

An hourglass-shaped graphic with a globe inside. The top bulb is dark blue, and the bottom bulb is light blue. The globe is a light blue color. The hourglass is centered on the page.

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February 26, 2010

UK Treasury; Dutch Ministry of Finance

*Final United Kingdom-Netherlands Icesave offer to the
government of Iceland*

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Netherlands

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Abstract. Confidential offer from the UK, Dutch Icesave negotiation teams to their Icelandic counterparts. Iceland is to cover all monies associated with the UK/NL Icesave payouts, all currency and recovery risks, base interest as well as an effective 2.75% additional fee. The 2009-2010 period is excerpted from interest charges, which the offer values at 450M euro (how the figure is derived is not specified, but it equates to approx. 5.5% PA on 4 Bil EUR). The offer appears to be designed to be leaked, as contains rhetoric about "tax payers" and similar irrelevancies. Indeed a sentence from the offer appears in a Reuters article filed at 18:04 UTC, February 19, six hours before the confidential offer was sent to the Icelandic government. In the Reuters' article, phrases are quoted from the offer by an anonymous source, clearly a sanctioned British official, although this is not stated by Reuters. Similar "sources" selectively quoted the document to other media outlets including Channel 4 and the Guardian on February 25, 2010.

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Ministry of Finance



HM TREASURY

The Hague/London, 19th February 2010

Dear Steingrimur

As you will know, both the UK and Dutch Government are keen to resolve the issue of the pre-financing of the Icelandic Compensation Scheme (TIF).

At our meeting in The Hague on 29 January, we set out a number of principles, which we need to respect. These included a requirement that, as lenders, we would be repaid all of the principal lent and interest would be paid to reflect the "time value of money". We have been clear that we are willing to discuss proposals on this basis, and have met with your officials and advisors this week. In those meetings, we have been disappointed that the proposals being presented fall short of these requirements, and short of meeting the norms of sovereign-to-sovereign lending.

We are particularly concerned that your delegation is suggesting that we are creditors in the old Landsbanki estate in respect of our bilateral loans to Iceland. It is the TIF that is a creditor in that estate. That is the basis for pre-financing and has been the position Iceland has taken in both the EU and the IMF. While the Netherlands and UK compensation schemes have paid out to UK and Dutch depositors on behalf of the TIF this was done as part of the process of agreeing the loan arrangement before assigning to TIF the rights as creditors to the old Landsbanki estate.

The delay in ratification of the loan agreements does not extinguish the duty of Iceland to ensure the repayment of the loans made by the Dutch and UK Governments with interest, reflecting the cost of financing those loans. These obligations are consistent with international practise and the commitments made by Iceland under the EEA Treaty and the IMF.

The UK and Dutch taxpayers have had to bear part of the cost of the Icelandic banks failure through top-up of depositor compensation.

The existing loan arrangement was designed to give Iceland maximum flexibility in repayment. From the beginning, the agreements contain a free call option. Early repayments are always possible without any penalty. The long grace period, along with economic caps on payments in a given year and the option to extend the term with another six years were designed to ensure that Iceland's recovery would not be threatened and payments would be affordable.

At the time, we came to an agreement on a fixed interest rate, as this seemed the right choice for Iceland. But we recognise that the flexibility offered meant that repayments could be delayed over a long-time and that this would result in an interest burden.

We have therefore examined again how we can respond to these concerns and minimise the burden on Iceland without putting our taxpayers at risk. We have also looked at the latest projections for recoveries from the old Landsbanki insolvency. The depositor creditors are projected to recover some 88% of their deposits. This is good news as it minimises the burden on the Icelandic state of its sovereign guarantee. And early this week we learned at the official level that you are considering options for early repayments.

However we have noted that even in such a scenario you will need some time to get the process started. Therefore we are willing, as a final offer, to amend the October agreement in the following way:

- we would agree to move from a fixed rate of 5.55% to a floating interest rate using the terms in the other bilateral lending from the Nordic countries; and, based on respectively libor and euribor to accept a risk premium that is equal to the risk premium you agreed with the Nordic countries;
- we would agree to waive interest in the first two years ie 2009 and 2010 (which has a direct value of around € 450 million).

We would, of course, continue to respect the economic criteria included in the August Act as requested by the Icelandic Parliament. This was incorporated into the October agreement. Apart from the two changes offered above the October agreements would be unchanged.

We are only willing to look at this concession; because we believe a failure to reach agreement would not be in the interests of any of the countries involved.

Iceland has a responsibility to meet its international obligations and these terms enable it to do so in a way that supports its economic recovery, and minimises

the impact on Icelandic taxpayers. In particular, the structure of the loan creates the space needed for the Icelandic authorities to recover most of the debt through the liquidation of Landsbanki assets rather than from Icelandic taxpayers.

From the perspective of the UK and the Netherlands, we have an obligation to ensure the money paid to depositors on behalf of the TIF is recovered in full.

These terms represent our best offer and we believe it is strongly in the interest of Iceland to agree them.

We hope our officials can prepare a revised agreement for signature very quickly. We understand that with the consensus between the political leaders we, and the international community, could expect the agreement to become law in around a week after signature.

We look forward to talking to you very shortly to finalise agreement.

Wouter Bos



Minister of Finance
of the Netherlands

Paul Myners



Financial Services Secretary
of the Treasury