SUPREME COURT OF THE STATE OF NEW YORK
COUNTY OF NEW YORK

GLITNIR BANKI HF., by and through its Resolution Committee, Winding-up Board and Foreign Representative; and STEINUNN GUÐBJARTSDÓTTIR, solely in her capacity as the duly appointed Foreign Representative of Glitnir banki hf.

Plaintiffs,

– against –

JÓN ÁSGEIR JÓHANNESSON,
THORSTEINN JÓNSSON,
JÓN SIGURÐSSON,
LÁRUS WELDING,
PÁLMI HARALDSSON,
HANNES SMÁRASON,
INGIBJÖRG STEFANÍA PÁLMADÓTTIR,
and
PRICEWATERHOUSECOOPERS HF.,

Defendants.

Index No. 10/601217

COMPLAINT

JURY TRIAL REQUESTED

Plaintiffs Glitnir banki hf., by and through its Resolution Committee, Winding-up Board and Foreign Representative; and Steinunn Guðbjartsdóttir, solely in her capacity as the duly appointed Foreign Representative of Glitnir banki hf. (together, the "Plaintiffs"), through the undersigned attorneys, Steptoe & Johnson LLP, and as for its Complaint against Defendants Jón Ásgeir Jóhannesson ("Jóhannesson"), Thorsteinn Jónsson ("Jónsson"), Jón Sigurðsson ("Sigurðsson"), Lárus Welding ("Welding"), Pálmi Haraldsson ("Haraldsson"), Hannes Smárason ("Smárason"), Ingibjörg Stefanía Pálmadóttir ("Pálmadóttir"),[1] and PricewaterhouseCoopers hf. ("PWC") (collectively, "Defendants"), respectfully state and allege as follows:

[1] Jóhannesson, Jónsson, Sigurðsson, Welding, Haraldsson, Smárason, and Pálmadóttir are collectively the "Individual Defendants."

INTRODUCTION

1. Between April 2007 and February 2008, the Individual Defendants, a cabal of businessmen led by a convicted white collar criminal, Defendant Jón Ásgeir Jóhannesson ("Jóhannesson"), engaged in a sweeping conspiracy to wrest control of Iceland's Glitnir banki hf. ("Glitnir" or the "Bank") and fraudulently drain over USD $2 billion out of the Bank to fill their pockets and prop up their own failing companies. To finance these diversions, the Defendants relied heavily on funds which Glitnir raised through the sale of medium term notes ("MTNs") to investors located in New York and elsewhere in the United States. The Defendants have never repaid the sums they took from the Bank.

2. The Individual Defendants siphoned money out of Glitnir at the worst possible time for the Bank. Having depleted Glitnir's cash reserves after April 2007 by engaging in heavy and improper lending to entities that they controlled (the "Jóhannseson Loans"), the Individual Defendants left Glitnir heavily exposed to the global credit crunch which struck Iceland's markets during the summer of 2007. Prudent management dictated that Glitnir husband its remaining scarce cash, raise standards for lending, and heighten sensitivity to the Bank's exposure to counterparties. Instead, over the ensuing months, the Individual Defendants, acting at the direction of Defendant Jóhannesson, used their control over the Bank and funds raised in U.S. financial markets to issue massive "loans" to, and fund a series of equity transactions with, companies Defendant Jóhannesson controlled in an effort to stave off their eventual collapse and enhance the value of their publicly traded stock (the "Jóhannesson Transactions"). The Jóhannesson Transactions made no economic sense for Glitnir or its creditors and placed the Bank in extreme financial peril.

3. To further the objectives of their conspiracy, and as set forth in greater detail below, Defendant Jóhannesson and his cohorts engaged in various overt acts, including, but not limited to the following: the Defendants a) staffed the Board of Directors and executive offices of Glitnir with their willing accomplices, b) ignored Glitnir's committees designed to oversee and limit the Bank's exposure to risk, c) designed their self-dealing transactions to mask their actual purpose using a blizzard of controlled companies and a stock "parking" scheme, and d) structured the deals without regard for the risk they created for Glitnir. As a direct result, the Individual Defendants knowingly violated by a wide margin clear Icelandic law and Glitnir's stated internal policies regarding financial exposure to related and connected parties. These laws, rules and internal policies were designed to protect Icelandic banks from the very risk inherent in the Jóhannesson Transactions – heavy concentration of financial exposure to a group of interconnected counterparties.

4. As another act in furtherance of their corrupt agreement, the Defendants concealed the truth about the risk they had created for Glitnir when they turned to the United States markets to raise the funds they needed for the Jóhannesson Transactions. In September 2007, for example, the Defendants caused Glitnir to issue USD $1 billion in MTNs to U.S. investors ("September MTN Offering"). Without the proceeds of the September MTN Offering, Glitnir would have been in breach of its internal liquidity rules if the Individual Defendants had pushed forward with the Jóhannesson Transactions. Knowing that Glitnir could not hope to raise these funds if it honestly reported to potential investors its massive and growing exposure to companies controlled by the Defendants, the Defendants chose to hide the truth. The Offering Circular for the September MTN Offering understated Glitnir's exposure to related and connected parties by almost USD $800 million dollars. Not surprisingly, all of the Jóhannesson

Loans and Jóhannesson Transactions defaulted.

5. A report recently issued by the Icelandic Parliament's Special Investigation Commission ("SIC" and "SIC Report") concluded that Glitnir, and Iceland's other two large banks, had been run for the benefit of the individuals who owned and controlled them at the expense of the rest of the banks' shareholders:

> Toward the end of 2007 and in 2008 the banks started to face constraints in their operations. It seems that the boundaries between the interests of the banks and the interests of their largest shareholders were often fuzzy and that the banks put more emphasis on backing up their owners, thus going way beyond normal practices. **The operations of the Icelandic banks were, in many ways, characterized by their maximizing the interests of the larger shareholders, who managed the banks, rather than running solid banks with the interests of all shareholders in mind, where due responsibility was demonstrated toward their creditors.**

(Emphasis added). The Individual Defendants ran Glitnir for their personal interest in just this fashion.

6. The Individual Defendants could not have succeeded in their conspiracy to loot Glitnir without the complicity of Glitnir's outside auditors at PricewaterhouseCoopers hf. ("PwC"). PwC was intimately familiar with Glitnir's related party exposure procedures, knew what Glitnir's true related party exposure was, reviewed and signed off on Glitnir financial statements, which grossly misrepresented Glitnir's related party exposure, and facilitated the Defendants' successful efforts to raise USD $1 billion in New York through the September MTN Offering without disclosing the truth.

7. Glitnir collapsed in 2008 in no small part due to the Jóhannesson Transactions. When it did, the Jóhannesson Transactions and Jóhannesson Loans had cost Glitnir and its creditors over USD $2 billion.

THE PARTIES

8. **Plaintiff Glitnir banki hf.** ("Glitnir") is a public limited company, incorporated in Iceland with its principal place of business at Soltun 26, IS-105, Reykjavík, Iceland. Until its collapse in 2008, Glitnir was a full-service bank, providing corporate banking, investment banking, capital markets, investment management, and retail banking services. From 2005 through its collapse, Glitnir issued more than USD $3.75 billion short and long term notes in the United States.

9. In October 2008, Iceland's Financial Supervisory Authority ("FME") took control of Glitnir and dismissed Glitnir's board in its entirety. The FME appointed a committee to oversee the reorganization of Glitnir (the "Resolution Committee"), the aim of which is to preserve the value of the assets of Glitnir. In November 2008, the Resolution Committee applied for and obtained an order placing Glitnir in an Icelandic insolvency proceeding (the "Moratorium").

10. In May 2009, the Icelandic District Court overseeing the Moratorium appointed a Winding-up Board to supervise the liquidation of the Bank's assets (the "Winding-up Board"). Steinunn Guðbjartsdóttir, Supreme Court attorney, is the "Assistant" appointed by the District Court charged with overseeing the Moratorium and the Resolution Committee's activities with respect to Glitnir and serves as the Chair of the Winding-up Board. To date, over 8,600 claims have been filed by creditors in Glitnir's Moratorium amounting to ISK 3,436,000,000,000 (approximately USD $26,183,165,735) in claims, based on exchange rates as quoted by the Central Bank of Iceland on April 22, 2009, *i.e.*, ISK 131.229 per USD $1.00.[2]

[2] Throughout this Complaint, currency amounts appearing in Icelandic kronor have been converted into U.S. dollars based on the exchange rate in effect as of September 30, 2007, *i.e.*, ISK 61.7255 per USD $1.00.

11. On November 26, 2008, Glitnir filed a voluntary petition for relief under Chapter 15 of title 11 of the United States Code (the "Bankruptcy Code") in the United States Bankruptcy Court for the Southern District of New York. On January 7, 2009, the Bankruptcy Court recognized the Moratorium as a Foreign Main Proceeding under Chapter 15 and appointed Steinunn Guðbjartsdóttir as the duly authorized Foreign Representative of Glitnir (the "Foreign Representative"). Pursuant to Chapter 15 of the Bankruptcy Code and the Bankruptcy Court's order recognizing the Moratorium, the Foreign Representative is the exclusive representative of Glitnir in the United States and has the authority to sue on behalf of Glitnir in United States courts. The Resolution Committee, Winding-up Board and Foreign Representative have all authorized this litigation.

12. **Defendant Jón Ásgeir Jóhannesson** ("Jóhannesson") is a citizen of Iceland, with an unspecified domicile in the United Kingdom and a residence in Manhattan at 50 Gramercy Park North, PH, New York, New York. His wife is Defendant Ingibjörg Stefanía Pálmadóttir ("Pálmadóttir"). Defendant Jóhannesson has engaged directly and indirectly in a variety of business activities in the United States and, in connection with this U.S.-based business, has been sued in civil courts located in Mississippi, Florida and New York.

13. Defendant Jóhannesson was an officer and/or director of, *inter alia*, the following entities which owned shares of Glitnir and/or were involved in the Jóhannesson Transactions: Baugur Group hf. ("Baugur") (Executive Chairman of the Board of Directors); FL Group hf. ("FL Group") (Chairman of the Board of Directors); BG Capital (Director); Milton ehf. ("Milton") (Chairman of the Board of Directors); Highland Group Holdings Limited ("HGHL") (Director); Highland Group Acquisitions Limited ("HGAL") (Director); and F-Capital ehf. ("F-Capital") (Chairman of the Board of Directors). Defendant Jóhannesson and his wife, Defendant

Pálmadóttir, jointly own 101 Chalet ehf. ("101 Chalet"), which borrowed, and never repaid, approximately USD $30,781,444 from Glitnir.

14. Defendant Jóhannesson, the ring leader of the scheme at issue in this Complaint, has a criminal record in Iceland for corporate misconduct. On June 5, 2008, the Icelandic Supreme Court upheld a May 3, 2007 Icelandic District Court conviction of Defendant Jóhannesson for violating the second paragraph of Art. 262 of the General Penal Code. Defendant Jóhannesson, in his capacity as CEO of Baugur, had caused Baugur to record on its books a USD $589,890 credit note issued by Nordica Inc. to Baugur, which Defendant Jóhannesson knew was "false and ungrounded." The decision upholding his conviction noted that Defendant Jóhannesson:

> had the accounts of Baugur hf. falsified, participated in preparing documents which had no basis in real transactions with other parties, and arranged the accounts so as to give an incorrect picture of business and use of funds by having the company enter as an asset on a holding account ISK 61,915,000 and the same amount recognized as income in an accounting item for so-called group external income; this had been done on the basis of an incorrect and ungrounded credit note of 30 August 2001 from Nordica Inc., in Miami in the U.S., in the amount of USD 589,890.

On May 3, 2007, Defendant Jóhannesson was sentenced in this case to a conditional sentence of three months of incarceration, and, in June 2007, resigned as CEO of Baugur, but did not relinquish control over the company.

15. **Defendant Thorsteinn Jónsson** ("Jónsson") is a citizen of Iceland domiciled in Laufasvegur 73, Reykjavík, Iceland, and was, at all times relevant to this Complaint, Chairman of the Board of Directors of Glitnir. Defendant Jónsson also served as the Vice-Chairman of the Board of Directors of FL Group, Glitnir's largest shareholder. He also had a personal stake in the success of FL Group. He was a one-third owner and member of the Board of Directors of Materia Invest ehf. ("Materia"), which owned approximately 7.19 percent of the shares of FL

Group (as of November 2007) and 100 percent Sólmon ehf. Jónsson also owns 100 percent of Metúsalem ehf., which owns 33 percent of Materia.

16. **Defendant Jón Sigurðsson** ("Sigurðsson") is a citizen of Iceland domiciled in Unnarbraut 17, 170 Seltjarnarnesi, Iceland and was, at all times relevant to this Complaint, a member of the Board of Directors of Glitnir and Deputy Chief or Chief Executive Officer of FL Group. He was also a member of the Board of Directors of Tryggingamiðstöðin hf. ("TM"), which in 2007 was one of Iceland's largest insurance companies and was acquired by FL Group through the use of Glitnir funds in one of the Jóhannesson Transactions.

17. **Defendant Lárus Welding** ("Welding") is a citizen of Iceland and of unspecified domicile in the United Kingdom, and was, at all times relevant to this Complaint, Glitnir's Chief Executive Officer and Chairman of its Risk Committee.

18. **Defendant Hannes Smárason** ("Smárason") is a citizen of Iceland and of unspecified domicile in England. He served on the Board of Directors of Glitnir in March-April 2007. Defendant Smárason was Chairman of the Board of FL Group from 2004 to 2005. He was named its CEO in 2005 and served in that capacity until 2007. Defendant Smárason served again on FL Group's Board from December 2007 through June 2008 and controlled approximately 20 percent of its shares throughout 2007 through two entities he owned: Primus Investments ehf ("Primus") and Oddaflug BV ("Oddaflug"). According to a May 2008 report issued by the Icelandic Competition Authority ("Competition Authority Report"), Defendant Smárason and companies controlled by him "have had considerable economic relations" with Defendant Jóhannesson's Baugur "such that their economic welfare is interlaced."

19. **Defendant Ingibjörg Stefanía Pálmadóttir** ("Pálmadóttir") is a citizen of Iceland of unspecified domicile in the United Kingdom and with a residence at 50 Gramercy Park North,

PH, New York, New York. She is a graduate of the Parsons School of Design in New York City, and Defendant Jóhannesson's wife, business partner and alter ego.

20. According to the Competition Authority Report, Defendant Pálmadóttir is "financially connected to [Defendant Jóhannesson] in the understanding of securities legislation." She served, at all times relevant to this Complaint, on the Boards of Directors of the following companies used by Defendant Jóhannesson to control Glitnir or which were involved in the Jóhannesson Transactions: Baugur, Landic Property hf. ("Landic"), and Thyrping hf. ("Thyrping"). Defendant Pálmadóttir is also the owner of 101 Capital ehf. ("101 Capital"), which was also involved in the Jóhannesson Transactions. Defendants Pálmadóttir and Jóhannesson jointly own 101 Chalet, which borrowed approximately USD $30,781,444 from Glitnir, which it never repaid.

21. **Defendant Pálmi Haraldsson** ("Haraldsson"), is a citizen of Iceland of unspecified domicile in the United Kingdom. Defendant Haraldsson served as Vice-Chairman of FL Group's Board of Directors beginning in December 2007 through 2008. He also owned and served as Chairman of the Board of Directors of Fons Eignarhaldsfélagi ehf., *a/k/a* Fons hf. ("Fons"), and was a Director of FS38 ehf. ("FS38"), a wholly owned subsidiary of Fons. Fons, a major shareholder of FL Group, and FS38 were both involved in the Jóhannesson Transactions.

22. Defendant Haraldsson's history of close coordination with Defendant Jóhannesson is supported by the Competition Authority Report, which found that "Pálmi Haraldsson, the owner of Fons, and companies connected to him have been involved through the years in various investments with Baugur and both companies have holdings in various companies." The Competition Authority Report also concluded that Fons, Baugur and FL Group "have close and common economic interests."

23. **Defendant PricewaterhouseCoopers hf.** ("PwC") is a member of PricewaterhouseCoopers International Limited, part of the largest international audit, financial, tax, and law advisory network in the world. PwC's principal place of business is in Iceland at Skógarhlíð 12, 105 Reykjavík, Iceland. PwC served as Glitnir's external auditor from 2006 through 2008, and performed reviews and issued letters upon which investors specifically relied in connection with the September MTN Offering.

