

Heads of Terms

regarding New Kaupthing Bank hf.

between:

- (1) The Ministry of Finance, reg. id. 550169-2829, on behalf of the Government of Iceland (hereinafter referred to as the "Government"); and
- (2) Kaupthing Bank hf. reg. id. 560882-0419, whose registered office is at Borgartún 19, 105 Reykjavik, Iceland; and
- (3) New Kaupthing Bank hf. reg. id. 581008-0150, whose registered office is at Borgartún 19, 105 Reykjavik, Iceland.

(together the "Parties")

RECITALS

WHEREAS on 9 October 2008 the Icelandic Financial Supervisory Authority (hereinafter referred to as the "FME"), appointed a Resolution Committee of Kaupthing in accordance with article 5 of legislative act No. 125/2008 on the Authority for Treasury Disbursements due to Unusual Financial Market Circumstances etc., amending Act No. 161/2002 on Financial Undertakings (hereinafter referred to as the "Act on Financial Undertakings").

WHEREAS on the 18 October 2008 the Government established New Kaupthing Bank hf. reg. id. 581008-0150 (hereinafter referred to as "NKB").

WHEREAS on 21 October 2008 the FME decided on the basis of the Act on Financial Undertakings to transfer certain assets (the "Transferred Assets") and liabilities (the "Transferred Liabilities") from Kaupthing to NKB.

WHEREAS on 24 November 2008 the District Court of Reykjavik granted Kaupthing a moratorium on payments to creditors which is still in force.

WHEREAS the Resolution Committee of Kaupthing (the "Resolution Committee") has the legal obligation and aim to maximize the value of Kaupthing's assets and to safeguard the interests of Kaupthing's creditors.

WHEREAS the Government is working towards ensuring a stable and functioning banking system in Iceland.

WHEREAS the Parties have concluded negotiations on the future relationship between Kaupthing and NKB.

NOW, THEREFORE, the Parties have agreed on the following Heads of Terms (the "HoT"):

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1. **Heads of Terms**

This HoT sets out the framework for the transactions contemplated herein with respect to the rights of the Parties towards NKB and towards each other.

2. **Definitions**

Words defined in the Schedules (which are an integral part of this document) shall have the same meaning throughout this document save as the context otherwise requires. In addition, save where expressly defined to the contrary, or as the context otherwise requires:

"**Arrangements**" means any and all agreements, arrangements, understanding, declarations etc. set out and/or contemplated in this HoT.

"**Creditors**" means the creditors of Kaupthing.

"**Escrow Period**" means the period commencing on, the earlier of i) the date that Kaupthing declares that the conditions for the Kaupthing Capitalization are not met, or ii) if the Kaupthing Capitalization has not occurred on 31 October 2009, then commencing on that date (31 October 2009) and ending on the 31 December 2011.

"**Final Documentation**" means the signing and execution by the Parties of all the arrangements set out in Article 3.

"**Final Documentation Date**" means the date on which Final Documentation takes place, which can never be later than 14 August 2009.

"**Kaupthing**" means Kaupthing bank hf. and wholly owned subsidiaries.

"**Kaupthing HoldCo**" means a wholly owned subsidiary to be used for holding Kaupthing share capital in NKB in case required by the FME.

[REDACTED]

"**SPRON bond**" means the bond issued to NKB by SPRON as payment for deposit taken over by NKB.

"**Valuation Agent**" means [*independent investment bank or accountancy firm*].

"**Valuation Gap**" means the difference between the value of the Transferred Liabilities and the Transferred Assets as at any given date of the Escrow Period.

3. **List of arrangements**

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- i) Kaupthing Capitalization Agreement
- ii) Tier II Capital Instrument Agreement
- iii) Shareholders' Agreement
- iv) Escrow Deed and Contingent Value Right Agreement
- v) Equity Option Arrangement

4. Capitalization

The Parties agree that on 14 August 2009 the Government shall contribute 100% of the capitalization of NKB (the "**Government Capitalization**").

The Government Capitalization shall be provided through increased share capital of NKB and a Tier II capital instrument, as initially approved by the FME or by other means as may be required by the FME and agreed by the Government.

