KAUPTHING

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

Kaupthing ehf. | Borgartún 26 | 105 Reykjavík | Iceland | Reg. no. 560882-0419

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ENDORSEMENT BY THE WINDING-UP COMMITTEE

Kaupthing ehf. (formerly Kaupthing hf., hereafter "Kaupthing" or the "Company") is a company domiciled in Reykjavik, Iceland.

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 8 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 administer 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.

In accordance with the Act on Financial undertakings and Act no. 21/1991 on Bankruptcy, etc. (the "Bankruptcy Act") the Winding-up Committee has been responsible for all of the Company's affairs, including directing its daily operations, managing the Company's assets, administering the claims process and safeguarding the Company's interests for the benefit of the Company's creditors.

On 8 June 2015, the Icelandic Government introduced a bill regarding a stability tax (the "Stability Tax"), (Ísl. Stöðugleikaskattur), to be levied on the estates of the Icelandic banks which are in winding-up proceedings (including the Company).

Furthermore, on 8 June 2015, the Ministry of Finance and Economic Affairs announced the terms of a proposal submitted by representatives of certain of the larger creditors of the Company, setting out certain measures on a voluntary basis designed to neutralise the balance of payments risks posed by the ISK denominated assets in the Company's estate (the "Kaupthing Creditors Proposal"). The Kaupthing Creditors Proposal was made as a basis for the Company to proceed with a composition so as not to be considered to be a taxable entity for the purposes of the Stability Tax. Kaupthing's Winding-up Committee did not participate in those discussions. The Kaupthing Creditors Proposal involved the Company making certain payments to the CBI and entering into certain other arrangements for the benefit of the CBI (the "Stability Contribution"). The steering committee of the Icelandic Task Force on the Liberalisation of Capital Controls (the "Steering Committe"), established by the Ministry of Finance and the CBI in 2014 confirmed that the Kaupthing Creditors Proposal was consistent with the framework endorsed by the Steering Committee and recommended to the CBI the issuance of an exemption from the Foreign Exchange Act, based on the Kaupthing Creditors Proposal. The Act on Stability Tax came into force on 16 July 2015.

With reference to the above, the Winding-up Committee on behalf of the Company, submitted on 4 September 2015 an exemption application (the "September 2015 Exemption Application") to the CBI based upon the Kaupthing Creditors Proposal. The Company received a response from the CBI with respect to the September 2015 Exemptions Request on 23 September 2015. Following further consideration, and having consulted with the ICC, the Company submitted a revised request for exemptions to the CBI on 21 October 2015, which replaced the September 2015 Exemptions Request (the "October 2015 Exemptions Request"). On a creditors meeting on 13 November 2015 the creditors of the Company approved and authorised the Winding-up Committee to make a stability contribution as set out in October 2015 Exemptions Request (the "Stability Contribution"). Reference is made to note 27 for further information on the Stability Contribution.

On 23 October 2015 the Company gave notice to its creditors of the launch of its composition proposal (the "Composition Proposal"). The Composition Proposal was approved on 24 November 2015 by the creditors of the Company on a composition voting meeting and became the composition agreement of the Company (the "Composition Agreement"). On 15 December 2015 the District Court of Reykjavik confirmed the Composition Agreement and on 23 December 2015 the Composition Agreement became final and binding under Icelandic law (the "Effective Date") and the winding-up proceedings were ended. In accordance with the terms of the Composition Agreement the Winding-up Committee changed the company form from a public limited liability company ("hf") to a private limited liability company ("ehf"). This change took effect on 7 January 2016.

The Company has been operating in accordance with the provisions of the Act on Financial Undertakings which sets out the legal framework for the winding-up proceedings. These provisions are supplemented by the general provisions of the Bankruptcy Act. Following the Effective Date, the Company continues to be managed by the Winding-up Committee which continues to have the governing authority and powers of the Board of Directors and all powers of the Shareholders at Shareholders' meetings in accordance with paragraph 3 of Article 103a of the Financial Undertakings Act until a Shareholders' meeting has been convened at which a new board of directors is appointed. Such meeting of shareholders is currently envisaged to take place on 16 March 2016.

ENDORSEMENT BY THE WINDING-UP COMMITTEE

On 15 January 2016, after having made the payment of the Stability Contribution to the CBI, the Company was granted the final exemption by the CBI from the Foreign Exchange Act. Subsequently on 15 January 2016, the Company began making distributions of entitlements pursuant to the terms of the Composition Agreement. Reference is made to note 28 for further information.

