KAUPTHING

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

Kaupthing hf. (in winding-up proceedings) | Borgartún 26 | 105 Reykjavík | Iceland | Reg. no. 560882-0419

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ENDORSEMENT BY THE WINDING-UP COMMITTEE

Kaupthing hf. (Kaupthing, the "Company"), is currently in winding-up proceedings headed by a winding-up committee (the "Winding-up Committee").

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 interests for the benefit of the Company's creditors.

Pursuant to Act No. 125/2008 on Authority for treasury disbursements due to unusual financial market circumstances etc., the Icelandic Financial Supervisory Authority (the "FME") was given the power to appoint a resolution committee for the Company and other financial institutions. On 9 October 2008, the Company's board of directors resigned due to the Company's financial difficulties. In accordance with the aforementioned legislation, the FME appointed a resolution committee which immediately assumed control of the Company. On 25 May 2009, pursuant to Act No. 44/2009 amending Act No. 161/2002 on Financial Undertakings (the "Act on Financial Undertakings"), the District Court of Reykjavik appointed the Winding-up Committee to oversee and administrate the Company's claim process.

In accordance with the provisions of Act No. 78/2011, amending the Act on Financial Undertakings, the resolution committee was dissolved as of 1 January 2012. The Winding-up Committee took over the respective tasks that were previously handled by the resolution committee.

The Company is operating in accordance with the provisions of the Act on Financial Undertakings which set out the legal framework for the winding-up proceedings. These provisions are supplemented by the general provisions of the Act on Bankruptcy No. 21/1991 (the "Bankruptcy Act").

During the winding-up proceedings the Winding-up Committee shall i.a. endeavour to obtain as high a value as possible for the financial undertaking's assets, for instance, by waiting if necessary for outstanding claims to mature rather than realising them at an earlier date. In addition, the Company can only remain in winding up proceedings as long as composition is targeted and achievable.

The Winding-up Committee, after consultation with creditors and other parties, is preparing the Company for a creditor's composition. However, as the vast majority of the Company's assets is located abroad and/or denominated in foreign currencies, and given the fact that the bulk of claims against the Company is held by creditors domiciled abroad, the execution of such a composition agreement with the creditors will not be possible, due to the capital controls provided for in the Foreign Exchange Act No. 87/1992, without an exemption from the Central Bank of Iceland (the "CBI").

The Company has submitted an exemption application, which is being processed by the CBI, but a formal response has not yet been received. Furthermore, according to the Act on Financial Undertakings if a composition is ultimately not achievable then the Winding-up Committee shall petition for the Company to be subject to bankruptcy proceedings by a ruling of the District Court.

Operations in 2014

In 2014, the Company continued the active management of its diverse portfolio of assets in accordance with the aim of the Winding-up Committee to maximise value of assets until distributions can be made to unsecured creditors. Determination of claims against the Company likewise continued.

On 31 October 2014 the Directorate of Internal Revenue issued the tax statement for Kaupthing for the year 2013, including for the bank tax pursuant to Act No. 155/2010 ("Bank Tax"), surcharge on income tax pursuant to Act No. 165/2011 ("Surcharge on Income Tax") and for the financial activities tax pursuant to Act No. 165/2011 ("Financial Activities Tax"). Kaupthing's Winding-up Committee has disputed the abovementioned taxes and the disputes are currently in process with the relevant tax authorities. Kaupthing paid the relevant taxes in November and December 2014 with reservations on the grounds that the taxes are disputed. Reference is made to note 32 for further information.

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. Although the substantive claim is of an unquantified amount it could have a material effect if accepted by the Courts. Reference is made to note 33 in the financial statements.

As at 31 December 2014 the Company's total assets amounted to ISK 800 billion (2013: ISK 778 billion) and outstanding claims amounted to ISK 2,826 billion (2013: ISK 2,879 billion). The profit for the year ended 31 December 2014 amounts to ISK 74 billion (2013: ISK 38 billion).

ENDORSEMENT BY THE WINDING-UP COMMITTEE

General

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 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. Reference is made to note 2d regarding uncertainties/use of estimates and judgements.

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

Statement by the Winding-up Committee

The financial statements of Kaupthing hf. for the year ended 31 December 2014 have been prepared in accordance with the Icelandic Act on Annual Accounts No. 3/2006.

In our opinion, the financial statements and endorsement by the Winding-up Committee give a true and fair view of the development and performance of the Company's operations during the year ended 31 December 2014 and its financial position as at year end and describe the principal risks and uncertainties faced by the Company.

The Winding-up Committee has today discussed the financial statements of Kaupthing hf. for the year 2014 and confirms them by means of their signatures.

Reykjavik, 3 March 2015,

Winding-up Committee:

Feldis L. Oskarsdottir

Johannes R. Johannsson

Theodor S. Sigurbergsson

INDEPENDENT AUDITOR'S REPORT

To the Winding-up Committee of Kaupthing hf.

We have audited the accompanying financial statements of Kaupthing hf., which comprise the Balance Sheet as at 31 December 2014, the Income Statement and Statement of cash flows for the year then ended, the Endorsement by the Winding-up Committee and a summary of significant accounting policies and other explanatory notes.

The Winding-up Committee's Responsibility

The Winding-up Committee is responsible for the preparation and fair presentation of the financial statements in accordance with the Icelandic Act on Annual Accounts No. 3/2006, and for such internal control as management determines is necessary to enable the preparation of the financial statements and related explanatory notes that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of Kaupthing hf. as at 31 December 2014, of its financial performance and cash flows for the year ended 31 December 2014 in accordance with the Icelandic Act on Annual Accounts.

