

Strictly Private and Confidential



Ríkiskaup
Borgarúni 7,
105 Reykjavík,
Iceland

27 January 2016

Dear Sirs

20234 Equity Capital Markets Advisers for ISFI

We are delighted to express our interest in acting as financial adviser to ISFI in relation to the proposed sale process of part of ISFI's stake in Landsbankinn.

Rothschild is a leading international investment bank with a deep presence in the European market. With over 900 advisory bankers we are comfortably the leading independent adviser on European equity issuance (with more than three times the deal flow of our leading competitor), the most active adviser on European mergers and acquisitions every year and the leading bank by European advisory revenue.

We are a truly independent adviser. We have no sales and trading activities and are consequently free from the conflicts of interest that can be inherent in equity raising processes. While we note that ISFI is seeking to appoint bookrunners and lead managers for a potential Landsbanki IPO, we believe that we, as an independent adviser, can add significant value to ISFI as a selling shareholder. The market has acknowledge the value that we add: we have been selected to provide advice on over 40% of European IPOs over the past two years – more than any other bank (including integrated firms acting as bookrunners) – and have regularly advised Europe's most sophisticated government, corporate and private equity clients on equity capital markets transactions. We would be delighted to discuss how our independent advisory model works in practice at greater length with ISFI and the value that we can contribute should this be of interest. In the meantime we set out below how an experienced independent adviser could help, before setting out in detail our credentials as requested by Ríkiskaup and ISFI.

We specialise in working alongside our clients, in conjunction with the bookrunning banks, to add value to equity raising processes and to ensure that all of our clients' objectives are met. Our specific scope of work can be tailored to meet your specific requirements (e.g. intensive "hands-on" assistance versus "lighter-touch" role). We summarise below the five key areas of an IPO process where our contribution has the most impact:

1. **Optimal pricing and allocation:** we protect selling shareholders from the negative impact of the inherent structural Bookrunners' conflicts. For example under-pricing of IPOs and over-allocation to "relationship hedge fund" friends by Bookrunners are common issues as Bookrunners seek to "look after" their institutional investor clients. We undertake day-by-day forensic analysis during the bookbuilding process to optimise pricing/allocation for the Company/Shareholders

Rothschild
New Court, St Swithin's Lane
London EC4N 8AL, United Kingdom

Tel +44 (0)20 7280 5000
Fax +44 (0)20 7280 5671
www.rothschild.com

N M Rothschild & Sons Limited
Registered number 925279 England
Registered office as shown



2. **IPO execution process:** one of our key aims is to allow the management team to continue to focus on delivering results in the business and minimise the distraction created by the IPO process, just at the point when demonstrating continued growth will be most critical. As such we are experts at organising efficient IPO execution processes and providing deep experience at every step of the process to help speed the transaction up and to obtain a better final outcome. We can also supply staff to supplement your existing management resources – when key members of staff are stretched or several workstreams “peak” in terms of workload at the same time
3. **Third party selection and co-ordination:** we can run competitive selection processes for third parties (most critically the bookrunners) to get the best teams at the right price – not straightforward given the cuts to equities division resources amongst the major investment bank. Another critical area is the selection of analysts as they are a key interface between institutional investors and the company. As an independent adviser we can manage the selection of analysts and provide feedback to them throughout the process, without compliance restrictions. We also coordinate the other third parties’ work, critically the bookrunners, for the sake of speed and efficiency and will intervene to ensure good behaviour and cooperation among them
4. **Focused investor marketing:** we ensure a focused investor targeting and marketing campaign by Bookrunners with fee incentives to motivate them. Lack of focus in this key area by Bookrunners will result in sub-optimal pricing. Our role includes detailed daily monitoring of the Bookrunners during each step of the marketing process via a real time-tracking system
5. **Accuracy of investor feedback:** investor feedback in an IPO is a key driver of the price range/final pricing of the IPO and comes solely from bookrunners. This feedback from bookrunners can sometimes be unreliable, so Rothschild checks investor feedback in line with the situation. We use our proprietary knowledge of investor behaviour and personal contacts to help interpret investor orders and seriously challenge bookrunners’ proposals

We believe that we are uniquely well qualified to act as adviser to ISFI and that we could add significant value to ISFI, working alongside those bookrunners and co-lead managers that it selects. We set out below our credentials in the areas specified in the request for expressions of interest.

