

SPRON CREDITORS' REPORT
7 OCTOBER 2009 (EXCERPTS)



Abbreviations

The following abbreviations are used in this report

SPRON	Sparisjóður Reykjavíkur og nágrennis hf (540502-2770)
NB	nb.is - sparisjóður ehf. (540502-2930)
FIB	Frjálsi Investment Bank
FME	The Icelandic Financial Supervisory Authority
NKB	New Kaupthing Bank hf (581008-0150)
RC	Resolution Committee
ISK	Icelandic Krona
CB	Icelandic Central Bank
WUB	Winding-Up Board

Laws and regulations quoted in this report (included in annexure).

Act No. 161/2002 on Financial Undertakings

Act No. 125/2008 on the Authority for Treasury Disbursements due to Unusual Financial Market Circumstances

Act no. 44/2009 (amendment to Act no. 161/2002 on Financial Undertakings)

Act no. 21/1991 on Bankruptcy

FME decisions published relating to post-event SPRON (included in annexure).

Decision 1 - 21 March 2009

Decision 2 - 5 April 2009

Decision 3 - 17 April 2009

Decision 4 - 25 May 2009

Decision 5 - 29 May 2009

DISCLAIMER

This report was prepared for the creditors of SPRON (Sparisjóður Reykjavíkur og nágrennis hf.). The data contained herein is provided to creditors for information purposes only to evaluate the current situation. In preparing this report, SPRON has not taken account of the interest of any particular creditor or group of creditors.

SPRON relies on information obtained from sources believed to be reliable but does not guarantee its accuracy or completeness.

The actual realisable value of SPRON's assets and liabilities may differ materially from the values set forth herein. Factors which may lead to material differences include:

- Resolution of issues regarding the quantum of claims
- Additional claims being made against the Bank
- The realisation method(s) used over time
- The impact of set off and netting including in connection with derivative contracts
- Movements in currency exchange rates and interest rates
- Prevailing market conditions when assets are sold

Contents

DISCLAIMER.....	3
PROLOGUS	5
BACKGROUND.....	5
REYKJAVIK SAVINGS BANK (SPRON).....	5
THE CRISIS IN ICELAND.....	6
THE DECISION OF THE FME – SUMMARY	6
THE RESOLUTION COMMITTEE	7
CUSTODY OF ASSETS	7
LEGAL PROTECTION	8
OPERATIONS	8
COST OF OPERATIONS.....	9
ASSETS.....	10
SUBSIDIARIES AND ASSOCIATES	12
SIGNIFICANT SUBSIDIARIES.....	12
ASSET ARRANGEMENTS.....	13
ASSET GROUP A - ASSETS WHOSE VALUE COULD DIMINISH QUICKLY	13
ASSET GROUP B – LONG TERM ASSETS.....	13
ASSET GROUP C – SHORT TERM ASSETS	14
ASSET SALES	14
FURTHER PLANS REGARDING ARRANGEMENT OF ASSETS.....	15
LIABILITIES.....	16
THE CONTRACT MADE WITH NEW KAUPTHING BANK	16
CENTRAL BANK OF ICELAND - REPURCHASE AGREEMENTS	17
SPECIAL MATTERS	18
INVALIDATION OF PRIOR TRANSACTIONS/AGREEMENTS	18
FINAL COMMENTS	19
LETTER FROM THE WINDING UP BOARD	21

PROLOGUS

On March 21, 2009, the Icelandic Financial Supervisory Authority (FME), by the authority of Art. 100a of Act No. 161/2002 on Financial Undertakings, cf. Art. 5 of Act No. 125/2008 on the Authority for Treasury Disbursements due to Unusual Financial Market Circumstances etc., took action to assume the powers of a shareholder's meeting of SPRON, dismissing the Board of Directors in its entirety and appointing a Resolution Committee (RC) to take on all matters related to SPRON, including oversight of all treatment of assets, as well as handling other business (see the "Decision of the Financial Supervisory Authority on the disposal of assets and liabilities of Sparisjóður Reykjavíkur og nágrennis hf., ID no. 540502-2770" and nb.is - sparisjóður hf. from that day – Appendix 1).