The Parties shall endeavor to agree and enter into the Final Documentation by 31 July 2009 and in any event no later than 14 August 2009. In the case that Final Documentation is not completed on 14 August 2009 then all Arrangements set out and/or contemplated in this HoT will terminate or cease to have effect.

The Kaupthing Capitalization is conditional upon the following conditions being satisfied on or before 31 October 2009; - the completion of due diligence to the satisfaction of Kaupthing; - approval by the FME of the Kaupthing Capitalization; - Creditors' feedback satisfactory to Kaupthing and the subsequent decision by the Resolution Committee to complete the Kaupthing Capitalization. In the event that the conditions stipulated in this paragraph are not satisfied on or before 31 October 2009, or the Kaupthing Capitalization is not completed on that date, or the Resolution Committee declares that it will not complete Kaupthing Capitalization, then the Kaupthing Capitalization shall terminate or cease to have effect.

The Parties shall agree that no later than 31 October 2009 a shareholders meeting in NKB shall be held where the share capital of NKB shall be reduced and subsequently increased to allow for Kaupthing to subscribe for share capital which amounts to 65% of the total capitalization required for NKB, or to extent that is not permissible under Icelandic law, through other means having the same effect (the "**Kaupthing Capitalization**"). For avoidance of doubt the Kaupthing Capitalization shall consist exclusively of a share capital contribution as set out in Schedule A.

After the Kaupthing Capitalization NKB shall be capitalized as follows:

- i) The Government shall have provided 35% of the total capitalization required for NKB, through which it shall have provided the entire Tier II capital instrument. The remainder of the Government's portion shall be in share capital,
- ii) Kaupthing shall have provided 65% of the total capitalization required for NKB with share capital.

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5. **Shareholders' agreement**

The Parties agree that they shall enter into a shareholders' agreement setting out the respective rights of the Parties, as set out in Schedule C.

6. **SPRON bond and Sparisjóðabankinn**

The Parties agree that the Government shall hold NKB and Kaupthing harmless with respect to the value of the SPRON bond and the contemplated Sparisjóðabankinn bond. The Parties further agree to work towards the SPRON bond and the Sparisjóðabankinn bond being made eligible as collateral for funding or liquidity agreements with the Icelandic Central bank under the current rules for such transactions with similar terms given to the SPRON bond as are given to government bonds.

7. **Due diligence**

The Parties agree that prior to 31 October 2009 they will co-operate to allow Kaupthing and its advisors to conduct such financial, commercial, legal and technical due diligence review of NKB as they may acting reasonably require in connection with the Kaupthing Capitalization. This includes reasonable access to any such key employees, advisers, records, agreements, licenses, etc. which Kaupthing reasonably considers necessary in order to duly complete the aforesaid due diligence reviews.

The Parties will co-operate to seek to ensure that Kaupthing and its advisors shall have continued access to the Deloitte LLP Net Asset Valuation Report Part 1, the Deloitte LLP Net Asset Valuation Report Part 2, the Oliver Wyman Net Asset Report and the business plan and the detailed model from the management of NKB, provided those parties sign the agreed respective confidentiality and hold harmless agreements.

The Creditors and their advisors that have signed confidentiality agreements satisfactory to the Parties shall upon the signature by the Parties of this HoT have the right to conduct financial, commercial, legal and technical due diligence review of NKB as agreed between the Parties. NKB will make such information available in a physical and/or electronic data room with an agreed content between Parties.

The Creditors shall further have access to the due diligence process to the extent agreed by the Parties.

8. **Conditions**

The Final Documentation is subject to several conditions, in particular the following:

- Permit for Kaupthing from the FME to acquire qualified holding over NKB and the approval of the Kaupthing Capitalization.
- Competition authority clearance with respect to the proposed transaction.
- A satisfactory solution in relation to the SPRON Bond.
- Specialized report from an independent auditor, as per article 6 of Act No. 2/1995 on Limited Liability Companies, confirming the valuation of the assets to be used for the Kaupthing capitalization as set out in Schedule A.

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9. **Final agreement**

The Parties acknowledge and agree that this HoT does not constitute a full and final agreement with respect to the transactions contemplated herein and is conditional upon several conditions. It is thus not binding towards the Parties.

