

DECISION OF THE FINANCIAL SUPERVISORY AUTHORITY (FME)

on the disposal of assets and liabilities

of Sparisjódabanki Íslands hf., ID no. 681086-1379, to New Kaupthing Bank hf., ID no. 581008-0150 and to the Central Bank of Iceland.

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 Sparisjódabanki Íslands hf.

PREMISES:

On 6 October 2008 Althingi, the Parliament of Iceland, passed an Act authorizing a disbursement of funds from the Treasury due to the unusual situation facing the financial market etc., No. 125/2008, which involved an amendment to the Act on Financial Undertakings, No. 161/2002 and other acts. This Act authorized the FME inter alia to take special measures, due to unusual circumstances, for the purpose of limiting damage or the risk of damage to 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 Sparisjódabanki Íslands hf. has been under statutory requirements, but the FME has repeatedly granted grace periods so that the bank would be given the opportunity, in collaboration with its creditors, to undergo a viable financial reorganisation. In an FME letter dated 15 December 2008, the first grace period was granted until 28 January 2009. On 23 January 2009 the grace period was extended until 28 February 2009 and then again until 31 March 2009 in an FME letter dated 27 February 2009.

In a letter that the FME received from the Central Bank of Iceland on 21 March 2009, the negative capital position and the unacceptable liquidity position of Sparisjódabanki Íslands hf. is addressed. In the letter it is stated that during the past weeks the bank has repeatedly needed to use collateral in the Real-Time Gross settlement (RTGS) system to have sufficient liquid assets at the end of the day. It is further stated that due to the lack of liquidity of Sparisjódabanki Íslands hf., the bank has partially leveraged collateral belonging to the savings banks. Further, aside from the collateral that Sparisjódabanki Íslands hf. has in the Central Bank of Iceland, it has no other collateral that fulfils the Central Bank's rules on its transactions with financial undertakings. The letter concludes with the statement that it is the evaluation of the Central Bank that the position of Sparisjódabanki Íslands hf. is unacceptable and that furthermore it

could have a negative domino effect on other financial undertakings, not least as the bank is a clearinghouse for savings banks in Iceland.

In an e-mail that the FME received from a representative of the Board of Directors of Sparisjódabanki Íslands hf. it is stated that the Board has no alternative but to request that FME resort to the measures provided for in Act No. 161/2002 on Financial Undertakings.

With reference to the aforesaid it is evident that Art. 100a of Act No. 161/2002 on Financial Undertakings is applicable to the situation of Sparisjódabanki Íslands hf. The FME considers that the bank's pending and serious lack of liquidity and its ongoing equity problem constitute extreme 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 Sparisjódabanki Íslands hf. and make decisions on the following actions that the FME deems necessary:

DECISION:

LIABILITIES

1. The Central Bank of Iceland takes over the obligations of Sparisjódabanki Íslands hf. due to deposits of savings banks. 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 the Central Bank of Iceland.
2. New Kaupthing Bank hf. takes over the obligations of Sparisjódabanki Íslands hf. due to deposits of others than stipulated in point 1. Deposits are transferred according to the balance and interest earned at the time of transfer, according to 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 hf. Overdrafts on current accounts along with accompanying collateral rights are transferred to New Kaupthing Bank hf.
3. The Central Bank of Iceland and New Kaupthing Bank hf. do not, however, take over deposit obligations 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 Sparisjódabanki Íslands hf. Neither do the Central Bank of Iceland and New Kaupthing Bank hf. take over money market deposits from financial undertakings which may own deposits at Sparisjódabanki Íslands hf.
4. New Kaupthing Bank hf. takes over obligations according to import and export guarantees, and guarantees due to discharge of contract by companies and individuals linked to regular activities. New Kaupthing Bank hf. does not take over obligations of Sparisjódabanki Íslands hf. due to: a) obligations of subsidiaries abroad, b) companies under moratorium, composition or in bankruptcy, c) obligations of those owning a qualifying holding in Sparisjódabanki Íslands hf.

and connected parties, d) obligations to Icelandic financial undertakings; e) other specifically identified liabilities.

ASSETS

5. As repayment for the takeover of deposit obligations according to points 1-3, Sparisjódabanki Íslands hf. assigns its loans to savings banks, totalling approx. 10.7 billion ISK, and its bond claim on Byr Savings Bank in the sum of 2.75 billion ISK, or a combined total of 13.45 billion ISK. The Central Bank of Iceland and New Kaupthing Bank hf. are the recipients of said payment. They will handle the settlement of the payment between themselves, and to Sparisjódabanki Íslands hf., should there be a difference between the liabilities that were taken over and assets.

OTHER ISSUES

6. The Board of Sparisjódabanki Íslands hf. is in consultation with the FME, and with its approval, mandated to execute this decision; verify the deposits that fall under the coverage of points 1-2 of this decision on the one hand and point 3 on the other hand, prepare the necessary documents to ensure the repayment according to point 5 and the accompanying collateral rights, and consult with New Kaupthing Bank hf. and the Central Bank of Iceland on issues related to the execution. The FME puts by the Board of Sparisjódabanki Íslands hf. that it seek authorisation for suspension of payments according to provisions in the Act on Bankruptcy etc., No. 21/1991, cf. Chapter XII A of Act No. 161/2002.
7. The transfer of deposits according to the aforesaid shall take place no later than Monday 23 March 2009 at 9:00 a.m. The assignment of claims due to repayment according to point 5 of this decision 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 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