KAUPTHING

CREDITORS' REPORT

22 APRIL 2015

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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.

Certain 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 2014, audited by Ernst & Young ehf. and published on the Company's public website, www.kaupthing.com on 13 March 2015 (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 3 (Significant accounting policies), Note 4 (Risk management), Note 34 (Uncertainties and valuation methods) and Note 35 (Sensitivity analysis).

The preparation of the Financial Statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported values of assets. 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 with respect to certain factors. Changes in the underlying assumptions used in the valuation measurement methods could materially affect these estimates.

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.

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 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 finalised by the Winding-up Committee and where applicable the Icelandic Courts.

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 value of total assets as at 31 December 2014 is estimated to be between ISK 0-14 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 30 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.

As set out in previous creditors' reports, there are only two ways for Kaupthing to effect distributions to general unsecured creditors. One is for Kaupthing to apply for the commencement of bankruptcy proceedings and the other is for Kaupthing to enter into a composition agreement with its creditors. Creditors have indicated throughout that the implementation of a composition proposal is the preferred route to achieve distributions.

The Winding-up Committee continues to be fully committed to the process of preparing a composition proposal to be submitted for approval to Kaupthing's creditors.

However, the future of Kaupthing is not exclusively in the hands of the Winding-up Committee and Kaupthing's creditors. Because of the currency controls in effect in Iceland, Kaupthing needs an exemption from the Central Bank in order to make distributions to unsecured creditors domiciled outside of Iceland. The Central Bank in turn is required to consult with the Minister of Finance and Economic Affairs before approving any exemption request from financial undertakings in winding-up proceedings such as Kaupthing. 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 the capital controls in October 2012 to create the necessary basis for presenting a composition proposal to creditors, thereby concluding Kaupthing's winding-up proceedings. Kaupthing'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 two and a half years ago but Kaupthing has not received a substantive reply yet.

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 be concluded. 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. It has been declared that macro-economic requirements will be introduced by the government which composition agreements must fulfil in order to conform for plans for the lifting of the capital controls. The Winding-up Committee continues to stress that Kaupthing does not have access to the same economic information and data about the country as the Icelandic authorities. Kaupthing cannot thus be expected to prepare a composition proposal which meets the still undisclosed criteria of the authorities, without detailed guidance as to the criteria and requirements for exemption approval.

Kaupthing's assets denominated in Icelandic krona, which would be distributed to foreign creditors, are understood to be the chief concern of the Central Bank with regards to financial stability and balance of payments. In 2013 Kaupthing engaged Morgan Stanley as financial advisers in relation to a realisation strategy for Kaupthing's shareholding in Arion bank, Kaupthing's largest Iceland krona asset, and to assess whether Kaupthing's holding in Arion bank could be sold for foreign currency. A solution involving international investors for Arion bank will require exemption from the Central Bank. The Winding-up Committee believes that it has together with its financial and legal advisers and with a valuable input from creditors' advisers developed solutions which would not have negative impact on financial stability of Iceland and should allow Kaupthing to exit the winding-up proceedings through a composition.

In 2014, 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 2014 were published on Kaupthing's website, www.kaupthing.com on 13 March 2015. 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 800 billion at the end of 2014 and outstanding claims amounted to ISK 2,826 billion. Taxation issues continue to be a point of contention in the winding-up proceedings. The Winding-up Committee has objected to the levying of certain taxes as explained in greater detail in this creditors' report.

Last year, Kaupthing held two formal general creditors' meetings, on 10 April and 19 November in Reykjavik and a town hall meeting on 19 June in London. This report is presented to a meeting of creditors on 22 April 2015, which is Kaupthing's 22nd public creditors' meeting.

This report is prepared to assist creditors in understanding the development of assets and performance of Kaupthing's operations in 2014 and contains only a summary of some of the principal issues und uncertainties faced by Kaupthing.

Kaupthing's Winding-up Committee, is an independent party appointed by the District Court of Reykjavik 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 any issues of contention, which may arise concerning distributions to creditors, 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. Óskarsdóttir, District Court Attorney

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 Iceland 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

Pursuant to Act no. 44/2009 the date which has legal effect as the initial date of the winding-up proceedings is 22 April 2009.

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. Its work is governed in all main aspects by the rules which apply to the rights, responsibilities and obligations of administrators under the Act on Bankruptcy no. 21/1991 (the "Bankruptcy Act"), cf. the fourth paragraph of Art. 101 of the Act on Financial Undertakings.

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 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, which is still being processed by the CBI.

The Company submitted an exemption application in October 2012, which is still being processed by the CBI.

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 10 April, and 19 November in Reykjavik and 19 June in London. This report is presented to a meeting of creditors on 22 April 2015, which is the 22nd 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 Akin Gump LLP, LLP (which was appointed instead of Bingham Mccutchen LLP in late 2014), 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 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") with respect to various matter in the winding up proceedings and 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 winding up proceedings and the contemplated composition process.

UPDATE ON ASSETS AND OPERATIONAL MATTERS

General Information

The Company's Financial Statements for the year ended 31 December 2014 were published on the Company's website, www.kaupthing.com on 13 March 2015. The Financial Statements are audited by Ernst & Young ehf. and were signed with an unqualified opinion.

The Company's risk management possibilities are severely restricted under Icelandic legislation. Reference is made to Note 4 in the Financial Statements for further discussion on the Company's risk management.

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 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 which have been and may continue to be volatile.

In the Financial Statements, 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 assets and settle the liabilities simultaneously. The impact of disputed set-off is not taken into account in the Financial Statements. Until all disputes have been concluded, the real and accurate amount of claims accepted for set-off remains uncertain. The exact impact of disputed set-off could affect overall creditor recoveries. The exact set-off effects on the assets will differ from effects on claims. Reference is made to Note 30 in the Financial Statements.

Attention is drawn to the various notes set out in the Financial Statements, including but not limited to note 2 (Basis of preparation), note 3 (Significant accounting policies), note 34 (Uncertainties and valuation methods) and note 35 (Sensitivity analysis).

The Company's assets were valued at ISK 799.8 billion at the end of 2014. This compares to ISK 778.1 billion at the end of 2013. In addition the Company had at the end of 2014, ISK 19.2 billion in a custody account to cover distributions on late filed priority claims which are still in dispute. These custody accounts are not included in the Company's balance sheet.

Development of the Asset Base in 2014

The Company's assets were valued at ISK 799.8 billion at the end of 2014. This compares to ISK 778.1 billion at the end of 2013. In addition the Company had at the end of 2014, ISK 19.2 billion in a custody account to cover distributions on late filed priority claims which are still in dispute. These custody accounts are not included in the Company's balance sheet.

In 2014 the real value of assets (real value changes include changes in fair value, net impairment and unpaid accrued interests) increased by ISK 56.2 billion. Tax payments in 2014, made with reservation, amounted to ISK 14.5 billion, negative foreign exchange effects amounted to ISK 5.0 billion and payments in relation to priority claims, amounted to ISK 3.5 billion. The value of the Company's assets measured in Icelandic krona increased in 2014 by ISK 21.7 billion or by 2.8%. Measured in euros the value increased by 275 million, from EUR 4,909 million to EUR 5,184 million or by 5.6%.

The estimated value of the Company's assets at the end of 2014 and the changes during the year, broken down by asset classes, is shown below.

Asset values and changes during 2014

	ISK million			EUR million		
	31.12.2014	31.12.2013	% change	31.12.2014	31.12.2013	% change
Cash at bank	401,667	418,566	(4.0%)	2,603	2,641	(1.4%)
Loans to and claims against credit institutions	8,629	9,982	(13.6%)	56	63	(11.1%)
Loans to customers	98,365	104,781	(6.1%)	638	661	(3.5%)
Bonds and debt instruments	6,211	6,306	(1.5%)	40	40	0.0%
Shares and instruments with variable income	257,047	210,757	22.0%	1,666	1,330	25.3%
Unsettled derivative receivables	12,940	14,146	(8.5%)	84	89	(5.6%)
Other assets	14,903	13,544	10.0%	97	85	14.1%
Total assets	**799,762**	**778,082**	**2.8%**	**5,184**	**4,909**	**5.6%**

A summary of the development of the Company's asset base in 2014 broken down by asset classes can be seen in the table below.

Development of the Asset Base in 2014

ISK billion	31.12.2014	Net principal payments	Miscella-neous* (reclassi-fication, etc)	FX changes	Value changes**	31.12.2013	Interests, fees and dividends received in 2014
Cash at bank	401.7	(11.0)	-	(8.3)	2.4	418.6	2.4
Loans to and claims against credit institutions	8.6	(0.9)	(0.1)	(0.5)	0.1	10.0	-
Loans to customers	98.4	(5.4)	(0.1)	1.6	(2.5)	104.8	2.1
Bonds and debt instruments	6.2	(1.5)	-	0.2	1.2	6.3	0.4
Shares and instruments with variable income	257.0	1.3	0.2	2.0	42.8	210.8	1.3
Unsettled derivative receivables	12.9	(1.3)	(10.4)	0.3	10.2	14.1	-
Other assets	14.9	-	(0.3)	(0.3)	2.0	13.5	-
Total assets	**799.8**	**(18.8)**	**(10.7)**	**(5.0)**	**56.2**	**778.1**	**6.2**

** Miscellaneous includes assets released or retrieved as part of settlements (set-off), reclassification between asset classes and other items.*
*** Value changes include changes in fair value, net impairment and unpaid accrued interests.*

In 2014 the real value of assets (real value changes include changes in fair value, net impairment and unpaid accrued interests) increased by ISK 56.2 billion. Tax payments in 2014, made with reservation, amounted to ISK 14.5 billion.

Further details in respect of key factors during 2014 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) all assets in foreign currency where counterparties are domiciled in Iceland and (c) all assets in foreign currency where counterparties are domiciled outside of Iceland.

The category "FX from Icelandic counterparties" contains i.a. exposure to other Icelandic companies that own mainly foreign assets and are subject to winding-up procedures in Iceland or are otherwise being wound down. These assets may not ultimately be monetised in foreign currencies and any future cash flow from these assets may be subject to exemptions and conditions set forth by the CBI or other Icelandic authorities.

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	5,429	43,810	49,239	352,428	401,667
Loans to and claims against credit institutions	-	-	-	8,629	8,629
Loans to customers	1,149	86	1,235	97,130	98,365
Bonds and debt instruments	3,344	-	3,344	2,867	6,211
Shares and instruments with variable income	147,030	10,035	157,065	99,982	257,047
Unsettled derivative receivables	143	-	143	12,797	12,940
Other assets	893	10,019	10,912	3,991	14,903
Total assets 31.12.2014	**157,988**	**63,950**	**221,938**	**577,824**	**799,762**
Total assets 31.12.2014 (mEUR)	1,024	415	1,439	3,745	5,184
% of Total assets 31.12.2014			28%	72%	
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%	

Assets classes broken down by currencies

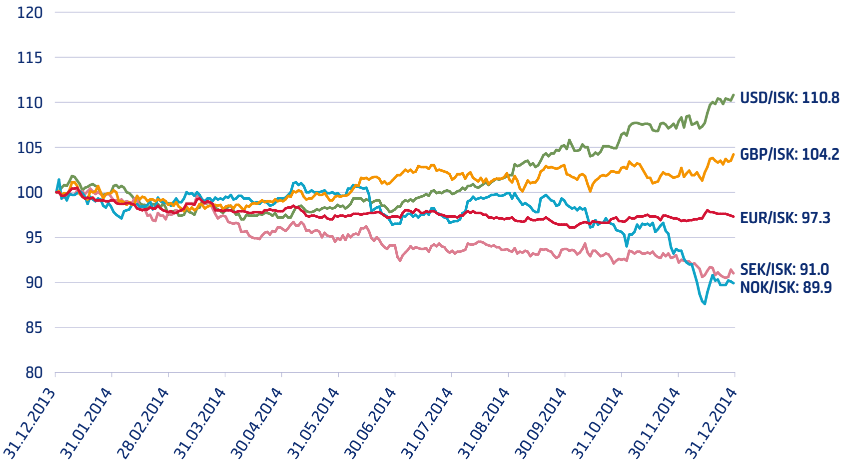
At the end of 2014, the Company's assets were denominated primarily in pound sterling 27.2%, in euro 24.0% and in Icelandic krona 19.7%. Other major currencies include Swedish krona, US dollar and Norwegian krona. The table below shows the breakdown of assets by currency at year end 2014.

At the end of 2014, the Company's assets were denominated primarily in pound sterling 27.2%, in euro 24.0% and in Icelandic krona 19.7%.

Currency breakdown of assets

ISK million	GBP	EUR	ISK	SEK	USD	NOK	Other	Total
Cash at bank	85,936	119,572	5,429	87,178	52,827	41,346	9,379	401,667
Loans to and claims against credit institutions	-	287	-	5,287	-	-	3,055	8,629
Loans to customers	55,866	20,331	1,149	10,286	10,065	51	617	98,365
Bonds and debt instruments	-	654	3,344	-	2,213	-	-	6,211
Shares and instruments with variable income	75,146	28,098	147,030	2,139	4,215	349	70	257,047
Unsettled derivative receivables	-	12,797	143	-	-	-	-	12,940
Other assets	352	10,100	893	3,531	27	-	-	14,903
Total assets 31.12.2014	**217,300**	**191,839**	**157,988**	**108,421**	**69,347**	**41,746**	**13,121**	**799,762**
Total assets 31.12.2014 (mEUR)	1,408	1,243	1,024	703	450	271	85	5,184
% of Total assets 31.12.2014	27.2%	24.0%	19.7%	13.6%	8.7%	5.2%	1.6%	
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	24.9%	24.8%	19.0%	15.4%	7.7%	5.7%	2.4%	

EUR/GBP/NOK/SEK/USD vs. ISK (Indexed at 100 @ 31.12.2013)



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

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 narrow trade weighted index published by the CBI, appreciated by 1.7% in 2014. The tables above show the exchange rate of several major currencies against the Icelandic krona during 2014.

