

Armann Thorvaldsson
Deputy CEO of Kvika Bank hf
Borgartun 25
105 Reykjavik
Iceland

7 November 2019

Dear Armann

You betrayed our trust and played an integral role in the fraud at Kaupthing. In particular you were responsible for the launch of Kaupthing EDGE (internet savings account), which ultimately extended the life of the Kaupthing scam causing billions of euros more in damage to society.

The fraud at Kaupthing amounted to USD 83 Billion, which precipitated the fifth-largest bankruptcy in history, dwarfing the USD 64 Billion Madoff fraud. Combined, the three Icelandic Banks formed the third-largest bankruptcy in history, surpassed only by Lehman Brothers and Washington Mutual.

**Failure of three largest Icelandic banks
superimposed on the largest US corporate
bankruptcies**

Rank	Firm	Year	Type	Assets (\$bln)
1	Lehman Brothers	2008	Investment bank	691
2	Washington Mutual	2008	Savings and loans	328
3	WorldCom	2002	Telecommunications	104
4	General Motors	2009	Auto manufacturing	91
5	Kaupthing Bank	2008	Commercial/investment bank	83
6	CIT Group	2009	Bank holding company	80
7	Enron	2001	Energy trading	66
8	Conseco	2002	Financial services	61
9	Landsbanki Islands	2008	Commercial/investment bank	50
10	Glitnir Bank	2008	Commercial/investment bank	49

Source: FME

I (Kevin) have been in dispute with the administrators of Kaupthing since the collapse of the bank in 2008, and appreciate that my allegations will be viewed as conflicted; therefore, I endeavour to prove my allegations and use the accounts of those involved (including yours) to describe the events.

I have provided the Board of Kvika Bank hf, Bjarni Benediktsson (the Finance Minister), and Unnar Gunnarsdottir (the Director-General of the Financial Regulator) with evidence to prove my allegations, none of whom have responded to my correspondence. However, after I made the authorities aware of my allegations it was reported on 27 May 2019 that you had requested demotion from CEO to Deputy CEO of Kvika Bank hf.

<https://www.globenewswire.com/news-release/2019/05/27/1850381/0/en/Kvika-banki-hf-Marin%C3%B3-%C3%96rn-Tryggvason-new-CEO-of-Kvika-banki-hf.html>

The Icelandic Finance Minister or Financial Regulator (FME) did not respond and investigate the new evidence regarding your conduct which is astonishing considering they should ensure that the integrity of the Bank's management is beyond reproach. However, Iceland's recent addition to the "Grey List" of the Financial Action Task Force (FAFT) along with Mongolia and Zimbabwe does suggest that the Regulators in Iceland do not operate to the same standard as elsewhere in the western world, which is why Swiss and Cypriot Banks are stopping transactions with Icelandic Banks, and more countries are expected to follow.

<https://www.bloomberg.com/amp/news/articles/2019-10-18/mongolia-added-to-watch-list-by-agency-policing-money-laundering>

We invited you to defend the allegations or resign from Kvika Bank hf; as you did neither, the foreign entities (listed below) and the public need to be made aware, as there is a vast difference between the threshold of past conduct which results in a criminal conviction and the threshold that allows for the continuation of trust to operate a publicly traded Bank.

The Special Investigation Commission (SIC) that was appointed by the Icelandic Government reported that the authorities in Iceland demonstrated a prolonged negligence that facilitated one of the largest frauds in history; and since the Board of Kvika Bank and the Icelandic Government seem happy to turn a blind eye to your past conduct, it appears little has changed.

In the past, political pressure in Iceland has had more significant influence over the local franchises of the accounting firms, the Financial Regulator and the Central Bank, than in other countries in the western world that operate their own currency. In a country with a population of just 360,000 it is no wonder that the inevitable conflicts of interest between the tiny business community, politicians (some of whom bought shares in the banks), regulators, auditors and the Central Bank enabled one of the largest frauds in history.

<https://www.icenews.is/2011/03/02/key-players-in-iceland-bank-crash-in-court-as-witnesses/>

On 6 October 2017, The Guardian reported that Bjarni Benediktsson (the current Finance Minister and former Prime Minister of Iceland) *"Sold almost all his remaining assets in a major Icelandic bank's investment fund on the day the government seized control of the country's collapsing financial sector at the peak of the 2008 crash"*.

<https://www.theguardian.com/world/2017/oct/06/iceland-pm-sold-bank-assets-hours-before-financial-crash-leaks-show>

After the collapse of Kaupthing you wrote a book that was published in October of 2009, entitled: *"Frozen Assets, how I lived the boom and bust"*. We invite you to provide the original draft transcript of your book (before your lawyers amended it) to the authorities.

Your book was touted in a promotional film in which you said: *"Read about how I lived the Icelandic Boom and bust in my book. The story of how one man, one bank, and one country experienced and affected the course of world economic history. The rise and fall of Kaupthing as told from the front line"*.

<https://www.youtube.com/watch?v=SUwj0WQY9rA>

"Frozen Assets" provides an insight into your knowledge of the fraud, before the facts emerged from the Icelandic SIC (sometimes known as the *"Truth Report"*) later in May 2010.

