



Kaupthing ehf.
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Ministry of Finance and Economic Affairs

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Reykjavík February 27, 2017

Reference: FJR16110086/5.2

Subject: Updated request for confirmation due to a sale to non-residents and request to make payment in USD/EUR

Reference is made to an updated twofold request dated 14 February 2017 from Kaupthing ehf. to the Minister of Finance and Economic Affairs and the Central Bank of Iceland. Firstly, there is a request for confirmation due to a sale of Kaupskil ehf.'s shares in Arion banki hf. to non-residents, as defined in paragraph 1 of the Foreign Currency Act. Kaupskil ehf. is a subsidiary of Kaupthing ehf. Secondly, it is requested that the Ministry of Finance and Economic Affairs permits payment in USD/EUR on the secured bond granted by Kaupthing ehf. in favour of the Central Bank of Iceland on or around 13 January 2016 in the principal amount of ISK 84 billion. This letter addresses the former request; the latter will be addressed in a separate letter.

The request describes a sale of up to 22,57% of shares in Arion banki hf. to three entities: Attestor Capital LLP, Taconic Capital Advisors UK LLP and Goldman Sachs International. The sale was decided at board meetings of both Kaupthing ehf. and Kaupskil ehf. on 12 February 2017. According to the request, there is an offer from a fourth party, Och-Ziff Capital Investments LLC, to purchase approximately 6,56% of shares in Arion banki hf. subject to the Central Bank of Iceland giving permission for hedging of the investor's ISK exposure. The same permission, if granted, would also need to apply to the other three investors. Should all four entities purchase shares in Arion banki hf. the expected inflow of foreign currency is the equivalent of approximately USD420m.

According to the Central Bank of Iceland's exemption given to Kaupthing ehf., dated 15 January 2016, any sale or resale of Kaupskil ehf.'s shares in Arion banki hf. to non-residents shall be conditional upon a confirmation from the Minister of Finance and Economic Affairs and the Central Bank of Iceland that such a sale or resale does not jeopardise exchange rate, monetary or financial stability. When considering whether the entities purchasing the shares are considered non-residents, consideration shall be given to who the beneficial owners of the shares will be following the sale or resale. The entities have provided the Central Bank with information about their operations and a declaration that the beneficial owners of the shares in Arion banki hf. following the sale are non-residents.

Based on the information provided by Kaupthing ehf. in the updated request dated 14 February 2017 and an analysis presented by the Central Bank of Iceland to the Ministry of Finance and Economic Affairs of the effects of the sale as described in said request, it is confirmed that the sale does not jeopardise exchange rate, monetary or financial stability.

On behalf of the Minister


Guðrún Þorleifsdóttir


Tinna Finnboadóttir