BACKGROUND

REYKJAVIK SAVINGS BANK (SPRON)

Reykjavik Savings Bank (SPRON) was established on March 5th 1932 when several members of the Reykjavik trade workers union united to form a savings bank. SPRON, which opened with only two employees, grew to become the largest savings bank in Iceland and consistently topped the bank customer satisfaction charts as having the most satisfied customers.

Initially, the savings bank's main purpose was to fund trade workers in their efforts to expand their business, but developed in time to become a full service bank. At first, SPRON was a conventional warrant fund, but later was changed to an initial capitalization fund. A change in legislation in 2001 allowed savings banks to alter their legal form to limited companies, and at an annual general meeting in 2002, the change was authorized by the board of SPRON. Those plans fell through because of legal uncertainty that surfaced after an attempted takeover.

In 2007 SPRON became a limited company, and on October 23rd in 2007 it was registered on the OMX Nordic Stock Exchange. In early 2009, during the global financial crisis, SPRON had scaled down to 182 employees, from a high count of 300 employees, operating in six branches, and multiple subsidiaries.

THE CRISIS IN ICELAND

In October 2008 the global financial crisis hit Iceland full force, triggering within a week's timeframe the collapse of all three of the large commercial banks; Kaupthing, Glitnir and Landsbanki. These catastrophic events had a crippling effect on economy and the already weak Icelandic Krona (ISK) collapsed with severely detrimental effects on SPRON's financial health. SPRON's equity position deteriorated significantly causing its CAD equity to fall below the minimum level stipulated by the FME, while at the same time, liquid assets dried up. Attempts with creditors to rectify the situation in time were unsuccessful, leading to the FME assuming the powers of a shareholder's meeting in March 2009, dismissing the Board of Directors and appointing a RC to take control of the affairs of the bank.

THE DECISION OF THE FME – SUMMARY

On March 21 2009 the Board of Directors of SPRON was dismissed in its entirety and a RC was mandated to oversee the treatment of assets and transfer of liabilities, according to the following decision:

Liabilities:

Obligations of SPRON and its subsidiary nb.is - sparisjóður ehf. (NB) due to deposits, overdrafts on current accounts along with accompanying collateral, import and export guarantees and guarantees due to discharge of contract by companies and individuals linked to regular activities rights were transferred to New Kaupthing Bank hf. (NKB).

Liabilities excluded from this transfer:

- Obligations obtained by converting bond or promissory note obligations to deposit obligations prior to the note's maturity, as are money market deposits from financial undertakings.
- Obligations of subsidiaries abroad
- Guarantees on behalf of companies under moratorium, in composition with creditors or in bankruptcy proceedings
- Obligations to Icelandic financial undertakings
- Other specifically identified liabilities

Assets:

All of SPRON's assets and collateral rights were to be transferred to a limited liability company (Drómi hf.) established and owned by SPRON. This subsidiary would take over the obligation towards NKB due to its takeover of SPRON's deposit obligations by issuing a bond to NKB as repayment. All assets, including the shares in the subsidiary, were to act as collateral for the bond.

THE RESOLUTION COMMITTEE

In accordance with the official mandate, dated March 21. 2009, five individuals were appointed to the RC of SPRON. This was done on the authority of Art. 100a of Act no. 161/2002 on Financial Undertakings, cf. Art. 5 of Act no. 125/2008 on the Authority for Treasury Disbursements due to Unusual Financial Market Circumstances etc. The appointments to the RC were as follows:

Hlynur Jónsson, Chairman, Attorney (KVASIR Legal)

Davíð Arnar Einarsson, CPA (Grant Thornton Ltd.)

Feldís Lilja Óskarsdóttir, Attorney (Borgarlögmenn)

Guðrún Torfhildur Gísladóttir, CPA (Grant Thornton Ltd.)

Jóhann Pétursson, Attorney (Lögmannsstofa Vestmannaeyja ltd.)