<https://www.rna.is/eldri-nefndir/addragandi-og-orsakir-falls-islensku-bankanna-2008/skyrsla-nefndarinnar/english/>

On pages 67 and 68 of your book, you explained the background to our relationship:

“Our invasion of the British High Street began in the summer of 2000, when I flew to London to meet Kevin Stanford and Karen Millen the founders of the eponymous fashion chain. Karen had been the design force behind the company, but it was Kevin who had built up the business”

“The meeting had been set up by two Icelanders, Magnus Armann and Sigurdur Bollason, who worked for the Karen Millen’s franchise partner in Iceland. They had approached me to ask if we could put together an investor consortium to buy a significant shareholding in Karen Millen”.

“Finally in the end of summer 2001, we managed to close the deal and the group bought 46% of Karen Millen. Kaupthing needed to take a bigger stake than had been initially intended, which didn’t go down too well because the firm was having a difficult year and there was a significant liquidity squeeze in the Icelandic market. I had to put my head on the block to persuade Sigurdur to agree to the investment which I was convinced would be a good one. Eventually he could take no more of my begging and pleading, he reluctantly agreed, shouting at me: if we lose money on this, I’ll have you digging ditches for the rest of your life!”.

“Thankfully the investment was a great success and we all got our money back many times. The Karen Millen was not huge, but still one of the most important ones we did. A few years later, we would cooperate with Baugur in creating one of the UK’s biggest fashion retailers, where Karen Millen played a big part. Because the name was so well known, it became a well-publicised example in Iceland of what Kaupthing could put together with its clients.

On page 125, you explained how our relationship developed when you moved to London:

I felt like a poor immigrant on Ellis Island when I landed at Heathrow Airport in London on 18 June 2003. As we walked down the tunnel, I felt slightly uneasy. We’d done quite a few deals in London, and I had some contacts but building up a business in the world’s financial capital was going to be no mean task

I switched on my phone and found a message on my voice-mail it was from Kevin Stanford he wanted me to join him for a meeting the next day to discuss the £620 million acquisition of Selfridges, one of the biggest and most famous department stores. My heart skipped a beat, I could hardly believe it but it felt like we were off to a flying start.

On page 131, you described the sale of our remaining shares in Karen Millen in 2004, and emphasised how much we trusted you:

“It was sentimentally difficult for Kevin and Karen to sell off the company they had built together. Accepting co-investors was one thing, but after merging with Oasis they would become minority investors and would cease to work for the company. The deal almost fell apart a couple of times. There was one clause in the agreement that stipulated earn-out payments for Kevin and Karen (additional payments if the company performed exceptionally well). But the amount payable could be subject to interpretation and possible dispute. After lengthy debate, both parties put in a very unusual clause that stipulated that if there was any disagreement, Armann Thorvaldsson would decide what was fair. I was proud that both parties had entrusted me with the role of Solomon, but I silently prayed it would not come to a dispute”.

In April 2005, you assisted us to buy Kaupthing shares to the approximate value of GBP 60 million, which we funded with loans that we guaranteed. Kaupthing had issued new shares in the fourth quarter of 2004 to raise funds to buy the Danish Bank, FIH Erhverbsbank; the overwhelming majority of the new shares were bought by Icelandic investors who were funded by Kaupthing. The acquisition doubled the size of the bank, and the total amount of equity raised in these transactions was ISK 92.4 billion.

In March 2006, Danske Bank published a report entitled “Geyser Crisis” (Annex 1), which led to a campaign of deliberate deception to conceal the fraud at the Icelandic banks.

Gudrun Johnsen summarised the SIC report in her book *“Bringing Down the Banking System- Lessons from Iceland”*.

<https://www.amazon.com/Bringing-Down-Banking-System-Lessons-ebook/dp/B00I5QZ7I6>

On page 86, Gudrun Johnsen wrote:

In an effort to manage the Geyser Crisis, Icelandic bankers colluded on a marketing campaign where the Icelandic Chamber of Commerce provided the collusive mechanism needed for the effort. The Icelandic Chamber of Commerce hired the world-renowned economist Frederick Mishkin, at the time Professor of economics at Columbia University, to co-author a report on the Financial Stability in Iceland with an Icelandic Professor of Economics, Tryggvi Thor Herbertsson who served as the economic advisor to the Icelandic Prime Minister. Armed with the so-called Mishkin Report the Banks managed to unify the story about their own good standing and to dispute assessment of the markets of their trustworthiness that derived from the Danske Report.

An interview with Frederick Mishkin regarding the alleged deception appeared in the Oscar winning documentary film *“Inside Job”*: <https://www.youtube.com/watch?v=5msVl3oZl4U>

On 6 November 2006, Kaupthing announced a Rights Issue aiming to attract international shareholders to combat the criticism from Danske Bank, which had caused the so-called *“Geyser Crisis”*.

From: CEO's Office [<mailto:newsflash@kaupthing.net>]
Sent: 06 November 2006 09:57
To: GlobalKaupthingBankSubsidiarieseveryone@kaupthing.net
Subject: Kaupthing News Flash - 6 November 2006 - Summary of the Offer of New Shares

Announcement of Intention to Raise Equity: Summary of the Offer

This morning Kaupthing Bank announced its intention to proceed with an offer of new shares in the capital of the Bank representing up to 10% of its total issued shares and to apply for the new ordinary shares to be issued pursuant to the Offer to be admitted to the Main List of the Iceland Stock Exchange ("ICEX") and on the O-list of the Stockholm Stock Exchange.

