

In response to questions regarding Wintris Inc.

In the interests of the Icelandic people

In recent years, Prime Minister Gunnlaugsson's work in politics has been characterised primarily by his determination to ensure, to the extent possible, that the interests of the people of Iceland took priority over the interests of the failed banks' claimants. Both his words and all of his conduct confirm this.

The policy that the Prime Minister put on the political agenda and has fought for is a policy that has improved living conditions for the people of Iceland and has also increased the financial losses that the Prime Minister's wife has incurred as a result of the 2008 financial crisis.

The policy adopted by the Prime Minister and the Government was of pivotal importance in settling the failed banks' estates successfully, for the betterment of Icelanders' standard of living. It will not have escaped anyone, least of all the claimants of the failed banks, that the Prime Minister has prioritised the interests of the people of Iceland over the interests of the banks' claimants. In so doing he has gained many antagonists among several big hedgefunds and others that intended to make bigger gains from the Icelandic financial crises, as has been reported in Icelandic media in recent years.

The Prime Minister intervened decisively in the political chain of events and offered unprecedented policy actions in order to protect the interests of the Icelandic people. Everyone who follows Icelandic politics remembers that the measures he advocated were labeled demagoguery and were said to be unrealistic and impossible to implement. They were said to create unrealistic expectations and to constitute confiscation that would give rise to legal disputes that would last for years. He met with resistance at every turn in the road, both from hedge funds and from their representatives in Iceland, not least after he said that if they did not desist they would be taxed in order to protect Iceland's interests. In order to make this possible, people who had lost large sums by investing their money in the banks before the crash – people like the Prime Minister's wife – had to shoulder even bigger losses.

In spite of all of this resistance, results were achieved that have drawn international attention. Lee Buchheit, the government's advisor on capital account liberalization and a world renowned authority on sovereign debt reconstruction, said in a recent interview that the result achieved in settling the failed banks' estates is unprecedented in world financial history and that this outcome could by no means have been expected.

Assets and taxable income always reported on Icelandic tax returns

The Prime Minister and his wife find it rather ironic, after reading detailed media reports virtually every year about the Prime Minister's wife's assets and their tax payments, to read, in those same news media, accusations that the Prime Minister's wife hid her assets from the Icelandic tax authorities. Nothing could be further from the truth.

The holding in Wintris has been reported as an asset on the Prime Minister's wife's income tax returns since 2008. Securities registered to Wintris at any given time have been reported as assets on the Prime Minister's wife's tax returns from income year 2008 onwards. A claim against Wintris, in the amount of the Prime Minister's wife's capital contribution to the company, was reported as an asset on her tax return for income year 2008.

For the entire time that the Prime Minister's wife has been an owner of Wintris, taxable income from securities owned by the company has been reported as income on her Icelandic tax returns for the appropriate years.

The information above is confirmed by KPMG, which has prepared their income tax returns, first as individuals since 2006 and then as a couple, since 2010 (see the previously published statement by KPMG, attached here). The Prime Minister and his wife have filed their income tax returns jointly ever since they were married in 2010.

On the origins of the funds, Wintris, and administration

For quite some time, it has been generally known in Iceland that the Prime Minister's wife is financially well off. In fact, her financial status has repeatedly been covered by the media in recent years, as is stated above. Just under a decade ago, she sold her holding in a successful company that her family began to build up nearly half a century ago. In other words, the funds derived from the life's work of her parents and family. When her share in these funds came into her hands in 2007, the Prime Minister and his wife had been living in the United Kingdom for a few years and were planning to continue living abroad. It was therefore important to them that the assets should be readily accessible, irrespective of where they chose to live.

Landsbanki, their bank at the time, advised them on investments and business matters. At that time, the Icelandic banks commonly advised clients with significant assets to establish holding companies for their funds. The administration of these companies was often in the hands of a management company provided by the bank, and the management company provided board members for the company, among other things.