The mandate further stipulates that the RC has the same authority as the Board of Directors of SPRON, and shall govern all matters relating to SPRON, including the properties of SPRON and the operation and management of the enterprise. In addition, the RC is required to follow all decisions of the FME relating to the provision mentioned previously.

CUSTODY OF ASSETS

Prior to the appointment of the RC, for security reasons, all access to SPRON premises, remote terminal connections, computer software and email had been closed to staff in an effective lockdown.

Upon appointment of the RC, as previously noted, the deposits and guarantee liabilities of SPRON and nb.is - sparisjóður hf. had already been transferred to NKB. The initial steps taken

by the RC was securing custody of assets by changing the Board of Directors in all companies owned 100% by SPRON and their subsidiaries. Furthermore, shareholder meetings were requested in other companies SPRON had interests in to execute a change of board representation.

LEGAL PROTECTION

SPRON has not officially filed for bankruptcy protection, but has instead been granted protection from legal action by the order of the FME as if it had filed for bankruptcy:

It is stipulated in Act no. 161/2002 on Financial Undertakings that Articles no. 64 and 65 of the Act no. 21/1991 on Bankruptcy etc. do not apply while the RC/WUB governs SPRON. Furthermore, SPRON enjoys a protection against judicial seizure of assets.

OPERATIONS

The mandate of the RC was to oversee the transfer of liabilities and initiate winding-up proceedings but most importantly to safeguard the value of net assets of SPRON and thus maximize any recovery on claims of creditors. This would include initiating the winding-up proceedings of SPRON. The initial tasks were organized as follows:

- Assess and retain the resources needed to carry out the decision of the FME, the immediate tasks being those associated with protecting and operating the assets of the bank and completing the bond transaction with NKB.
- Identify assets that are at risk of depreciating quickly in value after SPRON ceased formal operations and sell them through an organized process in order to obtain maximum value.
- Get a clear view of the assets and liabilities of the bank and its subsidiaries, and construct a program for maximizing net asset value over the long term.
- Decide on the operational structure for the group post-event and the steps needed to get to that structure.

As a result of the above classification, most critical activities of the first weeks of the post-event operation were filled with identifying resources and granting the relevant staff access to the appropriate equipment, software and data needed for the continuing operations, so as to protect the assets of the bank. The RC identified the required staff as employees from finance

and accounting, customer service, IT and general operations, the rest received notice of termination resulting in a post-event staff of 30 (down from a pre-event of 182). However, estimated long term staffing requirements are estimated to be around 45.

The key functions going forward include servicing loans within FIB, accounting and financial/asset supervision, IT functions, legal services, asset recovery, asset liquidation, creditor services, creditor reporting as well as supervision of SPRON's loan book which is being serviced by NKB. It should however be noted that NKB has limited credit approval rights with respect to the loan book and all major changes must be approved by the RC. In addition to the aforementioned, considerable service is being provided to previous customers of SPRON and subsidiaries.

COST OF OPERATIONS

Since SPRON and most of SPRON's assets are located in Iceland, the scope of the winding-up operation is mostly domestic. The group's largest asset base is primarily mortgages and real-estate backed loans with thousands of individual debtors. Due to the deep freeze state of the real property market in Iceland, efforts to sell real assets and/or loan portfolios are currently not likely to deliver satisfactory results or at least not the kind of results achievable once the market starts to recover. In order to protect the interests of the creditors of SPRON and maximize recovery, ongoing asset management operations will be necessary.

