



KAUPTHING BANK

April Update - Highlights

- The most significant updates and amendments to the April update of the creditors' report will be discussed on the following slides.
- RC's most significant accomplishments to protect the asset base of the Bank are summarized to provide creditors with a comprehensive overview of steps taken to preserve value of the Bank's assets.
- Firstly, steps taken with several subsidiaries and branches to preserve value for creditors are reviewed.
- Secondly, restructuring exercises are discussed.

- 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 because its value is presumably much higher. The RC believes the subsidiary should be worth more in the future, when markets have recovered.***

- After 9 October 2008, the entity was still 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.

- 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 have been repaid. However, this solution enables 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 had been retrieved from the Swedish Central Bank and the equity would have been worthless.
  - **Result: Assets of appr. EUR 800m at nominal value retrieved**

- A few days after 9 October 2008, 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 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.
  - ***Result: 'Fire sale' of assets prevented and instead, assets of appr. EUR 107m at nominal value retrieved***

- 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.
  - ***Result: Imminent 'fire sale' of assets prevented which resulted in assets of appr. EUR 300m at nominal value retrieved***

- The main task of the RC is to protect the interests of the Bank's creditors. From discussions with various creditors early in the process, the RC learned that creditors were concerned about the immediate sale of assets.
- 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 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.
- Pro-active management is implemented to ensure maximum recovery for the Bank's assets. The Bank monitors several borrowers in its loan book very closely and has been or is currently working on restructuring several groups.
- When appropriate, the RC appoints external advisors and 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.
- The Bank has acquired a controlling interest in companies and nominated board members where it deems necessary.
- 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

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

- 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*

- 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***

- 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 injunction 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 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.
- 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***

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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