KAUPTHING BANK

4th Meeting of the Resolution Committee and the Informal Creditors' Committee

18 March 2009

Defined Terms

FME	The Icelandic Financial Supervisory Authority
ICC	Informal Creditors' Committee
RC	Resolution Committee
The Bank	Kaupthing Bank hf
New Kaupthing	New Kaupthing Bank hf
KSF	Kaupthing Singer and Friedlander Limited
FIH	FIH Erhvervsbank A/S
ICB	The Central Bank of Iceland
KBS	Kaupthing Bank Sverige AB

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Welcome address & introduction

Introduction

- This presentation provides updates in several areas and adds to previously issued information, both at these meetings and on our website, www.kaupthing.com
- Previously issued information is still valid and does, in many instances, provide the reader with background and/or goes into more detail on subject matters discussed in this presentation

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Updated creditors' report & other updates

Updated creditors' 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 most significant updates and amendments to the March update of the creditors' report will be discussed on the following slides, with the exception of the progress at several branches, several subsidiaries and some restructuring exercises which will be discussed further in chapter 3, *RC's accomplishments to protect the asset base of the Bank*
- Furthermore, other recent updates, not discussed in the creditors' report, will be provided in this chapter
- Information and data which have already been presented in previous meetings will not be revisited in the following slides

Internal audit – *addition to chapter 3.3*

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- In October 2008, the RC, at the request of the FME, engaged the international accounting firm Pricewaterhouse Coopers ("PWC") to perform a preliminary review on the operation of the Bank during the period 1 September – 21 October 2008. On 31 December 2008, PWC delivered its reports to the FME (the "PWC Report"). Part of the PWC Report relates to specific transactions occurring in the last months leading to FME's intervention into the affairs of the Bank
- The RC has formed a sub-committee, consisting of two members of the RC in addition to the formal Internal auditor of the Bank
- The role of the sub-committee is to review certain transactions, identified by the RC, and to prepare and commence legal proceedings against parties that might be in debt to Kaupthing due to those transactions, or are alternatively responsible for potential losses of the Bank resulting from the transactions
- The aim of the RC is, in other words, to realise all possible claims which Kaupthing 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
- Furthermore, the RC 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

Kaupthing Edge Germany – *addition to chapter 3.5*

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- The RC is committed to paying back all priority claims as quickly as possible and therefore it has placed great importance on settling the claims of the 30,000 depositors in Germany and has put forward several proposals to achieve this
- As the Bank has now secured sufficient funds it is now possible to repay the large majority of the German deposits. However, appr. EUR 55m (out of the total of EUR 330m) have been seized by DZ Bank and therefore it is not achievable to pay deposits back in full at this stage
- Considerable effort has gone into resolving any problems which have arisen and have prevented payments from being made. In this regard, meetings and conference calls have been held and several memos written
- The Bank wants to start the payments as quickly as possible and is liaising with BaFin to discuss the right process to achieve this. A press release will be prepared once the plan is ready
- In mid-February this year, Olafur Gardarsson, the Moratorium Supervisor, sent a letter to the German financial supervisory authorities to outline the situation and the proposed next steps. This letter helped the momentum in the dialogue between the two parties and they will hopefully reach a conclusion on this matter soon

Netting and set-off analysis – *addition to chapter 5.4*

- In the Bank's creditor report, the preliminary estimated impact of set-off and netting ranged from ISK 200-400bn
- It was also stated that this is very likely to make a material difference to overall creditor recoveries
- To date, the Bank has received set-off and netting claims from counterparties for the total of approximately ISK 200bn but this figure can by no means be taken as conclusive due to two primary reasons:

  1) Counterparties have the right to claim until the end of the formal claim period which has not started yet as the Bank is in moratorium and in that state, it is not allowed to accept any formal claims
  2) Each case needs to be evaluated before each claim can be accepted or rejected

  Therefore, the estimated size and impact of set-off and netting is still very uncertain

- Further discussions on this matter can be found in chapter 3, *RC's accomplishments to protect the asset base of the Bank*

The Bank's co-ordination group and other government appointed parties – *addition to chapter 7.5*