Landsbanki recommended that the administration of the funds would take place in a company registered in the British Virgin Islands, which the bank would provide. This advice

was heeded in late 2007. Thereafter, assets were transferred to the company Wintris, and the Prime Minister's wife acquired a claim against the company. Financial custody was originally with Landsbanki and the administration of the company, as is stated above, was in the hands of the management company provided by the bank. As previously confirmed, the company's asset management and account have been handled by Credit Suisse in London since 2008.

The main reason the Prime Minister's wife's family heritage and investments are still abroad is that the Prime Minister and his wife did not consider it appropriate for the wife of a Member of Parliament and, later, a Government minister, to invest in Iceland at the same time, including in Icelandic companies. For the same reason, they never considered it appropriate that the Prime Minister's wife should bring funds back to the country through the Central Bank's investment programs and buy krónur (the local currency) at a discount. Therefore, the Prime Minister's wife has not taken advantage of opportunities for high interests returns in Iceland or other investment opportunities. With these decisions she has avoided conflicts of interests.

Wintris' assets and the claim against the company are wholly owned by the Prime Minister's wife

When shares in Wintris were issued to its shareholders in October 2007, the Prime Minister and his wife had been living together for several years and, as a result, had joint expenses. For that purpose they had a joint bank account. This resulted in share capital certificates being prepared for both of them, as has been stated previously, even though it was clear from the outset that the Wintris assets belonged to the Prime Minister's wife.

The Prime Minister's wife placed the assets in the company, and a claim against the company in the same amount was established. This claim was reported on the Prime Minister's wife's tax return for income year 2008. The shares in the company were therefore worthless at the offset, as the company had as much assets as liabilities.

When the PM and his wife decided to get married, they went over a number of issues, including finances. At around that time, in late 2009, the management company of Wintris was changed, and when its employees reviewed the company documents, they pointed out to the Prime Minister and his wife that they were both listed as shareholders in the company. It had always been clear to both of them that the Prime Minister's wife owned the assets, and this had not changed. Therefore, it was immediately requested for the shareholder structure to be mended. All this was made clear in e-mail communications at the time.

The Prime Minister's share certificate in the company was therefore cancelled at the end of 2009, and a new certificate was issued in the Prime Minister's wife's name. Hence the Prime Minister's wife was the sole owner of Wintris, in accordance with their joint understanding from the beginning that its only purpose was as a holding company for her family heritage.

In the execution of the change, applicable requirements were met by transferring the shares registered to the Prime Minister over to his wife. Wintris' board then cancelled the Prime Minister shares and issued a new share certificate in her name. The price at the transfer was set at one dollar, as the shares were worthless at the beginning and the transfer a pro forma transaction. Following the change of a management company of Wintris, the board of the company was also changed, and the Prime Minister's wife became the only board member, whereas the management company had previously provided board members, as is stated above.

There were no tax motivations behind the cancellation of the Prime Minister's share certificate, and there were no tax advantages to it. From the beginning, the Prime Minister's wife contributed the assets to the company and owned all of the claims against the company; furthermore, the declaration of the company, its assets, and the income on those assets to Icelandic tax authorities have always been in accordance with that fact, as is confirmed by the statement from KPMG.

The Prime Minister's disclosure of financial interests is in compliance with Parliamentary rules

When the Prime Minister became a Member of Parliament in spring 2009, as an opposition party member, The Minister and his wife were living together but not married. The rules on disclosure of Icelandic MPs' financial interests are clear and exhaustive:

Companies owned by MPs' spouses, regardless of the nature of that legal entity, are not subject to the reporting requirement according to the rules on disclosure of financial interests, as the Speaker of Parliament confirmed when addressing Parliament on 16 March 2016: *"The Speaker draws attention to the fact that, among other things, the Parliamentary register of financial interests specifies very clearly that information on the finances of MPs' spouses does not belong there."*

In addition it is only required, according to the rules, that the names of companies engaged in commercial activities in which the MP owns a holding shall be disclosed. Wintris is merely a holding company, not a company engaged in commercial activities; its only purpose is to hold the Prime Minister's wife's assets.

