KAUPTHING

CREDITORS' REPORT

10 APRIL 2014

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IMPORTANT NOTICE

This report (including all subsequent amendments and additions, if any) has been prepared by the Winding-up Committee of Kaupthing hf. (hereafter "Kaupthing", or the "Company") as a routine update to creditors for information purposes only and is not intended for third party publication, distribution or release in any manner. This report contains a summary of some of the principal issues concerning the Company and is intended to give creditors information on recent developments but is not necessarily and should not be regarded as an exhaustive list of all developments which creditors may consider material.

No reliance can be placed on any of the information provided in this report by any person for any purpose including, without limitation, in connection with any investment decision in relation to the acquisition or sale of any financial instruments or claims. Information contained in this report in no way constitutes investment advice.

No representation or warranty, expressed or implied, is given by the Company, its Winding-up Committee, employees and advisers as to the fairness, accuracy or completeness of the contents of this report or any other document or information supplied, or which may be supplied at any time or any opinions or projections expressed herein or therein, nor is any such party under any obligation to correct any inaccuracies or omissions in this report which may exist or become apparent. In particular, for reasons of commercial sensitivity, information on certain matters has not been included in this report.

This report, including but not limited to any forward-looking statements herein, applies only as of the date hereof and is not intended to give any assurances as to future results. The Company expressly disclaims any obligation or undertaking to disseminate any updates or revisions to the information in this report, including any financial data or forward-looking statements, and will not publicly release any revisions it may make to such information that may result from any change in the Company's expectations, or any change in the events, conditions or circumstances on which these forward-looking statements are based, or other events or circumstances arising after the date hereof.

The Company, its Winding-up Committee, employees and advisers are under no circumstances responsible for any damage or loss which may occur as a result of any of the information provided in this report. The Company, its Winding-up Committee, employees and advisers do not accept any liability in any event including (without limitation) any damage or loss of any kind which may arise including direct, indirect, incidental, special or consequential damages, expenses or losses arising out of, or in connection with the use or inability to use this report.

A part of the financial information contained in the chapter Financial and Operational Update of this report is extracted from and must be read in conjunction with the Company's Financial Statements for the year ended 31 December 2013, audited by Ernst & Young ehf. and published on the Company's public website, www.kaupthing.com, on 17 March 2014 (the "Financial Statements"). Your attention is drawn to the various Notes set out in the Financial Statements, including but not limited to Note 2 (Basis of preparation), Note 4 (Risk management), Note 35 (Uncertainties and valuation methods) and Note 36 (Sensitivity analysis).

The Financial Statements are prepared on the basis that the Company will be able to manage the timing of the realisation of its assets. The Company has assets where no or limited observable market data is available and/or are subject to legal uncertainties. The value of those assets is based on judgement regarding factors as appropriate. Considerable judgement has been applied in recognising and determining the value of those assets. Changes in the underlying assumptions used in the measurement methods could materially affect these estimates of value.

The estimates and underlying assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. The realisable values of the Company´s assets may be different at any given point in time as most of the non-cash assets are complex, illiquid and not standardised and subject to a number of material uncertainties, including general economic and market conditions and legal uncertainties which have been and may continue to be volatile.

The liabilities of the Company are currently being determined through a formal claims filing process which is administered by the Winding-up Committee. The scope of the Company´s liabilities remains uncertain until the legal process of recognising and excluding claims has been further progressed by the Winding-up Committee and where applicable the Icelandic Courts.

These valuations do not represent an assessment of the possible future value of the Company's assets, or an estimate of the likely recovery values of unsecured creditors' finally accepted claims. Material uncertainties continue to exist which could affect recoveries of unsecured creditors, including the ultimate amount of finally accepted priority claims and unsecured claims and the realisable value of the Company's assets.

The Company wishes to caution creditors against using the data in this report or the Financial Statements to estimate likely recovery as any such estimates are likely to be materially misleading. The actual realisable value of the Company's assets and liabilities may differ materially from the values set forth herein and therein.

In this report, assets and liabilities are offset and the net amounts presented, when there is a legally enforceable right to set-off the recognised amounts and an intention to either settle on a net basis or to realise the asset and settle the liability simultaneously. The additional negative impact of disputed set-off claims on the valuation of total assets as at 31 December 2013 is estimated to be between ISK 0-21 billion. The exact impact of disputed set-off could make a material difference to overall creditor recoveries. For further information about set-off in the Financial Statements please see Note 29 thereto.

This report does not include an estimate of the likelihood of a composition being proposed to the Company's unsecured creditors, of the potential timing of any such proposal or the chances of successful approval and confirmation of any such proposal.

Any and all limitation and disclaimer of liability set out above in regard to the Company shall apply as a limitation and disclaimer of liability in regard to the Winding-up Committee and the Company's employees and advisers.

The use of Kaupthing's material, works or trademarks is forbidden without written consent except were otherwise expressly stated. Furthermore, it is prohibited to publish material prepared or gathered by Kaupthing without written consent.

Morgan Stanley & Co. Limited ("Morgan Stanley") is acting as financial adviser to the Winding-up Committee of Kaupthing in relation to the restructuring of Kaupthing. Neither Morgan Stanley nor any of its affiliates (together, the "Morgan Stanley Group") will regard any other person (whether a recipient of this report or not) as a client in relation to the restructuring of Kaupthing and no member of the Morgan Stanley Group will be responsible to anyone (other than the Winding-up Committee of Kaupthing) for providing the protections afforded to clients of the Morgan Stanley Group nor for providing advice to any such other person. Without prejudice to liability for fraud, each member of the Morgan Stanley Group disclaims any liability to any such other person in connection with the restructuring of Kaupthing.

ADDRESS FROM THE WINDING-UP COMMITTEE

To Kaupthing's creditors

Right from the beginning, Kaupthing's Winding-up Committee has placed emphasis on ending the winding-up proceedings as soon as realistically achievable and to effect distributions to creditors without undue delay. Our creditors have indicated that implementation of a composition proposal is the preferred route to achieve distributions. The other route would be to make distributions once Kaupthing has entered bankruptcy proceedings.

However, because of the currency controls in effect in Iceland, Kaupthing needs an exemption from the currency controls granted by the Central Bank, after consultation with the Minister of Finance, to make any distributions to unsecured creditors domiciled outside of Iceland. It is therefore not in the power of the Winding-up Committee to conclude the winding-up proceedings without the involvement of the Central Bank and the government.

In accordance with the above, Kaupthing's Winding-up Committee requested an exemption from capital controls in October 2012 to create the necessary basis for presenting a composition proposal to its creditors, thereby concluding Kaupthing's winding-up proceedings. The Company's goal was to tailor the application, to the extent possible, to the requirements of the Central Bank as those were perceived at the time when the application was submitted. The application was structured to deal first with the distribution of non-krona assets and postpone any subsequent decisions on the distribution of krona assets. This was almost 18 months ago but Kaupthing has not received a substantive reply yet.

It is obvious that the position which the Central Bank and the Minister of Finance will take is a key factor in determining when and how Kaupthing's winding-up proceedings will conclude.

Kaupthing's creditors will be aware of the concerns raised by various parties in relation to the Icelandic krona assets held by Kaupthing and other entities in Iceland which are in a similar position. In particular, concerns have been raised that effects of the distribution of Icelandic assets to foreign creditors would have a substantial negative impact on Iceland's balance of payments. The Central Bank has stated that it is necessary to find ways of ensuring that distributions to foreign creditors do not threaten the financial stability of Iceland and that such concerns need to be conclusively addressed before any potential composition proposal can proceed. In Kaupthing's case the Icelandic krona assets are mostly limited to its shareholding in Arion Bank.

Accordingly, the Winding-up Committee has engaged Morgan Stanley as financial advisers in relation to a realisation strategy for its shareholding in Arion bank and to examine whether Kaupthing's holding in Arion Bank could be sold for foreign currency. This examination revealed interest of investors in looking at the possibility more closely. This interest, however, like any other large-scale foreign investment, depends upon its having the support of the Icelandic authorities.

It must be stressed that even if and when issues in respect of Kaupthing's krona assets have been resolved, it is possible that Kaupthing may not be able to proceed with distributions to its creditors because of other economy wide issues and other external factors. It should also be noted, due to recent legal and political developments, that the Winding-up Committee considers further legislative amendments to the current winding-up proceedings to be conceivable.

In 2013, Kaupthing continued the active management of its diverse portfolio of assets in accordance with the aim of the Winding-up Committee to preserve and maximise the value of Kaupthing's assets until distributions can be made to unsecured creditors. Dedicated teams of in-house specialists and large numbers of external advisers have determinately pursued strategies to maintain and maximise the value of Kaupthing's asset portfolio in face of various challenges.

Kaupthing endeavours to maintain comprehensive information disclosure to all creditors. Kaupthing's financial statements for the year ended 31 December 2013 were published on Kaupthing's website, www.kaupthing.com on 17 March 2014. The Financial Statements which were prepared in accordance with the Icelandic Act on Annual Accounts were audited by Ernst & Young. Kaupthing's assets were valued at ISK 778.1 billion at the end of 2013 and outstanding claims amounted to ISK 2,878.7 billion.

In 2013, an important court decision was rendered in respect of the priority status of so called FRB deposit agreements. This judgement led to considerable reduction in disputed priority claims in Kaupthing's winding-up proceedings.

Last year, Kaupthing held two formal general creditors' meetings, on 5 June and 20 November in Reykjavik and a town hall meeting on 17 October in London. This report is presented to a meeting of creditors on 10 April 2014, which is Kaupthing's 19th public creditors' meeting.

This report is prepared to assist creditors in understanding the development and performance of Kaupthing's operations in 2013 and contains a summary of some of the principal issues und uncertainties faced by Kaupthing.

Kaupthing's Winding-up Committee, is a neutral party appointed by the District Court with the sole task of supervising Kaupthing's winding-up and ensuring non-discrimination among creditors. The Winding-up Committee has both publicly and privately expressed its complete willingness to co-operate with the relevant authorities in finding solutions to the issues of contention, which may arise concerning Kaupthing's settlement and other aspects connected to it, with the aim of concluding the winding-up proceedings successfully and in as short a time as possible. Kaupthing's Winding-up Committee would like to stress that it is and has always been ready to undertake such discussions with the relevant authorities.

Feldís L. Óskarsd.

Feldís L. Óskarsdóttir, District Court Attorney

Jóhannes R. Jóh.

Jóhannes R. Jóhannsson, Supreme Court Attorney

Theodór S. Sigurbergsson, Certified Public Accountant

INTRODUCTION

Events leading to the Winding-up Proceedings

The Company was established in 1982, initially as a securities firm, and subsequently extended its operations into investment banking. The Company became a commercial bank in 2003 and provided integrated financial services to companies, institutional investors and individuals. Following a period of rapid growth in the years 2005 to 2007, the Company experienced financial difficulties during the international liquidity crisis, which were manifested in problems obtaining access to funding and a run on deposits in October 2008.

On 7 October 2008, legislative Act no. 125/2008 (the "Emergency Act") took effect in an attempt to stabilise the Icelandic economy and provide means to deal with the urgent financial and operational difficulties experienced by the Icelandic financial sector. The Emergency Act empowered the Icelandic Financial Supervisory Authority (the "FME") to take special measures in relation to financial institutions, including the ability to assume the authority of shareholders at shareholders' meetings and to appoint a resolution committee to replace a financial institution's board of directors.

On 8 October 2008, the board of directors of the Company resigned. On 9 October 2008, the FME assumed the powers of the Company's shareholders at shareholders' meetings and appointed a resolution committee to replace the board of directors of the Company (the "Resolution Committee"). The Resolution Committee took immediate actions to manage and safeguard the Company's assets and other interests. On 24 November 2008, the Company was granted a moratorium.

On 22 April 2009, Act no. 44/2009 took effect amending the Act on Financial Undertakings no. 161/2002 (the "Act on Financial Undertakings"). Pursuant to the Act on Financial Undertakings, the Resolution Committee was given the power to represent the Company in all matters, including all powers of the Company's shareholders at shareholders' meetings. The Act on Financial Undertakings furthermore required the Resolution Committee to file a request with the District Court of Reykjavik for a winding-up committee to be appointed to allow for a formal claims process to begin. On 25 May 2009, the District Court of Reykjavik approved a request from the Resolution Committee, pursuant to the Act on Financial Undertakings, to appoint a winding-up committee (the "Winding-up Committee") alongside the Resolution Committee. The Winding-up Committee became responsible for processing all claims against the Company and making determinations regarding the acceptance or rejection of such claims.

Until 1 January 2012, the Resolution Committee and the Winding-up Committee jointly managed the Company's affairs. The Resolution Committee was responsible for the daily operations of the Company and managing its assets. The Winding-up Committee was responsible for the administration of the formal claims process and determination regarding the acceptance or rejection of claims against the Company.

Winding-up Proceedings

On 22 November 2010, the moratorium ended and court-ordered winding-up proceedings commenced, with retrospective effect from 22 April 2009.

Pursuant to an amendment to Act on Financial Undertakings no. 78/2011, the Resolution Committee's role came to an end on 1 January 2012 and all of its responsibilities, powers and authority, were transferred to the Winding-up Committee. From 1 January 2012 the Company has been managed by the Winding-up Committee, which holds authority and powers of the Company's board of directors as well as those of the Company's shareholders at shareholders' meetings. The Winding-up Committee is responsible for all of the Company's affairs, including directing its daily operations, managing the Company's assets, administrating the claims process and safeguarding the Company's other interests with the principal objective of preserving the interest of the creditor body as a whole.

The Company operates in accordance with the provisions of the Act on Financial Undertakings which set out the legal framework for the winding-up proceedings. These provisions are supplemented by the general provisions of the Act on Bankruptcy no. 21/1991 (the "Bankruptcy Act") and together these set out the manner in which the Company should manage its assets and determine its liabilities.

During the winding-up proceedings a winding-up committee shall endeavour to obtain as high a value as possible for assets of the financial undertakings, for instance, by waiting if necessary for outstanding claims to mature rather than realising them at an earlier date.

The capital controls provided for in the Act on Foreign Exchange no. 87/1992 (the "Foreign Exchange Act") provides certain restrictions on the operations of the Company and affects i.a. the ability to make distributions to its creditors and to manage the Company's daily operations as further explained in the chapter Overview of Capital Controls Pursuant to the Foreign Exchange Act.

The Act on Financial Undertakings furthermore implements Directive 2001/24/EC into Icelandic law and the Company's winding-up proceedings are accordingly automatically recognised within the EEA.

The Winding-up Committee is comprised of the following members: Ms. Feldis L. Oskarsdottir, District Court Attorney, Mr. Johannes R. Johannsson, Supreme Court Attorney and Mr. Theodor S. Sigurbergsson, Certified Public Accountant.

Distributions to Creditors

According to Act no. 161/2002, Art. 102. paragraph 6, the winding-up committee of a financial institution is only authorised to distribute payments, interim payments or full and final payments, to creditors who hold claims that have been accepted as priority claims, according to Art. 109-112 of the Bankruptcy Act.

However, no interim payments can be made during the winding-up proceedings to creditors holding unsecured claims under Art. 113 of the Bankruptcy Act. Before any distributions can take place to creditors holding unsecured claims, the winding-up proceedings need either be concluded by way of composition with creditors or by placing the estate into bankruptcy proceedings, as further explained in the following paragraphs.

Ending the Winding-up Proceedings

According to paragraph 5 of Art. 102 of the Act on Financial Undertakings, a winding-up committee shall evaluate whether it is likely that the assets of a financial institution will be sufficient to meet its obligations.

Art. 103a of the Act on Financial Undertakings stipulates that if it is established that the assets of a financial institution in winding-up will not be sufficient to meet in full the payment of the claims its winding-up committee has not finally rejected as valid claims, it may seek a composition agreement with its unsecured creditors to conclude the winding-up proceedings. Furthermore, Art. 103a of the Act on Financial Undertakings provides that the financial institution can only remain in winding-up proceedings as long as a composition agreement with the financial institution's unsecured creditors is achievable and has not been rejected by those creditors. Otherwise, pursuant to paragraph 4 of Art. 103a of the Act on Financial Undertakings, the winding-up committee is required to apply to the relevant District Court for the financial institution to be placed into bankruptcy proceedings.

The Winding-up Committee has concluded that the Company's assets will not be sufficient to meet in full the payment of the claims that the Winding-up Committee has not finally rejected. Accordingly, the only options available to the Company to end the winding-up proceedings are as follows:

a) ***composition agreement that will bind all unsecured creditors holding claims affected by the composition agreement***

   The Winding-up Committee may submit a composition proposal to the Company's unsecured creditors. A composition agreement refers to an agreement to settle or relinquish debts which is concluded between a company and a certain majority of its unsecured creditors, who would be affected by the terms of the composition agreement. If submitted by the Company and approved by the requisite majority of unsecured creditors affected by the terms of the composition agreement and confirmed by the Icelandic Courts, the composition agreement binds all of the Company's unsecured creditors affected by the terms of the composition agreement.

b) ***bankruptcy proceedings***

   As referred to above, the Company can only remain in winding-up proceedings for as long as a composition proposal with unsecured creditors affected by the terms of the composition proposal is achievable and has not been rejected by those unsecured creditors. Otherwise, pursuant to paragraph 4 of Art. 103a of the Act on Financial Undertakings, the Winding-up Committee shall make a request to the District Court of Reykjavik that the Company is ordered into bankruptcy proceedings.

The Winding-up Committee after consultation with creditors and other parties, is preparing the Company for a composition. However, as the vast majority of the unsecured claims against the Company are held by creditors domiciled abroad, the execution of a composition is not possible without an exemption from the Central Bank of Iceland (the "CBI"). This is due to the capital controls provided for in the Foreign Exchange Act which restrict cross-border transfers of capital as further described in the chapter Overview of Capital Controls Pursuant to the Foreign Exchange Act. The Company submitted an exemption application in October 2012, but has not received a formal response from the CBI, but had received information requests and clarification questions which in the opinion of the Winding up Committee have all been answered.

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As referred to above the Winding-up Committee is targeting in accordance with Art. 103a of the Act on Financial Undertakings to conclude the winding-up proceedings by means of a composition agreement. This is subject to a number of prerequisite conditions, the fulfilment of which may be subject to third party actions and approval. The timing and conclusion of the winding-up proceedings by means of a composition agreement is uncertain as further described in the chapter Composition Proposal and Issues Relating to the Currency Controls.

Communications with Creditors

The Company endeavours to maintain comprehensive information disclosure to all creditors. The Company has regularly throughout its moratorium, and subsequently during its winding-up proceedings, convened formal and informal meetings with representatives of the Company's creditors. All creditors have an access to financial information and updates of the Company through the website, www.kaupthing.com.

Formal general creditors' meetings are held to present the progress of the claims process and to update creditors on the developments in the Company's operations. Those meetings are in accordance with Art. 103 of the Act on Financial Undertakings which provides that a winding-up committee shall convene general meetings of creditors to present developments in respect of the interest of the relevant financial institution in winding-up. In addition, the Company has held several informal public creditors' meetings.

Last year, the Company held three general creditors' meetings, on 5 June and 20 November in Reykjavik and 17 October in London. This report is presented to a meeting of creditors on 10 April 2014, which is the 19th general creditors' meeting.

In 2008, the Company established an informal creditors' committee ("the ICC") which was comprised of representatives of the Company's largest known creditors at that time. The purpose of establishing the ICC was to provide a forum for constructive dialogue with creditors. Communication with the ICC has allowed the Company to take the views of creditors into consideration during the course of the winding-up proceedings and obtain direct feedback on certain key decisions and developments.

Following the completion of the claims registration process in January 2010, it became apparent that there had been a significant change in the make-up of the Company's creditors. In response to this, in February 2010, the Company invited all creditors to apply to join the ICC, subject to the fulfilment of certain conditions and requirements. The Company based its selection to the ICC on (a) the total size of the claims applicants represented and (b) an aim to ensure representation from all types of creditor groups.

As of the date of this report, the ICC consists of three large creditors, the Asset Management Company of the CBI, Bayerische Landesbank and Deutsche Bank Trust Company Americas. A further member is Bingham McCutchen (London) LLP, as representatives to a group of creditors holding certain notes and other debt instruments issued by the Company. Since March 2012, the ICC has been advised by Talbot Hughes Mckillop LLP in relation to the on-going restructuring of the Company.

The ICC meets on a regular basis to discuss developments relating to the Company, both internal and external. The Company has to date held 28 formal meetings with the ICC. The meetings with the ICC provide a venue for the Winding-up Committee to receive direct feedback from representatives of a cross section of creditor interest. The ICC is a consultative body and does not have any decision-making power. The ICC does not represent all creditors and owes no duties to the creditors of the Company.

In 2012 the Company created an online portal for its creditors (the "Secure Website") in the context of preparing for a composition. The Secure Website will be the portal through which creditors will be able to provide relevant information as the Company may need to obtain for the purposes of the composition process.

FINANCIAL AND OPERATIONAL UPDATE

General Information

The Company's financial statements for the year ended 31 December 2013 (the "Financial Statements") were published on the Company's website, www.kaupthing.com on 17 March 2014. The Financial Statements were audited by Ernst & Young and have been signed with an unqualified opinion. Included in the audit scope is the balance sheet as at 31 December 2012.

The accounting framework used in the Financial Statements has been changed from the previous financial statements. The Financial Statements for the year ended 31 December 2013 have been prepared in accordance with the Icelandic Act on Annual Accounts no. 3/2006 (the "Act on Annual Accounts") instead of a special purpose accounting framework used for preparing previous financial statements.

