

KAUPTHING BANK HF. CREDITORS' REPORT

5 FEBRUARY 2009

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KAUPTHING BANK

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

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Major additions and amendments in the October update of the report

During the nine-month moratorium period, from 13 February to 13 November 2009, the Bank intends to compile a monthly report for creditors which will be available on the Bank's website, www.kaupthing.com, so that creditors and other interested parties can keep abreast of the main developments and achievements since the previous report was issued.

The additions and amendments to this report since the previously published versions of this report are intended to give the creditors information on recent developments but are not necessarily and should not be regarded as an exhaustive list of all developments which creditors may consider material.

In order to help readers who read the previous report, the major additions and amendments have been highlighted in blue text but all minor changes are left as black text. Deleted text, which is not applicable anymore and none of which was significant, has been deleted without any notification to the readers. The major additions and amendments can be found in the following chapters:

- 3.3 The main tasks of the Resolution Committee today
- 3.4 Current status of the Bank's subsidiaries
- 4 Financial analysis
- 4.4 Portfolio statistics
- 5 Asset sales and restructuring
- 7 Overall restructuring

Abbreviations

The following abbreviations are used in this report:

FME	The Icelandic Financial Supervisory Authority
ICC	Informal Creditors' Committee
The Bank, Kaupthing	Kaupthing Bank hf.
New Kaupthing	Nyi Kaupthing Banki hf.
KSF	Kaupthing Singer and Friedlander Limited
FIH	FIH Erhvervsbank A/S
KT Lux	Kaupthing Bank Luxembourg S.A.
The Disbursement Act	Act No. 125/2008 on the Authority for Treasury Disbursements due to Unusual Financial Market Circumstances etc.
The Transfer Decision	Decision of the FME on the disposal of assets and liabilities of Kaupthing Bank hf. to New Kaupthing Bank hf. dated 21 October 2008
The Bankruptcy Act	Icelandic Act on Bankruptcy, etc., No. 21/1991
IMF	International Monetary Fund
ICB	The Central Bank of Iceland

1. Background

1.1 *Broad context -The world wide credit crunch and the global financial crisis*

The world's banking system has taken centre stage in the current world financial crisis. From around mid 2007, but particularly in 2008, the market experienced acute adverse conditions characterized by the severe disruption to credit markets and turbulence in the banking and mortgage sectors. These conditions created an extremely difficult environment for banks in general and came to a head in the second half of 2008 and particularly in September and October. The severity of the situation was underlined by: i) the collapse of banking and financial sector shares in and around September 2008, ii) the collapse of Lehman Brothers, an international investment bank, on 15 September 2008 and iii) the huge and unprecedented "bail out" of American banks announced by the US Treasury Secretary on 20 September 2008, followed by similar rescue measures undertaken by most western countries.

In short, the global financial system was experiencing unprecedented difficulties and, consequently, credit markets (so essential to the smooth operation of the world financial system and to the wider economy) were seizing up, leading to what is popularly called the credit crunch. This, in turn, was having serious implications for the global economy and governments across the world as evidenced by dramatic falls in share prices and extreme volatility in the currency and commodity markets. Rating agencies were forced to reassess the credit ratings of financial sector institutions across the world.

1.2 *The Icelandic banking crisis*

During the past decade, the Icelandic economy has undergone dramatic change. The development of an international financial sector, along with the growth of high tech industries, aluminium production and tourism, brought unprecedented wealth to a population of roughly 300,000 that had previously sustained itself mainly through a centuries-old fishing industry. In the course of that development, Iceland's three largest banks, Kaupthing Bank ("the Bank"), Glitnir banki hf. ("Glitnir"), and Landsbanki Islands hf. ("Landsbanki"), grew to levels almost ten times that of the country's gross domestic product.

On 29 September 2008, the Icelandic authorities announced their plans to acquire a 75% stake in Iceland's third largest bank, Glitnir, which had been encountering severe short-term funding problems. This government intervention seems to have triggered the opposite reaction to that of similar actions in other countries. Instead of restoring confidence, the reverse happened. The markets had no confidence in the approach taken by the Icelandic government and a crisis of confidence hit the Icelandic banking sector, resulting in outflows of deposits. It became clear that if it had not been for state intervention, Glitnir may have collapsed and there was speculation over the ability of the ICB to provide the necessary support to the wider Icelandic banking system during the crisis. This precipitated a severe drop in the value of the Icelandic krona and caused rating agencies to downgrade their credit ratings for the Icelandic state and the Icelandic banks. Foreign investors tried to divest themselves of Icelandic assets and British depositors began to withdraw their deposits from Icesave, Landsbanki's internet banking product. In addition, there was an increase in the outflow of deposits from Kaupthing Edge UK, the internet banking product of the Bank's UK subsidiary Kaupthing Singer & Friedlander ("KSF").

On Monday 6 October 2008, trading in most Icelandic banking shares (including the Bank's) was suspended in Iceland and emergency legislation, Act No. 125/2008 on the Authority for Treasury Disbursements due to Unusual Financial Market Circumstances etc ("The Disbursement Act") was enacted allowing the Icelandic Financial Supervisory Authority ("FME") to take over the running of the Icelandic banks.

1.3 KSF placed into administration

After British depositors withdrew their deposits from Icesave, Landsbanki's internet banking product in the United Kingdom, the Icelandic authorities assumed control of Landsbanki. Immediately afterwards, there was a significant increase in the withdrawal of deposits from Kaupthing Edge in the United Kingdom, despite the fact that Kaupthing Edge deposits were guaranteed by the British compensation scheme and Icesave deposits by the Icelandic scheme. After the British Chancellor of the Exchequer stated that Iceland did not intend to honour its obligations to British depositors, the State Treasury, in the UK transferred Kaupthing Edge deposits from the Bank's subsidiary KSF to ING Direct, a wholly owned subsidiary of ING Group. KSF was subsequently placed into administration upon the application of the UK regulator, the Financial Services Authority ("FSA") in the UK. The Bank's creditors treated the situation as an event of default under various loan agreements and bond programs.

1.4 Overview of the Bank

The Bank was the largest Icelandic bank and is headquartered in Reykjavik. It is registered in Iceland and operated through branches and subsidiaries in all of the Nordic countries, the United Kingdom, the United States, Dubai, Qatar, Luxembourg, Belgium, Switzerland, Germany, Austria, Hong Kong, Japan and the Isle of Man. The Bank offered integrated financial services to companies, institutional investors and individuals. These services included corporate and retail banking, investment banking, capital markets services, treasury services, asset management and wealth management for private banking clients. The Bank's shares were listed on the stock exchanges in Iceland and Stockholm and the Bank was the 7th largest bank in the Nordic region in terms of market capitalization for a period of time. The majority of the Bank's operating income was generated in Iceland, Scandinavia and the United Kingdom. Since its inception in 1982, Kaupthing expanded operations through organic growth and a number of strategic acquisitions, including FIH Erhvervsbank ("FIH") in 2004 and Singer & Friedlander (now KSF) in 2005. At the end of H1 2008, the Bank's group employed over 3,300 people and its total assets were close to EUR 53bn.

2. Timeline of events

29 September – 9 October 2008

- The Icelandic authorities announce their plans to acquire a 75% stake in Glitnir
- The rating agencies downgrade Icelandic sovereign, Kaupthing, Glitnir and Landsbanki debt
- Trading in shares in the Bank suspended
- Icelandic parliament passes the Disbursement Act
- The ICB extends EUR 500m loan to the Bank
- FSA in the UK succeeds in having administrators appointed over KSF
- The Bank's board of directors requests that the FME take control of the Bank pursuant to the Disbursement Act

9 October – 22 October 2008

- FME appoints a Resolution Committee which immediately assumes control of the Bank
- Nýi Kaupthing Banki hf. ("New Kaupthing") is created
- Certain domestic assets and domestic deposits transferred to New Kaupthing in accordance with the transfer decision ("The Transfer Decision")

22 October to date

- The Resolution Committee works towards maximising the value of the Bank's assets
- The Resolution Committee holds meetings and conference calls with informal committee of the largest creditors of the Bank
- Moratorium granted and Olafur Gardarsson appointed as the Moratorium Supervisor
- Filing of Voluntary Petition under Chapter 15 of the US Bankruptcy Code
- Moratorium is recognized as a foreign main proceeding under Chapter 15 of the US Bankruptcy Code
- Morgan Stanley appointed as a financial advisor to advise and assist on restructuring the Bank
- Creditors' meeting convened by the Moratorium Supervisor on 5 February 2009
- Moratorium of the Bank extended by the District Court of Reykjavik to 13 November 2009
- Important amendments made to the Act on Financial Undertakings on 22 April 2009
- The Bank's Winding-up Committee appointed on 25 May 2009
- The formal claim process started on 30 June 2009 and will last for 6 months. Forms for filing claims can be accessed on www.kaupthing.com

- On 20 July 2009, the agreement between the Resolution Committee and the Government with regards to New Kaupthing was announced
- On 14 August 2009, the Government capitalized New Kaupthing with approx. ISK 72bn in common equity which will allow New Kaupthing to function as a fully operational bank
- On 3 September 2009, the Bank's Resolution Committee and the Government signed an agreement on settlement between the Bank and New Kaupthing in accordance with the agreement announced on 20 July 2009
- On 20 October 2009 the Resolution Committee called for a creditors' meeting to discuss the agreement between the Resolution Committee and the Government on New Kaupthing. At the meeting, creditors were provided with latest financial information on the Bank. Also, there was a discussion on possible extension of moratorium on debt payments. Further information and a presentation from the meeting can be accessed on the Bank's website.

Next steps

- **31 October 2009:** Last day for the Resolution Committee to complete subscription in shares in New Kaupthing if the Resolution Committee decides to do so
- **13 November 2009:** Further hearing at the District Court of Reykjavik to consider the extension of the moratorium of the Bank if the decision is made to apply for an extension
- **30 December 2009:** The formal claim registration process which started on 30 June 2009 ends
- **29 January 2010:** All creditors' meeting held at 10:00 a.m. at Hilton Hotel Nordica
- **24 November 2010:** Maximum moratorium period for the Bank ends

3. The Resolution Committee

3.1 *The adoption of the Disbursement Act*

As discussed in the previous chapter, Iceland is currently in the midst of a banking crisis of extraordinary proportions. The three main banks, which all collapsed in less than a week, accounted for about 85 percent of the domestic banking system. On 9 October 2008, in accordance with the provisions of Iceland's new Disbursement Act, which had been passed into law because of the unusual and dire circumstances in the financial market, the board of directors resigned and the FME appointed a five-member Resolution Committee, which immediately assumed the powers, and wields all the authority, of the Bank's board of directors. These actions were taken to guarantee the appropriate level of activity by the Bank in Iceland and to help stabilize the Icelandic financial system. The members of the Resolution Committee were selected by the FME from a broad cross-section of Icelandic business, legal and accounting fields. Today, the Bank's Resolution Committee consists of the following four members:

- Steinar Thor Gudgeirsson, Attorney to the Supreme Court of Iceland – Chairman
- Johannes Runar Johannsson, Attorney to the Supreme Court of Iceland
- Knutur Thorhallsson, Certified Public Accountant
- Theodor Sigurbergsson, Certified Public Accountant

On 30 July 2009 FME requested that members, who formerly held management positions within the three banks at the time of their collapse, should resign from the respective Resolution Committees as their expert knowledge of the banks' operations was no longer needed. Gudni Adalsteinsson subsequently renounced his position as member of Bank's Resolution Committee. His resignation took effect on 15 August 2009.

Initially, the Resolution Committee operated in consultation and co-operation with the FME. However, after a moratorium status was granted to the Bank, on 24 November 2008, the Resolution Committee became virtually independent from any governmental body and currently directs the Bank in co-operation with Olafur Gardarsson, attorney to the Supreme Court, the Moratorium Supervisor. As an entity in Iceland with a banking licence, the Bank is still subject to supervision by the FME.

On 25 May 2009, in accordance with a request from the Resolution Committee, the District Court of Reykjavik appointed a Winding-up Committee for the Bank in accordance with the recent amendments to the Act on Financial Undertakings. The Winding-up Committee comprises Olafur Gardarsson, the aforementioned Moratorium Supervisor, David B. Gislason, attorney to the District Court, and Feldis L. Oskarsdottir, attorney to the District Court. The role of the Winding-up Committee will be further discussed in subchapter 6.6 *The Winding-Up Committee*.

3.2 *Initial objectives of the Resolution Committee*

At its inception, the Resolution Committee had the objectives laid out below. Some of these objectives were set with reference to the Disbursement Act. However, it should be noted that the Resolution Committee played no part in determining the creation of New Kaupthing.

Maintaining the Bank's commercial banking operations in Iceland in line with the Disbursement Act. The Resolution Committee worked hard to ensure that the daily operations of the Bank's branches were not significantly affected. This objective was reached when New Kaupthing was formally established on 18 October 2008 and took over the Bank's commercial banking operation in Iceland on 22 October 2008.

Protecting depositors both domestically & overseas in accordance with the Disbursement Act. The Resolution Committee co-operated abroad with governments, financial authorities and central banks. This objective was achieved domestically, where New Kaupthing is now responsible for domestic deposits and, in terms of foreign depositors, has either been completed or final arrangements are being negotiated. According to the Disbursement Act, deposits received by the Bank or its branches are priority claims against the Bank. The Bank is thus under an obligation to repay deposits prior to regular claims. Icelandic law does not affect the repayment of deposits received by subsidiaries or their branches. Possible repayment of those deposits is the concern of the boards of directors or administrators of the relevant subsidiaries.

Ensuring expertise and knowledge by hiring key employees. One of the main tasks of the Resolution Committee is to safeguard the value of Kaupthing assets until they have been transferred to creditors. In order to achieve this aim, there must be sufficient expertise in place to manage the assets and provide the necessary services. This objective was achieved through the appointment of several qualified full-time and part-time employees. Around 50 specialists now work for the Resolution Committee.

Ensuring cash flow in all currencies both domestically and to/from foreign jurisdictions. The difficulties that were experienced with payments to and from Iceland were primarily due to the actions of foreign governments and foreign currency restrictions imposed by the ICB. Efficient movement of capital was vital for the Icelandic economy. These difficulties were resolved in part with the Transfer Decision.

Preserving the interests of creditors. The Resolution Committee has focused on protecting the assets of the Bank and preserving value for creditors. Creditors have been informed of developments via the Bank's website, creditor contact address and press releases. This objective is an ongoing task and will not be fully attained until a permanent solution for the assets, satisfactory to the creditors of the Bank has been identified and executed.

3.3 Main tasks of the Resolution Committee today

The Resolution Committee is responsible for the Bank's daily operations and holds a number of organized meetings every week. When formal meetings are held, the presence of all members of the committee is required. Currently the work of the Resolution Committee is subject to the supervision of the Moratorium Supervisor. The most significant projects of the Resolution Committee are as follows:

Protection of creditors' interests. The main task of the Resolution Committee is to protect the interests of the Bank's creditors. From discussions with various creditors early in the process, the Resolution Committee learned that creditors were concerned about the immediate sale of assets. The strategy of protecting the assets and maximize values; was adopted in the beginning in line with creditors' feedback.

Communication with creditors. The Bank endeavours to maintain good and effective relations with its creditors. In October 2008, Deloitte UK was engaged by the Resolution Committee to facilitate and advise on creditor relations. Early in January 2009, Deloitte's appointment was terminated and the Resolution Committee assumed responsibility for all communication and consultation with creditors. To facilitate communication with creditors all over the world, the Bank's website, www.kaupthing.com has been developed into an information centre for creditors. The website is updated frequently and invites creditors to ask questions via a specific email address, creditorcontact@kaupthing.com. Every effort is made to respond to questions or comments in a timely manner or when relevant information becomes available.

Shortly after Deloitte's appointment, a committee, the Informal Creditors Committee ("ICC") was formed and is composed of representatives of the Bank's largest creditors. Although this committee does not

have formal powers or duties under Icelandic law, it is consultative in nature. Indeed the Resolution Committee has engaged in discussions with the ICC with respect to, among other things, the protection, maximization and realization of the Bank's assets, and restructuring proposals aimed at making distributions to creditors of the Bank. The Resolution Committee meets with the ICC and holds conference calls with the committee on a regular basis.

Finalizing the Bank's balance sheet. The aggregate balance sheet has been divided between the Bank and New Kaupthing as at 22 October 2008. Separate balance sheets for the Bank and New Kaupthing had to be prepared. Financial disclosure and financial information is an ongoing process, financial information for the Bank as of 30.06.2009 and 30.12.2008 can be seen in chapter 4 *Financial analysis*.

Internal audit. In October 2008, the Bank's Resolution Committee, at the request of the FME, engaged the international accounting firm Pricewaterhouse Coopers ("PwC") to investigate whether the Bank or parties connected to it, had in the weeks before the collapse of the Bank deviated from its internal rules or violated the rules governing the activities of financial undertakings, the securities transactions act or the general penal code. A detailed report was submitted to the FME at the end of the year 2008 and it has already become the basis for further investigations. The Winding-up Committee is also looking into this matter and discussion in that regard can be found in subchapter 6.6 *The Winding-up Committee*.

The Resolution Committee has formed a sub-committee to review certain transactions, identified by the Resolution Committee, and to prepare and commence legal proceedings against parties that might be in debt to the Bank due to those transactions, or are alternatively responsible for potential loss of the Bank resulting from the transactions. The aim of the Resolution Committee is, in other words, to realise all possible claims which the Bank might have against third parties in relation to the specific transactions mentioned above, including claims arising from possible or alleged wrongdoing by the former management of the Bank or third parties. This sub-committee consists of two members of the Resolution Committee in addition to the former Internal Auditor of the Bank.

Furthermore, the Resolution Committee has decided that the aforementioned sub-committee shall be responsible for all correspondence and communication with the Special Investigation Commission ("SIC"), operating under the provision of Act No. 142/2008, the FME and the Special Prosecutor, operating under the provision of Act No. 135/2008.

This sub-committee is currently working on several projects with external experts, both domestic and foreign, e.g. a forensic team in London, external legal counsel, external auditors and other appointed consultants. The primary objective of these projects is to retrieve assets if and where appropriate.

Closing derivative contracts and evaluating netting effects. The Resolution Committee is working towards closing all derivative agreements and is evaluating any netting effects. Team of experts within the Bank is analysing the Bank's position on a counterparty by counterparty basis across all relevant financial instruments and a Set-off and Netting Committee has been established to review and conclude each case. The Bank has been reviewing and closing derivatives at their maturity dates or earlier upon client's requests, in accordance with the underlying agreements, terms and market conventions. Only derivatives which are in-the-money for the Bank have been settled. Other derivatives are netted in accordance with the agreement terms. Derivatives which are out-of-the-money represent unsecured senior claims against the Bank and have therefore not been settled. The Bank has reviewed several cases where set-off has been requested. The estimated size and impact of set-off and netting is still very uncertain.

The valuation of assets and liabilities in this report does not take into account the potential impact of set-off. The reason thereof is twofold; firstly, counterparties have the right to claim until the end of the formal claim period which started on 30 June 2009 and will end on 30 December 2009. Secondly, every case

needs to be looked into and evaluated before each claim can be accepted or rejected. Therefore, the estimated size and impact of set-off is still very uncertain. The Bank has received to date set-off claims from counterparties amounting to ISK 200bn. The current preliminary estimated set-off effects is in total up to ISK 100bn on the face value of both the respective assets and the respective liabilities. The exact amounts on the assets and liabilities side may differ.