OTHER PARTIES

24. **Baugur hf.** ("Baugur") was an investment company with a focus on retail sales and property ownership and one of the entities through which Defendant Jóhannesson controlled Glitnir and the entities which profited from the Jóhannesson Transactions.

25. Baugur was a Jóhannesson family business. It was founded and principally owned by Defendant Jóhannesson, his father (Jóhannes Jónsson) and sister (Kristín Jóhannesdóttir) through a holding company which they personally owned: Fjárfestingafélagið Gaumur ehf. ("Gaumur"). As of March 2007, Gaumur and its subsidiary, Gaumur Holding SA ("Gaumur SA"), owned 72.3 percent of Baugur, and other Baugur shareholders included Kevin Stanford (8.3 percent) and ISP Holding ehf. (8 percent), which is 100 percent owned by Defendant Jóhannesson's wife and co-defendant, Pálmadóttir.

26. In addition to owning the stock of Baugur, Defendant Jóhannesson controlled its operations and policies, serving as Baugur's Chief Executive Officer from 1998 until June 2007, and as its Executive Chairman of the Board of Directors thereafter. After Defendant Jóhannesson's criminal conviction in May 2007, he stepped down as CEO of Baugur and was replaced by Gunnar Sigurðsson, a loyal ally. Defendant Jóhannesson continued to exercise control over Baugur as the Executive Chairman of the Board of Directors.

27. Defendant Jóhannesson's control over Baugur contributed to his control over Glitnir, because, *inter alia*, Baugur owned controlling interests in FL Group, where Defendant Jóhannesson was Chairman of the Board of Directors, and Jötunn Holding ehf. ("Jötunn"), which, in turn, held substantial interests in Glitnir. Specifically, Baugur owned 100 percent of BG Capital ehf. (now Styrkur Invest ehf.), which, at various times relevant to this Complaint, owned between 18% and 39.7% of FL Group. As of December 2007, Baugur itself owned another 9.54% stake in FL Group. Baugur's control over FL Group included close coordination with other FL Group shareholders. According to the Competition Authority Report: "Baugur, [Defendant] Hannes Smárason, Materia Invest., Sund and Fons control FL Group ... because of the close relations between these companies." Baugur used this control over FL Group to control Glitnir. Indeed, FL Group and Jötunn owned and controlled almost 40% of the stock of Glitnir from April through December 2007. In addition, Baugur owned 30% of Jötunn, which itself owned an additional 5% of Glitnir.

28. Baugur is also key to understanding Defendant Jóhannesson's control in 2007 over the entities which benefited from the Jóhannesson Transactions. As noted, Defendant Jóhannesson and his family owned Gaumur, which controlled Baugur, which, in turn, directly and indirectly owned controlling interests in FL Group and Landic, both of which benefited from the Jóhannesson Transactions.

29. Baugur was once Iceland's largest private company, but by 2007 it was failing. Despite the efforts of Defendant Jóhannesson and the other Individual Defendants to enhance the value of Baugur and its investments using funds diverted from Glitnir, Baugur filed for bankruptcy protection in May 2009, after Glitnir's collapse, and is now being liquidated.

30. **FL Group hf.** ("FL Group"), now known as Stoðir, was founded in 1973 as a diversified Icelandic limited public company which, at various times, owned airline properties including Icelandair and an interest in AMR Corp., the parent of American Airlines.

31. FL Group played a central role in permitting Defendant Jóhannesson to control Glitnir. As noted, throughout 2007, when the Jóhannesson Transactions were being pushed through the Bank, Defendant Jóhannesson was Chairman of the Board of Directors of FL Group, which owned and controlled almost 40% of the Bank's shares.

32. Defendant Jóhannesson and several of the other Individual Defendants had a vested interest in Glitnir supporting FL Group through the Jóhannesson Transactions, to the detriment of Glitnir and its creditors. As noted, Defendant Jóhannesson's Baugur owned a large block of FL Group stock; when Glitnir propped up FL Group and its share price, this directly benefited Baugur and Defendant Jóhannesson. These practices also benefited Defendant Smárason, who owned approximately 20% of the shares of FL Group through Primus and Oddaflug, and Defendant Jónsson, who owned 10.7% of FL Group through his investment in Materia.

33. FL Group was placed into a Moratorium in Iceland in September 2008 and completed its financial restructuring in November 2009.

34. **Fons Eignarhaldsfélagi ehf.**, also known as **Fons hf.** ("Fons") is an Icelandic company owned indirectly by Defendant Haraldsson through a Luxembourg shell corporation, Matthews Holding SA ("Matthews"). At all times relevant to this Complaint, Defendant Haraldsson was the Chairman of the Board of Fons, and used Fons to facilitate the Jóhannesson Transactions. On April 30, 2009, Fons was placed into bankruptcy, and is now in the process of being liquidated.

35. **Jóhannesson Related Parties**, as this term is used in the Complaint, are the companies over which Defendant Jóhannesson exercised direct and indirect control, including, but not limited to Baugur and its subsidiaries, FL Group and its subsidiaries, and Fons and its subsidiaries.

36. **Jóhannesson Borrowing Related Parties**, as this term is used in the Complaint, are the Jóhannesson Related Parties which received Jóhannesson loans during 2007 and 2008.

JURISDICTION

37. This Court has personal jurisdiction over each of the Defendants pursuant to, *inter alia*, CPLR § 302(a) (1)-(3).

38. In addition, this Court has jurisdiction over Defendants Jóhannesson and Pálmadóttir because they maintain a residence in New York County.

VENUE

39. Venue is proper in New York County pursuant to, *inter alia*, CPLR §§ 501, 503, and 509.

STATEMENT OF FACTS

I. Summary of Claims

40. Prior to its collapse in 2008, Glitnir was a full-service Bank headquartered in Reykjavík, Iceland, with offices in ten countries including the United States, providing corporate banking, investment banking, capital markets, investment management, and retail banking to a broad range of customers.

41. At all times relevant to this Complaint, Glitnir had a substantial presence in the United States, in general, and in New York City, in particular. Glitnir has been in North America since 2000. By September 2007, Glitnir had USD $600 million invested in the United States, and planned to increase its investments to USD $1 billion by the end of 2007, and

formalized its presence with the opening of a New York-based subsidiary, Glitnir Capital Corporation. According to a PowerPoint presentation used by Defendants Welding and Jónsson during meetings with Glitnir shareholders, investors and analysts held in Manhattan on September 4-5, 2007, Glitnir had four "main objectives" for its role in the North American market in 2007: a) "establish knowledge of Glitnir and its management in targeted circles [such] as key trade associations and investors," b) "help broaden Glitnir's investor and analyst base," c) "strengthen the Bank's network in the funding environment," and d) "attract international investors and equity to Glitnir."

42. The Individual Defendants, lead by Defendant Jóhannesson, and in furtherance of their conspiracy, intentionally abused Glitnir's ties to the United States markets and its community of investors, to use USD $2.75 billion which Glitnir had raised through its MTN Program and fund the improper "loans" and equity transactions which made up the Jóhannesson Loans and the Jóhannesson Transactions – and ultimately cost Glitnir USD $2.2 billion.

II. Defendant Jóhannesson Gains Control Over Glitnir Bank

43. At all times relevant to this Complaint, Defendant Jóhannesson controlled Glitnir's publicly traded stock, the personnel on its Board of Directors and its senior management.

A. Defendant Jóhannesson Gains Control of Glitnir's Stock

44. Defendant Jóhannesson's efforts to gain control over Glitnir's stock began in 2006 when he caused FL Group, for which he served as Chairman of the Board of Directors, to seek approval from the FME to control a "qualifying holding" of up to 33% of Glitnir's shares. A "qualifying holding," according to the FME, means a "direct or indirect holding of an undertaking which represents 10% or more of its share capital ... or voting rights, or other holding which enables the exercise of a significant influence on the management of the company concerned."

45. The FME requires prior approval of the purchase of a qualifying holding to "prevent large shareholders from exercising the influence that may result from their holding for the purpose of gaining advantage for themselves at the cost of the financial undertaking and of other company shareholders or other customers of the company." The FME has also:

> strongly emphasizes that qualifying holdings in financial undertakings do not give their owners or related parties a different position or benefits other than those enjoyed by general shareholders from the healthy and secure operations of the company in question. In this way, neither the qualifying holding, nor its owners, related parties or elected board members should enjoy any position in the company that exceeds the above, i.e., special business terms, participation in business decisions that concern themselves, related companies or competitors or information about existing business or potential competitors.

46. On January 29, 2007, the FME granted FL Group's application based on FL Group's promise that it would "not exert pressure such that [FL Group would] enjoy on the basis of its holding a more preferential position in Glitnir banki hf. than it would enjoy from its rights in the company as a shareholder."

47. After receiving FME approval for FL Group's "qualifying holding," Defendant Jóhannesson engineered a scheme to further increase the size of his holding in Glitnir without complying with Icelandic law or Glitnir's internal policies. Between March 7 and April 5, 2007, Jötunn and other entities controlled by Defendant Jóhannesson accumulated shares of Glitnir, in furtherance of their scheme to gain control over the Bank.

48. By April 5, 2007, Defendant Jóhannesson's web of companies owned almost 39% of Glitnir's stock – well over the 33% holding authorized by the FME. According to the FME, this scheme to take over the Bank, which the Individual Defendants called "Project Tornado," was designed by its architects to "circumvent the laws and rules that apply to obligations of takeover and also to circumvent the [Glitnir] articles of association." The FME required FL

Group and Jötunn to seek new approval from the FME for this increased qualified holding. In December 2007, the FME denied their joint application after concluding that FL Group and Jötunn were acting in concert to increase their combined control over Glitnir, had attempted to conceal their collaboration from regulators and the public, had tried to circumvent the Icelandic law governing takeovers, and then had lied about it during the FME's investigation.

49. Notwithstanding the ultimate failure of Project Tornado as a covert hostile takeover, at all times relevant to the Complaint, Defendant Jóhannesson controlled almost 39% of the shares of Glitnir and 33% of the voting rights of Glitnir's shareholders and, in fact, did control the Bank.

B. Defendant Jóhannesson Gains Control of Glitnir Board and Senior Management

50. In addition to using FL Group and other companies acting at his direction to gain control over Glitnir's publicly traded stock, Defendant Jóhannesson stacked Glitnir's Board of Directors with individuals who had connections to the companies he controlled and had his inexperienced hand-selected candidate for chief executive officer ("CEO") replace Glitnir's 10-year veteran CEO.

51. The takeover of the Board occurred first. In April 2006, as Defendant Jóhannesson began to build FL Group's investment in Glitnir, Defendant Sigurðsson was appointed to the Board of Directors of Glitnir. Defendant Sigurðsson was also the Deputy Chief Executive Officer of FL Group. One year later, Defendant Jóhannesson completed his takeover of the Board.

52. On April 30, 2007, Glitnir convened an "emergency shareholders meeting" at which the then current Board of Directors, having been elected for a one-year term only two months earlier, was deposed. At the emergency shareholders meeting, five of the seven recently elected

directors, including the Chairman of the Board, were all replaced. The new Board consisted of the following seven individuals, almost all of whom were affiliated with companies controlled by Defendant Jóhannesson:

- Defendant Jónsson – Chairman of the Glitnir Board of Directors and Vice Chairman of the Board of Directors of FL Group;
- Defendant Sigurðsson – Member of the Glitnir Board and Deputy Chief Executive Officer of FL Group;
- Skarpedinn Berg Steinarsson – Member of the Glitnir Board, and, at various times: Member of the Boards of Directors of Baugur, FL Group (past Chairman) and Landic, and CEO of Landic;
- Pétur Guðmundarson – Member of the Glitnir Board and outside attorney from LOGOS for both Glitnir and FL Group;
- Björn Sveinsson – Member of the Glitnir Board and CEO of Saxbygg, a shareholder of Glitnir;
- Haukur Gudjonsson – Member of the Glitnir Board; and
- Katrin Petursdóttir – Member of the Glitnir Board, Member of the Board of Directors of TM, and, later, Member of the Board of FL Group.

53. Having secured control of the Glitnir Board of Directors, Defendant Jóhannesson arranged for his candidate for CEO to replace Glitnir's veteran CEO. On April 30, 2007, at a meeting of the Board of Directors immediately following the "emergency shareholders meeting," the Board of Directors appointed Defendant Welding as Glitnir's new CEO and Chairman of Glitnir's Risk Committee. In these two positions, Defendant Welding was able to control the daily operations of Glitnir and the Risk Committee loan approval process. He used this control to usher through each of the Jóhannesson Transactions.

54. Defendant Jóhannesson recruited Defendant Welding to join Glitnir. Defendant Jóhannesson also played an integral role in negotiating the terms of Welding's compensation and the terms of the departure of Glitnir's outgoing CEO, Bjarni Armannsson ("Armannsson").

Defendant Jóhannesson's role in discussions with Armannsson were so involved that testimony offered before an Icelandic court, reviewing the propriety of the terms of the separation agreement, demonstrated that Defendant Jóhannesson had functioned as a "Shadow" or *de facto* Member of the Board of Directors of the Bank.

55. Defendant Jóhannesson selected Defendant Welding despite the fact that his most recent professional experience involved responsibilities which paled in comparison to those required to run a bank of Glitnir's size. In April 2007, Glitnir was one of Iceland's three largest banks with 1,900 employees in ten countries, a market capitalization of approximately USD $7 billion and total assets of approximately USD $40 billion. Defendant Welding's most recent prior employment was as the London branch manager of another Icelandic bank where he supervised approximately 75 employees.

56. Despite a professional career that left him underqualified, at best, for the positions he assumed at Glitnir, Defendant Welding was paid extraordinarily well. Between his signing bonus, annual salary, so-called "special payments," guaranteed annual bonus, and stock option deal, Defendant Welding was promised a compensation package for his first year of work worth more than USD $10 million. By comparison, in 2006, the outgoing CEO, Armannsson, who had run Glitnir for ten years, was paid a total of USD $3.3 million.

57. Defendant Jóhannesson, having put his man in the CEO's chair, then controlled his activities until the Bank collapsed in 2008, closely collaborating with Defendant Welding on the management of Glitnir bank – often simply sending Welding emails with instructions on how to run the Bank – and the conceptualization and implementation of the Jóhannesson Transactions in total disregard of FME requirements. In a June 20, 2007 email to Defendant Jóhannesson, Defendant Welding acknowledged the reality of their relationship when he responded to detailed

instructions from Defendant Jóhannesson by complaining that Defendant Jóhannesson was treating him "more like a branch manager than the CEO."

58. Thus, within only a few short months after obtaining approval from the FME to control a "qualifying holding" of up to 33% of the shares of Glitnir, Defendant Jóhannesson and the Individual Defendants in reality had secured virtually complete control over the affairs of the Bank.

III. Glitnir Lending to Jóhannesson Related Parties

59. Having secured control over Glitnir, the Individual Defendants immediately abandoned any pretense that their control over the Bank would not be used to their advantage and at the expense of Glitnir, its other shareholders and the creditors of the Bank.

60. The SIC Report's recent conclusions offer stark proof that Defendant Jóhannesson, having completed his campaign to control Glitnir and acting in concert with the other Individual Defendants, abused this control to divert billions of dollars of Bank assets to benefit the Jóhannesson Related Parties, which were never repaid to the Bank:

> At Glitnir Bank hf. the largest borrowers were Baugur Group hf and companies affiliated with Baugur. The accelerated pace of Glitnir's growth in lending to this group just after mid-year 2007 is of particular interest. At that time, a new Board of Directors had been elected for Glitnir since parties affiliated with Baugur and FL Group had significantly increased their stake in the bank. When the bank collapsed, its outstanding loans to Baugur and affiliated companies amounted to over ISK 250 billion (a little less than EUR 2 billion). This amount was equal to 70% of the bank's equity basis.

A. Lending to Jóhannesson Related Parties - Generally

61. From May 1, 2007 through the end of the year, the Individual Defendants engineered the Jóhannesson Loans and Jóhannesson Transactions which were designed solely to support the Jóhannesson Related Parties without regard for the impact of these transactions on Glitnir.