The accounting framework used in the Financial Statements has been changed from the previous financial statements. The Financial Statements for the year ended 31 December 2013 have been prepared in accordance with the Icelandic Act on Annual Accounts no. 3/2006.

To reflect the requirements of the Act on Annual Accounts, changes were made to accounting policies used for "loans to and claims against credit institutions", "loans to customers", "unsettled derivative receivables" and "other assets" which are measured at amortised cost instead of previous measurement at fair value. All subsidiaries and associates are now recorded as "shares and instruments with variable income". Also interest income is now accounted for on an accrual basis, but was previously accounted for on a cash receipts basis. Comparison for the year 2012 has been adjusted accordingly. Please see note 34 in the Financial Statements for further information on effects of change in accounting policy and reclassification.

The Financial Statements are prepared on the basis that the Company will be able to manage the timing of the realisation of its assets. The preparation of the Financial Statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported values. The Company has assets where no or limited observable market data is available and/or which are subject to legal uncertainties. The value of those assets is based on judgement regarding various factors as appropriate. Considerable judgement has been applied in recognising and determining the value of those assets. Changes in the underlying assumptions used in the measurement methods could materially affect these stated values.

The estimates and underlying assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates and assumptions made. The realisable values of the Company's assets may be different at any given point in time as most of the non-cash assets are complex, illiquid and not standardised and subject to a number of material uncertainties, including general economic and market conditions and legal uncertainties which have been and may continue to be volatile.

Attention is drawn to the various Notes set out in the Financial Statements, including but not limited to Note 4 (Risk management), Note 35 (Uncertainties and valuation methods) and Note 36 (Sensitivity analysis).

Development of the Asset Base in 2013

The Company's assets were valued at ISK 778.1 billion at the end of 2013. This compares to ISK 846.8 billion at the end of 2012. In 2013 the real value of assets (measured by net impairment and fair value changes) increased by ISK 23.2 billion. However, due to negative foreign exchange effects amounting to ISK 59.6 billion owing to the appreciation of the Icelandic krona against various currencies in 2013 and payments in relation to priority claims during 2013, amounting to ISK 35.2 billion, the value of the Company's assets measured in Icelandic krona decreased by ISK 68.7 billion or by 8.1%. Measured in euro the value decreased by 105 million, from EUR 5,014 million to 4,909 million or by 2.1%.

The estimated value of the Company's assets at the end of 2013 and the changes during 2013, broken down by asset classes, is shown below.

The Company's assets were valued at ISK 778.1 billion at the end of 2013. This compares to ISK 846.8 billion at the end of 2012. In addition the Company had at the end of 2013, ISK 15.9 billion in a custody account to cover distributions on priority claims which are still in dispute. In 2013 the real value of assets increased by ISK 23.2 billion.

Asset values and changes during 2013

	ISK million			EUR million		
	31.12.2013	31.12.2012	% change	31.12.2013	31.12.2012	% change
Cash at bank	418,566	417,627	0.2%	2,641	2,473	6.8%
Loans to and claims against credit institutions	9,982	22,380	(55.4%)	63	133	(52.6%)
Loans to customers	104,781	146,086	(28.3%)	661	865	(23.6%)
Bonds and debt instruments	6,306	7,874	(19.9%)	40	47	(14.9%)
Shares and instruments with variable income	210,757	200,564	5.1%	1,330	1,187	12.0%
Unsettled derivative receivables	14,146	20,698	(31.7%)	89	123	(27.6%)
Other assets	13,544	31,572	(57.1%)	85	186	(54.3%)
Total assets	**778,082**	**846,801**	**(8.1%)**	**4,909**	**5,014**	**(2.1%)**

A summary of the development of the Company's asset base in 2013 broken down by asset classes can be seen in the table below.

Development of the Asset Base in 2013

ISK billion	31.12.2013	Net principal payments	Miscellaneous* (reclassification, etc)	FX changes	Net impairment and fair value changes	31.12.2012	Interests, fees and dividends received in 2013
Cash at bank	418.6	39.3	-	(38.3)	-	417.6	2.1
Loans to and claims against credit institutions	10.0	(10.8)	0.1	(1.9)	0.2	22.4	-
Loans to customers	104.8	(34.0)	(0.1)	(11.6)	4.4	146.1	4.3
Bonds and debt instruments	6.3	(4.3)	1.3	(0.2)	1.6	7.9	0.3
Shares and instruments with variable income	210.8	-	-	(6.0)	16.3	200.5	0.7
Unsettled derivative receivables	14.1	(3.5)	(3.7)	(1.1)	1.7	20.7	-
Other assets	13.5	(18.4)	1.8	(0.5)	(1.0)	31.6	0.2
Total assets	**778.1**	**(31.7)**	**(0.6)**	**(59.6)**	**23.2**	**846.8**	**7.6**

** Miscellaneous includes assets released or retrieved as part of settlements (set-off), reclassification between asset classes and other items.*

Further detail in respect of key factors during 2013 affecting each asset class is provided in the respective chapters below.

Breakdown of assets, with or without Icelandic exposure, by domicile of counterparty
The table below shows a breakdown of (a) assets in Icelandic krona, (b) a breakdown of all assets in foreign currency where counterparties are domiciled in Iceland and (c) breakdown of all assets in foreign currency where counterparties are domiciled outside of Iceland.

The breakdown is based on the registered domiciles of counterparties not the underlying geographical location of the assets.

Breakdown of ISK and FX assets

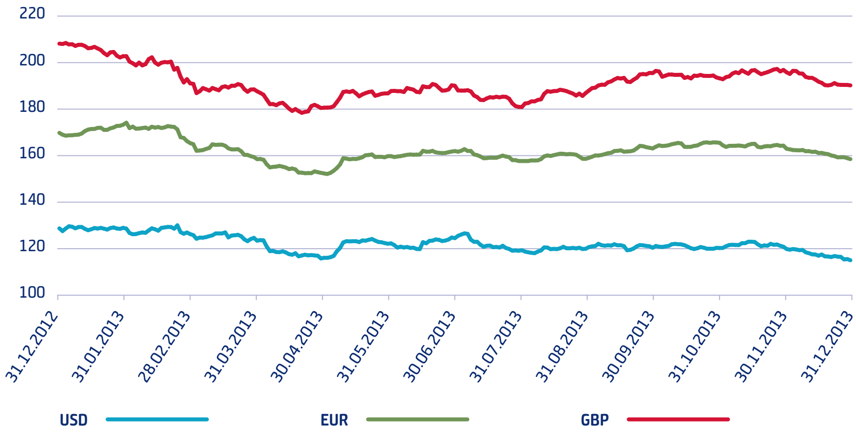
ISK million	ISK assets	FX from Icelandic counterparties	Total ISK assets and FX from Icelandic counterparties	FX from non-Icelandic counterparties	Total assets
Cash at bank	20,168	44,848	65,016	353,550	418,566
Loans to and claims against credit institutions	-	-	-	9,982	9,982
Loans to customers	531	141	672	104,109	104,781
Bonds and debt instruments	4,161	-	4,161	2,145	6,306
Shares and instruments with variable income	122,024	8,556	130,580	80,177	210,757
Unsettled derivative receivables	574	-	574	13,572	14,146
Other assets	316	9,017	9,333	4,211	13,544
Total assets 31.12.2013	**147,774**	**62,562**	**210,336**	**567,746**	**778,082**
Total assets 31.12.2013 (mEUR)	932	395	1,327	3,582	4,909
% of Total assets 31.12.2013			27%	73%	
Total assets 31.12.2012	**137,415**	**70,511**	**207,926**	**638,875**	**846,801**
Total assets 31.12.2012 (mEUR)	814	417	1,231	3,783	5,014
% of Total assets 31.12.2012			25%	75%	

Assets classes broken down by currencies
At the end of 2013, the Company's assets were denominated primarily in pound sterling 24.9%, in euro 24.8% and in Icelandic krona 19.0%. Other major currencies include Swedish krona, US dollar and Norwegian krona. The table below shows the breakdown of assets by currency at year end 2013.

Currency breakdown of assets

ISK million	GBP	EUR	ISK	SEK	USD	NOK	Other	Total
Cash at bank	73,825	122,232	20,168	97,294	45,863	44,271	14,913	418,566
Loans to and claims against credit institutions	-	295	-	6,079	415	-	3,193	9,982
Loans to customers	61,055	22,701	531	10,953	8,804	38	699	104,781
Bonds and debt instruments	-	861	4,161	-	1,284	-	-	6,306
Shares and instruments with variable income	58,813	24,367	122,024	1,997	3,095	408	53	210,757
Unsettled derivative receivables	-	13,572	574	-	-	-	-	14,146
Other assets	56	9,237	316	3,850	71	3	11	13,544
Total assets 31.12.2013	**193,749**	**193,265**	**147,774**	**120,173**	**59,532**	**44,720**	**18,869**	**778,082**
Total assets 31.12.2013 (mEUR)	1,223	1,219	932	758	376	282	119	4,909
% of Total assets 31.12.2013	24.90%	24.84%	18.99%	15.44%	7.65%	5.75%	2.43%	
Total assets 31.12.2012	**226,842**	**215,806**	**137,415**	**131,491**	**71,781**	**43,967**	**19,499**	**846,801**
Total assets 31.12.2012 (mEUR)	1,343	1,278	814	779	425	260	115	5,014
% of Total assets 31.12.2012	26.79%	25.48%	16.23%	15.53%	8.48%	5.19%	2.30%	

Exchange rates of Icelandic krona in major currencies



Foreign exchange rates are based on Reuters foreign exchange rates at 16:30 on the respective dates.

Currency table

	31.12.2013	31.12.2012
AUD	102.94	133.00
CAD	108.33	128.51
CHF	129.24	139.91
DKK	21.25	22.64
EUR	158.49	168.89
GBP	190.68	208.18
JPY	1.09	1.48
NOK	18.95	23.01
SEK	17.90	19.67
USD	115.09	128.09

As the Company's reporting currency is the Icelandic krona, fluctuations in exchange rates between Icelandic krona and the foreign currencies in which the majority of the Company's assets are denominated, will impact the values reflected in the Company's Financial Statements. The Icelandic krona, as measured by the official exchange rate index published by the CBI, appreciated by 10.7% in 2013. The tables above show the exchange rate of the Icelandic krona against major currencies during 2013.

The Icelandic krona, appreciated by 10.7% in 2013.

Potential impact of disputed set-off claims

In the Financial Statements, when there is a legally enforceable right to set-off the recognised amounts and an intention to either settle on a net basis or to realise the assets and settle the liabilities simultaneously, assets and liabilities are offset and net amounts presented. The valuation of assets in the Financial Statements does not take fully into account the impact of disputed set-off. Until all disputes have been concluded, the real and accurate amount of claims accepted for set-off remains uncertain.

The Winding-up Committee estimates, on a preliminary basis, that additional negative effects of disputed set-off on the value of assets at the end of 2013 to be approximately ISK 0-21 billion. The exact set-off effects on the assets will differ from effects on claims. The set-off effects will be impacted by a number of factors, including (a) the assets are subject to foreign currency movements while claims are not, (b) the properties and value of assets may change considerably over time which may significantly affect any set-off amount and (c) several counterparties who have indicated their intention to set-off or declared set-off, did not file a claim or only filed a claim net of set-off; in these instances potential set-off effects will only impact the assets and not the claims. This set-off analysis is based on a number of assumptions, including Winding-up Committee decisions with regards to the acceptance or rejection of the relevant claim against the Company and rights to set-off.

The exact impact of disputed set-off could make a material difference to overall creditor recoveries.

Cash at Bank

"Cash at bank" amounted to ISK 418.6 billion at the end of 2013 and increased by ISK 1.0 billion or 0.2% during the year. Measured in euro, "cash at bank" increased by 168 million or by 6.8%. At the end of 2013, 53.8% of the value of the Company's assets was "cash at bank". This compares to 49.3% at the end of 2012. Of the total "cash at bank" of ISK 418.6 billion, ISK 398.4 billion was held in foreign currencies and ISK 20.2 billion was held in Icelandic krona. Of the ISK 398.4 billion held in foreign currencies, ISK 44.8 billion is held in Iceland and ISK 353.6 billion is held in other jurisdictions.

The table below and to the graph right show a breakdown of "cash at bank" by currency, maturity and whether it is held in Iceland or abroad at the end of 2013 and 2012.

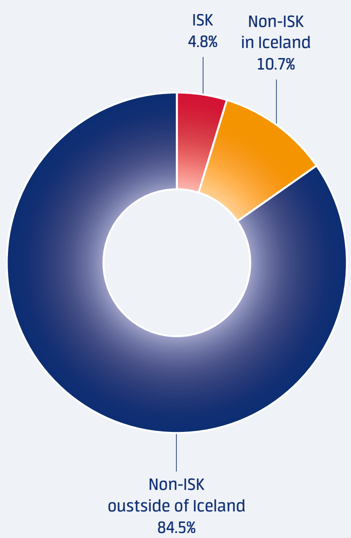
Cash at bank – geography breakdown

ISK million	31.12.2013			31.12.2012		
	Iceland	Other	Total	Iceland	Other	Total
Non-ISK	44,848	353,550	398,398	36,335	364,221	400,556
ISK	20,168	-	20,168	17,071	-	17,071
Cash at bank	**65,016**	**353,550**	**418,566**	**53,406**	**364,221**	**417,627**
Cash at bank (mEUR)	410	2,231	2,641	316	2,157	2,473

"Cash at bank" in foreign currencies held in Iceland, increased in 2013, as a result of long term deposits held in Iceland, and included in the asset class "loans to and claims against credit institutions" at year end 2012, maturing in 2013, and therefore included in "cash at bank" at year end 2013.

Total cash inflow during 2013, which amounted to ISK 82.8 billion, was mostly offset by foreign exchange losses of ISK 38.4 billion owing to the appreciation of the Icelandic krona in 2013 and payments in relation to priority claims amounting to ISK 35.2 billion. The table below summarises the Company's cash flow for the 2013 and 2012 financial years.

Cash at bank



Statement of Cash flows

ISK million	2013	2012
Cash flows from assets		
Interest received	6,701	9,932
Dividend received	650	915
Loans to and claims against credit institutions - principal payments	767	9,105
Loans to and claims against credit institutions - long term deposits	10,031	-
Loans to customers - principal payments	36,564	41,896
Loans to customers - principal outflow / RCF	(2,555)	(5,160)
Bonds and debt instruments - principal payments	4,333	771
Shares and instruments with variable income - realisation (purchase) of equity stakes	(11)	639
Unsettled derivative receivables - net cash inflow	3,544	6,951
Other assets - cash received (paid)	18,446	(1,322)
Other inflow (outflow)	80	(916)
Net cash from assets	**78,550**	**62,811**
Cash flows to other operating actvities		
Fee income	391	226
Other financial inflow	1,214	868
Operating expenses	(5,688)	(8,072)
Net cash to other operating activities	**(4,083)**	**(6,978)**
Cash flows to claims		
Payment of claims Art. 109 and 110	(5,797)	-
Payment of claims Art. 112	(13,469)	-
Custody account - claims Art. 112 in dispute	(562)	-
Custody account - late filed claims Art. 109 and 110 in dispute	(15,307)	-
Net cash to claims	**(35,135)**	**-**
Net cash from operating activities	**39,332**	**55,833**
Effects of foreign exhange adjusments on cash at bank	**(38,393)**	**28,883**
Cash at bank at the beginning of the year	**417,627**	**332,911**
Cash at bank at the end of the year	**418,566**	**417,627**

Total cash inflow during 2013, which amounted to ISK 82.8 billion, was mostly offset by foreign exchange losses of ISK 38.4 billion owing to the appreciation of the Icelandic krona in 2013 and payments in relation to priority claims amounting to ISK 35.2 billion.

The main factors contributing to the increase in "cash at bank" in 2013 are related to (i) principal and interest payments and fee income received from assets within "loans to customers" of ISK 40.8 billion, (ii) principal payments and interest payments received from asset within the asset class "other assets" of ISK 18.6 billion, (iii) maturity of long term deposits and principal payments received from assets within "loans to and claims against credit institutions" of ISK 10.8 billion, (iv) principal and interest payments received from assets within "bonds and debt instruments" of ISK 4.6 billion and (v) net cash inflow from assets within "unsettled derivative receivables" of ISK 3.5 billion.

The main factors contributing to the decrease in "cash at bank" in 2013 are related to (i) negative foreign exchange effects of ISK 38.4 billion, (ii) payments in 2013 to creditors holding accepted priority claims under Art. 109, 110 and 112 of the Bankruptcy Act amounted to ISK 19.3 billion, (iii) payments to a custody account in relation to disputed priority claims under Art. 109, 110 and 112 of the Bankruptcy Act amounted to ISK 15.9 billion, (iv) operating expenses paid in 2013 of ISK 5.7 billion and (v) asset support[1] related

1 The Company has outstanding revolving credit facilities which are drawn and repaid in the ordinary course of business and which are both reflected in the principal outflow and net principal repayments of "loans to customers". During 2013, the Company supported loan positions within "loans to customers", primarily in the form of short-term loans to provide working capital for operations. Principal outflow in relation to asset support and outstanding revolving credit facilities in 2013 is ISK 2.5 billion.

to "loans to customers" amounted to ISK 2.5 billion. Further breakdown of the cash flows in 2013 can be found in the Statement of Cash flows above.

The below table shows a further breakdown of "cash at bank" by currency and changes in the respective currencies in 2013.

Cash at bank – currency breakdown

ISK million	31.12.2013		31.12.2012		Change		Change	
	Currency	ISK	Currency	ISK	Currency	Currency %	ISK	ISK %
EUR	771	122,232	752	126,969	19	2.5%	(4,737)	(3.7%)
SEK	5,436	97,294	5,182	101,958	254	4.9%	(4,664)	(4.6%)
GBP	387	73,825	370	76,932	17	4.6%	(3,107)	(4.0%)
USD	399	45,863	402	51,509	(3)	(0.7%)	(5,646)	(11.0%)
NOK	2,336	44,271	1,603	36,888	733	45.7%	7,383	20.0%
ISK	20,168	20,168	17,071	17,071	3,097	18.1%	3,097	18.1%
DKK	443	9,411	224	5,061	219	97.8%	4,350	86.0%
CHF	34	4,350	5	746	29	580.0%	3,604	483.1%
JPY	611	669	300	444	311	103.7%	225	50.7%
CAD	3	363	-	49	3	-	314	645.6%
AUD	1	120	-	-	1	-	120	-
Cash at bank		**418,566**		**417,627**				
Cash at bank (mEUR)		2,641		2,473				

The Company's cash holdings are subject to Icelandic capital controls. Certain cross-border transactions require pre-approval of the CBI, whilst other transactions are subject to reporting requirements to the CBI. More information about the capital controls in Iceland can be found in the chapter Overview of Capital Controls Pursuant to the Foreign Exchange Act..

The Company's cash holdings are subject to Icelandic capital controls. Certain cross-border transactions require pre-approval of the CBI, whilst other transactions are subject to reporting requirements to the CBI.

Cash at bank – currency and maturity breakdown

ISK million	31.12.2013			
	On demand	Within 1 month	From 1 to 3 months	Total
EUR	7,243	5,776	109,213	122,232
SEK	88,571	-	8,723	97,294
GBP	6,123	7,705	59,997	73,825
USD	5,457	9,668	30,738	45,863
NOK	4,496	32,337	7,438	44,271
ISK	5,104	15,064	-	20,168
Other	6,026	-	8,887	14,913
Cash at bank	**123,020**	**70,550**	**224,996**	**418,566**
Cash at bank (mEUR)	776	445	1,420	2,641

The above table shows a breakdown of "cash at bank" by maturity at the end of 2013.

Non-Cash Assets

General overview

The Company holds a significant portfolio of non-cash assets. The portfolio of non-cash assets includes loans, bonds, equity stakes, unsettled derivative receivables and sundry assets, across various sectors and geographies, amounts to ISK 359.5 billion and represents 46.2% of the value of the Company's assets at the end of 2013.

In the below sections, the Company's "loans to customers" portfolio is divided into two sub-portfolios. This is due to the different nature of the assets and the way the Company organises the management of its loan assets. The two sub-portfolios are the "Operating Loan Portfolio", which is predominantly made up of loans to borrowers with underlying operating businesses, and the non-operating loan portfolio (the "NOA Loan Portfolio") which is made up of loans to borrowers with little or no underlying business operations. The Operating Loan Portfolio is comprised of loans categorised in the last Creditors' Report as the "Nordic" and the "European" portfolios.

The Operating Loan Portfolio and the asset classes "shares and instruments with variable income" and "bonds and debt instruments" will in this report be collectively referred to as the "Operating Asset Classes" to distinguish those assets from other non-cash asset classes which have little or no underlying business operations, e.g. the NOA Loan Portfolio, "loans to and claims against credit institutions", "unsettled derivative receivables" and "other assets".

The assets within the Operating Asset Classes in this report are valued at ISK 300.5 billion and represent 38.6% of the value of the Company's assets at the end of 2013. Assets not included within the Operating Asset Classes in this report, are valued at ISK 59.0 billion and represent 7.6% of the value of the Company's assets at the end of 2013.

