

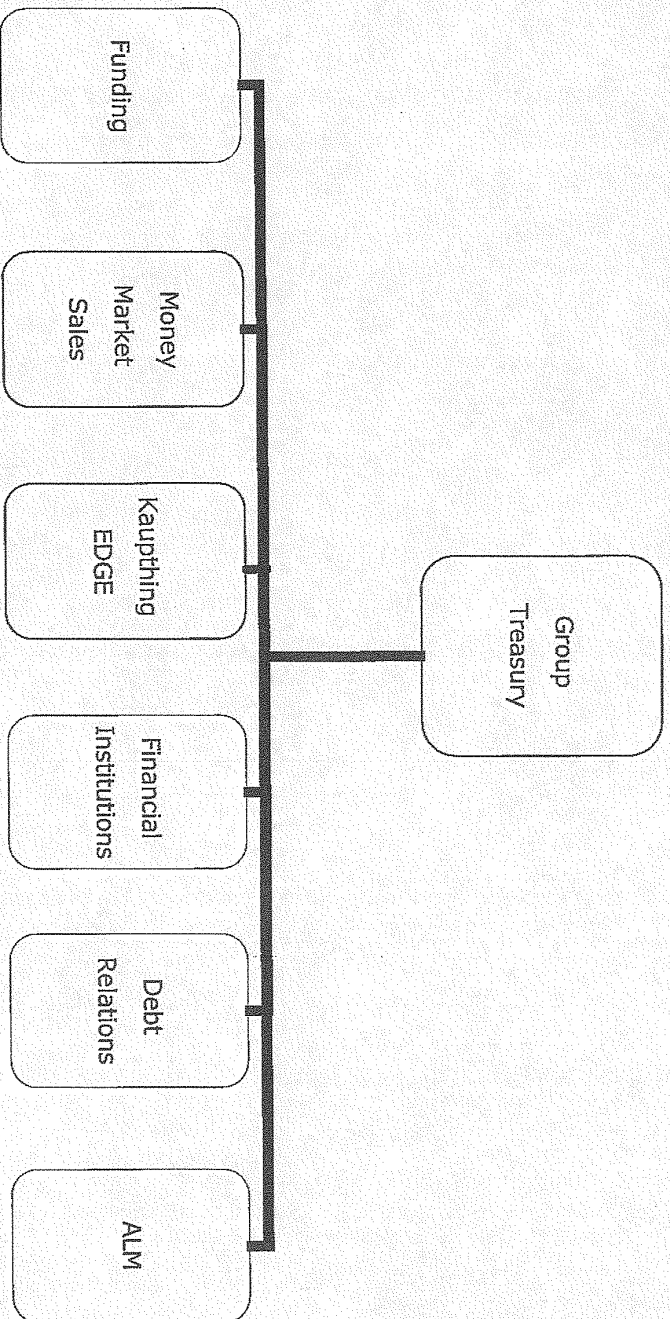
# Funding and Liquidity

- Presentation to the Board of Directors, September 2008 -

Guðni Aðalsteinsson  
Chief Treasurer

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## Group Treasury organization chart





# Funding and Money Market Sales

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## Transformation of Funding Profile

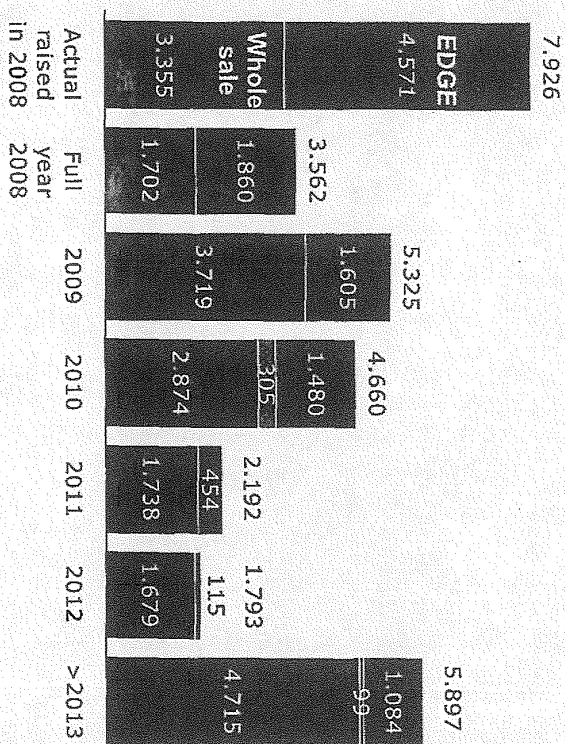


## Maturity of LT funding as at 15 September 2008

■ Kaupthing (parent) ■ KSF ■ FIH ■ LUX

- Focus on deposits as a funding source with reduced reliance on wholesale funding
  - Edge monthly run rate so far in Q3 is EUR 840m
  - Selective Private Placements
- Wholesale funding in 2008 to date totals EUR 3.4bn through a series of bond private placements and loan agreements while long term redemptions were EUR 3.6bn for 2008
- Light maturity profile in 2008. As of September 15 the remaining long term funding for 2008 was ca EUR 330m for the parent and ca EUR 240m for FIH. Pre-funding of 2009 redemptions is progressing well
- During this year Kaupthing has selectively bought back its outstanding debt obligations in cash and will continue to do so
- Kaupthing has identified a substantial amount of less liquid assets on the balance sheet that can be used to generate funding via securitisation