Emphasis of matter

Without qualifying our opinion, we draw attention to note 2b which describes that Kaupthing hf. is in winding-up proceedings. Furthermore we draw attention to notes 2d, 34 & 35 to the financial statements which describe that there is a significant judgement applied in estimating the carrying value of the assets, including the assumption that Kaupthing hf. is able to manage the timing of the realisation of its assets. Actual amounts realised in the future might be materially different from the amounts on the balance sheet.

Reykjavik, 3 March 2014

Ernst & Young ehf.

Margrét Pétursdóttir, Partner

INCOME STATEMENT

for the year ended 31 December 2014

	Notes	2014	2013
Interest income	6	7,291	8,514
Net reversal of impairment	7	7,600	3,498
Net financial income	8	45,563	21,499
Net foreign exchange rate loss		(5,095)	(59,509)
Changes in claims registry	9	41,610	94,403
Increase in late filed priority claims in dispute		(2,802)	(15,307)
Operating income		**94,167**	**53,098**
Salaries and related expenses	10	(1,233)	(1,319)
General and administrative expenses	10	(3,766)	(3,807)
Operating expenses		**(4,999)**	**(5,126)**
Profit before taxes		**89,168**	**47,972**
Taxes	11	(14,680)	(9,932)
Profit for the year		**74,488**	**38,040**

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BALANCE SHEET
as at 31 December 2014

	Notes	31.12.2014	31.12.2013
Assets			
Cash at bank	12	401,667	418,566
Loans to and claims against credit institutions	13	8,629	9,982
Loans to customers	14-17	98,365	104,781
Bonds and debt instruments	18	6,211	6,306
Shares and instruments with variable income	19-20	257,047	210,757
Unsettled derivative receivables	21	12,940	14,146
Other assets	22	14,903	13,544
Total Assets		**799,762**	**778,082**
Liabilities			
Claims	23 - 24	2,825,610	2,878,725
Tax liabilities	25	10,136	9,932
Other liabilities		1,274	1,171
Total Liabilities		**2,837,020**	**2,889,828**
Equity			
Share capital		7,270	7,270
Share premium		136,471	136,471
Accumulated deficit		(2,180,999)	(2,255,487)
Total Equity	26	**(2,037,258)**	**(2,111,746)**
Total Liabilities and Equity		**799,762**	**778,082**
Other information	27-35		

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STATEMENT OF CASH FLOWS
for the year ended 31 December 2014

	Notes	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 activities			
Fee income		257	391
Other financial inflow		-	1,214
Operating expenses		(4,895)	(5,688)
Paid taxes		(14,478)	-
Net cash to other 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 exchange 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	12	**401,667**	**418,566**

Significant non cash transactions

Set-off settlements and nettings where assets and outstanding claims were offset or netted during the year amount to ISK 20.4 billion (2013: ISK 12.5 billion). Paid in kind (PIK) interest earned during the year amount to ISK 1.4 billion (2013: ISK 1.8 billion). Shares received as a payment of debts amounted to ISK 166 million.

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General information

1. Reporting entity

Kaupthing hf. (Kaupthing, the "Company") is a company domiciled in Iceland. The Company's registered office is at Borgartún 26, 105 Reykjavík. Kaupthing is currently in winding-up proceedings headed by a winding-up committee (the "Winding-up Committee").

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 interests for the benefit of the Company's creditors.

The Winding-up Committee's principal objective is to ensure proper handling of claims against the Company and maximising the value of the Company's assets to the benefit of its creditors.

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.

2. Basis of preparation

a) Statement of compliance

These parent company financial statements have been prepared in accordance with the Icelandic Act on Annual Accounts No. 3/2006 (the "Act on Annual Accounts").

The Act on Annual Accounts requires subsidiaries and associates to be recorded in accordance with the equity method or at cost but also allows for a use of an accounting policy that deviates from the provisions in the Act on Annual Accounts in order for the financial statements to provide a true and fair view of the Company's performance and financial position.

Based on the above, and due to the purpose of the Company to liquidate/sell subsidiaries in the short/medium term, the subsidiaries and associates are measured at fair value.

The book value of these shares and instruments with variable income measured at fair value is ISK 202 billion (2013: ISK 166 billion) while the equity value is ISK 268 billion (2013: ISK 184 billion).

The financial statements were authorised for issue by the Winding-up Committee on 3 March 2015.

b) Winding-up proceedings

The Company is in winding-up proceedings in accordance with Act No. 161/2002 on Financial Undertakings (the "Act on Financial Undertakings"). The Winding-up Committee plans to maximise the value of assets until distributions can be made to unsecured creditors. The financial statements are prepared on the basis that the Company will be able to manage the timing of realisation of its assets. External events, political, regulatory and/or legal, could affect the time scale, ability and process for such realisations.

c) Basis of measurement

The financial statements are prepared on the historical cost basis except for the following assets that are measured at fair value:

- Bond and debt instruments
- Shares and instruments with variable income

d) Uncertainties/use of estimates and judgements

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported values. The 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 Company has assets in respect of which limited or no observable market data is available and/or which are subject to legal action. The value of those assets is based on judgements regarding various factors as appropriate. Considerable judgement has been applied in recognising and determining the value of those assets.

The realisable value 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. Changes in the underlying assumptions used in the measurement methods could materially affect these stated values. Reference is made to note 34 and 35 for further information on uncertainties and impairment/ valuation methods.

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

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Basis of preparation, continued

e) Set-off

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. Reference is made to note 30 for further information.

3. Significant accounting policies

Interest income
Interest income is recognised on an accrual basis, except for non-performing loans for which no interests are accrued.

Impairment
Assets measured at amortised cost are reviewed at each reporting date to determine whether there is any indication of impairment. Impairment losses are determined by an evaluation of the exposures on a case-by-case basis, using the valuation methods outlined in note 34. Reasonable prudence is exercised in the valuation of individual items and potential losses which arise in the course of the financial year or in respect of previous financial years are taken into account. Impairment losses are recognised when losses are either incurred or foreseeable.