Cash at Bank

"Cash at bank" amounted to ISK 401.7 billion at the end of 2014 and decreased by ISK 16.9 billion or 4.0% during the year. Measured in euros, "cash at bank" decreased by 38 million or by 1.4%. Cash in custody accounts at the end of 2014, due to late filed priority claims which are still in dispute, amounted to ISK 19.2 billion and is not included in "cash at bank".

At the end of 2014, 50.2% of the value of the Company's assets was "cash at bank".

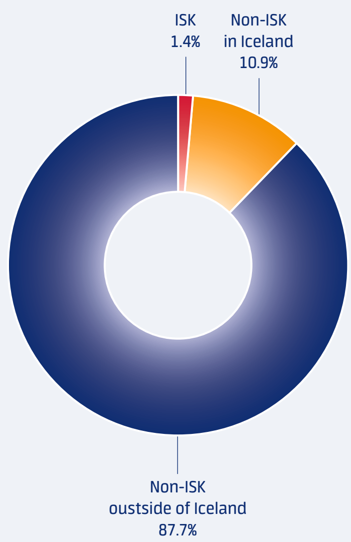
At the end of 2014, 50.2% of the value of the Company's assets was "cash at bank". This compares to 53.8% at the end of 2013. Of the total "cash at bank" of ISK 401.7 billion, ISK 396.3 billion was held in foreign currencies and ISK 5.4 billion was held in Icelandic krona. Of the ISK 396.3 billion held in foreign currencies, ISK 43.8 billion is held in Iceland and ISK 352.4 billion is held in other jurisdictions.

The table below and the graph to the right show a breakdown of "cash at bank" by currency, maturity and whether it is held in Iceland or abroad at the end of 2014 and 2013.

Cash at bank – geography breakdown

ISK million	31.12.2014			31.12.2013		
	Iceland	Other	Total	Iceland	Other	Total
EUR	9,809	109,763	119,572	9,705	112,527	122,232
SEK	8,606	78,572	87,178	9,378	87,916	97,294
GBP	6,076	79,860	85,936	5,790	68,035	73,825
USD	2,808	50,019	52,827	2,533	43,330	45,863
NOK	7,370	33,976	41,346	8,102	36,169	44,271
ISK	5,429	-	5,429	20,168	-	20,168
other	9,141	238	9,379	9,340	5,573	14,913
Cash at bank	**49,239**	**352,428**	**401,667**	**65,016**	**353,550**	**418,566**
Cash at bank (mEUR)	319	2,284	2,603	410	2,231	2,641

Cash at bank



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.

Total cash inflow during 2014 which amounted to ISK 20.9 billion was offset by tax payments of ISK 14.5 billion, foreign exchange losses of ISK 8.3 billion owing to the appreciation of the Icelandic krona in 2014, ISK 6.7 billion outflow related to asset support and purchase of equity stakes, paid operating expenses of ISK 4.9 billion and net payments in relation to priority claims which amounted to ISK 3.5 billion. The table below summarises the Company's cash flow for the 2014 and 2013 financial years.

Statement of Cash flows

ISK million	2014	2013
Cash flows from assets		
Interest received	4,820	6,701
Dividend received	1,289	650
Loans to and claims against credit institutions - principal payments	916	767
Loans to and claims against credit institutions - long term deposits	-	10,031
Loans to customers - principal payments	10,663	36,564
Loans to customers - principal outflow / RCF	(5,257)	(2,555)
Bonds and debt instruments - principal payments	1,434	4,333
Shares and instruments with variable income - purchase of equity stakes	(1,405)	(11)
Shares and instruments with variable income - realisation of equity stakes	62	-
Unsettled derivative receivables - net cash inflow	1,316	3,544
Other assets - net cash inflow	39	18,446
Other inflow	88	80
Net cash from assets	**13,965**	**78,550**
Cash flows to other operating actvities		
Fee income	257	391
Other financial inflow	-	1,214
Operating expenses	(4,895)	(5,688)
Paid taxes	(14,478)	-
Net cash to operating activities	**(19,116)**	**(4,083)**
Cash flows to claims		
Payment of claims Art. 109 and 110	-	(5,797)
Payment of claims Art. 112	(1,250)	(13,469)
Custody account - claims Art. 112 in dispute	562	(562)
Custody account - late filed claims Art. 109 and 110 in dispute - net cash outflow	(2,802)	(15,307)
Net cash to claims	**(3,490)**	**(35,135)**
Net cash (to) from operating activities	**(8,641)**	**39,332**
Effects of foreign exhange rate adjustments on cash at bank	**(8,258)**	**(38,393)**
Cash at bank at the beginning of the year	**418,566**	**417,627**
Cash at bank at the end of the year	**401,667**	**418,566**

Net cash flow from assets in 2014, was offset by tax payments. Kaupthing paid the tax with reservations.

The main factors contributing to the increase in “cash at bank” in 2014 are related to (i) principal and interest payments and fee income received from assets within “loans to customers” of ISK 12.8 billion, (ii) interest on “cash at bank” of ISK 2.4 billion, (iii) principal and interest payments received from assets within “bonds and debt instruments” of ISK 1.9 billion, (iv) realisation of equity stake and dividend payments from assets within “shares and instruments with variable income” of ISK 1.4 billion, (v) net cash inflow from assets within “unsettled derivative receivables” of ISK 1.3 billion, and (vi) principal payments received from assets within “loans to and claims against credit institutions” of ISK 0.9 billion.

The main factors contributing to the decrease in “cash at bank” in 2014 are related to (i) paid taxes of ISK 14.5 billion, (ii) negative foreign exchange effects of ISK 8.3 billion, (iii) asset support related to “loans to customers” of ISK 5.3 billion, (iv) payments due to operating expenses of ISK 4.9 billion, (v) net payments to a custody account in relation to disputed priority claims under Art. 109, 110 and 112 of the Bankruptcy Act of ISK 2.2 billion, (vi) purchase of equity stakes of ISK 1.4 billion, and (vii) payments made in 2014 to creditors holding accepted priority claims under Art. 112 of the Bankruptcy Act of ISK 1.3 billion.

The table below shows a further breakdown of "cash at bank" by currency and changes in the respective currencies in 2014.

Cash at bank – currency breakdown

Amounts in million	31.12.2014		31.12.2013		Change		Change	
	Currency	ISK	Currency	ISK	Currency	Currency %	ISK	ISK %
EUR	775	119,572	771	122,232	4	0.5%	(2,660)	(2.2%)
SEK	5,353	87,178	5,436	97,294	(83)	(1.5%)	(10,116)	(10.4%)
GBP	533	85,936	387	73,825	146	37.7%	12,111	16.4%
USD	414	52,827	399	45,863	15	3.8%	6,964	15.2%
NOK	2,428	41,346	2,336	44,271	92	3.9%	(2,925)	(6.6%)
ISK	5,249	5,249	20,168	20,168	(14,919)	(74.0%)	(14,739)	(73.1%)
Other	-	9,379	-	14,913	-		(5,534)	(37.1%)
Cash at bank		**401,667**		**418,566**				
Cash at bank (mEUR)		2,603		2,641				

During 2014, net payments into custody accounts due to late filed priority claims in dispute amounted to ISK 2.8 billion (SEK 157 million and ISK 124.9 million).

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.

The table below shows a breakdown of "cash at bank" by maturity at the end of 2014.

Cash at bank – currency and maturity breakdown

ISK million	31.12.2014				
	Within 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 9 months	Total
EUR	3,474	47,081	54,977	14,040	119,572
SEK	36,936	35,994	14,248	-	87,178
GBP	29,356	26,885	29,695	-	85,936
USD	17,521	32,690	2,616	-	52,827
NOK	22,467	6,849	12,030	-	41,346
ISK	2,151	3,278	-	-	5,429
Other	679	-	8,700	-	9,379
Cash at bank	**112,584**	**152,777**	**122,266**	**14,040**	**401,667**
Cash at bank (mEUR)	730	990	792	91	2,603

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 398.1 billion and represents 49.8% of the value of the Company's assets at the end of 2014.

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 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 339.4 billion and represent 42.4% of the value of the Company's assets at the end of 2014. Assets not included within the Operating Asset Classes in this report, are valued at ISK 58.7 billion and represent 7.4% of the value of the Company's assets at the end of 2014.

Each material position within the Operating Asset Classes 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 Asset Classes 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.

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, PricewaterhouseCoopers, Ernst&Young, Grant Thornton and BDO Stoy Hayward. Real-estate appraisal has been provided by, amongst others, CBRE and Catella. Legal advisers include Olswang, Allen&Overy, Clifford Chance, CMS Cameron Mckenna, Mannheimer Swartling, Lindahl, Arntzen de Besche Advokatfirma and Cederquist.

Furthermore, Matthew Turner as a CEO designate post a potential composition has been advising Kaupthing with respect to the Company's Operating Asset Portfolio.

High concentration in the asset portfolio

The Company's largest asset position is its 87.0% equity interest in Arion bank hf. ("Arion bank"), which represented 35.1% of the value of the Company's non-cash assets at the end of 2014. 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 (a) positions in a real estate development project, Fitzroy Place in London, as further referred to in the Asset Spotlight chapter below, (b) exposure to an off-shore holding company in liquidation and (c) indirect stake in Refresco Gerber, the leading European bottler of soft drinks and fruit juices for retailers and A-brand owners, as further referred to in the Asset Spotlight chapter below.

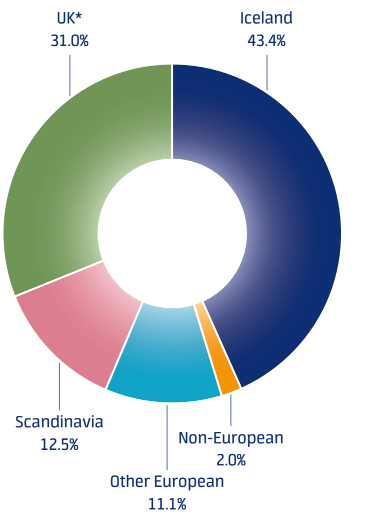
The Company's largest asset position is its 87.0% equity interest in Arion bank hf. ("Arion bank"), which represented 35.1% of the value of the Company's non-cash assets at the end of 2014.

Significant complexity requires time for conversion of assets 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 a separate Asset Spotlight on Arion bank, 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.

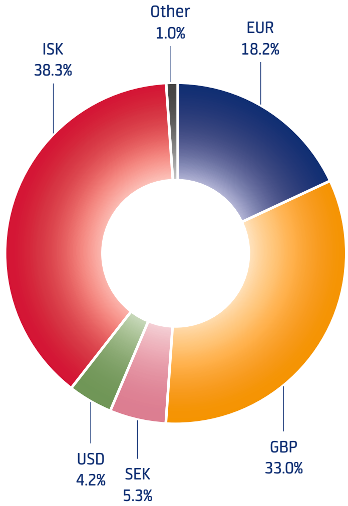
The Company's three largest non-cash asset positions besides Arion bank are (a) positions in a real estate development project, Fitzroy Place in London, as further referred to in the Asset Spotlight chapter below, (b) exposure to an off-shore holding company in liquidation and (c) indirect stake in Refresco Gerber.

Non-cash assets – regional breakdown



** UK includes overseas territories and crown dependencies.*

Non-cash assets – currency breakdown



Regional breakdown

At the end of 2014, a majority of the Company's non-cash assets was located in three regions; Iceland representing 43.4% of the value of non-cash assets, including the shareholding in Arion bank (81.0% of the value of Icelandic non-cash assets); the United Kingdom, representing 31.0% of the value of non-cash assets; and Scandinavia, representing 12.5% of the value of non-cash assets.

The shareholding in Arion bank (81.0% of the value of Icelandic non-cash assets).

Currency breakdown

38.3% of the value of non-cash assets were at the end of 2014 denominated in Icelandic krona, including the shareholding in Arion bank (91.6% of the value of Icelandic krona non-cash assets), 33.0% in pound sterling, and 18.2% in euro. Other major currencies include Swedish krona and US dollar.

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 which have a material value and where the Company only holds debt exposure will 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/or repayments of receivables.

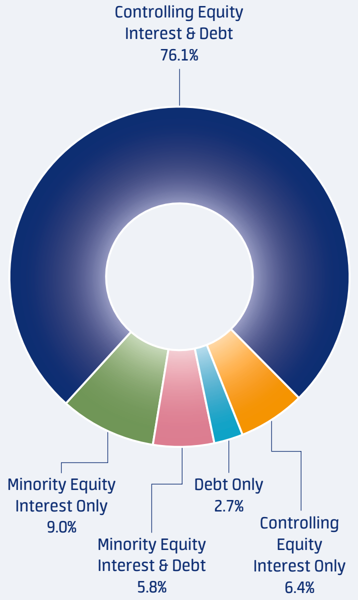
Debt and equity holdings representations

Several of the Company's largest asset positions are reflected across multiple asset classes in the 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 82.5.% at the end of 2014. The Debt Only category, Minority Equity Interest & Debt category and Minority Equity Interest Only category account for 17.5% of the total value of the Operating Asset Classes at the end of 2014. 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.

Operating Asset Classes – breakdown by type of exposure



The Controlling Equity Interest & Debt positions constitute 76.1% of the total value of the Operating Asset Classes. Included in the category, in the graph to the right, is the Company's exposure to Arion bank where the Company's debt exposure is 1.0 billion in addition to its 87% shareholding. It should be noted that despite Arion bank categorisation its control is subject to significant limitations, see further details in a separate Asset Spotlight on 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, 57.2% by value are located in Iceland (all of which is exposure on Arion bank) and 33.5% in the United Kingdom.

The Controlling Equity Interest Only positions constitute 6.4% 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, 44.2% are located in Iceland, 36.4% in Scandinavia and 19.4% in the United Kingdom.