## All amounts in EURm

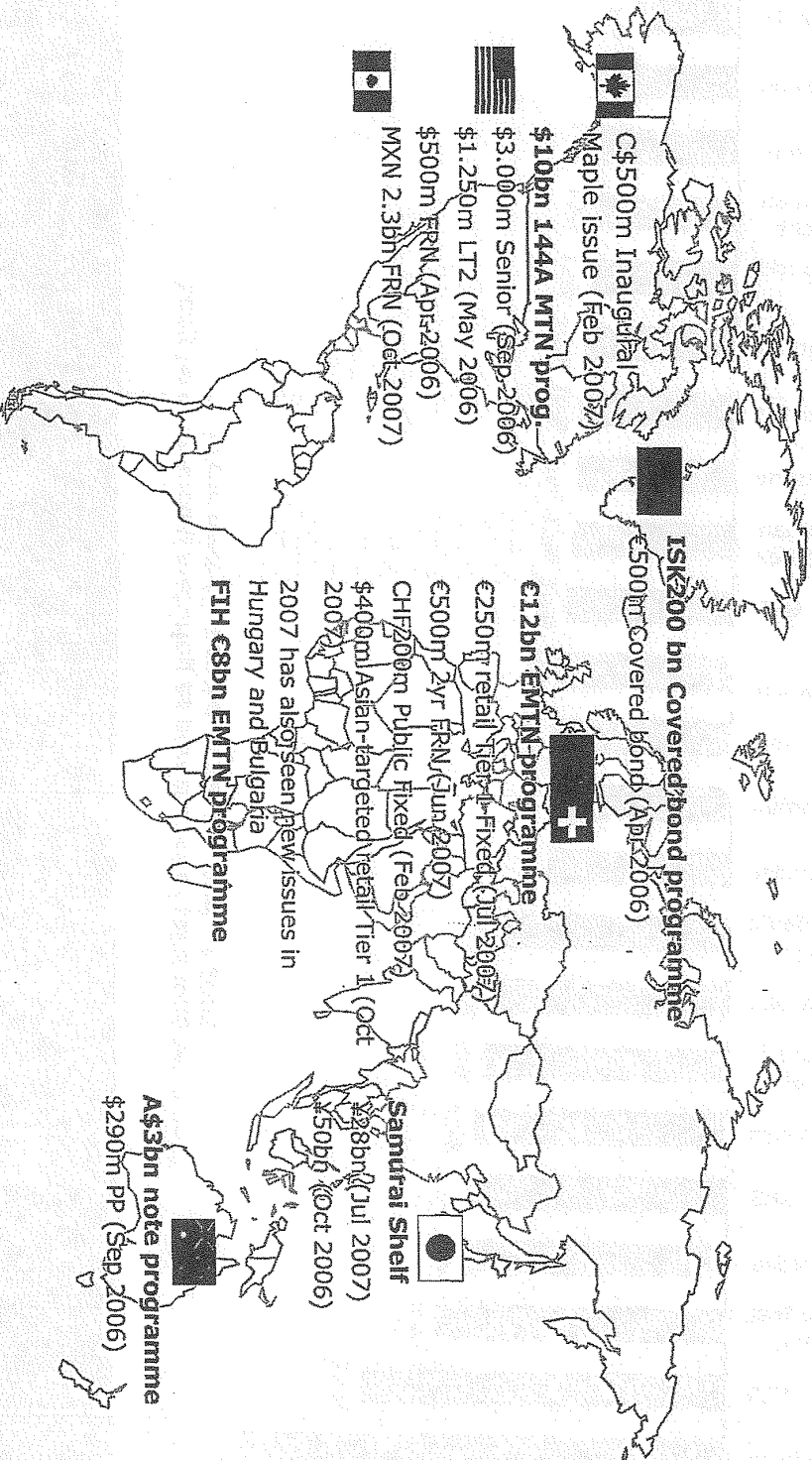




# International Diversification of Funding



Continued diversification - several new markets entered since 2006



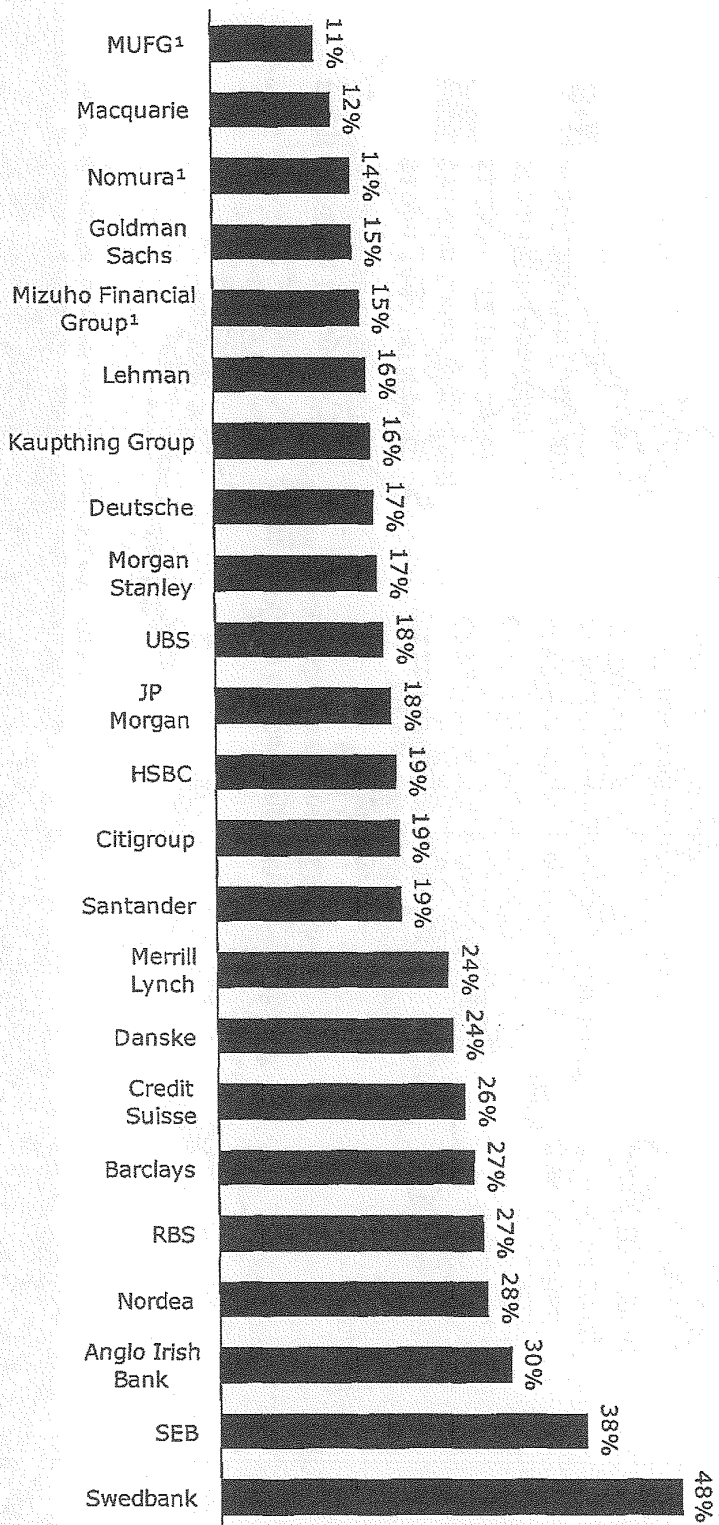
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# Enviably Position; Low Redemptions



Long term financing maturing as percentage of total long term debt,  
in the next 12 months as seen in August 2008