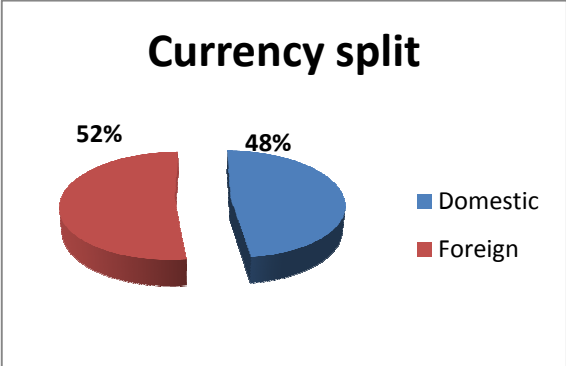
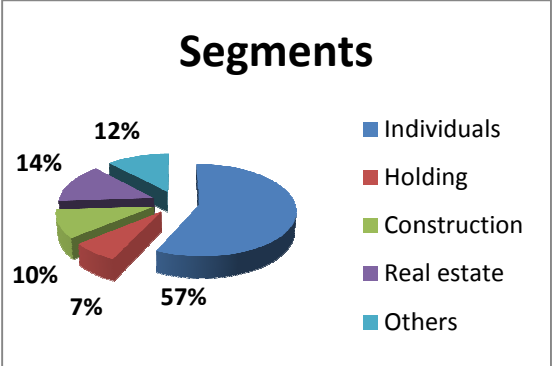
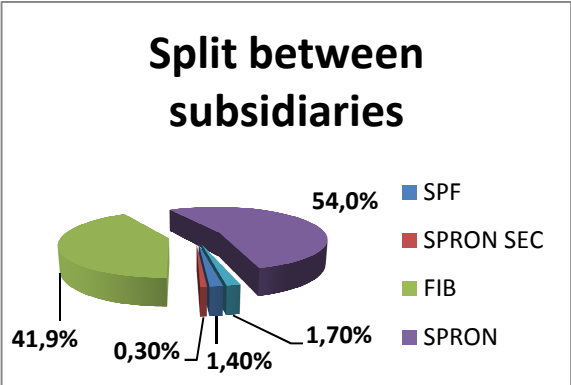
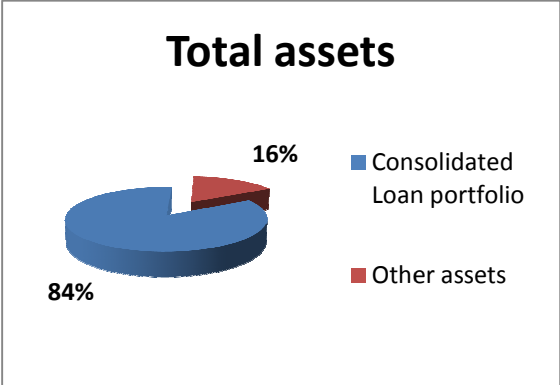
The RC estimates that costs associated with the winding-up of SPRON and the ongoing asset management operations, including salaries, the service contract with NKB and services of outside consultants, are estimated to be in the range of 50-60 basis points pr. year of the total asset pool as it was valued on 31.12.2008, thereof 1/3 being the costs of the Winding-Up Board.

ASSETS

As already stated proactive measures were immediately taken by the RC to protect all SPRON assets. Some non-critical and time sensitive assets have already been sold and subsidiaries specific to SPRON operations have been terminated (no resale value, only ongoing costs). These assets however only represent a small fraction of the total assets that remain with the bank.

	Balance sheet
All amounts in ISKm	31.12.2008
Cash and balances with CI & CB	4.812
Loans to credit institutions	4.853
Loans to customers	226.927
Specific provision	-30.157
General provision	-6.127
Trading financial assets	11.898
Financial assets designated at fair value	1.165
Subsidiaries	440
Intangible assets	265
Property and equipment	2.585
Assets for sale	1.886
Tax assets	5.500
Other assets	2.021
Total assets	226.068

Asset Breakdown



SUBSIDIARIES AND ASSOCIATES

The SPRON banking group had a complex web of subsidiaries and associated companies which held the different classes of assets and provided specific services and support to SPRON. Most of these subsidiaries were financed primarily or fully by the parent company and thus are not at risk of being taken over by outside creditors.

SIGNIFICANT SUBSIDIARIES

The single largest asset of SPRON is the subsidiary Frjálsi Investment Bank (FIB) which operates as a mortgage bank and lender to general building contractors of residential properties. FIB still operates under an active investment bank license, but only to the extent of protecting its assets of approximately 95 billion ISK by servicing its loan book. No new loans are being issued. FIB owns a significant subsidiary, Fasteignafélagið Hlíð, which is a holding company that holds over a dozen companies, each relating to a specific real estate project. The main liability of FIB is towards SPRON, its parent company.