Collection procedures are currently being prepared in many cases. The Bank has started collection process in several cases where the underlying collateral is liquid assets, in particular cash and or securities.

Prevent the provisional attachment of assets and facilitate the retrieval of the Bank's assets. The Resolution Committee is committed to protect the interests of creditors by preventing litigations, the provisional attachment or freezing orders on assets. In the European Economic Area the Bank seeks recognition of the moratorium on a case-by-case basis on grounds of the EU Winding-Up Directive No. 2001/24/EC. The Bank has also been granted an injunctive relief and the moratorium recognized as a foreign main proceeding under Chapter 15 of the United States Bankruptcy Code. This has provided the Bank with protection for its assets in the United States. The Resolution Committee has also facilitated the release of assets through negotiations with local authorities or private parties in several countries.

The Bank is currently in several litigation proceedings, including in the following matters:

- The Resolution Committee has successfully opposed litigation threats and or freezing orders in the United States, Luxembourg, the Netherlands, Spain, and the United Kingdom and is currently opposing litigation in Austria.
- The District Court of Reykjavik has ruled in favour of the Bank in its case against Oscatello Investments Limited because of about GBP 650m liability on an overdraft facility agreement. Two members from the Resolution Committee have now been appointed as board members in the board of Oscatello Investments Limited and also in a number of subsidiaries. The Bank has enforced securities it held as collateral, e.g. in shares in Oscatello Investments Limited.
- The Bank is in litigation because of a swap agreement which was in place with BTMU when the FME appointed the Resolution Committee to take control of the Bank in accordance with the Disbursement Act.
- Litigations are ongoing in Germany in regard to DZ Bank AG. The litigations involve disputes over freezing of assets and what the Bank considers to be unlawful set-off by DZ Bank AG.
- In addition, the Resolution Committee foresees other court cases. Exista and the Bank are in dispute regarding a valuation of a cross currency swap transaction between the two parties. Exista wants to use a different exchange rate to the normal benchmark used in similar circumstances, the official exchange rate of the Central Bank of Iceland, and wish to use the exchange rate given by the European Central Bank. The Bank has firmly rejected to use any other exchange rate as this is explicitly provided for in Act no. 36/2001 on the Central Bank of Iceland. The Bank and Exista have agreed to solve their case before the Icelandic Courts and the Bank expects to initiate legal proceedings within the next couple of weeks.

On 20 October 2009, the High Court of England handed down its decision on the judicial review of the legitimacy of the decision taken by the UK Treasury to transfer assets and deposits from Kaupthing Edge accounts at Kaupthing Singer and Friedlander (KSF) in October 2008.

The Bank's Resolution Committee has since last autumn been of the opinion that it was necessary to let the Court judge whether or not the UK Treasury's actions were just and legal. The Resolution Committee has been informed of its decision that the UK Treasury's actions were deemed within its powers. The sole objective of this litigation was to bring all existing and available information to the surface so that the Committee would know on what grounds the UK Treasury based its actions.

By its application for judicial review, Kaupthing Bank claimed that the UK Treasury had exceeded its powers. It was Kaupthing's case that the Transfer Order had been made for the purpose of protecting KSF's depositors in the UK rather than for maintaining the stability of the UK financial system as a whole.

In a preliminary ruling on 3 March 2009, Kaupthing was given permission to proceed with the application for judicial review, and, at that stage, the Court expressly recognised the importance of the case to the nation of Iceland as a whole.

The Court heard the main application on 10 July 2009, when evidence and arguments concerning the UK Treasury's intervention into the operations of KSF were presented.

The Court considered contemporaneous documents as well as witness statements submitted by the UK Treasury and the Bank. The Court concluded that, although the contemporaneous documents provided only an incomplete statement of the UK Treasury's reasoning process, it was satisfied that a proper process had been followed. The Court held that the UK Treasury had acted within its statutory powers and there had been no error in its decision-making process.

Collecting claims and enforcing securities. The Bank continues to enforce rights against its debtors in case of non-performance of obligations. That includes enforcing pledges and other securities, taking control of relevant entities etc.

Review unusual transactions. The Resolution Committee continues to review any unusual or irregular transactions which are brought to its attention and concern the Bank. Any transactions which merit further reviewing will be given appropriate attention and handled accordingly.

Finding solutions for the Bank's main branches and subsidiaries. The Resolution Committee has conducted a substantial amount of work abroad to: i) secure the future business of entities, ii) restructure and sell off entities, iii) close down entities. Furthermore, members of the Resolution Committee or representatives have been nominated by the committee to replace former representatives of the Bank in subsidiaries which can still be effectively controlled by the Bank.

Policy formulation regarding the Bank. The Resolution Committee is focused on finding the best possible closure for all relevant parties in a realistic time frame and distributing the resulting value to creditors.

The next two subchapters below discuss the current status of each of the Bank's subsidiaries and branches.

3.4 Current status of the Bank's subsidiaries

Foreign subsidiaries of the Bank and their branches are directly responsible for the deposits made with them. These entities are not governed by Icelandic law. The rights of depositors regarding deposits made with a subsidiary of the Bank or branch of a subsidiary will be determined by the law and regulations applicable to that entity.

The table below summarizes the status of each subsidiary of the Bank.

Name of subsidiary	Current status
FIH	Operational and owned by the Bank
Norvestia	Operational and partly owned by the Bank
Kaupthing Bank Sweden	Partially sold and its remainder wound down and assets transferred to the Bank
KSF	In administration
Kaupthing Singer & Friedlander (Isle of Man) Ltd.	In liquidation
Kaupthing Bank Luxembourg (KT Lux)	Dissolved
Kaupthing New York Inc.	Dissolved
Kaupthing Kabushiki Kaisha (Japan)	Has been wound down
Kaupthing (Hong Kong) Limited	In liquidation

More details on each subsidiary are provided below.

FIH is a subsidiary wholly owned by the Bank. It is a Danish full service corporate & investment bank specializing in lending to Danish companies. The entity was acquired by the Bank in 2004. The entity is operational and is no longer in the process of being sold. The Bank remains the sole shareholder of *FIH* and two representatives of the Resolution Committee are board members. The ICB holds the entity's shares of the Bank as pledge against a EUR 500m loan. The board of directors of *FIH* has adopted a plan to adjust and focus *FIH*'s future activities to meet the current market situation of the financial sector. As part of this adjustment, *FIH* has closed down the equities trading, research and wealth management department. These business areas were not expected to contribute positively to *FIH*'s earnings on a short-term or a medium-term basis. In the future, *FIH* will focus on the core business areas: loans to corporate customers supplemented by two advisory units: Corporate Finance (*FIH* Partners) and Financial Solutions (advisory related to strategic risk management and liability management). [The Resolution Committee believes *FIH* is a strong bank and that selling it in the current market environment does not align with the interests of the Bank and its creditors because its value is presumably much higher when markets recover.](#)

Further information on this entity can be found at www.fih.dk.

Norvestia Oyj is a Finnish publicly listed Investment Company. The Bank owns approx. 32% of the outstanding shares and holds 56% of the voting rights. The Resolution Committee has two representatives on the board. Initially, the Resolution Committee received offers for the Bank's shares in *Norvestia* which were about 40% lower than the net asset value. The Resolution Committee concluded that the offered price was unacceptable and decided to hold on to the shares. Since then, the Bank has received EUR 1.25m dividend payment and the share price has risen about 30%. Furthermore, the Resolution Committee has received more feasible offers, indicating that the value of the Bank's stake has increased by approx. EUR 25m.

Kaupthing Bank Sweden is a subsidiary wholly owned by the Bank, through *Kaupthing Sweden AB*. Following the opening of a Stockholm branch in September 2000, the Bank acquired both the Swedish securities firm *Aragon* and *JP Nordiska Bank* in 2002. Those acquisitions became the foundation for the Swedish operation, which grew organically in the years to follow. *Kaupthing Bank Sweden* offered integrated financial services to institutional investors, companies and (high net worth) individuals. These services included corporate banking, investment banking, capital markets services, asset management and comprehensive wealth management for private banking clients.

After 9 October 2008, the Resolution Committee managed to keep the entity operational with support from the Swedish government. Without the Resolution Committee's co-operation with *Riksbanken*, the Swedish Central Bank, and the Swedish Financial Authorities (*Finansinspektionen*), the entity would most likely have been closed down and the assets sold at a fire sale to cover the liabilities. Instead the Resolution Committee managed to dispose of certain assets after a structured sales process while other assets were transferred to the Bank.

Shortly after the fall of the Bank, *Kaupthing Pension Consulting* and *Kaupthing Finans AB* were sold as these business lines did not constitute a core business for *Kaupthing Sweden* and the latter would have required continued financial support. At the end of March, the Resolution Committee closed a transaction with *Ålandsbanken Abp* where the latter acquired the private banking, capital markets and asset management assets of *Kaupthing Bank Sweden*. The private banking, asset management and capital markets businesses had substantial funding needs in 2009 which did not align well with the current status of the Bank.

The Resolution Committee believes that the transaction with *Ålandsbanken Abp* constitutes a good deal for the Bank as the sale price was reasonable and enabled *Kaupthing Bank Sweden* to pay 100% of subordinated loans to the Bank of some SEK 6bn (through transfer of assets worth SEK 6bn) and around 50% of its equity. This transaction also freed up cash for the Bank since *Riksbanken* returned to the Bank EUR 170m it had pledged, plus Icelandic government bonds of ISK 9.5bn which are currently with the ICB.

The corporate loan portfolio and some other loans and equity positions have been moved to the Bank as a payment for the subordinated loan and are now under management by the Nordic asset management team of the Banks. These assets fit well with the other asset pools the Bank is currently managing. This portfolio accounted for the majority of the Swedish corporate banking assets of the Bank.

Deposits held by *Kaupthing Sweden* have been repaid to depositors. The repayment was originally funded with a loan from *Riksbanken*, the Swedish Central Bank but the above mentioned sale to *Ålandsbanken* allowed for immediate repayment of the facility. This facility was put in place in early October last year by *Riksbanken* in order for *Kaupthing Bank Sweden* to be able to pay back all deposits. *Riksbanken* was very co-operative but a repayment was required at the earliest convenience.

If the entity had not been sold, there is a substantial risk that only the deposits which had already been paid and perhaps the Riksbanken's facility could be repaid. However, this solution enabled the Bank to settle the Riksbanken facility as well as retrieving a sizable loan portfolio. In case of a bankruptcy of the entity, the recovery of the subordinated loan had presumably been very low, there would have been uncertainty over how much the Bank had retrieved from the Swedish Central Bank and the equity would have been worthless. The result of the transaction is therefore that assets of approx. EUR 800m at nominal value were retrieved.

Further information on this entity can be found at www.kaupthing.se.

KSF is a wholly owned subsidiary of the Bank, acquired in 2005. It was an established bank in the UK offering integrated financial services to companies, institutional investors and individuals. These services included corporate banking, investment banking, treasury services, and comprehensive wealth management services for private banking clients.

On 8 October 2008, KSF was taken into administration and Maggie Mills, Tom Burton, Alan Bloom and Patrick Brazzill of Ernst & Young, UK, were appointed as administrators. Kaupthing EDGE UK was transferred by the UK Treasury to ING Group and later the same day, the entity was put into administration on the application of the FSA.

Further information on this entity can be found on the liquidators' website www.kaupthingsingers.co.uk.

Kaupthing Singer & Friedlander (Isle of Man) Limited is a wholly owned subsidiary of the Bank. The entity carried out traditional banking activities as well as asset management activities for a broad spectrum of corporate and private customers along.

At a hearing in the Isle of Man High Court on Wednesday 27 May 2009, a Winding-up Order was made placing the Company into liquidation. Michael Simpson of PricewaterhouseCoopers and Peter Spratt of PricewaterhouseCoopers (London) were appointed as joint provisional liquidators of the entity and Joint Deemed Official Receiver at that time.

Further information on this entity can be found on the administrators' website www.kaupthingsingers.co.im.

Kaupthing Bank Luxembourg S.A. ("KT Lux") was a wholly owned subsidiary of the Bank. *Kaupthing Bank Belgium* and *Kaupthing Bank Luxembourg, Geneva Branch* were branches of KT Lux. The main services offered at KT Lux were private banking and wealth management. On 9 October 2008, KT Lux's board of directors applied for a suspension of payments status with the Luxembourg District Court sitting in commercial matters. KT Lux was granted this status and its management was monitored by administrators. The Court appointed PriceWaterhouseCoopers Luxembourg, represented by Mrs Emmanuelle Caruel-Henniaux and Mr Franz Fayot, to act as KT Lux's administrators. This decision also applied to the Belgian branch of KT Lux.

KT Lux together with its management designed a restructuring plan approved by its creditors and the Luxembourg District Court. The plan involved a corporate restructuring of KT Lux, resulting in dividing it up. As of 13 July 2009 the banking operations were transferred to Banque Havilland S.A., a newly-created Luxembourg company which provides private banking service. Furthermore, some of KT Lux assets and liabilities were moved to a securitisation company called Pillar Securitisation S.à r.l. Due to this division, KT Lux was dissolved without being liquidated and the administration period is therefore over.

Further information on this entity can be found on the website www.kaupthing.lu.

Kaupthing New York Inc was a wholly owned subsidiary of the Bank established in 2000. The entity focused on securities brokerage and investment banking. The entity, as well as two other subsidiaries of the Bank in the United States, has been dissolved.

Kaupthing Kabushiki Kaisha (Japan) has been wound down without the need for any insolvency proceeding.

Kaupthing (Hong Kong) Limited is in insolvent liquidation.

3.5 Current status of the Bank's branches

According to the Disbursement Act, deposits made by private individuals and companies are priority claims. Whether the legislation applies to depositors depends on which entity in the Kaupthing Group they were deposited with. The legislation only applies to Icelandic financial undertakings. The Resolution Committee of the Bank anticipates that the Bank will be able to pay back its deposits which have been defined as priority claims, made at the parent company and in branches belonging to the parent company.

The table below summarizes the status of each branch of the Bank.

Name of branch	Current status
Kaupthing EDGE Austria	Has been wound down and is in the process of being deregistered
Kaupthing Bank Finland	Has been wound down and assets transferred to the Bank
Kaupthing EDGE Germany	Is being wound down and has been deregistered
Kaupthing Bank Norway	Under administration and assets transferred to the Bank
Kaupthing Bank Dubai and Qatar	Has been wound down and is in the process of being deregistered

More details on each branch are provided below.

Kaupthing EDGE Austria is a branch of the Bank. It was established in 2008 and offered competitive solutions for depositors. Depositors have now been paid back. The entity has been wound down and is in the process of being deregistered.

Kaupthing Bank Finland was a branch of the Bank. The branch offered a wide range of investment banking services to companies, institutions and wealthy private individuals. Following the appointment of the Resolution Committee the Finnish FSA took charge of the branch on 9 October 2008.

A few days after 9 October 2008, the Resolution Committee managed to prevent the entity from going into administration along with the associated potential fire sale of assets to protect the asset base of the Bank. In co-operation with the Finnish authorities, the Resolution Committee negotiated loans to the entity with three commercial banks in Finland which were guaranteed in part by the Finnish authorities.

This enabled the entity to repay deposits in the branch. The credit portfolio and certain other assets of Kaupthing Bank Finland were pledged against these loans. There was a pressure to sell assets to repay the loans from the local banks and the Bank's local operations were disrupted and proactive management of assets suffered. The asset management operation was sold as well as a part of the loan portfolio. The remaining part of the loan portfolio has been transferred to the parent company and is now managed by specialists in the asset management team. The branch was closed down at the end of January. Had the entity ended up in administration, the assets of the entity would have been sold in order to pay back depositors and it is unlikely that any assets would have been transferred to the Bank in Iceland. Therefore, the Resolution Committee believes that this was the best solution for the Bank as it prevented potential fire sale of assets and instead, assets of approx. EUR 107m at nominal value were transferred and consolidated on the balance sheet in Iceland.

Kaupthing EDGE Germany is a branch of the Bank. It was established in 2008 and offered competitive solutions for depositors. The operation was seized by the German government, and its assets frozen by the German Financial Regulatory Authority, BaFin. On 22 June 2009 the BaFin lifted its freeze on the assets of the Bank.

Since last year, the Bank has worked hard in co-operation with the German authorities to develop a solution which fully ensured the secure repayment of deposits to the Bank's customers.

In mid-April, the Bank announced that it had secured sufficient funds to reimburse all Edge deposits in Germany. In mid-May the Bank was ready to start the repayment process and sent letters to more than 34,000 depositors.

On 22 June, the repayment process commenced and is now nearly completed. Repayments to Edge depositors in Germany now amount to approx. EUR 322m. Only 333 depositors, thereof 313 with less than EUR 100, are still remaining due to lack of confirmation or incorrect personal details.

The full principal of the deposits was paid. Depositors who intend to file a claim for interests are able to do so as the formal process of filing claims has begun. Further information on the process of filing claims can be found on the Bank's website, www.kaupthing.com.

When these repayments have been concluded, Kaupthing Bank will have repaid all deposits defined by Icelandic law as priority claims, i.e. all foreign deposits made at branches belonging to the parent company.

DZ Bank AG, which was appointed as the payment agent for the entity's customers, seized EUR 55m, which in the opinion of the Bank should have been used to reimburse the entity's depositors. There is every indication that this matter will have to be resolved in court but it has not affected the Bank's decision to pay out all Kaupthing Edge Germany deposits.

Kaupthing Bank Norway is a branch of the Bank. Kaupthing entered the market in Norway in 2003, when the Bank acquired Tyren Holding AS, an asset management company. The branch provided comprehensive financial services including asset management, in a separate entity, and private banking to wealthy private individuals, investment banking and capital markets services to companies, institutional investors and private clients. In addition, it had started to provide their clients with banking services, adding retail banking and corporate banking to its range of services.

On 11 October 2008, the Norwegian government placed a freezing order on the assets of the entity and related companies and placed the operation of the branch under administration. In co-operation with the Norwegian government, the Resolution Committee managed to prevent the immediate sale of assets from the entity, including the Bank's position in Storebrand, which would have been done to pay back

depositors. Instead, the deposits held by the branch were repaid to depositors by the Norwegian Banks' Guarantee Fund. In February, the Resolution Committee and the administrators in Norway reached an amicable agreement which included release of the assets which were under administration in Norway. As a result, the majority of the corporate loan portfolio has been transferred to the Bank in Iceland and other assets saved from imminent fire sale. This agreement also prevented lengthy and very costly process of dealing with the administrators and netting the entity. If the Resolution Committee had not managed to prevent the immediate sale of assets from the entity, the entity had presumably only been able to pay back part of the deposits and no assets would have been left to be transferred to the parent company. The result is that imminent fire sale of assets was prevented which resulted in retrieval of assets of approx. EUR 300m at nominal value.

Kaupthing Bank Dubai and Qatar were two branches of the Bank, one in the Dubai International Financial Centre and one in the Qatar Financial Centre, both established in 2007. The branches focussed on providing investment banking services in the region. The ongoing operations of the branches have been sold to the Bank's previous management in Dubai and Qatar. The proceeds from the sale are held by the Bank.