Summary of the Offer

- Offer of new ordinary shares to international institutional investors.
- Kaupthing intends to issue new shares under the Offer representing up to 10% of its total issued shares. The Offer is expected to be completed before year end subject to market conditions.
- In deciding and effecting the increase of Kaupthing's equity, its board of directors will, to the extent necessary, rely on an authorisation which was granted to the board by the Company's shareholders at their annual meeting on March 17 2006. The shareholders then further agreed to waive their pre-emptive right to subscribe to any new shares issued in respect of the increase.
- Citigroup Global Markets Limited and Morgan Stanley & Co. International Limited are acting as Joint Global Co-ordinators and Joint Bookrunners for the Offer. Fox-Pitt, Kelton N.V. is acting as a co-lead manager for the Offer.

Sigurður Einarsson, Executive Chairman of Kaupthing Bank, comments on today's announcement:

"We are excited at the prospect of accessing the international equity capital markets as we look to the next phase of Kaupthing's development. In recent years we have continued to develop Kaupthing as one of the fastest growing northern European banks and widened our footprint in northern Europe through a strategy of organic and acquisition-led growth. The fact that we now derive the majority of our revenues and income outside Iceland reflects the successful implementation of this strategy.

A broader international shareholder base will support the further expansion of our business as well as strengthen our capital base. Achieving these objectives should lower our cost of funding and provide a stronger platform in pursuing a successful long-term growth strategy."

Further information:

- [Press release on kaupthing.com](#)

About Kaupthing News Flash

News Flash is an internal group-level information source, highlighting in English recent events and activities at Kaupthing Bank.

For further information contact ir@kaupthing.net

After the collapse, I met Jan Petter Sissener, the former Global Head of Equities at Kaupthing (profile, Annex 2) who helped me with my investigations and provided a witness statement (Annex 3), extract:

“In 2005, I joined Kaupthing as the CEO of Norwegian activities and in 2006 also was named their Global head of Equities. I left Kaupthing in February 2008 after an argument with the senior management.

In the spring of 2006 I was asked by the senior management of Kaupthing Bank to head up the selling of a new issue of 10% of the total bank's equity. The new equity was approximately 550m euros the total equity was 5.5 billion euros.

The Investment bankers involved strongly criticized the cross ownership and Goldman Sachs pulled out of the consortium. This led to the spinoff and listing of Exista. Kaupthing had however had continued to produce excellent results with regards to its financial performance.

The new issue was launched on 6 November 2006. It was crucial for Kaupthing to halt the rumors about cross ownership funded by the bank itself, that had been mentioned in numerous reports from Danske Bank to the IMF and gain a more international "blue chip" shareholder base.

Sigurdur Einarsson and Hreidar Mar Sigurdsson the Kaupthing group CEO confirmed to me on many occasions that there were no loans collateralized by the bank's own shares.

The transaction was managed by Morgan Stanley and Citibank, with Fox Pit Kelton as a co-manager. Several blue-chip institutions such as Fidelity, Henderson, Montrica etc took up the Issue.

After the successful new issue RMS and SE each bought 500k shares in the market and the price soared. Many of the new international started to take profits by selling their shares on the open market.

During the placing it came to my attention that Kaupthing traders were buying the shares in the market aggressively, creating a false demand for the shares and keeping the share price higher than it would have been. As opposed to any other offering the Kaupthing share rise did not drop the normal 10% but actually rose during the offering period.

I was extremely concerned about both the ethics and legality of Kaupthing buying its own shares and I made my concerns clear to the senior management in both telephone calls and on email - however my concerns were ignored.

As I had not received the comfort I required I decided to ask Allen and Overy to write a legal opinion Kaupthing purchasing its own shares, especially during the offering period.

The opinion from Allen and Overy confirmed my assessment that it was in fact illegal, after the Kaupthing senior management received the legal opinion from Allen and Overy and some harsh discussions the manipulative share trading stopped at Kaupthing, however other Icelandic banks started to buy aggressively.

Subsequent investigations have since confirmed that the Kaupthing's own share buying soon commenced without my knowledge and was systematic until the bank collapsed in 2008.

In January 2008, I received the draft 2007 accounts for the Kaupthing Group and raised concerns over unsecured loans made to management and related parties, and if the proceeds could have been used to buy Kaupthing shares these loans had not been accounted for correctly in the accounts. In addition, these loans were used for high-risk private equity investments where the idea was that management had the upside and the bank the downside. If I remember correctly these investments were 100% funded.

Also, I did not understand why no loss had been reported on the bond portfolio as the financial crises had commenced most banks in the world took big write-downs on their bond portfolio. So not at Kaupthing whose explanation of "held to maturity" was difficult to accept.

I did not believe Kaupthing were publishing an accurate account of the bank's true financial position and I made this very clear to the senior management.

There was also a placing of a senior bond issue for Kaupthing done by management to an undeclared buyer – a deal the financial community had heard nothing of and thereby increased my concerns.

I did not receive the comfort I required so on January the 23rd 2008 I transferred the Kaupthing brokerage unit client's deposits account out of Kaupthing Bank and into DNB, I was subsequently fired on February the 12th 2008.

Subsequent enquiries have since confirmed the market manipulation continued unabated by the regulators until the bank collapsed in October of 2008. Later in 2008 Kaupthing funded the purchase of its own shares, bonds and Credit linked notes with cash deposited by the public in Kaupthing Edge the Internet deposit scheme launched shortly after I left the bank.

Kaupthing paid the highest yield in the market to attract cash and used that cash to buy its own shares and bonds to manipulate the market and maintain the share price, which I believe, is deplorable.