Where the value of assets has been impaired and the reasons for the reduction in value does no longer apply, the previously recognised impairment loss is reversed. The amount of the reversal is recognised in the Income Statement.

Cash at bank
Cash at bank consists of cash and term deposits with credit institutions. Cash at bank comprises balances with up to one year maturity.

Loans to and claims against credit institutions
Loans to and claims against credit institutions are measured at amortised cost less estimated set-off effects.

Loans to customers
Loans to customers are measured at amortised cost.

Bonds and debt instruments / Shares and instruments with variable income
Listed and liquid instruments are measured at fair value based on the quoted closing price on 31 December 2014.

Fair value measurements for financial instruments for which no or limited observable market data is available are determined by using the valuation methods outlined in note 34. The methods of assessing the fair value are based on the market value of underlying factors of the financial instrument in question when applicable. For other financial instruments the value produced by a model or other valuation method is adjusted to allow for a number of factors as appropriate.

Reasonable prudence is exercised in the valuation of individual assets and foreseeable losses are taken into account.

Unsettled derivative receivables
Unsettled derivative receivables consist of claims against counterparties in relation to matured or terminated derivative trades. For ISDA counterparties the derivative exposure and collateral are netted and converted to the termination currency as at the termination date. In cases where multiple entities/branches of the same counterparty are being settled under a single legal agreement, the respective positions are netted.

The value of unsettled derivative receivables is determined by using recognised valuation models. Once ISDA derivative contracts have been terminated, the non-defaulting counterparty must determine the net amounts owed by or to the defaulting counterparty. Third party quotes and close-out notices providing details of such calculations enable the Company to reconcile amounts. Impairment provisions are made to the Company's valuation of unsettled ISDA derivative receivables to account for potential disputes in valuation. For many non-ISDA counterparties, an impairment adjustment is made on derivative receivables to account for credit, legal and settlement risk.

Disputed set-off may significantly affect this asset class. Reference is made to note 30 for further information.

Other assets
Other assets are measured at amortised cost less set-off effects.

Outstanding claims
Outstanding claims are based on the claims registry in accordance with the Icelandic Bankruptcy Act. Claims in foreign currencies have been converted into ISK at foreign exchange selling rates published by the CBI for 22 April 2009 in accordance with Act No. 44/2009. Hence, the outstanding claims have been fixed in ISK as at that date for all relevant claims.

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Significant accounting policies, continued

Late filed claims

Late filed claims refers to priority 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. If the Winding-up Committee's decision towards a late filed claim is disputed, the Winding-up Committee can avail itself of the authority provided in paragraph 6 of Art. 102 of the Financial Undertakings Act and deposit into custody account in the name of the Company an amount corresponding to the payment of that claim. 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 the dispute, the share of this 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.

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.

Late filed claims are reflected in the financial statements when they have been filed with the Winding-up Committee in accordance with Art. 117 of the Bankruptcy Act.

4. Risk management

Risk management framework

Pursuant to the Act on Financial Undertakings the Winding-up Committee holds the rights and obligations held by the Company's board of directors and shareholders at shareholder's meetings. Furthermore the rules concerning administrators in bankruptcy proceedings apply to the Winding-up Committee, its tasks and the members of the Committee. As such the Winding-up Committee is responsible for both policy making and daily operations. The Company does not have a CRO or designated personnel for risk management.

The Company's risk management, decision making and monitoring is mostly done bottom-up, i.e. on a case-by-case basis. Currency risk and concentration risk are, however, extensively reported at an aggregated level. The rationale for the bottom-up approach is that the assets or legal issues being dealt with are few and each case needs specialised attention. The Company assigns employees to each asset who are responsible for the monitoring of and the reporting on the asset.

Cash management

The Company has significant cash assets due to the monetisation or maturity of assets since October 2008. Cash management possibilities are limited due to the Company's legal status and restrictions imposed by Icelandic legislation. The Foreign Exchange Act No. 87/1992 (the "Foreign Exchange Act") provides for certain restrictions on cross-border transfers of capital while the Bankruptcy Act provides for limitations on how the Company's cash assets can be invested. As a result, the Company's reinvestment and cash management possibilities, for risk management purposes, are severely limited.

Non-cash assets

The Foreign Exchange Act is subject to interpretation by the CBI and frequent amendments by the legislator. As either the Foreign Exchange Act is amended or interpretation of the said Act evolves, the authority of the Company to both manage and dispose of its assets may alter or be subject to various conditions set forth by the CBI. Hence such developments could inter alia materially and adversely affect the Company's asset portfolio.

The Company still has significant non-cash assets. The portfolio of non-cash assets includes loans, bonds, shares and instruments with variable income. The portfolio is static in nature and the book value is primarily affected by underlying borrower/investee business financial results. The Company's risk management possibilities are limited as the Company's legal status does not allow for executing hedging of its exposures, whether it is FX, market, interest rate et.al.risk. Active management of the assets continues, pending their eventual monetisation or maturity. Significant uncertainty surrounds the value of the Company's non-cash assets and reference is made to notes 34-35 for further information on the valuation methods used and sensitivity analysis.

Below, the Company's risk management is broken down by types of risk. It should, however, be noted that the distinction between credit risk and market risk is in some cases ambiguous, for example when the Company owns both debt and equity of the same obligor. The following table shows a break-down of the Company's assets by the type of holdings.