High concentration in asset portfolio

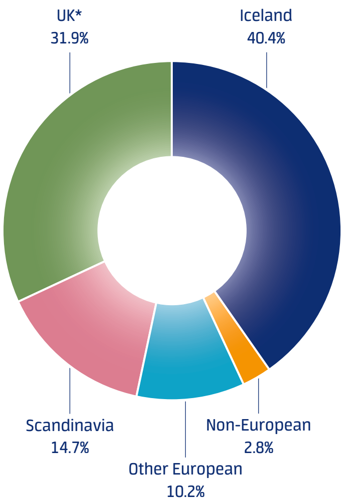
The Company's largest asset position is its 87.0% equity interest in Arion bank hf. ("Arion bank"), which represented 33.9% of the value of the Company's non-cash assets at the end of 2013. The Company's equity interest in Arion bank is accounted for at fair value which is based on the price of one times the book value of Arion bank's shareholders' equity. The fair value does not necessarily reflect value realised by the Company in the future. The Company's three largest non-cash asset positions besides Arion bank are positions in (a) a real estate development at Fitzroy Place in London, (b) an off-shore holding company in liquidation and (c) an unsettled derivative receivable from an European financial institution.

The Company's largest asset position is its 87.0% equity interest in Arion bank hf. ("Arion bank"), which represented 33.9% of the value of the Company's non-cash assets at the end of 2013.

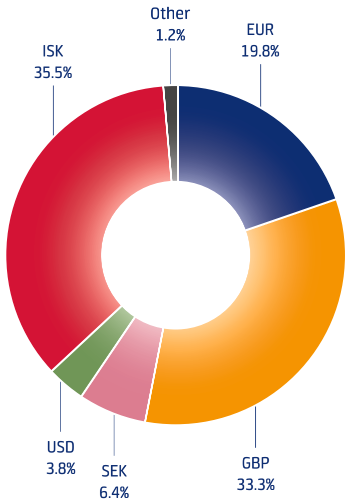
High complexity requiring time for conversion into cash

Given the complexity of many of the Company's non-cash assets, it may be difficult to monetise assets quickly or on acceptable terms. Bespoke solutions for each asset may have to be developed. In particular, as discussed in more detail in the special section on Arion bank below, there are significant impediments to realising value from the Company's ownership in Arion bank. There may also be challenges to realising value from many of the Company's other asset positions. Lastly, the Company may have to invest significant sums to provide support to certain asset positions, e.g. through capital contributions and refinancing of loans.

Non-cash assets
– regional breakdown



Non-cash assets
– currency breakdown



** UK includes overseas territories and crown dependencies.*

Regional breakdown

At the end of 2013, a majority of the Company's non-cash assets was located in three regions; Iceland representing 40.4% of the value of non-cash assets, including the share-holding in Arion bank (83.9% of the value of Icelandic non-cash assets); the United Kingdom, representing 31.9% of the value of non-cash assets; and Scandinavia, representing 14.7% of the value of non-cash assets.

Currency breakdown

33.3% of the value of non-cash assets were at the end of 2013, denominated in pound sterling, 35.5% in Icelandic krona, including the shareholding in Arion bank (95.5% of the value of Icelandic krona non-cash assets), and 19.8% in euro. Other major currencies include Swedish krona and US dollar.

The Company's shareholding in Arion bank, is around 95.5% of the value of the Company's Icelandic krona non-cash assets.

Limited income-generating capability

The Company has relatively few remaining assets which generate material amounts of regular income (e.g. loan interest and dividends). It follows that the Company's future cash flows will primarily be dependent upon realisations of asset positions.

With respect to assets within the Operating Asset Classes, realisations of asset positions in which the Company has equity only, or an equity and debt interest, can generally be expected to be pursued through a sale of the position and, in some cases, refinancing by another lender. The values achieved through such realisations will be dependent upon a number of factors, including the performance of the businesses underlying the assets and prevailing economic and financial market conditions. In the interim, some of these positions may require some form of asset support.

It is likely that realisation of asset positions where the Company only holds debt exposure can be pursued through the repayment of outstanding principal or refinancing by another lender.

With respect to assets within the "loans to and claims against credit institutions", the NOA Loan Portfolio, and the "unsettled derivative receivables" portfolio, realisations would generally be expected to occur through the resolution of legal disputes, settlement negotiations, enforcing security or insolvency proceedings.

With respect to assets within "other assets", realisations would generally be expected to occur through a sale of claims on bankrupt entities and repayments of receivables.

Debt and equity holdings representations
Several of the Company's largest asset positions are reflected across multiple asset classes in the Company's Financial Statements, particularly in the Operating Asset Classes. In many instances this is a consequence of debt restructurings where the Company has taken equity positions as a condition of restructuring loans (e.g. debt to equity swaps). In particular, a number of asset positions are reflected in both the "loans to customers" and "shares and instruments with variable income" asset classes in the Financial Statements.

When analysing connections between positions in the Operating Asset Classes, a classification can be made as to whether the assets are (a) positions where the Company has a majority of voting rights in the underlying entity but holds no debt (the "Controlling Equity Interest Only" category) (b) positions where the Company has a majority of voting rights in the underlying entity and holds debt (the "Controlling Equity Interest & Debt" category), (c) positions where the Company only holds debt (the "Debt Only" category), (d) positions where the Company holds debt and equity but does not have majority of voting rights in the underlying entity (the "Minority Equity Interest & Debt" category), or (e) equity positions where the Company holds no debt and does not have majority of voting rights in the underlying entity (the "Minority Equity Interest Only" category).

The Controlling Equity Interest Only category and the Controlling Equity Interest & Debt category account for majority of the total value within the Operating Asset Classes or 80.9.% at the end of 2013. The Debt Only category, Minority Equity Interest & Debt category and Minority Equity Interest Only category account for 19.1% of the total value of the Operating Asset Classes at the end of 2013. These positions are reflected in all of the "loans to customers", "shares and instruments with variable income" and "bonds and debt instruments" asset classes in the Financial Statements.

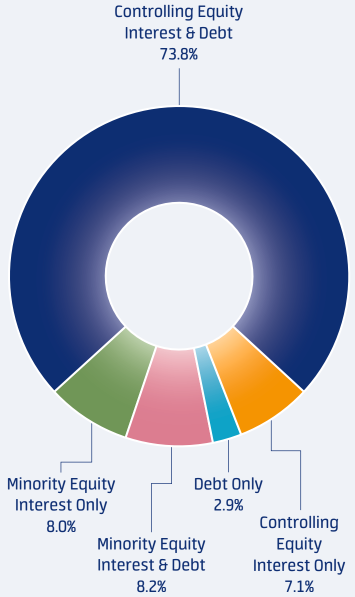
The Controlling Equity Interest Only positions constitute 7.1% of the total value of the Operating Asset Classes. This category is concentrated and includes Holding Companies and companies that engage in Financial Services. Of the companies in this category, 41.4% are located in Scandinavia, 39.0% in Iceland and 19.6% in the United Kingdom.

Included in the category Controlling Equity Interest & Debt in the graph to the right is the Company's exposure to Arion bank. Besides the Company's exposure to Arion bank, this category is diverse and includes companies that engage in real estate, consumer goods and retail, other consumer services and business and industrial products. Of the companies in this category, 55.4% by value are located in Iceland (all of which is exposure on Arion Bank) and 32.9% in the United Kingdom.

The Debt Only positions constitute 2.9% of the total value of the Operating Asset Classes, with 52.2%, of the companies in this category by value located in the United Kingdom, 20.5% in Iceland and 17.2% in Scandinavia. Positions in the Company's Debt Only category are spread over various sectors, including business and industrial products, holding companies, real estate, governments, energy and environment and agriculture.

Positions in the Minority Equity Interest & Debt category and Minority Equity Interest Only category are diverse both in terms of geography and sector.

Operating Asset Classes – breakdown by type of exposure



Major development of Operating Asset Classes in 2013

Operating Asset Classes 31 December 2013

ISK million Asset classes as set out in Financial Statements	Controlling Equity Interest & Debt	Controlling Equity Interest Only	Debt Only	Minority Equity Interest & Debt	Minority Equity Interest Only	Total
Loans to customer (Operating)	56,148	-	4,915	22,355	-	83,418
Bonds and debt Instruments	970	-	3,795	1,541	-	6,306
Shares and instruments with variable income	164,603	21,425	-	687	24,042	210,757
Total	**221,721**	**21,425**	**8,710**	**24,583**	**24,042**	**300,481**

Operating Asset Classes 31 December 2012

ISK million Asset classes as set out in Financial Statements	Controlling Equity Interest & Debt	Controlling Equity Interest Only	Debt Only	Minority Equity Interest & Debt	Minority Equity Interest Only	Total
Loans to customer (Operating)	68,247	-	22,044	24,091	-	114,382
Bonds and debt Instruments	2,312	-	3,904	1,658	-	7,874
Shares and instruments with variable income	150,611	26,781	-	916	22,256	200,564
Total	**221,170**	**26,781**	**25,948**	**26,665**	**22,256**	**322,820**

Change in Operating Asset Classes in 2013

ISK million Asset classes as set out in Financial Statements	Controlling Equity Interest & Debt	Controlling Equity Interest Only	Debt Only	Minority Equity Interest & Debt	Minority Equity Interest Only	Total
Loans to customer (Operating)	(12,099)	-	(17,129)	(1,736)	-	(30,964)
Bonds and debt Instruments	(1,342)	-	(109)	(117)	-	(1,568)
Shares and instruments with variable income	13,992	(5,356)	-	(229)	1,786	10,193
Total	**551**	**(5,356)**	**(17,238)**	**(2,082)**	**1,786**	**(22,339)**

Classification into categories is based on categorisation at the end of 2013, but applying amortised cost/fair values as at year end 2013 or year-end 2012 as applicable.

The above table shows the value change in the Operating Asset Classes during 2013, where the total amount within these asset classes decreased by ISK 22.3 billion. Much of this change is due to positions in the Debt Only category decreasing by ISK 17.2 billion. The value change in the Operating Asset Classes is primarily made up of three elements, being principal payments amounting to ISK 34.9 billion, a real value increase, measured by net impairment and fair value changes, amounting to ISK 27.3 billion and the negative effect of appreciation of the Icelandic krona of ISK 15.9 billion on the value of the assets presented in Icelandic krona.

Operating Asset Classes – developments in 2013 broken down by type of exposure

ISK million Category	Value YE 2013	Principal paid	Miscella-neous	FX changes	Net impair-ment and fair value changes	Value YE 2012
Controlling Equity Interests & Debt	221,721	(264)	-	(8,290)	9,105	221,170
Controlling Equity Interests only	21,425	-	-	(957)	(4,399)	26,781
Debt Only	8,710	(30,998)	1,284	(2,960)	15,436	25,948
Minority Equity Interests & Debt	24,583	(3,517)	-	(2,099)	3,534	26,665
Minority Equity Interests only	24,042	(129)	-	(1,620)	3,535	22,256
Interest accrued - paid	-	-	(109)	-	109	-
Total	**300,481**	**(34,908)**	**1,175**	**(15,926)**	**27,320**	**322,820**

The value of the positions in the Controlling Equity Interest & Debt category increased by ISK 0.6 billion in 2013. ISK 9.1 billion real value increase, was largely offset by the negative effect of appreciation of the Icelandic krona of ISK 8.3 billion on the value of the assets presented in Icelandic krona. The real value increase of 4.1% is driven by a real value increase in the Company's shareholding in Arion bank, due to an increase in Arion banks' equity. Value movements on other assets in this category are for the most part either neutral or slightly negative.

The value of the positions in the Controlling Equity Interest Only category decreased by ISK 5.4 billion, due to ISK 4.4 billion real value decrease and negative effect of appreciation of the Icelandic krona of ISK 1.0 billion on the value of the assets presented in Icelandic krona.

The value of the positions in the Debt Only category decreased by ISK 17.2 billion in 2013, despite an ISK 15.4 billion real value increase, due to principal payments amounting to ISK 31.0 billion. The real value increase is due to principal payments of assets, previously considered to be at risk. Assets valued at ISK 1.3 billion were received during 2013 as a part of a settlement.

The value of the positions in the Minority Equity Interest & Debt category decreased by ISK 2.1 billion in 2013, despite an ISK 3.5 billion real value increase, due to principal payments amounting to ISK 3.5 billion and negative effect of appreciation of the Icelandic krona of ISK 2.1 billion on the value of the assets presented in Icelandic krona.

The value of the positions in the Minority Equity Interest Only category increased by ISK 1.8 billion in 2013. ISK 3.5 billion real value increase was partly offset by the negative effect of appreciation of the Icelandic krona of ISK 1.6 billion on the value of the assets presented in Icelandic krona.

Operating Asset Classes – developments in 2013 broken down by sectors

ISK million Sector	Value YE 2013	Principal paid	Miscella-neous	FX changes	Net impair-ment and fair value changes	Value YE 2012
Financial Services	138,757	(276)	-	(1,054)	12,521	127,566
Real Estate	66,250	(2,472)	-	(5,557)	9,833	64,446
Consumer Goods and Retail	29,440	(5,386)	-	(2,800)	(2,894)	40,520
Business and Industrial Products	24,669	(147)	-	(2,171)	(4,802)	31,789
Consumer Services: Other	16,997	(851)	-	(1,678)	100	19,426
Holding Company	16,483	(15,888)	1,284	(1,393)	4,931	27,549
Other	7,808	(1,122)	-	(371)	280	9,021
Individuals	77	(8,766)	-	(902)	7,242	2,503
Interest accrued - paid	-	-	(109)	-	109	-
Total	**300,481**	**(34,908)**	**1,175**	**(15,926)**	**27,320**	**322,820**

The table above summarises the aforementioned changes in the value of the Operating Asset Classes in 2013 across sectors. Major contributors to the real value increase of ISK 27.3 billion measured by net impairment and fair value changes are positions within the Financial Services and Real Estate sector which accounted for the majority of the total real value increase. The decrease in the real value of Consumer Goods and Retail sector and Business and Industrial Products sector was mainly due to difficult trading environment for the underlying businesses which operate primarily in Europe. Resolution in the form of receipt of principal payments of assets, previously considered to be at risk, within Holding Companies and Individuals sectors explains the real value increase within these operating asset classes.

Loans to Customers - Operating Loan Portfolio

The Operating Loan Portfolio is predominantly made up of loans to borrowers with underlying operating businesses. The Operating Loan Portfolio is mostly derived from (i) former lending activities in connection with leveraged acquisitions, mainly in the United Kingdom and to some extent in other European countries, and (ii) loans to smaller and medium-sized companies, mainly in Scandinavia. The Company's lending activities effectively ceased in October 2008 and since October 2008 most of the positions in the Operating Loan Portfolio have either been repaid or restructured.

The Company's lending activities effectively ceased in October 2008 and since October 2008 most of the positions in the Operating Loan Portfolio have either been repaid or restructured.

Each position in the Operating Loan Portfolio has a designated account manager within the asset management department supervised by the respective manager, supported by an internal legal counsel who is involved in the legal aspects of all transactions. From inception, every major account within the Operating Loan Portfolio has been analysed by the Company and a future applicable plan developed for each account together with management of the respective entities. As a result of extensive restructuring work since 2008, the Company has become an equity owner in many accounts. The Company has obtained a controlling interest in several companies. As an equity holder, the Company has endeavoured to ensure that its views are represented by nominating members to the board of directors while also making sure to retain directors with industrial know-how and expertise.

In all major restructuring cases, external advisers have been appointed. Specialists within the asset management and legal divisions lead the restructuring projects. The process is supported by external advisers as needed. For specialised projects the Company has sought to appoint leading advisers in the respective fields with industrial know-how, expertise and domestic market knowledge. Depending on the nature of the restructuring projects, these external parties include financial advisers, legal counsels, real estate consultants, retail experts, accountants and auditors. The cost is in most cases paid by the respective borrower, or the Company where it holds the equity.

Matthew Turner as a prospective CEO candidate post composition has been advising the Asset Committee with respect to the Company's Operating Asset Portfolio.

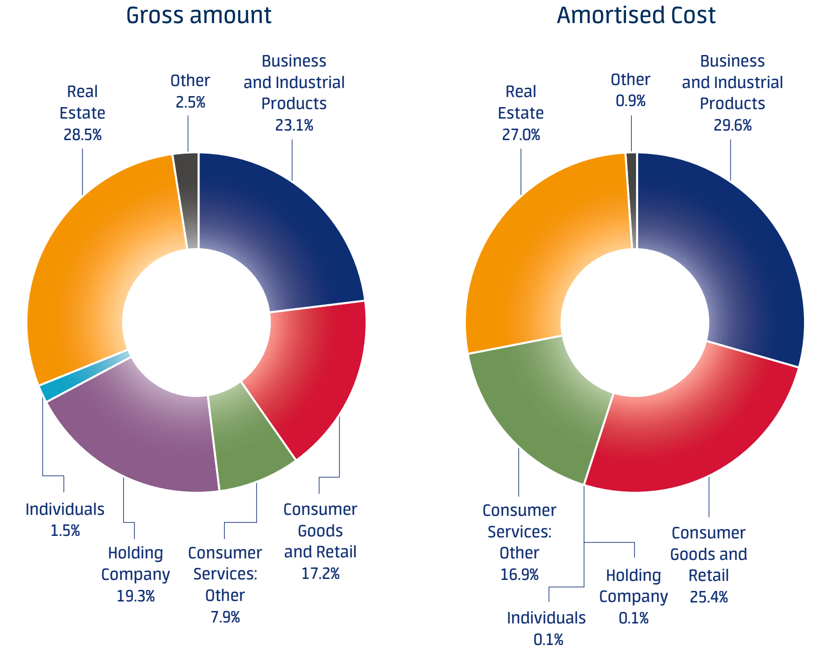
The Company's Operating Loan Portfolio is valued at ISK 83.4 billion and decreased by ISK 31.0 billion in 2013. The decrease is primarily due to inflow from net principal repayments of ISK 30.6 billion.

The Company has engaged external advisers to carry out various tasks, including providing corporate finance advice, due diligence reports, business verification, tax planning and appraisal and valuation. Financial advice in such fields as tax, restructuring and valuation has, amongst others, been provided by KPMG, Deloitte, Pricewaterhouse-Coopers, Ernst&Young and BDO Stoy Hayward. Real-estate appraisal has been provided by, amongst others, CBRE and Catella. Legal advisers include Olswang, Allen&Overy, Clifford Chance, Mannheimer Swartling, Lindahl, Arntzen de Besche Advokatfirma and Cederquist.

Furthermore, Matthew Turner as a prospective CEO candidate post composition has been advising the Asset Committee with respect to the Company's Operating Asset Portfolio.

The Company's Operating Loan Portfolio is valued at ISK 83.4 billion and decreased by ISK 31.0 billion in 2013. The decrease is primarily due to inflow from net principal repayments of ISK 30.6 billion and foreign exchange losses of ISK 9.7 billion. Real value increase in 2013 measured by reversed impairments was 9.4 billion.

Operating Loan Portfolio - breakdown by sector



As can be seen on the graphs above, the remaining positions within the Operating Loan Portfolio are spread over various sectors, including business and industrial products, real estate, consumer goods and retail, and other consumer services.

Performance development at gross value

The status of loans in the Operating Loan Portfolio is classified in the following manner:

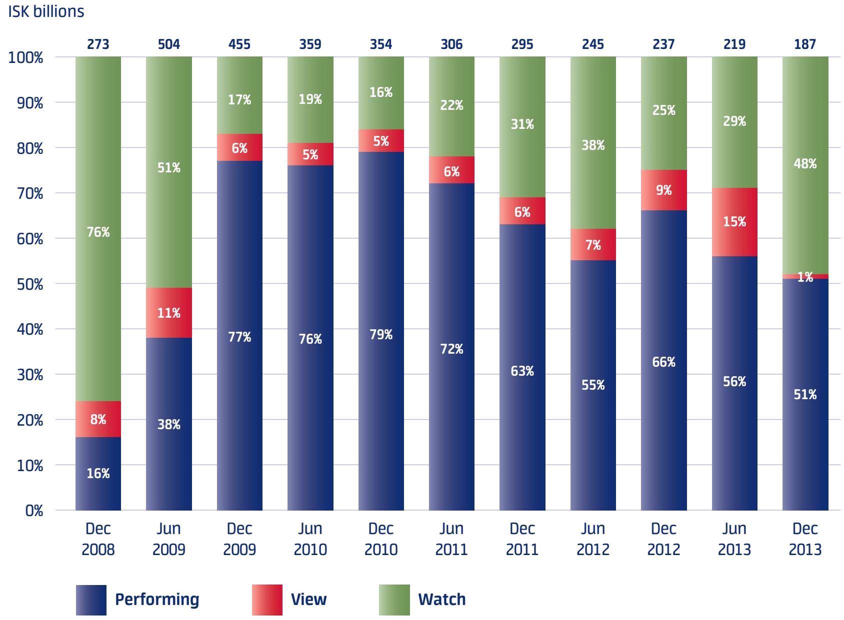
Performing loans: Loans to entities where cash flow is sufficient to service debt, i.e. interest and principal repayments and no breaches in agreements are foreseeable in the future.

Loans on view list: Loans to entities where cash flow is sufficient to service debt, i.e. interest and principal repayments, but agreements have been breached or are likely to be breached in the foreseeable future. Some banks include this category within performing loans.

Loans on watch list: Loans to entities where cash flow is insufficient to service debt, i.e. interest and principal repayments and agreements have been breached repeatedly.

The graphs below demonstrate the performance of the portfolios semi-annually based on the gross value in the respective month.

Operating Loan Portfolio[2] – performance development



Debt to equity conversion is a major factor in increased performance in 2009 and contributes to the decrease in gross value in 2009. Furthermore, the increase in performance is also driven by extensive financial restructuring work, covenant resets and active management. A large contributor to a proportional decrease in performance over the more recent periods has been the repayment of performing loans. The remaining loans on "watch" list increase in proportion to the overall Operating Loan Portfolio. In addition, the Company was engaged in several large restructurings at year end 2013, which contributes to the increase in "watch" list at year end. The Company is exposed in the whole capital structure of these borrowers. Restructurings are expected to be completed during second half of 2014.