Source: Bloomberg, 12 August 2008, <sup>1</sup> 11 September 2008

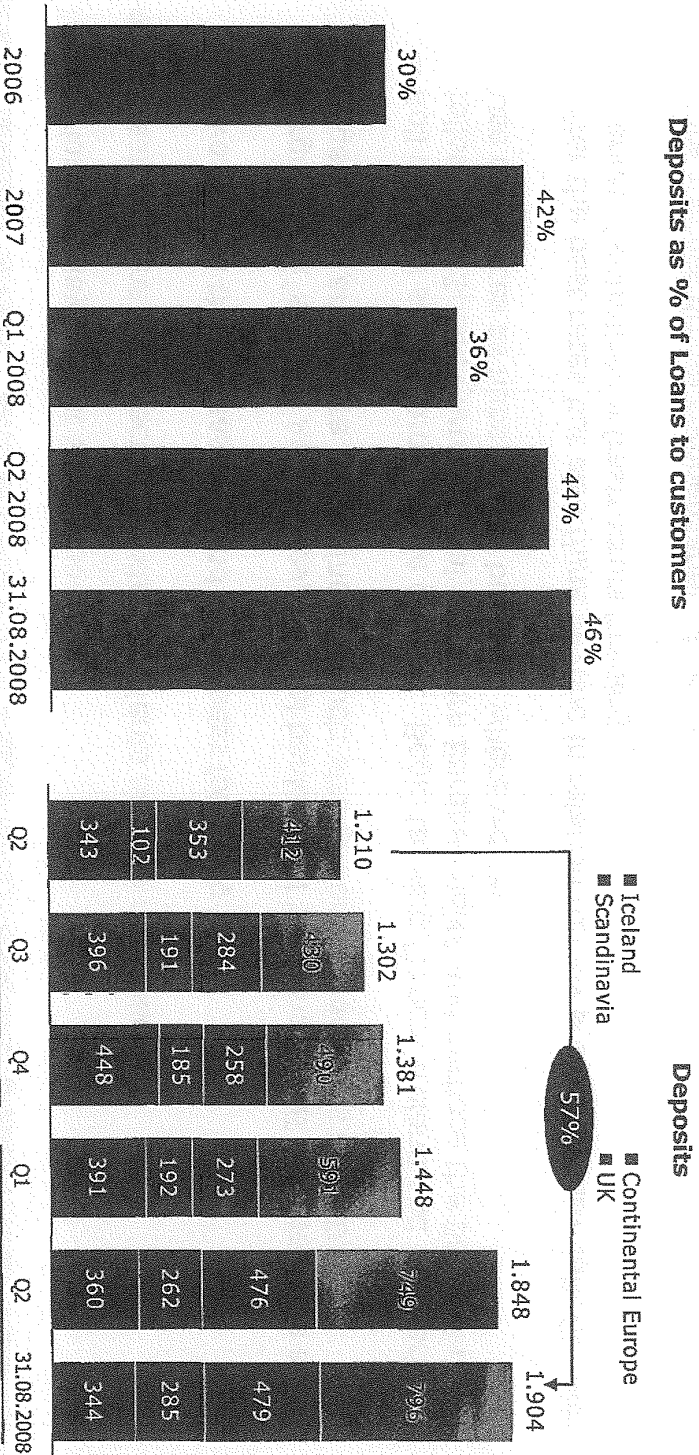


## Deposit Scheme – Making Deposits a Priority



The goal of having deposits 40% of loans to customers at H1'08 has been reached. Kaupthing has raised the target for deposits to loans to customers ratio to 50% at the end of 2008

### Deposits as % of Loans to customers



All amounts in ISKbn

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## New Incentive in Deposit Gathering



### International Money Market Sales Team

- New sales teams to attract new external clients and tap new markets
  - Leverage on the increased brand awareness following EDGE
  - Target: SME's, Local Authorities, Central banks (2nd tier) and HNWI with deposits above Edge target and/or are not online. Product: straightforward deposits and CD/CP
  - Roll out new sales teams on the ground. Begin tapping France, Ireland and Switzerland followed by Spain, Portugal, Italy, Eastern Europe, MENA and perhaps the Baltic states Use our offices as hubs for the business where we can
  - Offer the best rates but also *think beyond* in relation to new products that might fit each market. Centralized infrastructure/trading
  - Pure success driven compensation structure
  - The team is expected to be fully operational with in the next month



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Kaupting EDGE

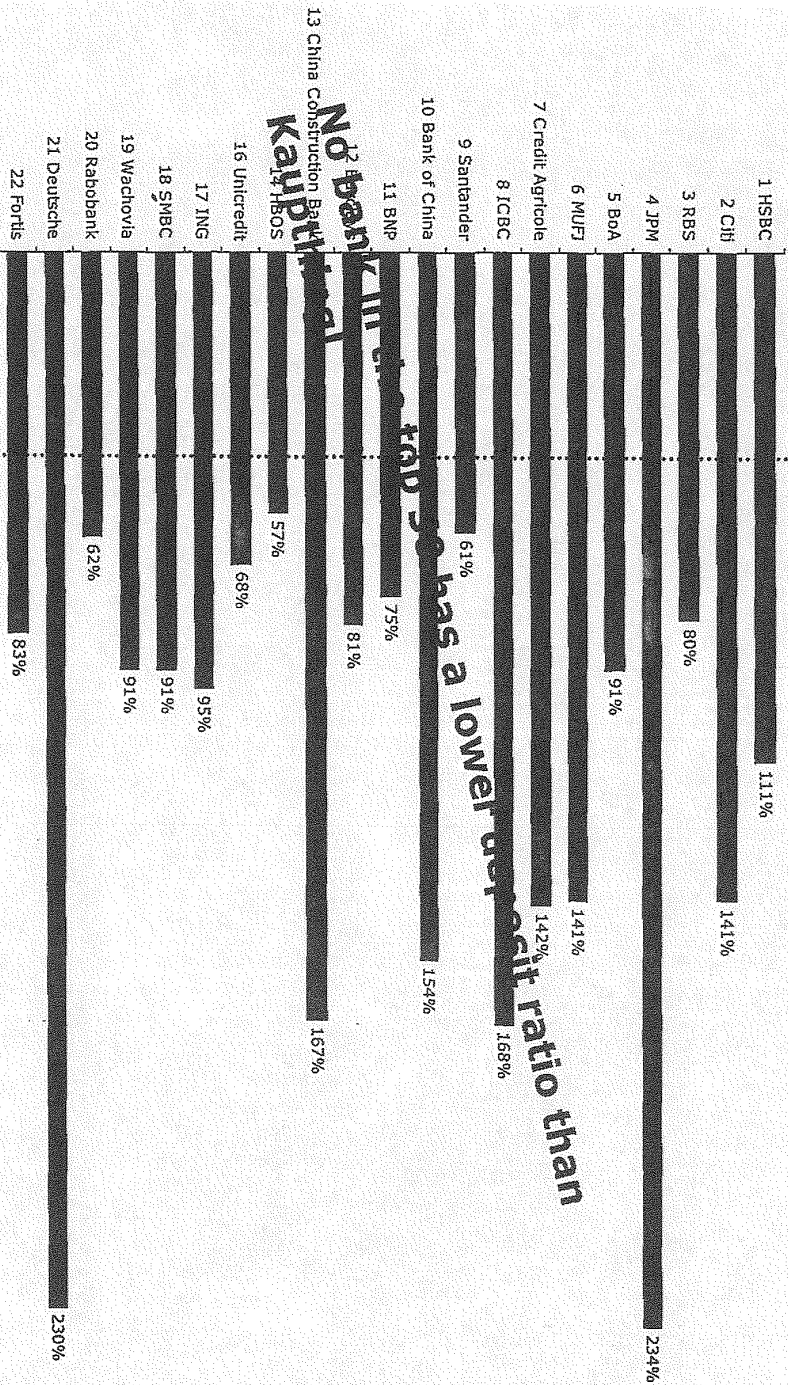
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# What does it take to become a top 50 player