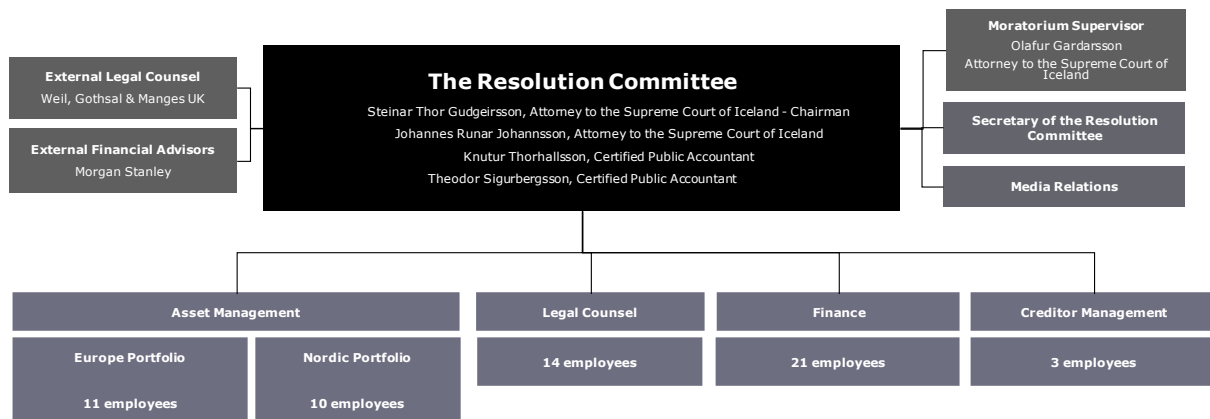
3.6 *The current organizational structure of the Bank*

The Resolution Committee shares the creditors' desire to maximize the value of the Bank's estate and recognizes that this may take a significant period of time to achieve. As previously discussed, one of the Resolution Committee's main aims is to safeguard the value of the Bank's assets until they are transferred to the creditors in whatever form. In order to achieve this goal, the Resolution Committee must possess the requisite expertise to manage the assets and to provide the necessary services. Therefore the Resolution Committee has hired experts in various fields to manage the Bank's assets, which include the loan portfolio, bonds, shares, and foreign subsidiaries and branches.

The analysis of the tasks of the Resolution Committee, outlined in subchapter 3.3 *Main tasks of the Resolution Committee today*, was the first step towards making the work of the Resolution Committee and the Bank more efficient. The Resolution Committee's next step in this process was to hire experts with the requisite knowledge of the tasks of the Resolution Committee and asset management.

The Bank operates, today, as an asset management company where long-term goals are the key factor. It is clear from the discussions the Resolution Committee has had with several creditors that the main focus for creditors is for them to recover as much of their claims as possible, but the time frame for getting reimbursed is more flexible.

As stated above, the Resolution Committee has hired skilled employees specialized in the fields in which the Bank most needs them. Four divisions have been created which report to the Resolution Committee and each division has a managing director responsible for the operation of that division.



Asset management

The asset management division is the largest division in the Bank. There are 21 employees in this division, most of whom are very experienced in the investment & corporate banking field with up to 17 years experience in the industry from international reputable financial institutions. In this team, the Bank has hired specialists with a diversified background and experience both domestically and internationally, across corporate finance, corporate banking, private equity, leverage finance, operational and capital restructuring and workouts supported with a team of legal specialists with extensive experience across all legal aspects of banking transactions. Some members of staff have worked on both sides of the fence, that is whilst employees or managers of respective businesses and also from the banking side.

The specialists in the asset management division lead the projects internally and the process is supported by an external advisory service as needed. Tasks where the asset management has engaged with external advisers include corporate finance advisory, due diligence reports, business verification, tax planning and appraisal and valuation.

The role of the unit is to develop the Bank's asset pool of loans and securities with the ultimate goal of securing maximum recovery from these assets. This is amongst other done by pro-active management of every asset, maintaining a cash flow plan for the Bank's loan portfolio which is updated regularly; by assessing the capital requirements of the asset portfolio and the Bank's capacity to meet this. The Bank's loan to customers' portfolio consists of more than 113 borrower groups and the total outstanding notional is around ISK 440bn as at 30 June 2009.

The objective of the division is to maintain and support the Bank's asset portfolio, increase the value of the asset portfolio and prevent a "fire sale" of assets. It is expected that the asset portfolio will be self-financing and instalments and interest payments on the loans will be sufficient to support other assets if needed. Furthermore, it is expected that in the current environment fees generated from the loan portfolio will cover the costs of running the asset management division.

Legal counsel

The legal counsel division provides support and legal advice to the Resolution Committee and all the divisions within the Bank as needed. There are several legal experts in this division with extensive knowledge in financial legislations, the Icelandic bankruptcy legislation and the legal aspects of netting and set-off. The division also supervises the hiring of outside legal experts, both in Iceland and abroad, and the work they provide and is expected to have the requisite expertise on legal aspects of all agreements and related documents. The division also has an overview of all legal agreements and the services provided and costs incurred by external legal advice.

Finance

The division is responsible for executing all aspects of the Bank's finances according to guidelines provided by the Finance Committee which is a sub-committee of the Resolution Committee. The finance division can be broken into four sub-divisions:

Accounting and Reporting which is responsible for all accounting procedures. The unit prepares financial statements which are issued in the Creditors' Report semi-annually as well as other reports more frequently for internal purposes.

Portfolio management is responsible for monitoring and analysing the loan and securities portfolios in addition to managing the Bank's cash reserves. The unit provides extensive support to the asset management team. This entails tasks like loan administrative matters, collateral analysis, covenant monitoring, cash flow projections, credit risk analysis, internal and external reporting etc.

Operations which is responsible for day-to-day operations, records management, and human resource matters.

Derivatives which is responsible for valuations of outstanding unsettled derivative trades and management of open trades. In addition, the unit is responsible for the preparation of settlement notices to counterparties and other back office functions in relation to the settlement of the derivatives book.

Creditor management

Creditor management is responsible for relations with creditors. The team manages the relationship with Morgan Stanley, the Bank's financial advisor and provides them with the necessary support. The team also organizes and prepares meetings, conference calls and memos to the ICC and other creditors when needed. In addition, the team maintains the online information centre for creditors, www.kaupthing.com.

Internal committees

To further strengthen the infrastructure and the operations of the Bank, four working committees were established early this year. These committees have at least weekly meetings and work within formal guidelines to resolve the tasks at hand.

The *Asset Committee* has the role of both credit committee and investment committee in a traditional financial institution. It comprises two members of the Resolution Committee and three MDs of the Asset Management team. Cases related to the assets of the Bank are presented with memos by the employees responsible and can range from a simple waiver request to a request for disposal of assets. If the Asset Committee wishes to approve a drawdown request or a request for disposal of assets, the case is referred to the Resolution Committee which makes the final decision to approve or decline the request.

The *Finance Committee* is responsible for the Bank's finances. Its main role is to formulate the finance division's strategy in terms of book-keeping and accounting procedures. The committee is responsible for all financial disclosure both externally and internally to the Resolution Committee and its sub-committees. The Finance Committee defines which guidelines the Bank adheres to, both with respect to accounting rules and international standards and internal work procedures. The committee develops and oversees the execution of budgetary plans. The committee is responsible for liquidity management of cash and cash equivalents.

The *Inspection Committee* has the role of reviewing transactions, identified by the Resolution Committee, and to prepare and commence legal proceedings against parties that might be in debt to the Bank due to those transactions, or are alternatively responsible for potential loss of the Bank resulting

from the transactions. The aim is, in other words, to realise all possible claims which the Bank might have against third parties in relation to the specific transactions mentioned above, including claims arising from unusual action by the former management of the Bank or third parties. This sub-committee consists of two members of the Resolution Committee in addition to the former Internal Auditor of the Bank.

This committee is also responsible for all correspondence and communication with the Special Investigation Commission ("SIC"), operating under the provision of Act No. 142/2008, the FME and the Special Prosecutor, operating under the provision of Act No. 135/2008.

The *Set-off and Netting Committee* is responsible for preparation of netting and set-off cases, collection of claims deriving from derivative contracts and related matters. The Set-off and Netting Committee consists of one member from the Resolution Committee, one member from the Winding-Up Committee and one employee from Kaupthing. The committee was originally established in February but was re-established in the beginning of June following the appointment of the Winding-up Committee. The participation of the Winding-up Committee is needed for the set off process, as its current role is to evaluate all claims brought against the Bank, including claims that might be used for set-off. The collection process of derivatives claims is ongoing but no actual set-off has been executed. It is difficult to evaluate the number of set-off cases since such cases might come up in the process of creditors filing their claims.

3.7 Corporate communications and creditor relations

In order to improve communications and relations with stakeholders and the general public the Resolution Committee has appointed Helga Bjork Eiriksdottir as Communications Manager. The role of the Communications Manager is to formulate a corporate communications policy, manage media relations and promote the function and activities of the Resolution Committee and the Bank in Iceland and abroad. The Resolution Committee regularly looks for ways to further improve its corporate communications function in order to educate and foster transparency in its activities.

As this report clearly shows, relations with creditors are extensive and regulated. Since 9 October 2008, several meetings have been held with creditors to discuss how things are progressing and to invite them to express their views. In addition, weekly conference calls are held with the ICC and members of Morgan Stanley, the Bank's financial advisor.

The website, www.kaupthing.com, is a place where creditors, the media, authorities and other parties can access regular updated information about the Bank. Interested parties can send questions, read the latest announcements and updates and can keep abreast of the main developments since 9 October 2008. The website has been updated to include material relating to the Winding-up Committee, such as information on the Bank's claim registration process. Additionally, the content of the front page was re-organised in order to improve user access and to enable users to subscribe to news and updated material. The site was launched a year ago, in the beginning of October 2008, and since then there have been nearly 1,152,000 page views by 396,000 users.

This report for creditors is currently updated once a month and to facilitate overview by frequent readers the Bank provides a summary of the main updates in each report. Numerous questions are sent to creditorcontact@kaupthing.com and winding-up@kaupthing.com every day which the Bank aims to respond to as quickly as possible.

It is the aim of the Resolution Committee to be as transparent as possible. Therefore, the Committee has gone well beyond its legal obligations in its efforts to inform creditors and others on the progress of its work and intends to continue to do so.

4. Financial analysis

4.1 *Estimated valuation of the Bank's assets and liabilities*

Statement of compliance

The financial information in this subchapter has been prepared in accordance with Rules on the Financial Statements of credit institutions (834/2003) that concern valuation of assets and liabilities, taken into account the current moratorium status of the Bank. It does not include all of the information required for full annual Financial Statements according to the Rules. The financial information is presented in Icelandic krona (ISK), rounded to the nearest million.

The valuation of assets and liabilities as at 30 June 2009 and 31 December 2008 was prepared by the Resolution Committee for Kaupthing Bank hf., the parent company. It is neither audited nor reviewed by independent auditors but were prepared with assistance from PwC in Iceland. The Resolution Committee emphasizes that the valuation herein is a historic valuation only, and one which only takes into account the Bank's current strategy, to safeguard and increase the value of the Bank's assets achieved to 30 June 2009 and not thereafter. No attempts were made at this time to assess the possible future value of assets, nor to estimate likely recovery of creditors' claims.

The valuation of assets and liabilities does not take into account the impact of set-off. Set-off impact could clearly make a difference to overall creditor recoveries. Further information will be provided on this matter as it becomes available. Further information on set-off is provided in note 25.

A formal process for the creditors of the Bank to file claims against the Bank began on 30 June 2009 and will end on 30 December 2009. Until all claims have been filed, the real and accurate amount of liabilities and priority claims is uncertain. In accordance with Act no. 44/2009, all liabilities are fixed as at 22 April 2009.

Due to uncertainty in valuation of underlying collateral, potential deficiency claims resulting from insufficient collateral in secured funding agreements has not been accounted for herein.

As noted in this report's disclaimer the actual realisable value of the Bank's assets and liabilities may differ materially from the values set forth herein. Factors which may lead to material differences include:

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

Readers' attention is also drawn to other terms of the disclaimer at the beginning and the end of this report.

Valuation methodology

The valuation methodology for each asset class is abbreviated below .

Cash in hand	The balance of all cash accounts as at 30 June 2009 without any discount
Loans to credit institutions	Is valued at amortised cost. Estimated credit risk of the counterparty has been taken into account in provisions for losses.
Loans to customers at fair value	<p>Loans to customers are valued at fair value. The fair value is based on market transactions where possible or recognised valuation techniques.</p> <p>The values assigned reflect the market fluctuations in general by taking into account various loan indices with appropriate discounts for the Kaupthing portfolio due to lack of liquidity and the small-scale size of these exposures.</p> <p>The valuation only takes into account the current strategy of the Resolution Committee, to safeguard and increase the value of the Bank's loans to customers portfolio achieved to 30 June 2009 and not thereafter.</p>
Bonds and debt instruments	<p>Listed: the market value as at 30 June 2009</p> <p>Unlisted: similar valuation methodology was applied to this category as in 'Loans to customers at fair value'</p>
Shares and instruments with variable income.....	<p>Listed: the market value as at 30 June 2009</p> <p>Unlisted: similar valuation methodology was applied to this category as in 'Loans to customers at fair value'</p>
Derivatives and unpaid derivatives.....	<p>The calculated amount of derivative assets and liabilities before provisions is based on the bank's own valuations, which may differ from the final settlement amounts. When determining the value of more complex derivatives and structured products, the Bank is using the services of a leading independent company which specializes in derivative valuations and risk management services. Derivative assets and liabilities with the same legal entity are netted.</p> <p>Default valuation rules under the ISDA framework generally favour the non-defaulting counterparty which may result in adverse effect on the value of the derivatives assets and liabilities. Once ISDA derivative contracts have been terminated the non-defaulting counterparty must determine the net amounts owed by or to the defaulting counterparty. Close out notices providing details of such calculations enable the Bank to reconcile amounts. In some cases, either no close out statement has been received or has been inadequately detailed. Some provisions were made to the Bank's valuation of ISDA derivatives to account for potential disputes in valuation. For Non-ISDA counterparties, a significant valuation adjustment was made on derivative assets to account for credit, liquidity and collateral risk associated with each counterparty.</p>
Investments in subsidiaries	The book value of subsidiaries is an estimated fair value as at 30 June 2009
Borrowings	The book value of borrowings is at notional amount and accrued interests at 22 April 2009. Interests accruing after this date are included with subordinated liabilities.

Balance Sheet

as at 30 June 2009

	Notes	30.6.2009	31.12.2008
Assets			
Cash in hand	1	98.799	77.963
Loans to credit institutions	2-3	442.923	522.714
Loans to customers at fair value	4-8	439.521	337.023
Bonds and debt instruments	9-10	119.064	115.931
Shares and instruments w with variable income	11-12	214.600	161.851
Derivatives and unpaid derivatives	13-14	246.073	233.862
Investments in subsidiaries	15	135.562	129.464
Other assets	16	9.102	13.361
Total Assets	1-16	<u>1.705.644</u>	<u>1.592.169</u>
Liabilities			
Due to credit institutions	17	151.808	173.892
Deposits	18	2.140	54.775
Derivatives and unpaid derivatives	19-20	136.296	138.751
Borrowings	21	3.237.006	3.091.636
Liability to New Kaupthing Bank hf. in return of assets and liabilities transferred	22	43.335	41.027
Other liabilities	23	108.302	125.177
Total Senior Liabilities	17-23	<u>3.678.887</u>	<u>3.625.258</u>
Subordinated loans		422.624	400.677
Interest expense from 22.4.2009-30.6.2009		27.804	-
Total Subordinated Liabilities		<u>450.428</u>	<u>400.677</u>
Equity			
Share capital		7.270	7.270
Share premium		136.471	136.471
Retained earnings		(2.567.412)	(2.577.507)
Total Equity		<u>(2.423.671)</u>	<u>(2.433.766)</u>
Total Liabilities and Equity		<u>1.705.644</u>	<u>1.592.169</u>
Other information	24-25		

Notes to the Balance sheet

Cash in hand

1. According to FME's transfer decision from 21 October 2008, all cash balances were transferred to New Kaupthing, resulting in the Bank's cash balances being wiped out. The primary drivers behind positive cash position at year end are proceeds from 'Loans to Credit Institutions' (principal repayments and interest payments) of ISK 38.808 million and 'Loans to customers at fair value' (principal repayments and interest payments) of ISK 26.052 million.

The increase from 31 December 2008 in recorded book value of cash in hand as at 30 June 2009 is driven by proceeds from the sale of the Bank's subsidiary in Sweden of ISK 27.647 million and 'Loans to customers at fair value' (principal repayments and interest payments) of ISK 36.323 million less repayments to Kaupthing Edge Germany depositors of ISK 57.368 million.

Loans to credit institutions

	30.6.2009			31.12.2008
	Unpledged	Pledged	Total	Total
2. Loans to credit institutions specified by types of loans:				
Bank accounts	21.334	281.785	303.119	354.775
Overdrafts	12	-	12	12
Subordinated loans to subsidiaries	17.911	118.239	136.150	133.528
Loans at fair value	-	-	-	29.578
Other loans	9.950	-	9.950	13.647
Provision for losses	(6.308)	-	(6.308)	(8.826)
Loans to credit institutions	42.899	400.024	442.923	522.714

All unpledged bank accounts are currently frozen. The Bank is currently attempting to retrieve these bank accounts. The pledged bank accounts represent collateral posted under derivative trades and repurchase agreements.

In a report dated 15 November 2008 loans from and to credit institutions were netted in 'Loans to credit institutions'. At 31 December 2008 ISK 173.892 million are reclassified to 'Due to credit institutions'.

Of subordinated loans to subsidiaries, the pledged position is a loan to Kaupthing Mortgage Fund.

Loans at fair value loans to credit institutions 31.12.2008 are subordinated claims against Kaupthing Sverige AB. Following the sale of Kaupthing Bank Sverige on 14 of February 2009, an agreement was reached in which Kaupthing bank Sverige AB were to transfer a portfolio of loans, with book value of SEK 4,5 billion, to Kaupthing hf. to meet the claims. Estimated fair value of the underlying loan portfolio was ISK 29.578 million in 31.12.2008. This loan portfolio is included in loans to customers at fair value 30.6.2009.

	30.6.2009			31.12.2008
	Unpledged	Pledged	Total	Total
3. Loans to credit institutions specified by counterparties:				
Domestic	1.117	696	1.813	2.135
Foreign	23.360	252.266	275.626	308.675
Subsidiaries and subsidiaries taken into administration	18.422	147.062	165.484	211.904
Loans to credit institutions	42.899	400.024	442.923	522.714

Loans to customers at fair value

4. Loans to customers at fair value are also shown at carrying value, i.e. notional value including accrued interests:
This specification includes pledged positions.

	30.6.2009		31.12.2008	
	Carrying value	Fair value	Carrying value	Fair value
Loans to customers	1.363.696	439.521	1.184.829	337.023

The loan portfolio which was transferred from Kaupthing bank Sverige AB is included in 'Loans to customers at fair value' as at 30 June 2009.

Principal repayments and interest payments proceeds from the loans to customers portfolio in H1 2009 amounted to ISK 36.323 million.

