

Central Bank of Iceland
c/o Mr. Már Guðmundsson, Governor
Kalkofnsvegi 1
150 Reykjavík

Fjármála- og efnahagsráðgjafeytið

AD. 67A	Fiskj.
25. Nóv. 2016	
ML. 5.2	
EJR	16110086

and

The Minister of Finance and Economic Affairs
Mr. Bjarni Benediktsson
Arnarhvoli við Lindargötu
101 Reykjavík

Reykjavík, 24 November 2016.

Re: Request for confirmation due to a sale to non-residents

Introduction


Kaupthing ehf., id. no. 560882-0419, (**Kaupthing**) through its subsidiary Kaupskil ehf., kt. 580609-0150 (**Kaupskil**) owns 87% of the shares in Arion Banki hf., id. no. 581008-0150 (**Arion**). Kaupthing has been preparing a sale of its shares in Arion. Reference is made to the Central Bank of Iceland's (**CBI**) exemption dated 15 January 2016, reference number 1507075, (the **Exemption**) in the context of such a sale and specifically to condition ii) on page 24 of the Exemption (the **Condition**).

According to the Condition the sale and resale of Kaupskil's 87% share in Arion to non-residents, in part or in whole, is subject to a confirmation of the CBI and the Minister of Finance and Economic Affairs (the **Minister**). In substance, the CBI and the Minister need to confirm that the sale or resale does not jeopardise monetary, exchange rate, or financial stability.

Contemplated sale

As referred to in an application for exemption from capital controls to the CBI dated 17th November 2016 Kaupthing has, following its composition, undertaken work in order to sell its holding in Arion, potentially in one or more steps and/or through one or more separate transactions, including via an initial public offering on a regulated stock exchange which may include a dual listing (on a Nordic stock exchange) (an **IPO**) and via a private placement of the shares in Arion with investors (the **Private Placement**). We currently expect for a Private Placement to take place prior to any IPO and that the IPO will take place in H1 2017 subject to market conditions.

It is currently expected that the Private Placement will be entered into with certain counterparties. Some of the counterparties which have been approached to participate in the Private Placement are Icelandic residents (institutional investors), and some are not, in the meaning of act no 87/1992 on currency issues. The following non-Icelandic parties, all entities which are, or which control or manage funds or other entities which are, current or former shareholders in Kaupthing, have signed non-disclosure agreements and have expressed a potential interest in participating in the Private Placement.


Attestor Capital LLP
Och-Ziff Capital Investments LLC

Taconic Capital Advisors UK LLP
[REDACTED]

Goldman Sachs International
[REDACTED]

It is envisaged that the total investment of these non-Icelandic parties (and/or funds or other entities controlled or managed by them) participating in the Private Placement would collectively be between 10-30% of the share capital of Arion, and no single party would exceed 9.9% direct ownership. In this Private Placement, Kaupthing will not accept any bids from residents or non-residents unless at a price above 0.8x the book value of Arion (based on Arion's last published financial statements), and such sale of shares would be at a single price to all investors (including any Iceland-based investors) participating in the Private Placement. The maximum investment by these foreign parties would thus be approx. ISK 55 bn. The target is to complete the Private Placement before the year end 2016.

Impact of contemplated sale

The sale of shares in Arion will be settled in Icelandic króna. That will require non-resident investors to make a registered new investment ("yellow ticket investment") based on new inflow of foreign currency that is converted to domestic currency at a financial undertaking in Iceland. Non-resident investors are therefore taking a position in the Icelandic króna for the term of their investment which meets the requirement of the provision on new investment that can be found in Article 13(m) of the Foreign Exchange Act, no. 87/1992 and should therefore not negatively impact the monetary or exchange rate stability in Iceland.

Furthermore, it should be noted from a financial stability standpoint that Arion is considering, subject to board approval and regulatory requirements, to pay a dividend or other distribution of up to [REDACTED] to current shareholders, which could be made prior to and in connection with (being the optimization of the capital structure for investors to invest in), or upon, the Private Placement [REDACTED]

[REDACTED] In that respect, it should be noted that Arion had surplus capital of ISK 30 billion as at 30 September 2016, based on an assessment of the regulatory capital requirements which include fully-implemented capital buffers (in full effect in November 2017) and a management buffer of 1.5%. Arion's Capital Policy states that the bank aims to distribute surplus capital to its shareholders.

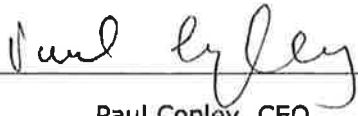
Request for confirmation

In light of the contemplated sale and the analysis of its impact on monetary, exchange rate, or financial stability, it is hereby requested that the CBI and the Minister confirm that the contemplated Private Placement as described above to foreign investors is a permitted sale in the context of the Exemption. As the confirmation is a pre-requisite in order for the Private Placement to take place it is kindly requested that the matter is dealt with as expediently as possible. In that context Kaupthing i.a. refers to condition j. on page 27 of the Exemption, whereby it will immediately upon any sale in the Private Placement, confirm the terms of the sale as described herein.

Furthermore, as after the contemplated Private Placement takes place neither Kaupthing nor Kaupskil can exercise any control over the resale of Arion shares by any investor or subsequent shareholder, it is hereby requested that such resale is permitted in the context of the Exemption and there shall be no impact on the status of Kaupthing and Kaupskil in that regard.



On behalf of Kaupthing ehf.



Paul Copley, CEO