot be continued as a trading entity or will not be saleable as a going-concern.
- It assumes that the liquidator takes up to three months to realise assets on a piecemeal basis, having regard to the costs of holding the asset (including the risk of deterioration or loss) typically by auction or tender sale. Debtors are assumed to be collected out and properties assumed to be marketed for quick sale (i.e. within three months).