5. Loans to customers at carrying value specified by sectors:

	30.6.2009	31.12.2008
	Carrying value	Carrying value
This specification includes pledged positions.		
Individuals	175.738	139.598
Industry	220.588	189.632
Real estate	184.631	149.062
Service	167.864	97.087
Trade	110.845	113.156
Holding companies	504.030	496.294
Loans to customers at carrying value	1.363.696	1.184.829

6. Loans to customers at carrying value specified by geographical region:

This specification includes pledged positions.	30.6.2009	31.12.2008
	Carrying value	Carrying value
UK*	744.624	711.729
Iceland	139.804	114.626
Scandinavia	246.255	168.354
Other	233.013	190.120
Loans to customers at carrying value	1.363.696	1.184.829

*UK includes UK overseas territories and Crown dependencies

7. Loans to customers at carrying value - breakdown by currency:

This specification includes pledged positions.	30.6.2009	31.12.2008
	Carrying value	Carrying value
GBP	559.555	472.095
EUR	224.484	218.841
USD	237.807	238.437
JPY	34.230	29.342
CHF	37.321	29.246
SEK	127.901	65.957
ISK	108.078	103.099
Other	34.320	27.812
Loans to customers at carrying value	1.363.696	1.184.829

8. Ten largest loans to customers at fair value - sector and country

This specification is of the fair value of loans to customers, and includes pledged positions.	30.6.2009	31.12.2008
UK* / Holding company	7,8%	8,5%
UK* / Trade	7,8%	7,5%
UK* / Real Estate	4,1%	3,4%
Scandinavia / Industry	4,0%	4,4%
Iceland / Government related entity	3,3%	4,0%
UK* / Service	3,1%	2,6%
UK* / Service	2,4%	2,0%
UK* / Holding company	2,2%	1,6%
Scandinavia / Holding company	2,1%	2,8%
Scandinavia / Individual	1,6%	1,9%
Ten largest loans to customers of total loans to customers at fair value	38,5%	38,7%

*UK includes UK overseas territories and Crown dependencies

Bonds and debt instruments

	30.6.2009		31.12.2008	
9. Bond and debt instruments are specified as follows:	Unpledged	Pledged	Total	Total
Listed	9.855	87.043	96.898	94.441
Unlisted	2.489	19.677	22.166	21.490
Bonds and debt instruments	12.344	106.720	119.064	115.931

	30.6.2009		31.12.2008	
10. Bonds and debt instruments specified by issuer:	Unpledged	Pledged	Total	Total
Financial institutions	-	43.765	43.765	41.428
Housing Financing Fund	5.441	40.705	46.146	45.807
Government	4.414	20.273	24.687	24.682
Corporates	2.489	1.977	4.466	4.014
Bonds and debt instruments	12.344	106.720	119.064	115.931

Shares and instruments with variable income

	30.6.2009		31.12.2008	
11. Shares and instruments with variable income are specified as follows:	Unpledged	Pledged	Total	Total
Listed	20.095	179.524	199.619	153.274
Unlisted	14.960	21	14.981	8.577
Shares and instruments with variable income	35.055	179.545	214.600	161.851

All investments in associates other than Storebrand AS were transferred to New Kaupthing Bank hf. or impaired in the year 2008. Kaupthing Bank hf. held approximately 20% stake in Storebrand AS. Half of the Bank's holdings, i.e. 10% stake, was sold within the year in a forced sale, but the remaining 10% which was classified in 'Investments in associates' in the last published financial information as at 15 November was transferred to 'Shares and instruments with variable income'. Of the remaining stake, 4,5% stake in Storebrand AS is currently pledged.

	30.6.2009		31.12.2008	
12. Ten largest positions:	Unpledged	Pledged	Total	Total
Trade/UK	-	51.246	51.246	45.191
Service/UK	-	48.489	48.489	26.285
Financial/Scandinavia	-	30.462	30.462	28.351
Financial/Scandinavia	14.640	12.080	26.720	21.364
Industry/UK	-	23.470	23.470	15.403
Service/Scandinavia	-	7.486	7.486	7.486
Industry/Iceland	-	6.174	6.174	6.174
Industry/Netherlands	4.130	-	4.130	2.015
Financial/Canada	3.939	-	3.939	3.047
Industry/UK	3.427	-	3.427	1.184
Ten largest positions total	26.136	179.407	205.543	156.500

Derivatives and unpaid derivatives

	30.6.2009		31.12.2008	
13. Derivatives and unpaid derivatives are specified as follows by status:	Gross fair value	Provisions	Net fair value	Net fair value
Derivatives	41.972	(17.555)	24.417	43.098
Unpaid derivatives*	381.012	(159.356)	221.656	190.764
Derivatives and unpaid derivatives	422.984	(176.911)	246.073	233.862
Collateral received from counterparties	(143.517)	-	(143.517)	(137.236)
Net derivatives and unpaid derivatives	279.467	(176.911)	102.556	96.626

*Matured and terminated trades, and unpaid cash flow from open trades

	30.6.2009		31.12.2008	
14. Derivatives and unpaid derivatives are specified as follows by type:	Gross fair value	Provisions	Net fair value	Net fair value
Open FX Trades, Asset Swaps & Interest Rate Swaps	39.990	(16.726)	23.264	42.651
Open Caps, Floors, Barriers	1.982	(829)	1.153	447
Unpaid FX Trades, Asset Swaps, Interest Rate Swaps & FX Options*	378.713	(158.393)	220.320	189.493
Unpaid Credit Derivatives*	(4.860)	2.032	(2.828)	(2.693)
Unpaid Equity Options*	6.254	(2.616)	3.638	3.463
Unpaid Caps, Floors, Barriers*	905	(379)	526	501
Derivatives and unpaid derivatives	422.984	(176.911)	246.073	233.862
Collateral received from counterparties	(143.517)	-	(143.517)	(137.236)
Net derivatives and unpaid derivatives	279.467	(176.911)	102.556	96.626

*Matured and terminated trades, and unpaid cash flow from open trades

Collateral received from counterparties in relation to derivative trades is included in Due to Credit Institutions and amounts to ISK 143.517 million at 30.06.2009 and ISK 137.236 million at 31.12.2008.

The Bank had before the collapse received collateral from counterparties in relation to some derivative trades. This collateral was part of the Bank's own funds and had been re-used, re-invested or moved to New Kaupthing in October 2008.

Therefore, to estimate the value of the Bank's assets distributable to creditors as at 30 June 2009 the collateral already received which amounts to ISK 143.517m as at 30 June 2009 needs to be deducted from Derivatives and unpaid derivatives on the asset side and from Due to credit institutions on the liability side.

Investments in subsidiaries

15. Investments in subsidiaries at 30 June 2009 are specified as follows:

	Functional currency	Own- er- ship	30.6.2009		31.12.2008
			Pledged	Total	Total
FIH Erhvervsbank, Denmark	DKK	99,9%	91.168	91.168	86.213
Kaupthing Mortgage Institutional Investor Fund, Iceland	ISK	100,0%	18.317	18.317	17.544
Kaupthing Sverige AB, Sweden	SEK	100,0%	-	5.734	5.403
Norvestia Oyj, Finland	EUR	32,7%	-	8.139	7.445
New Bond Street Diversified Credit Fund, UK	EUR	100,0%	-	5.898	5.898
Kirna ehf., Iceland	ISK	100,0%	-	5.375	5.375
Other subsidiaries and foreign branches			-	931	1.586
Subsidiaries			109.485	135.562	129.464

The Bank controls 56.0% of the votes in Norvestia Oyj and the company is thus considered to be a subsidiary of the Bank.

The book value of subsidiaries is an estimated fair value.

The equity stake in FIH Erhvervsbank is shown as fully pledged against a loan with the Icelandic Central Bank.

Other assets

16. Other assets are specified as follows:

	30.6.2009	31.12.2008
Accounts receivables	37.887	35.513
Sundry assets	1.233	3.804
Deferred tax assets	1.954	3.466
Accrued income	2.676	2.244
Prepaid expenses	566	779
Impairment on other assets	(35.214)	(32.445)
Other assets	9.102	13.361

Unpaid derivatives' which was classified as 'Other assets' in the last published financial information as at 15 November was transferred to 'Derivatives and unpaid derivatives'.

Due to credit institutions

17. Due to credit institutions specified as follows:

	30.6.2009	31.12.2008
Collateral accounts	143.517	137.236
Other	8.291	36.656
Due to credit institutions	151.808	173.892

Deposits

18. Deposits are specified as follows:

	30.6.2009	31.12.2008
Deposits in Germany branch	2.140	54.775
Deposits	2.140	54.775

The deposits in the Germany branch were defined as priority claims acc. to Act 125/2008. The vast majority of these deposits were paid in H1 2009.

Derivatives and unpaid derivatives - liabilities

19. Derivatives and unpaid derivatives are specified as follows by status:	30.6.2009	31.12.2008
Derivatives	(6)	538
Unpaid derivatives*	136.302	138.213
Derivatives and unpaid derivatives	136.296	138.751
Collateral received from counterparties	(88.932)	(80.432)
Net derivatives and unpaid derivatives	47.364	58.319

*Matured and terminated trades, and unpaid cash flow from open trades

20. Derivatives and unpaid derivatives are specified as follows by type:	30.6.2009	31.12.2008
Open FX Trades, Asset Swaps & Interest Rate Swaps	(6)	535
Open Caps, Floors, Barriers	-	3
Unpaid FX Trades, Asset Swaps, Interest Rate Swaps & FX Options*	67.972	73.518
Unpaid Credit Derivatives*	69.137	65.436
Unpaid Equity Options*	(798)	(734)
Unpaid Caps, Floors, Barriers*	(9)	(7)
Derivatives and unpaid derivatives	136.296	138.751
Collateral received from counterparties	(88.932)	(80.432)
Net derivatives and unpaid derivatives	47.364	58.319

*Matured and terminated trades, and unpaid cash flow from open trades

Collateral posted against derivative trades is included in 'Loans to credit institutions' and amounts to ISK 88.932 million at 30.06.2009 and ISK 80.432 million at 31.12.2008.

Borrowings

21. Borrowings are specified as follows:	30.6.2009	31.12.2008
Bonds issued	1.951.213	1.855.478
Bills issued	61.520	56.753
Money market loans	568.885	420.847
Central Bank of Iceland	314.857	316.471
Other loans	340.531	442.087
Borrowings	3.237.006	3.091.636

A formal process for the creditors of Kaupthing bank to file claims against the bank began at 30 June 2009 and will end at 30 December 2009. Until all claims have been filed and validated, the real and accurate amount of borrowings is uncertain. In accordance with Act no. 44/2009, all liabilities are fixed in ISK as at that 22 April 2009.

Liabilities to New Kaupthing Bank hf. in return of assets and liabilities transferred

22. In October 2008 all of the Bank's deposit liabilities in Iceland were transferred to New Kaupthing Bank hf., and also the bulk of the Bank's assets that relate to its Icelandic operations, such as loans and other claims. This transfer was done according to the FME's Transfer Decision dated 21 October 2008. Negotiations on the valuation of the assets and liabilities were concluded on 3 September 2009 when the Government and the Bank agreed not to conclude the valuation of the assets at present but in 3 years time. This solution allows the Bank to capture further upside in the valuation of the assets.

The Bank is to provide cover for any negative initial value ("valuation gap") from the transfer of assets and liabilities from the Bank to New Kaupthing; the valuation gap is assessed at ISK 38.102 million as at 22 October 2008. The value of the assets is guaranteed for the time period of the agreement which ends 30 June 2012. The size of the valuation gap will be reassessed semi-annually by an independent auditor. Therefore, the size of the valuation gap can decrease but has been capped at the initial value save for currency movements and accrued interests. The valuation gap is denominated 50% in EUR and 50% in ISK.

Other liabilities

23. Other liabilities are specified as follows:	30.6.2009	31.12.2008
Sundry liabilities	86.544	81.048
Trading liabilities - Securities borrowed	18.593	18.419
Liability to Norway and Finland regarding deposits, priority claim	-	14.120
Accounts payable	3.165	11.590
Other liabilities	108.302	125.177

Trading liabilities - Securities borrowed represents an obligation towards the Icelandic Central Bank where the Bank had borrowed liquid domestic government bonds in exchange for other liquid domestic government bonds.

Other Information

24. Balance sheet net of pledged assets and priority claims:

	30.6.2009	Pledged	Known	30.6.2009	31.12.2008
	Balance sheet	positions	priority	Balance	Balance
			claims	sheet after	sheet after
				subtracting	subtracting
Assets					
Cash in hand	98.799	-	-	98.799	77.963
Loans to credit institutions	442.923	(400.024)	-	42.899	148.548
Loans to customers at fair value	439.521	(82.262)	-	357.259	259.666
Bonds and debt instruments	119.064	(106.720)	-	12.344	2.652
Shares and instruments with variable income	214.600	(179.545)	-	35.055	23.203
Derivatives and unpaid derivatives	246.073	-	-	246.073	233.862
Investments in subsidiaries	135.562	(109.485)	-	26.077	25.707
Other assets	9.102	-	-	9.102	13.361
Less: Payment of known priority claims	-	-	(53.022)	(53.022)	(119.055)
Total assets	1.705.644	(878.036)	(53.022)	774.586	665.907
Liabilities					
Due to credit institutions	151.808	-	-	151.808	173.892
Deposits	2.140	-	(2.140)	-	-
Derivatives and unpaid derivatives	136.296	-	-	136.296	138.751
Borrowings	3.237.006	(878.036)	-	2.358.970	2.284.429
Liability with New Kaupthing Bank in return of assets and liabilities transferred	43.335	-	(43.335)	-	-
Other liabilities	108.302	-	(7.547)	100.755	101.924
Total Senior liabilities	3.678.887	(878.036)	(53.022)	2.747.829	2.698.996
Subordinated loans	422.624	-	-	422.624	400.677
Interest expense from 22.4.2009-30.6.2009	27.804	-	-	27.804	-
Equity	(2.423.671)	-	-	(2.423.671)	(2.433.766)
Total liabilities and equity	1.705.644	(878.036)	(53.022)	774.586	665.907

Readers' attention is drawn to the terms of the disclaimer at the beginning and the end of this report, statement of compliance and valuation methodology in the beginning of this chapter.

As stated in notes 14 and 17, collateral accounts in 'Due to credit institutions' amount to ISK 143.517 million at 30.06.2009 and ISK 137.236 million at 31.12.2008 which will presumably be deducted from the 'Derivatives and unpaid derivatives' on the asset side once these agreements are settled with the counterparties.

As stated in notes 2 and 20, collateral accounts in 'Loans to credit institutions' amount to ISK 281.785 million. Thereof, the collateral accounts related to derivatives amount to ISK 88.932 million at 30.06.2009 and ISK 80.432 million at 31.12.2008 which will presumably be deducted from the 'Derivatives and unpaid derivatives' on the liabilities side once these agreements are settled with the counterparties. This is already included in the pledged positions above.

Hindsight has been used regarding events after 30 June 2009 for pledged positions.

Pledged positions in 'Loans to customers at fair value' and 'Investments in subsidiaries' are represented at the value of the corresponding obligation, i.e. after any haircuts have been taken into account.

Pledged positions for 'Bonds and debt instruments' and 'Shares and instruments with variable income' are represented at the assumed market value of the underlying collateral. The haircut on the corresponding obligation is excluded on the liability side.

It should also be noted that there were significant currency movements in the first half of 2009.

25. Set-off

The valuation of assets and liabilities in this report does not take into account the impact of set-off. The reason thereof is twofold; firstly, counterparties have the right to claim until the end of the formal claim period which started on 30 June 2009 and will end on 30 December 2009. Secondly, every case needs to be looked into and evaluated before each claim can be accepted or rejected. Therefore, the estimated size and impact of set-off is still very uncertain.

The Bank has received to date set-off claims from counterparties amounting to ISK 200 billion. The preliminary estimated set-off effects is in total up to ISK 100 billion on the face value of both the respective assets and the respective liabilities. The exact amounts on the assets and liabilities side may differ.

Exchange rates for ISK as at 30 June 2009 and 31 December 2008.

Currency	30 June 2009	31 December 2008
CAD	109,9069	98,716
CHF	117,4831	113,8163
DKK	24,0425	22,7274
EUR	179,0383	169,2733
GBP	210,0403	176,4826
HKD	16,478	15,6299
JPY	1,3235	1,336
NOK	19,8358	17,3906
SEK	16,5203	15,4411
USD	127,5565	121,0955

4.2 Derivatives

Appointment of advisors

In line with Resolution Committee's objective to maximise recoveries for the creditors of the Bank, the Resolution Committee has retained Alvarez and Marsal ("A&M") to review the existing portfolio of derivatives transactions and execute a plan that will maximise recoveries. A&M's mandate is to manage the overall process of the winding down of the derivatives book. To do this A&M will work with and coordinate the existing employees of the Bank along with external derivatives valuation specialists. Furthermore, the business law firm Olswang was appointed as an external legal counsel to work on the legal process associated with recoveries of the derivatives portfolio.

The number of counterparties involved are over 350 including both Icelandic and international names, with over 2,500 individual transactions. The plan, by applying a strict prioritisation process, puts the highest emphasis on those transactions that will maximise recovery of funds to the Bank.

It is anticipated that the high priority transactions, those that will recoup the maximum value, will be processed by February 2010. The remaining transactions will be dealt with in order of their ability to return value to the Bank.

Overview

There are total of 149 foreign counterparties in the derivatives portfolio which can be broken down as follows:

- 103 ISDA counterparties (in 92 ISDA agreements, as some are multi entity)
- 32 non-ISDA counterparties, i.e. the Bank's general terms and conditions counterparties
- 14 counterparties within the Bank's group, i.e. subsidiaries and branches

The number of transactions with foreign counterparties is less than 1,000. The vast majority of these are traded under the ISDA agreements, most of which have been terminated by the counterparty.

There are total of 224 domestic counterparties in the derivative portfolio which can be broken down as follows:

- 14 ISDA counterparties (mostly domestic financial institutions but also some large companies)
- 195 non-ISDA counterparties, i.e. the Bank's general terms and conditions counterparties
- 15 counterparties within the Bank's group, i.e. subsidiaries and branches

The number of transactions with domestic counterparties is over 1,600. The vast majority of these are traded under general market agreements and a minority under ISDA agreements.

Open derivatives

There are open derivatives both in the domestic and in the foreign derivatives book and the total number of open derivatives contracts are less than 300. The transactions concern mainly plain vanilla interest rate swaps (IRS) and long term FX/Currency swaps with non-ISDA domestic counterparties. Process has been set up for regular review in order to determine whether the positions should be kept or terminated in order to maximise the recovery of the contracts. The Bank is in selective cases fulfilling its contractual obligations if it concludes it to be beneficial for the Bank:

4.3 The Bank/New Kaupthing split

Reader's attention is drawn to extensive information on this subject in the Public Information Package and the 20 October Creditors' Meeting presentation available on the Bank's website.

On 6 October 2008 the Disbursement Act was passed by the Icelandic parliament, providing the FME with the authority and power to intervene in the operations of financial undertakings in order to respond to the unusual circumstances in the Icelandic financial sector. On 9 October 2008, in accordance with the same act, the FME appointed the Resolution Committee to take control of the Bank. On 21 October 2008, the FME issued the Transfer Decision, by which it determined to transfer certain specific assets of the Bank and certain specific obligations of the Bank, to New Kaupthing, which is owned by the Icelandic government. According to the FME, these actions were taken to secure the continuation of vitally important domestic banking and payment services.

Under the Transfer Decision, New Kaupthing takes over all of the Bank's deposit liabilities in Iceland, and also the bulk of the Bank's assets that relate to its Icelandic operations, such as loans and other claims. Other assets and liabilities will remain in the Bank, which will in turn remain under the control of the Resolution Committee.

The FME appointed Deloitte to prepare an independent net asset valuation for New Kaupthing and Oliver Wyman was appointed to co-ordinate the valuation process and review the valuation. The valuation of the net assets by Deloitte and the review of the valuation by Oliver Wyman took longer than initially envisaged but was completed towards the end of April 2009.