1. Contact details

The specific contact person for this EOI is Edward Mitting (edward.mitting@rothschild.com; +44 20 7280 5538; address as on page 1 of this letter).

2. Information on our requisite capabilities

2.1 *Experience since January 1st 2009 in the sale or offering of shares in financial undertakings in Europe including type, size and role in each transaction*

Rothschild has acted as financial or capital markets adviser to:

- the Irish Department of Finance on the potential initial public offering (IPO) of Allied Irish Banks (current);



- the Hellenic Financial Stability Fund on the €14.4bn recapitalisation of the four systemic Greek banks through private market capital raisings (2015);
- NLF1 (the Dutch State) as selling shareholder on the €3.8bn IPO of ABN AMRO (2015);
- Poste Italiane on its €3.4bn IPO (2015);
- UKFI (the UK Government) as selling shareholder on the £2.1bn accelerated bookbuild (ABB) of a c. 5% stake in Royal Bank of Scotland Group plc (RBS) (2015);
- Her Majesty's Treasury on the privatisation strategy for RBS (2015);
- Summit Partners and FlowTraders on Flowtraders' €599m IPO (2015);
- Atos and Worldline on the €575m IPO of Worldline (2014);
- Natixis on the €957m IPO of Coface (2014);
- The Board of TSB on its £455m IPO (2014);
- JC Flowers and OneSavings Bank on the £143m IPO of OneSavings Bank (2014), and JC Flowers on subsequent sell-downs via ABB;
- Grupo BFA on the privatisation process for Bankia, including the €1.3bn sell down of a 7.5% stake (2014);
- Nationwide Building Society on the structuring and issuance of £500m Core Capital Deferred Shares (2013);
- Banco Sabadell on its \$1.3bn capital raising through an ABB and rights issue (2013);
- KBC Group on the €350m sell down of shares held in treasury (2012); and
- Talanx on its €517m IPO (2012).

2.2 *Experience since January 1st 2009 in monetization of investments that might be relevant in the direct and indirect sale of holding in Landsbankinn*

Rothschild is Europe's leading financial adviser and has advised on many of the most significant capital raisings and IPOs of European companies over the past several years. In particular, we have:

- Acted as independent financial adviser on over 365 equity offerings since 2009, raising more than €370bn in proceeds;
- Acted as independent financial adviser on 82 IPOs since 2010;
- Advised on more than 1,500 European mergers and acquisitions (M&A) with an aggregate value of over \$1 trillion since 2009;
- Advised on over 160 European financial institution M&A transactions since 2009; and
- Advised on over 230 restructurings with a total value of more than \$340 bn since 2009.



2.3 Global depth and breadth of trading, sales, distribution and research capabilities, especially in relation to shares in Nordic and other European banks

As described above, Rothschild is an independent financial advisory firm and as such we do not have any sales, trading, equity distribution or research functions.

2.4 Ability to provide secondary market support in trading of Landsbankinn shares and research coverage in the future

As described above, Rothschild is an independent financial advisory firm and as such we do not have any sales, trading, equity distribution or research functions.

2.5 Experience since January 1st 2009 in advising European governments in sale of equity investments in commercial enterprises, including type, size and role in each transaction

Rothschild is the leading privatisation adviser, having advised governments on privatisations and privatisation programmes totalling more than \$200bn over the last eight years alone. The table below sets out selected privatisation transactions on which we have acted since 2009. In each case in the list below our role was as independent financial adviser to the selling government.