Risk management, continued

Asset class	31.12.2014 Amount	Controlling equity interest and debt	Controlling equity interest only	Debt only	Minority equity interest and debt	Minority equity interest only
Operating loan portfolio	76,108	70%	0%	6%	24%	0%
NOA loan portfolio	22,257	0%	0%	100%	0%	0%
Bonds and debt instruments	6,211	16%	0%	69%	15%	0%
Shares and instruments with variable income	257,047	79%	9%	0%	0%	12%
Total	100%	71%	6%	9%	6%	8%
Total values	361,623	258,118	21,714	31,306	19,920	30,565

Credit risk

Credit risk refers to the risk that the Company's obligors will fail to meet their obligations. Credit risk includes credit concentration risk and recovery risk.

The Company considers credit risk associated with its cash holdings, loans to customers' portfolio, bonds and debt instruments and other assets a material risk factor due to the varied credit quality of borrowers and uncertainty about recovery from defaulted counterparties. The risk associated with other asset classes that traditionally carry credit risk, such as unsettled derivative receivables and loans to credit institutions is categorised as legal risk since the value of those asset classes largely depends on the outcome of legal disputes. The Company also considers concentration risk a significant risk factor as the Company's loans to customers' portfolio is highly concentrated in terms of number of borrowers and their geographical and industry sector distribution. Further, there is a legal risk associated with the portfolio due to enforcement issues related to borrowers that have defaulted on their contractual obligations. The Company mitigates the credit risk related to its cash holdings by making deposits abroad (i.e. outside Iceland) only at institutions with good credit ratings located in countries with good credit rating. Reference is made to notes 15-18 for a break-down of the Company's portfolio.

Market risk

Market risk is the prospective risk that market price movements negatively impact the value of the assets of the Company. This includes movements in equity prices, interest rates and prices of foreign currency.

Market risk is considerable but the Company's means to mitigate this risk are severely limited. The Company doesn't manage the currency composition of its assets actively and instead reports the composition in detail, for example in notes 28-29. Creditors can, therefore, account for the Company's currency position in their own risk management. Reference is made to notes 19-20 for a break-down of the Company's equities portfolio.

Liquidity risk

Liquidity risk refers to the risk that the Company has insufficient liquid funds to meet its financial obligations.

At present the Company does not consider liquidity risk a material risk factor since its cash holdings far exceed the contractual financial obligations in its day-to-day operations, in both ISK and foreign currency. However, the Company recognises the future need for re-assessment of the risk factor in relation to possible distribution to creditors, in particular due to the constraints on cash movements imposed by the capital controls in Iceland.

Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk includes legal and political risk.

The Company faces risk in regard to the scope and application of the Foreign Exchange Act and/or the Act on Financial Undertakings and/or tax legislation as regards inter alia distributions to creditors, realisations of assets, asset support, opearational requirements and foreign exchange rates. Other key risk factors are of strategic nature and include the legal and political unpredictability as well as risk factors specific to the operational environment of the Company. Such risk factors include potentially, having the need or be required to convert cash in foreign currency to ISK, being unable to retain key staff and uncertainty of the future operations of the Company regarding potential distributions to creditors.

Due to recent legal and political developments, the Company considers future taxation and other legislative amendments to the current winding up proceedings to be or could be a material risk factor. The Company recognises that risk factors may change over time, risk factors which are currently deemed minor may become important and vice versa or new risk factors might emerge which are currently unknown to the Company. The Company will continue to monitor and reassess the various risk factors which it believes are most relevant at any given time and which may affect its operations.

Claims

The Company faces risk in respect of the quantum of finally accepted claims. The Company considers risk associated with future and current late filed claims against the Company a material risk factor. Late filed claims will in many cases be disputed, but, if finally accepted, can lead to a material increase in the liabilities of the Company.

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5. Foreign exchange rates

Transactions in foreign currencies are initially recorded at the rates of exchange prevailing on the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the spot foreign exchange rates as quoted on Reuters at 16:30 on the balance sheet date. Profits and losses arising on exchange are included in net profit or loss for the year.

	Balance Sheet	
	31.12.2014	31.12.2013
AUD	104.32	102.94
CAD	110.06	108.33
CHF	128.32	129.24
DKK	20.72	21.25
EUR	154.28	158.49
GBP	198.65	190.68
JPY	1.06	1.09
NOK	17.03	18.95
SEK	16.29	17.90
USD	127.46	115.09

Notes to the Income Statement

6. Interest income is specified as follows:

	2014	2013
Cash at bank	2,412	2,087
Loans to and claims against credit institutions	39	117
Loans to customers	4,328	5,829
Bonds and debt instruments	428	299
Other	84	182
Interest income	7,291	8,514

Comparative amounts have been adjusted.

7. Net reversal of impairment is specified as follows:

Impairment reversal on loans to and claims against credit institutions	149	227
Impairment reversal on loans to customers	3,859	22,822
Impairment reversal on unsettled derivative receivables	10,285	2,655
Impairment reversal on other assets	2,045	238
Impairment reversal	16,338	25,942
Impairment loss on loans to customers	(8,641)	(20,260)
Impairment loss on unsettled derivative receivables	(69)	(975)
Impairment loss on other assets	(28)	(1,209)
Impairment loss	(8,738)	(22,444)
Net reversal of impairment	7,600	3,498

Comparative amounts have been adjusted.

8. Net financial income is specified as follows:

Dividend income	1,295	650
Net gain on bonds and debt instruments	1,166	1,632
Net gain on shares and instruments with variable income	42,801	16,251
Other financial income	301	2,966
Net financial income	45,563	21,499

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9. Changes in claims registry is specified as follows:	2014	2013
Outstanding claims liabilities at beginning of the year	2,879,287	2,994,802
Outstanding claims liabilities at the end of the year	2,825,610	2,879,287
Total	53,677	115,515
Payment of claims - Art. 109 and 110	-	(5,797)
Payment of claims - Art. 112	(506)	(13,469)
Set-off and amendments	(11,561)	(1,846)
Changes in claims registry	41,610	94,403

10. Operating expenses is specified as follows:

Salaries	960	1,016
Salary related expenses	273	303
External advisors	3,066	3,021
Other expenses	700	786
Operating expenses	4,999	5,126

External advisory expenses are specified as follows:

Winding-up Committee	198	264
Professional service	1,599	1,459
Legal services	1,053	981
Non recoverable VAT	216	317
External advisors	3,066	3,021
Average number of employees	50	56

11. Taxes

Surcharge on income tax	(4,542)	-
Bank tax estimated for current year	(10,136)	(9,932)
Bank tax under provided in prior year	(2)	-
Total taxes in Income Statement	(14,680)	(9,932)

Reference is made to note 32 for further information.