The Debt Only positions constitute 2.7% of the total value of the Operating Asset Classes, with 64.1%, of the companies in this category by value located in the United Kingdom, 16.8% in Iceland and 11.7% 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.

The Minority Equity Interest & Debt positions constitute 5.8% of the total value of the Operating Asset Classes, with 87.7% of the companies in this category by value located in Scandinavia, 7.6% in the United Kingdom and 4.7% in Iceland. Positions are spread over various sectors, but vast majority of the positions by value are within Business and Industrial Products.

The Minority Equity Interest Only positions constitute 9.0% of the total value of the Operating Asset Classes. This category is diverse but majority of the positions by value are within Consumer Goods and Retail, Real Estate and Financial Services. Of the companies in this category, 12.4% are located in the United Kingdom, 4.6% in Scandinavia, 1.9% in Iceland, 54.6% in other European countries, and 26.5% outside of Europe.

Major development of Operating Asset Classes in 2014

Operating Asset Classes 31 December 2014

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)	53,180	-	4,747	18,181	-	76,108
Bonds and debt Instruments	973	-	4,302	936	-	6,211
Shares and instruments with variable income	203,965	21,714	-	803	30,565	257,047
Total	**258,118**	**21,714**	**9,049**	**19,920**	**30,565**	**339,366**

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)	56,509	-	4,554	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	**222,082**	**21,425**	**8,349**	**24,583**	**24,042**	**300,481**

Change in Operating Asset Classes in 2014

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)	(3,329)	-	193	(4,174)	-	(7,310)
Bonds and debt Instruments	3	-	507	(605)	-	(95)
Shares and instruments with variable income	39,362	289	-	116	6,523	46,290
Total	**36,036**	**289**	**700**	**(4,663)**	**6,523**	**38,885**

Classification into categories is based on categorisation at the end of 2014, but applying amortised cost/fair values as at year end 2014 or at the end of 2013 as applicable.

The above table shows the value changes in the Operating Asset Classes during 2014, where the total amount within these asset classes increased by ISK 38.9 billion. The major driver behind these changes is ISK 36.0 billion value increase in positions within the Controlling Equity Interest & Debt category.

The value change in the Operating Asset Classes is primarily made up of three elements, being a real value increase, measured by net impairment and fair value changes, of ISK 41.8 billion, net principal payments amounting to ISK 6.0 billion, and foreign exchange gain of ISK 2.9 billion.

The major driver behind these changes is ISK 36.0 billion value increase in positions within the Controlling Equity Interest & Debt category.

Operating Asset Classes – developments in 2014 broken down by type of exposure

ISK million Category	Value YE 2014	Net principal payments	Miscella-neous*	FX Changes	Value changes**	Value YE 2013
Controlling Equity Interests & Debt	258,118	1,712	-	2,277	32,047	222,082
Controlling Equity Interests only	21,714	106	-	(207)	390	21,425
Debt Only	9,049	(1,824)	(14)	236	2,303	8,348
Minority Equity Interests & Debt	19,920	(6,707)	40	544	1,460	24,583
Minority Equity Interests only	30,565	746	166	34	5,576	24,043
Total	**339,366**	**(5,967)**	**192**	**2,884**	**41,776**	**300,481**

** Miscellaneous includes assets released or retrieved as part of settlements (set-off), reclassification between asset classes and other items.*
*** Value changes include changes in fair value, net impairment and unpaid accrued interests.*

The value of the positions in the Controlling Equity Interest & Debt category increased by ISK 36.0 billion or 16.2% in 2014, mostly due to ISK 32.0 billion real value increase. The value of these positions was also affected by ISK 2.3 billion in foreign exchange gain and outflow net of principal payments related to asset support mostly through further lending amounting to ISK 1.7 billion. The real value increase is driven by fair value changes in the Company's shareholding in Arion bank, which is due to an increase in Arion bank's equity and increase in value in Fitzroy Place.

The real value increase is driven by fair value changes in the Company's shareholding in Arion bank, which is due to an increase in Arion bank's equity and increase in value in Fitzroy Place.

The value of the positions in the Controlling Equity Interest Only category increased by ISK 0.3 billion or 1.3% in 2014, driven by ISK 0.4 billion real value changes.

The value of the positions in the Debt Only category increased by ISK 0.7 billion or 8.4% in 2014. ISK 2.3 billion real value increase was partly offset by ISK 1.8 billion net principal payments.

The value of the positions in the Minority Equity Interest & Debt category decreased by ISK 4.7 billion or 19.0% in 2014, despite an ISK 1.5 billion real value increases, due to principal payments amounting to ISK 6.7 billion.

The value of the positions in the Minority Equity Interest Only category increased by ISK 6.5 billion or 27.1% in 2014, mostly due to an ISK 5.6 billion real value increase. The real value increases is mostly driven by fair value changes in the Company's indirect stake in Refresco Gerber.

Operating Asset Classes – developments in 2014 broken down by sectors

ISK million Sector	Value YE 2014	Net principal payments	Miscella-neous*	FX Changes	Value changes**	Value YE 2013
Financial Services	159,971	(123)	-	(437)	21,774	138,757
Real Estate	78,843	(1,270)	147	1,078	12,638	66,250
Consumer Goods and Retail	35,686	3,862	11	776	1,597	29,440
Business and Industrial Products	24,265	(1,796)	45	748	599	24,669
Holding Company	17,904	(1,247)	(3)	197	2,474	16,483
Other Consumer Services	15,556	(5,578)	(11)	438	3,710	16,997
Other	7,141	348	3	83	(1,101)	7,808
Individuals	-	(163)	-	1	85	77
Total	**339,366**	**(5,967)**	**192**	**2,884**	**41,776**	**300,481**

** Miscellaneous includes assets released or retrieved as part of settlements (set-off), reclassification between asset classes and other items.*
*** Value changes include changes in fair value, net impairment and unpaid accrued interest.*

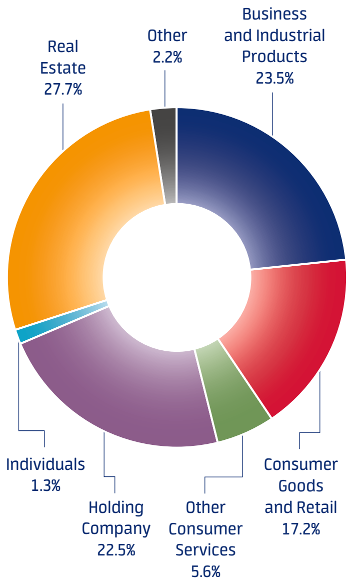
The table above summarises the aforementioned changes in the value of the Operating Asset Classes in 2014 across sectors. Major contributors to the real value increase of ISK 41.8 billion are Arion bank within the Financial Services, Fitzroy Place within the Real Estate sector, Asquith Nurseries within the Consumer Service and Refresco Gerber within the Consumer Goods and Retail sector, counterbalanced by decrease in value of Karen Millen and Aurora also within Consumer Goods and Retail sector. Further desciription of the above mentioned positions can be found in the Asset Spotlight chapter below.

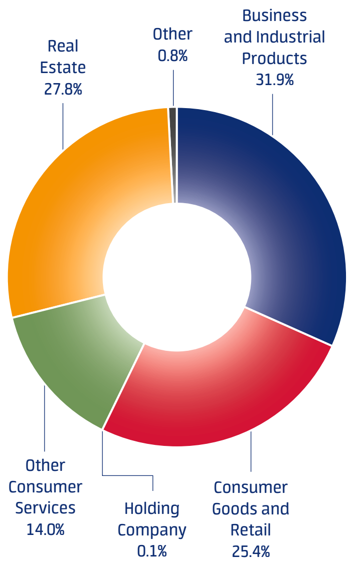
Loans to Customers - Operating Loan Portfolio

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 Operating Loan Portfolio is valued at ISK 76.1 billion and decreased by ISK 7.3 billion in 2014. The decrease is primarily due to net principal repayments of ISK 5.9 billion and foreign exchange gain of ISK 0.7 billion. Real value decrease in 2014 was 2.2 billion mostly from positions in the Consumer Goods and Retail sector.

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, Other Consumer Services and Holding Companies.

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.

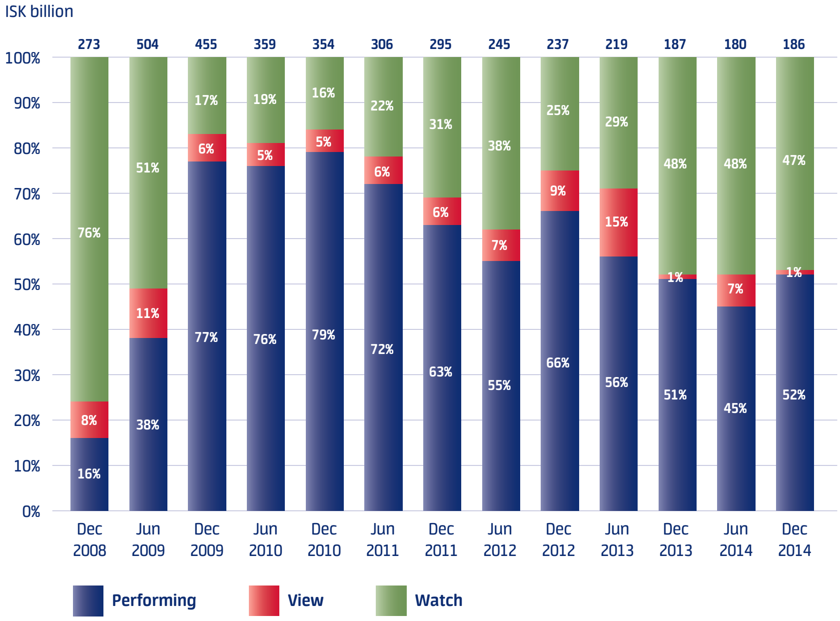
Loans on view list: Loans to entities where cash flow is sufficient to service debt, i.e. interest and principal repayments, but agreements have been breached or are likely to be breached in the foreseeable future. Some banks include this category within performing loans.

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 graph below demonstrates the performance of the portfolios semi-annually based on the gross value in the respective month.

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 development of 2014 is influenced by the Company being engaged in several large restructurings throughout the year some of which were concluded during the year. For the remaining restructuring work the Company is for most parts exposed in the whole capital structure of these borrowers. Restructuring work will continue in 2015.

Operating Portfolio[1] – Performance development



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 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 (most of which were valued at or close to zero) 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.

1 in 2013 and in prior periods certain residual exposures after loans had been restructured were excluded in the performance development chart i.e. certain exposure on companies still in administration after their pre-pack administration, were excluded.

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 six and a half years and have had to be restructured. At the end of 2014, restructured loans in the Operating Loan Portfolio represented 99.2% 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.

At the end of 2014, restructured loans in the Operating Loan Portfolio represented 99.2% of the total value of the Operating Loan Portfolio.

Highly concentrated loan portfolio

The Company's Operating Loan Portfolio is highly concentrated. At the end of 2014, the Company's ten largest loans in the Operating Loan Portfolio constituted 96.6% of the value of the portfolio. Of these ten loans, seven loans were positions which fall into the Controlling Equity Interest & Debt category. At the end of 2014, the total exposure (debt and equity) of these seven positions represented 16.9% of the value of the Company's Operating Asset Classes.

At the end of 2014, the Company's ten largest loans in the Operating Loan Portfolio constituted 96.6% of the value of the portfolio.

The table below demonstrates the concentration of the Operating Loan Portfolio by showing the Company's ten largest positions as percentage of the Operating Loan Portfolio by value at the end of 2014.

The ten largest loans in the Operating Loan Portfolio

Top 10 Loans	Kaupthing Equity Ownership Percentage	Sector	Region	Loan exposure as % of Operating Loan Portfolio
Loan 1	100%	Real Estate	Other European	14.2%
Loan 2	90%	Other Consumer Services	UK*	13.0%
Loan 3	24%	Business and Industrial Products	Scandinavia	12.9%
Loan 4	90%	Consumer Goods and Retail	UK*	12.8%
Loan 5	90%	Consumer Goods and Retail	UK*	12.5%
Loan 6	100%	Real Estate	Scandinavia	10.6%
Loan 7	13%	Business and Industrial Products	Scandinavia	10.1%
Loan 8	0%	Business and Industrial Products	UK*	4.6%
Loan 9	100%	Business and Industrial Products	Scandinavia	4.4%
Loan 10	100%	Real Estate	Scandinavia	1.5%
Total top 10				**96.6%**
Total top 15				**99.1%**
Total number of loans (25) of greater than zero values				**100.0%**

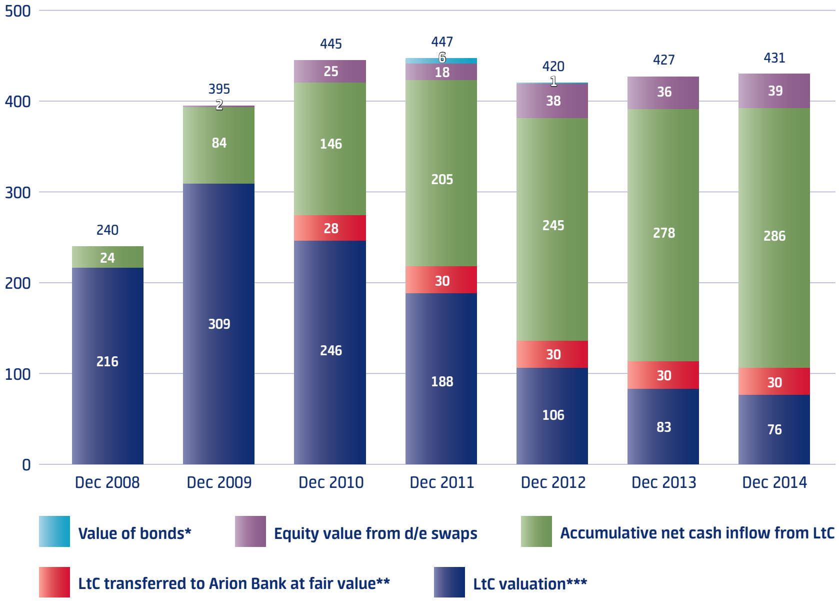
** UK includes overseas territories and crown dependencies.*

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 447 billion. Since then, the value of this group of assets has decreased by ISK 16 billion, however in 2014, the value increased by ISK 4 billion.