62. The Jóhannesson Loans extended by Glitnir to the Jóhannesson Borrowing Related Parties, provide some sense for the magnitude of the redirection of Glitnir's resources to support the ventures of the Individual Defendants. Between April 1 and December 31, 2007, Glitnir "loaned" USD $2.2 billion to the Jóhannesson Borrowing Related Parties. During this nine month period, the total amount of the Jóhannesson Loans equaled approximately 26 percent of the total amount that Glitnir loaned to corporate customers of the Bank, and the Jóhannesson Borrowing Related Parties accounted for eight of the top 13 of Glitnir's largest borrowers.

63. The Jóhannesson Loans were made possible by, *inter alia*, the Individual Defendants circumventing Glitnir's internal lending procedures, which were designed to limit Glitnir's exposure to counterparty risk. The lending also was made possible by the Defendants' failure to comply with Icelandic law, and Glitnir's internal policies, governing the limits on financial exposure of a financial institution to a group of connected parties.

B. The Defendants Abandoned Glitnir's Internal Lending Procedures

64. Glitnir had a well established system of committees, procedures and deal flow designed to minimize Glitnir's exposure to credit counterparties – most of which were ignored or circumvented by the Individual Defendants to facilitate lending to the Jóhannesson Related Parties.

1. Glitnir Risk and Credit Committees

65. In 2007, Glitnir's Risk Committee was responsible for supervising and monitoring Glitnir's credit, market and counterparty risk, and governed Glitnir's credit policies and procedures. At all times relevant to the Complaint, the Chairman of the Risk Committee was Defendant Welding.

66. The Risk Committee, which met once a month, had authority to approve all lending over the limits of the Regional credit committees and was required to approve any lending over 10% of the Bank's "CAD equity" – a gauge of the Bank's available cash – and all lending by Glitnir to "Related Parties." All Risk Committee decisions were required to be documented.

67. Historically, the Glitnir Risk Committee was widely considered within the Bank to be independent and respected. An individual member's objection to a proposed transaction was generally sufficient to block a transaction, if he/she considered it to be inconsistent with Glitnir's interests.

68. Pursuant to Glitnir's Credit Manual, "if the nature of the matter is such that the decision cannot wait until the next regular Risk Committee meeting," approval of credit proposals could take place outside of the Risk Committee's scheduled meetings. Such proposals had to be approved by at least two Risk Committee members, of whom one had to be either its Chairman or Vice-Chairman.

2. Glitnir Procedures for Counterparty Credit Risk Assessment

69. Glitnir's decisions to lend were supposed to be based on a formal risk assessment of each potential borrower, its financial standing, creditworthiness, credit history and other relevant information. Under Glitnir's Credit Risk Policy, new loans were not to be made to customers that were in default, which included customers that had missed payments, broken loan covenants, violated terms of any of their existing agreements with Glitnir, missed a margin call or were the subject of any other event that indicated that the customer's repayment ability was impaired.

70. According to Glitnir's Credit Rating Manual, Glitnir assigned credit risk ratings from 1 to 10 for its customers – 1 being the lowest possible risk and 10 being the highest. Long term exposures, according to Glitnir's Credit Risk Policy, were to be strictly limited to parties in

risk classes 1 to 5, based on Glitnir's risk assessment model. Entities in default were to be put in risk category 9 and then 10, when it became clear that they would be uncollectible.

71. The risk classes were defined in detail. Class 8, for instance, included "Entities with acceptable financial standing and unstable market position, short or unstable history, *e.g.* high gearing and low equity, increased probability of default." Class 10 was defined as a default class which included the following sorts of parties: "Default class, weak financial standing, negative equity position, insufficient cash flow, unacceptable market position, probability of default high and/or specific impairment."

72. In the Credit Rating Manual, "default" was specifically defined. A payment default of 90 days or longer resulted in classification in Class 10. Parties who had not been rated were to be placed in Class 9.

73. Glitnir's Credit Manual also specifically states that Glitnir was to always seek to minimize its credit risk by acquiring satisfactory collateral to ensure repayment of loans and collateral was to be assessed at the lower of the following two values: the purchase price of the collateral or the market value of the collateral. Moreover, it states that as a general rule, Glitnir was to obtain an independent assessment of collateral, and that caution was to be exercised in assessing guarantors and their financial situation, with regard for the amounts and maturity of claims.

74. Finally, Glitnir's Credit Manual dictated that Glitnir was supposed to follow the "one-name one-limit" credit policy; meaning that the customer's "consolidated exposure within Glitnir as well as the customer's financially related parties" were all to be considered as one in terms of ensuring that the customer stayed within its lending limits.

3. Glitnir Loan Processing Enhanced Credit Risk Evaluations

75. According to Glitnir's Credit Manual, lending decisions were supposed to be supported by a step-by-step process beginning with the local branch managers and, to the extent the loan request exceeded the local credit limit authority, then moving to the appropriate credit committee.

76. The Credit Manual describes the role of individual credit committees and gives an overview of the lending process and risk analysis, as well as the role of the credit manager. It states, for instance, that credit managers were experts in financial and risk analysis, who were responsible for the risk analysis and overall exposure of the Glitnir clients assigned to them.

77. The Credit Manual further states that the credit manager was to make every effort to ensure that a client was capable of fulfilling its contractual obligations to the Bank. The following duties of the credit manager were listed specifically:

- assess the creditworthiness and financial data in connection with risk assessment of credit applications;
- prepare and draft credit proposals to be dealt with by the Credit Committee, including risk classification of borrowers, data gathering, valuation of collateral and proposing credit limits; and
- monitor loans and reassess credit risk in accordance with the guidelines of the Risk Committee.

78. Moreover, according to Glitnir's internal rules, a credit manager was to review information on clients who were placed in the classification process and ensure that all the information was correct. It was also the task of the credit manager to ensure that the premises for classification were correct in the Bank's systems and to present them to the Credit Committee concerned.

79. Glitnir issued detailed guidelines for risk assessment and the evaluation of loan proposals to ensure the quality of the Bank's lending and avoid credit losses. These guidelines were largely ignored when Glitnir, acting at the direction of the Individual Defendants, began lending to the Jóhannesson Borrowing Related Parties.

4. Defendants Abandoned Glitnir's Lending Procedures When Lending to the Jóhannesson Related Parties

80. Following Defendant Welding's appointment to serve as Glitnir's CEO and Chairman of its Risk Committee, the Individual Defendants caused Glitnir to abandon its tradition of strict adherence to credit policies when it was lending Glitnir's money to the Jóhannesson Borrowing Related Parties.

- Whereas the Risk Committee was required to evaluate proposed related party loans, under Defendant Welding, the loan approval process was structured to marginalize the role of the Risk Committee and increase the control exercised by the Individual Defendants over the approval process;

- Whereas the consideration of loan proposals between regularly scheduled meetings was clearly intended to be the exception to the rule at Glitnir, it became the norm regarding the Jóhannesson Loans, and members of the Risk Committee often did not learn of the Jóhannesson Loans until after they had been approved and/or issued;

- Whereas members of the Risk Committee were historically accorded great independence and a meaningful right to veto transactions, members of the Risk Committee were often ignored when it came to the Jóhannesson Loans, and dissent, when it surfaced, was immediately quashed by Defendants Jóhannesson and Welding;

- Whereas loans were supposed to be based on a credit risk assessment by branch officials and members of lower tier committees charged with specific risk assessment parameters, most of the Jóhannesson Loans were set in motion by the Individual Defendants and were not subject to the same risk assessment process used with other loan applications; and

- Whereas Glitnir's credit risk rating systems were supposed to prevent the Bank from taking on long term credit exposure to its higher risk borrowers, the Jóhannesson Related Parties were routinely given loans with long term credit exposure for Glitnir despite having very high credit

risk ratings, a history of defaulting on payments and/or a pattern of rolling over unpaid obligations.

IV. The Defendants Caused Glitnir to Violate Icelandic Law and Glitnir Policies Limiting Exposure to Large Groups of Connected Parties

81. By early June 2007, Glitnir's failure to comply with its own lending procedures regarding loans to the Jóhannesson Borrowing Related Parties resulted in the Bank violating Icelandic law and Glitnir's internal policies regarding limits on "large exposure" to groups of connected investors. Due to the relentless preferential treatment the Individual Defendants caused Glitnir to afford to the Jóhannesson Borrowing Related Parties, the Bank remained in a state of perpetual violation of the law from no later than June 2007 until the Bank finally collapsed in 2008. Rather than acknowledge the illegality of Glitnir's large exposure to the Jóhannesson Related Parties, the Defendants concealed the truth in reports, which it submitted to the FME which purported to reflect Glitnir's large exposure to connected parties, and its exposure to parties related to the Bank.

A. Large Exposure Limits

82. Limits on large exposure to financially connected parties are derived from the sensible concern that no bank should leave itself in a posture where a single counterparty, or a collection of related and/or connected counterparties, can harm the financial condition of the bank by failing to honor its obligations to the bank.

83. In 2002, to reduce this risk to Iceland's financial institutions, Iceland enacted the Act for Financial Undertakings ("AFU") which provides in Article 30, entitled "Limits to Large Exposures," that "exposure resulting from one or more clients, who are internally linked to one another, shall not exceed 25% of a financial undertaking's" CAD ("AFU Exposure Law")."

84. In March 2007, the FME issued "Rules On Large Exposures Incurred By Financial Undertakings," which provide that: "large exposures to a client or a group of connected clients

may not exceed the value of 25% of the own funds of a financial undertaking" ("FME Large Exposure Rules"). The AFU Exposure Law and FME Large Exposure Rules require that any bank which exceeds their respective limits to notify the FME of this fact "without delay."

85. Internal Glitnir rules imposed an even more conservative limit on large concentrated exposure than the limits set forth in the AFU Exposure Law and the FME Large Exposure Rules, providing that "Glitnir actively seeks to limit large exposures, *i.e.* exposures that exceed 10% of regulatory capital (CAD weighted capital). Thus, no single long term exposure shall exceed 20% of Glitnir's consolidated CAD weighted equity."

86. The FME defines a "group of connected clients" for purposes of the FME Large Exposure Rules to include:

> [t]wo or more natural or legal persons who, unless it is shown otherwise, constitute a single risk because one of them, directly or indirectly, has control over the others, or [t]wo or more natural or legal persons between whom there is no relationship of control ... but who are to be regarded as constituting a single risk because they are so interconnected that, if one of them were to experience financial problems, the other or all of the others would be likely to encounter repayment difficulties.

87. Glitnir uses a similar definition of "connected or related entities" for its internal policies regarding large exposure:

> two or more customers who, unless proven otherwise, constitute a single risk because one of them, either directly or indirectly, has control over the other or others, or they constitute a single risk because of their close connection. The single risk implying that if one customer experiences financial problems, the other, or all of the others, would be likely to also suffer financial difficulties. Decisions on any related party lending issues shall always be reverted to the [Risk Committee]. For related parties the definition issued by the regulator and the IAS is used.

88. The Jóhannesson Related Parties clearly fell within the definition of a "group of connected clients" for purposes of the limits on large exposure set forth in the AFU, FME rules, and Glitnir policies, because Defendant Jóhannesson directly and indirectly controlled each of

them. The Jóhannesson Related Parties were also so interconnected that if one experienced financial problems the others "would be likely to encounter repayment difficulties." The facts are undeniable – none of the Jóhannesson Related Parties repaid the loans they took from Glitnir, and the collateral they offered – if any – was as worthless as the repayment obligations themselves.

89. Glitnir was obligated to report to the FME on a quarterly basis its "large exposures," *i.e.,* its exposure to any "client or a group of connected clients" which exceeded 10% of CAD.

B. Related Party Disclosure Obligations

90. In addition to its legal limits on large exposure and associated reporting obligations, Glitnir was required to provide the FME with a report on a semi-annual basis identifying Glitnir's "related parties." This reporting requirement was designed to protect Glitnir from being run for the secret benefit of parties related to the Bank.

91. In an August 2007 letter to Glitnir, the FME explicitly warned Glitnir about the potential for related party exposure to cause great harm to the Bank:

> The [FME] emphasizes how important it is that business between related parties and financial undertakings does not create suspicion and that the implementation and procedures in such business does not damage the credibility of the company in question. In this connection, the [FME] points also to comments by foreign parties such as ratings companies and investors about the Icelandic financial market recently, where concerns have been voiced about the limited ownership of Icelandic banks and their transactions with their largest owners and with related parties.

92. The FME Guidelines define "related parties" as follows:

> Related parties are parties whose relationship with the financial undertaking is of the nature that services provided to them or their related parties by the financial undertaking could raise questions concerning conflict of interest. In determining the identity of related parties it is important to take into account whether the parties in question could benefit from their position in any way

> beyond other customers of the financial undertaking, e.g., with regard to terms, renegotiation and balance.

According to the FME, related parties include, *inter alia*, "[s]hareholders owning, directly or indirectly, a 5% share or more in the financial undertaking or numbering among its ten largest shareholders."

93. The Jóhannesson Related Parties were clearly "related parties" to Glitnir under the FME definition. Baugur and FL Group directly or indirectly owned more than 5% of Glitnir's stock since Baugur held controlling stakes in FL Group and Jötunn, which together owned almost 40% of Glitnir's stock. FL Group itself owned more than 30% of Glitnir's shares. The remaining entities amongst the Jóhannesson Related Parties were also related parties since any transaction between Glitnir and these Jóhannesson Related Parties would have quite properly raised questions about whether Glitnir was serving its own interests or those of Baugur and FL Group.

C. Defendants Concealed Large and Related Party Exposure

94. For purposes of Glitnir's large exposure limits, and its large exposure and related party reporting obligations, the Jóhannesson Related Parties were all "related" and/or "connected" to Glitnir and should have been fully and honestly disclosed by Glitnir to the FME. They were not.

95. The truth is that Glitnir's exposure to the Jóhannesson Related Parties exceeded Iceland's legal limit of 25% of CAD equity by no later than June 30, 2007. By June 30, 2007, this exposure was at least 27.8 percent of Glitnir's CAD equity. By September 20, 2007, when the September MTN Offering was sold into the U.S. market, exposure to the Jóhannesson Related Parties was at least 56.4 percent of Glitnir's CAD equity. By December 31, 2007, exposure to the Jóhannesson Related Parties had risen to at least 62% of Glitnir's CAD equity.

96. At all times relevant to this Complaint, the Defendants knew at least three key facts. First, they knew how "large exposure" and "related party" exposure were defined since internal and external guidelines concerning proper accounting of individual and corporate "related parties" were available in multiple forms to Glitnir employees and officials.

97. Second, they should have known the identity of the Jóhannesson Related Parties and their relationship with Glitnir, since most of the Individual Defendants worked for both Glitnir and the Jóhannesson Related Parties, or were otherwise uniquely situated to know the truth.

98. Third, they should have known what the true large exposure and related party exposure were, and that figures disclosed concerning large and related exposure to the Jóhannesson Related Parties were not accurate.

99. Despite knowing the truth, the Individual Defendants, with the collaboration of Defendant PwC, caused Glitnir to fail to honestly disclose to the FME and to the investing public, particularly in the United States, its large and related party exposures to the Jóhannesson Related Parties.

100. The Defendants could not afford to honestly disclose Glitnir's related party exposure. The truth would have exposed the roles the Individual Defendants played in violating Icelandic law and its own internal policies; would have revealed that FL Group was not abiding by its January 2007 promise to the FME that it would not abuse its "qualifying holding" of Glitnir stock to its advantage; would have shut down Glitnir's access to the U.S. financial markets – access that Glitnir needed to fund the Jóhannesson Transactions; and would have exposed the hidden and dominant hand of Defendant Jóhannesson in the operation of one of Iceland's largest three banks. The Defendants could not let any of these things happen. So they

made false representations and intentionally omitted facts about Glitnir's true large and related party exposures, particularly in New York, where the Bank was then raising billions of dollars.

1. Defendants Concealed Glitnir's Large and Related Party Exposure from the FME

101. At the direction of the Individual Defendants, Glitnir failed to disclose to the FME its true large and related party exposures. The Individual Defendants and PwC also caused Glitnir to fail to report to the FME "without delay" that the Bank was in violation of the AFU Exposure Law and the FME Large Exposure Rules.