Notes to the Balance Sheet

Cash at bank

12. Cash at bank specified by geographical location:	31.12.2014			31.12.2013		
	Iceland	Other	Total	Iceland	Other	Total
Non ISK	43,810	352,428	396,238	44,848	353,550	398,398
ISK	5,429	-	5,429	20,168	-	20,168
Cash at bank	49,239	352,428	401,667	65,016	353,550	418,566

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.

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Loans to and claims against credit institutions

13. Loans to and claims against credit institutions specified by types of loans and claims:

	31.12.2014		31.12.2013	
	Gross amount	Amortised cost	Gross amount	Amortised cost
Foreign				
Cash collateral held with banks against guarantees	5,287	5,287	6,118	6,118
Restricted bank accounts	3,052	3,052	-	-
Frozen/emptied bank accounts	304	304	4,095	4,095
Other loans and claims	-	-	262	238
Loans to and claims against credit institutions before set-off against counterclaims	8,643	8,643	10,475	10,451
Subject to set-off	(14)	(14)	(469)	(469)
Loans to and claims against credit institutions after set-off	8,629	8,629	10,006	9,982

Loans to customers

14. Loans to customers specified by portfolios:

	31.12.2014		31.12.2013	
	Gross amount	Amortised cost	Gross amount	Amortised cost
Operating loan portfolio	185,588	76,108	193,419	83,418
NOA loan portfolio	916,285	22,257	984,190	21,363
Loans to customers	1,101,873	98,365	1,177,609	104,781

Loans to customers are divided into two sub-portfolios due to the way the Company organises the management of its assets. "Operating loan portfolio" which is predominantly made up of loans to borrowers with underlying operating businesses, and the "NOA loan portfolio" which is made up of loans to borrowers with little or no underlying business operations.

15. Loans to customers specified by sectors:

	31.12.2014		31.12.2013	
	Gross amount	Amortised cost	Gross amount	Amortised cost
Business and Industrial Products	45,307	24,265	44,706	24,669
Real Estate	77,910	21,201	80,810	22,531
Holding Company	719,284	21,090	789,946	20,398
Consumer Goods and Retail	33,145	19,366	33,269	21,190
Consumer Services: Other	10,722	10,629	15,180	14,118
Individuals	120,990	157	120,370	284
Other	94,515	1,657	93,328	1,591
Loans to customers	1,101,873	98,365	1,177,609	104,781

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16. Ten largest loans in loans to customers at amortised cost, broken down by sector and geographical location:

	31.12.2014	31.12.2013
Holding Company/UK**	20%	19%
Real Estate/Other	11%	11%
Consumer Services: Other/UK**	10%	9%
Business and Industrial Products/Scandinavia*	10%	8%
Consumer Goods and Retail/UK**	10%	11%
Consumer Goods and Retail/UK**	10%	9%
Real Estate/Scandinavia*	8%	8%
Business and Industrial Products/Scandinavia*	8%	8%
Business and Industrial Products/UK*	4%	3%
Business and Industrial Products/Scandinavia*	3%	4%
Ten largest loans of total Loans to customers	94%	90%

* Scandinavia includes Denmark, Finland, Norway, Sweden, Iceland and Faroe Islands.

** UK includes UK overseas territories and Crown dependencies.

The geographical location is determined by using the registration country where the majority of the underlying operation is located.

17. Loans to customers - portfolios specified by performance:

	31.12.2014					
	Operating loan portfolio		NOA loan portfolio		Total	
	Gross amount	Amortised cost	Gross amount	Amortised cost	Gross amount	Amortised cost
Performing loans	52.5%	82.5%	0.1%	5.2%	9.0%	65.0%
Loans on view list	0.6%	0.4%	0.0%	0.0%	0.1%	0.3%
Loans on watch list	46.9%	17.1%	99.9%	94.8%	90.9%	34.7%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

The performance categories are defined as follows:

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.

Bonds and debt instruments

18. Bonds and debt instruments specified by sectors:

	31.12.2014	31.12.2013
Holding Companies	3,803	3,686
Financial Services	973	970
Governments - listed	857	849
Energy and Environment	578	801
Bonds and debt instruments	6,211	6,306

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Shares and instruments with variable income

19. Shares and instruments with variable income are specified as follows:	31.12.2014	31.12.2013
Listed	12,352	12,686
Unlisted	244,695	198,071
Shares and instruments with variable income	257,047	210,757

20. Shares and instruments with variable income specified by sectors:	31.12.2014	31.12.2013
Financial Services *	158,998	137,759
Real Estate	57,642	43,719
Consumer Goods and Retail	16,320	8,250
Holding Company	14,063	12,742
Consumer Services: Other	4,926	2,879
Life Sciences	3,199	2,169
Energy and Environment	1,118	1,783
Other	781	1,456
Shares and instruments with variable income	257,047	210,757

* The Company indirectly owns 87% of the equity in Arion Bank through its intermediate holding company Kaupskil ehf. Kaupskil's ownership in Arion Bank is accounted for at fair value, ISK 139.8 billion (2013: ISK 121.9 billion), where the fair value of each share held in Arion Bank corresponds to its book value.