ASSET ARRANGEMENTS

The RC initially classified SPRON assets into three groups which then commanded and prioritized what immediate actions the RC needed to take to preserve their value:

- A. Time sensitive assets whose value would diminish quickly.
- B. Assets that would likely need to be held on a long term basis or at least until the markets have been restored.
- C. Assets that would likely only need to be held on a short term basis, i.e. would be sold at appropriate prices as buyers can be found.

ASSET GROUP A - ASSETS WHOSE VALUE COULD DIMINISH QUICKLY

At the appointment of the RC it was apparent that a certain group of assets would only diminish in value the longer they remained inoperable or unsupported. An example of these assets were subsidiaries which had been rendered inoperable by FME's decision, such as nb.is – sparisjóður hf. (whose deposits had been stripped out and largest asset was a claim on SPRON), SPRON's branch network (which had been closed down), and various other assets that would require considerable continued financial support to operate. Immediate efforts were made to find buyers for these assets.

ASSET GROUP B – LONG TERM ASSETS

The assets in this category will be held on a long term basis due to the economic state of Iceland and its markets. These are primarily the loan portfolio of the group, which comprises of the largest asset class of the group by far, or ISK 227 billion at un-provisioned book value at 31.12.2008.

Real estate development projects, such as land or building projects, which are works in progress fit in this group. A substantial part of these assets originate and are hosted with FIB at present and are being evaluated on an individual basis. The intention is to develop an umbrella structure, or at least a management focus, around this asset group categoring them appropriately into sub-groups and then formulate clear strategies for each of them. As with other groups, the current economic circumstances make it difficult to devise these strategies at this point as major decisions by the government regarding the recovery of the Icelandic economy are still being awaited.

ASSET GROUP C – SHORT TERM ASSETS

This is a diverse class of assets which the RC deems possible to liquidate at fair value in the short term. Some are listed securities, most of which have a comparatively short maturity profile (less than 3 years), these include corporate bonds and shares. Some of SPRON subsidiaries and associated companies fit into this group. Some may need limited financial support to function, but should then represent recoverable value once the uncertainty of the economic environment changes. Many of the assets within Steinsnes ehf. fall into this category.

Other assets in this class are assets that have been rendered redundant by the wind-up and restructuring process and as such are being sold off. These assets include various equipment, furniture and automobiles.

ASSET SALES

A formal process was initiated for the sale of assets particularly sensitive to the discontinuation of SPRON's banking operation and other time sensitive assets.

The most time sensitive asset of SPRON following its collapse was its branch network and subsidiary online bank NB. Actions were taken immediately to put them formally up for sale and a small group of potential buyers showed interest. A successful sale of these assets would have resulted in the hiring of up to 45 SPRON staff, reducing layoff costs considerably. Given that deposits had been stripped from SPRON and that the branches had effectively no customers, the value of the branches was of course limited. They were run in leased buildings whose rent was not being paid (in accordance with the laws governing the RC). The banking shell of nb.is, which also had been stripped of deposits, was of course also of questionable value. Still, SPRON had commanded a high level of customer loyalty and that gave the failed branches some value which did generate some offers.

It should be noted that serious concerns were raised by NKB to the sale of these assets due to the intended collateralization and securing of the transferred deposit obligations overtaken by NKB. Other creditors also raised some concerns about sale of assets with reference to their loan agreements with SPRON.

After careful consideration by the RC, it was decided to proceed with the sales process as this was clearly in the best interest of the creditors in general, and on March 30. 2009 a sale for a

part of these assets was executed. That transaction is still awaiting approval by the FME (approving the buyer as a qualified owner).

The sale of software related assets has been completed. These assets which had primarily been operated as cost centers to date, had no operational value to post-event SPRON and as such were divested.

It should be noted that none of the relevant assets in this category are of significant value in comparison with the loan portfolio, or less than 0,5%.