PwC has audited the asset transfer from the Bank to New Kaupthing to ensure that it was completed in full accordance with the FME transfer decision. PwC has completed their revision and have concluded that some assets that were initially moved to New Kaupthing should have stayed with the Bank. Hence, this has now been corrected and these assets will increase the size of the corporate loan portfolio of the Bank. It should be added that all cash flow to and from the assets since the FME transfer decision was made will be compiled and corrected for between the two banks. The Resolution Committee supports these amendments as they are in full accordance with the FME transfer decision and the committee consider these assets to be above average quality of the Bank's assets.

Total of approx. ISK 190bn in assets at book value were transferred back, thereof approx. ISK 90bn which were unpledged. These assets present additional value to the creditors, but instead the compensation instrument will be lower than initially expected. The liabilities related to the pledged assets had remained within the Bank based on the preliminary balance sheets.

The Resolution Committee has, together with Morgan Stanley and creditors' representatives, been negotiating with the Government during the summer 2009 on the disposition of the assets and liabilities taken over by New Kaupthing in October 2008. The Resolution Committee entered into a Heads of Terms Agreement with the Government on 17 July 2009 and signed binding agreements on 3 September 2009.

4.4 *Portfolio statistics*

This chapter gives a brief overview of the *Loans to customers*' portfolios while a more detailed analysis of the portfolios can be found in the 20 October Creditors' Meeting presentation available on the Bank's website.

Overview

Loans to customers are divided into three portfolios:

- **Nordic portfolio:** the vast majority of loans to customers in the Nordic region.
- **Europe portfolio:** the vast majority of loans to customers in Europe.
- **NOA portfolio:** mainly non-operational assets.

The Nordic and Europe portfolios are actively managed by the asset management team and the vast majority of the stakes in these portfolios have underlying operations or assets.

The loans in the NOA portfolio are under the supervision and management of the Inspection Committee and undergo thorough revision by the Committee.

Loans to customers at nominal value amounted to ISK 1.364bn as at 30 June 2009.

Loans to customers at fair value amounted to ISK 357bn as at 30 June 2009 (compared to ISK 260bn at year-end 2008).

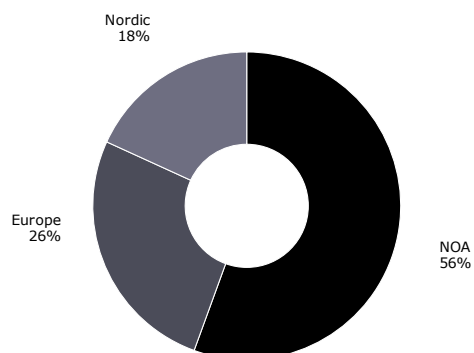
Fair value of *Loans to customers* as at 30 June 2009:

- **Nordic portfolio:** approx. ISK 140bn
- **Europe portfolio:** approx. ISK 170bn
- **NOA portfolio:** approx. ISK 47bn

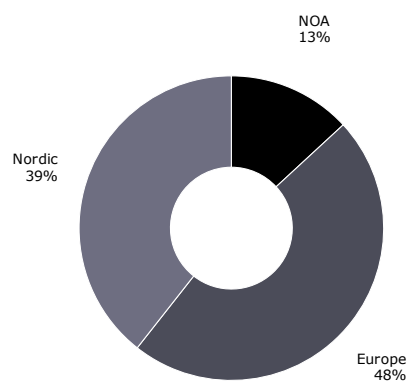
Further breakdown of the portfolios are shown below.

Loans to customers broken down by portfolios.

**Portfolio Categorization by nominal value
30 June 2009**



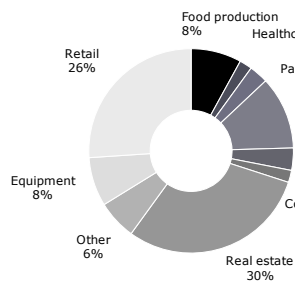
**Portfolio Categorization by fair value
30 June 2009**



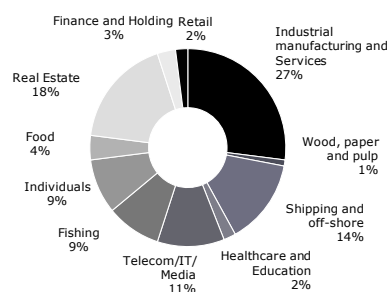
Loans to customers broken down by sector.

Loans to customers at nominal value 30 June 2009

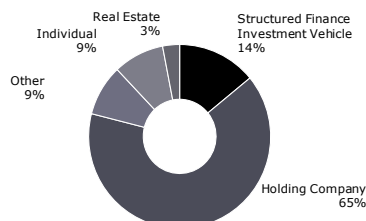
Europe portfolio



Nordic portfolio

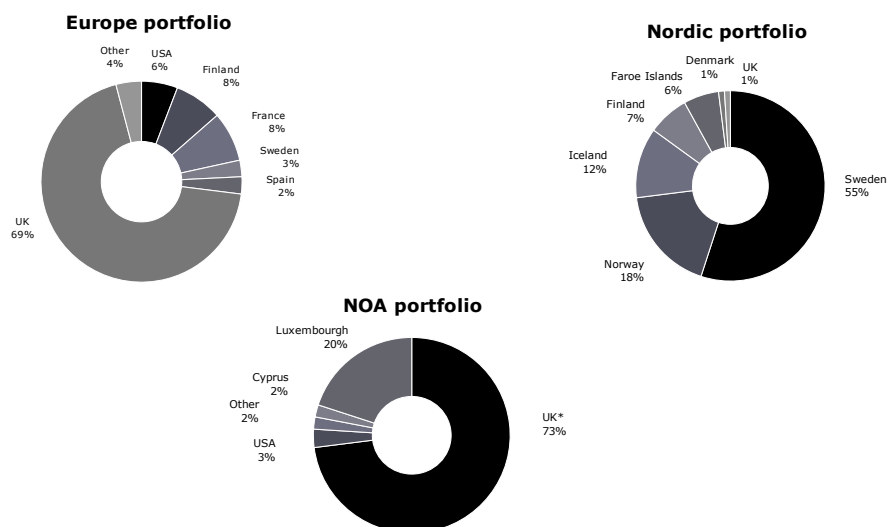


NOA portfolio



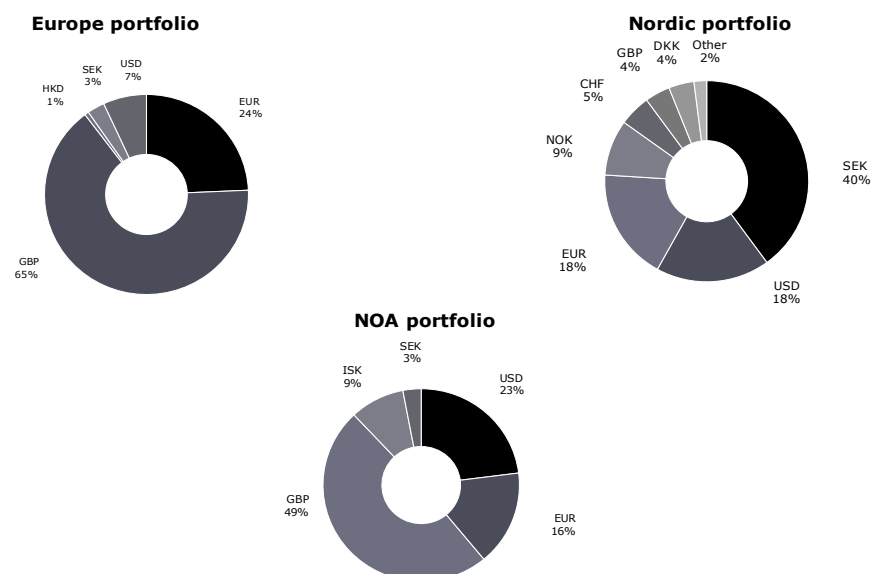
Loans to customers broken down by geography.

Loans to customers at nominal value 30 June 2009



Loans to customers broken down by currency.

Loans to customers at nominal value 30 June 2009



NOA portfolio

Approx. 85% of the portfolio is holding companies and other SPV's which are mainly foreign entities. The portfolio comprises more than 30 unique borrowers which are all under active supervision by a sub-committee of the Resolution Committee, the Inspection Committee (IC). All loans in this portfolio go through strict and thorough examination where all historical transactions, dealings and documents for each borrower are carefully probed. External legal counsel has been engaged to work with the Committee, along with forensic auditors and internal legal counsel on examining 18 unique borrowers.

Majority of the loans in the portfolio are in default. Legal collection proceedings have commenced for 21 borrowers. Included are actions where pledges have been forced and the Resolution Committee has gained management control of pledged companies.

The IC creates a sub-taskforce to examine and manage each unique debtor. The taskforce can be comprised of internal resources as well as external advisors such as forensic auditor Grant Thornton International and the international law firm Weil, Gotshal & Manges. As all the loans in the portfolio are under review by the Committee they are all categorised as being under watch until the Committee has concluded its examination.

The IC's role is to review transactions, identified by the Resolution Committee, and to prepare and commence legal proceedings against parties that might be in debt to the Bank due to respective transactions, or are alternatively responsible for potential loss of the Bank resulting from those transactions.

5. Asset sales and restructuring

5.1 General approach and rationale

As discussed in the previous chapters, the Resolution Committee is committed to protecting the asset base of the Bank. The committee fully realizes that current market conditions are unlikely to produce acceptable values for many of its assets. Therefore, the Resolution Committee is determined to support the assets of the Bank where practicable to reach maximum value and does not entertain any "fire sale" bids.

To minor extent, however, the Resolution Committee has disposed of overseas assets. These disposals have been driven by a mix of two things: i) local regulatory authority "freeze of assets" or agreements to prevent the freezing of certain assets; and ii) acceptable bid prices taking into account the future funding support needed for maintaining these assets.

The mandate of the asset management division can be broken into five steps: stabilization, consolidation, full overview, which leads to the ordinary management of the assets and ends with an exit strategy.

Stabilization: The Asset Management team was up against major challenges in the beginning. The main task was to stabilize the situation and to retain value wherever possible by preventing the collapse of different assets and by refusing strongly any fire sale bids.

Consolidation: The Bank protected assets in its foreign entities in the Nordic region and finally managed to transfer assets back to the parent company. Assets were transferred from branches and a subsidiary in the Nordic region to the parent company.

Full overview: Once the initial challenges had been overcome, a more comprehensive and thorough approach was taken on the asset portfolio. Responsibility was allocated between employees from asset management, portfolio management, finance and legal counsel. Assets were analyzed and prioritized by urgency and size and relevant actions were taken for each asset.

Management: With a full overview of the assets, the Bank went into management of the assets. The Bank secured maximum recovery with pro-active management of the assets. Further objectives for each asset are set and when appropriate external advisors and consultants are hired to ensure top class expertise.

Exit strategy: When previous steps have been completed a solid foundation has been set up for the development of a medium to long term strategy for each asset with the aim of ensuring realization of its maximum value. Assets are developed into more stable and sellable form. The work has been focused on value creation, keeping in mind the eventual realization of the value of its assets but to date the focus has not been on the formalization of exit strategies and very few assets have been sold.

The objective of all restructuring efforts is to maximize the likelihood of recouping the Bank's previous full exposure, protecting the Bank's interests and the company value going forward. Before restructuring the account is analyzed extensively, taking into account various other options, other creditors, collateral position etc.

Common scenarios where restructuring is a real option:

- Insufficient cash flow to service the debt, the company has no real equity and there is a risk of management behaving irrationally.

- Potential equity value and the Bank gains a legal avenue to the asset due to e.g. covenant breaches.

Following are practicalities which the Bank finds important when executing a capital restructuring. Finding the right balance between:

- Operational disruptions and the possible outcome from the financial restructuring.
- The costs associated with the financial restructuring and its complications against future cost savings and how easily the structure will be to manage.
- What incentives to give to other stakeholders: good understanding of the company's future prospects and its value are of utmost importance. Aim to set the debt level not lower than perceived enterprise value at restructuring.

The ultimate goal is to develop the optimal solution for each asset and thereby maximize recovery value for the creditors of the Bank.

5.2 Assets restructured to date

The Resolution Committee shares the creditors' desire to maximize the value of the Bank's estate and recognizes that this may take a significant period of time to achieve. Assets are only sold if they require support beyond the means of the Bank or if a satisfactory bid price can be achieved for them after taking into account the future funding support needed to maintain these assets. Other assets should be preserved and protected until market conditions improve with temporary support from the Bank when and where deemed necessary. This should ensure that the maximum value for each asset can be passed on to creditors of the Bank at a later stage.

Considerable part of the Nordic and Europe portfolio have undergone major restructuring. In December 2008, 76% of Europe portfolio and 44% of the Nordic portfolio (since March 2009) was on the Bank's watch list (or had the risk of getting there). Those are assets whereby cash flow is insufficient to service debt and there are (repeated) covenant breaches. Some of which (a) are in industries badly hit by recession; or (b) had owners that were distressed because of the financial crises and unable to support their assets; or (c) had the wrong capital structure to start with.

Based on the nominal value (post restructuring), the Nordic team has completed actions in cases representing 45% of the value of the portfolio and the Europe team 68%, thereof full restructuring of approx. 40% in Europe and 11% in Nordic.

The Bank has already started to see equity value being created in some of the restructuring cases. The Bank has, as an equity holder, made sure that its views are presented by nominating its own employees while also making sure to retain board members with industrial know-how.

The following table shows the actions taken on the portfolios. The portfolios contain 107 accounts. Accounts totaling ISK 162bn at nominal value are currently being restructured; thereof 9 assets with a nominal value of ISK 110bn have been completed. In these figures the Europe portfolio excludes post restructuring debt which is still on Mosaic Fashions (in administration) and the Bank's financing of NoHo Square (real-estate development at standstill) where the Bank also holds all the equity.

A number of key accounts have been fully restructured and are today fully operational.

	Initial Nominal / Pre restructuring Value	Accounts # Value*	Full restructuring # Value*	Major actions # Value*	Minor actions # Value*	Operational/ No action taken # Value*	Full repayment # Value*
Europe	308	36 227	10 123	8 62	2 9	16 33	3 21
- % completed end of Q3			70%	98%	77%		
Nordic	220	71 219	15 39	13 61	15 53	28 65	15 13
- % completed end of Q3			59%	81%	51%		

*Value refers to post-restructuring nominal value as at 30 September 2009. All amounts are in ISKbn.

Europe portfolio: ISK 81bn debt to equity conversion in the Europe portfolio explains the difference between the nominal value pre-restructuring and post-restructuring (ISKbn 308 vs. 227).

Nordic portfolio: ISK 1bn debt to equity conversion in the Nordic portfolio explains the difference between the nominal value pre-restructuring and post-restructuring (ISKbn 220 vs. 219).

Full restructuring: typically includes enforcement procedures, new owners and full restructuring of debt.

Major action: major waivers, restructuring of debt and occasional equity injection.

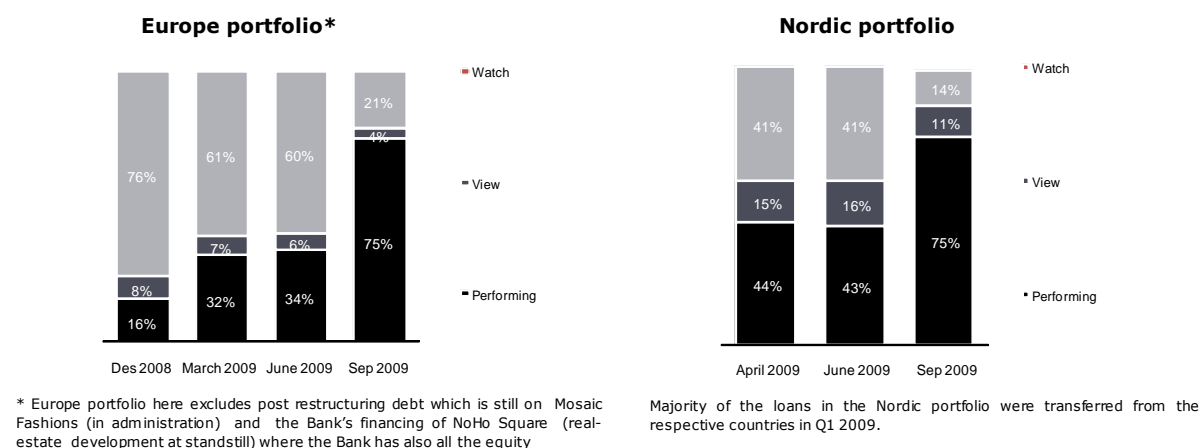
Minor actions: minor adjustments or temporary covenant or repayment waivers.

Progress with restructuring work

The restructuring of the loans has progressed substantially in the last quarter with now only approx. 21% of the Europe and 14% of the Nordic loan balance still on the watch list.

- *Performing loans:* Loans to entities where cash flow is sufficient to service debt, i.e. interest and principal repayments, and no breaches in agreements are foreseeable in the future.
- *Loans on view list:* Loans to entities where cash flow is sufficient to service debt, i.e. interest and principal repayments, but agreements have been breached or are likely to be breached in the foreseeable future. Some banks include this category within performing loans.
- *Loans on watch list:* Loans to entities where cash flow is insufficient to service debt, i.e. interest and principal repayments, and agreements have been breached repeatedly.

The graphs below shows the portfolios based on the nominal value in the respective month.



The Bank has already seen equity value being created in some of the restructuring cases.

The Bank has acquired a controlling interest in companies and nominated board members and external consultants to ensure expertise in every case. Depending on the nature of the project, these external parties can be financial advisors, legal counsels, real estate consultants, accountants, auditors, etc. The cost of these is in most cases paid by each respective borrower.

Aurora Fashions / Mosaic Fashions

The Bank and the former senior management of Mosaic Fashions established Aurora Fashions to take over the retail chains Karen Millen, Coast, Warehouse and Oasis, which all previously belonged to Mosaic Fashions. The administrators which were appointed to Mosaic Fashions sold in an asset deal parts of Shoe Studio to Dune and parts of the Principles assets to Debenhams. This operation was completed with considerable efforts from Deloitte, DLA Piper and BDO Stoy Hayward.

Since last autumn Mosaic Fashions had been experiencing significantly deteriorating earnings due to the UK recession and financial difficulties because of its balance sheet. After attempts to restructure the business in consultation with key stakeholders, the company's board of directors decided at a meeting on 1 March 2009 to request that the company be put into administration. This step was necessary as it seemed clear that the company would not be able to meet its obligations to its creditors and attempts to restructure the business with a view to securing its continued operations have failed.

Aurora Fashions is financially sound, moderately leveraged, with reduced capital requirements and fits to meet the challenges of the current market. The new structure will strengthen these brands by reducing debt, bringing a greater focus to operations, increasing liquidity and providing opportunities to create a more flexible cost structure by reducing fixed expenses. To date the transaction has proved successful although the UK retail environment still remains challenging. The aim has been on further stabilizing the operation, continue focusing on de-leveraging the business but also preserve the upside if and when the retail market recovers. Once the benefits of Aurora's strategy become evident, the Resolution Committee is confident that there will be a significant recovery for the Bank.

All Saints

To project the Bank's exposure to a shareholder loan, the Bank reached an agreement with the main shareholders of the British retail chain All Saints, which will consolidate the company's position as the leading design led brand on the British market.