- The members of the *co-ordination group* of the Bank remain the same except that the ex-chairman of New Kaupthing, Magnus Gunnarsson has resigned and *Thorsteinn Thorsteinsson*, a senior advisor employed temporarily by the ministry of finance, has been appointed
- For the avoidance of doubt, the co-ordination group is not the same as the co-ordination committee lead by Mats Josefsson
- Mr. Thorsteinsson is in charge of the negotiation process between the new banks and the old banks regarding the net assets acquired by the new banks
- The ministry of finance has also appointed *Hawkpoint*, the UK corporate finance advisory firm, as their financial advisor. They will work under the supervision of the Icelandic authorities. Hawkpoint is currently being introduced to the government's position and have already engaged in a dialogue with the resolution committees and their financial advisors
- The main parties involved in the restructuring process of New Kaupthing are the RC, Morgan Stanley, Mr. Thorsteinsson and Hawkpoint

The Bank's co-ordination group and other government appointed parties – *addition to chapter 7.5 cont'd*

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- The Prime Minister's Office has enlisted the services of Swedish banking expert *Mats Josefsson* on a temporary basis as advisor on rebuilding Iceland's banking system. He is also the chairman of the co-ordination committee which has the overall responsibility of developing, implementing and communicating a comprehensive strategy for bank restructuring. Other members of this committee are representatives of entities within the administration
- In addition, *Kaarlo Jännäri*, former Director General of the Finnish FSA, who has extensive experience in a collapsed financial sector environment, has been engaged by the government to assess the regulatory framework and supervisory practices and to propose necessary changes to strengthen safeguards against potential new crises

Update of litigations

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- The Bank is currently in litigation proceedings on the following matters:

  Oscatello:

  - The Bank is currently suing Oscatello Investments Limited in the Reykjavik District Court because of about GBP 650m liability on an overdraft facility agreement
  - Two members from the RC have now been appointed as board members in the board of Oscatello Investments Limited and also in a few subsidiaries
  - The Bank has enforced securities it held as collateral, e.g. in shares in Oscatello Investments Limited

  Bank of Tokyo:

  - The Bank is in litigation because of a swap agreement which was in place with BTMU at the time of the collapse of the Bank

  UK authorities:

  - The High Court of England has consented to the Bank's request for permission to apply for judicial review of the legitimacy of the decision taken by the UK authorities to transfer to a third party, without compensation, deposits from Kaupthing Edge accounts at KSF, on 8 October 2008
  - The court will now fix a hearing at which evidence and arguments concerning the UK authorities' intervention into the operations of KSF will be considered. The Bank contends that the actions of the UK authorities were unjust and illegal
  - The RC welcomes the court's decision and hopes that promised financial support will be forthcoming from the Icelandic Government to ensure that legal proceedings can be continued
  - The RC also wishes to underline that the court's decision in no way indicates what the final outcome of this case will be

Update of RC's interaction with the government

- In the past few weeks, the RC has interacted with several parties to discuss the roadmap going forward and decide on the next steps. The parties that the RC has recently met are:
  - Morgan Stanley, the Bank's financial advisor
  - Minister of commerce
  - ICB & JP Morgan who serves advisory role to the ICB in relation to the pledge they hold over the FIH shares
  - Thorsteinn Thorsteinsson, a senior advisor employed temporarily by the ministry of finance
  - Representatives from New Kaupthing; the chairman of the board and the CEO
  - The co-ordination group. Mr. Gudgeirsson as a member of the co-ordination group has attended several meetings of the group
  - New board of the FME
  - Mats Josefsson

Update of financial matters

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- Financial statements:
  - The FME's decision dated 6 March 2009 stated that terms of the financial instrument which will be issued by the new banks to the old banks as a payment for the net asset value transferred to the new banks, will be concluded no later than 18 May 2009. This implies that the finalized initial balance sheet of the Bank will be ready shortly after 18 May 2009
  - Financial statements as at YE 2008 will be ready as soon as the net asset valuation has been concluded
  - Budget for 2009 by each department has been finalized
- Subsidiaries in Iceland:
  - Currently working on merging Icelandic subsidiaries into one – Kirna
  - All cash held in Icelandic subsidiaries have been transferred to parent
- Foreign branches:
  - Assets being transferred from foreign branches
  - Currently winding and closing down several foreign branches