10. **Creditors' consultation**

The Resolution Committee will convene a meeting of creditors of Kaupthing (the "**Creditors' Meeting**") as described below. The purpose of the Creditors' Meeting is to provide all creditors with the opportunity and platform to give the Resolution Committee the sufficient feedback on the Arrangements.

The Resolution Committee shall take the feedback from the Creditors' Meeting into consideration when deciding whether or not to undertake the Kaupthing Capitalization.

11. **Management in the interim period**

The Parties undertake to limit the operation of NKB to what can be considered to fall within the ordinary course of business in the period from the 17 July 2009 until the earliest of, the date of the Kaupthing Capitalization, the date on which Kaupthing declares it will not undertake the Kaupthing Capitalization or 31 October 2009. During the period from 17 July 2009 until the completion of the Final Documentation Kaupthing shall have the right to appoint an observer to the board of directors of NKB. After entering into the Final Documentation Kaupthing and the Government shall each appoint five directors and five alternative directors to the board. Either Party may decide to appoint fewer directors that hold five votes in total. The board will elect a chairman from the board of directors whose vote shall however not be a decisive vote in case of a deadlock in the interim period.

Appointment or removal of directors/senior management shall be a joint decision of the Government and Kaupthing.

An agreed list of reserved matters shall be included which NKB will not be able to undertake without consent of the Government and Kaupthing.

The Government undertakes to ensure that the necessary amendments are made to the articles of associations of NKB for these purposes.

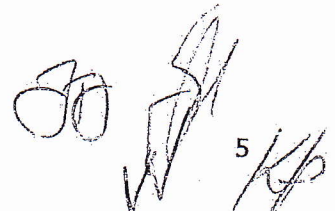
NKB undertakes not to finalize its accounts until after the Final Documentation Date.

12. **Outline timetable**

The following timetable sets out actions which the Parties intend to take to implement the Arrangements set out in Article 3 above. The Parties will seek to adhere to this timetable and, where this proves to be impracticable, will take such reasonable action as may be necessary to implement the arrangements contemplated by this HoT as quickly as reasonably practicable.

17 July 2009

Government Capitalization as set out in Article 3.



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The Government and NKB continue to facilitate the due diligence exercise undertaken by the Resolution Committee, Creditors and their advisers, and provide access to all relevant information.

17 July – 14 August 2009

NKB management finalises its opening balance sheet and other financial information (subject to final audit and publication of accounts), business plans and capitalisation requirements.

FME approves the capital structure for NKB contemplated in the Kaupthing Capitalization.

31 July 2009 – 14 August 2009

The Parties shall endeavour to have agreed and entered into the Arrangements by 31 July 2009 and in any event to have executed the Final Documentation on 14 August 2009.

All Conditions according to this HoT are to be met.

14 August – 31 October 2009

Audit of NKB accounts completed.

The Government, NKB and Resolution Committee agree the contents of the information pack sent by the Resolution Committee to Creditors in advance of the Creditors' meeting.

Information packs sent to Creditors by the Resolution Committee and Creditors' meeting called by the Resolution Committee to consider and, if thought fit, solicit feedback on the Kaupthing Capitalisation.

Creditors' meeting to be held as soon as possible after information packs despatched.

Kaupthing shall, following the Creditors' Meeting, but no later than 31 October 2009, decide whether or not to undertake the Kaupthing Capitalization.

In the event that Final Documentation has been completed and Kaupthing does not undertake the Kaupthing Capitalization on or before 31 October 2009 or if Kaupthing declares prior to that date that it will not undertake the Kaupthing Capitalization the Escrow Deed, the Contingent Value Right Agreement and the Equity Option Agreement shall be triggered.

13. General

Each Party is responsible for its own costs incurred in connection with this HoT and in relation to the preparation and negotiation of this HoT.

The Parties will endeavor to agree on a mechanism to allow for a transfer of assets valued at zero in the opening accounts of NKB.

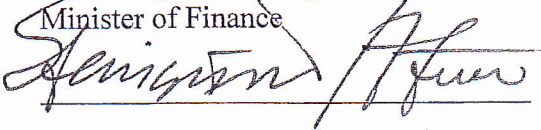
This HoT shall be governed by the laws of Iceland and the parties submit to the exclusive jurisdiction of the Courts of Iceland.