102. In 2007, Glitnir provided the FME with two sets of reports on related parties: One which purported to identify Glitnir's "related parties" on a semi-annual basis, and the other which purported to report Glitnir's "large exposures," *i.e.,* its exposure to any "client or a group of connected clients" which exceeded 10% of CAD on a quarterly basis (together, "Glitnir FME Exposure Reports").

103. The Glitnir FME Exposure Reports filed with the FME for the periods ending June 30, 2007, September 30, 2007 and December 31, 2007 were false because they failed to: a) identify all of the parties to whom Glitnir was directly or indirectly related, b) disclose the true dollar value of Glitnir's exposure to the related parties that Glitnir did disclose, and c) disclose that parties related to Glitnir were also connected to each other. The overall effect of these false Glitnir FME Exposure Reports is that the FME was not provided with the truth about the extent of Glitnir's large and related party exposures to the Jóhannesson Related Parties, as follows:

- The June 30, 2007 Large Exposure Report stated that Glitnir had exposure to Baugur and specific connected parties equal to 12.5% of CAD. This was inaccurate because the report failed to include the full list of Jóhannesson Related Parties to which Glitnir had exposure, all of which were related and/or connected to Baugur. Had Glitnir accurately reported its "large exposure" to the Jóhannesson Related Parties, it would have revealed that this exposure equaled 27.8% of CAD.

- The June 30, 2007 Related Party Report stated that Glitnir had exposure to Baugur, FL Group and Kjarrholmi. This report was inaccurate because it failed to include all of the Jóhannesson Related Parties to which it had exposure and which were related and/or connected to Glitnir. As a result, the Individual Defendants understated Glitnir's total exposure to related parties by ISK 12.3 billion (approximately USD $199,269,346). This report also failed to note that all of the Jóhannesson Related Parties were, in fact, connected, and that their exposure should have been aggregated for purposes of assessing Glitnir's exposure to related parties.

- The September 30, 2007 Large Exposure Report stated that Glitnir had exposure to Baugur, FL Group, Landic and other connected parties. This report was inaccurate, however, because it failed to a) disclose that Baugur, FL Group and Landic were all connected to each other and should be aggregated for purposes of calculating Large Exposure, and b) disclose all of the Jóhannesson Related Parties to whom Glitnir had exposure. Had Glitnir accurately reported its combined exposure to the Jóhannesson Related Parties, it would have revealed that this "large exposure" equaled 56.4% of CAD.

2. Defendants Concealed Glitnir's Related Party Exposure in Glitnir's June 30, 2007 Interim Financial Statements

104. The Individual Defendants, aided by Defendant PwC, caused Glitnir to prepare and issue to the investing public Interim Financial Statements for the period ended June 30, 2007 (the "Interim Financial Statements"), which concealed Glitnir's true exposure to related parties, *i.e.*, the Jóhannesson Related Parties.

105. The Interim Financial Statements contained a line for disclosure of the value of Glitnir's exposure to "related parties." According to the Interim Financial Statements, and the certification supplied by PwC, the Defendants prepared these financial statements in accordance with the International Accounting Standards ("IAS"), which provides its own definition of "related parties."

106. Under IAS 24, a party is related to an entity if the party "directly, or indirectly through one or more intermediaries ... controls ... or is under common control with, the entity (this includes parents, subsidiaries and fellow subsidiaries)." A party is also related to an entity

under IAS 24 if the party "has an interest in the entity that gives it significant influence over the entity" or "is a member of the key management personnel of the entity or its parent." Also included as a related party is any "close member of the family of any individual" who falls within the other definitions of a related party. Finally, a related party includes any entity "controlled, jointly controlled, significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly" by a member of key management and/or close family member of a related party. According to the FME, the substance of the relationship between the parties should control over the form of these relationships.

107. In 2007, the Jóhannesson Related Parties were clearly "related parties" under IAS 24. FL Group, with its "qualifying holding" of over 30% of Glitnir stock, and Baugur, through its controlling stake in FL Group and Jötunn (both direct shareholders of Glitnir), directly and indirectly, respectively, controlled Glitnir. This conclusion is supported by the Competition Authority Report.

108. Baugur, FL Group and Jötunn also exercised "significant influence" over the Bank, as evidenced by the numerous emails from Defendant Jóhannesson to Defendant Welding telling him how to run Glitnir. In this respect, Baugur and FL Group, through their leader, Defendant Jóhannesson, were functioning as "key management" at Glitnir. Since Defendant Jóhannesson functioned as a "member of key management" at Glitnir, the Jóhannesson Related Parties are all properly considered "related parties."

109. Finally, Defendant Pálmadóttir, as Defendant Jóhannesson's wife, functioned as his alter ego. The entities which she controlled were controlled by a "close family member" of an otherwise related party, Defendant Jóhannesson. In fact, contemporaneous emails confirm

that Defendant Jóhannesson acted directly on behalf of Defendant Pálmadóttir's controlled entities.

110. The Interim Financial Statements, like the Glitnir FME Exposure Reports, substantially underreported Glitnir's related party exposure by ISK 48 billion (approximately USD $777,636,471), or 77 percent. Missing from the calculation of related party exposure was any reference to the sums owed to Glitnir by the following Jóhannesson Related Parties: Baugur (and its subsidiary, Landic), which owed ISK 32 billion (approximately USD $518,424,314); Kjarrholmi, which owed ISK 12.7 billion (approximately USD $205,749,650); and other subsidiaries of FL Group, which owed ISK 3 billion (approximately USD $48,602,279). If the Defendants had disclosed the true related party exposure, they would have revealed that Glitnir's true exposure on June 30, 2007 was 27.8 percent of Glitnir's then CAD equity as per the Interim Financial Statements, which put the Bank in clear violation of Icelandic law and Glitnir's own rules.

V. The September MTN Offering

111. Glitnir's failure to issue accurate Interim Financial Statements, troubling in its own right, was even more egregious because the false Interim Financial Statements were used shortly after to support the successful September MTN Offering which raised USD $1 billion from U.S. investors.

112. The September MTN Offering was part of a USD $5 billion 144A Program through which Glitnir sold MTNs in the United States ("MTN Program"). From October 2006 until September 2007, Glitnir issued and sold in New York USD $3.25 billion worth of medium-term notes pursuant to the MTN Program: USD $500 million in November 2006, USD $1.25 billion in January 2007, USD $500 million in April 2007 and USD $1 billion in September 2007, *i.e.*, the September MTN Offering.

A. Overview of Glitnir's MTN Program

113. Glitnir, like many foreign banking institutions – pre-financial crisis – took advantage of the relaxed provisions of Section 144A of the Securities Act to raise capital in U.S. markets. Rule 144A is the principal safe harbor (from typical registration requirements of the Securities Act of 1933) on which non-U.S. companies rely when accessing the U.S. capital markets. The rule was designed to develop a more liquid and efficient institutional resale market for unregistered securities. The rule allows private companies, both domestic and international, to engage in certain private resales of unregistered securities, also known as Rule 144 securities, to qualified institutional buyers ("QIBs") through a broker-dealer. The rule also permits QIBs to buy and sell these securities among themselves.

114. Glitnir's MTN Program was authorized by Glitnir's Board of Directors at a meeting on February 13, 2006:

> Ármannsson presented a memo from funding where it was proposed that the bank establish and maintain a USD $5 billion MTN programme. The proposal emphasi[zed] that the U.S. market had now become the second biggest investor base for the bank and there was a great need in diversifying on the funding side. The programme when established, would enable the bank to issue bonds under SEC rule 144a to institutional investors. Estimated annual issuing in relating to the programme would be around USD 200,000 and annually cost would be around USD 125,000 to 150,000.

115. Glitnir staff were responsible for pulling together all of the information necessary to prepare the offering circulars and materials accompanying each tranche of notes for the MTN Program. Glitnir executives, including Defendant Welding, frequently traveled to New York City and elsewhere in the United States to participate in road shows, and frequently took part in due diligence and sales calls with New York-based investors and analysts related to the MTN Program.

B. Glitnir Concealed Its Related Party Exposure in Connection with the September MTN Offering

116. The Defendants had an obligation to disclose the truth about Glitnir's related party exposure to Glitnir's potential investors. Having issued financial statements, they had an obligation to ensure that they were not false and did not omit material facts. The Defendants did not meet this obligation.

117. The Individual Defendants knew that the September MTN Offering would not succeed if they revealed the truth about Glitnir's true exposure to the Jóhannesson Related Parties – and the proceeds of the September MTN Offering were needed to maintain the torrid pace of improper loans and equity transactions between Glitnir and the Jóhannesson Related Parties, which eventually permitted the Individual Defendants to siphon two billion dollars out of Glitnir. The Defendants elected not to disclose the truth.

118. The truth about Glitnir's related party exposure was clearly relevant to potential investors in the September MTN Offering in the United States. During road shows in the United States, and on telephone calls among Glitnir officials, including Defendant Welding, potential investors frequently raised concerns about Glitnir's related party exposure. Similar questions had been raised by analysts at financial institutions who were evaluating Glitnir.

119. Notwithstanding the clear availability and relevance of related party exposure data to Glitnir's potential investors, the financial statements accompanying the September MTN Offering woefully understated related party exposure. The September MTN Offering relied on the Interim Financial Statements, claiming that Glitnir's related party exposure was equal to ISK 17.5 billion (approximately USD $283,513,297), or 7.8% of Glitnir's then CAD equity.

120. As previously noted, the related party disclosures in the Interim Financial Statements were false. Glitnir's actual related party exposure as of June 30, 2007 had been ISK

62.1 billion (approximately USD $1,006,067,185) or 27.84 percent of CAD. By September 30, 2007, Glitnir's exposure to the Jóhannesson Related Parties was ISK 121.2 billion (approximately USD $1,963,532,090) or 56.4 percent of Glitnir's CAD equity.

C. Defendant PwC's Role in the September MTN Offering

121. The Individual Defendants could not have issued false financial statements in connection with the September MTN Offering without Defendant PwC offering knowing support for the fabrication of Glitnir's disclosures regarding related party exposure.

122. Under Iceland's Act on Auditors, in effect during the time period relevant to this Complaint, the duties of an Icelandic auditor included:

- being "a person with the expertise to give an impartial and reliable opinion of accounting and other financial reporting for use in business, whom the Minister has certified to carry out auditing work";
- carrying out his or her duties "diligently and conscientiously in all respects and comply with the provisions of laws and rules applicable to their work";
- endorsing that "accounts have been audited by the auditor in accordance with good auditing practice and that the accounts provide, in the auditor's estimation, a true and fair picture of the situation" and performance of the party in accordance with good accounting practice.

123. Moreover, the Act on Auditors specifically provided that an Auditor can be held liable for financial damage from "negligence in work by the auditor or his/her employees." Based on the foregoing, defendant PwC had a clear obligation under Icelandic law to disclose the truth about Glitnir's related party exposure.

124. Defendant PwC did not live up to its obligations to Glitnir in connection with the disclosure of related and connected party exposure.

125. Defendant PwC knew the true amount of Glitnir's related party exposure.

126. Defendant PwC had a long history of familiarity with Glitnir's financial condition in general, and related party exposure, in particular. Defendant PwC was Glitnir's outside auditor and, as part of this function, audited Glitnir's related party exposure disclosures for purposes of Glitnir's 2006 year-end financial statements. According to Defendant PwC, the "aim of the audit was among other things to gather auditing information on the bank's definition of related parties and whether information in the annual accounts were according to laws and accounting rules, among other things according to [IAS 24]."

127. Defendant PwC was specifically retained in April 2007 to provide a report to the FME, as required by the AFU, "to review provisions to related parties and compare with analogous terms for other customers. The purpose is to ascertain whether terms for related parties are according to the arm's length principle." Defendant PwC responded with a report dated April 26, 2007 ("PwC Related Party Report").

128. In July 2007, Defendant PwC reviewed Glitnir's June 30, 2007 Interim Financial Statement, which included related party disclosures. Defendant PwC's review was supposed to have been conducted according to the International Standard for Review Engagements ("ISRE") which provides, in pertinent part, that an auditor:

- ordinarily reads the minutes of meetings of "those charged with governance, and other appropriate committees to identify matters that may affect the interim financial information, and inquiring about matters dealt with at meetings for which minutes are not available that may affect the interim financial statements."

- ordinarily inquires of members of management "responsible for financial and accounting matters, and other as appropriate about ... whether related party transactions have been appropriately accounted for and disclosed in the interim financial statements."

- "may obtain evidence that the interim financial information agrees or reconciles with the underlying accounting records by tracing the interim

financial information to: the accounting records ... and other supporting data in the entity's records as necessary."

- should determine whether related party transactions have been appropriately accounted for and disclosed in the interim financial information.

129. When Defendant PwC reviewed the Interim Financial Statements as required under ISRE, it read the July 2007 Minutes of the Meeting of the Board of Directors, which included a schedule of Glitnir's related parties far more inclusive (if nonetheless still inaccurate) than what was disclosed in the Interim Financial Statements, what was disclosed in the September MTN Offering, and what had been filed by Glitnir with the FME. At a minimum, this schedule required Defendant PwC to inquire of management and review underlying accounting records, which would have revealed that Glitnir was concealing the true scope of its exposure to the Jóhannesson Related Parties. Defendant PwC knew that the Interim Financial Statements as they pertained to the required related party disclosures were materially false.

130. In September 2007, before the September MTN Offering, Defendant PwC received specific notice that accurate reporting regarding related parties was viewed as extremely important by the FME. In August 2007, Defendant PwC received a letter from the FME which criticized the PwC Related Party Report for failing to include "an argued opinion" analyzing the "terms, renegotiations and balance" of related party transactions ("FME Related Party Letter"). The FME Related Party Letter took the opportunity to "emphasize how important it is that business between related parties and financial undertakings does not create suspicion and that the implementation and procedures in such business does not damage the credibility of the company in question." The FME also noted the fact that ratings agencies and foreign investors had recently raised concerns "about the limited ownership of Icelandic banks and their transactions with their largest owners and with related parties." The FME ordered PwC to file an "improved

report" by September 14, 2007. Defendant PwC did not file the "improved report" before the September MTN Offering was issued.

131. PwC also knew that Glitnir's exposure to its largest shareholder, FL Group, had changed dramatically in the weeks leading up to the September MTN Offering. The circular and materials accompanying the September MTN Offering upon which PwC signed off specifically indicated that Glitnir had purchased a large interest in a major Icelandic insurance company, only to sell this interest to FL Group in exchange for FL Group stock. Glitnir also financed FL Group's purchase of the rest of the shares of the insurance company. This transaction dramatically increased Glitnir's exposure to FL Group, and should have prompted a very close review by PwC of the full scope of Glitnir's exposure to FL Group and the other Jóhannesson Related Parties. It did not.

132. Notwithstanding all of the foregoing, on or about September 20, 2007, Defendant PwC signed a "Comfort Letter" in connection with the September MTN Offering which incorporated the Interim Financial Statements. Defendant PwC expressly noted that the Comfort Letter was "intended for use within the United States in connection with the offer and sale of securities."

133. Defendant PwC knew when it signed the Comfort Letter that the financial statements accompanying the September MTN Offering were materially false. In connection with the preparation of the Comfort letter, Defendant PwC claimed to have:

> read the 2007 minutes of the meetings of the shareholders, the Board of Directors, audit committee and compensation committee of the Company and its subsidiaries as set forth in minute books as of September 10, 2007 officials of the Company having advised us that the minutes of all such meetings through that date were set forth therein and have carried out other procedures to September 10, 2007 ... .

134. Moreover, with respect to the period from July 1, 2007 to July 31, 2007, Defendant PWC claimed to have:

(i) read the unaudited consolidated financial data of the Company for July of both 2007 and 2006, furnished us by the Company; and

(ii) inquired of certain officials of the Company who have responsibility for financial and accounting matters about whether the unaudited financial data referred to, above, were stated on a basis substantially consistent with that of the audited financial statements included in the Offering Circular.

135. In its September 20, 2007 Comfort Letter, Defendant PwC stated:

> We have audited, in accordance with the International Standards on Auditing, the consolidated financial statements of Glitnir banki hf. (the "Company") and its consolidated subsidiaries (together with the Company, the "Group") as of December 31, 2006 and for the year then ended, which have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS").
>
> With respect to the six month-periods ended June 30, 2007 and 2006, we have performed the procedures (completed on July 31, 2007) specified by the International Auditing and Assurance Standards Board for a review of interim financial information as described in International Standard on Review Engagements No. 2410, A Review of Interim Financial Information Performed by the Independent Auditor of the Entity, on the unaudited condensed consolidated balance sheet as of June 30, 2007 and the unaudited condensed consolidated statements of income, of cash flows and changes in equity for the six-month periods ended June 30, 2007 and 2006 included in the Offering Circular.