Update of financial matters

- Internal processes and procedures being fine-tuned:
  - Back office and book-keeping tasks outsourced to New Kaupthing
- Breakdown of new and old banks:
  - PWC appointed to audit the asset transfer from the Bank to New Kaupthing to ensure that it was completed in full accordance with the FME transfer decision
- Set-off and netting considerations:
  - Team of experts established to analyse the Bank's position on a counterparty by counterparty basis across all relevant financial instruments
  - Netting committee established to review and conclude each case

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RC's accomplishments to protect the asset base of the Bank

Introduction

- The RC 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
- Therefore, the RC has focused on maintaining and safeguarding the assets of the Bank in order to ensure the equal treatment of creditors and to maximise the value of assets with the aim of ensuring as high a recovery rate of claims as possible
- 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
- When appropriate, the RC appoints external advisors and consultants to ensure top class expertise in every case it tackles. Depending on the nature of the project, these external parties can be financial advisors, legal counsel, real estate consultants, accountants, auditors, etc.
- In the following slides, RC's most significant accomplishments will be reviewed and discussed in details to provide the ICC with a comprehensive overview of steps taken to preserve value of the Bank's assets
- First, steps taken with several subsidiaries and branches to preserve value for creditors will be reviewed
- Secondly, restructuring exercises will be reviewed:
  - If a debt facility in the Bank's books needs capital restructuring or a debt equity conversion, the Bank will analyse the case and then execute if it makes sense from a commercial point of view.
  - To date, the Bank has had few cases where capital restructuring or a debt equity conversion is necessary action to protect asset values
- Finally details on set-off, netting and provisional attachments will be provided

FIH – *subsidiary protected and refocused*

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- The entity is operational and is no longer in the process of being sold
- The RC has always been of the opinion that the entity should not be sold in the current market environment because its value is presumably much higher when markets recover
- The Bank remains the sole shareholder of FIH and two representatives of the RC 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 area 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)
  - ***Result: Decision made not to sell FIH and to support the entity in the current market environment. The RC believes the subsidiary should be worth more than EUR 500m in the future, when markets have recovered***

Kaupthing Finland – *branch closed down and assets retrieved*

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- A few days after the collapse of the Bank, the RC 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 RC negotiated loans to the entity with three commercial banks in Finland which were guaranteed in part by the Finnish authorities
- These loans enabled the entity to repay deposits in the branch
- The credit portfolio and certain other assets of Kaupthing Finland were pledged against these loans
- These loans have now been settled and the asset management operation has been sold as well as a part of the loan portfolio
- The remainder of the loan portfolio, appr. EUR 107m at nominal value, has been transferred to the parent company and are 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
  - ***Result: 'Fire sale' of assets prevented and instead, assets of appr. EUR 107m at nominal value retrieved***

Kaupthing Norway - *branch closed down and assets retrieved*

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- 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
- The RC managed to prevent the immediate sale of assets from the entity, something which otherwise would have been done to enable it to pay back depositors
- Instead, the deposits held by the branch were repaid to depositors by the Norwegian Bank's Guarantee Fund
- In February, the RC and the administrators 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 parent company 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 RC 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 RC believes that the interests of the company and the Bank were best served in this way
  - ***Result: Imminent 'fire sale' of assets prevented which resulted in assets of appr. EUR 300m at nominal value retrieved***

Kaupthing Sweden – *subsidiary sold and assets retrieved*

- After the collapse of the Bank, the entity was operational with support from the Swedish government. Without RC's co-operation with Riksbanken, the Swedish Central Bank and the Swedish Financial Authorities, the entity would have been closed down
- Last autumn, Kaupthing Pension Consulting and Kaupthing Finans AB were sold as these business lines did not constitute a core business for Kaupthing Bank Sverige AB ("KBS") and the latter would have required continued financial support
- The remaining operations of KBS, apart from the corporate loan portfolio which will be transferred to Iceland, has been sold to Ålandsbanken Abp