When reviewing the performance of the Operating Loan Portfolio, several factors need to be borne in mind. Firstly, predominantly performing loans have been repaid. Secondly, when Arion bank was recapitalised by the Company in 2010, certain Icelandic related

2 Debt which is still held against Jane Norman (in administration) after its pre-pack administration has been excluded since December 2011.

performing loans were transferred to Arion bank as part of the capitalisation. The transfer of these Icelandic related performing loans in the recapitalisation of Arion bank skews the comparison between periods in the performance graphs. Thirdly, as the Operating Loan Portfolio is a static portfolio in a wind-down, performance should be expected to decline through time, everything else being equal. Fourthly, substantial parts of the loans, which are now on the watch list, are expected to remain on the watch list for some time. These loans, including some option value loans transferred from Arion bank to the Company in the second half of 2009 will only become performing after a restructuring of underlying operations of the asset has taken place, if at all. Fifthly, when the underlying operations of any of the Company's assets are restructured, the debt level is generally set at a level not lower than perceived enterprise value at restructuring. This leaves little leeway for unfavourable development of any particular asset. It can therefore be expected that ultimately some assets may drop to the "watch list" and that the underlying operations will be in a need for further reorganisation.

As discussed above, a large proportion of the loans remaining in the Operating Loan Portfolio are made up of loans that have defaulted over the last five and a half years and have had to be restructured. At the end of 2013, restructured loans in the Operating Loan Portfolio represented 99.1% of the total value of the Operating Loan Portfolio. As a consequence, the Company's current loan portfolio is largely made up of loans that have not performed in the past. Furthermore, loans that have been repaid since 2008 were generally to those borrowers with more positive operating performance and stable cash flows. Material uncertainties exist as to whether the remaining loans will perform in the future. The Company's remaining Operating Loan Portfolio may therefore be more volatile in the future than they have been in the past.

Highly concentrated loan portfolio

The Company's Operating Loan Portfolio is highly concentrated. At the end of 2013, the Company's ten largest loans in the Operating Loan Portfolio constituted 95.6% of the value of the portfolio. Of these ten loans, six loans were positions which fall into the Controlling Equity Interest & Debt category. At the end of 2013, the total exposure of these six positions represented 19.1% of the value of the Company's Operating Asset Classes.

The table below shows the Company's ten largest positions in the Operating Loan Portfolio by value at the end of 2013.

At the end of 2013, the Company's ten largest loans in the Operating Loan Portfolio constituted 95.6% of the value of the portfolio.

The ten largest loans in the Operating Loan Portfolio

Top 10 Loans	Kaupthing Equity Ownership Percentage	Sector	Region	% of Operating Loan Portfolio
Loan 1	90%	Consumer Goods and Retail	UK*	14.2%
Loan 2	90%	Real Estate	Other European	13.9%
Loan 3	90%	Consumer Goods and Retail	UK*	11.1%
Loan 4	90%	Consumer Services: Other	UK*	10.8%
Loan 5	100%	Real Estate	Scandinavia	10.5%
Loan 6	0%	Business and Industrial Products	Scandinavia	10.4%
Loan 7	25%	Business and Industrial Products	Scandinavia	10.3%
Loan 8	4%	Consumer Services: Other	UK*	5.5%
Loan 9	100%	Business and Industrial Products	Scandinavia	5.0%
Loan 10	0%	Business and Industrial Products	UK*	3.9%
Total top 10				**95.6%**
Total top 15				**98.7%**
Total number of loans (29) of greater than zero values				**100.0%**

** UK includes overseas territories and crown dependencies.*

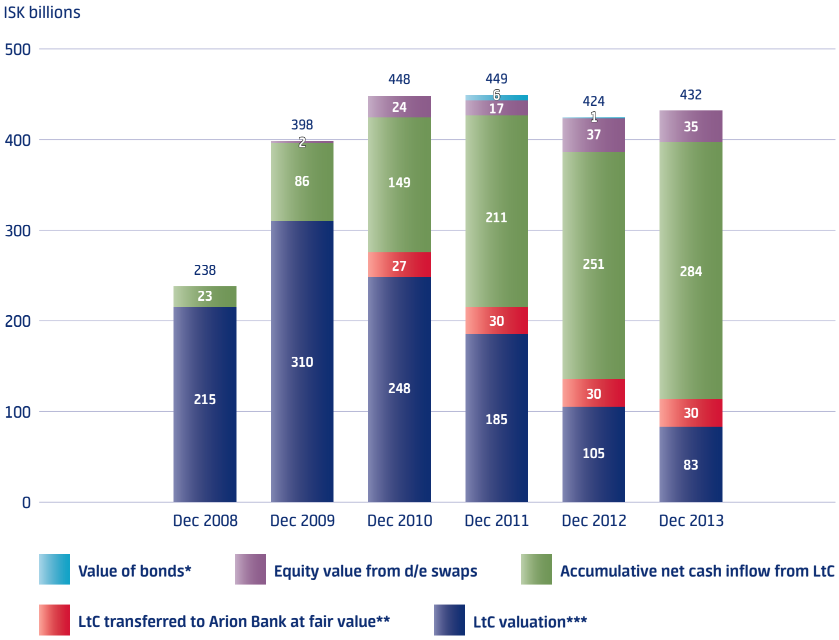
Development of value and accumulative net cash inflow

The development of the value of the Operating Loan Portfolio is shown in the graph below. The graph shows that since December 2008 the Operating Loan Portfolio has to a great extent been converted into different asset classes.

The total value of the Operating Loan Portfolio, including all assets derived from the portfolio, peaked in 2011 at ISK 449 billion, but since then, the value of this group of assets has decreased by ISK 17 billion. However in 2013 the value increased by ISK 8 billion mainly due to generally favourable development of the Company's assets within the Real Estate sector and resolution in the form of receipt of principal payments of assets, previously considered to be at risk, within Holding Companies and Individuals sectors. This was to some extent counterbalanced by a difficult trading environment for some of the assets which the Company holds within Consumer Goods and Retail sector and Business and Industrial Products sector.

When the underlying operations of any of the Company's assets are restructured, the debt level is generally set at a level not lower than perceived enterprise value at restructuring. The assets are often highly leveraged immediately after the conversion which leaves little leeway for unfavourable development of any particular asset. Volatility in the value of the equity in the form of sharp increases or decreases can therefore be expected.

Operating Loan Portfolio - development of value and accumulative net cash inflow



All amounts are converted to ISK at foreign exchange rates 31 December 2013.

* *Value of bonds which were previously included in the "loans to customers" and "shares and instruments with variable income".*

** *ISK 27 billion is related to the capitalisation of Arion bank in January 2010, and ISK 3 billion is related to the settlement and release of claims agreements made in the first half of 2011.*

*** *Value for each period is calculated on the basis of the exchange rate as applied in the Financial Statements for the year ended 31 December 2013. As the Company's reporting currency is the Icelandic krona, fluctuations in exchange rates between Icelandic krona and the foreign currencies in which the majority of the Company's assets are denominated, will impact the values shown above.*

In 2013, the Company received a total of ISK 4.0 billion in interest payments and ISK 0.2 billion in fee income deriving from the Operating Loan Portfolio.

Realisation of value from the Operating Loan Portfolio

The Operating Loan Portfolio has since October 2008 constantly generated material amounts of net cash inflow, primarily through realisations. A large part of the original Operating Loan Portfolio has either been realised for cash or transformed into other asset positions. From October 2008 to 31 December 2013, 84 loans within the Operating Loan Portfolios have been realised with a total cash flow amounting to ISK 197.8 billion, thereof 67 loans have been paid in full, amounting to ISK 188.7 billion. In the table to the right, the numbers are converted to Icelandic krona at the end of each relevant quarter. The table includes only realised positions in the Operating Loan Portfolio where the Company does not have any remaining exposure. Loans that have been swapped into other asset positions are only included when those asset positions have been realised. The total gross value of loans that have been swapped to equity through debt restructurings and debt to equity swaps from October 2008 to 31 December 2013 amounts to ISK 129 billion.

From October 2008 until the end of December 2013 the weighted average recovery of realised loans within the Operating Loan Portfolios has been 86.6%. The weighted average recovery of the realised loans in 2013 was 99.6%. In comparison the weighted average recovery of realised loans was 51.6% in 2012, 98.0% in 2011 and 96.0% in 2010.

The majority of the loans which have been realised to date were performing at the time of realisation. The recovery of the loans that have been realised does not reflect the estimated recovery of the loans that remain in the portfolio. It is expected that realisations of value from positions in the Operating Loan Portfolio where the Company also owns controlling equity interest would generally be pursued through operating improvement strategies for the underlying assets and realisations of the positions at an opportune time. In the interim, these equity positions may also require support in the form of additional equity investments and/or loans. It is likely that realisation of value from positions in the Operating Loan Portfolio where the Company owns a minority or no equity interest would generally occur through other lenders refinancing the loans or through repayments of outstanding amounts.

Operating Loan Portfolio – realisation of value

Quarter	Number of Borrower Groups realised	Amount (mISK)*	Recovery
Q4 2013	5	24,721	100.0%
Q3 2013	2	17,627	100.0%
Q2 2013	3	7,883	100.0%
Q1 2013	2	204	50.8%
Q4 2012	5	127	0.5%
Q3 2012	3	3,470	100.0%
Q2 2012	2	3,727	99.4%
Q1 2012	3	19,513	100.0%
Q4 2011	2	230	77.5%
Q3 2011	4	10,726	100.0%
Q2 2011	6	29,214	97.2%
Q1 2011	5	8,728	100.0%
Q4 2010	5	8,680	100.0%
Q3 2010	2	2,640	100.0%
Q2 2010	5	4,728	90.4%
Q1 2010	4	9,484	94.2%
Q4 2009	7	16,875	100.0%
Q3 2009	5	7,549	100.0%
Q2 2009	11	8,317	94.9%
Q4 2008	3	13,322	79.7%
Total	**84**	**197,765**	**86.6%**

** The amounts in each quarter include all amounts paid on the relevant loans from October 2008 until full repayment was made.*

Bonds and Debt Instruments

The asset class "bonds and debt instruments" is by value mostly made up of domestic assets as 66.0% of the value are domestic assets and denominated in Icelandic krona, while 34.0% are foreign assets, of which 20.4% are denominated in US dollar and 13.6% in euro. About ISK 1.8 billion, which represents 29.2% of the total value of the "bonds and debt instruments" asset class are inflation linked. The vast majority of bonds are unlisted and/or illiquid. The charts below show the value of the asset class by the country of the issuer and by currency.

The asset class "bonds and debt instruments" is by value mostly made up of domestic assets as 66.0% of the value are domestic assets and denominated in Icelandic krona, while 34.0% are foreign assets.

Bonds and debt instruments – regional breakdown

* UK includes overseas territories and crown dependencies.

Bonds and debt instruments – currency breakdown

The positions in the Company's "bonds and debt instruments" asset class are made up of debt instruments issued by (a) two entities related to the Company, (b) the Icelandic government and (c) private third parties. The value of the "bond and debt instruments" asset class is highly concentrated. At the end of 2013, the largest position was a composition instrument issued by an Icelandic counterparty which accounts for 24.4% of the value of the asset class. The second-largest positions are bonds issued by an Icelandic bank which account for 15.4% of the value. The third-largest positions are Icelandic government bonds which account for 13.5% of the value of the asset class at the end of 2013.

The remainder of the asset class consists mostly of structured debt instruments, CDOs and CMBSs and bonds issued by companies falling into the Energy and Environment sector. The table below shows a breakdown of the Company's "bond and debt instruments" asset class at the end of 2013.

Bonds and debt instruments – developments in 2013 broken down by sector

ISK million	31.12.2013	Principal paid	Fair value changes	FX changes	Other*	31.12.2012
Holding Companies	3,686	(3,374)	2,910	(73)	1,284	2,939
Governments	849	(763)	(38)	1	-	1,649
Consumer Goods and Retail	-	-	(1,203)	(78)	-	1,281
Financial Services	970	(67)	6	-	-	1,031
Energy and Environment	801	(120)	(53)	-	-	974
Consumer Services: Other	-	(9)	10	(1)	-	-
Bonds and debt instruments	**6,306**	**(4,333)**	**1,632**	**(151)**	**1,284**	**7,874**

** ISK 1.3 billion categorised as holding companies were acquired as part of a settlement.*

"Bonds and debt instruments" are valued at ISK 6.3 billion and decreased by ISK 1.6 billion in 2013 despite of a fair value increase in 2013 ISK 1.6 billion. The decrease is primarily due to principal payments amounting to ISK 4.3 billion.

Bonds issued by Holding Companies and by companies within Consumer Goods and Retail were affected by fair value changes in 2013. Thereof, ISK 2.8 billion of the total ISK 2.9 billion fair value changes, was realised from bonds issued by Holding Companies while the fair value of bonds issued by companies within the Consumer Goods and Retail sector decreased by ISK 1.2 billion.

This asset class does not generate significant amounts of regular income through interest payments. During 2013, the Company received a total of ISK 0.3 billion in interest payments. An additional portfolio of structured debt instruments categorised above as Holding Companies, valued at ISK 1.3 billion, were received as a part of a settlement.

Repayments of bonds and other debt instruments in the asset class depend upon a number of factors, including the performance of the underlying businesses and prevailing economic and market conditions.

Shares and Instruments with Variable Income

As a result of changes in accounting policy the Company now classifies assets which were previously classified as "investments in subsidiaries" as "shares and instruments with variable income".

The asset class "shares and instruments with variable income" includes (a) Kaupskil ehf. ("Kaupskil"), the holding company for the Company's 87.0% shareholding in Arion bank, (b) companies in which the Company owns a controlling equity interest and that were consolidated in the Company's Financial Statements before 2008 (c) unlisted equity positions in companies in which the Company made direct investments prior to October 2008 or which the Company has since acquired as a result of debt restructurings and debt to equity swaps. The asset class also includes listed equity positions in companies that the Company acquired prior to October 2008. As discussed above, the Company also has loans outstanding to many of the companies where it holds equity interest.

The asset class is highly concentrated. At the end of 2013, the four largest positions constituted approximately 84.3% of the value of the asset class, with the Company's shareholding in Arion bank representing 57.8%. Further information about the company's shareholding in Arion bank can be found in a separate Asset Spotlight.

As a result of changes in accounting policy the Company now classifies assets which were previously classified as "investments in subsidiaries" as "shares and instruments with variable income".

The three largest positions within this asset class, besides Arion bank are:

(a) *Real estate development at Fitzroy Place in London, covered in a separate Asset Spotlight.*

(b) *Kirna ehf. ("Kirna"), a holding company, fully owned by the Company, with several fully owned subsidiaries. Kirna and its subsidiaries hold foreign investments but do not have any on-going business operations. Their current operations are exclusively devoted to liquidating the Company's remaining assets and pursuing litigation and/or settlement negotiations with respect to remaining assets.*

(c) *Norvestia Oyj. ("Norvestia"), a publicly listed Finnish investment management company. Through its subsidiaries, Norvestia invests in shares of Nordic companies, debt securities, hedge funds, private equity funds and various other instruments. The Company holds 32.7% of the outstanding shares in Norvestia in listed B shares and unlisted A shares, but has 56.0% of the voting rights.*

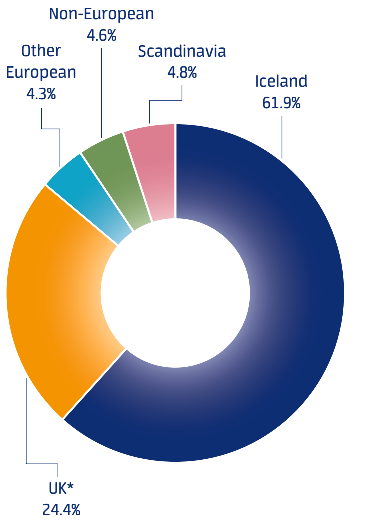
From 2009 to 2013 the Company has received in total EUR 9.7 million in dividend payments from Norvestia. Norvestia publishes its net asset value each month. At the end of 2013 the net asset value per share was EUR 9.57 and the closing share price of the listed B shares was EUR 7.05.

Taking into account a dividend of EUR 0.30, distributed in March 2013, Norvestia's net asset value increased by EUR 0.90 per share in 2013, equal to a 10.3% increase from the beginning of the year. The Company has both B and A shares which are unlisted but with tenfold voting rights compared to the B shares. Norvestia are accounted for at fair value which is based on the price of 1 times the book value of equity.

The asset class is highly concentrated. At the end of 2013, the four largest positions constituted approximately 84.3% of the value of the asset class.

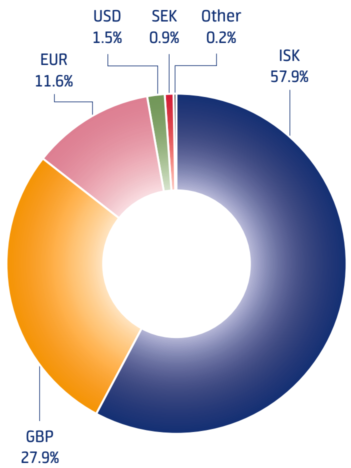
61.9% of the value of this asset class derives from domestic assets and 38.1% derives from foreign assets. Majority of the assets in this asset class are denominated in Icelandic krona (57.9%), 27.9% are denominated in pounds sterling and 11.6% in euro. The charts below show the value of the portfolio by the country of issuer and by currency.

Shares and instruments with variable income – regional breakdown



** UK includes overseas territories and crown dependencies.*

Shares and instruments with variable income – currency breakdown



"Shares and instruments with variable income" is valued at ISK 210.8 billion and increased by ISK 10.2 billion or 5.1% in 2013. The table below summarises the major drivers behind these value changes in 2013, across sectors. Major contributors to the fair value changes of ISK 16.3 billion are positions within the Financial Services and Real Estate sector while shareholdings in Holding Companies were negatively affected by fair value changes.

"Shares and instruments with variable income" is valued at ISK 210.8 billion and increased by ISK 10.2 billion or 5.1% in 2013.

Shares and instruments with variable income – developments in 2013 broken down by sector

ISK million	31.12.2013	Capital Injection / Realisation of equity stakes	Fair value changes	FX changes	31.12.2012
Financial Services	137,759	(48)	12,432	(1,045)	126,420
Real Estate	43,719	(10)	7,988	(3,487)	39,228
Holding Companies	12,742	(1)	(4,974)	(410)	18,127
Consumer Goods and Retail	8,250	70	1,421	(483)	7,242
Consumer Services: Other	2,879	-	(954)	(331)	4,164
Life Sciences	2,169	-	467	(172)	1,874
Energy and Environment	1,783	-	315	(141)	1,609
Other	1,456	-	(444)	-	1,900
Shares and instruments with variable income	**210,757**	**11**	**16,251**	**(6,069)**	**200,564**

At the end of 2013, listed equity positions amounted to ISK 12.7 billion and constituted 6.0% of the value of the asset class. The top three listed equity positions constituted 88.4% of the value of the listed equity positions.

At the end of 2013, unlisted equity positions amounted to ISK 198.1 billion and constituted 94.0% of the value of the asset class. The Company's five largest unlisted equity positions constituted 92.9% of the value of all the unlisted equity positions and 87.3% of all equity positions at the end of 2013.

The asset class has historically not generated significant amounts of regular income through dividends. Dividends from Arion bank have in the past required approval by the FME. Furthermore, the Icelandic government, which owns a 13.0% equity stake in Arion bank, had a veto right over dividends until the beginning of 2013. During 2013, the Company received ISK 0.7 billion in dividends from this asset class, thereof ISK 0.3 billion from assets previously classified as "Investments in subsidiaries". In 2014, Arion bank started paying dividends. The decision of the annual general meeting at Arion bank was that dividends amounting to 60% of its profits for 2013 should be paid to shareholders. Of the dividends declared, Kaupthing, through Kaupskil, shall receive ISK 6.8 billion. Payment will be made in Icelandic krona.

Cash flows from the Company's unlisted and listed equity positions will be largely dependent upon realisations through sales of the positions. The values achieved through such realisations will be dependent upon a number of factors, including the performance of the underlying businesses and prevailing economic conditions. In addition, many of the unlisted equity positions are highly leveraged, such leverage including loans granted by the Company. In addition several of the Company's largest equity positions are assets domiciled in Iceland, which complicates realisations further since currency controls which are currently in effect in Iceland do not permit Icelandic krona assets to be converted into foreign currency or to be transferred outside of Iceland.

ARION BANK

Arion bank, which is the Company's largest asset by value, is a commercial bank with operations in Iceland. On 21 October 2008, the FME issued a decision to divide the operations, assets and liabilities of the Company. The decision stated that certain specific assets and certain specific obligations of the Company would be transferred to a newly formed bank, originally named New Kaupthing Bank hf., now Arion bank. As a result, Arion bank took over the entire deposit liabilities of the Company in Iceland and also most of the Company's assets that related to its Icelandic operations. According to the FME, these actions were taken to secure the continuation of vitally important domestic banking and payment services.

The Company's Resolution Committee together with its financial advisor, Morgan Stanley and creditors' representatives, negotiated with the Icelandic government during the summer 2009 on the disposition of the assets and liabilities taken over by Arion Bank in October 2008. On 1 December 2009, a decision was made in consultation with the creditor's representatives to acquire 87% of common equity in Arion bank while the Icelandic government kept 13%. As a consequence, the Company indirectly owns 87.0% of the equity in Arion bank through its intermediate holding company Kaupskil. The Company also owns two bonds issued by Arion bank amounting to ISK 1.0 billion. One of the bonds was secured by the Company as part of a composition agreement with a third party and the other bond was received through a settlement with Arion bank.