136. The ISRE No. 2410 required PwC to perform this review "with an attitude of professional skepticism." This Standard required PwC to make a critical assessment, with a questioning mind, of the validity of evidence obtained and which is alert to evidence that contradicts or brings into question the reliability of documents or representations by management of the entity.

137. Sigurður B. Arnthórsson ("Arnthórsson") was the primary individual at PwC responsible for PwC's external audit work for Glitnir. Arnthórsson was actively engaged in both

the related party examination that occurred from April through September 2007, as well as the preparation of the April and September 2007 Rule 144A bond offerings. Arnthórsson signed the PwC Related Party Report on behalf of PwC and submitted it to the FME. Arnthórsson also executed both the U.S. and non-U.S. PwC comfort letters supporting Glitnir's April and September 2007 Rule 144A bond offerings.

138. Defendant PwC failed to ensure that Glitnir's Interim Financial Statements and the financial statements used in support of the September MTN Offering were accurate despite: a) PwC's clear obligations under Icelandic law to engage in its profession with the highest standards of care, b) PwC's broad duties of inquiry and investigation when it reviewed Glitnir's Interim Financial Statements, c) PwC's familiarity with FME's related party disclosure procedures gleaned during its 2006 year-end audit, and its preparation of the April 2007 PwC Related Party Report, d) PwC's heightened awareness of the importance of honest disclosure of related party data due to receipt of the highly critical FME Related Party Letter, e) PwC's knowledge of FL Group's acquisition of the insurance company which dramatically increased Glitnir's financial exposure to FL Group and the Jóhannesson Related Parties, and f) the continuity of Arnthórsson's role as the senior level PwC auditor involved in reporting on Glitnir's related party exposure issues.

139. Instead, Defendant PwC wrote in its September 2007 Comfort Letter, that "nothing came to our attention as a result of the foregoing procedures, however, that caused us to believe that ... any modification should be made to the [Interim Financial Statements] for them to be in conformity with IFRS." This statement was false. Defendant PwC's role in the conspiracy alleged in this Complaint was critical to the success of the September MTN Offering,

which, in turn, permitted the Individual Defendants to fund the Jóhannesson Transactions. PwC's failure to perform its duties cost Glitnir at least USD $1 billion.

D. The September MTN Offering Funded Defendant's Related Party Transactions

140. The September MTN Offering, structured on the back of inaccurate financial statements, was a success. Glitnir raised USD $1 billion.

141. But rather than utilize the proceeds of the September MTN Offering for "general corporate purposes," as represented in the Offering Circular, and to prudently manage the Bank through the global credit crunch which struck Iceland in the late summer of 2007, the funds were siphoned out of the Bank to the Jóhannesson Related Parties using a series of particularly egregious Jóhannesson Transactions which were entered into between April and December 2007.

142. The Individual Defendants could not have succeeded in their conspiracy to loot Glitnir if the September MTN Offering had failed. If the Individual Defendants had gone forward with the Jóhannesson Transactions without access to the proceeds of the September MTN Offering, Glitnir would have been in breach of its internal liquidity requirements no later than December 2007.

VI. The Jóhannesson Transactions

A. The Jóhannesson Transactions Made No Economic Sense for Glitnir

143. In addition to the Jóhannesson Loans, the Individual Defendants, acting at the direction of Defendant Jóhannesson, engaged in a series of particularly egregious equity transactions between April and December 2007. Each of these transactions was a) directed from behind the scenes by Defendant Jóhannesson, b) designed to benefit one or more of the Jóhannesson Related Parties without regard for the impact on Glitnir, or its creditors, c) resulted in Glitnir taking on very substantial risk secured by collateral of little, no or artificially inflated

value, d) resulted in Glitnir increasing its financial exposure to the Jóhannesson Related Parties despite the use of complex stock "parking" transactions designed to create the appearance that they had no impact on related party exposure, and e) marked by a series of "clean up" transactions which confirmed that the complex structures implemented to mask the true purpose of the Jóhannesson Transactions lacked economic meaning. Each of these transactions ultimately failed causing Glitnir losses in excess of USD $2 billion.

144. None of these Jóhannesson Transactions made any economic sense to Glitnir for at least the following four reasons, and would not likely have been entered into if it were not for the fact that Defendant Jóhannesson controlled the Bank and personally benefited from these transactions.

145. First, by August 2007, the Individual Defendants had squandered much of Glitnir's available cash reserves by lending the Jóhannesson Borrowing Related Parties massive amounts of money over the months since April 2007 when Defendant Jóhannesson gained control over the Bank. In the months leading up to the April 2007 takeover, Glitnir's six month liquidity forecasts indicated that Glitnir's funds would be sufficient to cover or exceed all anticipated liabilities. In sharp contrast, by August 21, 2007, Glitnir estimated a USD $2 billion shortfall in six months; by September 21, 2007, Glitnir estimated a funding shortfall of USD $988 million within six months even with the proceeds of the September MTN Offering. Glitnir's liquidity crisis only continued to erode in November and December 2007. Under these circumstances, Glitnir's interests were not served by squandering more of its scarce cash on the Jóhannesson Related Parties.

146. Second, Glitnir found itself in the midst of a worldwide credit crunch, which hit Iceland in the summer of 2007. Glitnir's need to manage cash and decrease lending was

paramount and widely recognized, but widely ignored when it came to lending to, and engaging in transactions with, the Jóhannesson Related Parties. Ironically, a key participant in these schemes, Defendant Welding, acknowledged the need for conservative stewardship in an August 20, 2007 email to Glitnir's Executive Vice Presidents which he co-authored with Glitnir's Chief Financial Officer:

> For the past few weeks we have had very unusual turbulence in the global financial markets, and we expect the situation to remain uncertain for some time. The cause of this has been the emergence of the problems that became apparent in the spring with the U.S. real estate market. Those problems have now spilled over to global credit markets with a high degree of uncertainty about what will happen and how long situation will last. The effects on us are that the access to the bond market is very uncertain and if we could access the market now we would have to pay much higher price than is sustainable for Glitnir. As a result of good activities on the lending side we enjoy a healthy pipeline of deals about 1,3 bn EUR that we will pay out in the next coming months, but right now we will have to be careful adding to that pipeline.
>
> It is crucial for us to be able to show a strong liquidity position in short (0-1 m) medium (2-6 m) and long term (7-12m). It is clear that in times like these "Cash is King". Therefore we will preserve our liquidity as much as possible by: limiting inflow of new deals, increasing deposits and by being creative about funding of new deals. We will obviously also follow the market closely to see when they will be open to raise money. You will have to help on the lending side by:
>
> - Postponing the deals that can be postponed
> - Revisit (increasing) pricing for bigger transactions and
> - Not quote borderline transactions.
>
> You will need to get this message across to the people in your units so that we are in line and working together on this but it is also crucially to keep up moral of the people facing the clients. Everybody should also note that most banks across the world are taking similar measures. Rest assure we will sail through this quite calmly as the markets stabilize. We are in a good position, but we will have to work together to maintain that position while this uncertainty lasts.

147. As we now know, the global credit crisis continued without abatement, and even worsened, throughout the balance of 2007.

148. Third, the Jóhannesson Transactions were imposed on the Bank from the top down. As a result, these transactions were not subjected to the rigorous credit review process, which applied to loans moving through normal Bank channels. Even the historically independent Risk Committee, now run by Defendant Welding, was marginalized with deals being conducted routinely between meetings with little or no documentation and dissension vigorously discouraged. Another result of the fact that the Individual Defendants were imposing funding obligations on the Bank was that the Glitnir personnel responsible for managing the Bank's cash flow could not adequately track these lending and other commitments. Given the size of the Jóhannesson Transactions, this was a recipe for disaster. In complete derogation of Defendant Welding's August 20, 2007 email, and at the direction of the Individual Defendants, Glitnir was taking on financial exposure that placed the Bank in great jeopardy and was failing to anticipate its actual cash needs. Both facts contributed to the collapse of Glitnir in 2008.

149. Finally, the Jóhannesson Transactions entered into in the fall of 2007 served the purposes of only one constituency – Defendant Jóhannesson and his cohorts. These transactions did not serve the purposes of the Bank's other shareholders or creditors. As discussed in more detail below, the Jóhannesson Transactions frequently involved exposure to related parties who typically had terrible credit ratings (because they were special purpose vehicles set up for the Jóhannesson Transactions). Moreover, to effect the Jóhannesson Transactions, shares of both the Jóhannesson Related Parties and Glitnir were used as collateral, thereby using Bank resources to essentially manipulate the value of the publicly traded shares of the Jóhannesson Related Parties, and structuring the Jóhannesson Transactions to mask their true beneficiaries and their impact on the Bank's related party exposure – further amplifying the degree of risk these transactions

presented to the Bank. The Jóhannesson Transactions were flawed in many other very specific ways.

150. As fully discussed herein, a total of at least USD $2 billion in transfers associated with the Jóhannesson Transactions (collectively, the "Fraudulent Transfers") were ultimately made to or for the benefit of Individual Defendants within the six years prior to their reasonable discovery and thus are avoidable and recoverable under applicable provisions of New York Debtor & Creditor Law §§ 273-279. None of these transfers provided value to Glitnir. Instead, they were all done solely for the benefit of the Jóhannesson Related Parties.

B. The Jóhannesson Transactions - The TM Transactions

151. In the TM Transactions, the Individual Defendants caused Glitnir to fund FL Group's acquisition of Iceland's then third-largest insurance company, TM, taking as collateral for this funding the shares of FL Group itself. Knowing that the TM Transactions caused a massive increase in Glitnir's already substantial financial exposure to FL Group, the Individual Defendants concocted a scheme to conceal Glitnir's ballooning related party exposure.

152. Glitnir issued public statements asserting that it planned to sell the newly acquired FL Group shares to unrelated investors. In fact, because there were no institutional investors who would have been interested, Glitnir intended to "sell" the FL Group shares to other Jóhannesson Related Parties in exchange for shares of these other Jóhannesson Related Parties.

153. Thus, the Defendants engaged in a shell game which permitted them to shift Glitnir's inflated related party exposure from one related party to another without revealing the truth to the public. The TM Transactions made no economic sense for Glitnir, and when FL Group and the other Jóhannesson Related Parties predictably failed, Glitnir was left with losses arising from unpaid loans and worthless stock collateral of ISK 25.75 billion (approximately USD $417,169,565).

154. The TM Transactions occurred in five stages.

155. First, Glitnir loaned funds to Kjarrholmi ehf ("Kjarrholmi"), a subsidiary of FL Group, to fund Kjarrholmi's purchase of a 38% interest in TM. Kjarrholmi planned to acquire TM shares worth a total of ISK 15.665 billion (or approximately USD $253,784,903). The purchase was to be funded by paying 20% of the purchase price using the equity of Kjarrholmi and the balance with the proceeds of the Glitnir loan. The loan, when it was approved, was to be secured by the TM shares Kjarrholmi purchased. In addition, a guarantee for part of the loan, ISK 1.563 billion (approximately USD $25,313,687), was provided by Kjarrholmi's shareholders. On April 1, 2007, Glitnir and Kjarrholmi signed a credit facility agreement for the loan of ISK 12.5 billion (approximately USD $202,509,498) (the "Kjarrholmi Loan"). Kjarrholmi's shareholders, including FL Group, Sólstafir (an entity owned by Defendant Jónsson) and other entities signed as guarantors for the ISK 1.563 billion (approximately USD $25,313,687) balance.

156. Second, in September 2007, FL Group bought out the other Kjarrholmi shareholders, including Sólstafir. Glitnir funded FL Group's purchase of these Kjarrholmi shares in a typically circuitous manner. Specifically, FL Group loaned money to Kjarrholmi's minority shareholders, so that they could "buy" FL Group shares from FL Group. FL Group used the funds it was paid through the sale of its own stock to pay the minority shareholders for their interest in Kjarrholmi. This mechanism permitted Glitnir to essentially lend money to FL Group without visibly increasing Glitnir's exposure to FL Group – although that is precisely the end result of this funding mechanism. In addition, FL Group's assumption of the entire Kjarrholmi Loan increased Glitnir's reported exposure to FL Group from ISK 9.807 billion (approximately USD $158,880,852) to ISK 23.017 billion (or approximately USD $372,892,889). In October

2007, when FL Group could not pay Glitnir USD $10.2 million in interest due on the Kjarrholmi Loan, Glitnir's Risk Committee amended the terms of the Kjarrholmi Loan to roll this interest into unpaid principal.

157. Third, on September 5, 2007, Glitnir purchased 39.8% of TM's publicly traded shares. The TM shares were valued at ISK 46.5 (approximately USD $0.75) each and the full stake at approximately ISK 20 billion (approximately USD $324,015,196). The sellers, which included Kristinn ehf, were issued approximately ISK 8 billion (approximately USD $129,606,079) in Glitnir stock, with the balance paid in cash. Notably, Glitnir's investment decision was taken without any input from the Board of Directors, Risk Committee or Investment Board. The Board of Directors was never consulted.

158. The Risk Committee was first told about the transaction over a week after it had been consummated. The Glitnir Investment Board was not asked to approve of the transaction until six weeks later, on October 15, 2007.

159. Fourth, Glitnir sold its TM shares to FL Group in exchange for FL Group shares. There had been some initial discussions between Defendants Jóhannesson and Welding about the possibility that Defendant Pálmadóttir, Defendant Jóhannesson's wife and alter ego, might use 101 Capital to purchase 8% of the TM shares from Glitnir. Ultimately the decision was made to sell the TM stock to FL Group and then resell the FL Group stock to 101 Capital and other Jóhannesson Related Parties.

160. Finally, the Individual Defendants, knowing that they had to reduce their very visible exposure to Glitnir's largest shareholder, FL Group, created the appearance that this exposure was reduced through the transfer of the FL Group shares to other Jóhannesson Related Parties through sales or forward contracts. This was pure fiction. Glitnir loaned three of the four

Jóhannesson Related Parties – Oddaflug, 101 Capital, and Sólmon – the funds they needed to purchase these FL Group shares and took back the FL Group shares as collateral for the loans.

161. These fraudulent loans were issued with the full complicity of the owners of these three Jóhannesson Related Parties - Defendant Smárason, the FL Group CEO from 2005 through 2007, owned Oddaflug; Defendant Pálmadóttir, who was Defendant Jóhannesson's wife, partner and alter ego, owned 101 Capital; and Jónsson owned a controlling stake of Sólmon. Each of these Defendants was a knowing participant in the scheme underlying the TM Transactions.

162. These transactions were pure shams. The Individual Defendants simply parked the FL Group shares with other Jóhannesson Related Parties. There was no beneficial change in Glitnir's actual financial exposure to the Jóhannesson Related Parties; in fact, only the names of the related parties were changed to mask the fact that Glitnir's exposure to FL Group – already well above legal limits – had surged dramatically. Not surprisingly, everything Glitnir did in connection with the loan packages issued to Oddaflug, 101 Capital and Sólmon reinforced the fact that the their commitments to buy FL Group shares from Glitnir had no economic meaning:

- On September 16, 2007, Defendant Welding obtained the support of one other Risk Committee member and treated the loan packages as though they were being considered "between Risk Committee meetings" when, in fact, the full Risk Committee had convened earlier this same evening;

- In October 2007, the Risk Committee granted amendments to the loan packages extended to 101 Capital, Sólmon, and Oddaflug without conducting any risk assessment for the borrowers in violation of Glitnir policies;

- On December 7, 2007, when Oddaflug needed to reduce its exposure to FL Group shares, Glitnir loaned Fons (owned by Defendant Haraldsson) funds to purchase Oddaflug's FL Group stock;

- The forward contract that 101 Capital entered into to acquire a portion of Glitnir's FL Group stock was rolled over on ten occasions before Glitnir collapsed in September 2008;

- The forward contract that BG Capital entered into to acquire a portion of Glitnir's FL Group stock was rolled forward on eleven occasions before the collapse of the Bank; and

- In December 2007, Glitnir loaned Fons funds sufficient to acquire the forward contract that Sólmon had entered into with Glitnir to acquire a portion of Glitnir's FL Group shares.