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



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

** *ISK 28 billion is related to the capitalisation of Arion bank in January 2010, and ISK 2 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 2014. 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.*

Realisation of value from the Operating Loan Portfolio

The Operating Loan Portfolio has since October 2008 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 2014, 89 loans within the Operating Loan Portfolios have been realised with a total cash flow amounting to ISK 199.5 billion, thereof 70 loans have been paid in full, amounting to ISK 189.8 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 2014 amounts to ISK 138.5 billion.

From October 2008 until the end of December 2014 the weighted average recovery of realised loans within the Operating Loan Portfolios has been 84.2%. The weighted average recovery of the realised loans in 2014 was 19.8% in line with the value of those loans, net of impairments. The recovery was 100% for three loans but the overall recovery was impacted by extended default period of two borrowers and poor collateral value of those two loans. In comparison the weighted average recovery of realised loans was 99.6% in 2013, 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 reali-

Operating Loan Portfolio – realisation of value

Quarter	Number of Borrower Groups realised	Amount (mISK)*	Recovery
Q4 2014	0	0	
Q3 2014	1	61	6.5%
Q2 2014	3	1,576	20.9%
Q1 2014	1	47	100.0%
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	**89**	**199,449**	**84.2%**

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

sations 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.

Bonds and Debt Instruments

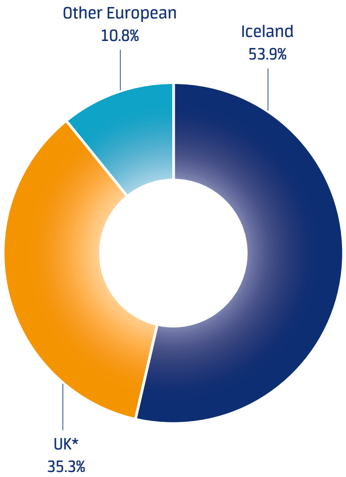
The value of the "bond and debt instruments" asset class is highly concentrated. At the end of 2014, the largest position was a 2nd pay tranche of a US CRE CDO backed by subordinated tranches of US CMBS and RMBS which accounts for 16.6% of the value of the asset class. The second-largest positions are bonds issued by Arion bank which account for 15.7% of the value of the asset class. The third-largest position is a composition instrument issued by an Icelandic holding company, Klakki, which account for 15.1% of the value.

The remainder of the asset class consists mostly of structured debt instruments, CDOs and CMBSs, Icelandic government bonds, and bonds issued by companies falling into the Energy and Environment sector.

Majority of the assets in this asset class is made up of domestic assets or 53.9% while 46.1% are foreign assets. 53.9% of the value is from securities denominated in Icelandic krona, 35.6% in US dollar and 10.5% in euro. About ISK 2.2 billion, which represents 34.9% of the total value of this asset class are inflation linked. The vast majority of bonds are unlisted and/or illiquid. The graphs below show the value of the asset class by the country of the issuer and by currency.

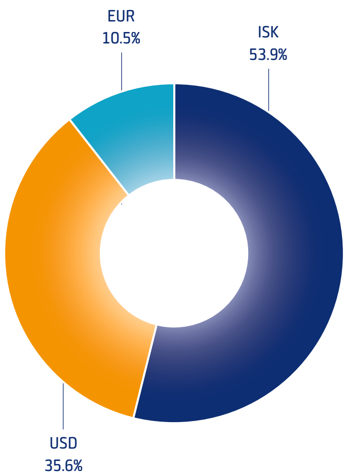
53.9% of the assets in this asset class are domestic and are denominated in Icelandic krona.

Bonds and debt instruments – regional breakdown



* UK includes overseas territories and crown dependencies.

Bonds and debt instruments – currency breakdown



"Bonds and debt instruments" are valued at ISK 6.2 billion and decreased by ISK 0.1 billion in 2014 despite of a fair value increase in 2014 of ISK 1.2 billion. The decrease is primarily due to principal payments amounting to ISK 1.4 billion, mostly from bonds issued by Holding Companies. Positive fair value changes from bonds issued by Holding Companies of ISK 1.2 billion explain also the fair value increase of this asset class in 2014. The table below shows the development of the Company's "bond and debt instruments" asset class in 2014.

Bonds and debt instruments – developments in 2014 broken down by sector

ISK million	31.12.2014	Principal paid	Fair value changes	FX changes	31.12.2013
Holding Companies*	3,803	(1,243)	1,187	173	3,686
Financial Services	973	(67)	70	-	970
Governments	857	-	8	-	849
Energy and Environment	578	(124)	(99)	-	801
Bonds and debt instruments	**6,211**	**(1,434)**	**1,166**	**173**	**6,306**

** Issuers of structured debt instruments, CDOs and CMBSs are categorised here as Holding Companies.*

This asset class does not generate significant amounts of regular income through interest payments. During 2014, the Company received a total of ISK 0.4 billion in interest payments.

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

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.

At the end of 2014, the five largest positions constituted approximately 89.7% of the value of the asset class, with the Company's shareholding in Arion bank representing 54.4%.

The asset class is highly concentrated. At the end of 2014, the five largest positions constituted approximately 89.7% of the value of the asset class, with the Company's shareholding in Arion bank representing 54.4%. Further information about the company's shareholding in Arion bank can be found in a separate Asset Spotlight.

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

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

(b) *Refresco Gerber NV ("Refresco Gerber"), a European market leader in fruit juice and soft drink production for private label and contract manufacturing. It is headquartered in the Netherlands. The company has expected full year volumes and revenue of approx. 6.0 billion litres and approx. EUR 2.0 billion, respectively. Refresco Gerber shares commenced trading on Euronext Amsterdam on March 27, 2015 under the ticker symbol "RFRG". Further information about the Company's shareholding in Refresco Gerber can be found in a separate Asset Spotlight.*

(c) *Kirna ehf. ("Kirna"), a holding company, fully owned by Kaupthing, 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 remaining assets and pursuing litigation and/or settlement negotiations with respect to remaining assets.*

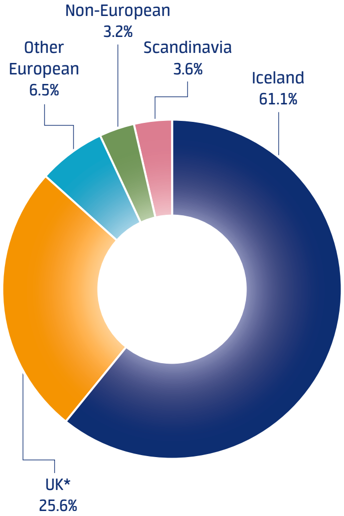
(d) *Norvestia Oyj. ("Norvestia"), a publicly listed Finnish investment management company. Norvestia invests in shares of Nordic companies, debt securities, hedge funds, private equity funds and various other instruments. Kaupthing holds 32.7% of Norvestia's outstanding A and B shares combined, but has 56.0% of the voting rights. Kaupthing holds 28.5% of listed B shares and all of the issued A shares which are unlisted but with tenfold voting rights compared to the B shares.*

 From 2009 to 2014 the Company has received in total EUR 11.3 million in dividend payments from Norvestia. Norvestia publishes its net asset value each month. At the end of 2014 the amended net asset value per share was EUR 9.7 and the closing share price of the listed B shares was EUR 7.4.

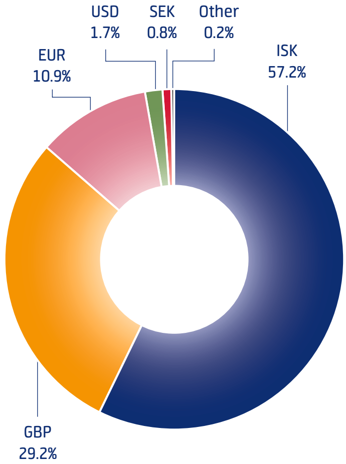
 Taking into account a dividend of EUR 0.35, distributed in April 2014, Norvestia's net asset value increased by EUR 0.41 per share in 2014, equal to a 4.4% increase from the beginning of the year.

61.1% of the value of this asset class is derived from assets domiciled in Iceland (thereof 57.2% categorised as domestic assets in the table Breakdown of ISK and FX assets in the chapter Development of the Asset Base in 2014 above) and 38.9% is derived from assets domiciled abroad. Majority of the assets in this asset class are denominated in Icelandic krona 57.2%, 29.2% are denominated in pound sterling and 10.9% in euro. The graphs below show the value of the portfolio by the country of issuer and by currency.

Shares and instruments with variable income – regional breakdown



Shares and instruments with variable income – currency breakdown



** UK includes overseas territories and crown dependencies.*

"Shares and instruments with variable income" is valued at ISK 257.0 billion and increased by ISK 46.3 billion or 22.0% in 2014. The table below summarises the major drivers behind these value changes in 2014, across sectors. Major contributors to the fair value changes of ISK 42.8 billion are positions within the Financial Services, Real Estate sector and Consumer Goods and Retail.

Major contributors to the fair value changes of ISK 42.8 billion are positions within the Financial Services, Real Estate sector and Consumer Goods and Retail.

Shares and instruments with variable income – developments in 2014 broken down by sector

ISK million	31.12.2014	Capital Injection / Realisation of equity stakes	Fair value changes	FX changes	31.12.2013
Financial Services	158,998	-	21,676	(437)	137,759
Real Estate	57,642	184	11,406	2,333	43,719
Consumer Goods and Retail	16,320	491	7,757	(178)	8,250
Holding Companies	14,063	(3)	1,306	18	12,742
Other Consumer Services	4,926	-	1,904	143	2,879
Life Sciences	3,199	728	226	76	2,169
Energy and Environment	1,118	-	(726)	61	1,783
Other	781	109	(748)	(36)	1,456
Shares and instruments with variable income	**257,047**	**1,509**	**42,801**	**1,980**	**210,757**

At the end of 2014, listed equity positions amounted to ISK 12.4 billion and constituted 4.8% of the value of the asset class. The top three listed equity positions constituted 87.2% of the value of the listed equity positions.

At the end of 2014, unlisted equity positions amounted to ISK 244.7 billion and constituted 95.2% of the value of the asset class. The Company's five largest unlisted equity positions constituted 93.5% of the value of all the unlisted equity positions and 89.0% of all equity positions at the end of 2014.

The Company's five largest unlisted equity positions constituted 93.5% of the value of all the unlisted equity positions and 89.0% of all equity positions at the end of 2014.

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 2014, the Company received ISK 1.3 billion in dividends from this asset class. In addition to dividend payments made to the Company, Arion bank made in 2014 a dividend payment in Icelandic krona to Kaupskil amounting to ISK 6.8 billion which remained at Kaupskil at year-end.

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 some 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.

During 2014, the Company received ISK 1.3 billion in dividends from this asset class. In addition to dividend payments made to the Company, Arion bank made in 2014 a dividend payment in Icelandic krona to Kaupskil amounting to ISK 6.8 billion which remained at Kaupskil at year-end.

Asset Spotlight

This chapter has been prepared as an update on certain matters relating to particular assets held by Kaupthing at the date of this report. It is intended to give creditors information on certain recent developments in respect of those assets, but it should not be regarded as an exhaustive list of all developments which creditors may consider material.

There are a number of reasons why the information and descriptions in this chapter are limited in such manner (and consequently may omit certain material information), including banking secrecy rules and commercial sensitivity. Legal provisions on banking secrecy prohibit the Company to publicly disclose certain sensitive information on individual assets. Such disclosure on individual assets could also in some instances potentially negatively impact operational prospects for those assets or compromise Kaupthing's exit prospects or ability to realise value from those assets.

Accordingly readers should note that the information in this chapter may not present a fair representation of Kaupthing's assets and that the assets described herein may not be the most significant assets nor those to which Kaupthing provides the most attention. Kaupthing will continue to review the benefit of presenting Asset Spotlight in Creditors Reports and may discontinue including this chapter in the future if its usefulness or appropriateness becomes questionable.

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. 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.

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 its intermediate holding company 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.

In January 2014, Arion bank obtained a rating of BB+ from the international rating agency Standard & Poor's with a positive outlook since October 2014. Arion bank reported net earnings of ISK 28.6 billion in 2014 resulting in a return on equity of 18.6%. Arion bank exceeded Arion bank's management expectations in all key areas. Irregular items had also a positive influence on the results, particularly the sale of Arion bank's share in one of Iceland's largest seafood companies HB Grandi hf. and the stock market flotation of that company. Arion bank is strongly capitalised with a capital ratio at the end of 2014 of 26.3%, compared with 23.6% at the end of 2013 and CET 1 of 21.8% compared with 19.2% in the previous year. At Arion bank's annual general meeting in March 2015 it was decided that dividends amounting to 45% of its profits for 2014 should be paid to shareholders, or ISK 12.8 billion. Of the dividends declared, Kaupskil, received ISK 11.1 billion. Payment will be made in Icelandic krona.

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 potential prospective buyers including investment interest in a dual listing of the bank. 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. A dual listing as well as a sale for foreign currency will be depending on the approvals of the Icelandic authorities. While markets remain supportive in principle for commencing a monetisation, no indication has been received to date from the Icelandic authorities regarding the potential approval for being able to execute a transaction prior to Icelandic authorities having decided on the overall route for lifting the capital controls. Kaupthing continues to try to seek clarity on these matters and is willing to explore a potential monetisation should this be supported by the Icelandic authorities.