Operations in 2015

In 2015, 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. Given the complexity of many of the Company's assets, bespoke solutions for each asset may have to be developed.

Kaupthing's most significant disposition of assets during the year was the successful listing of the European juice and soft drink producer Refresco Gerber which was at year end 2014 one of Kaupthing's largest assets. Kaupthing's indirect stake prior to the offering was 13,35% and became 7,33% post offering. A further disposition was made before year end resulting in Kaupthing holding 5,61% in Refresco Gerber. Kaupthing furthermore disposed of its interest in the UK based restaurant chain La Tasca.

During the year Kaupthing also sold the majority of its shares in the publicly listed Finnish investment company Norvestia at EUR 10.09 per share net of transaction costs .

The determination of claims against the Company likewise continued.

In late November 2014, proceedings were commenced before the High Court of Justice in London against the Company and a member of the Winding-up Committee by the trustees of the Tchenguiz Family Trust and other plaintiffs for damages of an unquantified amount. The English Court ruled in July 2015 that the Court does not have jurisdiction to hear the dispute in regard to the Company but that it does have jurisdiction to hear the dispute in regard to the member of the Winding-up Committee. The Tchenguiz Family Trust and the other plaintiffs have appealed the jurisdiction decision in regard to the Company. It is the firm position of the Winding-up Committee that the allegations made have absolutely no basis in fact or in law. Reference is made to note 37 in the financial statements.

In August 2015, proceedings were commenced before the High Court of Justice in London against the Company and a member of the Winding-up Committee by the trustees of the Tchenguiz Discretionary Trust and other plaintiffs for damages of an unquantified amount. The English Court ruled in November 2015 that the Court does not have jurisdiction to hear the dispute in regard to the Company. The Tchenguiz Discretionary Trust and the other plaintiffs have appealed the jurisdiction decision. It is the firm position of the Winding-up Committee that the allegations made have absolutely no basis in fact or in law. Reference is made to note 37 in the financial statements.

As at 31 December 2015 the Company's total assets amounted to ISK 816 billion (31.12.2014: ISK 800 billion) and total liabilities amounted to ISK 816 billion (outstanding claims 31.12.2014: ISK 2,826 billion). The profit for the year ended 31 December 2015 amounts to ISK 2.037 billion (31.12.2014: ISK 74 billion).

General

During the winding-up proceedings the Company's risk management options have been 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.

Following the Effective Date the Composition Agreement became binding upon creditors with respect to their composition claims. Subsequently the liabilities of the Company were adjusted pursuant to the terms of the Composition Agreement. It should however be noted that definitive amount of the Company's liabilities can't be determined in a final manner until all disputed claims have been finally resolved. Reference is made to note 26 in the financial statements.

ENDORSEMENT BY THE WINDING-UP COMMITTEE

Statement by the Winding-up Committee

The financial statements of Kaupthing ehf. for the year ended 31 December 2015 have been prepared in accordance with the Icelandic Act on Annual Accounts No. 3/2006.

In our opinion, the financial statements and the endorsement by the Winding-up Committee give a true and fair view of the development and performance of the Company's operations and cash flows during the year ended 31 December 2015 and its financial position as at 31 December 2015 and describe the principal risks and uncertainties faced by the Company.

The Winding-up Committee has today discussed the financial statements of Kaupthing ehf. for the year ended 31 December 2015 and confirms them by means of their signatures.

Reykjavik, 24 February 2016,

Winding-up Committee:

Feldis L. Oskarsdottir

Johannes R. Johannsson

Theodor S. Sigurbergsson

INDEPENDENT AUDITOR'S REPORT

To the Winding-up Committee of Kaupthing ehf.

We have audited the accompanying financial statements of Kaupthing ehf., which comprise the Balance Sheet as at 31 December 2015, 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 ehf. as at 31 December 2015, of its financial performance and cash flows for the year ended 31 December 2015 in accordance with the Icelandic Act on Annual Accounts.

Emphasis of matter

Without qualifying our opinion, we draw attention to notes 2d, 5 and 6 to the financial statements which describe that there is significant judgment applied in estimating the carrying value of the assets. Actual amounts realised in the future might be materially different from the amounts on the balance sheet. Furthermore, we draw attention to notes 26, 27 and 28 that describe that the company entered into a composition in 2015 and obtained CBI exemption in January 2016 enabling it to fulfill the settlement of the composition and related agreements. The settlements in 2016 have significant balance sheet impact as outlined in note 28.