163. There is no scenario under which the TM Transactions actually served the interests of Glitnir, its non-insider shareholders or its creditors. The essence of the five TM Transactions is that Glitnir substituted more than ISK 20 billion (approximately USD $324,015,196) held in its cash reserves for FL Group shares, and FL Group obtained 100% ownership of TM, an undeniably valuable asset. FL Group never had to actually paid Glitnir back for the cash it received and, of course, FL Group eventually filed for bankruptcy protection in Iceland. The TM Transactions were a classic example of the Individual Defendants abusing their control of Glitnir to advance their personal interests at the immediate expense of the Bank, its other shareholders and its creditors.

164. As a result of the TM Transactions, Glitnir incurred losses of approximately ISK 25.75 billion (approximately USD $417,169,565).

C. The Jóhannesson Transactions - The Project Para Transactions

165. In August 2007, Defendant Jóhannesson caused Glitnir to fund Landic's purchase of a Denmark property group, Keops A/S (the "Keops Acquisition" and the "Keops Funding"). The transaction, referred to internally at Glitnir as "Project Para," should not have been possible. Glitnir's financial exposure to Landic, its parent company, Baugur, and the other Jóhannesson Related Parties was already well above legal limits.

166. The Project Para Transaction was designed to circumvent these legal limits by having 101 Capital, the Jóhannesson Related Party owned by Defendant Jóhannesson's wife and

alter ego, Defendant Pálmadóttir, buy 19% of Landic's shares from Baugur, so that Baugur and Landic might be viewed by the Defendants as not "related." To facilitate the deal, Glitnir loaned 101 Capital ISK 5 billion (approximately USD $81,003,799) to buy the Landic shares, taking the newly acquired Landic shares as collateral for the loan. Glitnir also loaned Landic ISK 7 billion (approximately USD $113,405,319) and Baugur ISK 4.8 billion (approximately USD $77,763,647) as part of the Keops Acquisition.

167. The Project Para Transaction was fundamentally flawed. Notwithstanding its machinations, the Project Para Transaction only served to increase Glitnir's exposure to the Jóhannesson Related Parties since the Defendants merely substituted a financial exposure to one Jóhannesson Related Party for increased financial exposure to another. That the Project Para Transaction was not legal should have been apparent to all involved since Landic's financial statements identified all three entities – Baugur, 101 Capital and Landic – as related.

168. Baugur, acting at the direction of Defendant Jóhannesson and with full support from Glitnir, essentially parked its Landic shares with 101 Capital. The transaction had no economic meaning, and was just an accommodation to Defendant Jóhannesson, as evidenced by events which occurred after Glitnir completed its loan to 101 Capital:

- By early November 2007, Glitnir personnel contacted Defendant Pálmadóttir to advise her that 101 Capital was in default on the 101 Capital loan and owed ISK 800 million (approximately USD $12,960,608) on a margin call. Defendant Jóhannesson intervened, scolding Defendant Welding that "people who get e-mail like this get cold feet when you tell them its best to use Glitnir's private banking service."

- In early 2008, Defendant Pálmadóttir requested an extension of 101 Capital's due date on an ISK 200 million (approximately USD $3,240,152) interest payment. Glitnir personnel declined the request, noting that 101 Capital already had a forward contract with Glitnir with a loss of ISK 2.6 billion (approximately USD $42,121,976) outstanding and demanding that Defendant Pálmadóttir pay ISK 89 million (approximately USD $1,441,868) and Euro 1.3 million (USD $1.8 million) which were

due on 101 Capital's loans. Defendant Jóhannesson intervened and ordered Defendant Welding to stop Glitnir's collection actions: "I'm coming home Wednesday put the brake on this [Glitnir employee] til then."

- On February 20, 2008, Defendant Jóhannesson paid interest which was due on the 101 Capital Loan of ISK 223.6 million (approximately USD $3,622,490) using a personal overdraft facility he had at Glitnir.

169. Not surprisingly, Defendants Jóhannesson and Welding played an active role in the Project Para Transaction from its inception. For example, on July 22, 2007, Defendant Welding informed Defendant Jóhannesson that "the issue is that [101 Capital] buy the 19% holding in Landic Property with financing from us important that this is done as soon as possible." Defendant Jóhannesson responded by criticizing Defendant Welding for taking too long to deal with this issue and telling Defendant Welding that, essentially, he had dealt with the matter already: "Waiting for Bjarni Jo and Term sheet you take far too long."

D. The Jóhannesson Transactions - The Stim Transactions

170. In November and December 2007, the Individual Defendants engaged in a scheme whereby Stim ehf ("Stim" and the "Stim Transactions"), a company created, owned in part and largely funded by Glitnir: a) "bought" 4.9 percent of all outstanding shares of both FL Group and Glitnir **from** Glitnir in an effort to reduce Glitnir's illegal positions in both stocks, and b) bought another 49.4 million shares of FL Group stock through a FL Group private placement.

171. Glitnir loaned to Stim and its shareholders the funds needed to close both of these transactions. In early 2008, the Individual Defendants "reparked" these Glitnir and FL Group shares in four smaller companies, all funded by loans from Glitnir, which the Individual Defendants pushed through the Bank. Just four months later, the Stim deal collapsed costing Glitnir over ISK 23.775 billion (approximately USD $385,173,065) in losses.

172. The Stim Transactions unfolded in five stages.

173. First, Stim was created by Glitnir with five shareholders: Vestfirðingar (32.5%), Saga Capital (15%), SPV fjárfestingar (10%), BLÓ ehf (10 percent) and an entity created and owned by Glitnir, STM ehf ("STM"), which acquired a 32.5% interest in Stim.

174. Second, Glitnir loaned or otherwise provided Stim's shareholders a total of approximately ISK 23.05 billion (approximately USD $373,427,514) to fund their investments in Stim and Stim's purchase of FL Group and Glitnir shares then held by Glitnir. To make this happen, Glitnir loaned: (i) ISK 19.6 billion (approximately USD $317,534,892) directly to STM, (ii) ISK 300 million (approximately USD $4,860,228) through an intermediary to Saga Capital, and (iii) ISK 2.5 billion (approximately USD $40,501,900) to FS38, a subsidiary of Fons owned and/or controlled by Defendant Haraldsson. Glitnir also provided STM with ISK 650 million (approximately USD $10,530,494) to fund its investment in Stim. Glitnir's collateral on these loans consisted of the FL Group and Glitnir shares that Stim was buying from Glitnir. As a result, the Stim Transactions actually increased Glitnir's exposure to FL Group and its own shares.

175. Third, Stim paid Glitnir ISK 8.4 billion (approximately USD $136,086,382) for 380 million FL Group shares and ISK 16.3 billion (approximately USD $264,072,385) for 640 million Glitnir shares using funds Glitnir had "loaned" Stim's investors.

176. Fourth, in December 2007, Stim "bought" an additional 49.4 million FL Group shares for ISK 725 million (approximately USD $11,745,551) through a FL Group private placement offering – even though Stim lacked funds to actually complete this purchase. On the day that payment was due, the Individual Defendants rushed an ISK 725 million (approximately USD $11,745,551) loan through the Bank for Stim. Defendant Welding, at the direction of Defendant Jóhannesson, actively supported these Stim Transactions.

177. Finally, in March 2008, in an effort to hide from regulators the mounting losses caused by the Stim Transactions, the Individual Defendants "reparked" the FL Group and Glitnir shares Stim had "bought" from Glitnir. The Defendants engineered a transfer of Stim's FL Group and Glitnir stock to four smaller companies. With the urging of Defendant Welding, Glitnir loaned all four companies the funds they needed to buy Stim's shares. On April 8, 2008, in a telling admission about the real motivation for this "reparking" transaction, Glitnir's then CFO Torfason sent an email to Defendant Welding in which he confirmed that Stim had been broken down into smaller companies, so that Stim "would be left off the large exposure list and the shareholders list" which Glitnir provided to the FME.

178. Clearly, the Stim Transactions served many useful roles for the Individual Defendants. However, they made no economic sense for Glitnir for, *inter alia*, the following reasons.

179. First, the Stim Transactions masked, but did not reduce, Glitnir's illegal exposure to FL Group's stock and the Bank's own shares. In fact, Glitnir's exposure to FL Group's and its own shares only increased.

180. By transferring these shares from Glitnir's accounts to a company which was created, owned, controlled and funded by Glitnir, Glitnir's exposure to the risk of holding too many of its own shares or those of a related party like FL Group, was not reduced at all. It was simply shifted from Glitnir's left pocket to its right pocket.

181. Second, the Stim Transactions were pushed through Glitnir by the Individual Defendants without regard for Glitnir's historical risk assessment process. For example, none of these loans was presented to the Risk Committee during a scheduled meeting. Instead, Defendant Welding personally approved each of the loans pursuant to inter-meeting loan

proposal review procedures.

182. Similarly, dissension in the ranks of the Risk Committee was not tolerated; members who objected were either ignored or bulldozed over. For example, Erlendur Magnusson, a member of the Risk Committee, objected to the ISK 725 million (approximately USD $11,745,551) loan, noting that "without direct support from the shareholders [Stim] is likely to default on its obligations, unless Icelandic stock market makes a rapid U-turn." He was told that Defendant Welding had already approved the loan, and that it was being funded.

183. When Magnusson continued to object, he was summoned for a private meeting with Defendant Welding who put great pressure on Magnusson to change his mind. When Glitnir's Managing Director of Risk Management told Defendant Welding that the loans to Stim had exceeded permitted levels due to Stim's very poor credit ranking, and that these loans required Board of Director approval, his comments appear to have been ignored; in any event, the Board never considered any of the Stim Transactions.

184. Third, the Stim Transactions permitted the Individual Defendants, who each had an interest in FL Group maintaining a high share price, to sell a large block of FL Group stock without greatly reducing FL Group's share price. If Glitnir had sold 4.9 percent of FL Group's stock on the open market, the share price of FL Group stock would have plummeted. To avoid this, the Individual Defendants sold the FL Group stock to Stim in a single transaction.

185. Fourth, the Stim Transactions permitted the Individual Defendants to cover up the fact that approximately 20 percent of the FL Group shares Glitnir held in its accounts had been accumulated illegally by a trader apparently working at their direction. Ingi Rafnar Juliusson ("Juliusson"), a Glitnir trader, bought these FL Group shares illegally, *i.e.*, with the Bank's funds but without an actual customer involved, and placed them into a brokerage account in violation

of Glitnir policies and Icelandic Law. Juliusson acquired these shares in the spring and summer of 2007 apparently at the direction of the Individual Defendants to facilitate FL's attempted acquisition of the Bank. Instead of disclosing this fraud to the FME, the Individual Defendants papered it over.

186. Not surprisingly, just one month after funding the Stim Transactions, Glitnir wrote down the value of the STM entity, from ISK 650,211,250 (approximately USD $10,533,916) to ISK 32,510,563 (approximately USD $526,696).

187. Just weeks later, Glitnir's Credit Department concluded that "in our estimation [Stim's] equity is worthless, as its equity position has become negative - therefore equity has to be written down in our books" and went on to add that "it's clear that equity is finished and both Sen[ior] and Junior Mezzanine loans are lost."

188. When Glitnir collapsed in November 2008, Stim had not sold the four companies to other investors and the total value of the Stim loans remained outstanding, resulting in a total loss for Glitnir of ISK 23.775 billion (approximately USD $385,173,065).

E. The Jóhannesson Transactions - The Fons Transactions

189. The Fons Transactions consisted of the Individual Defendants revisiting the TM Transactions to find a new buyer for FL Group shares which, in September 2007, had been "parked" with Sólmon and Oddaflug, two Jóhannesson Related Parties, which were owned and controlled by Defendants Jónsson and Smárason, respectively. In December 2007, these FL Group shares were "sold" to Fons, a company owned and controlled by Defendant Haraldsson, along with other FL Group shares acquired by Sólmon and Oddaflug. Glitnir, of course, loaned Fons the money it needed to purchase the FL Group shares from Sólmon and Oddaflug, and "loaned" an extra amount to Fons as apparent compensation to Defendant Haraldsson for Fons' participation in this reparking scheme.

190. The Fons Transactions occurred in two stages.

191. First, on December 5, 2007, the Individual Defendants caused Glitnir to lend funds to Fons, pursuant to loan agreements, which had been approved the day before by Defendant Welding and others at Glitnir. The loans consisted of: (i) a loan for ISK 10.276 billion (approximately USD $166,479,008) to finance Fons' purchase of 635 million FL shares from Sólmon and Oddaflug, which was collateralized by the FL Group shares Fons intended to purchase, and shares of a Fons subsidiary, Uppsretta hf ("Uppsretta"); and (ii) a loan for ISK 2.5 billion (approximately USD $40,501,900).

192. The loan documents do not indicate any purpose for the ISK 2.5 billion (approximately USD $40,501,900) loan, and the only collateral offered by Fons for this loan was its interest in a purported February 2007 loan agreement with Baugur, which was then in great financial distress. The Fons-Baugur agreement obligated Baugur to pay Fons ISK 3.7 billion (approximately USD $59,942,811) in three installments. Fons was to repay the ISK 2.5 billion (approximately USD $40,501,900) loan on the same schedule.

193. Second, on December 7, 2007, Fons paid ISK 10.2 billion (approximately USD $165,247,750) to Oddaflug and Sólmon for the FL Group shares that the two entities had acquired from Glitnir.

194. In addition to the loans described above, the Fons Transaction contemplated that Glitnir would underwrite the sale of Fons subsidiary Uppspretta for ISK 8.8 billion (approximately USD $142,566,686), and that the proceeds of the Uppspretta sale would be used to pay down the ISK 10.276 billion (approximately USD $166,479,008) loan. Ultimately, after buyers failed to appear, Glitnir itself paid Fons ISK 8.8 billion (approximately USD $142,566,686) for Uppspretta and Fons in turn used ISK 7.8 billion (approximately USD

$140,946,610) these Glitnir funds to pay down the Glitnir loan.

195. Even assuming that Uppsretta had a value of ISK 8.8 billion (approximately USD $142,566,686), which it clearly did not since no buyers emerged, Glitnir ended up losing at least approximately ISK 1.576 million (approximately USD $25,532,397) on the ISK 10.276 billion (approximately USD $166,479,008) loan.

196. When Fons' first installment was due on the ISK 2.5 billion (approximately USD $40,501,900) loan, Baugur failed to make its scheduled payment to Fons. After already failing to make its first payment on time, Fons sought an extension of time on its loan with Glitnir. On April 30, 2008, the Risk Committee approved an extension of the first installment of the loan until June 1, 2008. Fons never paid back the loan.

197. As a result of the foregoing, Glitnir lost at least ISK 4.076 billion (approximately USD $66,034,297) in connection with the Fons Transactions and likely far more.

F. The Jóhannesson Transactions – The FL Group Private Placement

198. By November 2007, FL Group was in terrible financial shape. Despite the relentless efforts of the Individual Defendants to divert cash from Glitnir to prop up FL Group, the company was failing. Defendant Jóhannesson acknowledged to Defendant Welding that the "FL ship is seriously damaged after all of this." The FL Group Private Placement, as described below, was a last ditch effort to bolster FL Group using Glitnir funds without, once again, any regard for the impact of the transactions on Glitnir. As with each of the other Jóhannesson Transactions, the FL Group Private Placement ended up harming Glitnir – this time, Glitnir lost an amount equal to approximately USD $53 million.

199. The plan for the FL Group Private Placement was outlined on December 3, 2007, by Defendant Jóhannesson in an email to Defendant Welding. Defendant Jóhannesson proposed that Baugur would transfer its real estate holdings (including Landic, Fasteignafelag Islands,

Thyrping, and Eik Property Company) to FL Group in exchange for FL Group stock; Glitnir would underwrite the issuance of FL Group shares; FL Group would use the proceeds to pay its debts to Glitnir; and FL Group would help Glitnir to sell to institutional investors the 637 million shares of FL Group stock that Glitnir had acquired throughout 2007 and would acquire in the private placement.