Top 22 Banks in the world in 2007 – Deposit to Loan ratio in 2008



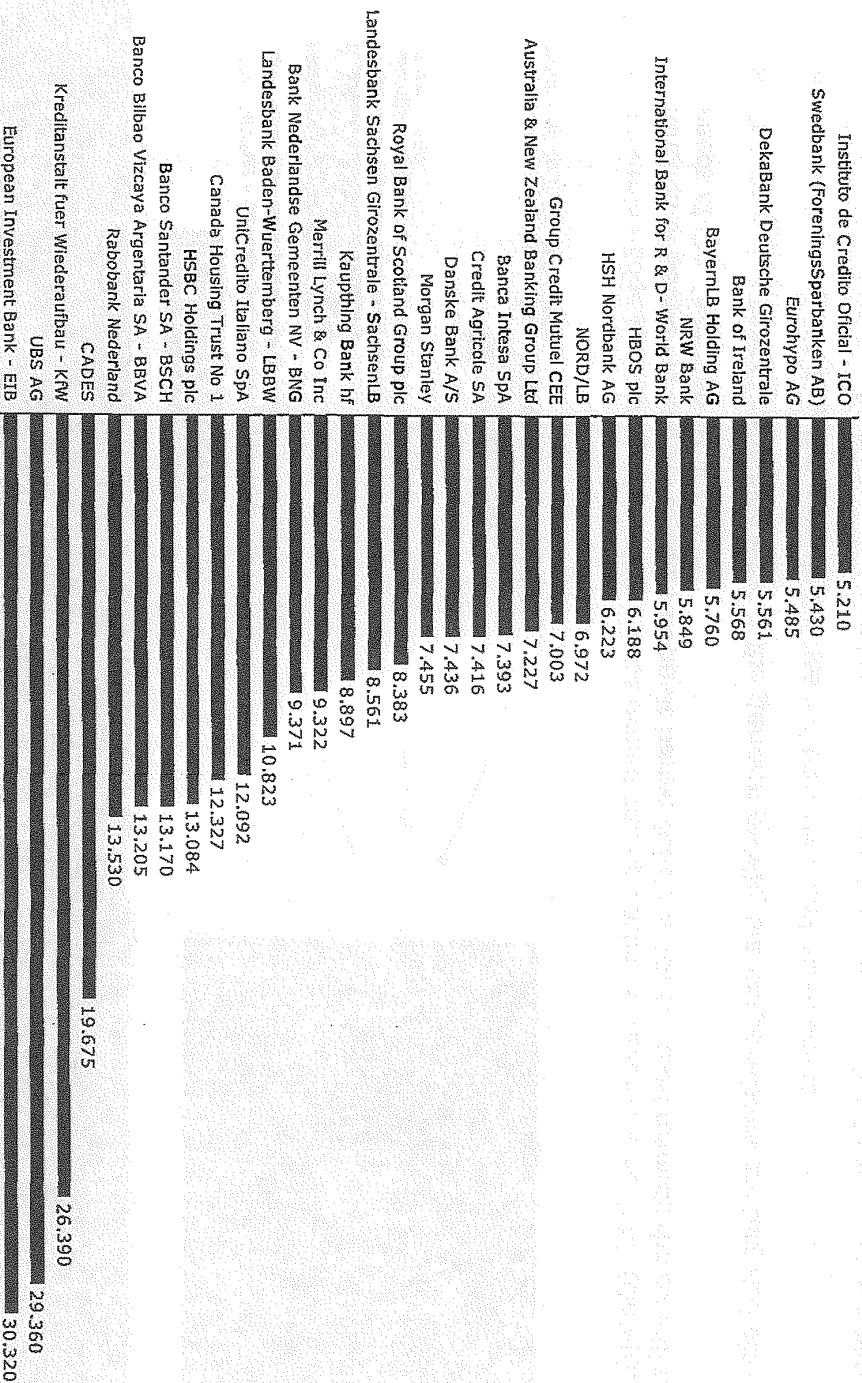
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We have stretched our limits in the wholesale market



Issuance volume in 2005





# The Kaupthing Edge Business Model



KAUPPING

## NatWest

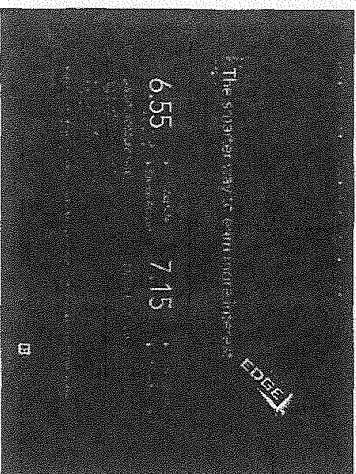
The NatWest e-Savings account offers you easy online access plus a great rate of **4.3% AER**.



... our e-savings account is an exclusively online savings account, you'll get a great interest rate of **5.25% AER**



Save online and get one of our most competitive interest rates - **up to 5.25 AER/Gross**



- Kaupthing Edge is an online financing vehicle owned and operated by Kaupthing Bank hf. (Group). The core function of Kaupthing Edge is to **raise deposit based funds** which are used towards the overall funding needs of the Kaupthing Bank Group
- The main customer of Kaupthing Edge is the **general public**, but **corporations** are targeted also
- Saving banking industry like other industries will transform and move online
- Customers will vote with their wallet and traditional model of a vast branch network will be replaced by internet

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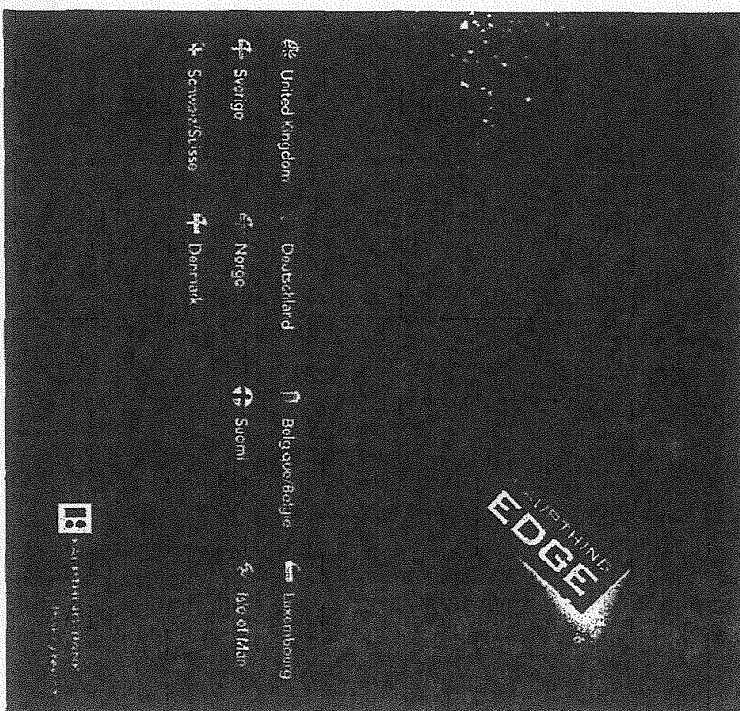
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## Kaupthing Edge Deposits – Over EUR 5 billion



[www.kaupthing-edge.com](http://www.kaupthing-edge.com) is available from instant access to terms of up to 3 years