FURTHER PLANS REGARDING ARRANGEMENT OF ASSETS

The RC has in place a preliminary plan for the management of assets and asset recovery strategy. It is however difficult to estimate how long the recovery process will take due to the uncertain economic conditions. The Promissory Note and Documents of Collateralization with NKB contain conditions which Drómi hf. must meet on the disposal of major assets. These conditions are described further in the following Liabilities chapter. It is presumed that a part of the asset value that falls outside of the Promissory Note and Collateral agreement with NKB, can be realized over the next few months. Also, additional value can be recovered from loans to customers within FIB. Other assets may take longer to recover, while assets requiring ongoing financial support will need to be sold off quickly as stated previously.

LIABILITIES

The ultimate liabilities of the SPRON group of companies will not be clear until the end of the claim lodging period in February 2010.

Following are the liabilities of the SPRON group of companies as stated on 31.12.2008:

Liabilities	Balance sheet
All amounts in ISKm	31.12.2008
Deposits from CI and CB	49.014
CB set-off - unsettled	
Other deposits	93.878
Overdraft/CC balances to NKB - unsettled	
Trading financial liabilities	16.204
Borrowings	104.582
Subordinated loan	13.112
Post-employment obligations	759
Tax liabilities	80
Other liabilities	3.780
	281.409

THE CONTRACT MADE WITH NEW KAUPTHING BANK

In the FSA decision of March 21. 2009, it is stipulated that corollary to the fact that NKB was to take over the obligations of SPRON due to deposits, as of March 22. 2009, the RC of SPRON was to create a subsidiary company to SPRON. The subsidiary, which was later named Drómi hf., was to take over all the assets and rights of SPRON, including collateral and other rights in relation to SPRON claims – which are all pledged to NKB to pay the debt of XX,X billion ISK. The contract was signed in June 2009.

Notable elements of the contract are the following:

There is no final maturity; rather, the contract is satisfied when the loan is fully repaid. Monthly installments vary, depending on the deposit amount in the designated pledged account mortgage, after the operational costs of Drómi Ltd. and interest have been paid. SPRON may also at any time pay the principal in part or in whole.

On July 5 2014, NKB may ask for settlement finality. If SPRON is unable to pay the remaining debt at that time, NKB may redeem the assets of Drómi hf. Other SPRON creditors will be allowed to subrogate NKB's offer for the assets within 60 days.

NKB has a first right of refusal on all major assets of SPRON and subsidiaries, whether they are mortgaged or not.

If SPRON does not pay NKB when it has the ability to, a late payment-interest will be inflicted until payment is received. In addition, SPRON must pay all late payment fees, legal expenses etc. that may befall in case of non-payment. The agreement does not contain traditional default provisions, as the RC demanded the necessary flexibility needed for SPRON to manage the loan portfolio in manner that maximizes its value.

CENTRAL BANK OF ICELAND - REPURCHASE AGREEMENTS

The Central Bank of Iceland holds as guarantees for repurchase agreements (repos) and O/N lending between CB and SPRON, Government bonds and Real Estate Mortgages. The CB already has claimed Government bonds owned by SPRON towards this liability, the remainder is XX,X billion ISK and nets against pledged assets with face value XX,X billion ISK.

SPECIAL MATTERS

INVALIDATION OF PRIOR TRANSACTIONS/AGREEMENTS

The RC retained Price Waterhouse Coopers to conduct an independent investigation into the financial transactions, accounting as well as decisions and conduct of SPRON's management from September 1 2008. Further information will be provided once a report has been completed.

LAWSUIT AGAINST FME, THE ICELANDIC GOVERNMENT AND SPRON

A Class Action Lawsuit of Claimants against SPRON et al.

In April 2009, a group of 27 foreign SPRON creditors filed a lawsuit against the FME, the Icelandic government and SPRON due to the takeover of SPRON. The claimants believe the takeover of SPRON was unnecessary and that the Icelandic government is liable for compensation as a result.

