

DECISION OF THE FINANCIAL SUPERVISORY AUTHORITY (FME)

on the disposal of assets and liabilities of Sparisjóður Reykjavíkur og nágrennis hf., ID no. 540502-2770.

By the authority of Art. 100a of Act No. 161/2002 on Financial Undertakings, cf. Art. 5 of Act No. 125/2008 on the Authority for Treasury Disbursements due to Unusual Financial Market Circumstances etc., the FME has taken the following decision on the disposal of assets and liabilities of Sparisjóður Reykjavíkur og nágrennis hf. (SPRON hf.).

PREMISES:

On 6 October 2008 Althingi, the Parliament of Iceland, passed Act No. 125/2008 on the Authority for Treasury Disbursements due to Unusual Financial Market Circumstances, etc., which involved an amendment to Act No. 161/2002 on Financial Undertakings and other acts. This Act authorized the FME inter alia to take special measures, due to special circumstances or events, for the purpose of limiting damage or the risk of damage in the financial markets. Should the FME consider the situation to be dire, it can among other things, assume the powers of a shareholders' meeting, dismiss the Board of Directors and appoint a Resolution Committee, and/or take over assets, rights and obligations, either in part or in whole, or decide on measures regarding the future of the company, either in part or in whole, including a merger of the undertaking with another entity, according to Article 100 a of the Act on Financial Undertakings, as amended by Act No. 125/2008.

Since the end of October 2008 the capital position of SPRON hf. has been under statutory requirements, but the FME has repeatedly granted a grace period so that the bank would be given the opportunity, in collaboration with its creditors, to undergo a viable financial reorganisation. First, an FME letter dated 30 October 2008 granted a four week grace period. The grace period was extended for three additional weeks in an FME letter of 28 November 2008, and again until 28 February 2009 in an FME letter dated 16 December 2008.

Finally in a letter dated 27 February 2009, the FME granted SPRON an additional grace period to increase its capital position. However, the letter specifically stated that the FME could not rule out the possibility that it would be forced to take action against SPRON within the timeframe of the granted grace period to bring the capital position in line with statutory requirements. In a letter dated 12 March 2009, the FME informed SPRON that it had received a letter from the Central Bank of Iceland and the Ministry of Finance regarding SPRON's liquidity position and solvency. In the FME's aforementioned letter of 12 March 2009, SPRON was requested to provide information on how it intended to fulfil statutory requirements regarding mandatory equity capital and liquid assets. The FME also asked that SPRON's international creditors be informed about the request. A deadline of 18 March 2009 was provided. The

FME furthermore sent a letter to SPRON's international creditors on 16 Mars 2008, where it was stated that the equity problem would have to be solved through means other than loan extensions.

Attached to SPRON's letter to the FME dated 18 March 2009 was a copy of its letter to the Housing Financial Fund, where the sale of a portfolio of mortgage loans to the Housing Financial Fund was pointed to as a solution to the capitalization of the company, including plans to sell a 43 billion ISK portfolio of bonds and following this the sale of another portfolio of mortgages in foreign currency for 20 billion ISK. A letter of the Central Bank of Iceland to the FME, dated 20 March 2009, points out that even if negotiations on the sale of the commercial paper in question are successful, this would be unlikely to improve the capital position of SPRON. In order for this, the required rate of return in this transaction will have to be lower than the claim that is the basis for the recorded value of the commercial paper at SPRON.

Furthermore, the Central Bank of Iceland points out in its letter that in order for the aforesaid transaction to improve the liquidity position of SPRON, the purchase price would have to be higher than the amount of the loans SPRON has obtained from the Central Bank of Iceland with said mortgages as collateral. Further, in another letter from the Central Bank, which is discussed below, the tight liquidity position of SPRON is discussed. It was stated that SPRON had very little foreign currency and thus has a very limited possibility to save its position from day to day through currency swaps with the Central Bank; the balance of SPRON's account with the Central Bank had diminished and SPRON was experiencing difficulty in keeping it in the proper state from day to day; SPRON had depleted to a considerable extent its overdraft in the Real-Time Gross settlement (RTGS) system; no signs were visible that the liquidity situation would improve in a way that would allow SPRON to settle all or part of its debt to the Central Bank; SPRON had not fulfilled reserve requirements for the last months; and furthermore that the Central Bank had with government consent engaged in transactions with SPRON even though it did not fulfil the applicable rules.

The letter of the Central Bank to the FME dated 20 March 2009 concludes by saying that SPRON owns no securities which the Bank considers adequate as collateral. Finally, the evaluation is put forth that no loan of last resort will be granted on the basis of Art. 7, par. 2 of the Act on the Central Bank of Iceland, as SPRON does not fulfil capital requirements and is unable to put forth collateral which the Central Bank considers acceptable. The Central Bank evaluates the position of SPRON as such that it cannot, *ceteris paribus*, fulfil its obligations to its customers or creditors. The pending problems of SPRON could also have a negative domino effect on other financial undertakings.

The FME wrote a letter to SPRON dated 21 March 2009, where the aforementioned issues were pointed to and the FME evaluation was put forth that the position of SPRON had become very serious and the liquidity and capitalization problems seemed to be increasing. Further, there seemed to be considerable risk that SPRON would not be able to meet its obligations in the foreseeable future. For these reasons the Board of SPRON was asked to address certain issues, which were put forth in five points in the letter. In the reply of SPRON, which was received today, on 21 March 2009, it is stated that next week 563 million ISK is due to mature. SPRON has 591 million ISK in liquid assets and can therefore meet these payments. However, it is clear that in order to ensure operations during the same time, further assistance from the Central Bank is needed. The SPRON letter concludes by requesting further leeway to solve the disagreement on the improvement of the capital position through loan extensions. Further, it is pointed

out that SPRON's creditors had made offers to come to an agreement, the last one on 18 March 2009, and that it had not been put to the test whether an acceptable agreement could be reached

SPRON does not fulfil conditions for a valid operating license and despite a postponement of FME actions for a number of months due to this position, it has not been possible to solve the equity and liquidity problems of SPRON. The liquidity problem has now reached a stage where there is great risk that the operations of the bank will begin to be disrupted in the next days. The Board of SPRON sent a letter to the FME this afternoon in which it was requested that the FME take action on the basis on the aforementioned provisions of Act No. 161/2002, as the situation of SPRON was as outlined.

