FJÁRMÁLAEFTIRLITIÐ
THE FINANCIAL SUPERVISORY AUTHORITY, ICELAND

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To: FME Board of Directors
From: Jónas Fr. Jónsson, Director General of the Financial Supervisory Authority (FME)

Premises for Balance Sheet Restructuring

Premises upon which to base the restructuring of balance sheets of Landsbanki Íslands hf., Kaupthing Bank hf. and Glitnir hf. as provided for by Act No. 125/2008, on the Authority for Treasury Disbursements Due to Special Financial Market Circumstances, etc.

With reference to Article 100 a of Act No. 161/2002, cf. Article 5 of Act No. 125/2008, the Financial Supervisory Authority (FME) has compiled harmonised reference criteria for the presentation of the initial balance sheet of a new bank. The objective of so doing is to co-ordinate practices applied in transferring assets and liabilities to the new bank and to propose an estimated valuation, with formal valuation of assets and liabilities to be carried out later.

The guiding principle in transferring assets is to move all assets connected with the domestic operations of the old bank to the new bank. The bank's foreign subsidiaries and foreign branches will remain in the old bank except in those instances where their principal activities are carried out in Iceland.

The following section provides more details concerning the treatment of individual items of the initial balance sheet.

Assets

All ***cash and balances with the Central Bank of Iceland*** will be transferred to the new bank at book value.

Derivative contracts will not be transferred to the new bank.

Market bonds and other fixed-income securities will be transferred to the new bank at estimated fair value, with the exception of securities issued by financial undertakings which are the object of actions by FME on the basis of Art. 5 of Act No. 125/2008.

Equities and other variable yield securities shall be transferred to the new bank at estimated fair value.

Securities used for hedging shall be transferred to the new bank at fair value.

Amounts due from credit institutions shall be transferred to the new bank at estimated fair value, with the exception of amounts due from financial undertakings which are the object of actions by FME on the basis of Art. 5 of Act No. 125/2008.

Loans to customers, other than those specified here below, shall be transferred to the new bank at book value, having regard for estimated write-offs of individual loans. Treatment of individual loans shall be directed at examining the largest credit exposures, or a minimum of 40% of the total loan portfolio of the old bank.

The following loans will not be transferred to the new bank:

- loans pledged as collateral;
- Special Purpose Vehicles (SPVs);
- loans comprising part of a total return swap (TRS);
- loans covered by rules on covered bonds;
- especially high-risk loans, e.g. mezzanine financing and undrawn revolvers.

Holdings in affiliates All holdings in domestic affiliates will be transferred to the new bank at estimated fair value.

Investment in subsidiaries Those domestic and foreign subsidiaries connected with domestic operations will be transferred to the new bank at book value, others will not.

All property, plant and equipment (PPE) will be transferred to the new bank at book value, unless it belongs to foreign branches which are left in the old bank.

Intangible assets to be utilised in the new bank's operations will be transferred at assessed value.

Non-current assets held for sale will all be transferred at book value, with regard had for estimated write-downs.

Income tax credits will not be transferred to the new bank.

Other assets The following other assets will be transferred to the new bank:

- unsettled transactions at book value;
- receivables at book value, having regard for estimated write-downs;
- works of art at book value;
- other assets as appropriate in each case.

Liabilities

Deposits, other than those in foreign branches of the former bank, shall be transferred at book value.

Securities issues and other borrowing will not be transferred to the new bank.

Subordinated debt will not be transferred to the new bank.

Income tax liabilities will not be transferred to the new bank.

Other liabilities. Unsettled transactions will be transferred to the new bank at book value; the rest, including liabilities in connection with derivative contracts, will remain in the old bank.

Miscellaneous

Amounts receivable from, and payable to, domestic payment card companies, which have not been recognised on the balance sheets of the old bank need to be recognised as amounts due from, and owed to, financial undertakings in the initial balance sheet of the new bank.

Operating debts, of whatever type, of the old bank will not be transferred to the new bank. It will be left up to the management of each of the new banks to arrange matters with the parties with whom they deem the bank will need to continue doing business.

The value of works of art owned by the bank but not recognised in its accounts must be estimated and recognised in its initial balance sheet.

Regard must be had for decisions stated in memoranda on derivative contracts and repos.

Information must be provided on the following:
- undrawn overdrafts,
- obligations arising from committed loan facilities, and
- guarantees for domestic activities.

Currency exchange rates as of 30 September 2008 shall be used.

The general proviso applies to the above that the premises may change during the process of restructuring the balance sheets of the three banks.