Reykjavik, 25 February 2016

Ernst & Young ehf.

Margrét Pétursdóttir, Partner

INCOME STATEMENT

for the year ended 31 December 2015

	Notes	2015	2014
Interest income	8	6,030	7,291
Net reversal of impairment	9	17,335	7,600
Net financial income	10	57,875	45,563
Net foreign exchange rate loss		(35,177)	(5,095)
Changes in claims registry	11	15,332	41,610
Increase in late filed priority claims in dispute	31	-	(2,802)
Operating income		**61,395**	**94,167**
Salaries and related expenses	13	(1,329)	(1,233)
General and administrative expenses	13	(10,581)	(3,766)
Operating expenses		**(11,910)**	**(4,999)**
Stability contribution	27	(135,826)	-
Adjustment of claims pursuant to the terms of the Composition Agreement	12,26	2,123,596	-
		1,987,770	
Profit before taxes		**2,037,255**	**89,168**
Taxes	14	3	(14,680)
Profit for the year		**2,037,258**	**74,488**

Financial Statements of Kaupthing ehf. 2015 7 Amounts are in ISK millions

BALANCE SHEET
as at 31 December 2015

	Notes	31.12.2015	31.12.2014
Assets			
Cash at bank	15,28	410,228	401,667
Claims against credit institutions	16,28	13,399	8,629
Loans to customers	17-20,28	89,966	98,365
Bonds and debt instruments	21,28	6,363	6,211
Shares and instruments with variable income	22-23,28	271,865	257,047
Unsettled derivative receivables	24,28	5	12,940
Other assets	25,28	24,126	14,903
Total assets		**815,952**	**799,762**
Liabilities			
Claims	26	-	2,825,610
Composition liabilities	26,28	676,379	-
Stability contribution	27-28	135,826	-
Tax liabilities	29	-	10,136
Other liabilities		3,747	1,274
Total liabilities		**815,952**	**2,837,020**
Equity			
Share capital		7,270	7,270
Share premium		136,471	136,471
Accumulated deficit		(143,741)	(2,180,999)
Total equity	30	**-**	**(2,037,258)**
Total liabilities and equity		**815,952**	**799,762**
Other information	31-38		

Financial Statements of Kaupthing ehf. 2015 8 Amounts are in ISK millions

STATEMENT OF CASH FLOWS
for the year ended 31 December 2015

	Notes	2015	2014
Cash flows from assets			
Interest received		4,163	4,820
Dividend received		20,317	1,289
Claims against credit institutions - principal payments		4,819	916
Indemnification fund	16	(10,016)	-
Loans to customers - principal payments		10,883	10,663
Loans to customers - fee income		510	134
Loans to customers - principal outflow / RCF		(3,807)	(5,257)
Bonds and debt instruments - principal payments		2,052	1,434
Shares and instruments with variable income - purchase of equity stakes		(2,972)	(1,405)
Shares and instruments with variable income - realisation of equity stakes		12,316	62
Unsettled derivative receivables - net cash inflow		14,010	1,316
Other assets - net cash inflow		534	39
Other inflow		573	88
Net cash from assets		**53,382**	**14,099**
Cash flows to other operating activities			
Other fee income		142	123
Operating expenses		(10,023)	(4,895)
Paid taxes		(9,982)	(14,478)
Net cash to other operating activities		**(19,863)**	**(19,250)**
Cash flows to claims			
Payment of claims Art. 112		-	(1,250)
Custody account - claims Art. 112 in dispute		-	562
Custody account - late filed claims Art. 109 and 110 in dispute - net cash outflow		-	(2,802)
Net cash to claims		**-**	**(3,490)**
Net cash from (to) operating activities		33,519	(8,641)
Effects of foreign exchange rate adjustments on cash at bank		(24,958)	(8,258)
Cash at bank at the beginning of the year		401,667	418,566
Cash at bank at the end of the year	15	**410,228**	**401,667**

Significant non cash transactions

Set-off settlements and nettings where assets and outstanding claims were offset or netted during the year amount to ISK 10.4 billion (2014: ISK 20.4 billion). Paid in kind (PIK) interest earned during the year amount to ISK 1.5 billion (2014: ISK 1.4 billion). Shares/bonds received as a payment of debts amounted to ISK 98 million (2014: ISK 166 million).