Arion bank is accounted for at fair value which is based on the price of one times the book value of equity. During 2013, the fair value of the Company's interest in Arion bank was revised upward by ISK 11.3 billion. The upward revision in the fair value was due to changes in the equity of Arion bank.

Arion bank reported net earnings of ISK 12.7 billion in 2013. In 2014, Arion bank will pay 60% of its earnings, or ISK 7.8 billion, as dividends to its shareholders. The dividend payment will be made in Icelandic krona. Arion bank's net earnings since its incorporation in 2008 have been between ISK 11.1 billion to ISK 17.1 billion per year which corresponds to an annual return on equity from 9.2% to 16.7%. This return on equity was achieved despite a strong and constantly growing equity base and compares well to the overall international banking sector. Arion bank is strongly capitalised with a capital ratio of 23.6% at the end of 2013.

In early 2013, Arion bank issued unsecured bonds in Norwegian kroner. By doing so, Arion bank became the first Icelandic bank to raise foreign funding since 2007. Arion bank also issued covered bonds in Iceland, both index linked and non-index linked instruments. In January 2014, Arion bank obtained a rating of BB+ from the international rating agency Standard & Poor's.

Due to current conditions imposed by the FME, and in spite of the Company holding an indirect 87.0% equity stake in Arion bank through Kaupskil, the Company is only entitled to appoint one director connected to the Company to each of the board of directors of Kaupskil and Arion bank. Other board members of Kaupskil and Arion bank shall be independent of the Company.

There may be complications when realising value from the Company's stake in Arion bank, in particular currency controls currently in effect in Iceland do not permit Icelandic krona assets to be converted into foreign currency or to be transferred outside of Iceland without an exemption from the CBI. Furthermore, any purchaser of a qualified ownership being 10.0% or more of the equity in Arion bank, would need to be approved by the FME, based on certain suitability criteria including investment history, strategy for the investment, and the ability to support Arion bank.

Despite potential challenges for the sale of Arion bank, it has attracted interest from prospective buyers. At the date of this report, such interest has not materialised in formal discussions. In light of the interest shown, the Winding-up Committee has engaged Morgan Stanley as financial advisers in relation to a realisation strategy for the Company's shareholding in Arion bank.

FITZROY PLACE

The former Middlesex Hospital site on Mortimer Street in Fitzrovia, now Fitzroy Place, was bought for GBP 175 million in June 2006 in a joint venture by Kaupthing and the CPC Group. In the fourth quarter of 2008, Kaupthing swapped its shares in another project, the 9900 Wilshire project in Beverly Hills, a luxury residential scheme, with the CPC Group in exchange for their shares in the Middlesex project. Both sites had been held in joint ventures by Kaupthing and the CPC group.

Following a detailed strategy review and in light of positive trends in the Central London property market, Kaupthing decided to put the site in a prime location in the West End area of London into a formal sales process which commenced in the second quarter of 2010. An announcement on the sales process was published in March 2010 on Kaupthing's website, www.kaupthing.com. The process resulted in a competitive bidding, to the satisfaction of Kaupthing. After receiving first round of bids by May 2010, Kaupthing together with its advisers investigated several different options, including straight sale, sale with an overage and a joint venture partnership ("JV").

The conclusion following a rigorous process was as announced on Kaupthing's website in December 2010, to enter into a 50/50 JV with Aviva Investors. Kaupthing is involved in day to day decision making of the project and shares 50.0% of any profits. The bid that came from Aviva, with Exemplar as development manager, was deemed the strongest one in terms of financials, vision and experience. Kaupthing's long term JV objectives are maximisation of the market value of the commercial property, capital receipts of the residential property and the project internal rate of return. Kaupthing deems that the development of the site through the JV with Aviva should maximise the value to Kaupthing. CBRE and Olswang acted as advisers for Kaupthing during the sales process.

A new planning application was submitted in September 2011 and consent was secured in February 2012. The approved scheme of GEA 932,437 sq. ft. is designed by Lifschutz Davidson Sandilands and Sheppard Robson, with interiors by designers Johnson Naylor.

The overall design of the scheme seeks to create a mixed use urban community which capitalises on the site's assets in terms of location, critical mass/size, and heritage values etc. The scheme consists of two office buildings total of NIA 220,000 sq. ft. The buildings can be pre-let or let either as a whole, in part or combined. Fitzroy Place also comprises 235 private residential units, the residential accommodation and sizing of apartments has been designed with the twin objectives of maximising value and ensuring good velocity of sales. In addition to the offices and the residential units the scheme provides for 54 affordable units, 19,730 sq. ft. of retail, primary care facility, education facility and other uses.

The JV launched the pre-sales of residential units into the Asian market and in the United Kingdom in mid-year 2012 with the aim to sell 84 units for GBP 81 million before year end 2012. The JV sold 175 apartments for GBP 284 million in 2012. To date 230 units have been sold in total for GBP 429 million, leaving only 5 units unsold. The residential units that remain unsold are considered likely to deliver sales receipts ahead of business plan.

The JV launched the offices to the market in the fourth quarter of 2013. The owners' objectives are to achieve completion of the construction of the development (practical completion) by December 2014 and project completion by the end of year 2016. The aim is to sell majority of the residential units and pre-let the offices and all retail prior to practical completion.

REFRESCO GERBER

Refresco Gerber BV ("Refresco Gerber") is a European market leader in fruit juice and soft drink production for private label and contract manufacturing. It is headquartered in the Netherlands and employs around 4,700 staff. Kaupthing is through a consortium, one of Refresco Gerber's main shareholders, with 27% ownership in the consortium which in turn has 45% ownership in Refresco Gerber.

On 15 April, 2013 Refresco and Gerber Emig shareholders signed a merger agreement to create a leading pan-European bottler of soft drinks and fruit juices to serve retailers and branded players. On 4 October, 2013 the European Competition Commission approved the merger subject to the divestment of Gerber Emig's manufacturing site in Waibstadt, Germany. The merger was closed on 11 November, 2013 and the process of combining the two businesses began immediately. Shareholders in Gerber Emig own 27.5% of the shares in the combined group and Refresco shareholders 72.5% of the shares.

As part of the merger and refinancing of Gerber's debt, Refresco's super-senior revolving credit facility, was increased to EUR 150 million, thereof EUR 50 million is undrawn. At year end Refresco Gerber had a EUR 50 million unused portion of the revolving credit facility outstanding in addition to a cash position of approximately EUR 86 million. The combined group will have greater opportunities to invest in innovation, to achieve growth and to optimise the business.

This was the latest step in the development which started in late 2008 when there was a major concern regarding Refresco's ownership structure. Ferskur Holding 1 BV, the controlling owner of Refresco at that time, initiated a sale process in middle of 2008 inviting a vast number of investors. The sales process was aborted in early 2009 with the support of Kaupthing after the sales process failed to crystallise what Kaupthing believed was a fair value for its stake in Refresco.

The experience of the 2008 sales process helped to identify a handful of strong, reputable investors which the owners believed could become valuable minority investors and who understand the strengths of the business. Following the aborted sales process, discussions were held with a potential minority investor investing into the business. These discussions resulted in a direct capital increase where 3i, an international private equity investor, invested EUR 84 million at that time, in return for a 20.3% stake with other shareholders being diluted. The purpose was to fund further growth in line with Refresco's buy and build strategy.

Two material transactions were announced in 2010 and 2011, where Refresco acquired Soft Drinks International, a German producer of soft drinks and water, and Spumador, the largest producer of private label carbonated soft drinks and mineral water in Italy.

Refresco announced in May 2011 that it had successfully closed its senior secured notes offering and thereby refinanced all of its loans. The notes amounted to EUR 660 million. Of this amount, EUR 360 million is fixed (7NC3) at 7.375% and EUR 300 million floating (7NC1) at 3month EURIBOR + 400bps. The notes are due in 2018. Through the refinancing the Company was repaid at par the remainder of the debt that it had against Refresco, being approximately EUR 23 million. In connection with the issuance of the senior secured notes Refresco entered into super-senior revolving credit facility amounting to EUR 75 million for a period until May 2017, which remained unused until the merger with Gerber Emig.

Refresco has showed solid improvements despite recent trading being challenging. In 2011 it was due to a poor summer season and increasing raw material prices. In the first half of 2012 there was a drop in sales due to difficult markets and deliberate loss of low margin volumes. The strategy of giving up low margin volumes has, together with cost control as well as some relief in raw and packaging material prices, meant improved performance in 2013. Volumes are though still disappointing due to continued weak market conditions in Europe, especially in Southern Europe.

Revenue in 2013 was EUR 1,588 million and full year adjusted EBITDA was EUR 140 million, excluding the operation of Waibstad which is classified as assets held for sale. Excluding the impact of Gerber Emig which formed part of the group for seven weeks last year, the revenue was EUR 1,514 million, down by 1.6% from last year and adjusted EBITDA was EUR 138 million, up from EUR 115.5 million last year. Had the business combination occurred on 1 January, 2013 the pro forma revenue for the combined group would have been EUR 2,313 million.

SPIRIT REALTY CAPITAL

Spirit Realty Capital (“Spirit“) is one of the largest publically traded Real Estate Investment Trusts (“REIT“) in the United States with a market capital of USD 4 billion and more than 2,000 properties in 48 states of the United States.

Spirit, which was formed in 2003, was listed on the NYSE until 2007 when it was acquired by an international group of investors and taken private. Kaupthing was among those investors. Following turbulent years from 2008 to 2012 the company was recapitalised through debt to equity conversion of approximately USD 340 million and USD 500 million public offering. Subsequently Spirit was listed on the NYSE in September 2012 and had an enterprise value of USD 3.2 billion and a market capital of USD 1.3 billion.

In July 2013 Spirit merged with Cole Credit Property Trust I (“Cole“), a non-traded, public REIT with a value of USD 3.7 billion and created USD 7.1 billion enterprise value company with a market capital of USD 3.5 billion. Although Spirit was merged into Cole the merged company retained Spirit‘s management, name and ticker and was listed on the NYSE. After the merger with Cole, Kaupthing holds a direct stake of 0.68%.

Following the merger the combined company is among the largest publically traded REIT’s in the United States and with a well diversified portfolio of assets, both in terms of geography and sectors. In total the company owns 2,100 properties across 48 states of the United States.

After the merger, Spirit has successfully mitigated its largest risk factor of tenant- concentration. Prior to the merger, the top 10 tenant concentration was 52% whereas after the merger it has been reduced to 36%.

Spirit‘s operating model is so-called Triple-Net-Lease which means that the tenant is responsible for paying taxes, insurance and maintenance. Spirit focuses on single-tenant, operationally essential real-estate which generally refers to free-standing commercial real-estate facilities.

Spirit‘s market capital now is approximately USD 4 billion and the stock‘s dividend yield is 6.6% and total return for shareholders since the IPO in 2012 is close to 50%.

ASQUITH NURSERIES

Asquith Nurseries ("Asquith") is a leading childcare provider, operating 79 nurseries and employing 2,200 staff throughout the United Kingdom. Asquith provides high quality childcare to approximately 13,000 children each year. Following a capital restructuring in June 2009, Kaupthing became the major shareholder of Asquith.

In June 2009, Kaupthing took control of Asquith via a pre-pack administration process. This removed the previous shareholders and placed the business on a sound financial footing. Olswang and Smith & Williamson advised Kaupthing on the transaction.

Significant actions have been taken to improve the business including a new senior management team, establishing consistency of operation and branding across the estate, new pricing models, a new head office in Chesham and the early development of a nannies business.

Asquith performance has improved materially under Kaupthing's ownership, establishing itself as the premium operator in the sector. The business operates in a highly regulated sector and market conditions have been challenging. However, Asquith has maintained a high level of quality across its estate which has underpinned performance.

Growth in profitability has been driven by increased value proposal and cost efficiencies. The business is highly cash generative and Kaupthing has received interest, debt repayments and fees from surplus cash. The business also benefits from strong asset backing with 32 of the 79 sites being freehold properties.

Following a detailed strategic review in 2013, Asquith has embarked on a growth strategy involving a number new site and business acquisitions. There are significant consolidation opportunities in the sector and Asquith is seeking to take advantage of it strong reputation and business platform to grow its estate further. The business has built a strong pipeline of acquisitions to deliver during 2014.

Unsettled Derivative Receivables

The “unsettled derivative receivables” consist of claims against counterparties in relation to matured or terminated derivative trades.

The process of collecting and settling derivatives claims continues with the aim to maximise recoveries. The advisory firm Alvarez & Marsal was retained to work with the employees of the Company along with external derivatives valuation specialists. Furthermore, the law firm Olswang acts as an external legal counsel to the Company in respect of the recoveries of the derivatives portfolio.

Realisations of value from the asset class depend upon the Company being able to successfully negotiate settlements with counterparties, and in certain cases, prevail in litigation. Material valuation issues include (a) disputes over wide discrepancies in the Icelandic krona exchange rates, (b) large spreads in the market at the time of default, (c) set-off status, (d) responsiveness of counterparties and (e) related legal disputes. The Company has taken the uncertainties relating to on-going settlement negotiations into account when determining the value of the derivatives claims.

Current status

At the end of 2013, 97.2% of the value of the derivatives claims, before set-off, related to transactions governed by ISDA agreements between the Company and foreign counterparties which had terminated the transactions. The remaining derivatives claims, other than those governed by ISDA agreements, mostly relate to agreements with domestic counterparties under the Company’s general market terms.

Unsettled derivative receivables

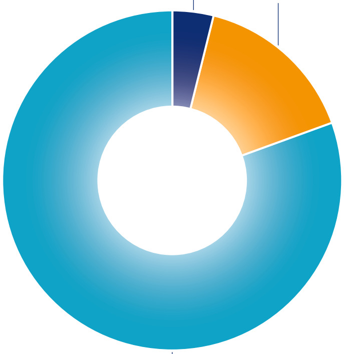
ISK million	31.12.2013		31.12.2012
	Gross amount	Amortised cost	Amortised cost
ISDA counterparties			
Unsettled derivative receivables, before set-off against counterclaims	20,809	20,724	28,046
Subject to set-off	(7,238)	(7,153)	(8,653)
Unsettled derivative receivables, after set-off	13,571	13,571	19,393
Non-ISDA counterparties			
Unsettled derivative receivables, before set-off against counterclaims	5,227	599	1,305
Subject to set-off	(30)	(24)	-
Unsettled derivative receivables, after set-off	5,197	575	1,305
NOA counterparties*			
Unsettled derivative receivables	30,669	-	-
Unsettled derivative receivables before set-off	**56,705**	**21,323**	**29,351**
Unsettled derivative receivables after set-off	**49,437**	**14,146**	**20,698**
Unsettled derivative receivables after set-off (mEUR)	312	89	123

** NOA counterparties relate to unsettled derivative receivables which are connected to NOA Loans to customers.*

The "unsettled derivative receivables" asset class is highly concentrated with the top two remaining positions accounting for 87.4% of the value before set-off, at year end 2013. The portfolio consists of 22 remaining positions. 4.1% of the value of this asset class after set-off is coming from domestic assets and 95.9% is coming from foreign assets, 95.9% denominated in euro and 4.1% in Icelandic krona. The charts below show the value of the portfolio after set-off by the country of issuer and by currency.

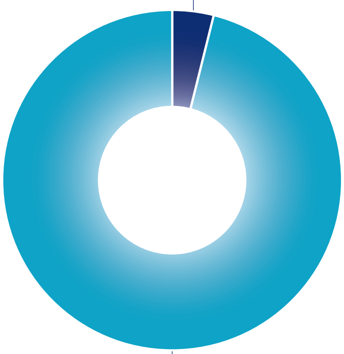
The "unsettled derivative receivables" asset class is highly concentrated with the top two remaining positions accounting for 87.4% of the value before set-off, at year end 2013. The portfolio consists of 22 remaining positions.

Unsettled derivative receivables – regional breakdown



* UK includes overseas territories and crown dependencies.

Unsettled derivative receivables – currency breakdown



"Unsettled derivative receivables" after set-off are valued at ISK 14.1 billion and decreased by ISK 6.6 billion in 2013. The value of "unsettled derivative receivables" before set-off at year end 2013 can be categorised as set out in the table to the right.

Unsettled derivative receivables – breakdown by case type

Case type	Number of cases	Value*
ISDA	**4**	**20,724**
Cases settled in principle	2	2,082
Dispute over set-off rights	1	13,571
ISK issue	1	5,071
Non-ISDA	**18**	**599**
Pension funds	1	24
Cases in litigation/other	13	559
Cases settled in principle	4	16
Total before set-off	**22**	**21,323**
Total after set-off		**14,146**

*Net value after impairment and collateral.

Dispute over set-off rights

Over 70.0% of the remaining value of the asset class has been fixed and determined through negotiations with counterparties. Final settlements await rulings on set-off or finalisation of agreements in certain cases. An important step was taken with the final judgement of the Supreme Court of Iceland in a case brought by Commerzbank against the Company. More information about the judgement can be found in the chapter Significant Court Cases and Settlements relating to Claims in 2013.

Progress by value

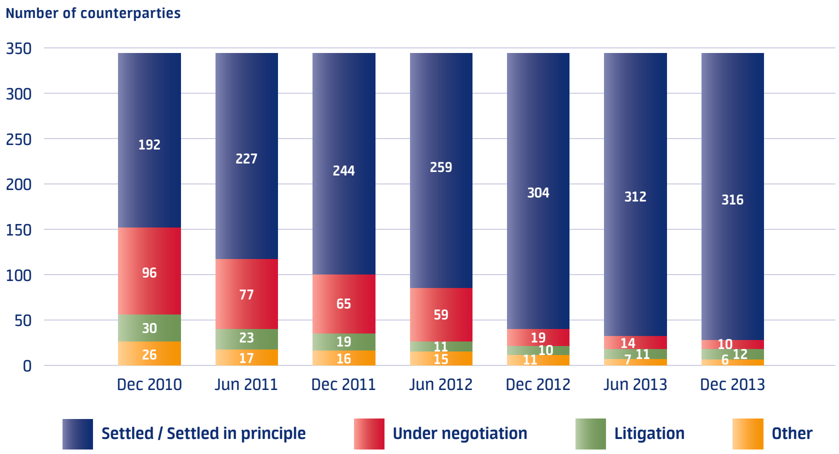
In 2013, a total of ISK 3.5 billion in cash was received by the Company as a result of settlements of derivatives claims. This does not include payments received in the beginning of the year in relation to the settlement agreement between the Company and several pension funds as the short term receivables received from the settlement agreement were reclassified to the asset class "other assets" at year end 2012.

In 2013, a total of ISK 4.7 billion of derivatives claims was set off against counterclaims. The value of the "unsettled derivative receivables" was revised upward by ISK 1.7 billion in part due to settlement negotiations.

It is expected that ISK 7.2 billion of the remaining value of this asset class will be subject to set-off.

The total number of derivatives counterparties with outstanding positions at the time of the Company's default in October 2008 was 344. This includes both positions where the Company was a net debtor and net creditor. The graph below shows the progress by number of counterparties. Cases where the claim value has been determined but not yet finalised are categorised as settled in principle. At the end of the year 2013, a total of 316 cases were settled or settled in principle, up from 304 from year end 2012. The category other represents primarily claims against bankrupt entities.

Derivatives – progress by value



Loans to Customers – NOA Loan Portfolio

The part of the Company's "loans to customers" asset class which has little or no underlying business operations has been defined above as the "NOA Loan Portfolio".

Each position within the NOA Loan Portfolio is handled by a designated account manager and internal legal counsel. Work streams in respect of the NOA Loan Portfolio are both commercially and legally intensive. In many cases the Company's recovery actions are contested by counterparties and recovery strategies must be reassessed on an on-going basis. In a few cases, counterparties have threatened or commenced proceedings against the Company in connection to related positions in the NOA Loan Portfolio.

The Company has engaged a number of external advisers to assist with recovery of positions in the NOA Loan Portfolio. These include leading accounting firms and the law firms Sidley Austin, Olswang, Stewarts Law, Skadden Arps and Simmons & Simmons. Several firms with offshore expertise are regularly instructed by the Company. Where appropriate, the Company instructs leading barristers.

The NOA Loan Portfolio mainly comprises loans made to foreign holding companies and special purpose vehicles, often through complex structures. The NOA Loan Portfolio also includes certain related party loans at the time of the collapse (e.g. loans to subsidiaries and former senior management).

In many cases, the loans in the NOA Loan Portfolio (a) were advanced to companies at the top of group structures where third party financing was received at lower levels, making the Company's loans structurally subordinated, (b) were advanced to groups with companies in several offshore jurisdictions, (c) were advanced without adequate or appropriate security, (d) are linked to the Company's own bonds and shares, (e) are disputed by the borrowers or security providers. Almost all of the loans in the NOA Loan Portfolio are in default, with many borrowers in liquidation.

Realisations from the NOA Loan Portfolio will depend upon (a) enforcing pledges securing defaulted loans, (b) receiving assets/cash through liquidation of borrowers (c) successfully negotiating settlements and/or (d) prevailing in litigation. With insignificant exceptions, the Company's view at present is that loans in the NOA Loan Portfolio will not be realised through sale.

From time to time, the Company may commence legal proceedings to recover positions in the NOA Loan Portfolio. By way of example, the Company has issued rescission claims against a major global financial institution, both in Iceland and England, in order to recover several loans in the NOA Loan Portfolio. The claims, which were brought in late June 2012, are for approximately EUR 509 million, plus interest. The claims relate to leveraged credit linked notes, referencing the Company, issued by the financial institution to two special purpose vehicles shortly prior to the Company's insolvency in late 2008. The Company funded the special purpose vehicles and is claiming that the financial institution was aware that the Company itself, rather than the special purpose vehicles, was economically exposed in the transaction.