It is my opinion that the systematic purchasing of the bank's own shares by the bank and its related parties itself prolonged the inevitable. If the price had not maintained, it is very likely that the loans to related parties and management would have defaulted and the bank would face huge losses.

From reports I have received it is clear Kaupthing was insolvent as far back as 2005; I had been systematically lied to by the senior management since my employment commenced in 2005.

If Kaupthing had not funded the purchase of its own shares, the share price would have collapsed as well as the bonds"

On page 174 of Frozen Assets, you wrote:

"As 2006 drew to a close the memories of the Geyser Crisis had rapidly faded. In a sign that the international markets seem to have forgotten their scepticism about Iceland, Citigroup, Morgan Stanley and Fox-Pitt Kelton successfully executed a EUR 650 million international placing of Kaupthing shares. For the first time, we had a large number of foreign institutional investors on our share register"

On 12 December 2006, after the "Geyser Crisis" had been dealt with, you transferred your loan to an offshore company with no recourse, when you knew that we and many of your colleagues had personally guaranteed their loans to buy shares in Kaupthing.

<https://www.rna.is/media/skjol/RNABindi3.pdf> (page 81).

Even though you told me that no one profited from Kaupthing's market manipulation, you and your colleagues received millions in dividends when you bore no risk.

You then asked me (Karen) to promote Kaupthing's 2006 annual accounts, which you knew were fictitious.



In December 2007 (just before Kaupthing's year-end of 31 December), the huge losses (over USD 1.5 billion) incurred in the Financial Crisis earlier in 2007 by Kaupthing's UK subsidiary, New Bond Street Asset Management, were hidden when the defunct assets (CDOs) were transferred to a company owned by Kaupthing called "*Black Sunshine*" held at Kaupthing's subsidiary in Luxembourg.

(Annex 4 to 4.1) Email correspondence regarding the asset transfer to Black Sunshine.

After the losses were hidden in Luxembourg, the management of New Bond Street Asset Management were paid off and the operation was shut down.

(Annex 5 to 5.3) Black Sunshine loan documents signed by Hreidar Mar Sigurdsson, the former CEO of Kaupthing hf.

The CDOs hidden in Luxembourg to conceal Kaupthing's losses then appeared on page 51 of a PwC report (Annex 6) at less than 5% of the accounted value. The report was prepared for Emmanuelle Henniaux the court-appointed administrator of Kaupthing Bank Luxembourg, after the collapse of the bank.

In a telephone conversation (recorded legitimately in the UK), Francois Cabay, the former Treasurer of Kaupthing Bank Luxembourg, described the "*Window Dressing*" that was required to hide Kaupthing's sub-prime losses of USD 1.5 billion. Extracts of the transcript of my conversation with Francois Cabay:

EXTRACT 1: (Annex 7)

FC: *Yea, but the black sunshine notes, there was nothing wrong with these or what?*

KS: *Well, other than the fact that Kaupthing were bankrupt....and erm....*

FC: *No, I know that, yea I know, I know other than the fact they were transferred on err, on the 30th of December 2007, and that we, and that the whole portfolio was a shitty portfolio, and we advertised in March that we had no more credit exposure, or structured credit exposure, that we had no more CDO's, CLO's and blah blah blah, that's something that we said to all our stakeholders, whether they're clients, whether they're interbank creditors, or whatsoever. Yes, I mean that was... these were massive lies, yes.*

KS: *But who arranged the loans? The corporate loans to...?*

FC: *That's Eggert*

KS: *Eggert did all that?*

FC: *Yes.*

KS: *So, what did you do then? You, you was...*

FC: *On that Black Sunshine?*

KS: *Yea.*

FC: *Nothing, nothing.*

KS: *I remember you were on the e-mails, that's all, I just....*

FC: *No, yea exactly, but no, well nothing. You know, I mean in the past when, you know, during Kaupthing times, I mean the Icelanders, Magnus and Eggert, they were really running the bank..*

KS: *Yea, yea.*

FC: *And all the bullshit was just arranged by them, and they'd been so good at, you know hiding things, at ummmm....*

KS: *But, how do you hide one and a half billion worth of CDO's? You know, does anyone not ask any questions or what?*

FC: *No, well it's just, yea but you know the bank was, was big at the time, it's just a few transfers.*

KS: *Yea.*

FC: *It's just, err, the ummm, you know, I mean a few, a few, a few securities whose market value is fuck knows what because, well they've been transferred free of payment, so, well...*

KS: *Free of payment, and then you get a loan from Iceland to balance the books?*

FC: *Err yea, yea indeed.*

EXTRACT 2: (Annex 8)

FC: *Yes, Yea Yea.....Yes that came one year before the collapse of the group.*

KS: *Yea, so Kaupthing, they must have been bust in, you know there was one and a half billion loss in 2007, were bust if they'd have been reported, surely?*

FC: *Thing is that the subprime crisis started to, ummm...*

KS: *2007*

FC: *It was late 2007, it was...*

KS: *No, it was in the summer of 2007.*

FC: *The first thing was on the twenty third of July 2007.*

KS: *Exactly.*

FC: *It was the first time we heard about subprime crisis. To me, I mean it really crashed in September.*

KS: *Yea.*

FC: *Yea well, I mean really I cannot say that they were...*

KS: *No, I'm not saying you, I'm just saying what they did, Francois.*

FC: *No, I have no idea. I have no idea, but the fact is, that they disappeared from the balance sheet.*

