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Regarding Icesave negotiations

Dear Sirs,

I would like to thank you for Mr. Barnard's letter dated 30th of March which we are still studying. I wholeheartedly agree that we should resolve this matter as quickly as possible.

During the past weeks we have looked carefully into various options on how to bring forth a simple and more constructive solution to the Icesave situation. Our new ideas were presented to the British side in the end of March, at a meeting between Foreign Minister Skarphéðinsson and Foreign Secretary Miliband, and further explained informally at my private meeting with Mr. Gary Roberts.

The key factor in our new proposal is the use of the assets of Landsbanki, such that the Bank itself (the Old Landsbanki) will issue a bond (the "Bond") to the priority creditors covering their claims, secured by all the assets of Landsbanki, including the assets of its London and Amsterdam Branches, as well as the assets held in Iceland (the "Assets"). The Bond will be repayable upon the realisation of the Assets within a period of up to seven years.

In our view, the successful resolution of the Icesave situation, depends upon rebuilding confidence, by sharing information, management and oversight over the Assets and we see the good relations of the London Branch with both the UK and Dutch Governments as being the foundation that we should build upon. Therefore we now would like to propose that all the Assets will be managed by the London Branch, as this would allow for full transparency between the Governments, build on existing relationships and allow the repayments to be conducted in accordance with Icelandic law, international standards and in a direct and transparent manner acceptable to the IMF, over the lifetime of the Bond.

The realisation of the Assets would, as a result of this concession on our side, be overseen by qualified agents, appointed by the Icelandic Government in consultation with the UK and Dutch Governments, bringing both transparency and accountability to the management of the Assets, to preserve value and maximise their return, while potentially leaving residual equity value in the operations in London, to the benefit of all the creditors. In summary this proposal would lead to faster repayments, secured by an asset backed repayment plan that allows for the fair treatment of all creditors under the oversight of qualified persons.

Detailed negotiations will need to be conducted on the structure of the Bond and its value, in line with the expected recovery rates of the Assets, while agreed experts value the Asset portfolio. Due consideration will of course have to be given to the status of all creditors. However, it is clear that this

new proposal, if accepted, would clearly align the interests of all the Governments, in particular towards cooperation on investigations that may lead to the recovery of further Assets.

As I see it this is the first proposal made by Iceland that could bring the Icesave situation to a satisfactory conclusion for all parties. In the annex to this letter you will find a more detailed description of this proposal and a comparison with the idea of a large loan for up to 20 years, with an initial grace period of up to five years and on terms based on the lenders cost of funds.

The agreed guidelines established in Brussels in November 2008 stated that the negotiations should take into account the unprecedented difficult situation of Iceland and therefore the necessity of finding arrangements that allow Iceland to restore its financial system and its economy. On this basis we have held extensive exploratory discussions, including meetings at ministerial level in Oslo, Helsinki and most recently in London. It is now clear that the state of Iceland's debt is even more critical than estimated by the IMF in October 2008, and we will provide you next week with the most recent analysis on the debt situation.

This new proposal has the same end goal as earlier proposals, i.e. the repayment of the Icesave deposits, but due to its structure will have a much more positive effect on the Icelandic Treasury and its international credit ratings thus supporting it in fulfilling its international obligations. The benefit for the UK and Dutch parties consists mainly in faster repayments, more certainty and the fair treatment of all preferred creditors.

I must reiterate that the continued freezing imposed on the London Branch of Landsbanki on the basis of the UK Anti-Terrorism legislation is unacceptable and will continue to undermine all our efforts to resolve the situation. As Landsbanki is now in an internationally recognized moratorium, the freezing order has little effect other than to arouse strong negative sentiments. No single action would contribute more to a successful conclusion of the negotiations than the lifting of the freezing order.

I hereby propose that we continue negotiations in April on the basis of these new proposals with the aim of concluding the negotiations as soon as possible. I propose that we meet in Denmark on the 15th of April at the Icelandic Ambassador's residence in Frederiksberg. Please let me know if this is acceptable to you.

Best wishes,

Svavar Gestsson

Ambassador

Chairman of the Icelandic Negotiation Committee on Icesave