



Summary of Creditors' Report Update June 2009

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.

Final deadline issued to complete the terms of the financial instrument on settlement

According to the FME's revised decision on the disposal of assets and liabilities of the Bank to New Kaupthing, the deadline for agreeing the terms of the financial instrument between New Kaupthing and the Bank as a payment of the remuneration, is 17 July 2009.

The negotiation process started on 4 June, when New Kaupthing management presented to the Resolution Committee and its financial advisor Morgan Stanley its preliminary business plan and opening balance sheet as well as its solution to any imbalances in the assets and liabilities transferred.

On 11 June the FME confirmed the division of the balance sheet between New Kaupthing Bank and Kaupthing Bank.

Some recent significant developments in the Bank's balance sheet

As is evident from discussions in the report, some significant changes have occurred on the balance sheet since 15 November 2008. Below is an update of some of the most significant changes. This update can however not be considered conclusive and is only intended to provide the reader with a better understanding of recent developments of the Bank's balance sheet.

- Due to the correction of the FME's transfer decision, the loans to customers portfolio increased by appr. ISK 190bn at nominal value and thereof, appr. ISK 90bn which were unpledged. As a result, the compensation instrument is likely to be lower.
- Due to the closing and sale of the subsidiary in Sweden, the loans to customers portfolio increased by appr. ISK 110bn while the subordinated loan booked as loans to credit institutions and investments in subsidiaries decreased by a similar amount.
- Due to selective voluntary sale of assets, loans to customers have decreased by appr. ISK 18bn at nominal value and the cash reserves have increased respectively although it needs to be taken into account that not all assets have been sold at nominal value. Further information asset sales can be found in chapter 4.2 in the Creditors' Report.
- Due to full and partial repayments of some loans, loans to customers have decreased and the cash reserves have increased by the same amount. Further information on repayment of loans can be found in chapter 4.2 in the Creditors' Report.

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.



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 *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. 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.

Asset Management

The team has been managing the assets of the Bank in important steps. The initial step, commencing at the collapse of the Bank, was to stabilize the assets which were hit by the sudden change of the Bank's status and to retain their value. Closing down branches and transferring assets to the Bank in Iceland was the second step. This required significant resources and manual work as loans of over 50 borrower groups were transferred to Iceland involving quite complicated legal issues.

As a third step, an overview of the assets was compiled. For this purpose, each asset was analyzed and employees were assigned as responsible persons. Assets were prioritised by size and urgency. The team is now in phase four of developing a strategy and setting objectives for assets to maximize the recovery on behalf of the Bank's creditors.

Asset sale

A loan to a US hosiery wholesaler was sold in the spring for a price significantly higher than its perceived market value. The company has been under strain and is performing significantly under budget. The company was in breach of covenants and was certain to default on its payments this fall. Transaction was preceded by a financial and operational due diligence performed by independent financial consultants engaged by the Bank.

Kaupthing Edge Germany

On 22 June, the Bank announced that repayments had commenced as the Bank submitted instructions to a German financial institution to repay the deposits of around 20,000 customers. The repayment programme continues through June and it is hoped that refunds to more than 34,000 Edge customers will be completed in the next few weeks. For efficiency and technical reasons, the repayment process has to be administered in steps and therefore not all depositors will receive their payment at the same time.

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.



Winding-up Committee

There is an extensive update of the chapter on the Winding-up Committee. The Winding-up Committee deals with the evaluation and recognition of claims and the procedure of calls for claims is described in some detail.

Composition Legislation overview

An update of the composition legislation provides better insight into the current legal status of the Bank and possible outcomes for its creditors once the claims process and administration period comes to an end.

Information disclosure

Since the site was launched in October 2008 there have been close to 900,000 visits from 306,000 users. Numerous questions are sent to creditorcontact@kaupthing.com and germanhelpdesk@kaupthing.com every day which the Bank aims to respond to as quickly as possible. Since November last year the Bank has responded to more than 5,300 queries.