KS: *And they did this, why did they do it over Christmas?*

FC: *No idea.*

KS: *Was it because it was the end of the year?*

FC: *It was just to clean the sheet before the annual accounts of 07.*

KS: *Yea, which is the thirty first of err...*

FC: *It was window dressing.*

KS: *Yea. Yea, and then after that they opened Kaupthing Edge.*

FC: *Yep, and for opening Kaupthing Edge you had to say you had no exposure to structured credit, to subprime, and blah blah blah.*

KS: *Fucking hell, this is a bit of a story mate.... this is one of the biggest Ponzi Schemes in history.*

FC: *Yea, yea.*

On page 179 of Frozen Assets, you wrote confirming the losses made by New Bond Street Asset Management:

"Unfortunately, we had invested part of our liquidities in sub-prime debt this was through our entity called New Bond Street Asset Management. We needed to write off hundreds of millions of euros as we closed out the positions by the end of 2007"

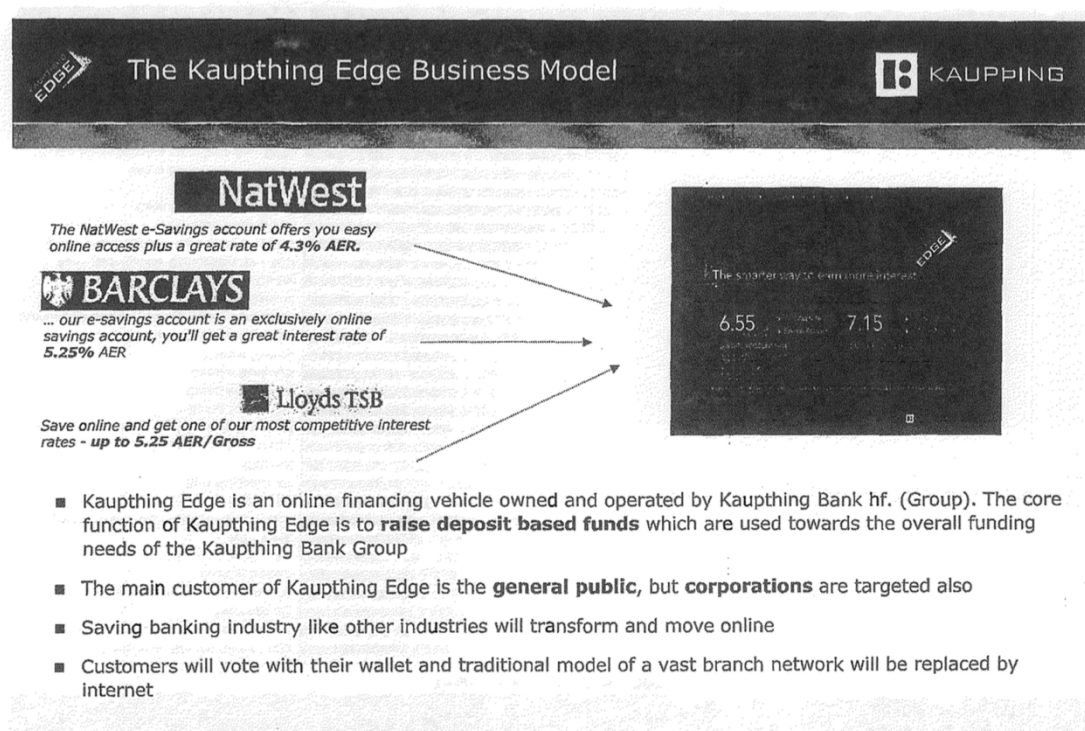
And on page 240, you wrote:

"For us at Kaupthing whose biggest losses had to a large extent originated from the female-run New Bond Street Assets Management."

Page 19 of Kaupthing's 2007 Annual Report (Annex 9), stated that:

"KAUPTHING HAS NO DIRECT EXPOSURE TO US SUB-PRIME"

In 2008, the inter-bank lending market was closed to Kaupthing, hence, the only way to fund the scam was to attract retail deposits. The below extract from an internal report (Annex 10) illustrates the EDGE model that you launched in the UK, whereby "Customers will vote with their wallet" when offered the highest returns.



Ironically, Kvika have now launched "AUDUR" an internet savings account offering the highest return in the market. On the official Kvika website, Ólöf Jónsdóttir, the director of AUDUR (a former Kaupthing Risk Manager from 2005 to 2008, profile (Annex 11)), wrote:

<https://www.kvika.is/en/news/nanar/1353/audur-daughter-of-kvika>

"Deposit rates in Iceland are low and, with little superstructure, we saw an opportunity to be able to offer better term than those available. Kvika is in a special position as the commercial bank that has the highest returns and capital ratio, but does not run an expensive network of branches"

It all sounds very familiar to the "Kaupthanking" slogan that the bank used in a promotional video, and we hope "Kaupthanking" has not been replaced by "Kvikthanking"

<https://www.youtube.com/watch?v=Rkz-hjpch38&list=PLdNi-P86zcxBvsU3vD0vYN2rRi3NuzpX6&index=2>

To quote an extract from the video:

"We thought we could double in size, and we did, every year for eight years... We thought we could increase our balance sheet, and we did, by 500% in just three years... by outwitting bureaucracy"

It appears that you "outwitted bureaucracy" in the UK, as you knew that Kaupthing was insolvent when you launched EDGE on 8 February 2008, and that Kaupthing had not deducted the loans (granted to buy the banks own shares) from the bank's equity, also that Kaupthing had hidden losses of USD 1.5 Billion (that amounted to more than one year's earnings) made in US sub-prime investments.