Nor is it required under the rules to register bond holdings or claims.

Therefore, the Prime Minister has acted in accordance with the rules on disclosure of financial interests ever since he first became a Member of Parliament in 2009.

What is most important is to comply with the rules that are in effect. In this context, of course, it is possible to consider whether the rules on disclosure of financial interests should be different than they are. In the past eight years, MPs and ministers in Iceland have had to make decisions on various issues related to the collapse of the banks and its repercussions – issues that, in many instances, are directly related to their own interests and those of their families. MPs and their families naturally had interests at stake in the collapse of the banks, as did other Icelanders; they had money in bank accounts and money market funds and, in some cases, substantial pension rights.

The pension funds, for example, will be greatly affected by the settlement of the failed banks' estates. In all of these decisions, MPs and ministers have therefore been involved with interests that often affect them directly; as a result, they have been protecting their interests and their families' interests without considering it necessary to make explicit mention of it. They were, as in the case of the Prime Minister, protecting the interests of Icelandic society at the same time. The difference however being that the changes the Prime Minister successfully fought for diminished the assets of his wife while in other cases previous ministers and members of parliament had been making changes that enhanced their interests and those of their families.

Moreover, the Emergency Act passed in October 2008, prior to the collapse of the banks, was necessary in order to protect the interests of Icelandic society as a whole, but it also put depositors ahead of bond holders in order of claim priority, thereby protecting one group's interests over another's. Prior to the Emergency Act depositors and bond holders ranked equal in case of insolvency.

None of the people who were MPs or ministers at that time have considered it necessary to make specific disclosure of their financial interests or their family members' interests in connection with the passage of the Emergency Act and subsequent actions due to the economic collapse in autumn 2008 – as regards their deposits or bond holdings, for instance – nor has this been requested, as MPs have generally followed the guidelines laid down in the Parliamentary Presidium's rules on disclosure of Parliamentarians' financial interests.

Losses on bonds in the failed banks total hundreds of millions

Thousands of savers contributed capital to the Icelandic banks during the pre-crisis years, through deposits, bonds and shares. The Prime Minister's wife's company was among those that bought bonds issued by the Icelandic banks; i.e., loaned the banks money. As in the case of others, the purchases were made in good faith, in the expectation that the banks' position was stronger than it turned out to be; after all, as most people remember, the banks had the

highest possible credit ratings (AAA) before the crash. Those expectations were dashed, and Iceland's financial collapse ensued.

Due to the financial crash deposits were given priority over other forms of savings that had previously been on an equal legal footing. Had the Prime Minister's wife had her assets in the form of deposits those assets would have been fully reimbursed. But as her savings with the Icelandic banks were in the form of bonds she, like other bondholders incurred substantial losses in order to preserve the assets of depositors. It has therefore been clear from the outset that the Prime Minister's wife's losses on these bonds issued by the failed banks will amount to hundreds of millions of krónur and the scope for recoveries is extremely small.

After the old banks failed and were placed in winding-up proceedings, claims were declared against their estates, as is provided for in the Act on Bankruptcy, etc, nr. 21/1991. The company has never sold claims to hedge funds and has never bought claims in the secondary market (i.e., after the collapse of the banks). Wintris Inc. has never sold claims to or otherwise done business with vulture funds.

Wintris declared claims against the estates of the three failed banks. Among them were subordinated bonds, which are considered residual claims according to bankruptcy law and are lost in their entirety. It is not clear what the ultimate recoveries will be, but they are expected to total about 16% of claims filed. The estimated losses on these investments therefore total hundreds of millions of krónur.