The creditors involved are the following:

Banque et Caisse d'Épargne de l'État Luxembourg, Bayerische Landesbank, Eurohypo AG, Cathay United Bank, Commerzbank AG, Commerzbank International S.A., Dresdner Bank AG, DZ Bank AG Deutsche Zentral-Genossenschaftsbank Frankfurt am Main, HSH Nordbank AG, Hypo Alpe-Adria Bank International AG, BAWAG P.S.K. Bank für Arbeit und Wirtschaft und Österreichische Postsparkasse Aktiengesellschaft, Landesbank Baden-Württemberg (in Stuttgart and the London branch), Raiffeisen Zentralbank Österreich Aktiengesellschaft, Zürcher Kantonalbank, Landesbank Saar, Erste Europäische Pfandbrief- und Kommunalkreditbank Aktiengesellschaft in Luxemburg, National Bank of Egypt (UK) Limited, Norddeutsche Landesbank Luxembourg S.A., Oberbank AG, Sumitomo Mitsui Banking Corporation Europe Limited, Raiffeisenlandesbank Kaernten Rechenzentrum und Revisionsverband, Salzburger Landes-Hypothekenbank Aktiengesellschaft, Raiffeisenverband Salzburg reg. Gen. m.b.H., Sparebanken Öst, Raiffeisenlandesbank Niederösterreich-Wien AG, and DekaBank Deutsche Girozentrale Luxembourg S.A.

In an explanatory memorandum that SPRON delivered to Reykjavik District Court in response to the lawsuit, the standpoint of SPRON is clarified. In essence, the RC believes that as SPRON was the operand of the acts of administration that led to the takeover, it may not be held accountable for the decisions of the government. This is true regardless of the fact that the board of SPRON determined that it was necessary to seek the assistance of the authorities

because of the banks' pending and serious lack of liquidity and ongoing equity problems. The board did not request a takeover and was not involved with the decision-making process. The lawsuit was dismissed in lower court on September 30, 2009.

FINAL COMMENTS

The FME appointed a RC over SPRON on March 21, 2009. On April 20, 2009, the Althingi ratified Act no. 44/2009, that amended Act no. 161/2002 on Financial Undertakings. The amendment included a provision that converted the RC into an Interim Board, that had the same discretionary powers and obligations as the Resolution Committee.

On May 25th, one of the members of the Interim Board, Feldís Lilja Óskarsdóttir, was appointed a member of the Winding-Up Board of Kaupthing Bank, by the District Court. The FME did not deem it necessary to appoint another member to the Interim Board of SPRON in her place.

In accordance with the third paragraph of Art. 100a of Act no. 161/2002 on Financial Undertakings, after a designated period of three months as of the date of appointment of the Committee, the (now) Interim Board's term had expired. As such, there were two options for SPRON; the Interim Board could have requested the appointment of a Winding-Up Board, or sought a moratorium or composition of creditors. The Interim Board deemed the interest of the creditors best served with the appointment of a Winding-Up Board, which subsequently was requested of the Reykjavik District Court.

On June 23, 2009 The Reykjavik District Court appointed a Winding-Up Board of SPRON. Pursuant to Par. 2 of Art. 75 of the Act no. 21/1991 on Bankruptcy etc., cf. Par. 4 of Art. 101 of Act no. 161/2002 on Financial Undertakings, the members of the Winding-Up Board must be attorneys. As a result, the two remaining attorneys of the Interim Board, Hlynur Jónsson and Jóhann Pétursson, were appointed to the Winding-Up Board, being as they had unequivocal knowledge of the intricacies of the enterprise. In addition, a third lawyer was appointed to the Board, Hildur Sólveig Pétursdóttir, a Supreme Court attorney.

The objectives of a Resolution Committee/Interim Board and a Winding-Up Board are the same: to protect the interests of creditors to SPRON. The main differences between the two are the timeframe, as the Resolution Committee/Interim Board had a fixed term of three months, but the Winding-Up Board will govern SPRON until the winding-up process is finished. Additionally, the FME has direct supervision powers over Resolution Committees/Interim Boards, but not over Winding-Up Boards.