With reference to the aforesaid it is evident that Art. 100a of Act No. 161/2002 on Financial Undertakings applies to the situation of SPRON. The FME considers that SPRON's pending and serious lack of liquidity and ongoing equity problem constitute dire circumstances as understood by Art. 100a, par. 3 of the aforementioned act.

IT IS THE DECISION OF THE FME to assume the powers of a shareholders' meeting of SPRON and to immediately dismiss the Board in its entirety. Further, the FME hereby appoints a Resolution Committee, which will take over all authority of the Board of Directors in accordance with the articles of Company Law - Act No. 2/1995 Respecting Public Limited Companies, in accordance with Article 100 a of the Act on Financial Undertakings. The Resolution Committee shall take on all matters related to SPRON, including oversight of all treatment of its assets, as well as the handling of other business. The Resolution Committee shall abide by the decisions taken by the FME on the basis of Article 100a of the Act on Financial Undertakings and operate in consultation with the FME. Further, the following decisions are taken regarding actions that the FME deems necessary:

DECISION

LIABILITIES

1. New Kaupthing Bank hf. takes over the obligations of SPRON due to deposits. Deposits are transferred according to the balance and interest earned at the time of transfer, cf. point 7 below. This transfer does not necessitate a recall or public announcement. All terms for the deposits in question regarding duration, interest terms, currency, etc. remain unchanged vis-à-vis New Kaupthing Bank. Overdrafts on current accounts along with accompanying collateral rights are transferred to New Kaupthing Bank hf.
2. New Kaupthing Bank hf. does not, however, take over deposit obligations of SPRON which were created in a manner whereby a creditor has, by bond and/or other equivalent promissory note, received payment for his claim before the date of maturity, but at the same time created a deposit with SPRON. Neither does New Kaupthing Bank hf. take over money market deposits from financial undertakings which may own deposits at SPRON.
3. New Kaupthing Bank hf. takes over obligations according to import and export guarantees, guarantees due to discharge of contract by companies and individuals linked to regular activities.

New Kaupthing Bank hf. does not take over obligations of SPRON due to: a) obligations of subsidiaries abroad, b) companies under moratorium, composition or in bankruptcy, c) obligations of those owning a qualifying holding in SPRON and connected parties, d) obligations to Icelandic financial undertakings; e) other specifically identified liabilities.

ASSETS

4. A limited liability company owned by SPRON will be established, which will take over all of SPRON's assets and also all collateral rights, including all mortgages, guarantees and other similar rights which are connected to SPRON's claims. The subsidiary also takes over the obligation towards New Kaupthing Bank hf. due to its takeover of SPRON's deposit obligations. The new subsidiary will issue a bond to New Kaupthing Bank hf. as repayment for the takeover of deposit obligations according to point 1, cf. point 2, and guarantees the obligations taken over according to point 3. All assets of SPRON's new subsidiary are collateralized for the bond and also the shares in the subsidiary. It shall be ensured that the interest rate of the bond is sufficient to cover the cost and risk of this action and that the interests of the lien holder are secured with appropriate terms in the collateral and loan documents.
5. The following parties are mandated to register or transfer rights and/or assets of SPRON's subsidiary according to point 4, to all those rights that are assigned to them according to this decision:
 - a. The Central Bank of Iceland
 - b. Financial Undertakings
 - c. The Icelandic Securities Depository hf.
 - d. Registers, as per the provisions of Act no. 39/1978 on Registration
 - e. The Central Databank of Real Property/The Land Registry of Iceland
 - f. The Icelandic Patent Office
 - g. Hosting agents for domains that SPRON and associated parties have used
 - h. Telecommunications companies
 - i. The National Registry
 - j. Nasdaq OMX (The Icelandic Stock Exchange)
 - k. Boards of organizations that are responsible for the register of shares and such
 - l. Other parties involved in the registry of rights

OTHER ISSUES

6. The Resolution Committee of SPRON is mandated to execute this decision; verify the deposits that fall under the coverage of point 1 of this decision on the one hand and point 2 on the other hand, establish a subsidiary that will take over SPRON's assets, prepare the necessary documents to ensure the repayment according to point 4 and the accompanying collateral rights, and consult with New Kaupthing Bank hf. on issues related to the execution.

7. The transfer of deposits according to the aforesaid shall take place no later than Sunday 22 March 2009 at 9:00 a.m. The establishment of a subsidiary, transfer of assets and the issuance of promissory and collateral documents shall take place no later than Monday 6 April 2009 at 12:00 noon.
8. No non-compliance remedies of contracting parties shall come into effect as a result of this decision. This decision applies also to deposits of SPRON's subsidiary, nb.is – sparisjódur hf., and its assets.

This decision is based on available information and data. Should it prove to be based on insufficient or wrong information on merits, underlying premises of the decision turn out to be fundamentally inaccurate or the FME consider a different arrangement to be necessary, the FME can make any changes to this decision, including nullifying it in whole or in part, or suspending individual components of it.

This decision was taken by the Board of the FME and is effective immediately.

THE FINANCIAL SUPERVISORY AUTHORITY

21 March 2009

Gunnar Haraldsson
Chairman of the Board

Ragnar Hafliðason
Director General