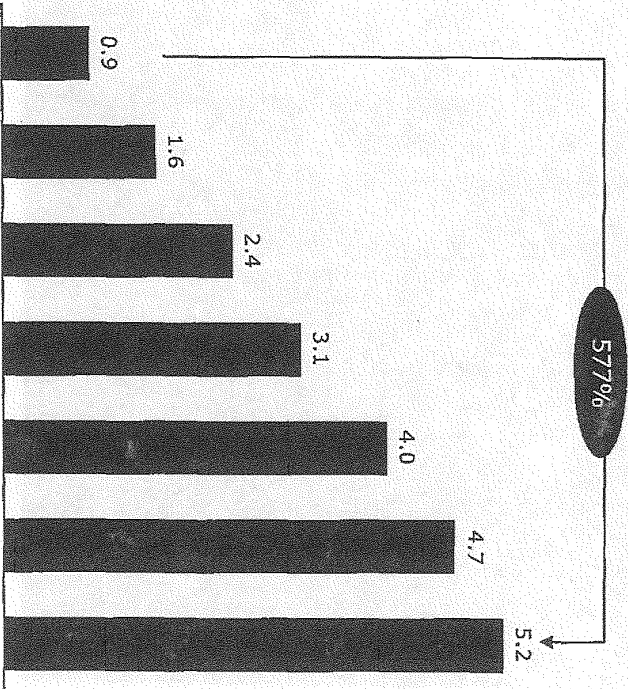
- EDGE balance as of September 15, 2008 was EUR 5,2 bn
- Monthly run rate in Q2 EUR 700m, increased to EUR 840m so far in Q3
- 140,000 clients in H1'08 (no. of active accounts)
  - 231,500 as of September 15
- Average deposit of EUR 22,200
- Well balanced deposits
  - 22% are term deposits
  - Well diversified between countries
  - Both retail and corporate deposits
- Now in 11 countries - Plans to enter into further new markets
- Expected balance at YE 2008 is EUR 8,5 bn, forecasted balance for YE 2009 to exceed EUR 20 bn
- EDGE is paying on average ca 110bp over libor
  - Operation cost is 34bp
  - Marketing cost 43bp

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# Strong Initial Impact



## Balance in Kaupthing Edge



## All amounts in EURbn

<sup>1</sup> Netbank Privat

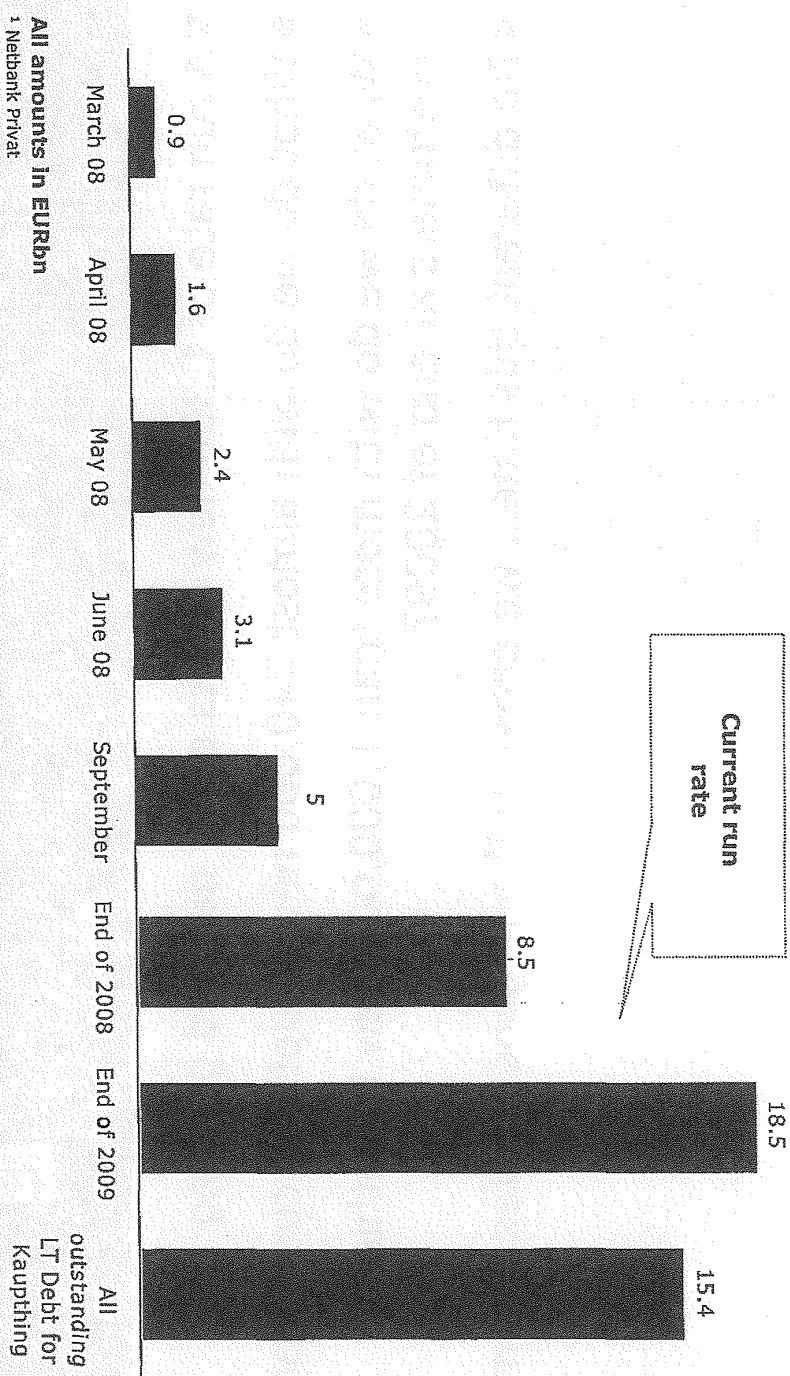
## Timeline

■ 2007	October	Finland
	November	Sweden
■ 2008	January	Norway & Belgium
	February	UK
	March	Germany
	April	Luxembourg & Denmark <sup>1</sup>
	May	Isle of Man
	June	Switzerland
	September	Austria
■ 2009	October	France & Italy
	November	Spain & The Netherlands
	March	Poland & Ireland
	June	Czech Republic, Portugal & Greece
	September	Hong Kong, Israel & Hungary

# Amazing results



## Deposits in Kauthing Edge



Presentation to the Board of Directors, September 2008 15

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More and more Kaupthing clients



- A run rate of 1,300 new clients every day and growing
- What do we do with almost 240,000 new Kaupthing customers?
- What do we do with more than 1,000,000 new Kaupthing customers at end of 2009?
- No different this time... we **cross sell** and generate fee income