FITZROY PLACE

After a detailed strategy review and following a competitive sales process Kaupthing entered into a 50/50 joint venture partnership ("JV") with Aviva Investors in December 2010 and decided to develop a mixed use scheme on the former Middlesex Hospital site on Mortimer Street in Fitzrovia, instead of selling the land outright as was originally intended. The project which has now been named Fitzroy Place is the development on the property of a new, high quality mixed use scheme consisting of:

- *Two office buildings, both of which have reached practical completion*
- *235 private residential units, due to reach practical completion in Q3 2015*
- *54 affordable units*
- *Other facilities, such as the newly opened restaurant Percy and Founders which takes 220 persons in seating*

A new planning application 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 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 232 units have been sold in total for GBP 433 million, leaving 3 units unsold. The residential units that remain unsold are considered likely to deliver sales receipts ahead of business plan.

The JV started its pre completion launch of the office buildings to the market in the fourth quarter of 2013. Both office buildings are now completed and Fitzroy Place 1,140,000 sq.ft., has been let to Estee Lauder for their new headquarter of the Estee Lauder Companies in UK & Ireland. The letting has received much attention in the market for the rents achieved which were exceptionally high for this area and for the length of the lease. The letting to Estee Lauder was selected as a finalist in the Estates Gazette Awards under the category "Deal of the Year – Business Impact". Fitzroy Place 2 was formally launched to the market in February 2015 and number of negotiations for lease are currently taking place.

REFRESCO GERBER

Refresco Gerber NV ("Refresco Gerber") is the leading European bottler of soft drinks and fruit juices for retailers and branded players with production in the Benelux, France, Germany, Iberia, Italy, the UK, Poland and Finland. The company has expected full year volumes and revenue of approx. 6.0 billion litres and approx. EUR 2.0 billion, respectively. Refresco Gerber offers an extensive range of product and packaging combinations from 100% fruit juices to carbonated soft drinks and mineral waters in carton, PET, Aseptic PET, cans and glass. It is head-quartered in the Netherlands and employs around 4,100 staff.

In 2013, Refresco and Gerber Emig shareholders signed a merger agreement with the aim to create a leading pan-European bottler of soft drinks and fruit juices serving retailers and branded players. The merger was closed on 11 November, 2013 and the process of combining the two businesses began immediately. In 2014 the company showed strong operating results, cash flow and synergies realised from the merger.

On 3 March 2015, Refresco Gerber announced its intention to launch an Initial Public Offering and listing on Euronext Amsterdam. Trading in Refresco Gerber shares commenced on 27 March 2015 under the ticker symbol "RFRG". The final offer price implied an equity value of Refresco Gerber of approximately EUR 1,176.8 million, thereof EUR 100 million of primary gross proceeds. Current shareholders placed EUR 448.1 million worth of shares (prior to exercise of the over-allotment option of up to 15% of the offer shares).

Kaupthing's indirect implied equity stake based on the final offer price 14.5 per share is EUR 143.8 million, Kaupthing's indirect sale in the placement of current shareholders in the secondary offering in the IPO amounted to EUR 57.5 million (prior to exercise of the over-allotment option), (the "Offering"). Kaupthing remaining stake post the Offering is 7.33%.

Kaupthing invested in the equity of the company in May 2006 and February 2008 for EUR 23.4 million and 16.8 million respectively, implying 16.7% IRR for the roughly nine years it has held the investment.

KAREN MILLEN

Karen Millen is a distinctive womenswear fashion brand which has been built upon its authentic UK heritage dating back to 1981.

KM was originally purchased by Kaupthing and Baugur in 2004. Subsequent to this, and following the administration of Mosaic Fashions, the trade and assets were reacquired in 2009 to form Aurora Fashions. In an effort to increase strategic flexibility, Karen Millen was then demerged from Aurora in 2011. Today, Karen Millen is positioned as a global bridge brand, operating in 66 countries with luxury and quality at the centre of its brand proposition.

The last twelve months have presented external challenges, including the collapse of the Russian economy impacting on Karen Millen's franchise operations where 28 stores are operated with a prominent partner. The Russian macro-economic conditions have required short term measures to stabilise the business and protect it as a key future growth platform. Furthermore the exceptionally warm 2014 autumn period negatively impacted Karen Millen where outerwear and coats account for a substantial part of the product mix, and the long product cycle does not permit late modifications to range planning.

Against this, significant progress has been made in positioning the brand as a full-price retailer with flagship stores being opening on 5th Avenue in New York and in Knightsbridge, an Atelier created in Selfridges and a window designed for Bloomingdales.

In support of this, a comprehensive strategic assessment of the business model has been executed. This included extensive qualitative and quantitative research with clear recommendations for the management team to drive value creation across both channels and product.

AURORA

Since the demerger of Karen Millen, Aurora is now comprised of two principle trading companies, Coast and Oasis & Warehouse.

Coast has latterly been impacted by a material shift in the UK consumer's buying behaviour, with the popularity of occasion wear dresses decreasing in favour of other party wear options. In reaction to this, Coast refreshed its business model, progressing from the outoing dress based product proposition, to one which is more accessible, with lower price points and a wider product offering, where 'dressing up is fun'.

The above realignment has been driven through comprehensive strategic reviews and investment in the senior management notably on the merchandising and product side. The positive effects of these improvements have begun to materialise; today, for example, the ostensibly new product line of separates generate a comparable level of revenue to maxi dresses. Further, Coast's sales densities with key hosts have materially increased and now rank favourably to the competitor set.

A property review was also conducted by Aurora and in Ireland a successful examinership ensued. This proposal and associated scheme of arrangement was approved by all classes of creditors and effectively ensured the survival of the Irish business while also curtailing significant losses from the unprofitable stores. Notwithstanding the above benefits, this transformational period has involved significant change and costs for Coast. Old product had to be sold with new pricing architecture before the intake margin could be adjusted; a significant amount of vintage stock had to be monetised at highly discounted levels; and exceptional costs relating to numerous strategic initiatives also had to be borne.

At Oasis & Warehouse, distinctive product hand writing and successful celebrity collaborations have helped drive strong growth despite an exceptionally mild autumn hampering sale of the key outerwear line. This part of the business has seen exceptional, and cash generative, trading performance delivered by a cohesive management team focused on sustained organic growth from the core market.

A number of important milestones were reached by Aurora in the last year to extinguish significant liabilities relating to tax and material operational contracts. Furthermore, a widespread review and restructuring exercise was initiated to improve both cost and service metrics from the support services function while also improving strategic flexibility. Kaupthing's governance, liquidity and economic rights were also solidified as lead investor following agreements with legacy shareholders.

Looking forwards, and following targeted strategic and operational reviews, each brand has a clear strategic plan to deliver value growth in the medium term including focussed omni-channel growth, with digital re-platforming and targeted IT investment.

ASQUITH NURSERIES

Asquith Nurseries ("Asquith") is a leading childcare provider, operating 80 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.

Since taking control of the Asquith business in June 2009, Kaupthing has implemented a wide ranging programme of capital investment and operational improvements. A new senior management team has been appointed and a new head office established in Chesham. Wholesale changes have been made to the operating model and pricing structure, leading to a consistently high level of facilities and standards across the estate.

Asquith financial 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.

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 33 of the 80 sites being freehold properties.

Following a detailed strategic review in 2013, Asquith has embarked on a growth strategy involving new site and business acquisitions, together with the launch of a market leading nanny business. The UK nursery market remains highly fragmented and there are significant consolidation opportunities for significant market participants. Asquith is seeking to take advantage of its strong reputation and business platform to grow its estate.

Asquith has established an acquisition team to source, select and negotiate acquisitions with the aim of enhancing the overall value of the Asquith group. The acquisition strategy covers both property and business acquisitions; with Asquith having experience integrating existing nurseries and also constructing new nurseries. The majority of acquisition targets tend to be single sites or small groups of nurseries.

The business completed four acquisitions during 2014 and has built a decent pipeline of acquisitions to deliver during 2015. In addition, a number of opportunities are being pursued to build additional capacity on existing Asquith sites where occupancy levels and customer demand are high.

In 2013, Asquith launched a nanny business to complement the existing nursery operations. The business is largely focussed on the London market and provides a unique combination of nursery and nanny services. In the first 18 months of operation the business has already established itself as the largest nanny employer in the UK and won a number of industry awards for new business development.

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 law firm Olswang acts as an external legal counsel to the Company in respect of the recoveries of the derivatives portfolio. Furthermore, external derivatives valuation specialists are working with the employees of the Company.

Realisations of value from the asset class depend upon the Company being able to successfully negotiate settlements with counterparties and/or prevail in litigation. The Company has taken the uncertainties relating to on-going settlement negotiations and/or litigation into account when determining the value of the derivatives claims.

Current status

“Unsettled derivative receivables” after set-off are valued at ISK 12.9 billion and decreased by ISK 1.2 billion in 2014. The value of “unsettled derivative receivables” before set-off at the end of 2014 can be categorised as set out in the table to the right.

At the end of 2014, 98.9% of the value of the derivatives claims, before set-off, related to transactions governed by an ISDA agreement between the Company and a foreign counterparty which had terminated the transactions. The remaining derivatives claims, other than those governed by ISDA agreements, mostly relate to domestic counterparties.

Unsettled derivative receivables

ISK million	31.12.2014		31.12.2013	
	Gross amount	Amortised cost	Gross amount	Amortised cost
ISDA counterparties				
Unsettled derivative receivables, before set-off against counterclaims	13,211	13,211	20,809	20,724
Subject to set-off	(414)	(414)	(7,238)	(7,153)
Unsettled derivative receivables, after set-off	12,797	12,797	13,571	13,571
Non-ISDA counterparties				
Unsettled derivative receivables, before set-off against counterclaims	3,255	143	5,227	599
Subject to set-off	-	-	(30)	(24)
Unsettled derivative receivables, after set-off	3,255	143	5,197	575
NOA counterparties*				
Unsettled derivative receivables	31,952	-	30,669	-
Unsettled derivative receivables before set-off	**48,418**	**13,354**	**56,705**	**21,323**
Unsettled derivative receivables after set-off	**48,004**	**12,940**	**49,437**	**14,146**
Unsettled derivative receivables after set-off (mEUR)	311	84	312	89

** NOA counterparties relate to unsettled derivative receivables which are connected to NOA loan portfolio.*

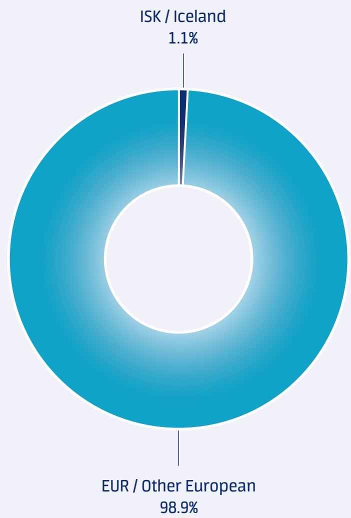
The “unsettled derivative receivables” asset class is highly concentrated. At year-end 2014, the portfolio consists of 10 positions, compared to 22 at the beginning of the year. Of the value of this asset class after set-off, 1.1% is derived from domestic assets in Icelandic krona and 98.9% is from foreign assets in euro. The graph to the right shows the value of the portfolio after set-off by the country of issuer and by currency.

Unsettled derivative receivables – breakdown by case type

ISK million Case type	Number of cases	Value*
ISDA	**1**	**13,211**
Dispute over set-off rights	1	13,211
Non-ISDA	**9**	**143**
Pension Funds	1	24
Cases in litigation/other	6	115
Cases settled in principle	2	4
Total before set-off	**10**	**13,354**
Total after set-off		**12,940**

**Net value after impairment.*

Unsettled derivative receivables – regional and currency breakdown



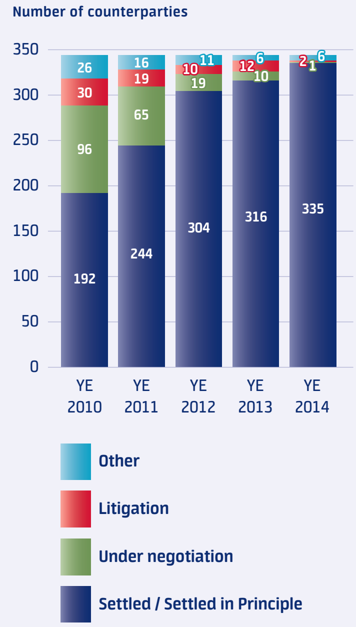
In 2014, a total of ISK 1.3 billion in cash was received by the Company as a result of settlements of derivatives claims.

In 2014, a total of ISK 10.4 billion of derivatives claims was set off against counterclaims. The value of the "unsettled derivative receivables" was revised upward by ISK 10.2 billion mainly due to settlement negotiations.

It is expected that ISK 414 million of the remaining value of this asset class will be subject to set-off but further set-off remains in dispute.

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 to the right 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 2014, a total of 335 cases were settled or settled in principle, up from 316 from year end 2013. The category other represents primarily claims against bankrupt entities.

Derivatives – progress by number of counterparties



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".

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 an ongoing engagement with a number of leading legal and advisory firms to assist with recovery of positions in the NOA Loan Portfolio. 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.

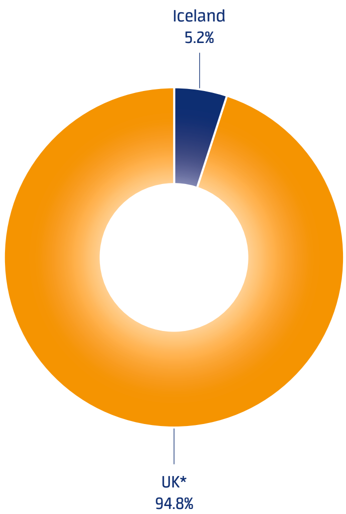
The Company is unable to predict the outcomes or timing of actions to realise value from the NOA Loan Portfolio. The Company however expects it may take considerable time to conclude realisation of positions in the NOA Loan Portfolio.