All Saints was founded in 1994 and in 2003 was acquired by Kevin Stanford when its sales were less than GBP 5m. Since then the company has been transformed into a brand that occupies a strong position on the British High Street. The company has demonstrated robust growth in both revenues and strong LFL performance in very challenging market conditions. All Saints current management team, led by Kevin Stanford as chairman and Stephen Craig as CEO, will continue to lead the business going forward. The Bank rates the company's prospects positive going forward despite the difficult conditions in the UK retail market. Furthermore, this enabled the company to secure GBP 30m refinancing of its debt and further grow its business in the UK and internationally. These agreements remove the uncertainty over the company's shareholding and funding, and will allow it to continue its rapid growth.

Former Middlesex Hospital Site

Kaupthing is currently engaged in exclusive discussions with Stanhope PLC, one of Britain's leading property developers, regarding the development of the former Middlesex Hospital site. If an agreement is reached, Stanhope will oversee the development, design and reorganisation of the site with the aim of maximising its value. Should it go ahead, Stanhope will also inject new capital into the project. No agreement has yet been signed but the Resolution Committee of Kaupthing Bank wishes to clearly state that the site has not been sold and that if a partnership agreement is reached with Stanhope, the Bank will retain majority control of the site. This is in line with the Resolution Committee's policy of maximising the value of the Bank's assets.

Huurre Group Oy

The Bank supported a major restructuring of one of North-Europe's leading commercial refrigeration companies, Huurre Group Oy (HQ in Finland) to strengthen the Group's financial position in the current challenging economical climate. As a result of this, the equity ratio of the Group has been substantially improved. Simultaneously, the loan facilities have been extended, having now a maturity of three years securing the Group's financing to mid 2012. Following the restructuring, Kaupthing Bank now owns 100% of the Group's equity. For the restructuring, PwC participated in the valuation and regarding business sensitivity study. Deloitte advised on tax and structuring and Olswang and Borenus gave advice on legal issues and documentation.

Bay Restaurant Holdings Limited and Town & City Pub Company Limited

Plato Company 3 Limited, is the 100% holding company of Bay Restaurant Group Limited and Town & City Pub Company Limited. The combined group was highly leveraged and the Bank owned a substantial part of its debts or close to 60%. The rest of the debt was owned by a single bank. The group agreed with its banks, on a partial debt-for-equity swap conversion which has reduced its debt by approx. GBP 90m. The capital restructuring has enabled the two operating companies to focus on its operations in tough market conditions. The restructuring resulted in the Bank becoming a major shareholder of the combined group. Both companies have done well in this fiscal year and are outperforming budget. For this transaction, PwC gave advice on tax and restructuring and Slaughters & May on legal issues and documentation.

PMS properties

The Bank has finished the restructuring of a SEK 1,1bn portfolio of twelve properties in Sweden. Eleven out of the twelve properties were refinanced in cooperation with the previous owners, the P.M.S. Group Ltd. in Israel, while one of the assets was refinanced through a bankruptcy process. A proactive approach taken by the Bank has secured a considerable equity injection by the owners in both processes and a profit sharing structure. The loans mature in less than five years time and include prepayment incentives for the borrowers.

Celsius portfolio

The Bank has agreed with the shareholders of the Celsius property portfolio to extend the maturity of the EUR 142m facility for 24 months. This is a portfolio of French properties on long term lease contracts to the likes of Carrefour and Arriva. The portfolio benefits from a strong rental income that enables full payment of interest and some amortisation of principal over the term. The Bank believes the extension is a good result for both the Bank and the shareholders as asset values are likely to improve in the near future.

5.3 Repayments & exits

Full repayment has been made by 17.2% of unique borrowers of Nordic portfolio and 7.7% of Europe portfolio representing approx. 5.5% and 8.5% of nominal value post-restructuring of the respective portfolios as at 30 September 2009. The bulk of loans realised to date have been paid in full, i.e. 17 out of 21, amounting to ISK 29bn. The weighted average recovery of realised loans is 86%. Four (4) loans have been sold, thereof 3 somewhat below par.

The following assets sales are not included in the explanation above.

Kaupthing Bank Dubai and Qatar was primarily an investment banking services operation based on human capital and fees from mandates. It became evident that it would be expensive to close down the operations and it was therefore more economic to sell the assets and liabilities of the branches to its employees. The proceeds from the sale are held by the Bank.

A 20% stake in the asset management firm *Drake Management* was also sold a few weeks after the fall of the Bank. This asset was easily marketable and was sold at a fair price. The Bank needed cash to support other assets and since the bid price was considered fair, it was accepted.

5.4 Assets sold to date from branches and subsidiaries

The following assets have been sold from the branches and subsidiaries of the Bank as far as the Resolution Committee is aware.

A loan to a Norwegian equipment manufacturer was sold to repay the Norwegian Banks' Guarantee Fund which paid Kaupthing Norway depositors.

Kaupthing Bank Asset Management operations in Finland and certain loans from the loan book in Finland that received satisfactory bids were sold to pay back part of a loan from the Finnish government.

Kaupthing Pension Consulting and *Kaupthing Finans AB* have been sold as these business lines did not constitute a core business for Kaupthing Bank Sweden and the latter would have required continued financial support. The proceeds were used to pay back part of a loan from the Swedish Central Bank which was granted to Kaupthing Sweden on 8 October.

At the end of March, the Resolution Committee closed a transaction with Ålandsbanken Abp where the latter acquired the private banking, capital markets and asset management assets of Kaupthing Bank Sweden. More details on the transaction can be found in subchapter 3.4 *Current status of the Bank's subsidiaries*.

The aggregate book value of the assets sold by the Resolution Committee from the parent company and its branches in voluntary sales is less than EUR 100m but in addition, some forced assets sales have taken place to pay back deposits.

6. The moratorium

6.1 *Introduction*

On 21 November 2008 the Resolution Committee filed an application with the District Court of Reykjavik, pursuant to Bankruptcy Act to stay creditor actions in order to facilitate the financial reorganization of the Bank. On 24 November 2008 the Bank was first granted a moratorium on payments until 13 February 2009.

On 19 February 2009 the District Court of Reykjavik agreed to the request for the extension of the moratorium on payments until 13 November 2009. On that date a new hearing will be held where a further extension of the moratorium will be requested. The hearing will be an open one.

The Moratorium Supervisor convened the Bank's creditors to a meeting on 20 October 2009 and sought the opinion of the attendees regarding the Bank's position but matters were not voted on nor were any formal decisions made as such actions are not provided for under the Bankruptcy Act. The meeting was thus held for informational purposes for creditors in light of the court hearing of 13 February 2009 where a petition was filed by the Resolution Committee's petition for a nine-month extension to the moratorium on payments.

The moratorium is a procedure under Icelandic law which has provided the Bank with appropriate protection from legal actions, such as the freezing of assets, and ensures that it is able to maintain a banking license sufficient to support its assets.

The maximum time period for the moratorium is 24 months. According to a new Act no. 44/2009 amending Act no. 161/2002 on Financial Undertakings the moratorium can effectively end in three ways; i) a winding up process, ii) an insolvent liquidation or iii) a composition of creditors (scheme of arrangement).

6.2 *Rationale for the moratorium*

One of the main tasks of the Resolution Committee and its employees has been to protect assets and safeguard the interests of creditors. The Bank's Resolution Committee believes that the interests of the creditors are best served by restructuring the Bank's operations and delaying the sale of assets until the market conditions improve. This is in accordance with the wishes of the creditors which have expressed their views to the Moratorium Supervisor and Resolution Committee. The Resolution Committee believes that the interests of the creditors are best served if the Bank's assets are held to maturity or sold over a longer period. This should mean that creditors recover a higher proportion of the claims than they would if assets were sold under the present circumstances.

Applying for the moratorium was, in the opinion of the Resolution Committee, a necessary step to ensure that all creditors of the Bank are treated fairly and appropriately in accordance with Icelandic law through the protection of the Bank's assets.

The Resolution Committee is committed to protecting the interests of creditors by preventing the provisional attachment or freezing of assets. The moratorium has provided the Bank with appropriate protection from legal actions, such as the freezing of assets, and ensured that it maintains a banking licence sufficient to support its assets. In the European Economic Area the Bank seeks recognition of the moratorium on a case-by-case basis on grounds of the EU Winding-Up Directive No. 2001/24/EC. The Bank has also been granted recognition and injunctive relief under Chapter 15 of the United States Bankruptcy Code. This has provided the Bank with protection for its assets in the United States. The

Resolution Committee has successfully opposed freezing orders in the United States and Luxembourg. Further freezing orders are being opposed in the Netherlands and Luxembourg. Without the moratorium, preventing proposed freezing orders could be considerably more difficult for the Bank, if not impossible.

The moratorium has and will continue to provide the “breathing space” needed for the Resolution Committee to concentrate on the tasks at hand within the Bank so that it can achieve its objectives to protect creditors' interests, maximise the recovery rate of claims and ensure equal treatment of creditors.

While protecting the Bank from certain actions by creditors, restrictions are also placed on the Bank in regards to its authorization to dispose of assets, to discharge liabilities and to assume new liabilities.

6.3 *The Moratorium Supervisor*

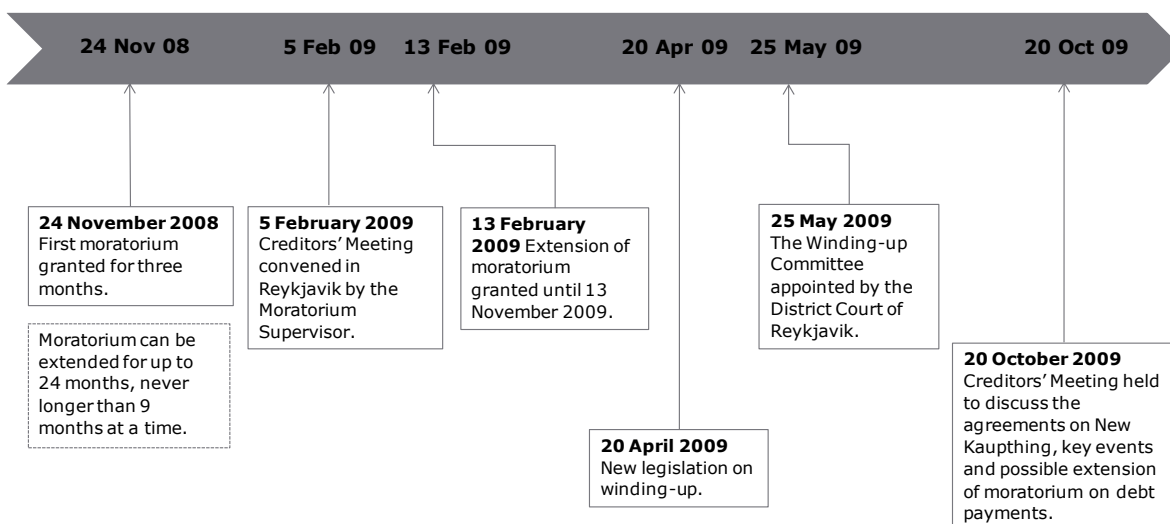
As discussed above, Olafur Gardarsson, Attorney to the Supreme Court of Iceland and a partner of the Reykjavik Law Firm, was appointed as the Moratorium Supervisor. He has been a Supreme Court Attorney since 1992 and his areas of expertise include mergers and acquisitions, corporate and telecommunications law.

The Moratorium Supervisor has the power to oversee the distribution of assets of the Bank and the payment of claims during the moratorium. He will work with the Resolution Committee, which will continue to wield the powers of the Board of Directors of Kaupthing and will as such continue to have decision-making powers in accordance with Icelandic law. His aims are consistent with those of the Resolution Committee, namely to preserve assets and to optimize recoveries for the creditor body. He assists the Bank in its efforts to restructure its finances and to decide how best to achieve any reorganization.

6.4 *Timeline for the moratorium*

According to Act No. 161/2002 on Financial Undertakings, the District Court can currently not authorize a moratorium lasting longer than a total of 24 months from the court hearing of 24 November 2008 and can only be extended for a maximum of 9 months each time an extension is granted. The Bank has been granted extension until 13 November 2009 when a court session shall be held again to consider the matter.

At that time, further extension will be requested by the Resolution Committee as the Resolution Committee believes that it will be in the best interests of creditors to extend the moratorium. The Moratorium Supervisor is obligated to summon the Bank's creditors to another meeting which was held 20 October 2009. The development of the moratorium process so far, can be seen below.



6.5 Analysis of the moratorium legislation

The provisions governing the moratorium have been amended by Act no. 44/2009 which came into force on 22 April 2009. The Bank remains under the direction of the Resolution Committee which is responsible for the daily operations of the Bank in accordance with Act no. 44/2009 but remains also under the supervision of the Moratorium Supervisor. The Resolution Committee holds the powers of the board of directors as well as the powers of the Bank's shareholders' meeting according to new provisions. Formerly the Resolution Committee held only the powers of the board of directors on the grounds of the decision of the FME of 8 October 2008. The Bank remains subject to Act No. 161/2002 on Financial Undertakings and the general supervision of the FME. The District Court of Reykjavik however has exclusive jurisdiction over the enforcement of the moratorium, its extension and termination.

The provisions of Act no. 44/2009 stipulate that the Resolution Committee shall manage the interests of the Bank according to the same rules as a trustee would be subject to according to the Bankruptcy Act, although with some exceptions. The exceptions mainly concern the objective for the Resolution Committee to maximise the value of the Bank's assets which includes waiting for the Bank's outstanding claims to mature, instead of realising them immediately. To this end, the Resolution Committee is allowed to disregard a decision of a creditors' meeting if the Resolution Committee deems such a decision contrary to its objective. This means that the Resolution Committee has ample time to safeguard the interests of the Bank and its creditors.

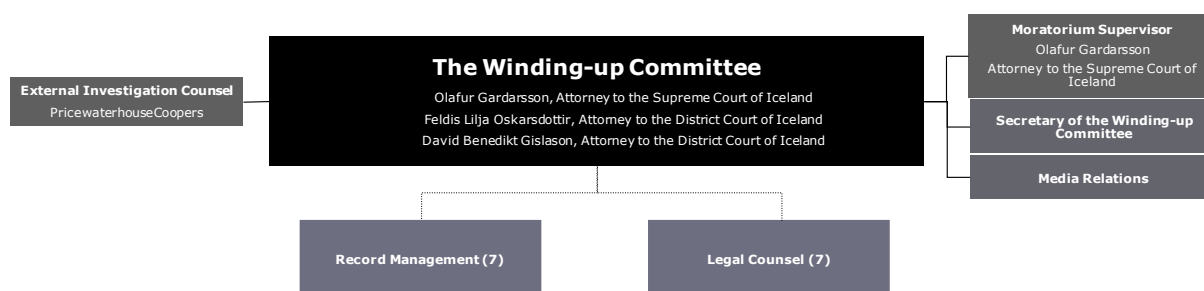
The reference to provisions governing the actions of a trustee under the Bankruptcy Act entail that the Resolution Committee has the capacity to manage the Bank's assets and it alone can dispose of its assets and answer for its obligations. The Resolution Committee acts for the Bank in court and executes agreements on behalf of the Bank as before. The Resolution Committee shall make sure that all assets are disposed of in the most efficient manner possible and shall enforce all claims owned by the Bank. The Resolution Committee furthermore takes such actions as necessary to prevent damage to the Bank.

The Resolution Committee can convene creditors' meetings as appropriate to introduce measures taken in regard to the Bank's interests. In such meetings suggestions or decisions may be sought from creditors in regard to measures which have yet to be taken and suggestions may be sought on matters regarding the management of the Bank's interests. The creditors' meeting cannot influence measures which have already been taken by the Resolution Committee, only such measures which have yet to be realised. The Resolution Committee is allowed to consult with individual creditors in matters concerning the relevant creditor's interests.

A petition for the Bank to enter insolvent liquidation cannot be filed nor can its assets become subject to an attachment, an execution or a forced sale while the moratorium remains in effect. No law suit can be commenced against the Bank while the moratorium is in effect unless such action is specifically provided for by law or relates to criminal proceedings.

6.6 The Winding-up Committee

According to the new Act no. 44/2009 amending the Act no. 161/2002 on Financial Undertakings, a Winding-up Committee shall be appointed to handle various matters of the Bank while the moratorium is in effect. In accordance with the provisions of Act no. 44/2009, the District Court of Reykjavik appointed a Winding-up Committee for the Bank. The Winding-up Committee comprises Olafur Gardarsson, attorney to the Supreme Court and the Bank's Moratorium Supervisor, Feldis L. Oskarsdottir, attorney to the District Court and David B. Gislason, attorney to the District Court. The Winding-up Committee does not hold any power over the Resolution Committee or vice-versa. Both are however committed to work together in the best interests of the Bank and its creditors. Below is an organization chart for the Winding-up Committee.



The role of the Winding-up Committee is to, among other things, call upon any creditors who have a claim against the Bank and take a position regarding their recognition. The Winding-up Committee shall call for claims and set the deadline for filing claims, which can be no longer than six months, counting from the day when a call for claims is announced. The Winding-up Committee makes a register of filed claims and decides how they are ranked in the order of priority of payment of claims. It also deals with the envisaged payment of claims following the first creditors' meeting, which will be held upon expiry of the time limit for the filing of claims.

The Bank's Winding-up Committee has engaged PwC to investigate measures taken by the Bank before it was granted a moratorium, focusing particularly on the possible rescission, on the basis of the Icelandic bankruptcy act, of measures taken by a bankrupt party.

As discussed in subchapter 3.3 *Main tasks of the Resolution Committee today*, the Resolution Committee had already engaged PwC to investigate the Bank's decisions in the weeks before the collapse in October. A detailed report was submitted to the FME at the end of the year 2008. The Special Prosecutor's office and a parliamentary investigation committee have also been granted access to the report. In addition to the aforementioned report, the Resolution Committee and its employees have worked extensively to gather information which will be used in the preparation of the Winding-up Committee's rescission action.

It will be an extensive investigation in which the Bank's accounts, involving several million transactions a month, and legal agreements dating back up to two years will be examined. The chief measures being examined will be: loans, deposits, derivative transactions, securities transactions, inter-company and cross-border movements of capital, complex financial structures, employee-related payments and

transactions. There will be a particular focus on transactions with related parties as defined by the bankruptcy act, the Bank's main shareholders, key managers, insiders and other parties.

The investigation is expected to involve a large number of people from PwC and employees of the Winding-up Committee and the Resolution Committee. A team of forensic accountants from PwC in the United Kingdom will be involved in the investigation from the outset.

6.7 The claim process

The Bank's Winding-up Committee has now published time limits to file claims against the Bank. Creditors have been invited to submit their claims in writing within six months as of 30 June 2009 when the formal claims notice was published in the Icelandic Legal Gazette (*Lögbirtingablaðið*). Therefore, the deadline for submitting claims is 30 December 2009. In accordance with the provisions of Act no. 44/2009, the claim must be itemised as of 22 April 2009. The filed claim must be in accordance with para. 2 and 3 of art. 117 of the Bankruptcy Act. I.e. claims must be precise and among other things, specify the amount being claimed, along with an itemised list of the principal of the claim, interest and costs. Creditors shall supply information on what forms the basis of their rights, along with documents to support their case. General rules of the Icelandic law regarding proof of claims shall apply.

If a claim is not filed within the abovementioned timeframe, it will be regarded as cancelled with respect to the Bank, unless the requirements for an exception are fulfilled (cf. art. 118 of the Bankruptcy Act).