Interest and dividend received are presented net of withholding tax. Withholding tax amounted to 3.1 billion for the year 2015, and is included in other assets in the balance sheet.

Remaining balance from sale of assets ISK 2.6 billion is a non cash transaction in 2015. The payment was received in January 2016.

Significant non cash transactions also include adjustments of claims pursuant to the terms of the Composition Agreement and the Stability Contribution. Reference is made to notes 26-28.

Financial Statements of Kaupthing ehf. 2015 9 Amounts are in ISK millions

NOTES

General information

1. Reporting entity

Kaupthing ehf. ("Kaupthing" or the "Company") is a company domiciled in Iceland. The Company's registered office is at Borgartún 26, 105 Reykjavík.

The Company was in winding-up proceedings in accordance with Act on Financial Undertakings, which were concluded on 23 December 2015 following a final confirmation of the Company's Composition Agreement. In accordance with the Act on Financial Undertakings the Winding-up Committee continues to have the authority of the board of directors and the power of the shareholders at a shareholders meeting following the conclusion of the winding-up proceedings until a shareholders meeting has been convened and a new board has been elected which will operate the Company in accordance with the objectives laid out in the Company's new Articles of Association. The shareholder meeting is scheduled to take place on 16 March 2016.

In accordance with the terms of the Composition Agreement the Winding-up Committee changed the company form from a public limited liability company ("hf") to a private limited liability company ("ehf"). This change took effect on 7 January 2016.

During the winding-up proceedings the Winding-up Committee's principal objectives was to ensure the proper handling of claims against the Company and maximise 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 another accounting policy 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 84 billion (31.12.2014: ISK 86 billion) while the equity value is ISK 94 billion (31.12.2014: ISK 99 billion).

The financial statements were approved and authorised for issue by the Winding-up Committee on 24 February 2016.

b) Going concern

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, economic, regulatory and/or legal, could affect the time scale, ability and process for such realisations.

Pursuant to the Composition Agreement the Company has issued the GBP 3,155,503,827 convertible notes due 2031 (the "GBP Convertible Notes"). The terms of the GBP Convertible Notes include amongst others that payments shall be made quarterly on the basis of a sweep of available cash after taking into account other liabilities of the Company. Furthermore the GBP Convertible Notes are convertible into equity at the option of the Company prior to their final maturity date. The repayment terms of the GBP Convertible Notes therefore ensure that such liability does not impact the Company being a going concern. Further reference is made to note 26 on the adjustment of the GBP Convertible Notes.

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:

- Bonds 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. Reasonable prudence is exercised in the valuation of individual assets and foreseeable losses are taken into account. Actual results may differ materially from these estimates and assumptions made.

NOTES

Basis of preparation, continued

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 5 and 6 for further information on uncertainties and impairment/ valuation methods.

Although the majority of all claim disputes (98.1% by value) have been resolved it should be noted that the definitive amount of the Company's liabilities can't be determined in a final manner until all disputed claims have been resolved. Reference is made to note 26 for further information on disputed claims and the effect of the Composition Agreement on the Company's liabilities.

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.

As at the end of 2015, all known disputed set-off had been resolved.

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 asset impairment methods outlined in note 5. 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.

Claims against credit institutions
Claims against credit institutions are measured at amortised cost.

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 2015, less estimated selling cost.

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 5. 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.

Other assets
Other assets are measured at amortised cost.

Composition liabilities
Composition liabilities means the payment obligations of the Company pursuant to the terms of the Composition Agreement as outlined in note 26.

Significant accounting policies, continued

Stability contribution

The Company has realised the Stability Contribution in the Income Statement and included it as a liability in the Balance Sheet in accordance with the terms of the Stability Contribution as laid out in the Company's request dated 21 October 2015 for certain exemptions from the Act on Currency Control no. 87/1992 to the CBI and subsequent agreements entered into between the Company and the CBI in relation to the Stability Contribution. Reference is made to note 27 regarding the Stability Contribution.

Late filed claims

Late filed claims refer 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

During the winding-up proceedings the Winding-up Committee held, in accordance with the Act on Financial Undertakings, 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 applied to the Winding-up Committee, its tasks and the members of the Committee. As such the Winding-up Committee has been responsible for both policy making and daily operations. The Company does not have a chief risk officer 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.

Once a new board has replaced the Winding-up Committee it may set its own risk management framework.