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 the end of 2014, the value of the NOA Loan Portfolio was ISK 22.3 billion which represented 2.4% 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.

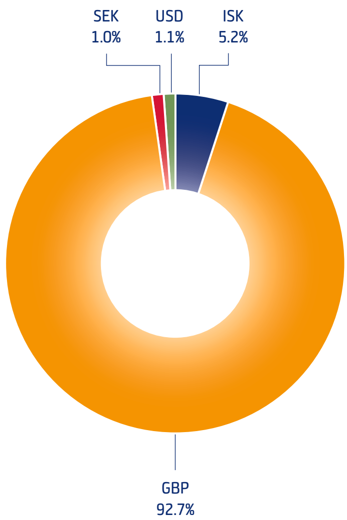
The charts below show the value of the NOA Loan Portfolio" by the country of issuer and by currency at the end of 2014. 94.8% of the value of this asset class derives from foreign assets and 5.2% is derives from domestic assets, 92.7% is denominated in pound sterling, 5.2% in Icelandic krona, 1.1% in US dollar and 1.0% in Swedish krona.

The NOA Loan Portfolio – regional breakdown

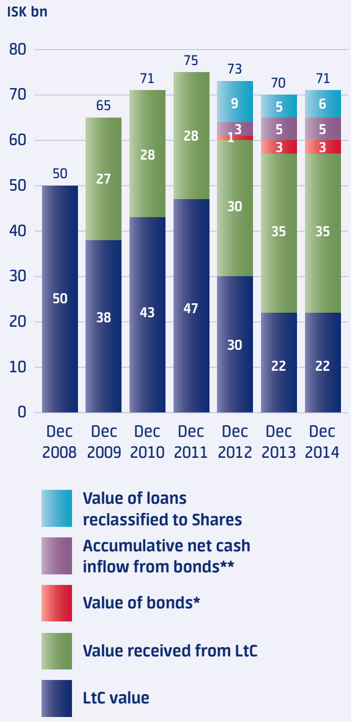


* UK includes overseas territories and crown dependencies.

The NOA Loan Portfolio – currency breakdown



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



All amounts are converted to ISK at foreign exchange rates 31 December 2014.

* *Value of bonds which were previously included in the NOA Loan Portfolio within the asset class "loans to customers".*

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

Loans to and Claims against Credit Institutions

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

"Loans to and claims against credit institutions" amounted to ISK 8.6 billion, decreased by ISK 1.4 billion in 2014, mainly due to principal payments amounting to ISK 0.9 billion and negative foreign exchange effect amounting to ISK 0.5 billion.

(i) Cash collateral held with banks against guarantees

Guarantee accounts amounted to ISK 5.3 billion 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) Restricted bank accounts

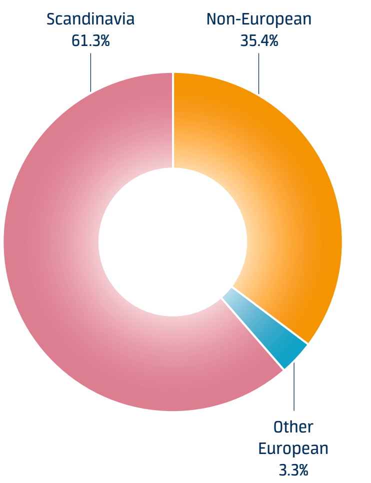
Restricted bank accounts amounted to ISK 3.1 billion and consist of previously frozen bank accounts which have been released by the counterparties but are still not in Kaupthing's control.

(iii) Frozen/emptied bank accounts

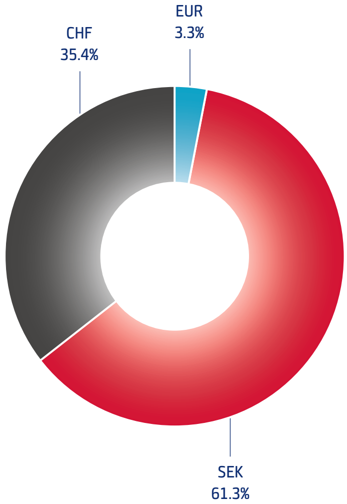
Frozen/emptied bank accounts amounted to ISK 0.3 billion and consist of claims against international financial institutions for freezing/emptying the Company's bank accounts. Frozen/emptied bank accounts are comprised of 3 accounts in 3 jurisdictions. Realisations of these claims will depend on the Company successfully negotiating settlements or prevailing in litigation.

The total value of this asset class is derived from foreign assets, majority located in Scandinavia. 61.3% is denominated in Swedish krona, 35.4% in Swiss franc, and 3.3% in euro. The graphs 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

This asset class consists of (i) claims on bankrupt entities, (ii) accounts receivables and (iii) sundry assets.

"Other assets" amounted to ISK 14.9 billion and increased by ISK 1.4 billion in 2014. The value increase is mainly driven by ISK 2 billion reversal of impairment and negative foreign exchange effect amounting to ISK 0.3 billion.

(i) Claims on bankrupt entities

Claims on bankrupt entities amounted to ISK 10.3 billion and increased by ISK 1 billion in 2014. Most of the positions are against other Icelandic entities in winding-up. Reversal of impairment amounted to ISK 1.6 billion, but ISK 0.8 billion was reclassified to sundry assets.

(ii) Account receivables

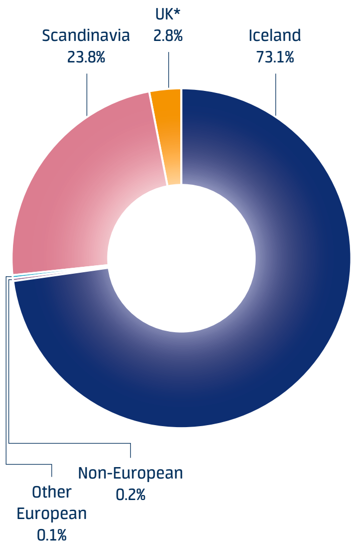
Account receivables amounted to ISK 3.6 billion and decreased by ISK 0.4 billion in 2014, mostly due to negative foreign exchange effects.

(iii) Sundry assets

Sundry assets amounted to ISK 1.0 billion and decreased by 1.5 billion in 2014. Sundry assets decreased by ISK 2.6 billion due to set-off against accepted claims, but ISK 0.8 billion was reclassified from claims on bankrupt entities

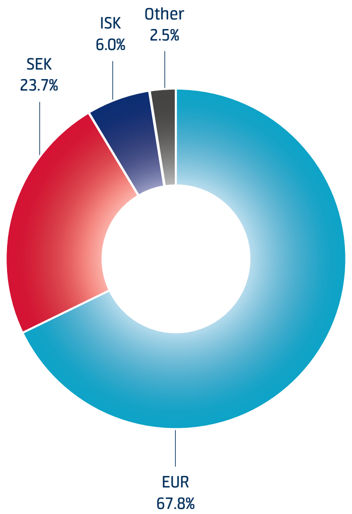
73.1% of the value of this asset class is coming from domestic assets and 26.9% is coming from foreign assets. 67.8% of the value is from assets denominated in euro, 23.7% in Swedish krona, 6.0% in Icelandic krona and 2.5% in other currencies. The graphs below show the value of the asset class "Other 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 Assets 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. Over 30 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.

Operating Expenses

The table below shows the operating expenses of the Company in 2014.

Operating expenses 2014

ISK million	2014					2013
	Q4	Q3	Q2	Q1	Total	Total
Salaries and salary related cost	327	238	386	282	1,233	1,319
Winding-up Committee	56	39	50	53	198	264
External Legal Services	309	174	376	194	1,053	981
Domestic	30	32	16	32	110	136
Foreign	279	142	360	162	943	845
Other External Advisors	388	384	469	358	1,599	1,459
Domestic	26	20	35	48	129	87
Foreign	362	364	434	310	1,470	1,372
Other expenses	153	129	196	164	642	704
VAT	72	62	63	77	274	399
Total	**1,305**	**1,026**	**1,540**	**1,128**	**4,999**	**5,126**

Total operating expenses were ISK 5.0 billion in 2014 compared to ISK 5.1 billion in 2013. Total operating expenses are 0.6% of the total value of assets at year-end 2014.

Tax Issues

The Company is, during the winding-up proceedings, subject to various taxes and levies. Below is a summary of certain tax issues that may have an impact on the financial status of the Company.

Bank Tax ("Sérstakur skattur á fjármálafyrirtæki"):
Act No. 155/2010. The law was amended in December 2013 to include financial undertakings in winding-up proceedings. The tax rate is 0.376% and the tax base is finally accepted creditor claims exceeding ISK 50 billion as at year end.

The Winding-up Committee has disputed this taxation and the dispute is currently in process with the relevant tax authorities. The Company, subject to the reservation above, paid ISK 9.9 billion in November and December 2014 (for the year 2013) in respect of this taxation.

The Company has estimated the bank tax to amount to ISK 10.1 billion for the year 2014.

Surcharge on Income Tax ("Sérstakur fjársýsluskattur"):
Act No. 165/2011 came into effect on 30 December 2011 amending the Income Tax Act. No. 90/2003. A new 6% tax on tax income base over ISK 1 billion was introduced, effective from 30 December 2011. Taxable parties are i.a. credit institutions, investment banks and other financial undertakings c.f. Act No. 161/2002. An amendment was introduced on 27 December 2013 with Act No. 142/2013, effective from 1 January 2014, which stated that tax losses carried forward and tax consolidation cannot be used to offset against the surcharge.

No estimation was made for the tax in the 2013 financial statements as the legislative amendment which prevents that the tax losses carried forward can be offset against the surcharge was to be effective from 1 January 2014 and wasn't therefore considered applicable for the year 2013.

The Winding-up Committee has disputed this taxation and the dispute is currently in process with the relevant tax authorities. The Company, subject to the reservation above, paid ISK 4.5 billion in November 2014 (for the year 2013) in respect of this taxation.

Due to negative tax base for the year 2014, no surcharge on income tax is estimated by the Company for the year 2014.

Financial Activities Tax ("Fjársýsluskattur"):
Act No. 165/2011, came into effect on 30 December 2011 amending the Income Tax Act. No. 90/2003. The tax rate is 5.5%. on all type of employee remuneration and benefits. The tax applies i.a. to credit institutions, investment banks and other financial undertakings.

The tax is included in "Salaries and related expenses" in the Financial Statements. The Winding-up Committee has disputed this taxation and the dispute is currently in process with the relevant tax authorities.

VAT ("Virðisaukaskattur"):
The Company is not registered for VAT purposes and therefore the Company cannot reclaim any VAT paid on services in accordance with Icelandic VAT legislation. The Company is however obliged to return VAT of services from foreign service providers if the service is considered used in Iceland.

The Company has paid approximately ISK 1.2 billion in relation to VAT of contracted service from foreign service providers during the period 2009-2014. VAT on the purchase of foreign services has been under general review by Icelandic tax authorities for some time without any clear conclusion on their interpretation on the rules. The Company has had ongoing discussions with the tax authorities with regards to interpretation of the rules and payment of VAT on services from foreign service providers. The tax authorities have not concluded their review on the Company.

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 finalised 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 2014, a total of 27,536 claims were recorded in the Company's claim registry, for a total amount of ISK 4,172.3 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 2014, outstanding claims amounted to ISK 2,825.6 billion.

Priority claims amounting to the equivalent of ISK 19.2 billion have been lodged against the Company under Art. 109 and 110 of the Bankruptcy Act after the expiry date for lodging claim (claims filed in 2012 - 2014). The Winding-up Committee rejected the 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 availed itself of the authority provided in paragraph 6 of Art. 102 of the Act on Financial Undertaking to provision for these claims while they remain in dispute. At the end of 2014, the Company had provisioned for late filed priority claims in dispute an amount equivalent to ISK 19.2 billion. Further information on late filed priority claims in dispute can be found in the chapter Late Filed Priority Claims.

At year-end 2014, outstanding claims amounted to ISK 2,825.6 billion.

Priority claims amounting to the equivalent of ISK 19.2 billion have been lodged against the Company under Art. 109 and 110 of the Bankruptcy Act after the expiry date for lodging claim (claims filed in 2012 - 2014). The Winding-up Committee rejected the claims, they were not added to the claim registry and are not included in the following claim tables.

Changes to Decisions on Claims from 31 December 2013

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 to settle disputed claims have been productive and are on-going. 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.

Key changes in the claim registry from 31 December 2013 to 31 December 2014 include:

- *Lodged claims under Art. 109-113 now amount to ISK 4,172.3 billion and have decreased by ISK 30.5 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 2,825.6 billion and have decreased by ISK 53.7 billion).*
- *Finally accepted priority claims amount to ISK 14.0 billion which is an increase of ISK 0.5 billion.*
- *Finally accepted unsecured claims amount to ISK 2,786.3 billion which is an increase of ISK 54.4 billion.*
- *Accepted unsecured claims in dispute due to set-off amount to ISK 13.9 billion, which is a decrease of ISK 44.3 billion*
- *Rejected claims in dispute amount to ISK 66.4 billion and have decreased by ISK 68.7 billion.*
- *Finally rejected claims now amount to ISK 1,291.4 billion which is an increase of ISK 27.2 billion.*
- *The table below shows key changes in the claims registry since 31. December 2013.*

Changes in claim registry from 31 December 2013

ISK million Claims lodged under Art. 109-113	31.12.2014	31.12.2013	Changes
Total lodged	**4,172,340**	**4,202,797**	**(30,457)**
Total accepted	**2,814,146**	**2,803,557**	**10,589**
Thereof, finally accepted (1)	**2,800,249**	**2,745,384**	**54,865**
Art. 109	-	-	-
Art. 110	-	-	-
Art. 111	-	-	-
Art. 112	13,975	13,469	506
Art. 113	2,786,274	2,731,915	54,359
Thereof, accepted Art. 113 but disputed	**13,897**	**58,173**	**(44,276)**
of which in set-off dispute (2)	13,897	58,173	(44,276)
Rejected in dispute	**66,367**	**135,105**	**(68,738)**
Art. 109	-	-	-
Art. 110	-	-	-
Art. 111	-	5,157	(5,157)
Art. 112	-	563	(563)
Art. 113	66,367	129,385	(63,018)
Total outstanding	**2,880,513**	**2,938,662**	**(58,149)**
Amendments under Art. 113	**(54,903)**	**(59,375)**	**4,472**
Own bonds under US MTN 144a programme (3)	(40,474)	(40,474)	-
Subject to set-off (4)	(454)	(5,432)	4,978
Payment of accepted priority claims under Art. 112	(13,975)	(13,469)	(506)
Total outstanding post amendments under Art. 113	**2,825,610**	**2,879,287**	**(53,677)**
Finally rejected	**1,291,379**	**1,264,135**	**27,244**

The claim registry is presented net of finalised accepted set-off and accepted priority claims (Art. 109-110) which have been paid in full.