The Company is unable to predict the outcomes or timing of actions to realise value from the NOA Loan Portfolio. The Company however expects it may take considerable time to conclude realisation of positions in the NOA Loan Portfolio.

The Company has taken the characteristics of the NOA Loan Portfolio and issues around realisations of individual loans into account when determining the value of the NOA Loan Portfolio. At year-end 2013, the value of the NOA Loan Portfolio was ISK 21.4 billion which represented 2.2% of the total gross amount.

The columns in the graph to the right show the fair value of bonds and the value of the NOA Loan Portfolio positions as of the dates displayed, while the value of accumulated net cash inflow is fixed at the value when the relevant monetisation took place or cash-flow was received.

The charts below show the value of the NOA Loan Portfolio by the country of issuer and by currency. 2.5% of the value of this asset class is coming from domestic assets and 97.5% is coming from foreign assets, 95.7% is denominated in pound sterling, 2.5% in Icelandic krona, 1.0% in Swedish krona and 0.8% in US dollar.

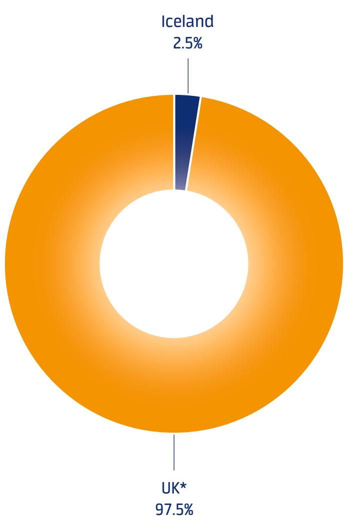
The NOA Loan Portfolio – development of value and accumulative net cash inflow

All amounts are converted to ISK at foreign exchange rates 31 December 2013.

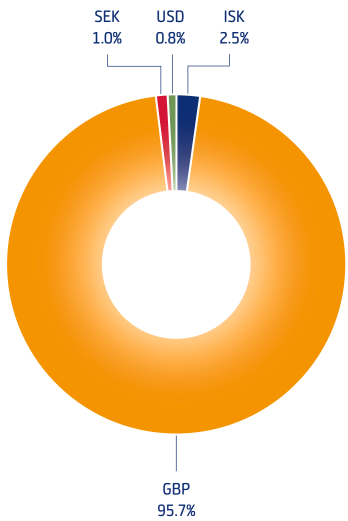
* *Value of bonds which were previously included in "loans to customers".*

** *Accumulative net cash inflow from bonds which were previously included in "loans to customers"*

The NOA Loan Portfolio – regional breakdown



The NOA Loan Portfolio – currency breakdown



** UK includes overseas territories and crown dependencies.*

Loans to and Claims against Credit Institutions

This asset class consists of (i) cash collateral held with banks against guarantees, (ii) frozen/emptied bank accounts and (iii) other loans to credit institutions.

"Loans to and claims against credit institutions" amounted to ISK 10.0 billion, decreased by ISK 12.4 billion or 55.4% in 2013. The main reason for decrease relates to maturity of long term deposits, amounting to ISK 10.9 billion, which are held at Arion bank and at year end 2013 classified as "cash at bank".

(i) Cash collateral held with banks against guarantees

Guarantee accounts amounted to ISK 6.1 billion at year end 2013 and consist of guarantees made to two counterparties in connection with a dispute concerning bonds issued by Lehman Brothers Treasury BV. Realisation of value from these assets will depend largely on the outcome of this dispute.

(ii) Frozen/emptied bank accounts

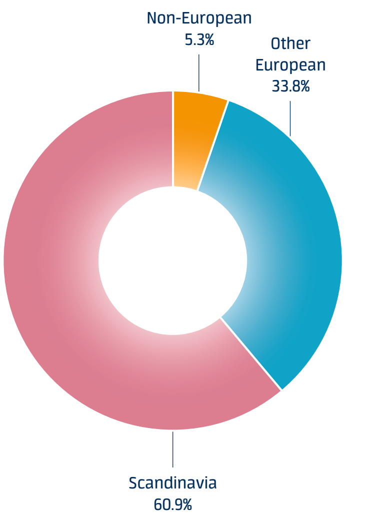
Frozen/emptied bank accounts are claims against international financial institutions for freezing/emptying the Company's bank accounts. Frozen/emptied bank accounts are comprised of 7 accounts in 6 jurisdictions. The amounts range from ISK 14 million to ISK 3.1 billion. The 3 largest accounts comprise 92% of the value of the asset class. At year-end 2013, the total amount of frozen/emptied bank accounts before set-off amounted to ISK 4.1 billion decreased by ISK 1.1 billion in the year 2013. Realisations of these claims will depend on the Company successfully negotiating settlements or prevailing in litigation.

(iii) Other loans to credit institutions

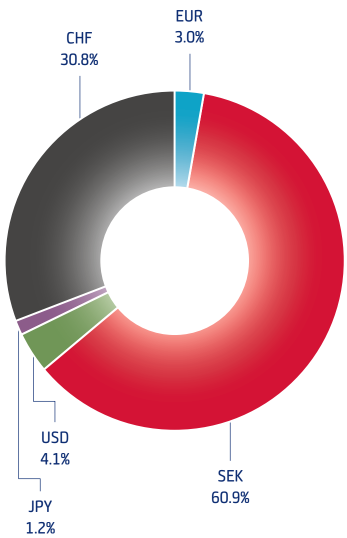
Other loans to credit institutions amounted to ISK 0.2 billion before set-off and decreased by ISK 0.4 billion, in the year 2013 mainly due to principal repayments.

100% of the value of this asset class is coming foreign assets, majority located in Scandinavia. 60.9% is denominated in Swedish krona and 30.8% in Swiss franc, 4.1% in US dollar, 3.0% in euro and 1.2% in Japanese yen. The charts below show the value of the "loans to and claims against credit institutions" by the country of issuer and by currency.

Loans to and claims against credit institutions – regional breakdown



Loans to and claims against credit institutions – currency breakdown



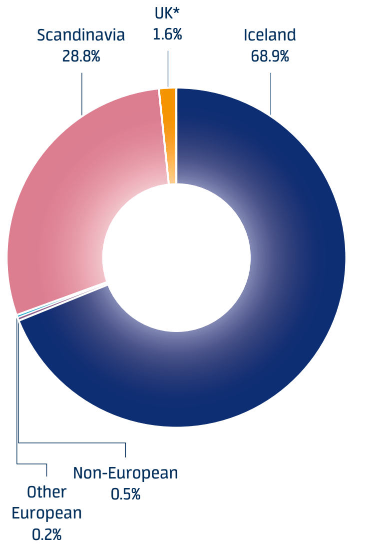
Other Assets

"Other assets" are valued at ISK 13.5 billion after set-off. The value decreased by ISK 18.1 billion in 2013. The decrease is primarily due to payment received in the beginning of the year in relation to a derivative settlement agreement between the Company and several pension funds as short-term receivables from the settlement agreement were reclassified among "other assets".

Sundry assets decreased in 2013 by ISK 17.9 billion mainly due to principal payments resulting from settlements and repayment of prepaid additional tax on financial institutions. Accounts receivables decreased by ISK 1.0 billion mainly due to principal payments and negative foreign exchange effect. Claims on bankrupt entities decreased by ISK 1.4 billion due to realised set-off.

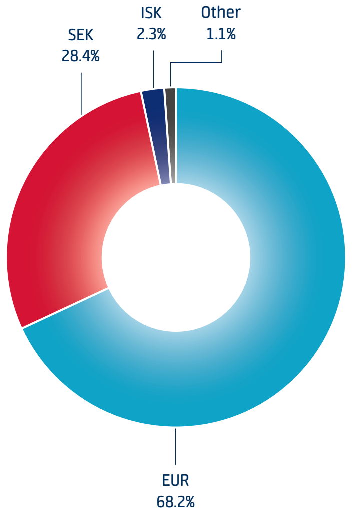
68.9% of the value of this asset class is coming from domestic assets and 31.1% is coming from foreign assets. 68.2% of the value is from assets denominated in euro, 28.4% in Swedish krona, 2.3% Icelandic krona and 1.1% in other currencies. The charts below show the value of the asset class "other assets" by the country of issuer and by currency.

Other assets – regional breakdown



* UK includes overseas territories and crown dependencies.

Other assets – currency breakdown



Certain Claims not reflected in the Financial Statements

Following review of transactions which were entered into by the Company in the last months prior to 9 October 2008, the Winding-up Committee commenced approximately 50 rescission cases in accordance with Icelandic insolvency law. Most of the cases concern various payments of liabilities that the Company made prior to their respective due dates, including the repurchase of bonds issued by the Company. The defendants are mainly non-Icelandic financial institutions or funds. A number of cases have been withdrawn by the Company in light of new information and recent court rulings. Around 40 cases are still ongoing and await determination of the Icelandic Courts. Timing of any final decisions remains uncertain.

Due to the nature of the rescission cases in question, in certain instances, gross amounts are already reported in the Company's Financial Statements. As a consequence, any increase in the gross amount, which would be reflected in the Company's Financial Statements as a result of these rescission cases, would be significantly less than the full nominal amounts related to the rescission cases. Furthermore, if the Company is successful in any given rescission case it may also result in an increase in claims against the Company.

The Company may hold damages claims against certain parties as a result of their tortious conduct in respect of the Company's interest prior to 9 October 2008. Proceedings for damages have been brought in a small number of cases.

The proceedings relating to these claims are on-going and the Company is not able to predict their outcomes or when they may be resolved. The Company is therefore unable to estimate the potential affect these claims may have on the amounts reflected on its Financial Statements.

Operational Update

Operating Expenses in 2013

The table below shows the operating expenses of the Company in 2013.

Operating expenses 2013

ISK million	2013					2012
	Q4	Q3	Q2	Q1	Total	Total
Salaries and salary related cost	320	199	443	357	1,319	1,234
Winding-up Committee	66	58	75	65	264	269
External legal services	199	147	306	329	981	3,376
Domestic	31	34	45	26	136	242
Foreign	168	113	261	303	845	3,134
Other external advisors	393	382	427	257	1,459	1,969
Domestic	54	14	9	10	87	131
Foreign	339	368	418	247	1,372	1,838
Other expenses	167	171	182	184	704	842
Non recoverable VAT	95	65	134	105	399	959
Total	**1,240**	**1,022**	**1,567**	**1,297**	**5,126**	**8,649**

Total operating expenses were ISK 5.1 billion in 2013 compared to ISK 8.6 billion in 2012. Total operating expenses are 0.3% of the total gross amount of assets and 0.7% of the total value of assets at year end 2013. The expenses in relation to the Company's potential restructuring amounted to ISK 1.3 billion (external legal services and other external advisers) in 2013 compared to ISK 4.2 billion in 2012. Other expenses include expenses related to IT services, housing, offices, custody services, travelling and other staff and administration items.

Total operating expenses were ISK 5.1 billion in 2013 compared to ISK 8.6 billion in 2012.

Ernst & Young appointed as external auditor

In 2013, the Winding-up Committee engaged Ernst & Young ehf. as an external auditor. The Company's Financial Statements for the year ended 2013, which comprise the balance sheet as at 31 December 2013, the income statement and statement of cash flows for the year then ended, the endorsement by the Winding-up Committee and a summary of significant accounting policies and other explanatory notes are audited by Ernst & Young ehf. in accordance with International Standards on Auditing. Included in the audit scope is the balance sheet as at 31 December 2012. Ernst & Young ehf. signed the Financial Statements with an unqualified audit opinion.

In 2013, the Winding-up Committee engaged Ernst & Young ehf. as an external auditor. Included in the audit scope is the balance sheet as at 31 December 2012. Ernst & Young ehf. signed the Financial Statements with an unqualified audit opinion.

Morgan Stanley appointed as financial advisers in relation to a realisation strategy for Arion bank

In 2013, the Winding-up Committee engaged Morgan Stanley as financial advisers in relation to a realisation strategy for the Company's shareholding in Arion bank. More information about Arion bank can be found in a separate Asset Spotlight.

Bank Tax Act - Impacts and Effects for the Company

In December 2013, with effect from 31 December 2013, the Icelandic Parliament Althingi passed Act no. 139/2013. It entails amendments to Act no. 155/2010 on a Special Tax on Financial Undertakings (the "Bank Tax Act") under which certain types of financial institution are required to pay an annual levy (the "Bank Tax") calculated as a percentage of the financial institution's total liabilities at the end of each fiscal year, as listed in the tax return.

The Company has estimated its potential liabilities due to the Bank Tax, for 2014, to be ISK 9.9 billion.

The amendments will result in an increase and expansion of the Bank Tax. The percentage of the Bank Tax has been increased from 0.041% to 0.376% of the tax base and will now as a result of the amendment also be levied on financial undertakings in winding-up proceedings, including the Company. The tax base in the case of legal entities in winding-up proceedings is defined in the amendments to the Bank Tax Act as the principal of finally accepted claims plus interest and costs, as of the end of each year, after deducting a tax free exemption of ISK 50 billion. Tax claims resulting from the imposition of the increased Bank Tax will, according to the Bank Tax Act, be given priority ranking in accordance with Art. 110 of the Bankruptcy Act. The Company has estimated its potential liabilities due to the Bank Tax, for 2014, to be ISK 9.9 billion.

The Company submitted its opinion to the Icelandic Parliament's Economic Affairs and Trade Committee on the proposed legislation, outlining various legal concerns with respect to the bill. A summary translation of the Company's commentary is available on the Company's webpage, www.kaupthing.com.

The Winding-up Committee reserves all rights in respect to the legitimacy of the Bank Tax, including but not limited to, having the validity of the taxation tested before Icelandic Courts.

CLAIMS REGISTRY

General Information

The liabilities of the Company are currently being determined through a formal claims process which is administered by the Winding-up Committee. The scope of the Company´s liabilities remains uncertain until the legal process of recognising and excluding claims has been further progressed by the Winding-up Committee and where applicable the Icelandic Courts.

A total of 28,167 claims were lodged before the deadline for lodging claims on 30 December 2009, for a total amount of ISK 7,316 billion. Claims were received from creditors in 119 countries. According to the Act on Financial Undertakings, claims should generally have been filed as at 22 April 2009 in the relevant currency and converted into Icelandic krona at the exchange rate published by the CBI on 22 April 2009. Hence, the liability side has been fixed in Icelandic krona as of that date for all relevant claims.

Summary of Lodged Claims

At the end of the year 2013, a total of 27,585 claims were recorded in the Company's claim registry, for a total amount of ISK 4,202.8 billion (excluding claims lodged as subordinated under Art. 114). The claim registry incorporates all claims lodged against the Company except those claims which were filed and later withdrawn by creditors and therefore includes claims which have been finally rejected by the Winding-up Committee. The claim registry excludes finally accepted priority claims (Art. 109 and 110) which have been paid in full and is adjusted with respect to finalised set-off. At year-end 2013, outstanding claims amounted to ISK 2,879.3 billion.

At year-end 2013, outstanding claims amounted to ISK 2,879.3 billion and have decreased by ISK 115.5 billion.

In 2012 and 2013, claims amounting to the equivalent of ISK 15.3 billion were lodged against the Company under Art. 109 and 110 of the Bankruptcy Act. The Winding-up Committee rejected both claims with reference to Art. 118 of the Bankruptcy Act. As these claims were not filed within the aforementioned deadline for submitting claims and do not meet the conditions of Art. 109 and 110 of the Bankruptcy Act, they were not added to the claim registry and are not included in the following claim tables. The Winding-up Committee has referred the disputes to the District Court for resolution and has provisioned for these claims in accordance with paragraph 6 of Art. 102 of the Act on Financial Undertaking while they remain in dispute. Further information on late filed priority claims in dispute can be found in the chapter Late Filed Priority Claims.

Changes to Decisions on Claims from 31 December 2012

In light of the amount of claims lodged against the Company, and the significant amount of disputes often with no precedents, the claims process has proven to be highly complex. Efforts by the Company to settle disputed claims have been productive and are on-going. This can be done through settlements, by obtaining rulings from Icelandic Courts or simply with the withdrawal of objection by the respective creditors. This work has continued to progress well and has already resulted in a significant reduction of claims in addition to an increase in finally recognised claims.

Efforts by the Company to settle disputed claims have been productive and are on-going.

Key changes in the claim registry from 31 December 2012 to 31 December 2013 include:

- *Lodged claims under Art. 109-113 now amount to ISK 4,202.8 billion and have decreased by ISK 70.1 billion.*
- *Total outstanding claims (adjusted for bonds issued by the Company under its US MTN 144a programme and which are held by it, claims subject to set-off and payment of accepted priority claims under Art. 112) amount to ISK 2,879.3 billion and have decreased by ISK 115.5 billion.*
- *Finally accepted priority claims amount to ISK 13.5 billion which is an increase of ISK 12.9 billion.*
- *Finally accepted unsecured claims amount to ISK 2,731.9 billion which is an increase of ISK 163.8 billion.*
- *There are no accepted unsecured claims in dispute due to priority, a decrease of ISK 207.2 billion.*
- *Accepted unsecured claims in dispute due to set-off amount to ISK 58.2 billion, which is a decrease of ISK 13.8 billion*
- *Rejected claims in dispute amount to ISK 135.1 billion and have decreased by ISK 120.0 billion.*
- *Bonds issued by the Company under its US MTN 144a programme amount to ISK 40.5 billion and which are held by it, which is a decrease of ISK 51.8 billion reflecting the cancellation of a portion of the bonds. The trustee under the programme has amended its claim statements accordingly*
- *Finally rejected claims now amount to ISK 1,264.1 billion which is an increase of ISK 94.4 billion.*

The table below shows key changes in the claims registry since 31. December 2012.

Changes in claim registry from 31 December 2012

ISK million Claims lodged under Art. 109-113	31.12.2013	31.12.2012	Changes
Total lodged	**4,202,797**	**4,272,902**	**(70,105)**
Total accepted	**2,803,557**	**2,848,112**	**(44,555)**
Thereof, finally accepted (1)	**2,745,384**	**2,568,938**	**176,446**
Art. 109	-	7	(7)
Art. 110	-	203	(203)
Art. 111	-	-	-
Art. 112	13,469	586	12,883
Art. 113	2,731,915	2,568,142	163,773
Thereof, accepted Art. 113 but disputed	**58,173**	**279,174**	**(221,001)**
of which in dispute due to priority (2)	-	207,177	(207,177)
of which in set-off dispute (3)	58,173	71,997	(13,824)
Rejected in dispute	**135,105**	**255,093**	**(119,988)**
Art. 109	-	7,642	(7,642)
Art. 110	-	-	-
Art. 111	5,157	5,157	-
Art. 112	563	3,336	(2,773)
Art. 113	129,385	238,958	(109,573)
Total outstanding	**2,938,662**	**3,103,205**	**(164,543)**
Amendments under Art. 113	**(59,375)**	**(108,403)**	**49,028**
Own bonds under US MTN 144a programme (4)	(40,474)	(92,318)	51,844
Subject to set-off (5)	(5,432)	(16,085)	10,653
Payment of accepted priority claims under Art. 112	(13,469)	-	(13,469)
Total outstanding post amendments under Art. 113	**2,879,287**	**2,994,802**	**(115,515)**
Finally rejected	**1,264,135**	**1,169,697**	**94,438**

The claim registry is presented net of finally accepted set-off.

1) *Includes all accepted claims which have not been objected to by creditors. Also includes claims which have been accepted, but are still in dispute and which have been objected to only by the respective claimant but not other creditors; as the accepted amount in these cases will never be lower than what has already been accepted by the Winding-up Committee.*

2) *A dispute between the Winding-up Committee and individual creditors regarding the priority status of claims. The priority of an accepted claim can therefore change, from Art. 113 to Art. 109-112, in accordance with final outcome of that claim.*

3) *Claims accepted by the Winding-up Committee as Art. 113 claims, but where there is a dispute as to either: (i) the right of the holders to apply a set-off against the accepted claim or (ii) the amount the holders may set-off against the accepted claim.*

4) *The Company has cancelled certain portion of its own bonds under the US MTN 144a program and the trustee under the program has amended its claim statements accordingly.*

5) *Amounts subject to set-off, where the right to set-off is not disputed but the set-off has not been finalised.*

Status of Prority Claims

During the year 2013 there was a significant reduction in disputed priority claims, including both rejected priority claims in dispute and claims accepted under Art. 113 but in dispute as to priority. At the end of 2012, claims in dispute relating to priority (Art. 109, 110 and 112) amounted to ISK 218.1 billion but as at year end 2013, disputed claims relating to priority amounted to ISK 0.6 billion, which is a reduction of ISK 217.5 billion.

The reduction can be broken down into the following categories as seen in the table to the right:

Disputed priority claims

ISK billion	Total
31.12.2012	**218.1**
Disputed priority claims becoming accepted priority claims	(18.8)
Disputed priority claims becoming accepted 113 claims	(194.2)
Disputed priority claims becoming finally rejected claims	(4.5)
31.12.2013	**0.6**

Decision on Claims

Summary of decisions on claims with a breakdown by article of the Bankruptcy Act.