The Parties shall use their best efforts to resolve any and all differences in relation to this HoT in good faith.

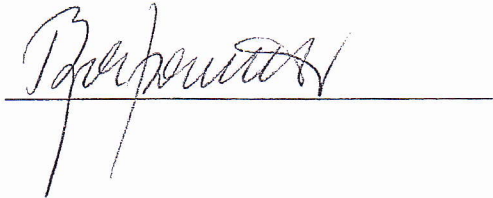
IN WITNESS WHEREOF the Parties hereto have caused this Heads of Terms to be duly executed as of July 17, 2009:

Icelandic Ministry of Finance

Mr. Steingrímur J. Sigfússon,
Minister of Finance

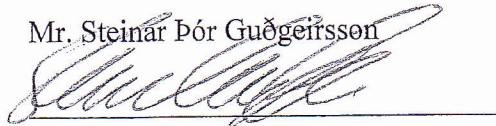


New Kaupthing Bank hf.

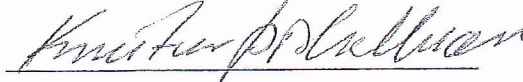


Kaupthing Bank hf.

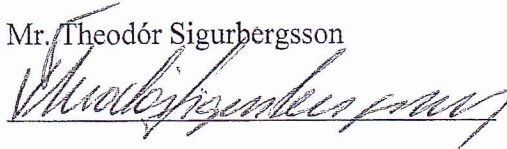
Mr. Steinar Þór Guðgeirsson



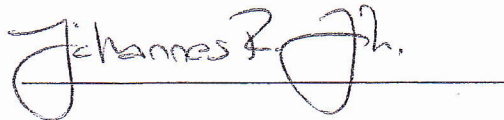
Mr. Knútur Þórhallsson



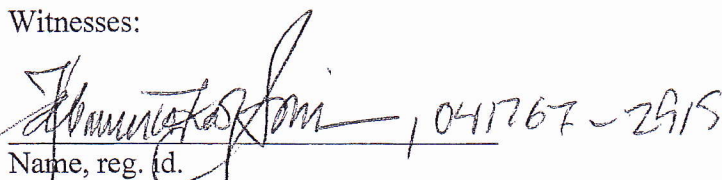
Mr. Theodór Sigurbergsson

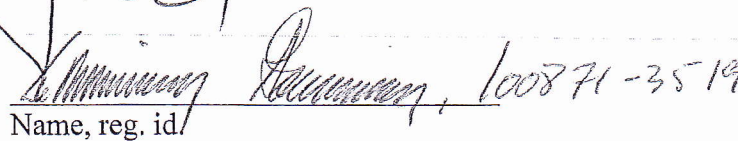


Mr. Jóhannes Rúnar Jóhannsson



Witnesses:


Name, reg. id.


Name, reg. id.

SCHEDULE A - KAUPTHING CAPITALIZATION AGREEMENT

PARTIES	Kaupthing and the Government
OBJECTIVE	<p>The Parties shall agree that no later than 30 October 2009 Kaupthing shall subscribe for share capital in NKB which amounts to 65% of the total capitalization required for NKB (the "Kaupthing Capitalization").</p> <p>The Kaupthing Capitalization is conditional upon the Resolution Committee taking a final decision to capitalize NKB following the Creditors Meeting taking into account the Creditors' feedback.</p> <p>After the Kaupthing Capitalization the total CAD ratio of NKB shall be 16%. Thereof 12% shall be in the form of a Tier I instrument and 4% shall be in the form of Tier II instrument, unless otherwise required by the FME. The Government portion of the total NKB capitalization shall be 35%, of which it shall have provided the entire Tier II capital and the remainder of the Government's portion shall be in share capital. The Kaupthing Capitalization shall consist exclusively of a share capital contribution.</p> <p>In case the FME approves the capitalization of NKB at a lower or higher rate or a different asset mix is required then the capitalization shall be altered accordingly.</p>
PROCESS	<p>The Government undertakes to ensure that NKB calls for a shareholders meeting at the request of Kaupthing. Such a shareholders meeting shall be held within one week from the request of Kaupthing being put forward. A shareholders meeting shall in any case be held on 30 October 2009.</p> <p>If the conditions for the Kaupthing Capitalization are met, the shareholders meeting shall reduce and subsequently increase the share capital of NKB to allow for Kaupthing to subscribe for share capital in NKB which amounts to 65% of the total capitalization required for NKB.</p>
ASSETS AND LIABILITIES	In case there is a difference between the value of the Transferred Liabilities and the value of the Transferred Assets in the opening audited accounts of NKB, the Parties will provide assets equaling that amount if needed.
TAX CONSIDERATIONS	Should it be necessary for tax purposes to alter proportions of equity the Parties agree to take necessary steps in that respect.
WITHDRAWAL FROM THE KAUPTHING CAPITALIZATION	Kaupthing may at any time until 31 October 2009 declare that it shall not undertake the Kaupthing Capitalization by giving notice to that effect to the Government. By making such a declaration or otherwise failing to undertake the Kaupthing Capitalization before 31 October,

