

CEBS - Committee of European Banking Supervision  
Floor 18, Tower 42, 25 Old Broad Street  
EC2N 1HQ London  
UNITED KINGDOM

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Ref: 2008100035

**Re: Actions of the Icelandic Financial Supervisory Authority Based on New Legislation Addressing the Situation in Financial Markets.**

Due to the current circumstances in the financial sector, Althingi, the Parliament of Iceland, passed a bill late last night, 6 October 2008, authorizing appropriations from the Treasury and providing the Icelandic Financial Supervisory Authority with the authority to respond to the situation.

The legislation codifies the authority of the Minister of Finance to utilize state funds to establish new financial undertakings, or take over a financial undertaking or its bankrupt estate, in whole or in part. Further, the Minister of Finance has the authority to allocate funds to savings banks of up to 20% of net worth.

In addition, the legislation makes changes to the Act on Financial Undertakings (No. 161/2002), the Act on Official Supervision of Financial Operations with Amendments (No. 87/1998), the Act on Deposit Guarantees and Investor-Compensation Scheme (No. 98/1999) and the Act on Housing Affairs (No. 44/1998).

The main changes to existing law pertain to the following:

The Financial Supervisory Authority is authorised to:

- Call shareholders' meetings or meetings of guarantee capital owners without consideration of the company's Articles of Association or the provisions of the Act respecting Public Limited Companies.
- Assume control of a shareholders' meeting or meeting of guarantee capital holders for the purpose of taking decisions on necessary measures, including limiting the decision-making power of the Board, dismissing the Board in whole or in part, taking over the operations of the financial undertaking in whole or in part, or disposing of such an undertaking in whole or in part, including merging it with another undertaking.
- Restrict or prohibit a financial undertaking's disposal of its capital and assets. Furthermore, the bill authorises the Financial Supervisory Authority to take custody of those assets that are to satisfy the financial undertaking's obligations and have their value assessed, and dispose of them for payment of accrued claims, insofar as is justifiable.
- Demand that an undertaking apply for moratorium on payment or seek composition of creditors. Furthermore, it is proposed that, in the Act on Official Supervision of Financial Activities, the above-specified authorisations of the Financial Supervisory Authority to intervene in the operations of financial undertakings be extended to

include parties, other than financial undertakings, whose operations are subject to official supervision.

Other areas of change:

- That deposit balances be given priority in the event of insolvency proceedings.
- That it always be permissible to reimburse deposit balances in Icelandic krónur.
- That tied deposit balances be reimbursed in accordance with the terms of the accounts, so that the Fund will not be required to pay before the account owner would have been able to withdraw the balance in accordance with the terms of the account.
- That the rules concerning netting of debt apply to settlement between deposit balances and debt within the same financial undertaking.


In light of the above, the Icelandic Financial Supervisory Authority has proceeded to take control of Landsbanki to ensure continued commercial bank operations in Iceland. As declared by the Government of Iceland, all domestic deposits are fully guaranteed. Landsbanki's domestic branches, call centres, cash machines (ATMs) and internet operations will be open for business as usual.

The action taken by the Icelandic Financial Supervisory Authority is a necessary first step in achieving the objectives of the Icelandic Government and Parliament to ensure the continued orderly operation of domestic banking and the safety of domestic deposits.

Attached is the announcement of the decision of the Icelandic Financial Supervisory Authority on the appointment of a winding-up committee for Landsbanki Islands hf.

Sincerely,

The Financial Supervisory Authority

  
Guðmundur Jónsson

  
Rut Gunnarsdóttir