

Memo
Confidential!

To: Review Committee of Kaupthing Resolution Committee
From: Internal Audit

Subject: Business position of Kevin Stanford (KS) at Kaupthing banki hf.

DRAFT

1. Summary

On 3 October 2008 KB acquired KS's loan from KBLux in the amount of GBP 250,479,170.38. The Resolution Committee reached an agreement with KS on 13 March 2009 whereby KS will assist KB in connection with the Aurora and All Saints trademarks. Under the agreement, KS will also furnish information and provide assistance in connection with the transfer of pledged assets to KB. On 19 September 2008, KB granted KS a money market loan to finance the acquisition of 17.3 million shares in Kaupthing whose purchase had been handled by KBLux. As of today, the loan balance is 12.5 billion. The loan is in default.

A currency swap contract for GBP 1,370,600 is in default.

2. Loan transferred from KBLux

KBLux had provided Kevin Stanford with a GBP 295 million facility known as a Secured Investment Line Agreement that was secured by collateral in listed and unlisted companies. In September 2008 the decision was made to transfer this facility to KB by having KB assume Kevin's loan agreements.

Authorisation to transfer the loans from KBLux to KB was approved at a meeting of the Board Credit Committee last September 25-26.

The transfer takes place in three steps:

100977	GPB	193,073,210.69
101989	GPB	25,372,578.24
200069	GPB	32,033,381.45
Total	GPB	250,479,170.38

KBLux paid this amount using account 300-38-200100, which is owned by KB.

On 23 October 2008 KB issued a margin call against KS for GBP 73,200,633 since the collateral no longer fulfilled the terms of the loan agreement. KS was given until 29 October 2008 to make payment.

3. Forward contract

The due date for currency swap contract no. 44132 between KB and KS was 3 June 2008, GBP 1,375,600 (ISK 207m).

This has yet to be paid by KS.

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4. Money market loan

According to emails from Gudmundur Þ. Gunnarsson (GPG), Kaupthing Lux acquired 17.3 million shares in Kaupthing between 7-11 August 2008, with a value date of 18 August 2008.

KBLux is seeking payment from GPG for the "funding" of this purchase, whose reference number is Kevin Stanford's customer number at KBLux.

Commented [glc1]: The Icelandic is unclear whether KBLux is seeking payment from GPG, or GPG is seeking payment from KBLux.

KB granted an ISK 12.4 billion money market loan to KS on 18 August 2008 which was extended to 31 October 2008. The loan funds were deposited onto a KBLux-owned account at KB with reference to KS' customer number. The MM loan was disbursed on 19 August, and the total loan amount matches what Lux has indicated.

Lux appears to be registered as the owner of the shares, as KS is not registered as the owner of any shares in Kaupthing. Unable to see whether there is a promissory pledge against these shares.

KBLux is deemed to own just over 38 million shares in Kaupthing on an Arion Bank pooled account as of 8 October 2008.

5. Guarantee for Materia Invest ehf.

KS is a guarantor along with two other individuals (Thorsteinn M. Jonsson and Magnus Armann) for loan no. 0358-35-002675 which Materia Investment ehf. took from the bank in 2005 and which is for ISK 4.2 billion. The loan balance is currently ISK 7.5 billion. Each individual put up a guarantee for roughly 5.7% of the loan. Therefore, as of today KS's guarantee is for 428 million.

On 23 October 2008, KB notified KS that the loan was in default and demanded a payment that was initially ISK 240 million.

6. Agreement of 13 March 2009 between KS and KB

KB concluded an agreement with KS dated 13 March 2009. KB received KS' pledged assets in unlisted shares, with KBLux receiving listed shares.

The below summary of the agreement with Kevin Stanford was compiled by Arnaldur Jon Gunnarsson and Orn Sch. Thorsteinsson.

Background

Kaupthing Bank acquired the GBP 295m Secured Investment Line Agreement („SILA") originally made between Kaupthing Bank Luxembourg SA as the lender and Kevin Stanford as borrower. Kaupthing Bank consequently acquired pledge over certain assets among them a pledge over all shares in All Saints that belonged to Kevin Stanford.

Pursuant, Kaupthing Bank and Kevin Stanford entered into arrangement relating to the Pledged Assets as set out in Deed of Undertaking dated 13 March 2009.

The Deed of Undertaking furthermore sets out the relationship structure between Kevin Stanford and Kaupthing between each other and vis-à-vis All Saints. In a short summary, Kevin Stanford agreed that Kaupthing could take over the pledges according to the SILA and would provide assistance in regard to the pledged assets as well as the operation of All Saints. In return Kaupthing Bank would refrain from making him bankrupt (not explicitly stated it seems) and he could also continue to serve on the board of All Saints.

The following documents form the Transaction Documents (as defined in the Deed of Undertaking):

Deed of Undertaking	13 March 2009, attached
Secured Investment Line Agreement	27 September 2006, attached
Shareholders' Agreement	13 March 2009, attached
Investment Agreement	15 December 2006, not attached
Kaupthing POA	13 March 2009, attached

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Kevin Stanford Service Agreement	not attached
Kevin Stanford Transfer Documents	Various corporate docs, cf. article 4.1. of the Deed of Undertaking.

Abstract

According to the Deed of Undertaking:

- Kevin Stanford declared his interests and confirmed his debt to the Bank. Kevin also confirmed that the pledges are valid and that he is aware that Kaupthing Bank was appropriating the pledges.
- Kevin Stanford undertook to assist in transferring the pledged assets to Kaupthing Bank.
- Kevin Stanford undertook to provide information about the pledged assets, documents related to those and information relating to himself, All Saints and any liabilities and assets of Kevin Stanford.
- Kevin Stanford shall execute all documents as reasonably required and ensure that All Saints acts as Kaupthing Bank reasonably requires.
- Kevin Stanford shall notify of any petitions for bankruptcy and statutory demands.
- Kaupthing Bank will reduce the debt of Kevin Stanford in accordance with the pledged assets which Kaupthing Bank enforces and appropriates. Such deduction shall however only take place on sale of the assets or if Kaupthing Bank is required to value the assets.
- Kevin Stanford shall assist with the Aurora and All Saints brands.
- Many non-compete clauses (Restrictive Covenants). The clauses are valid for minimum two years from the completion of the contract and one year following his departure from All Saints.

7. Composition agreements (IVA) / bankruptcy

KB is negotiating with KS regarding IVA. General Capital Finance Limited (GCFL) had demanded that KS pay GBP 19,398 (statutory demand). GCFL will be able to pursue the matter further on 24 July 2009 and demand that KS enter into bankruptcy. It is estimated that it will take approximately 6 weeks for a judge to rule that KS enter into bankruptcy proceedings.

Conclusion:

1. KS has violated the agreement of 13 March 2009 since he did not inform KB of the demand for payment (Statutory Demand) by GCFL.
2. ISK 12.5 billion money market loan in default.
3. GBP 1,370,600 currency swap contract in default.

All further information can be obtained from Internal Audit.