Jan Petter Sissener wrote in (Annex 12):

"There is no doubt in my mind that Armann knew about the events that I described in my witness statement regarding Kaupthing's new issue in November 2006, and how the New Bond Street Asset management losses were concealed from the 2007 accounts".

The evidence suggests that you deliberately lied to the UK authorities to launch EDGE, and lied again (after the collapse) regarding your knowledge of the fraud.

PWC (Iceland) provided a report for the Resolution Committee of Kaupthing entitled *"Project Staying Alive"*, which concluded that EDGE induced deposits of EUR 4.2 billion, of which EUR 2.8 billion were flushed into Kaupthing's share support scam. (Annex 13)

After the launch of EDGE, you knew that Kaupthing had used our names (as two of the so-called *"High Net Worth Individuals"*) in a conspiracy to manipulate the level of Kaupthing's Credit Default Swaps (CDS) to deliberately mislead potential EDGE depositors into believing Kaupthing was less likely to fail. On 7 October 2016, Deutsche Bank agreed to settle a claim of EUR 510 million from the Resolution Committee of Kaupthing (Annex 14) with a payment of EUR 425 million, rather than have the scam revealed in an English court.

Deutsche Bank investigated and dismissed those involved in the fraud, and I have suggested that the FME seeks clarification from Deutsche Bank regarding your involvement in the scam.

On page 170 of Frozen Assets, you wrote:

"When the CDS was first written on Kaupthing the price of the insurance was 0.20 percent. The price of the CDS was highly correlated to the price of the bonds. The CDS spreads became the indicator of the banks well-being. Media reports would measure the banks riskiness on the basis of the spreads. People began to speculate that the bank would not be able to access any funding internationally. Forecasting that a bank cannot fund itself can turn into a self-fulfilling prophecy. If the market believes you are running out of money, it is not going to lend you any. We were in a vicious circle and the situation was becoming incredibly un-comfortable"

On page 180 of Frozen Assets, you wrote:

"In January our CDS spreads started going into orbit over 5%. This was beginning to have an effect on our deposits in Scandinavia we were experiencing considerable withdraws"

On page 190 of Frozen Assets, you wrote:

"The underlying trend where the high CDS spreads-The markets indication that we were likely to fail".

I received a file compiled by the Icelandic Special Prosecutor regarding the investigation into the Kaupthing/Deutsche Bank CDS fraud, which contains evidence to confirm that you attended meetings with Deutsche Bank and received emails concerning the plot to influence the level of Kaupthing's CDS.

Your participation in Kaupthing's share support scam (which was funded by the deposits made into EDGE after you launched it in February, 2008) was reported by the SIC and confirmed by the Icelandic Supreme Court Judgement (Annex 15) on 16 October 2016. The Supreme Court verdict was based on a report written by the FME entitled: *"Alleged Market Manipulation of Shares in Kaupthing hf"* (Annex 16). The Government-owned TV channel 'RUV' used the FME's report to make a short film which illustrates the Systematic Market Manipulation at Kaupthing since 2005.

<https://www.youtube.com/watch?v=SVisWHwuZIk>

After the SIC Report was published, we began to suspect that we were victims of fraud, so I arranged a meeting with you, which I recorded (legitimately in London) as part of our investigations. During our conversation, you admitted your knowledge of the share support scam in the following extracts:

EXTRACT 3: (Annex 17)

AT: *I was going to say in our defense if there is.....what you have which is so peculiar....I wonder if Kaupthing would have been...let's say.... not you know..... not by far the largest bank in Iceland....but let's say it was an isolated problem and it was a 5 or 10% part of Iceland and everything else... if you can imagine what was happening would people have done all of this to save the Bank? ermmmm stretch themselves and thatI'm not sure....I think the problem is....and I think that is what really was happening.....people weren't saving the Bank*

KS: *"They were saving the country?"*

AT: *"They were saving the whole Island, because everybody knew, you know that's why I say were holding up...you know... I think the perception in Iceland....people were holding the shares... because you know people somehow the employees who had shares would then think they had money...or something like that....nobody was selling...nobody cared...I didn't even look at my shares at the time..."*

KS: *"But you stopped them going down rather than...."*

AT: *Yea you stopped them going down....but the main purpose for that was that people...errrrrr.....you can ask Hreidar I haven't asked him specifically how he looked at itbut I'm pretty sure the reason is one all the shareholders would have been bankrupt which would have led to a run on the bank.....it all would have come down to a run on the Bank and the whole thing collapsing.....that's what people were always for the last twelve months.....it was all about avoiding a run on the Bank*

KS: *"Yea but it was inevitable really when you think about it, it was nothing to do with Lehman's it was going to happen anyway"*

AT: *"It all depends on how bad it would have been I don't know....I mean before Lehman's like I said I mean QIA (QATARI INVESTMENT AUTHORITY) was going to come in.....we desperately needed someone from outside the system"*