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	<p>2009 Kaupthing shall forfeit any rights towards the shares, management, due diligence etc. as contemplated in this HoT.</p> <p>In the event that Kaupthing declares that the conditions for the Kaupthing Capitalization are not met, or if the Kaupthing Capitalization has not occurred on 31 October 2009, which ever date comes sooner, the Escrow Deed, the Contingent Value Right Agreement and the Equity Option Agreement shall take effect.</p>
<p>SPM REPRESENTATION AND WARRANTIES</p>	<p>The Government, Kaupthing and NKB shall endeavor to reach a satisfactory solution with respect to the acquisition by NKB of Sparisjóður Mýrasýslu ("SPM").</p> <p>In the event that the creditors of SPM shall be granted share options in NKB, as a result of composition of creditors of SPM, the Parties respective share capital proportions shall be diluted on a pro rata basis.</p>
<p>GOVERNING LAW AND JURISDICTION</p>	<p>Icelandic law with Icelandic court jurisdiction</p>

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SCHEDULE B – TIER II CAPITAL INSTRUMENT AGREEMENT

PARTIES	Kaupthing, Government and NKB
ISSUER	NKB
INVESTOR	Government
AMOUNT	ISK amounting to 4% of CAD to bring Tier II ratio from 12% to 16% Should the FME require a different Tier I capitalization, NKB shall have the right to decide to convert the Tier II instrument partial or in full into a Tier I instrument at terms to be agreed.
DATES	Issue Date: 14 August 2009 Call date: The issuer shall have the option to call the note on the interest payment date falling in August 2014 or on any interest payment date thereafter and in tranches prior to 5 years subject to the consent of the FME. The notes shall redeem at par. Maturity Date: 14 August 2019
CURRENCY DENOMINATION	EUR or any other currency as chosen by NKB
RANKING	Subordinated, unsecured note
COUPON	Interests on the Note are payable quarterly in arrears with a deferral right at the option of the NKB for the first two years. From and including the Issue Date to but excluding the interest payment date falling in August 2014, the Notes will bear floating interest at a rate of 3 month EURIBOR + 400 bps. From and including the interest payment date falling in August 2014 to but excluding the Maturity Date, the Notes will bear floating interest rate at a rate of 3 months EURIBOR + 500 bps.
PAYMENTS	EUR or any other currency converted at the spot rate when payments are due
EVENT OF DEFAULTS	Winding up
TRANSFERABILITY	Freely transferable
CHOICE OF LAW AND JURISDICTION	English law and English courts

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SCHEDULE C - SHAREHOLDER AGREEMENT