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 and not by 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) *Claims accepted by the Winding-up Committee as Art. 113 claims, but where there is a dispute as to either (a) the right of the holders to apply a set-off against the accepted claim or (b) the amount the holders may set-off against the accepted claim.*

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

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

Decision on Claims

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

Summary of claims at year end 2014

ISK million Article	Art. 109	Art. 110	Art. 111	Art. 112	Art. 113	Total
Total lodged	**19,497**	**307**	**88,931**	**261,638**	**3,801,967**	**4,172,340**
Total adjusted (5)	10,054	151	14,184	65,351	4,082,600	4,172,340
Accepted	**-**	**-**	**-**	**13,975**	**2,800,171**	**2,814,146**
Thereof, finally accepted (1)	-	-	-	13,975	2,786,274	2,800,249
Thereof, accepted but in set-off dispute (2)	-	-	-	-	13,897	13,897
Rejected	**10,054**	**151**	**14,184**	**51,376**	**1,281,981**	**1,357,746**
Thereof, finally	10,054	151	14,184	51,376	1,215,614	1,291,379
Thereof, in dispute	-	-	-	-	66,367	66,367
Total adjusted outstanding	**-**	**-**	**-**	**13,975**	**2,866,538**	**2,880,513**
Amendments under Art. 113	**-**	**-**	**-**	**(13,975)**	**(40,928)**	**(54,903)**
Own bonds under US MTN 144a Programme (3)	-	-	-	-	(40,474)	(40,474)
Subject to set-off (4)	-	-	-	-	(454)	(454)
Payment of accepted priority claims under Art. 112	-	-	-	(13,975)	-	(13,975)
Total adjusted outstanding post amendments under Art. 113	**-**	**-**	**-**	**-**	**2,825,610**	**2,825,610**

5) *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 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 excluding finally rejected claims.*

Rejected Disputed Claims

At year-end 2014, there were 45 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 66.4 billion.

The table below gives an overview of the largest disputed claims, all lodged under Art. 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.

Overview of largest disputed claims

ISK million Creditor	No. of claims	Article	Amount in dispute	% of disputed claims	Status
Credit Suisse International	1	113	29,651	44.7%	Before the District Court
Kaupthing Singer & Friedlander Isle of Man	1	113	16,248	24.5%	Mediation process
Damage claims from individuals relating to investment made in 2006	18	113	11,935	18.0%	Before the District Court
Kaupthing Singer & Friedlander Ltd. (in administration)	1	113	7,030	10.6%	Mediation process
Total	**21**		**64,864**	**97.8%**	

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.

Analysis of disputed rejected claims

	2014	2013
Total number	45	598
Total amount	66,367	135,105
- thereof priority and secured claims Art. 109-112	-	5,720
- thereof general unsecured claims Art. 113	66,367	129,385

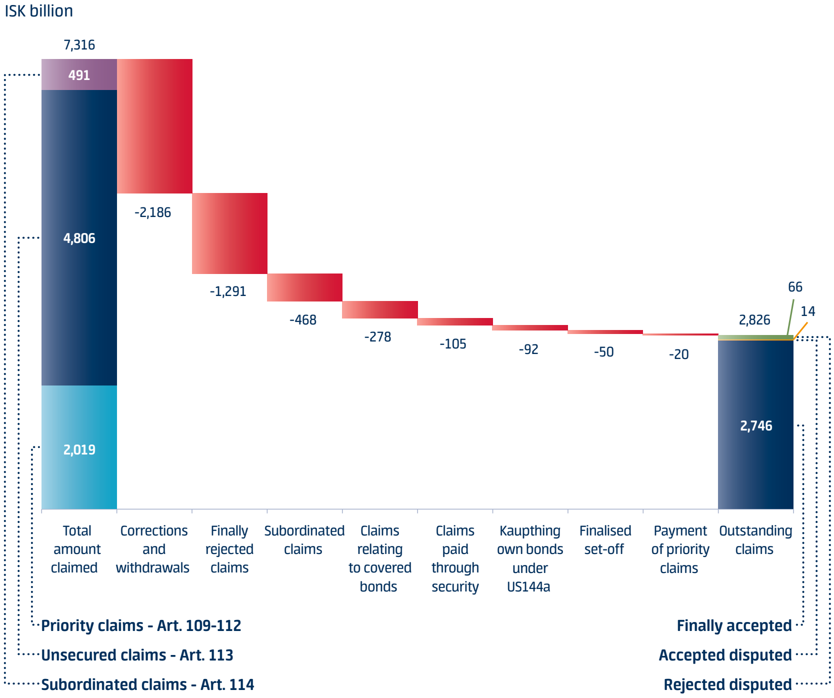
All amounts in table in ISK million.

Historic overview of changes in the claim registry

The expiry date for lodging claims was on 30 December 2009 and the first claim registry was published on 22 January 2010. Since the first publication of the claim registry considerable changes have occurred, both in lodged amount of claims and in the claimed priority ranking.

The table below gives an overview of the changes in the claim registry from 22.1.2009 – 31.12.2014.

Historic review on claims



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.

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. No disputes remain with respect to claims that were lodged within the expiry date on 30 December 2009 under Art. 109-110 of the Bankruptcy Act.

With respect to late filed claims under Art. 109 and 110 of the Bankruptcy Act, the Winding-up Committee has availed itself of the authority provided in paragraph 6 of Art. 102 of the Act on Financial Undertaking to provision for these late filed claims while they remain in dispute.

Claims lodged under Art. 112 of the Bankruptcy Act.
General overview
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 denominated and owed to creditors in Icelandic krona.

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 priority claims under Art. 112 of the Bankruptcy Act were 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. The exchange rate of the CBI on 22 April 2009, EUR 1 = ISK 169.23, was used to convert and calculate such payments in euro.

Restrictions on payments of priority claims under Art. 112 due to currency controls
In February 2014, the CBI informed the Company that 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.

In March 2014, the Company sought 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. In October 2014, the CBI authorised the Company to make payments of accepted priority claims under Art. 112 to respective priority creditors in foreign currency. Consequently approx. EUR 3 million were transferred from Kaupthing´s custody account to the respective priority creditors.

Dispute on the currency exchange rate used for payments in euro
Following a judgement by the Supreme Court of Iceland on 10 November 2014 in case no. 707/2014, Kaupthing against Aresbank S.A., regarding a dispute on the exchange rate used to convert and pay priority creditors in euros, the Company paid on 12 December 2014 an additional payment of EUR 4.6 million to respective priority creditors.

For further information on case no. 707/2014, a reference is made to Significant Court Cases and Settlements relating to Claims in 2014.

Certain Claims not reflected in the Claim Registry

Late filed priority claims in dispute

Late filed priority claims refers to claims under Art. 109 and 110 of the Bankruptcy Act that have been lodged against the Company after the expiry date for filing claims which was 30 December 2009. Claims are only recognised as late filed priority claims if the same have been filed with the Winding-up Committee in accordance with Art. 117 of the Bankruptcy Act.

At the end of 2014, there were four late filed priority claims in dispute amounting to an equivalent of ISK 19.2 billion. The Winding-up Committee rejected the 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.

The Winding-up Committee has availed itself of the authority provided in paragraph 6 of Art. 102 of the Financial Undertakings Act to provision for these disputed late filed priority claims by depositing into custody account in the name of the Company an amount corresponding to the payment of these claims. By making a deposit to a custody account a distribution shall be deemed to have been made to the creditor concerned. Once a final conclusion has been reached on a dispute, the share of the claim of the amount on deposit in the custody account, together with accrued interest, shall be paid to the creditor to the extent the claim has been recognised; any funds remaining shall revert to the Company. Funds on custody accounts in relation to disputed priority claims are not included in the Company´s Balance Sheet.

UBS AG, London Branch ("UBS") lodged a claim in 2012 in amount of 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 correct receiver of the payment at that time was Kaupthing Singer & Friedlander Ltd. (in administration) ("KSF"). The dispute regarding the claim from UBS was referred to the District Court of Reykjavik for resolution in May 2013 (case no. X-66/2013). There is also an ongoing litigation between KSF and UBS, before the Court of Appeal in England in which KSF is seeking payment of USD 65 million plus interest from UBS (the "English proceedings"). Following a ruling by the Icelandic Supreme Court on 4 December 2014 the court proceedings before the District Court of Reykjavik where stayed pending outcome in the English proceedings. A judgement in the English proceedings is expected in late 2015. Kaupthing has provisioned for this claim, including accrued interest, by making a payment of USD 117 million (equivalent to ISK 14.9 billion) into a custody account in the name of Kaupthing.

An Icelandic asset holding company, AB 76 ehf. ("AB76"), lodged claims in 2012 and 2013 for a total amount of ISK 1 billion and EUR 4.2 million. AB76 was a borrower of Kaupthing and the dispute relates to the validity of that loan agreement and the enforcement of Kaupthing 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. A main hearing is expected before the District Court of Reykjavík in June 2015. Kaupthing has provisioned for this claim, including accrued interest, by making a payment of ISK 1.0 billion and EUR 4.2million (equivalent to ISK 1.8 billion) into a custody account in the name of Kaupthing.

A Swedish entity, DGC Sweden AB ("DGC"), lodged a claim for SEK 155 million in 2014. The claim relates to a dispute between Kaupthing and DGC as a pledger and guarantor of a loan facility made by Kaupthing. Kaupthing has enforced pledges due to defaults under the loan agreement. DGC is disputing the enforcement of the pledges and is seeking damages and remedies. DGC has made the same claim before the District Court of Stockholm ("the Swedish claim"). The Swedish claim has been dismissed from the District Court of Stockholm on grounds of jurisdictional issues and is currently pending a ruling from the Supreme Court of Sweden. The resolution of the Icelandic claim is pending a final ruling on jurisdictional issues in Sweden. Kaupthing has provisioned for this claim, including accrued interest, by making a payment of SEK 157 million (equivalent to ISK 2.6 billion) into a custody account in the name of Kaupthing.

The Bankruptcy Estate of an individual (the "GAB Estate") lodged a claim for ISK 110.5 million in August 2014 with penalty interest from 9 January 2014. According to the claim, the liquidator is rescinding a payment from the bankrupt individual to Kaupthing on 9 January 2014. The payment was based on a contract between the individual and Kaupthing dated 20 December 2013. The claim has been referred to the District Court of Reykjavik for resolution. Kaupthing has provisioned for this claim, including accrued interest, by making a payment of ISK 124.9 million into a custody account in the name of Kaupthing.

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

Currency	Amount in currency	mISK equivalent
ISK	1,147	1,147
EUR	4	644
USD	117	14,870
SEK	157	2,557
Total		**19,218**

All amounts in table in million.

Other matters

In late November 2014, proceedings were commenced before the High Court of Justice in London against the Company by the trustees of the Tchenguiz Family Trust and other plaintiffs for damages of an unquantified amount. The basis for the claim is an alleged conspiracy between a member of the Winding-up Committee and two partners of Grant Thornton (UK) LLP which had the aim of arranging the arrests of certain individuals by the Serious Fraud Office in England. In January 2015, the Company filed an application for strike out of the claims on the basis that the English Court does not have jurisdiction to hear the dispute. The outcome of that application is expected in the summer of 2015. It is the firm position of the Winding-up Committee that these allegations have absolutely no basis in fact or in law.

As the claim has not been filed in accordance with Art. 117 of the Bankruptcy Act, it is not recognised as a late filed priority claim. Although the substantive claim is of an unquantified amount it could have a material effect if accepted by the Courts.

Significant Court Cases and Settlements relating to Claims in 2014

Deutsche Bank AG v. Kaupthing

On 24 March 2014, the Supreme Court of Iceland gave a judgement in case no 175/2014, Deutsche Bank AG London ("Deutsche Bank") against Kaupthing.

The Supreme Court confirmed the ruling of the District Court in which the decision of the Winding-up Committee to reject the claim in question was confirmed. The lodged claim was for fees under a liquidity facility agreement, dated 9 November 2007, between Deutsche Bank and Kaupthing. Deutsche Bank maintained that the appointment of the Resolution Committee on 9 October 2008 was a change of control event as defined in the liquidity facility agreement which allowed Deutsche Bank to declare all future fees under the agreement due and payable. The Supreme Court agreed with the Winding-up Committee that a change of control event had not occurred when Resolution Committee was appointed in October 2008 and that the conditions of the agreement to declare future fees due and payable was not met. Therefore the claim from Deutsche Bank amounting to ISK 2.4 billion (EUR 14.6 million) was rejected in its entirety.

Kaupthing v the City of Reykjavik

On 6 November 2014, the Supreme Court of Iceland gave judgement in case no. 127/2014, Kaupthing against the City of Reykjavik ("Reykjavik City").