In accordance with Icelandic laws, Resolution Committees/Interim Boards operate as the board of the company in question and have all the same duties and obligations, although they are under the FME as previously stated. They also have the task of maximizing the assets of the company so as to assure that creditors may receive as much payment as possible, according to what they're owed. Also, the Resolution Committee/Interim Board must protect the rights and interests of the bank, make sure the deposits and other monetary assets are protected and bearing the best interest possible.

LETTER FROM THE WINDING UP BOARD

The District court of Reykjavik appointed the Winding-up Board (WUB) of SPRON and FIB on June 23, 2009. The duties of the WUB are prescribed in Act no. 161/2002 on Financial undertakings and Act no 21 /1991 on insolvency etc. (see appendix). The Winding up procedure is in general comparable with an insolvency procedure although it is not formally in an insolvency procedure.

This includes the same procedure towards creditors as in insolvency such as handling of claims, protection against legal actions, information to creditors and the legal status of creditors.

The effect of the appointment is that the FME no longer has any influence over the management of the company. In addition there is a difference in the management structure compared to all other financial undertakings in winding up procedure in Iceland. In those undertakings there are separate governance bodies, i.e. RC and WUB. The role of the RC is generally to manage assets and daily operations and the WUB's role is to handling of claims and issuing termination proceedings. The mandate of the SPRON WUB is broader and includes both roles.

Based on the insolvency act the WUB is supposed to conduct a creditor meeting after the filing of claims notice has passed. This is the only formal channel for communication between the WUB and the creditors prescribed by the act. However the WUB intends to periodically inform creditors about the status in a formal manner. An update is scheduled for the end of November.

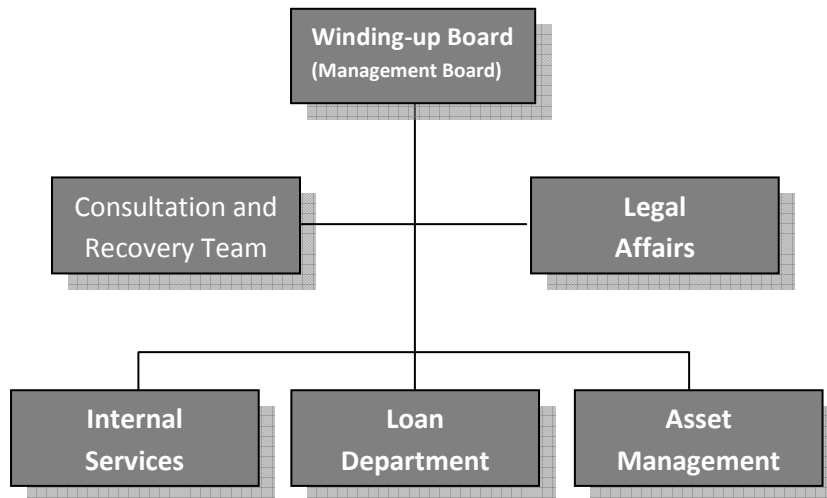
Since the WUB was appointed, its primary focus has been to secure ongoing operations and create sustainable mechanism for the management of the loan portfolios and other assets.

The current economic situation in Iceland is very poor. Property markets are in a deep slump, unemployment levels high and investment capital almost non-existent in the system. This situation makes any acceptable equity recovery from real estate loan portfolios and real estate based assets unlikely in the short term, however markets are expected to recover within the next 3-5 years. With real estate and mortgages making up 80% of the SPRON asset base a flexible long term approach is crucial for successful recovery.

The WUB has appointed a team of experts to analyse the loan portfolio with regard to loan to value, currency risk, cash flow, interests rates etc. The result of the analysis will assist the WUB in devising the best approach in administrating the loan portfolio, taking into account the relevant variables affecting asset recovery.

To date, all SPRON ongoing operations have been consolidated to one physical location, the FIB building in Lágmúli 4 with a staff of 42.

Operations have been organized as follows:



Final note

As mentioned previously the WUB intends to have more frequent communications with creditors than prescribed by the insolvency act. In this effort the WUB invites creditors to send their inquiries to wub@spron.is, which the WUB will then seek to accommodate in the next update due at the end of November.