Summary of claims at year end 2013

ISK million Article	Art. 109	Art. 110	Art. 111	Art. 112	Art. 113	Total
Total lodged	**19,497**	**308**	**88,931**	**261,638**	**3,832,423**	**4,202,797**
Total adjusted (6)	10,054	152	16,251	65,351	4,110,989	4,202,797
Accepted	**-**	**-**	**-**	**13,469**	**2,790,088**	**2,803,557**
Thereof, finally accepted (1)	-	-	-	13,469	2,731,915	2,745,384
Thereof, accepted but in set-off dispute (3)	-	-	-	-	58,173	58,173
Rejected	**10,054**	**152**	**16,251**	**51,882**	**1,320,901**	**1,399,240**
Thereof, finally	10,054	152	11,094	51,319	1,191,516	1,264,135
Thereof, in dispute	-	-	5,157	563	129,385	135,105
Total adjusted outstanding	**-**	**-**	**5,157**	**14,032**	**2,919,473**	**2,938,662**
Amendments under Art. 113	**-**	**-**	**-**	**(13,469)**	**(45,906)**	**(59,375)**
Own bonds under US MTN 144a Programme (4)	-	-	-	-	(40,474)	(40,474)
Subject to set-off (5)	-	-	-	-	(5,432)	(5,432)
Payment of accepted priority claims under Art. 112	-	-	-	(13,469)	-	(13,469)
Total adjusted outstanding post amendments under Art. 113	**-**	**-**	**5,157**	**563**	**2,873,567**	**2,879,287**

6) *In several cases the Winding-up Committee accepts a claim with different priority than lodged. Adjusted amounts in the table above are based on the Winding-up Committee's decisions and represent the total amounts of all claims on which decisions have been made under the respective article, i.e. accepted or rejected. Adjusted outstanding claims represent the adjusted amounts under each article, finally rejected claims are excluded.*

Total adjusted outstanding claims

Total adjusted outstanding claims shown by article and type, excluding (a) claims subject to set-off, (b) the Company's own bonds under the US MTN 144a programme and (c) payment of accepted priority claims under Art. 112.

Adjusted outstanding amounts in the table below are based on the Winding-up Committee's decisions and represent the outstanding amounts of all claims on which decisions have been made under the respective article, i.e. accepted or rejected dispute claims, finally rejected claims are excluded. There may still be outstanding disputes concerning priority of claims as in several cases the Winding-up Committee accepts a claim with a different priority than lodged. Thus, the priority of claims in the table below might change as the Courts could rule against Winding-up Committee's decision on the priority of claims.

Total adjusted outstanding claims at year end – by article and type

ISK million Type	Art. 109	Art. 110	Art. 111	Art. 112	Art. 113	Total
Guarantees	-	-	-	-	32,763	32,763
Derivatives	-	-	5,157	-	65,876	71,033
Miscellaneous	-	-	-	-	94,143	94,143
Deposit Agreements	-	-	-	527	283,283	283,810
Deposits	-	-	-	-	-	-
Reimbursements	-	-	-	-	592	592
Loan Agreements	-	-	-	-	422,196	422,196
Invoices	-	-	-	-	1,648	1,648
Contracts	-	-	-	-	42	42
Damages	-	-	-	2	29,861	29,863
Bonds	-	-	-	-	1,942,346	1,942,346
Interests	-	-	-	34	817	851
Total	**-**	**-**	**5,157**	**563**	**2,873,567**	**2,879,287**

Accepted claims

The table below shows decisions by the Winding-up Committee which are considered final. A decision by the Winding-up Committee to accept a claim is considered final when the creditor concerned accepts the Winding-up Committee's decision and neither the creditor nor other parties object to the decision. The decision by the Winding-up Committee is then considered to be final, as provided for in the third paragraph of Art. 120 of the Bankruptcy Act.

Finally accepted claims at year end – by article and type

ISK million Type	Art. 109	Art. 110	Art. 111	Art. 112	Art. 113	Total
Guarantees	-	-	-	-	16,515	16,515
Derivatives	-	-	-	-	31,094	31,094
Miscellaneous	-	-	-	-	87,113	87,113
Deposit Agreements	-	-	-	12,883	206,326	219,209
Deposits	-	-	-	-	-	-
Reimbursements	-	-	-	17	592	609
Loan Agreements	-	-	-	-	416,628	416,628
Invoices	-	-	-	-	1,648	1,648
Contracts	-	-	-	-	42	42
Damages	-	-	-	-	900	900
Bonds	-	-	-	-	1,970,240	1,970,240
Interests	-	-	-	569	817	1,386
Total	**-**	**-**	**-**	**13,469**	**2,731,915**	**2,745,384**

The table below shows decision on claims where the Winding-up Committee has accepted a claim but there is still a dispute regarding the right of the holders to apply a set-off against the accepted claim or the amount the holders may set-off against the accepted claim.

Accepted claims in set-off dispute at year end – by article and type

ISK million Type	Art. 109	Art. 110	Art. 111	Art. 112	Art. 113	Total
Guarantees	-	-	-	-	-	-
Derivatives	-	-	-	-	-	-
Miscellaneous	-	-	-	-	-	-
Deposit Agreements	-	-	-	-	39,201	39,201
Deposits	-	-	-	-	-	-
Reimbursements	-	-	-	-	-	-
Loan Agreements	-	-	-	-	7,724	7,724
Invoices	-	-	-	-	-	-
Contracts	-	-	-	-	-	-
Damages	-	-	-	-	-	-
Bonds	-	-	-	-	11,248	11,248
Interests	-	-	-	-	-	-
Total	**-**	**-**	**-**	**-**	**58,173**	**58,173**

Rejected claims

The table below shows decisions by the Winding-up Committee which are considered final. A decision by the Winding-up Committee to reject a claim, in whole or in part, is considered final if the creditor concerned accepts the Winding-up Committee's decision and does not object to the decision, if a Court ruling confirms the Winding-up Committee´s decision or if a claim is settled between the creditor and the Winding-up Committee. The decision by the Winding-up Committee is then considered to be final, as provided for in the third paragraph of Art. 120 of the Bankruptcy Act.

Finally rejected claims at year end – by article and type

ISK million Type	Art. 109	Art. 110	Art. 111	Art. 112	Art. 113	Total
Guarantees	378	-	3	37,857	8,706	46,944
Derivatives	960	-	3,669	26	8,236	12,891
Miscellaneous	1,580	4	-	12	53,755	55,351
Deposit Agreements	-	-	-	44	643	687
Deposits	1,611	-	-	7,791	35,835	45,237
Reimbursements	-	-	-	674	218	892
Loan Agreements	-	-	7,056	18	11,763	18,837
Invoices	-	52	-	11	861	924
Contracts	-	1	-	-	47,671	47,672
Damages	197	95	-	531	20,346	21,169
Bonds	5,252	-	320	2,149	1,003,035	1,010,756
Interests	76	-	46	2,206	447	2,775
Total	**10,054**	**152**	**11,094**	**51,319**	**1,191,516**	**1,264,135**

The table below shows decision on claims where the Winding-up Committee has rejected a claim and the respective creditor has objected to that decisions and the dispute has not been resolved by a settlement, withdrawal of the objection by the creditor or a court ruling.

Rejected disputed claims at year end – by article and type

ISK million Type	Art. 109	Art. 110	Art. 111	Art. 112	Art. 113	Total
Guarantees	-	-	-	-	16,248	16,248
Derivatives	-	-	5,157	-	34,782	39,939
Miscellaneous	-	-	-	-	7,030	7,030
Deposit Agreements	-	-	-	527	38,525	39,052
Deposits	-	-	-	-	-	-
Reimbursements	-	-	-	-	-	-
Loan Agreements	-	-	-	-	2,484	2,484
Invoices	-	-	-	-	-	-
Contracts	-	-	-	-	-	-
Damages	-	-	-	2	28,961	28,963
Bonds	-	-	-	-	1,355	1,355
Interests	-	-	-	34	-	34
Total	**-**	**-**	**5,157**	**563**	**129,385**	**135,105**

Process of Disputed Claims

If claims are in dispute the Winding-up Committee shall convene the parties in question to a meeting and endeavour to settle the dispute ("mediation process"). If disputes on claims cannot be resolved in this manner, they are referred by the Winding-up Committee to the District Court of Reykjavik for resolution, as provided for in the second paragraph of Art. 120 of the Bankruptcy Act, and Art. 171 of the same Act.

Since 30 December 2009 when the time limit to lodge claims passed, over 840 cases relating to claims have been referred to the District Court of Reykjavik for resolution. Currently over 40 cases are awaiting resolution before the District Court of Reykjavik or as applicable the Supreme Court of Iceland. Other cases have been concluded by a final court ruling, settlement or withdrawal by the parties.

Rejected Disputed Claims

There are currently 598 claims in dispute where a claim has been rejected by the Winding-up Committee in part or in whole. The total amount that is disputed is ISK 135.1 billion.

The table below gives an overview of the largest disputed claims lodged under Art. 109-113 of the Bankruptcy Act which have been rejected by the Winding-up Committee in part or in whole and are currently in dispute. The table also shows the status of those claim, i.e. whether they are in process before Icelandic Courts or undergoing mediation process, cf. paragraph 2 of Art. 120 of the Bankruptcy Act.

Analysis of disputed rejected claims

Total number	598
Total amount	135,105
- thereof priority and secured claims Art. 109-112	5,720
- thereof general unsecured claims Art. 113	129,385

All amounts in table in ISK million.

Overview of largest disputed claims

ISK million Creditor	No. of claims	Article	Amount in dispute	% of disputed claims	Status
Drómi	1	113	30,213	22.4%	Before the District Court
Credit Suisse International	1	113	29,651	22.0%	Before the District Court
Baugur Group hf.	3	113	16,541	12.2%	Before the District Court
Kaupthing Singer & Friedlander Isle of Man	1	113	16,248	12.0%	Mediation process
Damage claims from individuals relating to investment made in 2006	20	113	12,255	9.1%	Before the District Court
Kaupthing Singer & Friedlander Limited (in administration)	1	113	8,661	6.4%	Mediation process
Deutsche Bank AG, London - Forward rate bias derivative	6	113	8,278	6.1%	Mediation process
Merill Lynch International Bank Ltd.	1	111	3,644	2.7%	Mediation process
Credit Suisse AG	1	113	2,574	1.9%	Mediation process
Deutsche Bank AG, London - Liquidity Facility	1	113	2,484	1.8%	Before the District Court
Bank of America	1	111	1,467	1.1%	Mediation process
Total	**37**		**132,016**	**97.7%**	

Late Filed Priority Claims

In 2012 and 2013, two claims amounting to the equivalent of ISK 15.3 billion were lodged against the Company under Art. 109 and 110 of the Bankruptcy Act. The Winding-up Committee rejected both claims with reference to Art. 118 of the Bankruptcy Act as these claims were not filed within the deadline for submitting claims, 30 December 2009, and in the view of the Winding-up Committee do not meet the conditions of Art. 109 and 110 of the Bankruptcy Act.

UBS AG, London Branch ("UBS") lodged the former claim which amounts to USD 117 million. The claim relates to a payment in error by UBS of USD 65 million to the Company on 3 October 2008. The claim thus relates to events that occurred prior to the appointment of the Resolution Committee of the Company on 9 October 2008. The dispute regarding the claim has been referred to the District Court of Reykjavik for resolution where the court proceedings are ongoing in case no. X-66/2013.

The second claim was lodged by an Icelandic entity, AB 76 ehf. ("AB76"), for a total amount of ISK 1 billion and EUR 4.2 million. AB76 was a borrower of the Company and the dispute relates to the validity of that loan agreement and the enforcement of the Company of pledged assets and the right of AB76 to set off certain claims against the loan agreement. There are currently ongoing parallel court proceedings before the District Court of Reykjavik on the enforcement of the remainder of the defaulted loan agreement and on the validity of the late filed priority claim from AB76.

At the end of February 2014, two priority claims were lodged against the Company under paragraph 3 of Art. 110 of the Bankruptcy Act, for a total amount of EUR 226 million and SEK 155 million. The Winding-up Committee rejected both claims before the Creditors' Meeting on 10 April 2014.

The former claim which amounts to EUR 226 million, is a duplicate of an unsecured derivative claim lodged under Art. 113 of the Bankruptcy Act by the same claimant in December 2009. The unsecured claim was rejected by the Winding-up Committee and the dispute is currently before the District Court of Reykjavik.

The second claims which amount to SEK 155 million relates to a dispute between the Company and a pledger and guarantor (the claimant) under a loan agreement. The Company has enforced pledges due to defaults under the loan agreement. The claimant is disputing the enforcement of the pledges and is seeking damages and other remedies. The claimant has made the same claim before the District Court of Stockholm.

Payment of Priority Claims

General overview

The Winding-up Committee is authorised to pay priority claims which have been finally accepted and are undisputed in the winding-up proceedings, cf. paragraph 6 of Art. 102 of the Act on Financial Undertakings.

The Winding-up Committee has paid in full claims that are undisputed and were accepted under Art. 109, 110 and 112 of the Bankruptcy Act as priority claims. The Winding-up Committee will also pay, if applicable, the undisputed portion of otherwise disputed priority claims.

The Winding-up Committee has paid in full claims that are undisputed and were accepted under Art. 109, 110 and 112 of the Bankruptcy Act as priority claims.

Claims lodged under Art. 109-110 of the Bankruptcy Act.

In accordance with paragraph 3 of Art. 99 of the Bankruptcy Act, claims accepted under Art. 109 and 110 of the Bankruptcy Act remain in their original currency until the date of payment.

Claims accepted under Art. 109 and 110 of the Bankruptcy Act were paid on 26 April 2013. Payments were made in the currency in which the relevant claim was lodged and accepted. At the same time payments were made into custody accounts for disputed claims under Art. 109 and 110 of the Bankruptcy Act.

Based on the claim registry as of the date of payment, the relevant currency of these payments was as seen in the tables to the right:

Claims lodged under Art. 112 of the Bankruptcy Act.
In accordance with paragraph 3 of Art. 99 of the Bankruptcy Act, priority claims in foreign currencies that were lodged under Art. 112 of the Bankruptcy Act were converted to Icelandic krona at the quoted selling rates of the CBI on 22 April 2009. Therefore, all priority claims against the Company accepted under Art. 112 of the Bankruptcy Act are now denominated and owed to creditors in Icelandic krona.

Payment of priority claims under Art. 112 of the Bankruptcy Act were therefore denominated in Icelandic krona. Creditors with accepted or disputed claims under Art. 112 of the Bankruptcy Act were however given a choice to elect to have any payment to which they were or might be entitled to be converted into a euro amount and then paid to them in euro subject to certain conditions (the "euro-option").

The vast majority of priority claims accepted under Art. 112 of the Bankruptcy Act by number and by amount were initially lodged in euro. As Icelandic law provides the possibility for the Company to settle its Icelandic krona obligations to creditors in other currencies, the Company offered creditors with accepted or disputed claims under Art. 112 of the Bankruptcy Act the possibility to receive any payment to which they were or might be entitled in euro as an alternative to Icelandic krona, subject to certain conditions.

If a creditor with an accepted or disputed claim under Art. 112 of the Bankruptcy Act chose to be paid in respect of such priority claim payment in euro, any priority claim payment to which such creditor was entitled was converted into euro at the selling exchange rate of the CBI on 22 April 2009, EUR 1 = ISK 169.23.

Payments of accepted priority claims under Art. 112 of the Bankruptcy Act and payment into a custody account for disputed priority claims under Art. 112 of the Bankruptcy Act were made on 16 August 2013.

Payment of accepted claims under Art. 112 of the Bankruptcy Act

	Amount in currency	mISK equivalent
Payment of priority claims under Art. 112		
Paid with ISK	17	17
Paid with EUR	79	13,390
Custody account in ISK – entitlement letter not submitted	62	62
Total		**13,469**
112 Disputed - custody account		
Custody account in ISK	29	29
Custody account in EUR	3	533
Total		**562**

Payment of accepted claims under Art. 109 and 110 of the Bankruptcy Act.

Currency	Amount in currency	mISK equivalent
ISK	211	211
USD	47.5	5,586
Total		**5,797**

*Finally accepted claims under Art. 109 and 110 of the Bankruptcy Act in the relevant currency of payment and ISK equivalent amount.**

** Based on the CBI selling rate on 26 April 2013.*

Payment into custody account for disputed claims (incl. late filed claims) under Art. 109 and 110 of the Bankruptcy Act.

Currency	Amount in currency	mISK equivalent
ISK	1,022	1,022
EUR	4	639
USD	117	13,646
Total		**15,307**

*Disputed claims under Art. 109 and 110 of the Bankruptcy Act, including late filed claims in dispute, in the relevant currency of payment and ISK equivalent amount.**

** Based on the CBI selling rate on 26 April 2013.*

Payments into a custody account

Disputed priority claims under Art. 109, 110 and 112 of the Bankruptcy Act were paid by depositing into the custody accounts in an amount equivalent to the maximum aggregate possible amount of all such disputed priority claims. By placing an amount into the custody accounts the Winding-up Committee is deemed to have made a distribution in accordance with paragraph 6 of Art. 102 of the Act on Financial Undertakings. In instances where a priority claim is eventually resolved at an amount less than the payments made into the custody accounts in respect of that claim, the unused surplus will be revert to the Company. Interest earned on funds in the custody accounts, if any, after deduction of tax will be paid proportionately to holders of priority claims receiving payments from the custody accounts or, as the case may be, to the Company.

For those creditors who failed to submit the required documentation/information to the Company the payments were placed into the custody account, until the required information was provided.

Dispute on the currency exchange rate used for payments under the euro-option

On 7 November 2013 the Company received an objection from a priority creditor who had elected and received payment of his accepted priority claims under Art. 112 in accordance with the euro-option. The basis of the objection was that the Company had not been entitled to use the selling exchange rate of the CBI on 22 April 2009, EUR 1 = ISK 169.23, for payments under the euro-option but should rather have used the selling exchange rate of the CBI on 16 August 2013, EUR 1 = ISK 160.3 for the payments.

The Winding-up Committee rejected the claim from the creditor and has maintained that it´s method of paying priority claims under Art. 112 is legitimate. Should Icelandic Courts however rule in favour of the creditor it is estimated that additional payments to priority creditors could amount to EUR 4.4 million (at the exchange rate, 16 August 2013).

The dispute on the currency exchange rate has now been referred to the District Court of Reykjavik for resolution with the main hearing scheduled on 29 April 2014. The Winding-up Committee is hopeful to have a final and binding ruling on the matter in the third quarter of 2014.

Restrictions on payments of priority claims under Art. 112 due to currency controls

In February 2014, the CBI informed the Company those payments to non-residents in euro of accepted priority claims under Art. 112 were not allowed without a formal exemption from the CBI due to currency restrictions. The CBI states that following a judgement from the Supreme Court of Iceland in case no. 553/2013, Financial Services Compensation Scheme Limited and others v. LBI hf., it has become clear that accepted priority claims under Art. 112, are ISK denominated claims, and payment of such claims to non-residents in foreign currency falls under the term "foreign exchange transactions" which are prohibited between residents and non-residents according to Art. 13c of the Foreign Exchange Act without formal exemption from the CBI.

The Company is currently seeking an exemption from the CBI in order to be able to process any remaining payments of accepted priority claims under Art. 112 to respective priority creditors.

Significant Court Cases and Settlements relating to Claims in 2013

Kaupthing Singer and Friedlander Isle of Man Ltd. v. Kaupthing hf.
In a judgement of 10 June 2011 in case no. 201/2011, the Supreme Court of Iceland upheld the validity of the parental guarantee given by Kaupthing hf. to its subsidiary, Kaupthing Singer and Friedlander Isle of Man Ltd. ("KSFIOM"). The dispute on the outstanding amount under the parental guarantee remained however before the District Court of Reykjavik in case no. X-47/2010. The District Court case was reopened in 2012 but withdrawn by consent of both parties in 2013, after KSFIOM amended and reduced its claim amount from ISK 88.5 billion (pound sterling 463.2 million) to ISK 16.2 billion (pound sterling 85 million), based on KSFIOM's updated recovery estimates since the claim against the Company was initially lodged. It should be noted that there is still a dispute and uncertainty as to the outstanding amount under the guarantee which will largely depend on the final shortfall in the on-going liquidation of KSFIOM.

As a consequence the amount of rejected disputed claims was reduced by ISK 72.3 billion (GBP 378.2 million).

The Bank of Tokyo v. Kaupthing hf.
On 25 February 2013, the Supreme Court of Iceland gave judgement in case no. 17/2013, Kaupthing hf. against The Bank of Tokyo Mitsubishi UFJ Ltd. ("Bank of Tokyo"). The claim from Bank of Tokyo was based on a forward foreign exchange swap of which the maturity was 9 October 2008. Bank of Tokyo sought to have their payment to the Company of USD 50 million returned as an asset of Bank of Tokyo under Art. 109 of the Bankruptcy Act. as the Company did not pay its obligation under the foreign exchange swap. In its judgement the Supreme Court found that Kaupthing should have returned the funds in October 2008 and accepted a claim from Bank of Tokyo of USD 47.5 million under Art. 109 of the Bankruptcy Act.

As a consequence the amount of accepted priority claims increased by USD 47.5 million (ISK 6.2 billion).

Irish Bank Resolution Corporation Ltd. v. Kaupthing hf.
The Supreme Court of Iceland confirmed on 27 February 2013 in case no. 89/2013 the ruling of the District Court of Reykjavik in the case of Irish Bank Resolution Corporation Ltd., ("IBRC" (formerly known as Anglo Irish Bank Ltd.)) against Kaupthing hf. In its judgement the Supreme Court confirmed the decision of the Winding-up Committee of rejecting IBRC's claims in the winding-up proceedings as they were filed after the claim expiry date of 30 December 2009. The Supreme Court found that the exception found in point 2 of Art. 118 of the Bankruptcy Act did not apply to IBRC's claims and as a consequence IBRC's claims, amounting to ISK 2.6 billion (EUR 15.4 million) have been finally rejected.