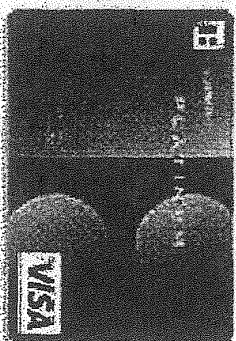
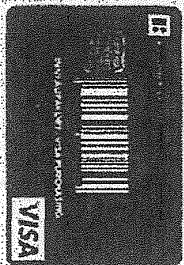
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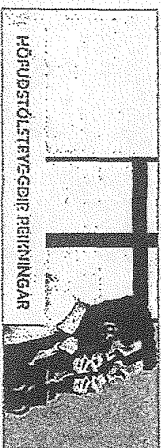
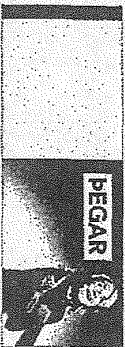
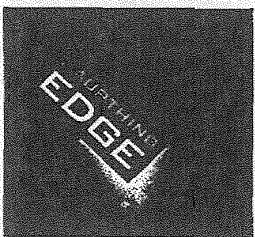
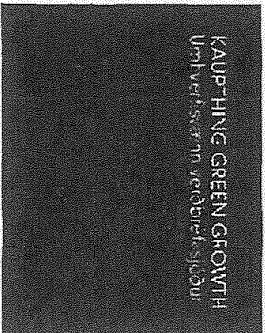
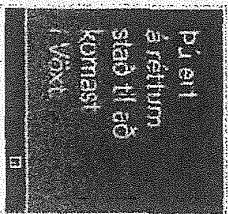
With all these clients ...



Emerging Markets  
Infrastruktur 3  
Obligation



... and all these products



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# Financial Institutions Relations

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## Financial Institutions Relations



- One entry point to the bank
- Team representatives both in Iceland and the UK
- Strong relationship with partner banks
  - Frequent meetings in Iceland and London
  - Regular meetings in the rest of Europe
- Negotiating:
  - Loan facilities
- Continuing efforts to expand the FI network and strengthen relationships
- Working closely with all the local offices and other business units to identify opportunities by mapping current relationships

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# Debt Relations

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## Debt Relations



- Coverage of worldwide bondholder base
- 1-to-1 visits to top 50 investors twice per year
- Quarterly newsletters to all bondholders and debt community
- Constant review of debt investor website pages
- Provision of generic presentations for wider Group use
- Regular referrals of Private Placement opportunities
- Ongoing programme to source potential new investors
- Maintenance of database with all bondholder details and FAQs

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# Asset and Liability Management

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## Strong Liquidity Position in Turbulent Times



- No changes have been made to the Secured Liquidity measure since it was approved by the Board of Directors in the summer of 2006
- The liquidity position of the Bank has remained strong and the target is to have enough secured liquidity to cover all maturing obligations for at least 360 days
- Kaupthing EDGE has strengthened the liquidity of the Bank considerably in 2008
  - Kaupthing EDGE performance exceeds expectations and inflow has been positive at all times even though Kaupthing had experienced negative press coverage in Q1 in some of the markets where EDGE operates
- The transformation of the funding profile to deposit funding away from wholesale funding changes the liquidity risk profile of the Bank
  - More emphasis on strong and active liquidity management
- Kaupthing is currently working on two securitization projects for contingent funding purposes that will further strengthen the liquidity of the Bank
  - The transactions are structured to be eligible for repo financing at the Bank of England, Icelandic Central Bank and the ECB

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## Enhanced Monitoring and Management of Liquidity



- Daily monitoring of the Bank's liquidity position
  - Liquidity Management is notified of and monitors all larger in- and outflows
- Weekly Group ALCO meetings where liquidity risk reports are reviewed
  - Cash flow reports
  - New lending reports
- Regular communication with Treasuries in the subsidiaries / branches to monitor risks / changes
- Balance sheet growth has been controlled tightly
  - Loans to customers down EUR 2.5 bn or 7% in H1'08
- The Icelandic FSA issued new guidelines on best practices for managing liquidity in June 2008
  - Guidelines are in line with Kaupthing's liquidity management practices
  - Kaupthing's Secured Liquidity measure and the monthly liquidity report to be provided to the Icelandic FSA much alike
  - Unlike Kaupthing, the FSA includes listed equity positions as secured liquidity



## Kaupthing EDGE and Liquidity Management



- Kaupthing EDGE has been a great success in 2008
  - At the start of the year Kaupthing was the center of negative press coverage
  - Despite this and the difficult market conditions the deposit base is growing rapidly
- Kaupthing EDGE deposits are guaranteed by deposit schemes in its host country
  - The only exceptions are Germany and Austria where deposits are guaranteed by the Icelandic deposit scheme and in Belgium where deposits are guaranteed by the Luxembourg deposit scheme
- The funds from Kaupthing EDGE are included on the asset side in the Secured Liquidity measure and with a 25% haircut on the liability side
- The funds from the EDGE branches are transferred to a common account at the parent company except for a small amount that is left within the branch to meet short term fluctuations
  - Good risk diversification between countries, different maturities and corporate/retail clients
  - Collecting deposits in one place achieves better risk and liquidity management and dampens fluctuations between markets
  - 25% of deposits withheld and not used for typical bank operations
- The deposit base of Kaupthing EDGE is monitored daily for inflow // outflow per entity
  - Trends identified immediately
  - Regular review of haircut
  - Stress tests used to analyze effects of different scenarios

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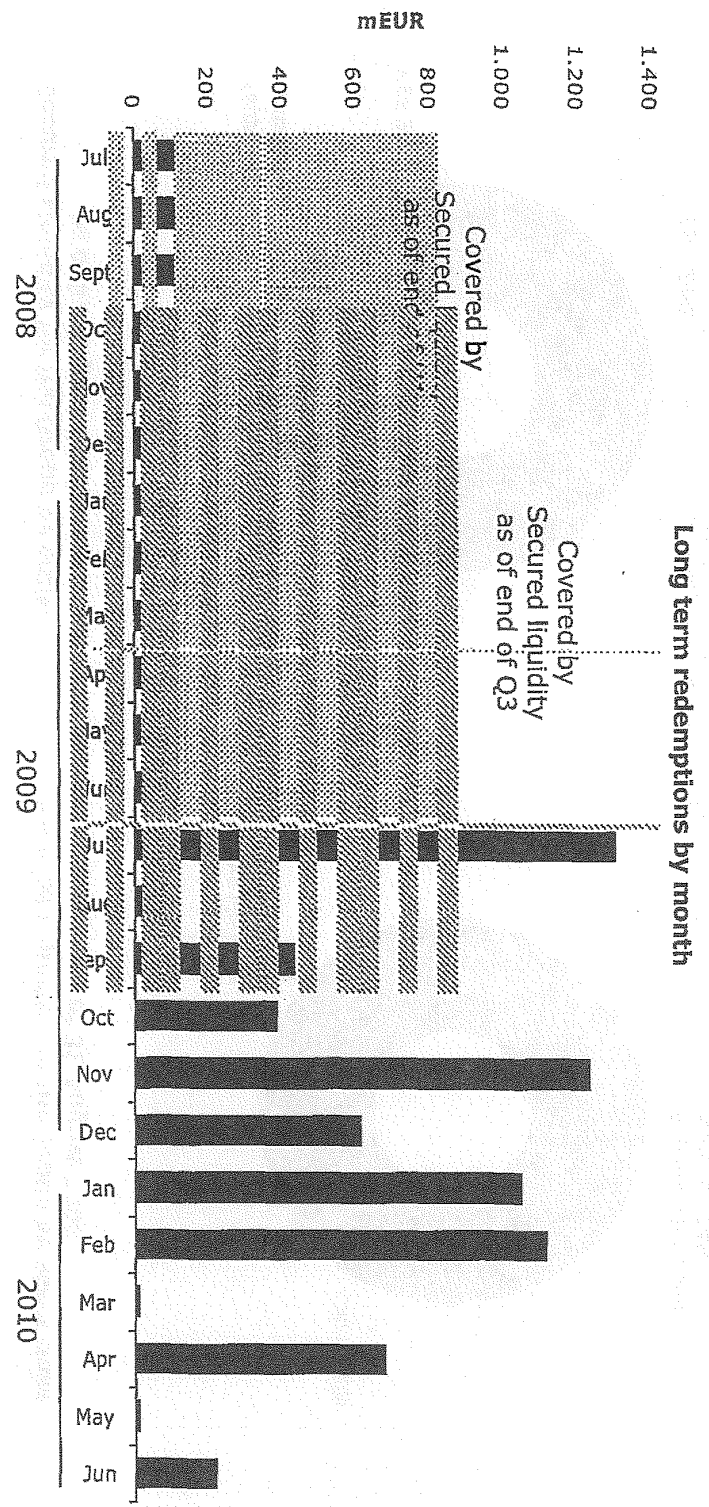
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## Secured Liquidity - Overview



