

SPM reaches deal with largest creditors and sells all its assets to New Kaupthing Bank

On 27 March 2009 the largest creditors of Sparisjóður Mýrasýslu ("SPM") agreed to a proposal on the financial restructuring of the bank. On the basis of this agreement SPM has sold all its assets to New Kaupthing Bank hf. (New Kaupthing). New Kaupthing will pay for the assets with bonds and shares issued by New Kaupthing.

In order to guarantee the continued smooth operation of SPM it is vital that the rights and obligations contained in the purchase agreement between SPM and New Kaupthing are delivered in a single action. In accordance with a request from the board of directors of SPM, the Icelandic Financial Supervisory Authority has agreed to exercise the authorisation contained in Article 100 a., paragraph 3 of Act no. 161/2002 on Financial Undertakings, cf. Article 5 of Act no. 125/2008, to assume the authority of a meeting of guarantee capital owners of SPM and decide to transfer in a single action from SPM to New Kaupthing the rights and assets specified in the purchase agreement. This has been done because the transfer of deposits and loans, security rights and other rights and assets which must be transferred, without there being a simple merger, is not under the control of the board of directors of SPM.

With this sale, all assets and deposits of SPM are transferred to New Kaupthing which takes over the operations of SPM in Borgarnes. The branches of New Kaupthing and SPM in Borgarnes are scheduled to be merged in the next few weeks. At the same time New Kaupthing will acquire all guarantee capital in SPM. New Kaupthing will also acquire SPM's subsidiaries, including Sparisjóður Ólafsfjarðar and Afl Sparisjóður in Siglufjörður and Sauðárkrókur. These subsidiaries will continue to operate as before.

This ensures that there will be no disruption whatsoever in services to customers of SPM and related savings banks and they will be able to obtain all services as before. It also ensures there will be a minimum impact on employees.

SPM has experienced severe financial difficulties since the beginning of 2008, with the bank estimated to have made a loss of ISK 21 billion during the last operating year according to pro forma financial statements. However, this brings a successful conclusion to the issue for creditors and stakeholders.

Proposal on financial restructuring

As stated above, the largest creditors of SPM agreed to a proposal on the financial restructuring of the bank on 27 March. It was proposed that general and subordinate claims against SPM be settled as follows:

- 43.7% of general claims be paid for by increasing guarantee capital in SPM so that each krona of general claims is equal to one krona of guarantee capital;
- 3.1% of general claims be paid for in cash;
- 53.2% of general claims be paid for in bonds (one or more). The bond will be a 9-year instrument, without instalments the first two years; and
- Subordinate loans would be paid in full (100%) by increasing guarantee capital in SPM on a 1:1 basis.

It was assumed that if SPM's proposal were accepted, then SPM would be converted into a limited liability company and then merged with New Kaupthing.

The board of directors of SPM intends to apply for permission to seek composition in accordance with the provisions of Act no. 21/1991 on Bankruptcy etc. This is likely to be preceded by a moratorium on payments, while a draft composition agreement and the necessary supporting documentation are prepared.

Draft financial results for 2008

According to the draft financial results for 2008, SPM (parent company) reported a loss of ISK 21,147 million after tax. This loss is explained by the decrease in the price of shares owned by SPM and increased provisions for losses, which were considered necessary in light of the fact that the financial situation of companies and individual customers of SPM had deteriorated sharply owing to the depreciation of the Icelandic krona, high interests rates and the slowdown in the Icelandic economy.

Total assets amounted to ISK 36,466 million of which ISK 25,295 million were loans to customers. Total liabilities of SPM amounted to ISK 51,621 million. Equity according to the balance sheet was negative by ISK 15,155 billion, compared to a positive figure of ISK 6,299 billion at the end of 2007.

The table below shows the key figures from the draft financial results for 2008.

Income statement - pro forma

	1.1.-31.12.2008	1.1.-31.12.2007
Interest income	5,104,974	3,284,422
Interest expense	(5,019,873)	(2,833,874)
Net interest income	<u>85,101</u>	<u>450,548</u>
Fee and commission income	127,000	124,448
Fee and commission expense	(29,194)	(22,418)
Net fee and commission income	<u>97,806</u>	<u>102,030</u>
Net trading income	(14,445)	7,024
Net income from other financial instruments carried at fair value	(6,220,178)	1,228,457
Net foreign exchange gain (loss)	900,137	(66,221)
Share of profit of associates	(1,540,543)	147,650
Other operating income	38,124	113,613
	<u>(6,836,905)</u>	<u>1,430,523</u>
Operating income	(6,653,998)	1,983,101
Net impairment loss on loans and advances	(14,663,375)	(478,875)
Personnel expenses	(149,185)	(359,995)
Depreciation	(22,980)	(16,693)
Impairment of goodwill	(287,424)	(19,993)
Other expenses	(1,142,872)	(389,876)
Profit before income tax	(22,919,834)	717,669
Income tax expense	<u>1,772,569</u>	<u>(80,274)</u>
Profit for the period	<u>(21,147,265)</u>	<u>637,395</u>

Balance sheet - pro forma

	31.12.2008	31.12.2007
Assets		
Cash and cash equivalents	258,675	667,930
Trading assets	0	143,253
Financial assets designated at fair value	1,088,587	7,465,390
Derivative assets held for risk management	0	582,411
Loans to credit institutions	7,445,129	1,118,376
Loans to customers	25,295,596	26,992,780
Investment in associates	365,458	2,024,416
Property and equipment	171,381	171,960
Investment property	73,500	150,000
Non-current assets held for sale	157,396	163,640
Tax assets	800,000	0
Other assets	810,853	396,754
Total assets	<u>36,466,575</u>	<u>39,876,910</u>
Liabilities		
Deposits from credit institutions and Central Bank	23,151,388	5,135,073
Deposits from customers	11,280,012	11,221,464
Trading liabilities	15,941	6,795
Derivative liabilities held for risk management	0	547,665
Debt securities issued	11,884,995	12,753,745
Subordinated liabilities	3,269,922	2,107,511
Pension liability	404,772	528,440
Deferred tax liabilities		972,569
Other liabilities	1,614,926	304,228
Total liabilities	<u>51,621,956</u>	<u>33,577,490</u>
Capital		
Primary capital	505,021	505,021
Reserve	(15,660,402)	5,794,399
Total Capital	<u>(15,155,381)</u>	<u>6,299,420</u>
Minority interest	0	0
Total Capital	<u>(15,155,381)</u>	<u>6,299,420</u>
Total liabilities and capital	<u>36,466,575</u>	<u>39,876,910</u>