Kaupthing had claimed Reykjavik City for a payment of ISK 1.8 billion with penalty interest from 18 November 2008 under three derivatives contracts (FX and IRS contracts). In its judgement the Supreme Court confirmed the ruling of the District Court of Reykjavik were Reykjavik City was acquitted. The Court found that Reykjavik City had been permitted to terminate all three derivatives contracts on 18 November 2008, with reference to foreseeable default on behalf of Kaupthing, after the Icelandic Financial Supervisory Authority assumed the powers of Kaupthing's shareholder's meeting and appointed a Resolution committee and after Kaupthing missed payment under one of the derivative contracts.

Kaupthing v Aresbank S.A.

On 10 November 2014, the Supreme Court of Iceland gave judgement in case no. 707/2014, Kaupthing against Aresbank S.A.

On 16 August 2013, Kaupthing distributed payments to creditors holding accepted claims under Art. 112 of the Bankruptcy Act. As these claims had been converted to Icelandic krona in accordance with paragraph 3 of Art. 99 of the Bankruptcy Act, payment of those claims was to be made in Icelandic krona. Creditors were however given an option to have their payment made in euro converted at the exchange rate as at 22 April 2009. The dispute in the case concerned whether Kaupthing was allowed to use the exchange rate as at 22 April 2009 to convert and calculate payments or whether the exchange rate on the date of payment, 16 August 2013, should have been applied. The difference between the EUR/ISK exchange rate on 22 April 2009 and 16 August 2013 was 5.6%.

The Supreme Court found that the Bankruptcy Act did not allow for Kaupthing to use any other exchange rate, to convert and calculate payments of claims in Icelandic krona to foreign currency, than the quoted selling exchange rate on the date of payment.

Settlement Agreement with Drómi and Spron

On 20 November 2014, Kaupthing hf., Drómi hf. and Spron hf. entered into a settlement agreement with respect to outstanding disputes relating to certain derivatives contracts. The settlement agreement resolved all of the parties' respective claims based on the derivatives contracts and concluded all disputes between the parties.

The settlement resulted in the late filed priority claim from Drómi, lodged 27 February 2014, amounting to EUR 240 million and ISK 15 million being withdrawn in full and final manner. Drómi will have a general unsecured claim, under Art. 113 of the Bankruptcy Act, against Kaupthing for a total amount of ISK 6.4 billion.

The settlement also resulted in Kaupthing withdrawing its derivative claim, amounting to ISK 14.8 billion, against Spron. All court proceedings between Kaupthing and Spron and between Drómi and Kaupthing were consequently withdrawn.

As a result of the settlement agreement, the funds which had been paid by Kaupthing into a custody account to cover distributions on the disputed priority claim, were released back to Kaupthing.

Kaupthing v Þrotabú Baugs Group

On 4 December 2014, the Supreme Court of Iceland gave judgement in case no. 598/2014, Kaupthing against Þrotabú Baugs Group hf.

The liquidators of the bankruptcy estate of the Icelandic Investment Company Baugur Group hf. ("Baugur") lodged three claims against Kaupthing, for a total amount of ISK 16.5 billion under Art. 113 of the Bankruptcy Act. The liquidators wanted to rescind certain transactions from July 2008, when the retail chain Hagar hf. was sold out of Baugur, and sought to claw back part of the sale proceeds. The Winding-up Committee had rejected the rescission and the claims based thereon.

The Supreme Court confirmed an earlier ruling by the District Court of Reykjavík whereby claims amounting to ISK 13.7 billion were accepted under Art. 113.

POTENTIAL COMPOSITION PROPOSAL AND ISSUES RELATING TO THE CURRENCY CONTROLS

General Information

From the outset, the Company's Winding-up Committee has placed emphasis on ending the winding-up proceedings as soon as realistically achievable and to effect distributions to the Company's unsecured creditors without undue delay.

According to statutory amendments to the Act on Financial Undertakings passed in the spring of 2011, financial undertakings in winding-up proceedings in Iceland may not make interim distributions to unsecured creditors during the winding-up proceedings.

The feedback the Winding-up Committee has received from the Company's creditors has strongly indicated that implementation of a composition proposal is the preferred route to achieve distributions. Another route to achieve distribution would be if the Company enters bankruptcy proceedings. In either process, distributions to unsecured creditors domiciled outside of Iceland, whether in connection with a composition or following bankruptcy proceedings, would be subject to an exemption from capital controls granted by the CBI, after consultation with the Minister of Finance and Economic Affairs and following a presentation by the Minister to the Parliamentary Economic and Commerce Committee concerning the economic effects of the exemption.

It is not in the power of the Winding-up Committee to conclude the winding-up proceedings without the involvement of the CBI and the government.

Accordingly it is not in the power of the Winding-up Committee to conclude the winding-up proceedings without the involvement of the CBI and the government. The same constraints would apply to a liquidator in bankruptcy proceedings who would need an exemption from the CBI in order to make distributions.

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 are made which could affect how the winding-up proceedings will conclude.

Overview of Capital Controls Pursuant to the Foreign Exchange Act

Foreign exchange transactions have been subject to stringent capital controls in Iceland since late 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.

The Potential Composition Proposal of the Winding-up Committee

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 would rank among the largest restructurings globally with approximately 13,000 creditors from over 100 jurisdictions holding outstanding claims at year-end 2014 amounting to ISK 2,825.6 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.

Morgan Stanley & Co. Limited has acted as lead financial adviser to the Company since 2008. Its international restructuring experience, capital markets knowledge and close relationship with the Company has proven a valuable asset in developing a suitable structure, analysing the commercial impact of a potential 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 adviser in the preparation of the potential 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 a 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.

Complexities Concerning Approval of the Exemption Application

As described in the chapter Overview of Capital Controls Pursuant to the Foreign Exchange Act, capital controls have been in place in Iceland since late 2008. The exchange restrictions have been imposed for balance of payments purposes as covered in several publications by the CBI, the Ministry of Finance and the IMF.

> *"Iceland faces balance of payments problem. It is foreseeable that the current account surplus in coming years will not cover contractual foreign debt repayments, let alone release non-residents' ISK assets. This is the main reason the capital controls are in place.[2]"*
>
> *"The capital controls eliminate the risk of substantial capital outflows that could cause instability.[3]"*
>
> *"… a sudden abolition of capital controls could potentially lead to rapid outflows of foreign currency, with the associated disruptive consequences.[4]"*
>
> *"The removal of capital controls is a complex task due to the large amounts of capital which are or will be owned by short-term investors, and which as a result could exit the economy within a short period of time once controls are lifted, thus creating considerable pressure on the ISK.[5]"*

The introduction of any composition proposal to its unsecured creditors is therefore as described above conditional upon the Company first receiving an exemption from the CBI from the restrictions under 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 corresponding composition agreement 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 from the Foreign Exchange Act 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.

To give a recommendation in favour of such an exemption, the CBI must be of the opinion that the exemption will not jeopardise monetary and exchange rate stability, according to the Foreign Exchange Act. In order for the CBI to formulate such an opinion, a detailed analysis of the Company's assets and recovery must have been carried out, with consideration given to the effect that distributions to the Company's unsecured creditors will have on Iceland's balance of payments. The CBI has been working on such an analysis for some time, and representatives from the Winding-up Committee and the CBI have met on several occasions and numerous information requests have been answered in order to clarify the matters in hand. The exemption application is still being processed by the CBI.

The next steps in winding up the failed banks' estates are highly uncertain. The CBI 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 in a comprehensive way before any potential composition proposal can proceed.

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2 The CBI, Financial Stability report 2014/1, www.cb.is/
3 The CBI, Financial Stability report 2013/2, www.cb.is/
4 IMF Country Report No. 15/72 – Statement by the Executive Director for Iceland, www.cb.is
5 The Ministry of Finance, Progress of the Plan for Removal of Capital Controls, a report as provided for in Act No. 16/2013 of the Althingi – Official English translation, http://www.ministryoffinance.is/

> *"The next stages of the winding-up proceedings must safeguard financial stability and ensure that domestic entities have access to foreign credit markets. Finding a comprehensive solution to the estates' affairs is a prerequisite for lifting of the capital controls.[6]"*

> *"In order for the capital controls to be lifted without substantial instability, a solution must be found to the balance of payments problem stemming from payouts of domestic ISK denominated assets to creditors.[7]"*

In the CBI's Financial Stability reports and publications of preliminary statistics for the international investment position, the CBI estimates the impact on the economy of the settlement 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 calculated settlement of these estates, assuming that fixed assets will be sold for book value and that the ratio of domestic to foreign claims will remain unchanged, and ignoring other factors such as possible payment of bank taxes, is estimated to have a negative impact on the net international investment position at year-end 2014 equivalent to 39% of Iceland's GDP[8]. This is equivalent to the difference in the value of domestic assets that will revert to foreign creditors, on the one hand, and foreign assets that will revert to domestic creditors, on the other.

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The impact on the balance of payments is estimated to be somewhat less. In this respect it may be noted that the CBI's assessment is that, when taking into account payment of bank taxes, the settlement of the Company would have limited impact on Iceland's balance of payments. The CBI estimates that, based on the value of the Company's assets as of 30 June 2014 and the CBI's breakdown of claims into domestic and foreign at the same time the impact of the Company's settlement on Iceland's balance of payments to be about 8% of GDP, which is reduced to 2% after taking into account the payment of bank taxes. The impact of the estates' settlement on the balance of payments is virtually the same as their Icelandic krona assets[9].

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In addition to distributions in connection with the settlement of the failed banks' estates and the interaction between such settlement and the liberalisation of the capital controls, there exist a number of other factors which affect Iceland's balance of payments. These include foreign resident investors' krona denominated assets, which are locked in by the controls, frequently referred to as "offshore kronur", and possible outflows from domestic residents upon the removal of capital controls.

The relative share of domestic and foreign assets and claims varies somewhat among the failed bank's estates. 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 31 December 2014, the Company's Icelandic krona assets amounted to ISK 158.0 billion. Thereof, the Company's stake in Arion bank accounted for 88.5% of the value or ISK 139.8 billion. Any issues concerning the effects of the Company's krona assets and their connection with financial stability in Iceland are therefore to a large extent related to the Company's stake in Arion bank.

6 The CBI, Financial Stability report 2014/1, www.cb.is/
7 The CBI, Financial Stability report 2014/2, www.cb.is/
8 The CBI, Underlying international investment position at year-end 2014, www.cb.is/
9 The CBI, Financial Stability report 2014/2, www.cb.is/

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.

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Potential Composition Proposal Progress

The Company, together with its advisers, nonetheless 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.

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 which could materially affect how distributions to creditors can be made.

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Government Advisers and Executive Committee

The government has required substantial preparation time, with respect to their work regarding potential liberalisation of the capital controls but important changes have occurred since mid-2014 in the organisation of the government's plan on removal of capital controls.

At the beginning of July 2014 the Ministry of Finance and Economic Affairs, after consulting with the Ministerial Committee on Economic Affairs and the Steering Group on Removal of Capital Controls (the "Steering Group"), concluded an agreement with the law firm Cleary Gottlieb Steen & Hamilton LLP, the consultants White Oak Advisory LLP, and economics professor and former IMF deputy managing director Anne Krueger of Johns Hopkins University, to work with the Icelandic authorities on removing capital controls. Attorney Lee Buchheit of Cleary Gottlieb Steen & Hamilton was appointed to direct the legal office's work on the project. The engagement of these foreign advisers was part of the government's work to relieve the economy of capital controls.

Furthermore, at the beginning of July 2014 the Minister of Finance and Economic Affairs engaged four experts forming an Executive Committee for Removal of Capital Controls (the "Executive Committee") to work with the above-mentioned advisers on behalf of the Steering Group. They were Glenn V. Kim, who served as the committee chairman, Benedikt Gíslason, adviser to the Minister of Finance and Economic Affairs on capital controls, Supreme Court attorney Eiríkur Svavarsson and Freyr Hermannsson, head of the Central Bank's treasury section.

As stated in Progress of the Plan for Removal of Capital Controls [10] published by the Ministry of Finance and Economic Affairs, efforts of the advisers and the Executive Committee are directed at finding an overall solution dealing with all aspects of the capital controls, including settlement of the failed bank estates in winding-up proceedings.

The Executive Committee has worked with the foreign advisers and is to deliver to the Steering Group specific proposals on options for removal of the capital controls. It is reported that the work involves considering both legal and economic issues and, in particular, the macroeconomic conditions for removal of controls and granting of exemptions.

In December 2014, Kaupthing and its advisers, along with representatives of Glitnir and LBI, met with the representatives of the government, and its advisers, including the Executive Committee. The purpose of the meeting was to consult with each estate for the resolution of the respective estate in the context of Iceland's objective to lift the capital controls. Following that meeting, the representatives of each estate met separately with the representatives of the government and its advisers.

In early 2015 the Executive Committee underwent certain changes. Glenn V. Kim continues to serve as Committee chairman. Vice-chairmen of the Committee are Benedikt Gíslason, adviser to the Minister of Finance and Economic Affairs regarding capital controls, and Dr Sigurður Hannesson. Other Committee members are District Court attorney Ásgeir Helgi Reykfjörð Gylfason, Ingibjörg Guðbjartsdóttir, managing director of the Capital Controls Surveillance Unit of the CBI, and Jón Þ. Sigurgeirsson, managing director of International Relations and General Secretariat of the CBI.

The Winding-up Committee has, both publicly and privately, expressed its complete willingness to co-operate and work with the relevant authorities in seeking solutions to the issues of contention which may arise concerning the Company's distributions to creditors. In practice, any solution will need to take account of Icelandic financial stability and the political environment.

The Winding-up Committee firmly believes that a consensual solution can be achieved through a composition with creditors which ensures finality and is binding for all creditors. The Winding-up Committee furthermore believes that it has developed solutions which should allow the Company to exit the winding-up proceedings through a composition without negatively impacting either the financial stability of Iceland or the ability to lift the capital controls. The Winding-up Committee remains available to discuss these solutions with the government and its advisers.

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10 The Ministry of Finance, Progress of the Plan for Removal of Capital Controls, A report as provided for in Act No. 16/2013 of the Althingi – Official English translation, http://www.ministryoffinance.is/

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