Unsettled derivative receivables

21. Unsettled derivative receivables specified by counterparties:	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

* NOA counterparties relate to unsettled derivative receivables which are connected to NOA loan portfolio.
Disputed set-off may significantly affect this asset class. Reference is made to note 30 for further information.

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Other assets

22. Other assets specified by type:

	31.12.2014		31.12.2013	
	Gross amount	Amortised cost	Gross amount	Amortised cost
Accounts receivables	31,663	3,597	32,778	3,985
Claims on bankrupt entities	103,377	10,280	106,449	9,302
Sundry assets	3,722	1,026	4,586	2,501
Other assets before set-off against counterclaims	138,762	14,903	143,813	15,788
Subject to set-off	-	-	(2,244)	(2,244)
Other assets after set-off	138,762	14,903	141,569	13,544

Claims and claim process

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

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. The Winding-up Committee completed its decision on all claims by the Creditors' Meeting on 3 December 2010. According to Act No. 44/2009, claims should generally have been filed as at 22 April 2009 in the relevant currency and converted into ISK at the exchange rate published by the CBI on 22 April 2009. Hence, the liability side has been fixed in ISK as at that date for all relevant claims.

As at year end 2014, the total amount of claims registered in the list of claims, amounted to ISK 4,172 billion (2013: ISK 4,203 billion). The list of claims 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 list of claims is shown net of finalised set-off and finally accepted priority claims (Art. 109 and 110) which have been paid in full.

Outstanding claims are specified as follows:	31.12.2014	31.12.2013
Priority claims finally accepted by the Winding-up Committee	13,975	13,469
General claims finally accepted by the Winding-up Committee	2,786,274	2,731,915
General claims accepted by the Winding-up Committee in set-off dispute	13,897	58,173
Rejected disputed claims - Art. 111	-	5,157
Rejected disputed claims - Art. 112	-	563
Rejected disputed claims - Art. 113	66,367	129,385
Payment of accepted priority claims under Art. 112	(13,975)	(13,469)
Own bonds under US MTN 144a programme	(40,474)	(40,474)
Subject to set-off	(454)	(5,432)
Outstanding claims	2,825,610	2,879,287
Payments to custody account due to rejected disputed priority claims	-	(562)
Total claims in Balance Sheet	2,825,610	2,878,725

In 2013 the Company received objection from a priority creditor who had elected and received payment of his accepted priority claims in accordance with a so called euro-option. The basis of his objection was that the Winding-up Committee had not been entitled to use the selling exchange rate of the CBI on 22 April 2009 (EUR/ISK 169.23) for payments under the euro-option but should rather have used the selling exchange rate of the CBI on the day of the payments, namely 16 August 2013 (EUR/ISK 160.3).

The Winding-up Committee rejected the claim from the creditor and the dispute was referred to the Icelandic Courts for resolution. The Supreme Court of Iceland gave its judgement in the case on 10 November 2014 and found that the Bankruptcy Act did not allow for Kaupthing to use any other exchange rate, to convert and calculate payments of claims in ISK to foreign currency, than the quoted selling exchange rate on the date of payment. As a result of the judgement the Winding-up Committee made additional payments of ISK 744m (EUR 4,6m) to the relevant priority creditors in December 2014.

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24. Late filed priority claims in dispute:

Late filed priority claims and related custody accounts are not included in the Company's balance sheet.

	31.12.2014	31.12.2013
Late filed priority claims in dispute and related custody accounts as at 1 January 2014	15,307	-
New late filed claims during the year	2,802	15,307
Foreign exchange rate difference	1,109	-
Late filed priority claims in dispute as at 31 December 2014	19,218	15,307
On custody accounts as at 31 December 2014	(19,218)	(15,307)
Total	-	-

Two claims were lodged against the Company in February 2014 under paragraph 3 of Art. 110 of the Bankruptcy Act, c.f. paragraph 5 of Art. 118 of the Bankruptcy Act. The Winding-up Committee made payments, in accordance with paragraph 6 of Art. 102 of the Financial Undertaking Act, for these claims, including accrued interest, into a custody account in the name of the Company.

A payment of ISK 2.7 billion (SEK 157 million) was made on 15 April 2014 and a payment of ISK 37.0 billion (EUR 240 million) was made on 28 July 2014. The ISK 37.0 billion (EUR 240 million) claims were withdrawn in November 2014 and relevant funds were transferred back to Kaupthing.

In August 2014 the liquidator of the GAB Estate lodged a claim amounting to ISK 110,5 million under Art. 110 of the Bankruptcy Act, with penalty interests from 9 January 2014. The Winding-up Committee made a payment for this claim on 19 December 2014 into a custody account in the name of the Company for a total amount of ISK 124.9 million.

These claims continue to be in dispute.

Other liabilities

25. Tax liabilities:

The Company has estimated its potential liability due to the bank tax in respect of the year ended 31 December 2014 to be ISK 10,136 million (2013: ISK 9,932 million). Reference is made to note 32 for further information.