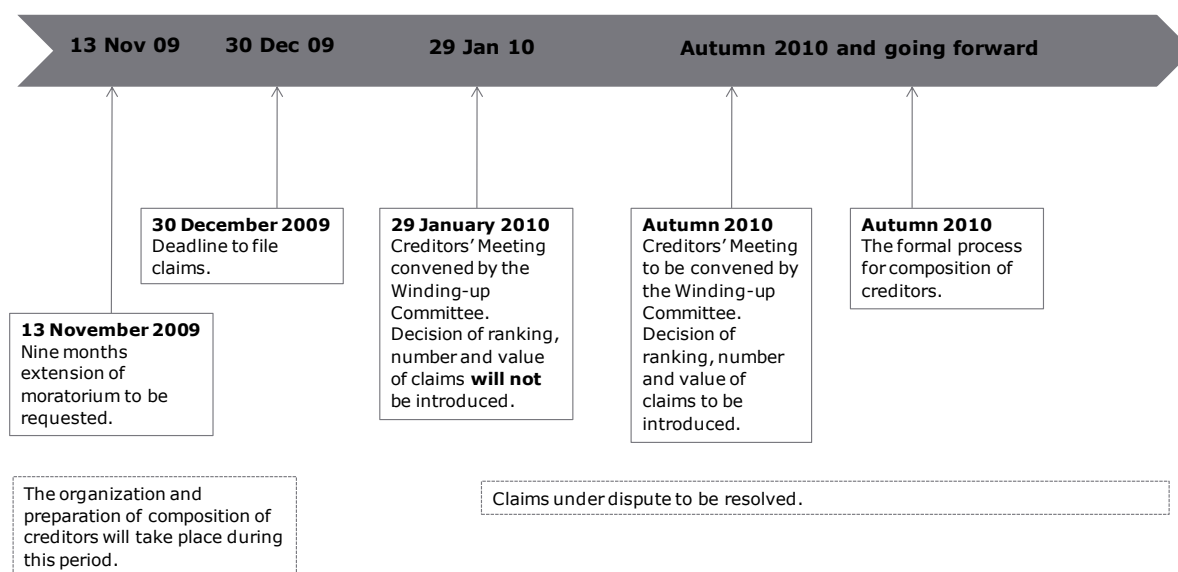
The notice has also been published in Icelandic newspapers and in local media in countries where the Bank had established branches. A notice was also published in the *Official Journal of the European Union* and in world-wide media to reach as many creditors as possible. A form for filing claims is accessible on the Bank's website. Further information on the claiming process can be found on www.kaupthing.com under "Claiming process" and in the FAQ section.

At the end of the deadline for the filing of claims, the Winding-up Committee shall prepare a register of claims, i.e. a register of the claims received in which it shall state its opinion on whether and, if so, how each claim should be recognised. If the Winding-up Committee does not recognise a claim exactly as it has been filed by a creditor, it shall notify the creditor at least one week prior to the creditors' meeting.

At the end of set time limit for the filing of claims, the Winding-up Committee shall hold a creditors' meeting. The meeting will be held on Friday 29 January 2010 at Hilton Hotel Nordica, Sudurlandsbraut 2, Reykjavik, Iceland. A creditor, who is unwilling to accept the Winding-up Committee's position as regards the recognition of his/her claim against the Bank, shall state his objections at a creditors' meeting or notify the Winding-up Committee in a letter received by it no later than at that meeting. In the same manner, a creditor may object to the Winding-up Committee's position on the recognition of a claim filed by another creditor if the conclusion regarding the claim affects the interests of the objecting party. Insofar as no objection is raised against the Winding-up Committee's position on the recognition of a claim, its position shall be regarded as approved.

The claims register shall be presented at the creditors' meeting, as well as any objections that may have been made. At the creditors' meeting, the Winding-up Committee shall provide those in attendance with the explanations they require regarding the subject matter of individual claims, as well as the reasons for its position towards the recognition of those claims. If an objection is raised at the meeting against the Winding-up Committee's position on the recognition of a claim, the Winding-up Committee shall endeavour to settle the dispute. If this is not successful, the parties concerned shall be called to a separate meeting for this purpose. If the dispute cannot be settled in this manner, the Winding-up Committee shall refer the matter to the District Court of Reykjavik.

It is difficult to gauge how long it will take to complete the process of taking a position on the filed claims, both because of the vast amount of creditors involved and because the process of taking a position on many of the claims may be complex and time-consuming.



At the end of the first creditors' meeting 29 January 2010, the Winding-up Committee is authorised to pay recognised claims in one lump sum or several payments and in part or in whole. If this is done, care shall be taken to ensure that the Bank's assets are sufficient to at least equally cover all the other claims, which are included in the same rank and which have not been rejected in the winding-up process. The Winding-up Committee shall also ensure that all creditors with recognised claims in the same rank are paid at the same time, although it is possible to deviate from this with the approval of those who do not get paid or by a decision made by the Winding-up Committee if a creditor offers to relinquish a claim in exchange for a partial payment, which is deemed to be a proportionally lower amount than that which other claimants in the same rank would ultimately receive, taking into consideration, among other things, whether the claim bears interest until payment. One of the underlying principles of the Bankruptcy Act is the principle of equality of creditors. The Winding-up Committee shall, however, also have to consider certain exceptions to that principle, such as the order of priority of payment of claims.

The Winding-up Committee may not make any decisions regarding the sale of assets for the payment of claims. It is only the Resolution Committee that may make decisions regarding the sale of the Bank's assets, in accordance with Act no. 161/2002 on Financial Undertakings and subsequent amendments in Act no. 44/2009.

The Winding-up Committee can also challenge and claim rescission of actions of the Bank in accordance with the rules on rescission in the Bankruptcy Act. This entails, with some simplification, that the Winding-up Committee can rescind certain unusual actions of the Bank which took place prior to 15 November 2008 and can claim damages or repayment from parties benefiting from such actions.

The Winding-up Committee shall also oversee possible composition negotiations, following an evaluation of the Resolution Committee on whether the Bank has sufficient assets to meet its obligations. This entails, among other things, the Winding-up Committee having to prepare a composition proposal, submitting it to a creditors' meeting and obtaining the creditors' approval of it and having the composition agreement confirmed by the District Court of Reykjavik if it has been approved by the required number of creditors. If the composition proposal is approved by the creditors and it is confirmed by the District Court of Reykjavik, the Winding-up Committee must ensure that the agreement is performed.

6.8 Creditors' meetings

According to the new Act no. 44/2009 the matters considered at creditors' meetings are mainly twofold, firstly there are matters concerning the management of the Resolution Committee of the interests of the Bank and secondly, the recognition of claims by the Winding-up Committee.

The Resolution Committee can convene creditors' meetings, as it deems appropriate, to introduce measures taken in regard to the Bank's interests. The Resolution Committee may seek proposals or decisions regarding measures that have yet to be taken, and provide for opportunities for making such proposals. The creditors' meeting cannot affect measures already carried out by the Resolution Committee. The Resolution Committee is allowed to confer with individual creditors in matters concerning the relevant creditors' interests.

A creditor is entitled to attend a creditors' meeting if the creditor has filed a claim against the Bank with the Winding-up Committee and if such claim has not been finally dismissed by the Winding-up Committee. Creditors' meetings regarding the management of the Bank's interests and the recognition claims will not be held until the deadline for filing claims has passed. If a creditor does not attend a meeting, the relevant creditor may lose the right to oppose matters or present claims regarding matters which were decided or presented at the meeting.

Voting rights are determined by the amount of each creditors claim if matters regarding the management of the Bank's interests are put to a vote. For a creditors' meeting to be quorate, creditors holding at least a third of the total voting rights must be present at the meeting. To disregard a decision of the majority of creditors, the Resolution Committee must in most cases have specific reasons. The Resolution Committee can thus disregard decisions of a creditors' meeting if they are contrary to law, dishonest, cannot be executed, contrary to interests of creditors not attending, discriminate against the minority or if the decisions are contrary to the goal of maximising the value of the Bank's assets.

The Winding-up Committee handles the aspect of the creditors' meetings which has to do with the recognition of claims. The Winding-up Committee shall submit its registry of claims to the creditors' meeting as well as any objections which the Winding-up Committee may have received in regard to submitted claims. The Winding-up Committee shall offer explanations as to the recognition of claims and any objections which have been made against recognition of specific claims. If a protest is made in regard to the recognition of claims at a creditors' meeting, the Winding-up Committee will endeavour to resolve the dispute. If such a dispute cannot be resolved at the creditors' meeting, the Winding-up Committee shall convene a separate meeting between the disputing parties. If the dispute cannot be resolved at such separate meetings, then the dispute will be referred to the District Court of Reykjavík. As far as protests are not made against the recognition of claims, then such recognition shall be considered accepted.

In addition, the moratorium supervisor shall convene meetings as appropriate to consider applications to the District Court of Reykjavík for the extension of the moratorium.

6.9 Potential closing of the moratorium process

As previously outlined, the Bank was first granted a moratorium on debt payments and a license for financial reorganization in a court hearing on 24 November 2008. The District Court can currently not authorize a moratorium lasting longer than a total of 24 months from the court hearing, i.e. until 24 November 2010.

When an authorisation for moratorium concludes, a financial undertaking shall enter a winding-up process according to Act no. 44/2009 amending Act no. 161/2002 on Financial Undertakings. Many of

the rules governing the moratorium, and which are mentioned above, would continue to apply in a winding-up process. The Resolution Committee continues to operate under a winding-up process with the same aim as before to maximise the value of assets. That includes waiting for the maturity of assets rather than disposing of them immediately.

According to Act no. 44/2009, there are two possibilities to conclude the Bank's operations if the assets of the Bank are found to be of less value than the amount of its liabilities. This applies both while in the moratorium or winding-up process:

The moratorium process of the Bank would most likely conclude by means of either of the following:

i) Insolvent liquidation

If the moratorium period is not extended on 13 November 2009 and the Bank is forced into insolvent liquidation, the Moratorium Supervisor and the Resolution Committee firmly believe that further value will be lost.

In a state of insolvency liquidation, the management of the assets of the Bank would vest in a liquidator. Claims against a bankruptcy estate denominated in foreign currency shall be converted into the Icelandic currency at the selling rate posted on the day when the bankruptcy order was issued and it is very likely that a trustee in bankruptcy will convert all liquid assets into the Icelandic currency in the event of insolvency in order to transfer the currency risk from the estate to the Bank's creditors. Such a measure would be understandable from the point of view of the trustee of the estate, but it may not be in the interests of the Bank's creditors.

According to the Bankruptcy Act, the trustee in bankruptcy shall ensure that the winding-up is concluded without undue delay. As stated above the Resolution Committee and the Moratorium Supervisor believe that the interests of the creditors are best served by restructuring the Bank's operations and delaying the sale of assets until the market conditions improve. It is therefore clear that the obligations of the trustee in bankruptcy according to the article may prevent this from happening. In addition, a Bank in insolvent liquidation would forfeit its banking license, face forced asset sales, and have less flexibility to support its assets. It is likely that performing loans to customers as well as listed and unlisted assets would be sold at a substantial discount.

It is the opinion of the Moratorium Supervisor and the Resolution Committee that this option would minimize debt recovery for the creditors of the Bank and it would not be in their best interests.

ii) Composition with Creditors (Scheme of Arrangement)

A composition with creditors seeks to solve a debtor's financial difficulties by proportionally reducing creditors' claims but at the same time allows the debtor to stay solvent. This arrangement endeavours to maximize debt recovery and preserves creditors' interest by granting the debtor the opportunity to be restructured and support assets instead of being forced into an immediate sale of assets. If the moratorium process of the Bank were to be concluded by arrangement composition with creditors, potential restructuring options of the Bank can be considered and evaluated. Further discussions on potential restructuring options can be found in chapter 7. *Overall restructuring*.

As discussed in subchapter 6.10 *Icelandic composition legislation overview*, the minimum creditor support required for a scheme of arrangement is 60% in terms of value and the number of creditors voting. Claims are converted into Icelandic krona as of 22 April 2009 but distributions can be in any currency specified under the scheme.

It should be pointed out that the Resolution Committee and the Moratorium Supervisor are working towards a solution whereby the restructuring of the Bank will be completed by a scheme of arrangement with creditors in order to prevent the bank from entering insolvency proceedings, which could reduce the value of assets.

6.10 Icelandic composition legislation overview

Composition with creditors has the same objective as a moratorium: to react to financial difficulties of a debtor. Unlike composition, a moratorium gives the debtor a certain grace period for financial reorganisation with the long term goal of increasing, or at least preserving the value of the debtor's financial interests. Composition on the other hand, seeks to redress the negative asset position or insolvency of a debtor through an agreement with his creditors with general terms that apply to all creditors that have composition claims against the debtor.

The new Act no. 44/2009 amending Act no. 161/2002 on Financial Undertakings, which came into effect last April, contains rules governing composition negotiations for financial undertakings that are in a wind-up process. According to these rules, the Winding-up Committee of a financial undertaking may seek composition if it considers that the assets of the undertaking are not sufficient to fully satisfy all claims, that have not been finally rejected in the winding-up process. The general rule is that prior to seeking composition, a request must be submitted to a district court for its approval. However, that does not apply to financial undertakings in a winding-up process. When a financial undertaking in a winding-up process seeks composition, the Winding-up Committee serves the same role as a supervisor of composition negotiations or a liquidator of an estate would normally do and is responsible for holding creditor meetings.

The Resolution Committee and the Moratorium Supervisor are working towards a solution whereby the restructuring of the Bank will be completed by a composition with creditors. This is being done by finalizing the composition with creditors as soon as possible given the Icelandic legal framework.

The Winding-up Committee will prepare a composition proposal. It must state to what extent the debtor offers payment of the composition claims and the form of payments, the dates of the payments, whether interest, and if so, at what rate, will be paid on the composition claims from the date a composition agreement is concluded and until the date of payment, if deferred payment is envisaged, whether security, and if so of what kind, will be placed to secure performance of the composition agreement.

Composition agreement only affects claims against the debtor which are referred to as composition claims. The term is defined in a negative manner and applies to all the claims against the debtor which are not exempted from the composition. Composition agreement does not affect the following claims:

- Claims originating after a court order has been issued granting a debtor licence to seek composition;
- Claims for performance other than payment of money, which can be performed in substance;
- Claims that would be ranked as provided for in Articles 109, 110 or 112 of Act no. 21/1991 on insolvency etc. if the debtor had been declared bankrupt at the date when a court order providing the debtor with a licence to seek composition was issued;
- Claims that could have been settled by set-off had the debtor been declared bankrupt, and
- Any claims particularly exempted from composition under the terms of the composition agreement by reason of their full payment, cf. Paragraph 2 of Article 36 of Act no. 21/1991 on insolvency etc.
- A creditor, who has claims against the debtor which the composition agreement does not affect, can relinquish that right, so that the composition agreement does affect its claims.

- Composition also cancels any debts that would be ranked as provided for in Article 114 of Act no. 21/1991 on insolvency etc. if the debtor's estate had been declared bankrupt.

When a Winding-up Committee decides that voting shall take place on the composition proposal, it convenes a meeting of creditors for that purpose at a time it deems appropriate. The meeting shall be convened with a notification in the "Legal Gazette" with at least two weeks notice. The Winding-up Committee shall prepare a register of the rights to vote on the proposal, specifying the voting rights attached to each claim, both by number of creditors and by the value of their claims. The register shall include only the claims that have been recognised and to which voting rights are attached in the opinion of the Winding-up Committee. Each creditor with a composition claim against the debtor shall have one vote in number and a voting power proportionate to the value of his composition claim against the total value of all the composition claims. If a creditor has two composition claims or more, they shall be added together and counted as one claim and one vote in number will be attached to the claims as a whole. One vote in number can also be divided between more than one creditor, if an assignment of a composition claim has taken place in the three months prior to the reference date. Voting creditors may vote on a composition proposal in writing, and such votes shall be taken into account if received by the Winding-up Committee no later than when the voting is completed and no one is in attendance on the relevant creditor's behalf. A vote in writing shall only be valid if it expresses the stand the voting creditor has taken with respect to the proposal unequivocally and unconditionally, and the creditor's signature is confirmed by two witnesses, a district court or Supreme Court lawyer, or a public notary.

A composition proposal shall be deemed approved if supported by the same proportion of votes by creditors in number and by value of their claims, as the proportion of composition claims to be relinquished according to the proposal, provided this reaches 60 per cent at a minimum by vote and amount. If the composition agreement stipulates something other than relinquishment, e.g. the exchange of debt claims for shares, it requires approval of 60 per cent of the creditors in number and by value of their claims. If the result of the vote can be decided by a creditor with a disputed claim then the result of the vote is postponed until the dispute has been solved before the relevant Court of law.

If the composition proposal is approved by the creditors, the Winding-up Committee must obtain a confirmation of the District Court of Reykjavik of the composition agreement. If it obtains this confirmation a composition settlement is considered to be concluded. The settlement will only be binding for creditors that have composition claims as defined above. If the composition settlement is confirmed, the Winding-up Committee shall, as necessary, fulfil any obligations to creditors in accordance with the settlement and then conclude the winding-up proceedings. The settlement of a composition claim shall have the same effect as its settlement in its original form.

If, on the other hand, the composition proposal is not approved by the creditors or its confirmation has been rejected, the Winding-up Committee shall request that the undertaking enters into an insolvent liquidation. A creditor may do the same if its claim has been recognised in the winding-up proceedings and either the composition negotiations have not yielded any results or the creditor demonstrates that the legal requirements for composition negotiations to take place are not fulfilled or that such a large number of creditors are opposed to composition that there is no possibility of achieving composition based on available information on the undertaking's financial situation. In order to uphold this claim, the creditor must, however, establish a legitimate interest for the insolvency proceedings to go ahead rather than continuing the winding-up proceedings.

7. Overall restructuring

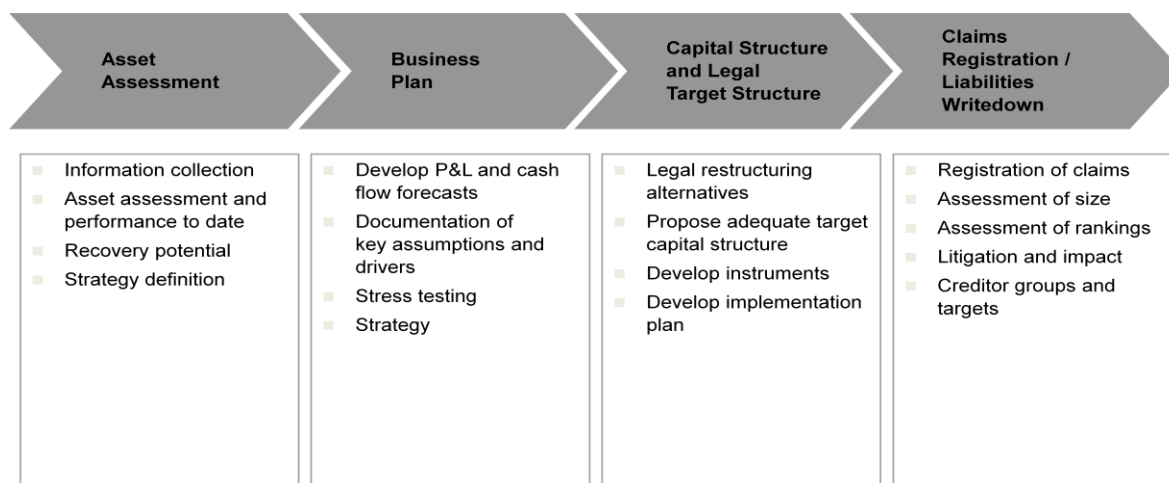
Please note that a Public Information Package, containing comprehensive information on the agreement reached between the Government and the Resolution Committee in relation to the transfer of assets and liabilities from the Bank to New Kaupthing in accordance with the Disbursement Act, is available on the Bank's website. It contains an overview of the negotiation process, description of the compensation instruments and summary of the capitalization options.