200. The FL Group Private Placement occurred in three stages.

201. First, on December 4, 2007, FL Group and Baugur exchanged Baugur's real estate holdings for 3.7 billion shares of FL Group stock valued at ISK 53.8 billion (approximately USD $871,600,878).

202. Second, on December 14, 2007, FL Group sold 951,999,249 shares in a private placement and raised ISK 10 billion (approximately USD $162,007,598) from investors who were required to pay for their shares by January 4, 2008 ("Private Placement Buyers"). The Private Placement Buyers included Glitnir, which bought 214,538,555 shares of FL Group stock, and various Jóhannesson Related Parties which were funded by Glitnir. For example, Stim received a last second loan of ISK 725 million (approximately USD $11,745,551) on January 4, 2008 to fund its purchase of FL Group stock.

203. Finally, the Individual Defendants caused Glitnir to "park" 197,478,605 of the 214,538,555 shares it acquired during the private placement with Fons through a forward contract with a maturity date of April 4, 2008. This contract was rolled over each time it matured and payment was due from Fons until the collapse of the Bank later in 2008, when Glitnir was left with nothing from the deal.

204. The FL Group Private Placement provided the Individual Defendants with a final opportunity to shore up their failing network of companies, but it was, as with each of the

Jóhannesson Transactions, a disaster for Glitnir. Glitnir's shares of FL Group were worthless, Fons defaulted on its forward contract with Glitnir, and Stim defaulted on its loans from Glitnir (as did the four subsidiaries of Stim to which the FL Group and Glitnir shares Stim bought were transferred as part of the Stim Transactions).

205. Plaintiffs' investigation is on-going and Plaintiffs reserve the right to: (i) supplement the information regarding the Fraudulent Transfers and any additional transfers; and (ii) seek recovery of such additional transfers.

VII. New York has Jurisdiction Over The Defendants

206. Glitnir brings this action in New York for several reasons, including, but not limited to, the following.

207. First, the Defendants would not have succeeded with their conspiracy, and the Jóhannesson Loans and Jóhannesson Transactions would not have been possible, without access to the proceeds of notes sold in the United States pursuant to the MTN Program. In 2007, the U.S. markets were the only source Glitnir could tap into for financing. Between January and September 2007, Glitnir sold USD $2.75 billion of MTN notes to investors in United States. Glitnir's liquidity constraints would not have permitted the Individual Defendants to engage in the Jóhannesson Loans and Jóhannesson Transactions without money raised in New York under the MTN Program.

208. Second, each of the Defendants involved in the Jóhannesson Loans and Jóhannesson Transactions and the MTN Program knew that the Jóhannesson Transactions were being funded by money raised in the United States. They knew the basic terms of the MTN Program and knew that any misconduct in connection with the MTN Program would result in the Defendants being hailed into court in New York.

209. Every agreement executed in connection with the MTN Program, including the Offering Circular, Distribution Agreement, Supplement to the Offering Circular and others, provided that disputes arising out of or in connection with the MTN Program would be resolved in New York using New York law. The Rule 144A Global Note and the Regulation S Note issued to each investor in the MTN Program and September MTN Offering contained similar language.

210. Third, the Individual Defendants had substantial interaction with New York either as residents of the City or in connection with Glitnir's expanding business in the United States, the MTN Program, the September MTN Offering, and the funding of the Jóhannesson Transactions, including, but not limited to, the following:

- Defendants Jóhannesson and Pálmadóttir have a residence in New York. Defendant Jóhannesson coordinated and directed the actions of Glitnir and his co-conspirators in the United States.

- Defendant Welding appeared in New York frequently on Glitnir business. In May 2007, Defendant Welding presented Glitnir's Q1 2007 financial results in a meeting held with investors, shareholders and analysts in Manhattan.

- Between May and September 2007, Defendant Welding participated in a road show and other meetings in New York and elsewhere in the United States with potential investors, lawyers, dealers and others in connection with the MTN Program, in general, and the September MTN Offering, in particular.

- In September 2007, just days before the September MTN Offering, Defendants Welding and Jónsson presided over the opening of Glitnir's New York office, presenting a speech which described Glitnir's presence in North America and plans for growth and, on information and belief, attended meetings with dealers, sales agents, lawyers and others in connection with the September MTN Offering.

- Defendant Sigurðsson was a Member of Glitnir's Board at the time it approved the USD $5 billon MTN Program and understood explicitly that it involved the sale of notes in New York and the United States, and that Glitnir's 2006 Consolidated Interim Financial Statements (the "2006 Financial Statements"), which he approved, would be used in connection

with such note sales, including in connection with the September MTN Offering.

- Defendants Jónsson, Sigurðsson, and Welding, as Members of Glitnir's Board of Directors and senior management, endorsed Glitnir's Condensed Consolidated Interim Financial Statements as of 30 June 2007 (the "2007 Financial Statements"), which were used in connection with the note sales in the United States under the MTN Program and the September MTN Offering.

- Defendant PwC's September 20, 2007 United States Comfort Letter, expressly provided that: "This letter is intended for use within the United States in connection with the offering or sale of securities. It is not to be used in any other jurisdiction whatsoever."

211. Finally, this case has been filed in New York, because New York, as the financial center of the world, has a keen interest in making sure that its financial markets are not abused to facilitate massive illegal activity, as they were in this instance. The Individual Defendants raised substantial sums of money from U.S. investors in a MTN Program centered in New York, which relied on financial statements which the Defendants knew were materially false. The Individual Defendants then intentionally siphoned these funds for their own benefit and for the benefit of the Jóhannesson Related Parties.

212. The Defendants used dealers, selling agents, lawyers and others located in New York to advance their interests in raising funds through the MTN Program. The Defendants frequently participated in telephone calls and email exchanges in New York and caused others to do so, in order to further their massive conspiracy.

213. New York courts have consistently held that New York has a general interest in maintaining and fostering its undisputed status as the preeminent commercial and financial nerve center of the Nation and the world. This interest naturally embraces a very strong policy of assuring ready access to a forum for redress of injuries arising out of transactions spawned here. Indeed, access to a convenient forum which dispassionately administers a known, stable, and

commercially sophisticated body of law may be considered as much an attraction to conducting business in New York as its unique financial and communications resources. Based, *inter alia*, on the entirety of this Complaint, New York has jurisdiction over these claims and each of the Defendants, and New York is otherwise the proper forum for the resolution of this dispute.

FIRST CAUSE OF ACTION
(Violation of Article 68(1) of Icelandic Act No. 2/1995
On Public Limited Liability Companies)
(Defendants Jónsson, Sigurðsson, Jóhannesson, and Smárason)

214. Plaintiffs repeat and reallege paragraphs 1 through 213 above with the same force and effect herein.

215. According to Act No. 2/1995 on Public Limited Liability Companies ("ALC"), directors and managers of limited liability companies have a number of prescribed duties to the company. If the directors or managers are in breach of these duties, they will be considered to have violated their general fiduciary duties.

216. Pursuant to the ALC, the interests of the company shall always prevail over the personal interests of those persons directing, managing, serving as officers, or using their influence to direct the company from the shadows.

217. In situations where shareholders are in a position to control the company through their shareholdings, and exercise this power in a direct manner, Icelandic courts recognize these individuals as "Shadow Directors," and find that they may be held liable just as official directors for a violation of the ALC.

218. Owners of "qualified holdings" of financial undertakings, as defined in Act No. 161/2002 on Financial Undertakings, are obliged to "utilize" their holding in a way which is not to the detriment of the sound and prudent operation of the undertaking. Defendant Jóhannesson, through his ownership and control of FL Group, is an owner of a qualified holding in Glitnir and

is subject to the obligations of a "qualified holding."

219. Glitnir is a limited liability company.

220. The Members of Glitnir's Board of Directors, Defendants Jónsson and Sigurðsson, are subject to the rules set forth in the ALC and each owed Glitnir fiduciary duties.

221. The Shadow Members of Glitnir's Board of Directors, Defendants Jóhannesson and Smárason, are subject to the rules set forth in the ALC and each owed Glitnir fiduciary duties (hereinafter referred to as the "Shadow Directors").

222. The Chief Executive Office of Glitnir, Defendant Welding, is subject to the rules set forth in the ALC and owed Glitnir fiduciary duties.

223. Defendants Jónsson, Sigurðsson, Jóhannesson, and Smárason each breached their fiduciary duties to Glitnir by engaging in the misconduct described throughout this Complaint and by violating ALC Article 68(1).

224. ALC Article 68(1) required that each Member of Glitnir's Board of Directors undertake the obligation to manage Glitnir's affairs and see to it that Glitnir's organization and activities be at all times in correct and good order. Defendants Jónsson, Sigurðsson, Jóhannesson, and Smárason, who were each Directors or *de facto* Shadow Directors of Glitnir violated ALC Article 68(1) by engaging in the conduct set forth in this Complaint.

225. Pursuant to the terms of the ALC, Defendants Jónsson, Sigurðsson, Jóhannesson, and Smárason are liable to Glitnir for the harm they have caused to Glitnir by engaging in the conduct set forth in this Complaint. ALC Article 134(1) obligates each Member of Glitnir's Board of Directors, including Shadow Directors, and Managers to compensate Glitnir for the loss that they have caused the Bank, irrespective of whether this has been willful or through inadvertence.

226. As a direct and proximate result of the breach of the aforementioned fiduciary duties and specific laws, Defendants Jónsson, Sigurðsson, Jóhannesson, and Smárason have damaged Glitnir in an amount to be determined at trial including interest, but not less than USD $2 billion.

SECOND CAUSE OF ACTION
(Violation of Article 68(3) of Icelandic Act No. 2/1995
On Public Limited Liability Companies)
(Defendants Jónsson, Sigurðsson, Jóhannesson, Smárason and Welding)

227. Plaintiffs repeat and reallege paragraphs 1 through 226 above with the same force and effect herein.

228. Defendants Jónsson, Sigurðsson, Jóhannesson, Smárason and Welding each breached their fiduciary duties to Glitnir by engaging in the misconduct described throughout this Complaint and by violating ALC Article 68(3).

229. ALC Article 68(3), required that each Member of Glitnir's Board of Directors and its Managers keep proper books and supervise Glitnir's funds properly and handle Glitnir's assets securely. Defendants Jónsson, Sigurðsson, Jóhannesson, Smárason and Welding, who were each Directors, *de facto* Shadow Directors or Managers of Glitnir, violated ALC Article 68(3) by engaging in the conduct set forth in this Complaint.

230. Pursuant to the terms of the ALC, Defendants Jónsson, Sigurðsson, Jóhannesson, Smárason and Welding are liable to Glitnir for the harm they have caused to Glitnir by engaging in the conduct set forth in this Complaint.

231. ALC Article 134(1) obligates each Member of Glitnir's Board of Directors, including Shadow Directors, and Managers to compensate Glitnir for the loss that they have caused the Bank, irrespective of whether this has been willful or through inadvertence.

232. As a direct and proximate result of the breach of the aforementioned fiduciary duties and specific laws, Defendants Jónsson, Sigurðsson, Jóhannesson, Smárason and Welding have damaged Glitnir in an amount to be determined at trial including interest, but not less than USD $2 billion.

THIRD CAUSE OF ACTION
(Violation of Article 76(1) of Icelandic Act No. 2/1995
On Public Limited Liability Companies)
(Defendants Jónsson, Sigurðsson, Jóhannesson, Smárason and Welding)

233. Plaintiffs repeat and reallege paragraphs 1 through 232 above with the same force and effect herein.

234. Defendants Jónsson, Sigurðsson, Jóhannesson, Smárason and Welding each breached their fiduciary duties to Glitnir by engaging in the misconduct described throughout this Complaint and by violating ALC Article 76(1).

235. ALC Article 76(1) prohibited each Member of Glitnir's Board of Directors and its Managers from self-interested dealing, and from making any such arrangements that are obviously suited to acquire improper interests for specific shareholders or any other persons at the expense of other shareholders or Glitnir. Defendants Jónsson, Sigurðsson, Jóhannesson, Smárason and Welding, who were each Directors, *de facto* Shadow Directors or Managers of Glitnir, violated ALC Article 76(1) by engaging in the conduct set forth in this Complaint.

236. Pursuant to the terms of the ALC, Defendants Jónsson, Sigurðsson, Jóhannesson, Smárason and Welding are liable to Glitnir for the harm they have caused to Glitnir by engaging in the conduct set forth in this Complaint.

237. ALC Article 134(1) obligates each Member of Glitnir's Board of Directors, including Shadow Directors, and Managers to compensate Glitnir for the loss that they have caused the Bank, irrespective of whether this has been willful or through inadvertence.

238. As a direct and proximate result of the breach of the aforementioned fiduciary duties and specific laws, Defendants Jónsson, Sigurðsson, Jóhannesson, Smárason and Welding have damaged Glitnir in an amount to be determined at trial including interest, but not less than USD $2 billion.

FOURTH CAUSE OF ACTION
(Violation of Article 76(2) of Icelandic Act No. 2/1995
On Public Limited Liability Companies)
(Defendants Jónsson, Sigurðsson, Jóhannesson, Smárason and Welding)

239. Plaintiffs repeat and reallege paragraphs 1 through 238 above with the same force and effect herein.

240. Defendants Jónsson, Sigurðsson, Jóhannesson, Smárason and Welding each breached their fiduciary duties to Glitnir by engaging in the misconduct described throughout this Complaint and by violating ALC Article 76(2).

241. ALC Article 76(2) prohibited each Member of Glitnir's Board of Directors and its Managers from carrying out the decisions of a shareholders' meeting or the decisions of other parties administering the Bank if the decisions are invalid on account of the fact that they are in conflict with applicable laws or the Company's Articles of Association. Defendants Jónsson, Sigurðsson, Jóhannesson, Smárason and Welding, who were each Directors, *de facto* Shadow Directors or Managers of Glitnir, violated ALC Article 76(2) by engaging in the conduct set forth in this Complaint.

242. Pursuant to the terms of the ALC, Defendants Jónsson, Sigurðsson, Jóhannesson, Smárason and Welding are liable to Glitnir for the harm they have caused to Glitnir by engaging in the conduct set forth in this Complaint. ALC Article 134(1) obligates each Member of Glitnir's Board of Directors, including Shadow Directors, and Managers to compensate Glitnir

for the loss that they have caused the Bank, irrespective of whether this has been willful or through inadvertence.

243. As a direct and proximate result of the breach of the aforementioned fiduciary duties and specific laws, Defendants Jónsson, Sigurðsson, Jóhannesson, Smárason and Welding have damaged Glitnir in an amount to be determined at trial including interest, but not less than USD $2 billion.

FIFTH CAUSE OF ACTION
(Violation of Article 104 of Icelandic Act No. 2/1995 on Public Limited Liability Companies)
(Defendants Jónsson, Sigurðsson, Jóhannesson, Smárason and Welding)

244. Plaintiffs repeat and reallege paragraphs 1 through 243 above with the same force and effect herein.

245. Defendants Jónsson, Sigurðsson, Jóhannesson, Smárason and Welding each breached their fiduciary duties to Glitnir by engaging in the misconduct described throughout this Complaint and by violating ALC Article 104.

246. ALC Article 104 prohibited each Member of Glitnir's Board of Directors, including Shadow Directors, and Managers from granting credit or placing security or guarantees for a co-habitant of a Director or Shadow Director, or any person who is "specially close" to a Director or Shadow Director.

247. ALC Article 104 does not apply to deposit money banks or other financial establishments except in the event of a misuse of the funds of such bank or financial establishment.

248. Defendants Jónsson, Sigurðsson, Jóhannesson, Smárason and Welding, who were each Directors, *de facto* Shadow Directors or Managers of Glitnir, violated ALC Article 104 by engaging in the conduct set forth in this Complaint and misusing Glitnir's funds.

249. Pursuant to the terms of the ALC, Defendants Jónsson, Sigurðsson, Jóhannesson, Smárason and Welding are liable to Glitnir for the harm they have caused to Glitnir by engaging in the conduct set forth in this Complaint. ALC Article 134(1) obligates each Member of Glitnir's Board of Directors, including Shadow Directors, and Managers to compensate Glitnir for the loss that they have caused the Bank, irrespective of whether this has been willful or through inadvertence.

250. As a direct and proximate result of the breach of the aforementioned fiduciary duties and specific laws, Defendants Jónsson, Sigurðsson, Jóhannesson, Smárason and Welding have damaged Glitnir in an amount to be determined at trial including interest, but not less than USD $2 billion.