- The primary measure of liquidity of Kaupthing Bank is the Secured Liquidity measure which is calculated from a pool of secured liquid assets
  - The liquidity position is compiled for the Group on a bi-weekly basis
  - With the Secured Liquidity, the Bank has to be able to serve and repay all maturing debts for at least 360 days without any access to capital markets and at the same time maintain a stable level of business
  - The Secured Liquidity of Kaupthing Bank consist of cash, high grade international repo-eligible bonds and alternative liquidity sources with a maturity of over 1 year and without MAC clauses
  - The liquidity measure reflects the position of the Parent company and all the subsidiaries in the Group
- Other liquid asset classes are not included in the Secured Liquidity measure, such as:
  - Contractual inflow from loan portfolios
  - Listed equity positions, unless there is a committed equity repurchase facility in place
- As of end of August 2008 Kaupthing Bank had EUR 8.4bn (ISK 1.025bn) of Secured Liquidity which covered all maturing obligations of the group for 308 days
- The liquidity measure is presented in a report
  - Reviewed in regular ALCO committee meetings
  - Included in the monthly Liquidity Report presented to the Board of Directors of Kaupthing Bank
- Kaupthing's liquidity measure is the main stress test of the bank's liquidity position
- Kaupthing performs additional stress tests on the liquidity measure where different haircuts are applied to the asset classes in the measure and a moderate growth of the balance sheet is assumed

# Secured Liquidity – development of days covered



- Secured liquidity as of end of August 2008 was EUR 8.4 bn, up from EUR 8 bn as of end of H1 2008
  - Long term redemptions in Q3 2009 heavier than in Q3 2008
- In Q3 2008 EUR 250m of outflow due to the merger with SPRON was added to the liability profile

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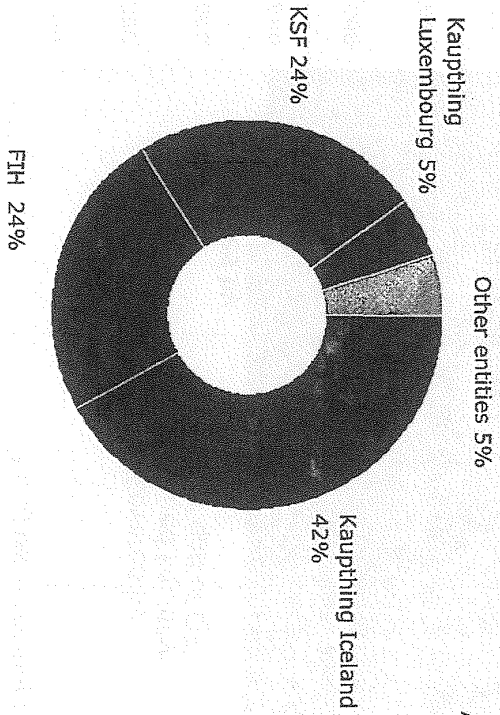
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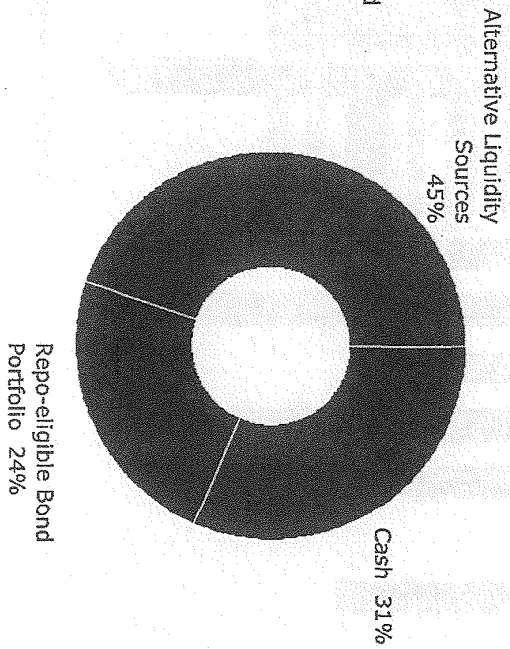
## Secured Liquidity – Group Level



Secured Liquidity for the Group by entity  
as of 31 August 2008



Secured Liquidity for the Group by asset class  
as of 31 August 2008

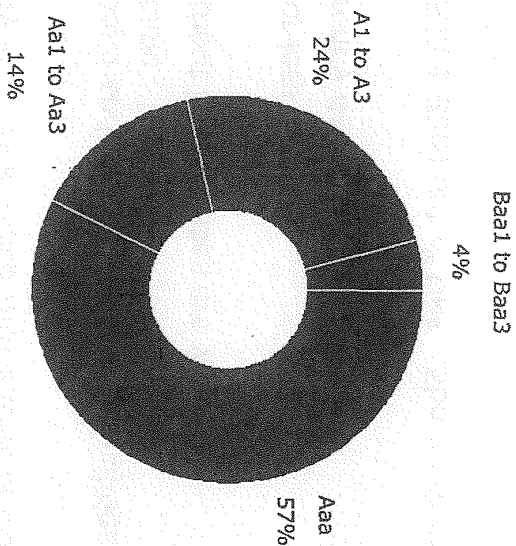


## Repo-eligible Bond Portfolio



- The Repo-eligible Bond Portfolio serves as an important liquidity management tool and is a vital element in reducing the liquidity risk of Kaupthing Bank
- The portfolio includes a variety of high grade international bonds – the average rating is Aa1
- The size of the available repo-eligible bond portfolio as of August 31 2008 was EUR 1.997m
- A haircut of 5% is applied to all bonds in the repo-eligible bond portfolio in the Secured Liquidity measure
- Over the past year a part of the repo-eligible bond portfolio is usually held as collateral in repo financing with Central Banks or market counterparties to manage the liquidity position and obtain funding at low cost