Cash management

The Company has significant cash assets due to the monetisation or maturity of assets since October 2008. Cash management possibilities were limited during the winding-up proceedings 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, were severely limited during the winding-up proceedings.

Non-cash assets

During the winding-up proceedings, the Foreign Exchange Act has been 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. The Company's risk management possibilities are limited as the Company's legal status during the winding-up proceedings does not allow for executing hedging of its exposures, whether it is FX, market, interest rate or any other 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 5-6 for further information on the valuation methods used and sensitivity analysis.

The 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.

NOTES

Risk management, continued

The following table shows a break-down of the Company's certain non-cash assets by the type of holdings.

	31.12.2015					
Asset class	Amount	Controlling equity interest and debt*	Controlling equity interest only	Debt only	Minority equity interest and debt	Minority equity interest only
Operating loan portfolio	62,772	71%	0%	2%	27%	0%
NOA loan portfolio	27,194	21%	0%	79%	0%	0%
Bonds and debt instruments	6,363	14%	0%	64%	22%	0%
Shares and instruments with variable income	271,865	86%	5%	0%	0%	9%
Total	100%	77%	4%	7%	5%	7%
Total value	368,194	284,671	13,598	26,698	18,667	24,560

	31.12.2014					
Asset class	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 value	361,623	258,118	21,714	31,306	19,920	30,565

* 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.

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.

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 Company also considers concentration risk a significant risk factor as the Company's loans to customers' portfolio and shares and instruments with variable income is highly concentrated in terms of number of counterparties 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 17-21 for a break-down of the Company's portfolio.

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Risk management, continued

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, real estate yields, interest rates and prices of foreign currency.

The Company is also exposed to the direct market risks of its subsidiaries and equity holdings as well as the indirect market risks of non-performing borrowers which operate in various industries including fashion retail, childcare, real estate, financial services, manufacturing et al as well as across different geographies including the UK, Europe and North America.

Market risk is considerable but the Company's means to mitigate this risk are severely limited. During the winding-up proceedings, the Company has not managed the currency composition of its assets actively and reports the FX composition in notes 33-34. Creditors could, therefore account for the Company's currency position in their own FX risk management. Reference is made to notes 22-23 for a breakdown of the Company's shares and instruments with variable income and notes 18-19 for a breakdown of the Company's loans to customer by geography and industry segment.

Liquidity risk

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

During the winding-up proceedings the Company has not considered liquidity risk a material risk factor since its cash holdings far exceeded the contractual financial obligations in its day-to-day operations.

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.

During the winding-up proceedings the Company faced 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, operational 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 to convert cash in foreign currency to ISK to meet operating expenses, being unable to retain key staff and uncertainty of the future operations of the Company regarding payments to creditors under the GBP Convertible Note.

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.

The Company's assets are also exposed to the direct operational risks of its subsidiaries and equity holdings as well as the indirect operational risks of non-performing borrowers which operate in various industries including fashion retail, childcare, real estate, manufacturing et al. Key operational risks influencing the valuation of the Company's assets include real estate development construction risk, real estate leasing risk, foreign tax risk, legal uncertainty in relation to asset/collateral availability together with the lack of transparency of underlying operations.

Claims and litigation risk

The Company faces risk in respect of current and future litigation and the quantum of finally accepted claims. The Company considers risk associated with current late filed claims against the Company a risk factor. Current late filed claims are disputed, but if finally accepted, will lead to amounts, that are placed in custody accounts in the name of the Company, being paid out to the relevant creditors. The Company also faces risk with respect to litigation and claims not reflected on the claims registry. Reference is made to notes 26 and 37.

5. 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 and conservatism 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	
		31.12.2015	31.12.2014
Category 1 Cash flow based	Performing loans impaired for foreseeable losses due to operational risks, refinancing risks, contingent liabilities et al.	12.1%	14.8%
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.	52.5%	43.6%
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.	35.3%	41.5%
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%

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Asset valuation methods for bonds and debt instruments:		% of fair value 31.12.2015	% of fair value 31.12.2014
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.	13.3%	20.7%
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.	23.2%	25.0%
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.	63.5%	54.3%

Asset valuation methods for shares and instruments with variable income:

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.	6.8%	3.8%
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.	26.1%	26.4%
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.	67.1%	69.7%
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.	0.0%	0.1%

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6. Sensitivity analysis

Sensitivity has been assessed by looking at assets held by the Company representing approximately 77.2% 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 3.2%.
(b) if real estate value / market value changes by 20% the value of the portfolio being looked at changes by 3.9%.
(c) if price to book value changes by 0.3x book value, then the value of the portfolio being looked at changes by 17.0%.

