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Subject: Regarding Icesave negotiations

Dear Mr. Roberts

Thank you for your letter of 29 April 2009, which contained a reply to our memorandum "A revised proposal for a structure to solve the Icesave issue". In the letter you raise a number of issues and questions to be answered before our meeting.

Forgiveness of liabilities

The supposition that our proposal requests forgiveness of liabilities is based on a misunderstanding. As indicated in the heading of the memorandum it is a proposal for a structure to solve the mentioned issue and does not refer to the amount or the terms of the settlement to be made. As reiterated at our meeting in Copenhagen it is of course our intention to fulfil the commitments given by the Icelandic government in the "Brussels agreement". However, as also clearly stated at our meeting in Copenhagen and repeated in the aforementioned memorandum we want to discuss and have your governments respond to our wishes to have the shared responsibility of the European countries to the unsatisfactory regulatory framework in respect of financial companies reflected in any settlement. Moreover we have not so far had any reaction from your side as to the impairment caused by the severe actions taken by the British authorities against the Icelandic banks in London, which for instance have reduced the value of the bank assets that can be used to cover the deposits. Furthermore, we are aware of the unsettled questions on costs and interests you mention in your letter. The eventual outcome of an agreement on these points should in our view be included in the total payable amount and consequently be included in the amount covered by the loan agreement as suggested in your letter.

The bond concept

Our proposal does not suggest the issuing of an interest bearing bond but an instrument declaring the intention of LI to pay all claimants with preferential status at least 75% of their claims over a specific period of time according to a cash flow plan. Since all preferential claimants will receive such an instrument in relation to their claims this does not imply an unequal treatment of the claimants. With respect to the Dutch and UK deposits covered by the TIF the recipient of that instrument would be

TIF and not the DNB or FSCS. Concerns regarding their legal involvement or that of the Dutch or UK governments is therefore not pertinent.

The instruments to be issued would be a confirmation of the rights of the claimants to the proceeds of the assets of the bank and a pledge to pay a certain part of it within a certain period of time. They would not replace or alter the right of the claimants. This relates also to their rights to the portion of their claims not covered by the instrument. As regards the legal basis for the issue of the instruments we refer to the attached memo of our legal advisers.

The loan agreements

Our standpoint is that the principal amount of the loan agreement should be the total agreed payable amount (inclusive costs, interests etc as already indicated) less the proceeds from the assets of the bank. Our proposal offers an approach to that end that is relatively simple and does not contain a legal or financial risk for the lenders. The principal amount of the loan would be the total payable amount less a cautious estimate of the anticipated proceeds of the banks assets that would be paid to the DNB and FSCS according to the aforementioned bank instrument. At the end of the period covered by the bank instrument, the principal amount of the loan agreement would be adjusted in order to reflect any deviation (underperformance or overperformance) at the end of the cash flow plan. We confirm your understanding that a government guarantee will be given for the loan. The guarantee would consequently cover any possible shortfall of the payments based on the bank instrument.

In conclusion

We appreciate the concern you show in respect of Iceland's arrangement with the IMF. The conclusion of the first review by the Fund is of course of great importance for Iceland. In that context we would also like to point out that it would not be consistent with traditional principles of the Fund to make bilateral settlements a condition for its decisions on assistance to individual members. That would put a member state in need for assistance of the Fund under unfair pressure and open up the possibility of using the Fund to the advantage of the member states in a better position. For that reason consultations in order to solve issues between individual members continuing in good faith with the prospect of leading to resolution within a reasonable period of time should be sufficient for the Fund's board to come to a conclusion on an arrangement with a member state.

We have over the last few months worked hard to find a solution that is fair to both parties and takes into account the very difficult economic situation of Iceland and the political and emotional circumstances connected to this issue. We think we have with our proposal put forward a solution that complies with the commitment made by the Icelandic government and meets all the concerns which you have raised.

It is of vital importance to the Icelandic economy and the public finances to keep direct State loans and loan guaranties at the lowest possible level in order not to detrimentally affect the rating of Iceland on the financial markets. At the same time the solution of this issue is an extremely sensitive political issue. There is a strong and widespread sentiment in the Icelandic population against making an agreement on the Icesave issue in particular in view of the severe actions against Iceland and Icelandic companies by the UK authorities. The prospect of taking to the Parliament a loan agreement or a government guarantee on a loan as originally foreseen in the amount of over 40% of the GDP to solve this matter would be a politically highly hazardous undertaking that would further exacerbate the negative sentiment in Iceland towards nations that have for a long time been highly estimated in Iceland as good neighbours. We therefore urge you to consider our difficult position and our proposed way for solution.

I hope that we will be able to have a meeting this week as earlier proposed and bring our work closer to conclusion.

Franklin