Because of discussion in Iceland about statutory amendments pertaining to withholding taxes, it is worth noting that these amendments were designed primarily to facilitate the issuance of bonds in connection with the settlement of the failed banks' estates and to ensure equal treatment of claimants and prevent tax jurisdiction issues and double taxation agreements from affecting the process. It is also worth noting that in order for a tax liability to be created, distributions from the estates must exceed the purchase price of the securities concerned. It is therefore far from being the case that The Prime Minister's wife benefited from these statutory amendments.

The Prime Minister supported the purchase of tax investigation data

The Prime Minister has been actively in favor of enabling the tax authorities in Iceland to use the means available to them to prevent tax fraud. It is not true that he has been critical of the tax authorities' purchase of data. He has voiced his support in Parliament – for example, in a speech he gave on 15 May 2014 – in a discussion on the possible purchase of tax data from an anonymous source:

“I trust that the Directorate of Tax Investigations can assess the matter and will, in the future as in the past, use any means to uncover tax fraud. Of course, the Directorate of Tax Investigations need to have a variety of ways to do this, as tax fraud and tax evasion are extremely costly for our society. I repeat that I trust the Director of Tax Investigations to resolve this matter as well as others.” -

<http://www.althingi.is/altext/raeda/143/rad20140515T111936.html>

Furthermore, The Prime Minister and his Government have put these views into action by allocating an additional 37 million krónur to the Director of Tax Investigations for the purchase of data from an anonymous source, for this purpose. -

<http://www.visir.is/rikisstjornin-veitir-37-milljonum-til-ad-kaupa-skattagogn/article/2015150419528>

The Prime Minister and his wife have always assumed that information on Wintris could be included in this data, but have deemed it irrelevant, as taxes on the company and its assets have always been paid in Iceland. Wintris is therefore not in a tax haven nor can it be considered an offshore company.

The Icesave campaign did not affect recoveries on Landsbanki Íslands bonds

Neither the work of the InDefence group nor others’ work against the Icesave agreements is related in any way to this matter.

The tireless and successful work done by InDefence over a period of several years, all done by volunteers, always centered on protecting the interests of the people of Iceland.

At first the aim of the group was to object to the usage of Anti-Terrorist Acts by UK authorities against Icelandic interests and later the group’s main aim was to ensure that the assets of the Landsbanki estate, and not taxpayer money, would be used to pay the banks’ debts, and that taxpayer money would not be used to ensure that the British and Dutch received interest on their claims against the Landsbanki estate – an entitlement that no priority claimants have available to them.

It is an important fact that the passage of the Emergency Act in October 2008, before the banks failed, entailed classifying deposits as priority claims and putting depositors ahead of bond owners in claim priority. This included Landsbanki Íslands.

The fight to defeat the Icesave agreements therefore could not have had any effect on possible recoveries on bond holdings in Landsbanki, including the Prime Minister’s wife’s holdings. This was provided for in the Emergency Act. Furthermore, Wintris’ claim against the Landsbanki Íslands estate stems from the purchase of a subordinated bond, and it was

clear from the beginning that the claim was worthless and it was rejected by the bank's winding-up board.

In short, InDefence and others involved in the fight against the Icesave agreements worked to ensure that Icelandic taxpayers would not be left shouldering the burden of the failed private banks. The fight against the hedge funds and claimants of the failed banks was a fight to safeguard Iceland's balance of payments and ensure that claimant's assets were moved to the public for that purpose.

In both instances many of the Prime Minister's co-workers came from the InDefence group. In both instances the fight yielded extremely positive results, completely changed the Icelandic economy to the better and will have a great positive impact on the public's future standard of living.

As has been explained above, all taxes and levies have been paid on all of The Prime Minister's wife's assets in Wintris; therefore, the company cannot be considered to be in a tax haven. The Prime Minister reported his financial interests to the Parliament in accordance with the rules that apply, and it is quite evident that the Prime Minister's wife's assets have not affected his work or his policies. Anyone may verify this by looking back at what the Prime Minister has said and stood for in the past several years.