**Breakdown of the rating of the Repo-eligible Bond Portfolio as of 31 August 2008**



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## Alternative Liquidity Sources



- Kaupthing Bank has a variety of alternative liquidity sources in place with a total of EUR 3.729m undrawn as of 31 August 2008
- These liquidity sources are a syndicated revolver, bond and equity repurchase facilities, a committed liquidity facility and a securitisation pipeline
- Facilities with over 1 year left of its lifetime and without MAC clauses are viewed as alternative liquidity sources
- All facilities can be converted into cash in 15 days or less
- A EUR 530m committed syndicated revolver is currently drawn
  - Low funding cost of Libor + 29.5 bps
- As of 31 August 2008 FIH had drawn DKK 9.2bn (EUR 1.2bn) out of DKK 15bn on their securitization pipeline
  - Very favourable funding cost compared to market funding
- One bilateral revolver of DKK 3bn (ca EUR 400m) was put in place in March
- In H1'08 two committed bilateral revolvers of total EUR 240m were replaced with bilateral loans

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## Contingency Funding Plan - Overview



- Kaupthing keeps a detailed contingency funding plan on how to fulfil its obligations if capital markets (deposit and wholesale) close up completely and remain closed for an extended period of time
- The plan outlines three sources of funding originating from assets on Kaupthing's balance sheet
  1. **Securitization.** On-balance sheet securitizations using existing corporate loans and mortgages to create secured rated notes that are eligible for repo financing in Central banks in Europe or potentially sold to investors
  2. **Sale of Assets.** Portfolios available for immediate sale should the need arise
  3. **Actual contractual inflow from loan portfolios**
- The contingency funding plan is reviewed on a quarterly basis but monitored for accuracy and consistency more frequently
- Work has already commenced on some projects in the plan even though liquidity remains strong
  - Kaupthing is targeting the Bank of England's Special Liquidity Scheme (SLS) window that has been extended from October 21 2008 to January 30 2009
- A detailed description of the contingency funding plan is in the Internal Control and Procedural Handbook

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## Securitization – Assets Identified



So far, Kaupthing has identified c. EUR 5bn of assets to be used for securitization – there are other assets usable for securitization on the balance sheet which have not been included in the analysis yet

UK Mortgage Portfolio	<ul style="list-style-type: none"> <li>■ With the BoE SLS window being originally open until October 21, 2008, work has already started on this portfolio. Kaupthing expects to close the transaction in October, even though the window has been extended until end of January 2009</li> <li>■ On the balance sheet of Kaupthing Singer &amp; Friedlander</li> <li>■ The estimated timeline for this project has been in line with reality. This gives Kaupthing comfort regarding timelines set forth for other securitization projects</li> </ul>
UK Leverage Loan Portfolio	<ul style="list-style-type: none"> <li>■ Work commenced early Q3 and Kaupthing looks to close the transaction by the end of September / beginning of October</li> <li>■ Rating process for these loans is straight forward as rating agencies have rated many of these assets before (syndicated loans) - and all loans have internal ratings</li> <li>■ On the balance sheets of Kaupthing Iceland and Kaupthing Singer &amp; Friedlander</li> </ul>
Commercial Real Estate Portfolio	<ul style="list-style-type: none"> <li>■ Well spread portfolio across Sweden, Iceland and UK – on the balance sheets of Kaupthing Iceland and Kaupthing Sweden</li> <li>■ All loans have internal rating</li> </ul>
Icelandic SME Portfolio	<ul style="list-style-type: none"> <li>■ Likely to be the most complicated and time consuming portfolio to securitize due to issues such as currency, non-English documentation etc.</li> </ul>

## Sale of Assets



- Kaupthing has identified portfolios that are available for immediate sale should the need arise
- Only very marketable loans are included with a considerable haircut applied to account for execution and liquidity risk
- There is an overlap between these loans and the loans identified for securitization
  - The intention is not to sell these loans - they have only been identified should the plans for securitization be delayed and a need for more immediate funding arise

Entity	Project	Size of identified pool (EUR m)	Expected funding (EUR m)	Timeframe
KIS	ALF Portfolio	350	250	1 m
KSF	ALF Portfolio	480	385	< 1m
KSF	Mortgage Portfolio	629	377	2 m
Sweden	Commercial Real Estate Portfolio	256	153	1m
Possible funding			1,165	

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## Actual Contractual Inflow from Loan Portfolio



- The contingency plan includes estimated inflow from the bank's loan portfolios
- Kaupthing has identified EUR 2.8bn of loans to customers on maturity over the next 12 months that can be redeemed without compromising the Bank's business franchise
- The inflow is largely from the ALF portfolio and from loans relating to real estate projects
  - These loans are only a small portion of the banks overall portfolio
  - These customers are economically strong and have number of funding alternatives
  - Core clients (with high bargaining power) and loans of lesser quality are excluded

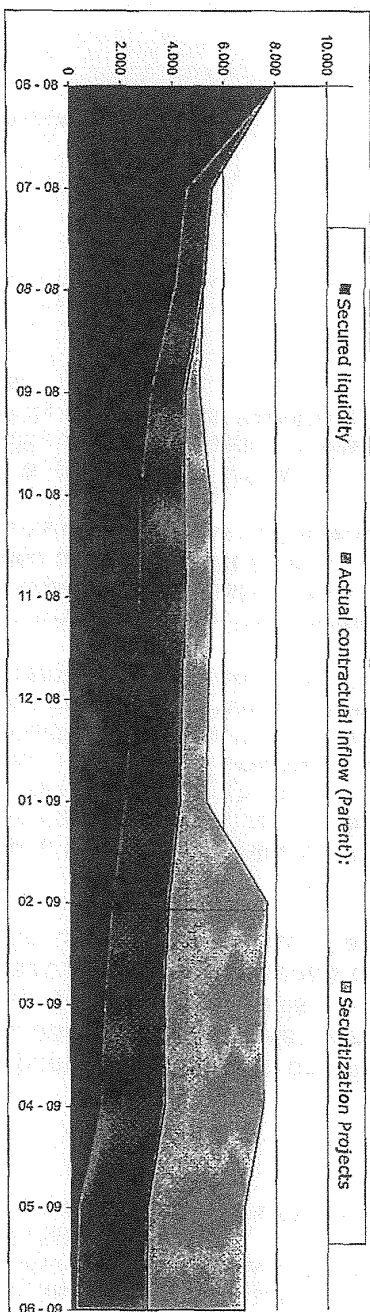
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## Increased Liquidity from Contingency Plan



Below is a figure showing indicative liquidity effects of the contingency plan had it been put in action immediately at the end of Q2 2008



- The graph shows the development of the Group's liquidity position using the following assumptions:
  - no market funding or deposit inflow assumed
  - no short term obligations rolled and all long term obligations mature
  - the only inflow assumed is contractual loan inflow from non core clients and securitization projects
- This represents a very severe scenario and does not reflect the actual development of Secured Liquidity

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