Equity

26. Changes in equity is specified as follows:

	Share capital	Share premium	Accumulated deficit	Total
Changes in equity in 2014				
Equity as at 1 January 2014	7,270	136,471	(2,255,487)	(2,111,746)
Profit for the year	-	-	74,488	74,488
Equity as at 31 December 2014	7,270	136,471	(2,180,999)	(2,037,258)
Changes in equity in 2013				
Equity as at 1 January 2013	7,270	136,471	(2,293,527)	(2,149,786)
Profit for the year	-	-	38,040	38,040
Equity as at 31 December 2013	7,270	136,471	(2,255,487)	(2,111,746)

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Other Information

27. Assets, classification and measurement:

	31.12.2014				
	Gross amount	Impairment	Amortised cost	Fair value	Total
Cash at bank	401,667	-	401,667	-	401,667
Loans to and claims against credit institutions	8,629	-	8,629	-	8,629
Loans to customers	1,101,873	(1,003,508)	98,365	-	98,365
Bonds and debt instruments	6,211	-	-	6,211	6,211
Shares and instruments with variable income	257,047	-	-	257,047	257,047
Unsettled derivative receivables	48,004	(35,064)	12,940	-	12,940
Other assets	138,763	(123,860)	14,903	-	14,903
Total assets	1,962,194	(1,162,432)	536,504	263,258	799,762

	31.12.2013				
	Gross amount	Impairment	Amortised cost	Fair value	Total
Cash at bank	418,566	-	418,566	-	418,566
Loans to and claims against credit institutions	10,006	(24)	9,982	-	9,982
Loans to customers	1,177,609	(1,072,828)	104,781	-	104,781
Bonds and debt instruments	6,306	-	-	6,306	6,306
Shares and instruments with variable income	210,757	-	-	210,757	210,757
Unsettled derivative receivables	49,437	(35,291)	14,146	-	14,146
Other assets	141,569	(128,025)	13,544	-	13,544
Total assets	2,014,250	(1,236,168)	561,019	217,063	778,082

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28. Assets specified by ISK and FX assets:

	31.12.2014				
	ISK assets	FX from Icelandic counter-parties	Total ISK assets and FX from Icelandic counter-parties	FX from non-Icelandic counter-parties	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	157,988	63,950	221,938	577,824	799,762
% of Total assets			28%	72%	

	31.12.2013				
	ISK assets	FX from Icelandic counter-parties	Total ISK assets and FX from Icelandic counter-parties	FX from non-Icelandic counter-parties	Total assets
Cash at bank	20,168	44,848	65,016	353,550	418,566
Loans to and claims against credit institutions	-	-	-	9,982	9,982
Loans to customers	531	141	672	104,109	104,781
Bonds and debt instruments	4,161	-	4,161	2,145	6,306
Shares and instruments with variable income	122,024	8,556	130,580	80,177	210,757
Unsettled derivative receivables	574	-	574	13,572	14,146
Other assets	316	9,017	9,333	4,211	13,544
Total assets	147,774	62,562	210,336	567,746	778,082
% of Total assets			27%	73%	

The tables above show a breakdown of (a) assets in ISK, (b) all assets in foreign currency where counterparties are domiciled in Iceland and (c) 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, reference is made to note 4 for further information.

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29. Assets specified by currencies:

31.12.2014	GBP	EUR	ISK	SEK	USD	NOK	Other	Total assets
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	217,300	191,839	157,988	108,421	69,347	41,746	13,121	799,762
% of Total assets	27.17%	23.99%	19.75%	13.56%	8.67%	5.22%	1.64%	

31.12.2013	GBP	EUR	ISK	SEK	USD	NOK	Other	Total assets
Cash at bank	73,825	122,232	20,168	97,294	45,863	44,271	14,913	418,566
Loans to and claims against credit institutions	-	295	-	6,079	415	-	3,193	9,982
Loans to customers	61,055	22,701	531	10,953	8,804	38	699	104,781
Bonds and debt instruments	-	861	4,161	-	1,284	-	-	6,306
Shares and instruments with variable income	58,813	24,367	122,024	1,997	3,095	408	53	210,757
Unsettled derivative receivables	-	13,572	574	-	-	-	-	14,146
Other assets	56	9,237	316	3,850	71	3	11	13,544
Total assets	193,749	193,265	147,774	120,173	59,532	44,720	18,869	778,082
% of Total assets	24.90%	24.84%	18.99%	15.44%	7.65%	5.75%	2.43%	

Fluctuations in exchange rates between Icelandic krona and the foreign currencies in which the Company's assets are denominated will impact the values reflected in these financial statements. The Company's liabilities are principally in ISK.

30. Disputed set-off

The impact of disputed set-off is not taken into account in the financial statements.

The Winding-up Committee currently estimates, on a preliminary basis, that additional negative effects of disputed set-off on the value of assets as at 31 December 2014 to be approximately ISK 0-14 billion. 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. The set-off effects will be impacted by a number of factors, including a) the assets are subject to foreign currency movements while claims are not, b) the properties and value of assets may change considerably over time which may significantly affect any set-off amount and c) several counterparties who have indicated their intention to set-off or declared set-off, did not file a claim or only filed a claim net of set-off; in these instances potential set-off effects will only impact the assets and not the claims. This set-off analysis is based on a number of assumptions including Winding-up Committee decision with regards to the acceptance or rejection of the relevant claim against the Company and rights to set-off.

31. Related Party

The Company has a related party relationship with parties that are controlled or dependent on the Company. Business with related parties has been conducted on an arms' length basis.

2014	Income	Expense	Assets	Liabilities
Subsidiaries	3,724	326	335,437	337

2013	Income	Expense	Assets	Liabilities
Subsidiaries	3,809	374	309,768	321

Comparative amounts have been adjusted.

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32. 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.

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

Kaupthing 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.

Kaupthing's Winding-up Committee has disputed this taxation and the dispute is currently in process with the relevant tax authorities. Kaupthing, 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 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 introducing a tax on all type of employee remuneration and benefits. The tax applies i.a. to credit institutions, investment banks and other financial undertakings c.f. Act No. 161/2002. The tax rate is 5.5%.

The tax is included in "Salaries and related expenses" in the Income Statement. Kaupthing's Winding-up Committee has disputed this taxation and the dispute is currently in process with the relevant tax authorities.

VAT ("Virðisaukaskattur"):
Kaupthing 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. Kaupthing 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 Kaupthing.