KS: *"Someone....yea... that you weren't funding"*

AT: *"Yea exactly because nobody....the shareholder base was always pretty much in all the banks completely Icelandic almost all the people in Iceland were leveraged so they were all dead.....so people.....I think the belief was I think that.... errrrr..... that the share-price for example like you say... if they hadn't been lending money would the share-price dropped.... Yea.....it would have completely crashed....but I think people then would have said it wasn't because necessarily because there was anything fundamentally wrong with the bank...but because the market itself was dead nobody had any money to buy even if they were truly worth a 1000 krona they would still have dropped to a 100 because they did have any....."*

KS: *"Yea...the Bank must have been bust, before Kaupthing Edge probably?"*

AT: *"Arrrr it all depends on what you.....errrrrr.....I haven't really done that analysis but basically what happened in the last year was that gradually, because people were just trying to keep the system together, they were lending against the shares and it was gradually just eating into the equity"*

How can you convince yourself that you and your colleagues were *"saving the whole Island"* when Kaupthing decimated the Icelandic Krona with a massive short position in 2008 after Kaupthing had granted loans to Icelandic customers in Japanese Yen which led to thousands losing their homes. Your book did not mention the fact that many of your colleagues made fortunes (enough to repay their mortgages) using their inside knowledge to bet against the Krona via their private trading accounts at Kaupthing Bank Luxembourg.

EXTRACT 4: (Annex 18)

KS: *"It was Iceland keeping the share price up with its jiggery pokery"*

AT: *"Historically..... there was always a bit of that and people didn't think they were manipulating the market but they were..... and that was true for all the banks...and it was true....this was Micky Mouse Market"*

KS: *"Yea I know but all the other Banks weren't funding their friends to buy shares"*

AT: *"All of them"*

KS: *"What...Deutsche Bank.....?"*

AT: *"No.....the Icelandic"*

KS: *"Sorry yeah, the Icelandic Banks, the Icelandic Banks were funding the purchase of their own shares"*

AT: *"Yea but only after....well not completely...mainly in the last twelve months..because the reason for that, you know doesn't make.....well, you know, it does make it better but...it doesn't make it legal. If it is illegal..... its illegal but I'm not sure that is the case. But, basically, people weren't doing it because they were...they were making sure the market was orderly if you like.....people didn't want to see....."*

KS: *"So they kept buying shares....andthey kept lending money to buy shares"*

EXTRACT 5: (Annex 19)

AT: *"I think.... yea.....I mean there were no buyers...the issue was..."*

KS: *"There were no buyers for the shares unless you lent people the money to buy them"*

AT: *"All of the Icelandic shareholders to begin with were leveraged and not only through the Icelandic banks but I mean Citibank was lending to Olafur Olafsson, Exista was borrowing 500 million from a syndicate of banks, they were all leveraged as soon as the share price.....you know.... started to come down.....obviously...you know....they became incredibly weak and that's when kind of..... gradually..... I guess people realized or I don't know how they thought about but people released..... if it would drop down....and that meant nobody could buy anymore either.....unless the banks were lending"*

EXTRACT 6: (Annex 20)

AT: *Well the question is would have Kaupthing.....if nothing else have happened...if the market had not collapsed and Glitnir would have had not collapsed and so on.....would have Kaupthing pulled through.....?*

Ks: *Well you would have just bought more shares.....laughing.....*

AT: *Yea.....(telephone rings).... can I take this?*

KS: *Yea*

AT: (After the call) *You know in hindsight... it looks pretty ermmm....pretty.....ermmmmm*

KS: *Well it left a lot of people in a lot of trouble didn't it.*

AT: *Yea*

EXTRACT 7: (Annex 21)

AT: *"I mean I think people did believe... I mean Hreidar probably did believe that we would pull through but obviously what they were doing was diluting the shareholder base by lending so much against it"*

KS: *"Yeah"*

AT: *"But it wasn't the purpose, wasn't to like, usually when you have market manipulation its somebody that's hiking up the price, to sell it to get rid of it and make some money"*

KS: *"But it was keeping the share price there...."*

AT: *"True...yeah... but I think whether it's important to other people or not, it's a bit important to me that it wasn't to keep it up so somebody could actually make money because they were keeping it up"*

KS: *"No.....it was to maintain it"*

AT: *"It was to.... in my mind it was to avoid what happened for example at HBOS when they dropped thirty per cent"*

KS: *"But that was playing with the market because the real market price would have been lower"*

AT: *"If the bank would not have bought shares itself...would it be lower... it would have been.....there is no doubt about that"*

When your former colleagues, the CEO's of Kaupthing in Iceland and Luxembourg were jailed for the it is astonishing that the FME can declare you fit and proper to operate Kvika Bank hf.

The FME must instil discipline. If the FME rewards your past conduct by allowing you to be the CEO (or deputy CEO) of Kvika Bank, it will only encourage more fraud and money laundering in Iceland.

In past financial downturns, Icelandic Banks have pursued a campaign of deliberate deception assisted by the Icelandic Central Bank, Financial Regulator and the bank's auditors. As the FME and the Board of Kvika are demonstrating a negligent approach into your past conduct, it appears the same mentality remains.

In an extract from your statement on 29 May 2019 (After you requested demotion from your position as CEO of Kvika), you said:

"The development of the bank's operations in the UK has been very positive over the past few years and there are clearly good marketing opportunities for Kvika there in the future. With this change I feel that it will be possible to put my experience, knowledge and UK connections to better use to support ongoing growth there."

The Financial Services Authority (FSA) banned you in 2012 (along with your former colleagues) from holding senior positions in the UK for five years; however, I doubt if you admitted to the authorities in the UK what you admitted to me, because if they were aware they would not allow you to operate a financial institution in the UK until they investigated.