Table 1. Selected Rothschild European privatisations since 2011

| Government advised | Asset disposed | Value | Year | Transaction type |
|---------------------------|------------------------|--------------|-------------|-------------------------|
| Denmark | DONG Energy | Na | Current | IPO |
| Ireland | AIB | Na | Current | IPO |
| UK (BIS) | Student loan portfolio | £30bn | Current | Asset sale |
| Netherlands | ABN AMRO | €3.8bn | 2015 | IPO |
| UK (UKFI) | RBS | £2.1bn | 2015 | ABB |
| UK (BIS) | Royal Mail | £750m | 2015 | ABB |
| UK (BIS) | Royal Mail | £591m | 2015 | ABB |
| Italy (CDP) | Fincantieri | €390m | 2014 | IPO |
| Spain (BFA) | 7.5% of Bankia | €1.3bn | 2013 | ABB |
| Spain (BFA) | 20% of Indra | €337m | 2013 | ABB |
| Greece (HFSF) | New Proton Bank | €395m | 2013 | M&A |
| Portugal | 21% of EDP | €2.7bn | 2011 | M&A |
| Switzerland | 25% of SBB Cargo | Nd | 2011 | M&A |
| Russia | 50% of OJSC Elteza | Nd | 2011 | M&A |



| Government advised | Asset disposed | Value | Year | Transaction type |
|--------------------|----------------------------|-------|------|------------------|
| France (Dexia) | 20% of Crédit du Nord | €676m | 2009 | M&A |
| Netherlands | Fortis Corporate Insurance | €350m | 2009 | M&A |

2.6 Expertise in Iceland companies

Rothschild has had a number of interactions with Icelandic clients over the recent past. In particular, we have advised:

- Bakkavor on four occasions in relation to its bank and debt capital markets financings;
- RPC Group plc on the recent (2015) acquisition of Promens;
- ALMC on the sale of a 25% stake in Play, a Polish telecoms business;
- CB Holding on the disposal of a 50% stake in West Ham United FC;
- the estate of Glitnir in respect to its then shareholding in Islandsbanki prior to its transfer to ISFI;
- the management of Iceland Foods (the UK retailer) on its management buy-out from from its Icelandic Bank shareholders in 2012.

3. CVs of key personnel

Were we to be appointed our key personnel for the project would be as follows:

| Table 2. Key personnel | | |
|---|---|---|
| Per-Olov Bergstrom | Edward Mitting | William Marshall |
| <i>Managing Director and head of Nordic region</i> | <i>Director, financial institutions group</i> | <i>Director, equity capital markets advisory group</i> |
| 28 years corporate finance experience in the Nordic M&A, equity and debt capital markets. Recent transactions include Meda / Rotterpharm, Volkswagen / Scania; Com Hem IPO and Alipes on the sale of Sysam. | 15 years corporate finance experience including one year seconded to the UK government (HM Treasury) dealing with financial services matters. Selected clients include NLFI, Irish Department of Finance, UKFI, Portuguese Government, Glitnir, Lloyds Bank, TSB, Bank of England, and Nationwide Building Society. | 12 years equity capital markets experience raising over \$60bn of capital for clients. Recent IPOs include Bravida, Equiniti, Flow Traders, Capio, Asiakastiето, Com Hem, and Applus. |

These individuals would be supported by a full team drawing from our Nordic, financial institutions and equity capital markets advisory teams which comprise in aggregate approximately 100 people, and would be supported by senior bankers including Stephen Fox and Nigel Himsworth, managing directors in our financial institutions and equity capital markets teams respectively.



4. Confirmation of applicable operating licences

Rothschild has all of the required licences in place to provide the services contemplated.

5. Consent to publication

We consent to the publication of this EOI.

6. Other

We would be delighted to assist the ISFI in relation to its shareholdings in the Icelandic banks and on the potential IPO of Landsbankinn in particular and believe that we are uniquely qualified to be able to do so. An independent adviser can add enormous value to clients, as is increasingly recognised by many of Europe's most sophisticated governments, corporates and private equity firms and we are comfortably the leading adviser in this field. We would be delighted to discuss in more exactly how we could add value to ISFI in any IPO process.

Yours sincerely

Edward Mitting
Director