

DECISION OF THE FINANCIAL SUPERVISORY AUTHORITY (FME)

on the disposal of obligations of

Straumur – Burdarás Investment Bank hf., ID no. 701086-1399, to Íslandsbanki hf., ID no. 491008-0160, etc.

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 obligations of Straumur – Burdarás Investment Bank hf.:

PREMISES:

Due to the impending and serious liquidity problem of Straumur – Burdarás Investment Bank hf., the FME made a decision on 9 March 2009 to take control of a shareholder's meeting of the bank and suspend the Board in its entirety. Further, the FME appointed a Resolution Committee which took over all authority of the Board of Directors according to provisions of Company Law No. 2/1995, in accordance with Art. 100a of the Act on Financial Undertakings. The role of the Resolution Committee was to take on all matters of the company, including oversight of all treatment of bank assets, as well as the handling of other business. The Resolution committee was furthermore assigned to abide by the decisions of the FME on the basis of Art. 100a of the Act on Financial Undertakings and operate in consultation with the FME. Following this the Resolution Committee has procured documentation on the status of deposits and informed the FME on its conclusions. It has emerged that the deposits at Straumur amount in total to approximately 70 billion ISK.

Since the decision of the FME on 9 March 2009, the Resolution Committee has consulted with the bank's largest creditors, who have expressed an interest in involving themselves further in the bank's business, following a closer examination of the assets and liabilities. After consultations with the Resolution Committee, the Central Bank, the Ministry of Finance and the aforementioned creditors it has therefore been decided to allocate the deposit obligations of the bank to another bank for the purpose of ensuring the access of depositors to their funds, and that Straumur – Burdarás Investment Bank hf. will in return issue a bond which will be collateralized by all its assets, as repayment for the takeover of the aforementioned obligations. This execution is considered to best ensure the interests of all concerned parties and contribute to a minimal deterioration of the bank's assets. This will further afford general creditors the possibility to safeguard their interests through the continued operations of the bank, by altering loan terms, increasing equity or other means.

Upon further examination of the bank's deposits it has become clear that a substantial part of the deposits in question can be traced to bank obligations which before were in the form of bonds and equivalent promissory notes and were changed to deposits in the manner that the bonds were paid up and deposits created instead. In most cases, this happened before the original date of maturity of the promissory note. For this reason the FME has obtained an opinion as to whether this involves actions which may be terminable at the time of bankruptcy or composition. The obtained legal opinion states that there is little doubt that these actions are terminable, as the obligations in question were settled before maturity and/or more substantial collateral provided for an older debt. Because of this, and with regard for the interests of other creditors of the bank, the FME considers that deposits which were created in that manner must be dealt with separately.

In light of the aforesaid the FME makes a decision on the disposal of obligations of Straumur Burdarás Investment Bank hf. to Íslandsbanki hf. as is further defined below.

DECISION:

1. Íslandsbanki hf. takes over the obligations of Straumur – Burdarás Investment Bank hf. in Iceland due to deposits in the headquarters of the bank in Iceland. Deposits are transferred according to the balance and interest earned on the date of takeover, cf. point 5 below. There is no need for recall or advertisement due to this transaction. All terms for the deposits in question regarding duration, interest terms, currency, etc. remain unchanged vis-a-vis Íslandsbanki hf.
2. Íslandsbanki hf. does not, however, take over deposit obligations of Straumur – Burdarás Investment Bank hf. which were created in instances where a creditor as per a 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 Straumur – Burdarás Investment Bank hf. Further, Íslandsbanki does not take over money market deposits from financial undertakings which may own deposits at Straumur – Burdarás Investment Bank hf. and belong to the The Depositors' and Investors' Guarantee Fund.
3. Straumur – Burdarás Investment Bank issues a bond as repayment for the deposit obligations that are taken over according to point 1, cf. point 2. All assets of Straumur – Burdarás Investment Bank shall be put up as collateral for the bond. It shall be ensured that the interest of the bond covers cost and risk due to this action and that the interests of the lien holder are ensured through appropriate terms in collateral and loan documents.
4. The Resolution Committee of Straumur – Burdarás Investment Bank hf. is assigned to execute this decision; verify the deposits that fall under the coverage of point 1 on the one hand and point 2 on the other hand of this decision, prepare the necessary documents to ensure the repayment according to point 3 and the accompanying collateral rights, and consult with Íslandsbanki hf. on their conclusion as necessary.
5. The transfer of deposits according to the aforesaid and the issuance of promissory and collateral documents shall take place no later than Friday 20 March 2009 at 9:00 a.m.

6. No non-compliance remedies of contracting parties shall come into effect as a result of this decision.

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

17 March 2009

Gunnar Haraldsson
Chairman of the Board

Ragnar Hafliðason
Director General