

PRIME MINISTER
ICELAND

Reykjavik 17 November, 2009

Dear Prime Minister,

Further to your letter of 13 November 2009, I have to respond to your emphasis on the legally binding nature of the Icelandic state guarantee. The Icesave loan arrangements are so unique and involve such significant financial obligations for Iceland, that it is important that all parties share the same understanding of the context and the basic elements of the agreements.

With the amended agreements from 19 October 2009, the essence of the Althingi's concerns were incorporated into the June loan agreements, making them more balanced and in line with the so-called Brussels guidelines from November 2008. In particular, it is safeguarded that the economic burden will not halt the recovery and future development of the Icelandic economy.

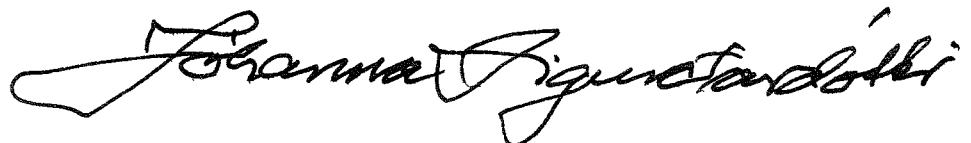
However, one major issue remained to be addressed, namely recognition of the fact that Iceland undertakes to guarantee reimbursements to depositors in the United Kingdom and the Netherlands without there being an unequivocal legal obligation to do so.

Accordingly, the parties agreed on a solution to this matter which does not diminish the legally binding nature of the Icelandic state guarantee but nonetheless acknowledges Iceland assumes this obligation irrespective of whether it is legally obliged to do so.

First, the Althingi will in the proposed new authorizing act declare that the guarantee is granted without the acknowledgement on Iceland's behalf of there being a pre-existing legal obligation to do so. If it later became apparent that no such obligation existed, the Minister of Finance of Iceland would consult with the other parties to the loan agreements and, if necessary, with the European Union and the institutions of the European Economic Area, to assess the implications for the loan agreements and the state guarantee.

Second, in a joint trilateral declaration of the Ministers of Finance of Britain, Iceland and the Netherlands, issued on 19 October 2009, the parties declare a willingness to work together in the coming months and years, "including at the request of any of the parties to discuss and possibly react to issues that may arise".

Hence, if Iceland's position were, at a later date in time, to be vindicated by a competent adjudicator, we would certainly expect the other parties to revisit the matter in a spirit of fairness and good faith.



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