Kaupthing Sweden cont'd – *subsidiary sold and assets retrieved*

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- The RC believes that this constitutes a fair deal for the Bank as:
  - The sale price is acceptable. It enables KBS to pay back 100% of subordinated loans to the Bank and over 50% of its equity
  - It allows for the immediate repayment of Riksbanken’s facility. This facility was put in place in early October by Riksbanken in order for KBS to be able to pay back all deposits. Riksbanken has been very co-operative but a repayment was required at the earliest convenience
  - This transaction will free up cash for the Bank. Riksbanken will return to the Bank approximately SEK 2bn it has frozen in its accounts, plus Icelandic government bonds of ISK 9.5bn which are currently with the ICB
  - The Bank will not need to refinance and fund future activities of KBS. The private banking, asset management and capital markets businesses had substantial funding needs in 2009 which do not align well with the current status of the Bank
  - The corporate loan portfolio and some other loans will be moved to the Bank. These assets fit well with the other asset pools the Bank is currently managing
  - Ålandsbanken takes full responsibility for the continuing business of KBS
- If the entity had not to 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 enables the Bank to settle the Riksbanken facility as well retrieving as 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 we had retrieved from the Swedish Central Bank and the equity would have been worthless
  - ***Result: Assets of appr. EUR 800m at nominal value retrieved***

Mosaic Fashions – *valuable brands taken over in order to protect the Bank's position*

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- The Bank and the former senior management of Mosaic Fashions have 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 foreign reputable consultants, including 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
- As a result Mosaic Fashions was forecasting an additional cash requirement and potentially required new money to fund working capital
- RC refused to provide necessary working capital for the group as it was as it would only be a temporary solution for the company and its unsustainable business model
- 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. Attempts to restructure the business with a view to securing its continued operations have failed

Mosaic Fashions – *valuable brands taken over in order to protect the Bank's position*

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- Aurora Fashions is now financially sound, moderately leveraged, with reduced capital requirements and should be fit 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
- The transaction has been successful. Going forward the aim is to further stabilize 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, RC is confident that there will be a significant recovery for the Bank
- The Bank managed to secure the future of Mosaic's most valuable brands. The recovery of the Bank's claims would have been low in case of the entity's bankruptcy
  - ***Result: The Bank managed to secure the future of Mosaic's most valuable brands in order to protect the Bank's position***

All Saints – *agreement reached which consolidates its position*

- The Bank has reached an amicable 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
- The agreement signals a successful solution to the injection granted to Kaupthing in the British courts recently and parties are looking forward to continue to work together
- All Saints was founded in 1994 and in 2003 was aquired 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 perfomance 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
- This agreement removes the uncertainty over the company's shareholding, and will allow it to continue its growth

➢ ***Result: Agreement reached which consolidates All Saints' position in order to protect the Bank's position***

Other restructuring exercises

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- Pro-active management implemented to ensure maximum recovery for the Bank's assets
- The Bank monitors several borrowers in its loan book very closely and has acquired a controlling interest in companies and nominated board members were it deems necessary
- The Bank has been or is currently working on restructuring several groups. In order to obtain detailed information, the Bank has in many cases hired external advisors, such as law- and accounting firms. The cost of these is in all cases paid be each respective borrower

Netting and set-off analysis – *further discussion beyond the update in the creditors' report*

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- Derivatives settlements:
  - The Bank has been settling derivatives at their maturity dates or earlier upon clients requests, in accordance with the agreements and market conventions
  - Only derivatives and FX agreements which are in-the-money for the Bank have been settled
    - When settling those agreements, the Bank uses exchange rates quoted by the ICB and rejects all suggestions of using any other quotes
  - 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
  - It is impossible to discuss amounts in this regard until the formal claim process ends and those who will take the Bank to court have done so
- Enforcement of collateral:
  - 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

Prevention of provisional attachment of assets and facilitation of the retrieval of the Bank's assets

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- The RC is committed to protecting 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 RC has successfully opposed litigation threats and/or freezing orders in the following countries:
  - United States
  - Luxemburg
  - The Netherlands
  - Spain
  - UK

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Next steps & conclusion

Next steps and key dates

Key steps	Estimated timing
Ongoing discussions between RC, Morgan Stanley, Thorsteinn Thorsteinsson and Hawkpoint	
Morgan Stanley to work with the RC and the Bank and to consult the ICC and report on developed restructuring proposals	
Asset valuation for the new banks to be completed by Deloitte and Oliver Wyman	15 April 2009
Governmental elections in Iceland	25 April 2009
Terms of financial instrument based on the net asset valuation to be concluded	18 May 2009
The nine-month Moratorium period of the Bank granted on 19 February 2009 ends	13 November 2009

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