SIXTH CAUSE OF ACTION
(Violation of Article 17 of Icelandic Act No. 161/2002on Financial Undertakings)
(Defendants Jónsson, Sigurðsson, Jóhannesson, Smárason and Welding)

251. Plaintiffs repeat and reallege paragraphs 1 through 250 above with the same force and effect herein.

252. Act No. 161/2002 on Financial Undertakings ("AFU"), obligates financial undertakings to employ various measures to ensure the financial security and stability of the financial undertaking.

253. Glitnir is a financial undertaking subject to the laws set forth in the AFU.

254. AFU Article 17 required that Glitnir at all times have in place a secure risk management system for all its activities, and adequate and documented internal processes to assess the necessary size, composition and internal distribution of the capital base in light of the risks entailed by the business activity at any time.

255. Defendants Jónsson, Sigurðsson, Jóhannesson, Smárason and Welding, who were each Directors, *de facto* Shadow Directors or Managers of Glitnir, violated AFU Article 17 by engaging in the conduct set forth in this Complaint.

256. As a direct and proximate result of Jónsson, Sigurðsson, Jóhannesson, Smárason and Welding's breaches of their fiduciary duties to Glitnir and their violation of AFU Article 17, Glitnir has been damaged in an amount to be determined at trial including interest, but not less than USD $2 billion.

SEVENTH CAUSE OF ACTION
(Violation of Article 19 of Icelandic Act No. 161/2002 on Financial Undertakings)
(Defendants Jónsson, Sigurðsson, Jóhannesson, Smárason and Welding)

257. Plaintiffs repeat and reallege paragraphs 1 through 256 above with the same force and effect herein.

258. Act No. 161/2002 on Financial Undertakings ("AFU"), obligates financial undertakings to employ various measures to ensure the financial security and stability of the financial undertaking.

259. Glitnir is a financial undertaking subject to the laws set forth in the AFU.

260. AFU Article 19 required that Glitnir operate in accordance with proper and sound business practices and customs on the financial market.

261. Defendants Jónsson, Sigurðsson, Jóhannesson, Smárason and Welding, who were each Directors, *de facto* Shadow Directors or Managers of Glitnir, violated AFU Article 19 by engaging in the conduct set forth in this Complaint.

262. As a direct and proximate result of Jónsson, Sigurðsson, Jóhannesson, Smárason and Welding's breaches of their fiduciary duties to Glitnir and their violation of AFU Article 19,

Glitnir has been damaged in an amount to be determined at trial including interest, but not less than USD $2 billion.

EIGHTH CAUSE OF ACTION
(Violation of Article 30 of Icelandic Act No. 161/2002 on Financial Undertakings)
(Defendants Jónsson, Sigurðsson, Jóhannesson, Smárason and Welding)

263. Plaintiffs repeat and reallege paragraphs 1 through 262 above with the same force and effect herein.

264. Act No. 161/2002 on Financial Undertakings ("AFU"), obligates financial undertakings to employ various measure to ensure the financial security and stability of the financial undertaking.

265. Glitnir is a financial undertaking subject to the laws set forth in the AFU.

266. AFU Article 30 required Glitnir to limit related party exposure to twenty-five percent (25%) of a financial undertaking's capital base.

267. Defendants Jónsson, Sigurðsson, Jóhannesson, Smárason and Welding, who were each Directors, *de facto* Shadow Directors or Managers of Glitnir, violated AFU Article 30 by engaging in the conduct set forth in this Complaint.

268. As a direct and proximate result of Jónsson, Sigurðsson, Jóhannesson, Smárason and Welding's breaches of their fiduciary duties to Glitnir and their violation of AFU Article 30, Glitnir has been damaged in an amount to be determined at trial including interest, but not less than USD $2 billion.

NINTH CAUSE OF ACTION
(Violation of Articles 3 and 63 of Icelandic Act No. 3/2006 on Annual Accounts)
(Defendants Jónsson, Sigurðsson, Jóhannesson, Smárason and Welding)

269. Plaintiffs repeat and reallege paragraphs 1 through 268 above with the same force and effect herein.

270. Article 3 of the Act on Annual Accounts ("AAA") required the Members of the Board of Directors, including Shadow Members, and Managers to prepare the company's annual accounts and the Board of Directors report in accordance with the requirements of the Act.

271. Article 63 of the AAA required the Members of the Board of Directors, including Shadow Members, and Managers to account for dealings with related parties, in accordance with the requirements of the Act in the notes of Glitnir's annual financial statements.

272. Defendants Jónsson, Sigurðsson, Jóhannesson, Smárason and Welding, who were each Directors, *de facto* Shadow Directors or Managers of Glitnir, violated AAA Articles 3 and 63 by engaging in the conduct set forth in this Complaint.

273. As a direct and proximate result of Jónsson, Sigurðsson, Jóhannesson, Smárason and Welding's breaches of their fiduciary duties to Glitnir and their violation of AAA Articles 3 and 63, Glitnir has been damaged in an amount to be determined at trial including interest, but not less than USD $2 billion.

TENTH CAUSE OF ACTION
(Violation of Culpa Principle – Tort Rules)
(As Against All Defendants)

274. Plaintiffs repeat and reallege paragraphs 1 through 273 above with the same force and effect herein.

275. Each of the Defendants has engaged in willful misconduct or negligence through its acts set forth in this Complaint.

276. Glitnir has suffered actual loss in an amount to be proved at trial, but no less than USD $2 billion.

277. There is a causal link between the Defendants' willful misconduct or negligence and the damage Glitnir has suffered.

278. Glitnir's harm was a probable consequence of the Defendants' willful misconduct or negligence.

279. As a direct and proximate result of the Defendants breaches of fiduciary duties pursuant to their violations of the culpa principle, Glitnir has been damaged in an amount to be determined at trial including interest, but not less than USD $2 billion.

ELEVENTH CAUSE OF ACTION
(Conversion)
(As Against Individual Defendants)

280. Plaintiffs repeat and reallege paragraphs 1 through 279 above with the same force and effect herein.

281. The Individual Defendants, intentionally and without authority, assumed and exercised control over personal property belonging to Glitnir, interfering with Glitnir's right of possession.

282. This property consisted of the more than USD $2 billion which the Individual Defendants caused Glitnir to improperly loan to the Jóhannesson Related Parties, and/or use in equity transactions with and/or involving the Jóhannesson Related Parties ("Property") in the Jóhannesson Transactions.

283. The funds which Glitnir raised in 2007 in New York City and elsewhere in the United States through the MTN Program, in general, and the September MTN Offering, in

particular, were part of the Property diverted by the Individual Defendants through the Jóhannesson Transactions.

284. Glitnir had a possessory right or interest in the Property.

285. The Individual Defendants exercised dominion over the Property or interference with it, in derogation of Plaintiffs' rights.

286. The Individual Defendants caused, or aided and abetted the Individual Defendants who did cause, the Bank to lend to the Jóhannesson Related Parties for their own account and/or for their own use, to the Bank's clear detriment, and to the exclusion of Glitnir's rights over said Property.

287. As part of the Jóhannesson Transactions, the Property was converted by the Individual Defendants, who have retained this Property and refused to return it to the Bank.

288. As a direct and proximate result of the Defendants' conversion of the Property, Plaintiffs have suffered damages of at least USD $2 billion.

TWELFTH CAUSE OF ACTION
(Unjust Enrichment)
(As Against Individual Defendants)

289. Plaintiffs repeat and reallege paragraphs 1 through 288 above with the same force and effect herein.

290. The Individual Defendants and the Jóhannesson Related Parties received billions of dollars worth of funds belonging to Glitnir in connection with the Jóhannesson Transactions.

291. The funds Glitnir raised in 2007 in New York City and elsewhere in the United States through the MTN Program, in general, and the September MTN Offering, in particular, were part of the funds diverted by the Individual Defendants to the Jóhannesson Related Parties through the Jóhannesson Transactions.

292. By diverting billions of dollars' worth of Glitnir's funds to the Jóhannesson Related Parties, the Individual Defendants enriched themselves by, *inter alia*, causing the Bank to buy outright, or to buy to serve as collateral for the Jóhannesson Transactions, more than two billion shares of FL Group stock, which kept the price of FL Group shares artificially high and enriched the Individual Defendants and the Jóhannesson Related Parties.

293. Because of the Jóhannesson Transactions, the Individual Defendants were able to convert Glitnir funds for their own use, and as a result were unjustly enriched by more than USD $2 billion.

294. The Individual Defendants and the Jóhannesson Related Parties were unjustly enriched at Glitnir's expense by their receipt of billions of dollars in funds that they would not have obtained if the Individual Defendants had not designed and caused the Bank to enter into the Jóhannesson Transactions, and for which they provided little or no value in exchange.

295. It would be inequitable to permit the Individual Defendants to retain the funds, and the benefit of these funds, that they caused to be diverted from Glitnir by way of the Jóhannesson Transactions.

296. Plaintiffs have no adequate remedy at law.

THIRTEENTH CAUSE OF ACTION
(Negligence and Accounting Malpractice)
(As Against Defendant PwC)

297. Plaintiffs repeat and reallege paragraphs 1 through 296 above with the same force and effect herein.

298. Defendant PwC served as Glitnir's auditor during the period relevant to this Complaint. In connection with this engagement, Defendant PwC prepared and/or approved the

Interim Financial Statements and a Comfort Letter used in connection with the September MTN Offering.

299. Defendant PwC represented that the Interim Financial Statements and Comfort Letter were compliant with IAS, Icelandic Law and guidelines promulgated by the FME. However, these disclosures materially misstated Glitnir's related party exposure.

300. PwC knew that the disclosures were materially incorrect because it was intimately familiar with Glitnir's related party exposure procedures and as set forth herein was responsible for evaluating such procedures to the FME. As a consequence of this particular aspect of PwC's engagement by Glitnir, PwC knew that the FME did not approve of Glitnir's procedures for reporting related party exposure.

301. Moreover, from its review of Glitnir's books and records, including Glitnir's Board Minutes, PwC knew that Glitnir's true related party exposure far exceeded what was reported in the Interim Financial Statements and Comfort Letter.

302. By allowing Glitnir to disseminate materially false disclosures, at a minimum, PwC failed to comply with the IAS, Icelandic Law and guidelines promulgated by the FME or to otherwise meet the standard of a reasonably competent auditor.

303. Moreover, by allowing Glitnir to disseminate materially false disclosures, PwC facilitated the Individual Defendants' successful efforts to raise USD $1 billion through the September MTN Offering. The Individual Defendants could never have raised these funds if Defendant PwC had exercised the care, diligence and competence it owed to Glitnir as an independent accountant and auditor.

304. Foreseeably, Glitnir relied on the services and statements provided by Defendant PwC. As a direct and proximate result of Defendant PwC's departure from accepted standards of practice, Glitnir was damaged.

FOURTEENTH CAUSE OF ACTION
(Breach of Contract)
(As Against Defendant PwC)

305. Plaintiffs repeat and reallege paragraphs 1 through 304 above with the same force and effect herein.

306. Glitnir and Defendant PwC were parties to contracts by which PwC agreed to provide audit services to Glitnir that were in compliance with IAS, Icelandic Law and guidelines promulgated by the FME.

307. As set forth herein, Defendant PwC breached its contracts with Glitnir by, among other things, failing to render services in accordance with IAS, Icelandic Law and guidelines promulgated by the FME.

308. As set forth herein, these breaches included preparing and/or approving Glitnir's Condensed Consolidated Interim Financial Statements as of 30 June 2007 and a Comfort Letter used in connection with the September MTN Offering that were not in compliance with IAS, Icelandic Law and guidelines promulgated by the FME.

309. As a direct and proximate result of PwC's breaches of contract, Glitnir has suffered damages, as alleged herein.

FIFTEENTH CAUSE OF ACTION
(Fraudulent Transfers – New York Debtor and Creditor Law
§§ 276, 276-a, 278 and/or 279)
(As Against All Defendants)

310. Plaintiffs repeat and reallege paragraphs 1 through 309 above with the same force and effect herein.

311. At all times relevant to and with respect to the Fraudulent Transfers the Defendants acted with the actual intent to hinder, delay or defraud present and/or future creditors of Glitnir holding matured or unmatured unsecured claims.

312. The Fraudulent Transfers were made directly or indirectly to one or more of the Defendants and the Defendants are immediate and/or mediate transferees of the Fraudulent Transfers.

313. As a result of the foregoing, pursuant to sections 276, 276-a, 278 and 279 of the New York Debtor and Creditor Law, Plaintiffs are entitled to: (a) have the Fraudulent Transfers set aside; (b) recover the value of the Fraudulent Transfers from the Defendants; (c) recover attorneys' fees from the Defendants; and (d) have the Court enter any other order which the circumstances of this case may require.

WHEREFORE, Plaintiffs demand Judgment against Defendants as follows:

(a) As to the First through Ninth Causes of Action, alleging various breaches of fiduciary duties under Icelandic law against Defendants Jónsson, Sigurðsson, Jóhannesson, Smárason and Welding, jointly and severally, damages to be determined at trial including interest, but no less than USD $2 billion;

(b) As to the Tenth Cause of Action, alleging violations of Iceland's culpa principle against all Defendants, jointly and severally, for, *inter alia*, willful misconduct or negligence through their acts set forth in this Complaint, damages to be determined at trial including interest, but no less than USD $2 billion;

(c) As to the Eleventh and Twelfth Causes of Action, for Conversion and Unjust Enrichment against Individual Defendants, that these Defendants be ordered to return to Glitnir the USD $2 billion raised in New York that they diverted from the Bank in connection with the Jóhannesson Transactions and converted for their personal benefit and/or for the benefit of the Jóhannesson Related Parties;

(d) As to the Thirteenth and Fourteenth Causes of Action for Accounting Malpractice and Negligence and Breach of Contract against Defendant PwC:

(i) An award of monetary damages for all losses and/or damages suffered by Glitnir as a result of the wrongdoings complained of herein, but no less than USD $1 billion; and

(ii) Restitution of all fees paid to PwC by Glitnir for its provision of auditing and accounting services to Glitnir during the period relevant to this Complaint;

(e) As to the Fifteenth Cause of Action, for Fraudulent Transfers under New York Debtor and Creditor Law §§ 276, 276-a, 278 and/or 279, ordering that:

(i) the Fraudulent Transfers be set aside; and

(ii) Plaintiffs be entitled to recover the value of the Fraudulent Transfers from the Defendants;

(f) Awarding Plaintiffs the fees and expenses incurred in this action, including reasonable allowance for fees for Plaintiffs' attorneys and experts;

(g) Awarding pre- and post-judgment interest on all monetary awards pursuant to the CPLR and Icelandic Act No. 38/2001 On Interest and Price Indexation; and

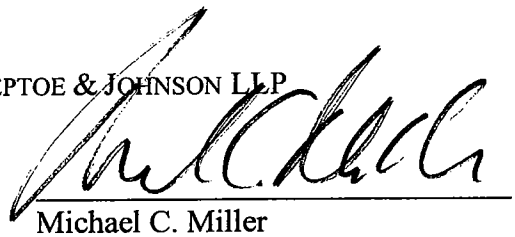
(h) Granting Plaintiffs such other and further relief as the Court may deem just and proper.

JURY DEMAND

Plaintiffs respectfully request a trial by jury as to all claims and issues so triable.

Dated: New York, New York
May 11, 2010

STEPTOE & JOHNSON LLP

By: 

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SUPREME COURT OF THE STATE OF NEW YORK
COUNTY OF NEW YORK

GLITNIR BANKI HF., by and through its Resolution Committee, Winding-up Board and Foreign Representative; and STEINUNN GUÐBJARTSDÓTTIR, solely in her capacity as the duly appointed Foreign Representative of Glitnir banki hf.

Plaintiffs,

– against –

JÓN ÁSGEIR JÓHANNESSON,
THORSTEINN JÓNSSON,
JÓN SIGURÐSSON,
LÁRUS WELDING
PÁLMI HARALDSSON,
HANNES SMÁRASON,
INGIBJÖRG STEFANÍA PÁLMADÓTTIR, and
PRICEWATERHOUSECOOPERS HF.,

Defendants.

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COMPLAINT

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Attorneys for Plaintiffs

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