This judgement did not affect the status of lodged claims as IBRC's claims had not been entered into the claim registry.

BNAP S.A.R.L. v. Kaupthing hf.
On 22 March 2013, the Supreme Court of Iceland pronounced its judgement in case no. 722/2012, BNAP S.A.R.L. ("BNAP") against Kaupthing hf. This was the first case brought before Icelandic Courts regarding the dispute on the priority status of the FRB deposit agreements (which have been referenced in prior Creditors' Reports). The Supreme Court confirmed the ruling of the District Court of Reykjavik, although with different arguments, that claims under the FRB deposit agreements should rank as general unsecured claims in accordance with Art. 113 of the Bankruptcy Act in the winding-up proceedings of the Company. The Supreme Court found that claims based on the FRB deposit agree-

ments could fall within the "technical" definition of a deposit as defined in the third paragraph of Art. 9 of the Act. no. 98/1999, on Deposit Guarantees and an Investor-Compensation Scheme. The Supreme Court however dismissed the arguments of the BNAP that the claims should enjoy priority status under Art. 112 of the Bankruptcy Act. The Supreme Court found that the FRB deposit agreements were in fact securities and as such excluded from enjoying protection under the guarantee scheme in accordance with the first paragraph of Art. 9 of the Act. no. 98/1999, on Deposit Guarantees and an Investor-Compensation Scheme, and the third paragraph of Art. 102 of the Act on Financial Undertakings, and should therefore be ranked as general unsecured claims under Art. 113 of the Bankruptcy Act.

The judgement affected disputed claims under the FRB deposit agreements amounting to ISK 194.4 billion. The claim in question from BNAP amounted to ISK 86.5 billion and the other pending FRB cases amount to ISK 107.9 billion.

Following the judgement in the BNAP case other disputed claims under the FRB deposit agreements were withdrawn from the ongoing court proceedings. All disputes on priority status of FRB claims have now been concluded and the claims have been finally accepted as general unsecured claims under Art. 113 of the Bankruptcy Act. Accepted claims in dispute due to priority have thus been lowered accordingly.

Court rulings regarding disputed subordinated bond claims.

The Winding-up Committee received in total approximately 4,000 claims for subordinated and capital bonds or notes ("Subordinated Bond Claims") which were lodged as unsecured claims with reference to Art. 113 of the Bankruptcy Act instead of being lodged as subordinated claims under Art. 114. The Subordinated Bond Claims amounted to approximately ISK 417 billion. With reference to the terms of the bonds, all the claims were ranked as subordinated under Art. 114 of the Bankruptcy Act. In accordance with Art. 119 of the Bankruptcy Act no further decisions were made concerning the Subordinated Bond Claims as it is regarded as certain that nothing will be paid towards those claims upon distribution.

566 creditors with Subordinated Bond Claims amounting to ISK 12.8 billion in total, did not accept the Winding-up Committee's decision on their claims. In accordance with Art. 120 of the Bankruptcy Act, cf. Art. 171 of Bankruptcy Act the Winding-up Committee referred all the outstanding disputes to the District Court of Reykjavik. As the Subordinated Bond Claims concerned various bond or note issuances, the Winding-up Committee and the creditor group agreed to bring one action before the courts in respect of each issuance which would then serve as a precedent for the remaining claims.

The Winding-up Committee has received five District Court rulings and one Supreme Court judgement concerning the aforementioned disputes, all of which confirmed the decisions taken by the Winding-up Committee. The courts agreed with the view of the Winding-up Committee, that the provisions of all the relevant indentures and offering circulars related to the Subordinated Bond Claims clearly set out the subordinated status of the bonds in question and that claims filed on account of those bonds cannot be ranked under Art.113 of the Bankruptcy Act.

As a result of the court rulings, all the remaining creditors with subordinated bond claims have withdrawn their objections and all disputes concerning the ranking of the Subordinated Bond Claim have been concluded.

The Supreme Court of Iceland confirms the Winding-up Committee's decision regarding US MTN discount notes

On 27 September 2013, the Supreme Court of Iceland pronounced its judgement in cases no. 343/2013 and 344/2013, in both instances Deutsche Bank Trust Company Americas ("DBTCA") v. Kaupthing hf.

The cases concerned two series of global notes issued by Kaupthing under the US$10,000,000,000 Senior Medium-Term Note Program (the "US MTN Program"). DBTCA filed global claims on account of the two series as the trustee of the US MTN Program. The notes in question were issued with a discount from par value. DBTCA filed the global claims for the full face value of the global notes plus accrued interest but the Winding-up Committee only accepted the original issue price plus such of the discount that had accrued to the principal at the time of default. The Winding-up Committee was of the opinion that the discount should be treated as unearned interest and thus could not be claimed after an early acceleration of the debt.

The dispute before the court was twofold, firstly whether or not the global notes should be regarded as discount notes pursuant to relevant provisions of the US MTN Program´s documents and secondly how to treat the claimed original issue discount in the winding-up proceedings.

The Supreme Court confirmed that the global notes should be treated as discount notes and in accordance with a general principle of New York law the Court confirmed the decision of the Winding-up Committee of accepting only the claims in the amount of the original issue price plus accrued interest.

The judgement of the Supreme Court ultimately confirms the Winding-up Committee's decisions towards the global claims under Art. 113 of the Icelandic Bankruptcy Act. As a result the total disputed amount in both cases of 19 billion Icelandic krona is considered finally rejected in the winding-up proceedings. As a consequence the amount of rejected disputed claims against Kaupthing will reduce accordingly. The total accepted amount of DBTCA claims, relating to the discount notes, is approximately 107 billion krona under Art. 113 of the Icelandic Bankruptcy Act.

Commerzbank AG v. Kaupthing hf.

On 28 October 2013 the Supreme Court gave a judgement in case no. 552/2013 where the decision of the Winding-up Committee to reject set-off was confirmed. The Supreme Court stated that Icelandic law govern if set-off is applicable or not in the winding-up proceedings of Kaupthing regardless of whether the underlying contracts are governed by foreign law. Commerzbank AG acquired its claim against Kaupthing via transfer after 15 August 2008 and therefore the conditions of Art. 100 of the Icelandic Bankruptcy Act were not fulfilled. The claim from Commerzbank AG, amounting to USD 20 million, was therefore not eligible for set-off against Kaupthings's counter claim in the winding-up proceedings.

Second settlement agreement with Kaupthing Singer & Friedlander Limited (in administration)

Prior to the creditors meeting on 20 November 2013, Kaupthing hf. entered into a second settlement agreement with Kaupthing Singer & Friedlander Limited (in administration) ("KSF") in respect of its general unsecured claim filed against Kaupthing of approximately ISK 132.9 billion (the "KSF Claim"). In accordance with the second settlement agreement, approximately ISK 18.0 billion has been finally accepted as a general unsecured claim and approximately ISK 10.4 billion has been finally rejected. After the two settlements, the accepted KSF Claim against Kaupthing amounts to approximately ISK 75.7 billion.

As a result of the two settlements, only one component of the KSF Claim remains unresolved, amounting to ISK 7.0 billion. This unsettled component is subject to further discussions between Kaupthing and KSF and the outcome of ongoing Icelandic and UK legal proceedings with a third party. The two settlements led to a reduction in disputed claims in the winding-up proceedings of approximately ISK 50 billion.

Dispute on priority status of money market loans

There have been on-going court proceedings since 2010 regarding the priority status of so called money market loans from international financial institutions. The Winding-up Committee had accepted such money market loans from international financial institutions as unsecured claims under Art. 113 of the Bankruptcy Act but had rejected that they should enjoy priority status under Art. 112 of the Bankruptcy Act. In total there were six claims from four creditors in dispute due to priority ranking amounting to ISK 12.8 billion (EUR 75.6 million).

In September 2013 the Supreme Court of Iceland pronounced its judgement in two cases regarding the priority status of money market loans in the winding-up proceedings of the Company in casees no. 438/2013 Kaupthing v. Iccrea Bankca S.p.A. and no. 454/2013 Kaupthing v. Bank Pekao S.A. Centrala. In both cases it was determined that claims should rank as priority claims under Art. 112 of the Bankruptcy Act. The Winding-up Committee considered the cases to serve as a precedent for other claims based on money market loans from international financial institutions. Due to this the accepted amount of priority claims under Art. 112 of the Bankruptcy Act increased by ISK 12.8 billion (EUR 75.6 million).

COMPOSITION PROPOSAL AND ISSUES RELATING TO THE CURRENCY CONTROLS

Introduction

From the outset, the Company's Winding-up Committee has placed emphasis on ending the winding-up proceedings as soon as realistically achievable and distributing the resulting value to the Company's unsecured creditors without undue delay. However, it is not in the power of the Winding-up Committee to conclude the winding-up proceedings unilaterally under the existing legislation.

Financial undertakings in winding-up proceedings in Iceland may not make interim distributions to unsecured creditors during the winding-up proceedings according to statutory amendments to the Act on Financial Undertakings passed in the spring of 2011. In addition, distributions to unsecured creditors domiciled outside of Iceland, whether in connection with composition or following bankruptcy proceedings, are subject to an exemption from capital controls granted by the CBI after consultation with the Minister of Finance and Economic Affairs.

It is therefore clear that the position taken by the CBI and the Minister of Finance and Economic Affairs will be a key factor determining when and how the Company's winding-up proceedings will conclude and whether the necessary pre-requisites for submitting a composition proposal will be met. Furthermore it cannot be ruled out that further legislative amendments would be made which could affect how the winding-up proceedings will conclude.

It is therefore clear that the position taken by the CBI and the Minister of Finance and Economic Affairs will be a key factor determining when and how the Company's winding-up proceedings will conclude.

Furthermore it cannot be ruled out that further legislative amendments would be made which could affect how the winding-up proceedings will conclude.

The Potential Composition Proposal of the Winding-up Committee

The Company's primary objective is to effect distributions to creditors. The Company's creditors have indicated that implementation of a composition proposal is the preferred route to achieve distributions. Another route to achieve distribution to creditors would be to make distributions once the Company has entered bankruptcy proceedings. In either process, distributions to creditors domiciled outside of Iceland would be subject to receiving an exemption from the currency controls.

The Company's Winding-up Committee has been working in close consultation with the Company's ICC and their respective advisers on a potential composition proposal with the Company's unsecured creditors. The proposed restructuring of the Company ranks among the largest restructurings globally with approximately 13,000 creditors from over 100 jurisdictions holding outstanding claims at year-end 2013 amounting to ISK 2,879.3 billion out of originally filed claims amounting to ISK 7,316 billion.

The main objective of a composition agreement with the Company's unsecured creditors is to end the winding-up proceedings and enable the Company to distribute cash currently held by the Company to its creditors, as well as transferring control of the Company to its unsecured creditors. By structuring the Company as an asset management vehicle, a mechanism will be put in place for distributions to creditors of future cash realisations from the Company's assets. As a consequence of any composition agreement a new board of directors will be elected. It may be expected that a board of directors will adopt a strategy which focuses on monetising the Company's assets in a value maximising manner.

Morgan Stanley & Co. Ltd. has acted as leading financial adviser to the Company since 2008. Its international restructuring experience, capital market knowledge and close relationship with the Company has proven a valuable asset in developing a suitable structure, analysing the commercial impact of the composition proposal and providing advice on all relevant commercial aspects.

In May 2011, White & Case LLP was engaged to act as the leading external legal advisor in the preparation of the composition proposal. This has included advice in relation to structuring the relevant documentation, consideration of the mechanism for transfer of control to creditors, extensive regulatory analysis, advice in respect of international recognition of any composition proposal and advice in relation to all documentation required to implement the Company's restructuring. As such, the firm has played a significant role in advising the Company on developing the terms of a composition proposal. Furthermore, a large number of law firms in approximately 100 jurisdictions have been engaged throughout to provide legal advice on jurisdiction specific issues. The scope and advice varied among different jurisdictions, in some cases including certain regulatory and tax analysis, advice relating to international recognition of the composition proposal and general structuring and implementation advice.

As part of the preparation for a composition proposal, Deloitte (UK) LLP was engaged to provide tax advice to Company on the likely tax implications for the Company and its creditors of different structures in any potential composition proposal.

While preparation of a composition proposal has been a general priority for the Winding-up Committee from 2011, the Company has also ensured that the ordinary business operations and the on-going claims process would not suffer as a result. In 2014 the preparation of the composition proposal continues to receive priority attention.

Overview of Capital Controls Pursuant to the Foreign Exchange Act

Foreign exchange transactions have been subject to stringent capital controls in Iceland since the autumn of 2008.Initially, the CBI issued guidelines limiting foreign currency exchange to essential transactions involving trade in goods and services. Subsequently, in November 2008, the CBI began issuing Rules on Foreign Exchange (the "Rules") in accordance with and on the basis of the Foreign Exchange Act. Eventually, the Rules were implemented by Act no. 127/2011 into the Foreign Exchange Act resulting in major amendments to the Foreign Exchange Act.

The Foreign Exchange Act currently provides restrictions on both cross-border movement of capital and related foreign exchange transactions in Iceland and in respect of "domestic residents" as defined in the Foreign Exchange Act. The Company has been classified by the CBI as a domestic resident under the Foreign Exchange Act.

Financial undertakings in winding-up proceedings, including the Company, initially enjoyed wide statutory exemptions from the Foreign Exchange Act, including exemptions from the ban on cross border movement of foreign currency, as defined in the Foreign Exchange Act. However, these exemptions have since been limited.

In 2012, Act no. 17/2012, amending the Foreign Exchange Act, revoked the Company's exemptions under the act to make distributions in domestic currency to foreign creditors and also revoked certain exemptions for the Company to make cross-border capital movements in foreign currency, hence restricting the Company's ability to make distributions in foreign currency, without a specific exemption being granted.

As set out in the Foreign Exchange Act, the Company is exempted from certain provisions of the Foreign Exchange Act such as repatriation obligations, foreign investment, foreign borrowing and lending. The Company is also allowed to enter into cross-border capital transactions relating to the purchase of goods and services. In addition to these exemptions, foreign currency deposits held with the CBI and held with foreign financial institutions as at 12 March 2012 are exempt from the ban on cross border movement of foreign currency as set out in the Foreign Exchange Act.

Where the Company does not enjoy a statutory exemption under the Foreign Exchange Act the CBI is authorised to grant certain exemptions from the ban on capital movements upon receipt of an exemption application. After evaluating an exemption application, the CBI would consider the consequences of the capital controls for the applicant, the objective of the capital controls in general, and the impact that an exemption would have on monetary and exchange rate stability. The minimum processing time for regular exemption requests is eight weeks.

In March 2013, further amendments were made to the Foreign Exchange Act with the adoption of Act no. 16/2013. Among other things, the amendments repealed the so-called "sunset provision" of the capital controls, which had previously been intended to expire on 31 December 2013, thereby extending the controls for an indefinite period.

In addition, as a consequence of the aforementioned amendments, the CBI is obliged to consult with the Minister of Finance and Economic Affairs and with the Minister responsible for financial market affairs when considering exemptions concerning institutions with a balance sheet exceeding ISK 400 billion or if approval of the exemption if granted could have a substantial impact on the debt position of the Icelandic economy or ownership of commercial banks. The Company falls under these provisions. The Minister of Finance and Economic Affairs shall also, before any such exemption applications are approved, present their economic impact to the Economic and Trade Committee of the Parliament.

In addition, as a consequence of the aforementioned amendments, the CBI is obliged to consult with the Minister of Finance and Economic Affairs and with the Minister responsible for financial market affairs when considering exemptions concerning institutions with a balance sheet exceeding ISK 400 billion or if approval of the exemption if granted could have a substantial impact on the debt position of the Icelandic economy or ownership of commercial banks.

Application for Exemption from the Foreign Exchange Act

Accordingly, the introduction of any composition proposal is conditional upon the Company first receiving an exemption from the CBI from the Foreign Exchange Act. The exemption is required in order to make distributions to creditors domiciled outside of Iceland and in order to fulfil the terms of an approved composition agreement. The Company cannot introduce a composition proposal until it is certain that the terms of the composition agreement contemplated by way of a composition proposal could be met. It follows that the winding-up proceedings cannot be concluded without the Company receiving an exemption from the CBI.

An exemption application was submitted by the Company to the CBI on 24 October 2012. The Company tailored its application to the requirements of the CBI as those were perceived at the time when the application was submitted. The application was structured to deal first with the distribution of non-krona assets and postpone any subsequent decisions on the distribution of krona assets. The Company has not received a substantive to the exemption application from the CBI.

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The Company has not received a substantive to the exemption application from the CBI.

Complexities Concerning Approval of the Exemption Application

According to the CBI Financial Stability report 2013-1 and Financial Stability report 2013-2

> *"The capital controls eliminate the risk of substantial capital outflows that could cause instability. Before further steps can be taken towards lifting the controls, resident borrowers must lengthen their foreign financing, an acceptable solution for the settlement of the Glitnir and Kaupthing estates must be reached, and a more permanent channel must be found for non-residents with short-term króna positions so as to reduce the instability associated with them."*

In the said reports, the CBI estimates the impact on the economy of the winding-up of the Company and other entities in Iceland which are in a similar position as the Company, in particular Glitnir hf. ("Glitnir") and LBI hf. ("LBI"). The winding-up of these entities are estimated to create disequilibrium in the balance of payments equivalent to -45% of Icelandic's GDP. The CBI's estimate is based on the value of the Company's assets at the relevant time and the CBI's breakdown of claims into domestic and foreign.

Out of the three entities named above, the winding-up of the Company has by far the smallest effect on the underlying external position[3]. The relative share of domestic and foreign assets varies somewhat among the estates. The Company has the highest share of domestic claims out of the three, and the lowest proportion of domestic assets.

As regards the effects of the winding-up of the Company, Glitnir and LBI on Iceland's balance of payments, the single greatest negative impact, and resulting downward pressure on the Icelandic krona, is due to the debt in foreign currency owed by Landsbankinn hf. LBI.

3 *External position* refers to the net position of assets and liabilities between residents and non-residents in Iceland (i.e. the net international investment position ("NIIP")). The CBI refers to the *underlying external position* as being the NIIP excluding the pharmaceutical company Actavis and the financial institutions in winding-up (as the NIIP includes the gross liabilities of those financial institutions which will be largely written down), but including the estimated effect of distributions from the financial institutions in winding-up.

In addition to the issues set out above connected to the Company, Glitnir and LBI, there exist a number of other factors which affect Iceland's balance of payments and could place downward pressure on the Icelandic krona. These include realisation of krona bond holdings of foreign residents, foreign currency refinancing requirements of domestic residents as well as foreign investment requirements of domestic residents. The quantum and timing of these foreign currency requirements determine the effects these factors will have on Icelandic financial stability.

The CBI has also stated that it is necessary to find ways of ensuring that distributions to foreign creditors do not threaten the financial stability of Iceland and that such concerns need to be conclusively addressed before any potential composition proposal can proceed.

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As regards the Company, the bulk of its assets do not have a domestic connection in that these assets are denominated in foreign currency and constitute exposures to foreign residents. Such assets have no negative impact on Icelandic financial stability.

As at year end, the Company's krona assets amounted to just under ISK 148 billion. Thereof, the Company's stake in Arion bank accounted for around ISK 122 billion. This shows that any issues concerning the effects of the Company's krona assets and their connection with financial stability in Iceland, are largely isolated to the Company's stake in Arion bank.

Progress of the Exemption Application

Until such time as the Company has received a substantive from the CBI to its exemption application, the Company's is not in a position to address any concerns that the CBI may have in respect of the Company's composition proposal.

The Company has expressed its firm willingness to work with the CBI in seeking solutions to possible concerns in connection with the introduction of a composition proposal with respect to the Company. In practice, any solution will need to take account of Icelandic financial stability and the political environment.

As discussed above, the Company's largest krona asset is its shareholding in Arion bank, being around 95.5% of the value of the Company's Icelandic krona non-cash assets. The disposal of that stake in exchange for foreign currency is possibly one of the key pre-requisites for approval of the exemption application by the CBI. Developing a strategy for such a disposal is one of the priority work streams for the Winding-up Committee. Morgan Stanley has been appointed as financial advisers to the Company in relation to a realisation strategy for its shareholding in Arion bank.

It must be stressed that even when issues in respect of the Company's krona assets have been resolved, it is possible that the Company may not be able to proceed with distributions to unsecured creditors because of non-Company related factors which impact the Icelandic economy and other external reasons. The Company may be in the position where it has done all that is required of the Company by the CBI, but still cannot make distributions until other economy wide issues are solved. Due to uncertainties on the timing and content of any formal response from the CBI, it is currently not possible to provide an estimate of the likelihood of a composition being proposed to the Company's unsecured creditors, or the potential timing of any such proposal.

Due to uncertainties on the timing and content of any formal response from the CBI, it is currently not possible to provide an estimate of the likelihood of a composition being proposed to the Company's unsecured creditors, or the potential timing of any such proposal.

The Company, together with its advisers, however continues to move forward with preparations for a potential composition proposal. If the CBI grants an exemption and all other regulatory and third party matters are resolved which make a composition a viable option, the Company aims at proceeding as swiftly as practically possible to put forward a composition proposal taking into account any requirements the CBI and any other governmental authority may impose. The Winding-up Committee will provide further information to the Company's creditors regarding any potential composition proposal or any other material updates in respect to the Company's on-going restructuring preparations when appropriate.

It should though be noted, due to recent legal and political developments, that the Winding-up Committee considers further legislative amendments to the current winding-up proceedings to be conceivable. The Winding-up Committee cannot rule out the possibility that the Company would as a part of any legislative amendments be subject to bankruptcy proceedings.

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