<https://www.cityam.com/directors-collapsed-kaupthing-bank-banned-senior-jobs/>

In an interview published in the Guardian on 5 November 2009, you were quoted as saying:

"Part of my reason for writing the book is to explain how it really happened," he says. "These were businesses that were built from almost nothing over a 15-year period. They were the result of a lot of hard work by talented people. The average man or woman on the street now thinks every banker is stupid, dishonest and overpaid, a risk junkie who should go to jail for the colossal vandalism we've caused. Being perceived like that doesn't feel great."

<https://www.theguardian.com/business/2009/nov/05/author-icelandic-saga-armann-thorvaldsson>

On page 256 of Frozen Assets, you wrote: *"It is impossible to not feel bad about what happened. I still honestly believe that I tried to act sensibly and with integrity throughout my years at Kaupthing"*.

Also on page 256: *"Of course, there are decisions I regret making and things I regret not doing. Now finally I have written this book, not to make excuses, but just to tell it like it was"*.

Your book was an attempt to absolve yourself of blame from one of the largest frauds in history; which would not have been possible without your assistance and certainly not *"how it really happened"*.

You said: *"Not every banker is a stupid dishonest and overpaid risk junkie that should go to jail for colossal vandalism"*.

The Icelandic Supreme Court Judgements which sentenced your colleagues Hreidar Mar Sigurdsson (CEO of Kaupthing Iceland) and Magnus Gudmundsson (CEO of Kaupthing Bank Luxembourg) suggests that the above is an accurate description of them, and only further investigation will determine if the above is an accurate description of you.

Iceland is rightly proud that it is the only country that jailed guilty Bankers after the 2008 global crisis. Yet, there appears little point in sending some of those who participated in the fraud to jail while allowing others to continue running Banks in Iceland, surely the objective should be to remove all those who participated in this massive scam from the Banking Industry.

We remain available to assist the authorities in Iceland should they initiate an investigation,

Yours sincerely

A handwritten signature in black ink, appearing to be 'K. Stanford'.

Kevin Stanford

A handwritten signature in blue ink, appearing to be 'K. Millen'.

Karen Millen OBE

Copied to:

Katrín Jakobsdóttir, Prime Minister of Iceland.

Geir Haarde, Former Prime Minister of Iceland.

Bjarni Benediktsson, Finance Minister of Iceland.

Unnar Gunnarsdóttir, Director General of the Icelandic Financial Regulator.

Asgeir Jonsson, Governor of the Central Bank of Iceland.

Kristín Pétursdóttir, Chairman of the Board of Kvika Bank hf.

Marino Tryggvason, CEO of Kvika Bank hf.

Jay Clayton, Chairman of the US Exchange and Securities Commission.

Andrew Bailey, Chief Executive Officer of the Financial Conduct Authority.

Sam Woods, Chief Executive of the Prudential Regulation Authority.

Mario Draghi, President of the European Central Bank.

Yves Mersch, former President of the European Central Bank.

Stefan Ingves, Governor of the Central Bank of Sweden.

Oystein Olsen, Governor of the Central Bank of Norway.

Lars Rohde, Governor of the Central Bank of Denmark.

Thomas Oistros, Executive Director of the IMF.

David Lewis, Executive Secretary of the Financial Action Task Force (FATF).

Eva Thunegard, Director of Supervision, Prosecution Authority, Sweden.

Andy Watson, Senior Associate, Financial Conduct Authority.

Erik Thedeen, Director General of the Swedish Financial Regulator.

Morten Baltzersen, Director of the Norwegian Supervisory Authority.

Jesper Berg, Director General of the Norwegian Supervisory Authority.

Frank Bisdorff, Head of Banking Supervision at the Luxembourg Financial Regulator.

Emmanuelle Henniaux, Administrator of Kaupthing Bank Luxembourg.

Patrick Joseph Brazzill, Administrator of Kaupthing Singer and Freidlander.

Douglas L Peterson, Chief Executive Officer of S&P Global Inc.

Raymond W McDaniel, Chief Executive Officer of Moody's.

Paul Taylor, Chief Executive Officer of Fitch Ratings.

Adena Friedman, Chief Executive Officer of Nasdaq.

Lauri Rosendahl, President of North Nasdaq.

Bente Angell-Hansen, President of the EFTA Surveillance Authority.

Andrea Enria, Chairman of the European Banking Authority.

Steven Maijoor, Chairman of the European Securities and Market Authority.

Poul Thomsen, European Director of the IMF.

Kaarlo Jannari, Former Supervisor Appointed by the IMF to Iceland.

Jose Angel Gurria, Secretary General of the OECD.

Marcos Bonturi, Director for Public Governance at the OECD.

Eva Joly, Investigative Judge and Former Consultant to the Icelandic Government.

Simon Bessant, KSF Isle of Mann Depositors Action Group.

Carsten Valgreen, Author of the "*Geyser Crisis*".

Christian Sewing, Chief Executive Officer of Deutsche Bank.

Olaug Svarva, Chairman of DNB ASA (Employer of Eggert Hilmarsson).

Lars Rejding, CEO of Banque Havilland (Employer of Francois Cabay).

Zoe Shaw, CEO of Promethion Advisory Services (former CEO of New Bond Street Asset Management)

Mark Fisher, Owner of Promethion Advisory Services.