Carry forward income tax losses specified by financial years:	31.12.2014
2008	2,286,094
2009	107,980
2010	-
2011	-
2012	18,210
2013	-
Total carry forward income tax losses	2,412,284

The carry forward tax losses are based on the Company's tax returns. Carry forward tax losses for the year ended 31 December 2014 have not yet been finalised. The tax losses expire in 10 years.

Due to uncertainty regarding utilisation of tax losses, the Company does not recognise deferred tax assets nor tax effects in the Income Statement.

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33. Contingent liabilities

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. Reference is made to note 4 for further information.

34. Uncertainties and valuation methods

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 action. The value of those assets is based on judgement regarding factors as appropriate. Considerable judgement has been applied in recognising and determining the value of those assets. Changes in the underlying assumptions used in the measurement technique 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. 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.

Asset impairment methods for loans to customers		% of amortised cost	
		31.12.2014	31.12.2013
Category 1 Cash flow based	Performing loans impaired for foreseeable losses due to operational risks, refinancing risks, contingent liabilities et al.	14.8%	12.1%
Category 2 Collateral value	In cases where expected operational cash flow is currently deemed to be insufficient to service contractual repayments and interest payments, but the Company has guarantees or collateral over other assets to compensate in part or whole for any potential shortfall, the valuation of such collateral is used as the basis for determining the impairment adjustment. Adjustments are made, as applicable, to consider general and specific market developments since the last third party valuation or other factors which can affect enforcement and monetisation of the guarantees or collateral. This includes among other things CAPEX and working capital needs to sustain operations, ability to control and influence restructuring and exit timing, costs of the expected monetisation, taxes, enforcement, legal risk and litigation.	43.6%	42.3%
Category 3 Comparables	In cases where expected operational cash flow is currently deemed to be insufficient to service contractual repayments and interest payments, and the compensation for potential shortfall is not appropriately determined by the collateral position, the impaired value of any such loans reflects the application of a relevant key financial driver. The key financial driver is then compared to the relevant multiples which are derived from a sample of comparable companies (EV to EBITDA, price to book value of equity, price to earnings etc.). Adjustments are made to consider costs of the expected exit route, taxes, litigation, ability to control and influence exit timing, CAPEX and working capital needs to sustain operations, market depth relative to the size, sector or geographical markets of the stakeholding.	41.5%	45.5%
Category 4 Other	In cases where expected operational cash flow is currently deemed to be insufficient to service contractual payments and the compensation for potential shortfall is not covered by collateral nor category 3 asset impairment method, then other factors such as recourse against third parties, expected partial payments from the borrower are taken into account and used as basis for the impairment adjustment.	0.1%	0.1%

Financial Statements of Kaupthing hf. 2014 24 Amounts are in ISK millions

Asset valuation methods for bonds and debt instruments

		% of fair value	
		31.12.2014	31.12.2013
Category 1 Market prices	In cases where the debt instrument has an observable market price, that price is used as the basis of valuation after taking into account market depth relative to the size of stake and cost of sale.	20.7%	44.6%
Category 2 Cash flows	In cases where there is not an observable market price for the debt instrument, but future cash flows and/or other market observable input can be estimated from available information, certain valuation techniques are used to derive the appropriate yield to discount expected future cash flows.	25.0%	28.1%
Category 3 Underlying assets	In cases where there is not an observable market price for the debt instrument and future cash flow is highly uncertain due to the distressed nature of the underlying assets and/or lack of available information, the valuation approach is centred on assessing a debt recovery under certain underlying collateral assumptions.	54.3%	27.3%

Asset valuation methods for shares and instruments with variable income

		% of fair value	
		31.12.2014	31.12.2013
Category 1 Market prices	In cases where shares and instruments with variable income have an observable market price, that price is used as the basis of fair value after taking into account market depth relative to the size of stakeholding and costs of disposal.	3.8%	3.9%
Category 2 Underlying assets	In cases where shares and instruments with variable income do not have an observable market price and the company operates in the real estate sector or is a holding company, the valuation of any such shares and instruments with variable income reflects third party valuations of property portfolios less liability positions or other indication of perceived value. Adjustments are made to consider general and specific market developments since the last third party valuation, CAPEX and working capital needs to sustain operations, ability to control and influence exit timing, costs of the expected exit route, taxes, litigation etc.	26.4%	26.3%
Category 3 Comparables	In cases where shares and instruments with variable income do not have an observable market price and the company does not hold real estate portfolios, the valuation of any such shares and instruments with variable income reflects the application of a relevant key financial driver. The key financial driver is then compared to the relevant multiples which are derived from a sample of comparable companies (EV to EBITDA, price to book value of equity, price to earnings etc). Adjustments are made to consider costs of the expected exit route, taxes, litigation, ability to control and influence exit timing, CAPEX and working capital needs to sustain operations, market depth relative to the size, sector or geographical markets of the stakeholding.	69.7%	69.8%
Category 4 Other	In cases where there is not an observable market price and the company does not hold material assets in excess of its debt position and the application of a relevant multiple to the company's key financial drivers is not applicable (EV to EBITDA, price to book value of shares, price to earnings, etc.), then value is derived from other factors such as interest from third parties or other indication of perceived value or lack thereof.	0.1%	0.0%

35. Sensitivity analysis.

Sensitivity has been assessed by looking at assets held by the Company representing approximately 75% of total non-cash assets and which are primarily valued by either EV/EBITDA multiple, real estate value/market value or price to book value. A sensitivity analysis shows that:

(a) if EBITDA multiple changes by 1.0x EBITDA then the value of the portfolio being looked at changes by 5.4%.
(b) if real estate value / market value changes by 20% the value of the portfolio being looked at changes by 3.8%.
(c) if price to book value changes by 0.3x book value, then the value of the portfolio being looked at changes by 15.8%.

If all inputs as listed above would change at the same time then the value of the portfolio being looked at changes by 25.0%.

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