PARTIES	Kaupthing and the Government
GOVERNANCE	<p>The Parties agree that at the shareholders meeting where the Kaupthing Capitalization takes place the Parties shall elect the board of directors of NKB that shall comprise of five (5) members and five (5) alternate members.</p> <p>The Government shall have the right to nominate one (1) member of the board of directors and one (1) alternate member during the time of holding share capital in NKB and Kaupthing shall have the right to nominate four (4) members of the board of directors and four (4) alternate members. Kaupthing shall nominate the chairman of the board of directors. The Government and Kaupthing shall vote for the members, which each of the parties nominate, at the shareholders' meeting.</p> <p>Kaupthing may decide to increase the number of its directors at NKB.</p> <p>The Government shall have a blocking right with respect to a decision on the winding up of NKB.</p>
DURATION	The Shareholders' Agreement will enter into force on the date of the Kaupthing Capitalization. If the total shareholding of the Government is at any time less than 5% the Shareholders Agreement shall terminated immediately at the request of either Party.
SHARE TRANSFERS/ ISSUE	<p>Kaupthing shall be notified of any proposed sale or transfer by the Government of its shares in NKB and in such case have a right of first refusal in connection with such shares, provided it pays at least the price offered to the Government for such shares.</p> <p>In respect of any new share issue, Kaupthing and the Government shall have pre-emption rights pro rata to their shareholdings.</p>
DRAG AND TAG OPTION	<p>If Kaupthing sells a stake of 50% plus one share or more in NKB, Kaupthing shall have a drag-along right with respect to the Government's shares and the Government shall have a tag-along right to sell its shares along with Kaupthing's stake.</p> <p>In both cases, the shares in NKB shall be sold at the same price and under the same conditions as were offered to Kaupthing.</p>
CALL OPTION	The Government shall grant Kaupthing a call option over the Government's shareholding, to be exercised at a price that produces

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	an annual return of the risk free rate plus 5% for the Government on its original subscription for such shares minus any dividend paid to the Government. If Kaupthing exercises the call option it shall be obliged to adjust the Tier II instrument accordingly
GOVERNING LAW AND JURISDICTION	Icelandic law with Icelandic court jurisdiction

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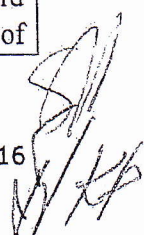
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SCHEDULE E – EQUITY OPTION ARRANGEMENT

ISSUER	The Government
EQUITY OPTION	On the earlier of i) the date that Kaupthing declares that the conditions for the Kaupthing Capitalization are not met, or ii) if the Kaupthing Capitalization has not occurred on 31 October 2009 the Government shall issue an option over 90% of its share in NKB (the "Equity Option")
INITIAL OPTION HOLDER	Kaupthing
EQUITY OPTION ISSUE DATE	The earlier of i) the date that Kaupthing declares that the conditions for the Kaupthing Capitalization are not met, or ii) if the Kaupthing Capitalization has not occurred on 31 October 2009.
UNDERLYING	Ordinary shares of NKB owned by the Government
OPTIONS OFFERED	Option exercisable in one tranche over 90% of the Government's shareholding in NKB
EXERCISE PRICE	To be calculated such that the Government receives an annual return equal to the risk-free rate plus 5%, on its initial investment in NKB. Such exercise price to be adjusted for any payment of dividends previously paid out to the Government (the "Exercise Price").
EXERCISE PERIOD/EXPIRY	The option may be exercised in the one month period immediately following the publication of financial results for each of the financial years 2010 - 2014
ANTI-DILUTION	Appropriate adjustments for stock splits, stock dividends, capital increase etc.
LIQUIDITY EVENT AND CHANGE OF CONTROL	Prior to the exercising the Equity Option it will vest upon a Liquidity Event. Liquidity Event includes an Initial Public Offering ("IPO") and a change of control (to be defined) In the event of an IPO the vested shares may be subject to lock-in provisions as required by the sponsors at the time
RANKING IN WIND-UP	The Equity Option shall rank on an equal basis to the ordinary shareholders subject to the Government receiving the Exercise Price.
TRANSFERABILITY	Freely transferable
CORPORATE GOVERNANCE	While the Equity Option is in place, Kaupthing shall have board representation with one board member with full rights. That board member shall have the right to take a seat in those committees of

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	<p>NKB considered relevant in relation to the option. Certain issues shall furthermore require a unanimous vote (as is customary in similar situations).</p> <p>The Option Holder shall be entitled to the bi-annual accounts of NKB to be provided immediately upon those accounts being published and quarterly accounts as they may be available.</p>
DISCLOSURE	<p>The FME may require disclosure of qualified holdings over an appropriate threshold, all in accordance with the Act on Financial Undertakings.</p>
GOVERNING LAW	<p>English law and English Courts</p>

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