7.1 Overall restructuring of the Bank

It is the ultimate role of the Resolution Committee to maximize the value of the Bank's assets and pass on the value to its creditors. Creditors have expressed their views that the maximum value of the assets would not be reached via asset sales under current market conditions. Therefore, according to creditors' requests, the Resolution Committee have been working on other solutions to preserve the value of these assets until the markets recover. In many cases, the assets need to be held for some time for them to be redeemed at full value. According to the Bank's strategy, assets are only sold if they require support beyond the means of the Bank or if a satisfactory bid price can be achieved for them after taking into account the future funding support needed to maintain these assets. The moratorium or the winding-up process following the moratorium will end either through scheme of arrangement or insolvent liquidation of the Bank. Therefore, the Resolution Committee has also asked Morgan Stanley, its financial advisor, to assist in developing structuring ideas on how the assets can be passed over to creditors at a later stage. All these ideas should aim at providing ongoing support to the assets and building a structure where creditors can exit their holdings over time.

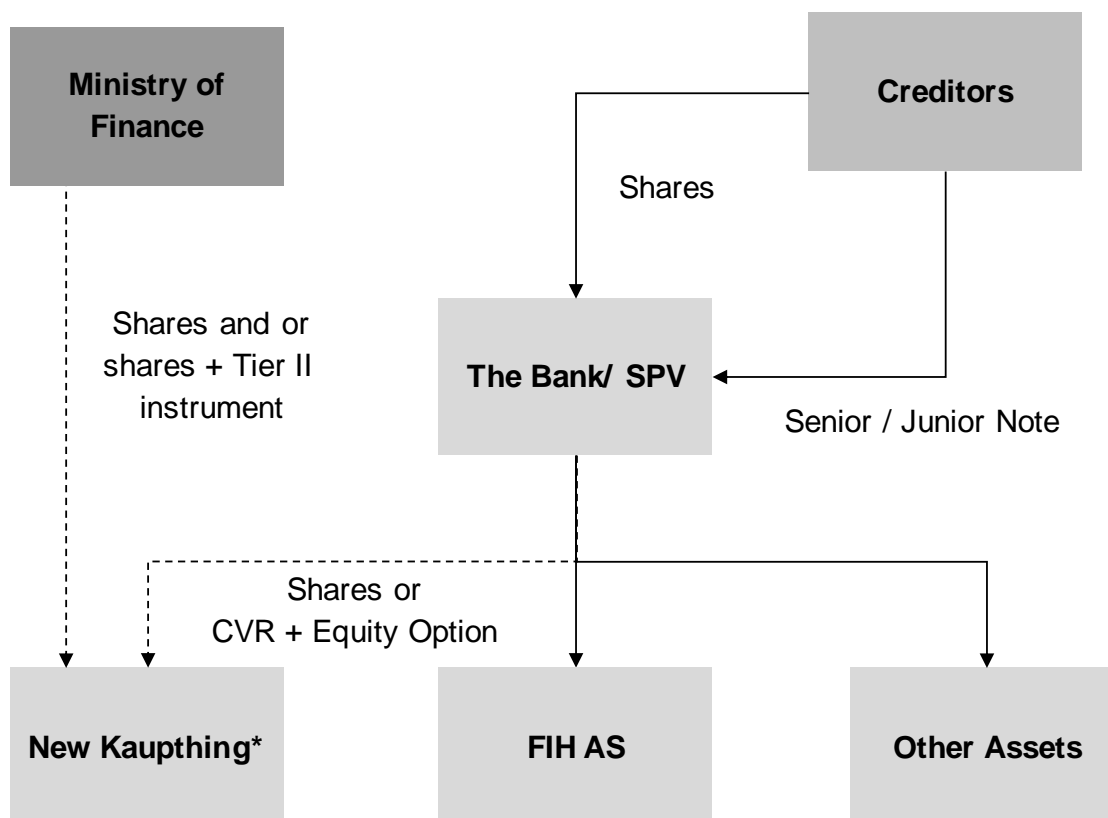
Work streams

Restructuring work streams are shown below.



Target structure for the Bank

- After scheme of arrangement the Bank operates as a parent company or as new SPV as ongoing asset management company.
- Value realization for creditors through convergence of claims into cash distribution and issuance of instruments.
- Strategy focused on value maximization through cash collection, separate monetization of holdings and work out of other assets.



* Provided that New Kaupthing will be retained by the Bank.

Moratorium

As discussed in subchapter 6.9 *Potential closing of the moratorium process*, the moratorium on debt payments could be ended through a scheme of arrangements with composition of creditors, winding-up status of the Bank or insolvent liquidation of the Bank. The decision on the most suitable legal route will only be taken after the registration of the claims process as part of the overall restructuring. The currently granted moratorium ends 13 November 2009. A further extension of 9 months can be granted by the District Court of Reykjavik at a hearing to be held on 13 November 2009.

Claims

As discussed in subchapter 6.7 *The claim process*, the registration period ends 30 December 2009 at the latest. Thereafter, the validity, rank and quantum of claims against the Bank will be determined. That process will determine the total value of claims against the Bank, the identity and number of creditors and their proportion and rank in the total value of claims which in turn forms the basis for voting at creditors' meetings and for the overall restructuring process. The Winding-up Committee will hold an all creditors' meeting on 29 January 2010.

The Bank's overall restructuring and key decisions

Final restructuring plan will be voted on based on registered claims by creditors at an all creditors' meeting. Such meeting can only be held after the finalization of the claims registration process, i.e. the earliest in 2010. The finalization of the claims registration process depends on how substantial the disputes in respect of the claims will be. The claims registration process has to be finished in order to allocate possible voting rights at creditors' meetings.

Appendix 1 Meeting minutes from the creditors' meeting held 5 February 2009

Minutes recorded by Kaupthing Bank's Moratorium Supervisor at a creditors' meeting, cf. Art. 14 of the Icelandic Act no. 21/1991 on Bankruptcy etc.

A meeting was held on Thursday 5 February 2009 at 10:00 a.m. at Hilton Reykjavík Nordica, Sudurlandsbraut 2 in Reykjavík, with the creditors of Kaupthing Bank hf., Borgartún 19, 105 Reykjavík, ID-No. 560882-0419, concerning the bank's authorisation for a moratorium.

Ólafur Gardarsson, Attorney to the Supreme Court of Iceland, Moratorium Supervisor, chaired the meeting and recorded the minutes, cf. Art. 14 paragraph 2 of Icelandic Act no. 21/1991. The meeting was called in accordance with the provisions of Article 98, paragraph 3 of the Act no.161/2002 on Financial Undertakings, cf. Act no 129/2008.

The meeting was attended by representatives of the bank's creditors, a total of 250 people. Given that the majority of those present did not speak Icelandic it was decided that the main section of the meeting would be held in English. Tomas Jonsson, Attorney to the Supreme Court of Iceland, helped the Moratorium Supervisor chair the meeting. The Bank's resolution committee was also present to answer questions.

The Moratorium Supervisor gave a report on the assets and liabilities as of the reference date, explained how he believed the debtor's finances could be reorganised and described what measures had already been taken in this respect. Those attending the meeting received a copy of a presentation, and a detailed summary in English and Icelandic by the Moratorium Supervisor was also distributed.

The Moratorium Supervisor announced his proposal that an application be made to extend the moratorium by nine months at the next hearing of the Reykjavík District Court which is to be held on 13 February at 2:00 p.m.

The Moratorium Supervisor then sought the views of the creditors on his actions and proposals for action. When the Moratorium Supervisor had finished, creditors were given the opportunity to ask questions and put across their points of view. Twenty-one people raised questions.

Questions were raised concerning various topics which had been discussed in the Moratorium Supervisor's presentation and the Moratorium Supervisor and members of the resolution committee answered these questions as far as they were able. A summary of the questions raised and the committee members' replies is enclosed with these minutes. A German investor speaking on behalf of more than 800 German deposit holders declared the group's support for the extension of the bank's moratorium. A letter was also presented from two creditors in which they agreed to the extension but only for a further three months.

No objections were raised to the extension of the moratorium. The Moratorium Supervisor asked the meeting twice whether anybody objected to applying for an extension to the moratorium. No objections were raised.

At the end of the meeting the Moratorium Supervisor presented the main points from the minutes to the meeting and invited those present to add any remarks they may have. The minutes were approved in their current form.

The meeting was adjourned at 12.15 p.m.
Ólafur Gardarsson

Appendix 2 Creditors' Meeting held 20 October 2009

Meeting of the Creditors of Kaupthing Bank hf.

registration no. of Kaupthing Bank hf. 560882-0419;

meeting jointly held by

i) *Kaupthing Bank's Resolution Committee*, according to Article 103, Paragraph 3 of Act no. 161/2002 on Financial Undertakings, cf. Act no. 44/2009 and Temporary Provisions to Act no. 44/2009;
ii) and *Kaupthing Bank's Moratorium Supervisor* cf. Chapter 2 of Act no. 21/1991 on Bankruptcy etc., cf. Article 2 and 4 of Act no. 129/2008, still in effect according to the provisions of Article 10, Paragraph 2, of Act no. 44/2009 (both Acts amending Act no. 161/2002 on Financial Undertakings).

The meeting was held at Hilton Reykjavik Nordica, Suðurlandsbraut 2 in Reykjavík, on October 20, 2009, and commenced at 10 am.

Registered at the meeting were 104 representatives of creditors.

Members of the panel at the meeting were:

- Tómas Jónsson, Attorney to the Supreme Court, Chairman of the meeting.
- Ólafur Gardarsson, the Moratorium Supervisor and member of Kaupthing's Bank Winding-up Committee.
- Steinar Thór Gudgeirsson, Chairman of the Resolution Committee.
- Knútur Thórhallsson, Deputy Chairman of the Resolution Committee (during items 1, 2)
- Theodór Sigurbjörgsson, member of the Resolution Committee.
- Eva Sóley Guðbjörnsdóttir, Managing Director of Finance, Kaupthing Bank.
- Kolbeinn Árnason, Managing Director of Legal, Kaupthing Bank.
- Dieter Turowski, representative of Kaupthing's exclusive financial advisor Morgan Stanley.
- Karsten Hofacker, representative of Kaupthing's exclusive financial advisor Morgan Stanley.
- Halldór Bjarkar Lúdvígsson, Managing Director of Asset Management – Nordic Portfolio, Kaupthing Bank (during items 1-2, 6).
- Dominic McCahill, representative of Weil Gotshal & Manges, legal advisors to Kaupthing (during items 1-2, 4-6).
- Finnur Sveinbjörnsson, CEO of New Kaupthing Bank (during items 3-6).
- Björk Thórarinsdóttir, Managing Director of Credit, New Kaupthing Bank (during item 4-6).

1. Introduction

Ólafur Gardarsson welcomed the creditors.

The main purpose of the meeting is to provide creditors with an update on key events and activities since the last meeting in February, to provide creditors with the latest financial information on the Bank, to provide creditors with an overview of the processes and a summary of the Capitalization Agreement on New Kaupthing, to outline the next steps and restructuring options of the Bank and to discuss the possible extension of the Bank's moratorium on debt payments. According to Icelandic law, no binding decisions can be made at the meeting.

Tómas Jónsson, Attorney to the Supreme Court of Iceland, was asked to serve as chairman of the meeting. He assumed the duties of the chairman and confirmed that the meeting was called as prescribed by law. Given that the majority of those present did not speak Icelandic it was decided that the meeting would be held in English.

2. Key Events and Progress during the Moratorium

2.A. Key Milestones

Steinar Thór Gudgeirsson presented key milestones. Steinar discussed the general approach of the Resolution Committee, which ultimate task and duty is to maximize the value of the Bank's assets and pass on the value to its creditors. Steinar presented a summary of the Bank's balance sheet and the status of maximizing the value of the assets. Steinar furthermore discussed the status of the Bank's subsidiaries and branches and the organizational structure of the Bank.

2.B. Loan Restructuring / Europe and Nordic

Halldór Bjarkar Lúdvígsson presented an overview of the loan restructuring in the Europe portfolio (fair value as at 30 June 2009 approx. 140 bn ISK) and Nordic portfolio (fair value as at 30 June 2009 approx. 170 bn ISK). The mandate of the asset management division can be broken into five steps, which were discussed: *stabilization, consolidation, full overview*, which leads to *management* of the assets and ends with *value optimisation and exit strategy*. Halldór presented an overview of loans to customers by portfolio and sector, as well as a past cash-flow analysis. According to his presentation, a considerable part of the Nordic and Europe portfolios has undergone major restructuring and Halldór discussed the Bank's restructuring principles and core values. In all major cases the Bank has relied on valuation work or input by third party advisors. Halldór furthermore discussed actions taken on the portfolios and the progress with the restructuring work, as well as giving an overview of full repayments and exits.

2.C. Financial Information Update

Eva Sóley Gudbjörnsdóttir presented an update on the financial information of the Bank, including information on the Bank's balance sheet, cash in hand, development of loans to customers at fair value and information on derivatives.

3. Capitalisation Agreement on New Kaupthing

3.A. Overview of Agreements with the Government

Kolbeinn Árnason presented an overview of the agreements with the Government relating to New Kaupthing Bank and discussed the two options available to the Bank. The Resolution Committee has the sole power to decide whether to choose option 1 (Kaupthing to acquire New Kaupthing) or option 2 (Government retains New Kaupthing). Kolbeinn presented a summary of the key terms of both options. According to option 1, Kaupthing would receive an 87% ownership following a capitalization contribution of 65% (ISK Cash and Icelandic related assets), approx. equalling 66 bn ISK (ownership might possibly be increased to 90% under option 1). According to option 2, Kaupthing would have the right to repurchase 90% of the equity from the Government during the exercise period of one month following the publication of the annual report for the years 2010-2014. Kolbeinn also discussed Kaupthing's consultation with creditors and creditors' due diligence. For further details, reference is made to Kolbeinn's presentation and further publicly available information.

3.B. Presentation of New Kaupthing

Finnur Sveinbjörnsson presented an overview of New Kaupthing Bank. Finnur presented the balance sheet and income statement of New Kaupthing Bank, as well as a cash flow analysis. He also discussed New Kaupthing Bank's five year business plan and presented an analysis of the loan portfolio. Finnur furthermore discussed the recovery process within New Kaupthing Bank, including a breakdown of recovery cases by sectors. Finnur discussed the current liquidity position of New Kaupthing Bank and the FX imbalance. Finally Finnur discussed the upside potential of New Kaupthing Bank and the importance of ownership for the next few months.

3.C. Due diligence and Summary / Review of Capitalisation Options

Karsten Hofacker presented a summary of due diligence on New Kaupthing Bank carried out by Kaupthing and its advisors. Due diligence is ongoing, as audit of financials is not yet completed. Due diligence to date has focused on balance sheet analysis / net asset valuation of New Kaupthing, detailed analysis of the business plan, liquidity risk and profit improvement measures. Karsten discussed a summary of the valuation and a returns profile with regards to the two options.

Dieter Turowski presented an overview of the pros and cons with regards to the two options.

3.D. Creditor Consultation Process

Max Ziff, representative of Houlihan Lokey, discussed the due diligence on New Kaupthing Bank assets and the choice between the two options previously presented (option 1 and option 2).

Chip Fisher from Bingham McCutchen, representing a group of bond holders, and a member of the Informal Creditors' Committee (ICC) and the ICC Sub-Committee, discussed Kaupthing Bank's creditor consultation process. Chip expressed his view that he was happy with the work of the Resolution Committee with respect to guarding the interests of creditors.

A lunch break was made at 12.45 pm.

During the lunch break creditors were invited to submit written questions for the following Q&A session.

The meeting commenced again at 1.20 pm.

4. Morgan Stanley overview

John Hepburn, from Morgan Stanley, discussed the role of Morgan Stanley with regards to the work of the Resolution Committee.

5. Next Steps and Restructuring Options

5.A. Legal Overview

Ólafur Gardarsson discussed the Bank's moratorium and gave a legal overview of the moratorium process. The first moratorium was granted from 24 November 2008 until 13 February 2009. According to the Icelandic legislation, the moratorium can be granted for up to 24 months. An extension was granted from 13 February 2009 until 13 November 2009 and another extension of 9 months will be requested on 13 November 2009. The moratorium can be concluded in the following ways, which were discussed by Ólafur: (1) Winding-up process pursuant to Act no. 44/2009; (2) Composition of creditors (Scheme of arrangement); (3) Insolvent liquidation.

5.B. Overall Restructuring

Dieter Turowski discussed the work streams of the restructuring process of Kaupthing Bank.

Karsten Hofacker discussed the target structure for the Bank, the current legal paths for restructuring as well as the liability restructuring.

5.C. Moratorium Extension

Ólafur Gardarsson announced his proposal that an application be made to extend the moratorium by nine months at the next hearing of the Reykjavik District Court which is to be held on 13 November 2009. The arguments presented included the fact that a Chapter 15 protection in the USA might be terminated should the moratorium not be extended. Ólafur then sought the views of the creditors on this proposal, in accordance with the Act on Bankruptcy etc.

Arnar Thór Jónsson from the law firm Réttur, acting on behalf of more than twenty bank creditors, presented concerns and objections to the capitalisation agreement. A formal letter to the Resolution Committee was also received by the chairman from the law firm, detailing the concerns and objections further.

No objections were made to the extension of the moratorium.

6. Q&A

Questions submitted during the lunch break were addressed by panellists (one question was also addressed by Gisli Óttarsson, Managing Director of Risk Management at New Kaupthing Bank). Any

remaining questions will be dealt with in due course and published on the website. Unanswered questions directed to New Kaupthing Bank regarding SPM will be dealt with by New Kaupthing Bank.

Following this Dominic McCahill discussed the ruling of the High Court of England today, relating to Kaupthing's application for judicial review of the legitimacy of the decision taken by the UK Treasury to transfer assets and deposits from Kaupthing Edge accounts at Kaupthing Singer and Friedlander in October 2008. The Court held that the UK Treasury had acted within its statutory powers and there had been no error in its decision-making process.

The chairman of the meeting presented the main points from the minutes to the meeting and invited those present to comment on them. No comments were made.

Steinar Thór Gudgeirsson adjourned the meeting.

The meeting was adjourned at 3 pm.

Minutes recorded by Kaupthing Bank's Moratorium Supervisor, cf. Act no. 21/1991 on Bankruptcy etc.

Disclaimer

This report (including all subsequent amendments and additions) was prepared by the Resolution Committee for the creditors of Kaupthing Bank hf. ("the Bank") for information purposes only. It should give creditors an overview of the background, the current situation and the potential steps going forward. The additions and amendments to this report since the previously published versions of this report are intended to give the creditors information on recent developments but are not necessarily and should not be regarded as an exhaustive list of all developments which creditors may consider material. In preparing and updating this report, the Bank has not taken account of the interest of any particular creditor or group of creditors.

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

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

It is not intended that the information contained herein should be relied upon by any person in connection with trading decisions relating to the Bank. Neither the Bank nor the Moratorium Supervisor accepts any responsibility for any such reliance.

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