If all inputs as listed above would change at the same time then the value of the portfolio being looked at changes by 24.2%.

There are other material assumptions and inputs in the determination of asset values whose reasonable alternative inputs could result in materially different outcomes. These assumptions are outlined in note 5 and include estimated construction costs and capex, expected disposal mechanisms, expected access to assets not under the Company's current control, foreseen and actual legal uncertainty, vacancy of owned properties, foreseen and actual foreign tax disputes, et.al. Due to commercial sensitivity, the sensitivity of these assumptions are not presented in these financial statements.

7. 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/loss for the year.

	Balance Sheet	
	31.12.2015	31.12.2014
AUD	94.71	104.32
CAD	93.75	110.06
CHF	129.93	128.32
DKK	18.93	20.72
EUR	141.28	154.28
GBP	191.84	198.65
JPY	1.08	1.06
NOK	14.70	17.03
SEK	15.41	16.29
USD	130.08	127.46

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Notes to the Income Statement

8. Interest income is specified as follows:

	2015	2014
Cash at bank	1,575	2,412
Loans to customers	4,063	4,328
Other	392	551
Interest income	6,030	7,291

9. Net reversal of impairment is specified as follows:

	2015	2014
Impairment reversal on claims against credit institutions	-	149
Impairment reversal on loans to customers	12,769	3,859
Impairment reversal on unsettled derivative receivables	11,669	10,285
Impairment reversal on other assets	4,886	2,045
Impairment reversal	29,324	16,338
Impairment loss on loans to customers	(11,681)	(8,641)
Impairment loss on unsettled derivative receivables	-	(69)
Impairment loss on other assets	(308)	(28)
Impairment loss	(11,989)	(8,738)
Net reversal of impairment	17,335	7,600

10. Net financial income is specified as follows:

	2015	2014
Dividend income	23,172	1,295
Net gain on bonds and debt instruments	2,166	1,166
Net gain on shares and instruments with variable income	31,612	42,801
Other financial income	925	301
Net financial income	57,875	45,563

11. Changes in claims registry is specified as follows:

	2015	2014
Outstanding claims liabilities at beginning of the year	2,825,610	2,879,287
Outstanding claims after set-off (refer to note 26)	2,799,939	2,825,610
Total change	25,671	53,677
Payment of claims - Art. 112	-	(506)
Set-off and amendments	(10,339)	(11,561)
Changes in claims registry	15,332	41,610

12. Adjustment of claims pursuant to the terms of the Composition Agreement is specified as follows:

	2015	2014
Adjustment of claims pursuant to the terms of the Composition Agreement (refer to note 26)	1,955,137	-
Adjustment of value of the GBP Convertible Notes relating to net asset value (refer to note 26)	168,459	-
Adjustment of claims pursuant to the terms of the Composition Agreement	2,123,596	-

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13. Operating expenses is specified as follows:

	2015	2014
Salaries	1,020	960
Salary related expenses	309	273
Salaries and related expenses	1,329	1,233
External advisors	10,044	3,066
Other expenses	537	700
General and administrative expenses	10,581	3,766

External advisory expenses are specified as follows:

Winding-up Committee	288	198
Professional service	3,945	1,599
Legal services	3,392	1,053
Non recoverable VAT	712	216
External advisors	8,337	3,066
Non recoverable VAT for the years 2009-2012	1,707	-
External advisors	10,044	3,066
Average number of employees	39	50

14. Taxes are specified as follow:

Surcharge on income tax	-	(4,542)
Bank tax estimated for current year	-	(10,136)
Bank tax, prior year adjustment	3	(2)
Total taxes in Income Statement	3	(14,680)

Reference is made to note 36 for further information.

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Notes to the Balance Sheet

Cash at bank

15. Cash at bank specified by geographical location:

	31.12.2015			31.12.2014		
	Iceland	Other	Total	Iceland	Other	Total
Non ISK	42,026	363,696	405,722	43,810	352,428	396,238
ISK	4,506	-	4,506	5,429	-	5,429
Cash at bank	46,532	363,696	410,228	49,239	352,428	401,667

Reference is made to note 28 regarding stability contribution and payments to creditors.

Claims against credit institutions

16. Claims against credit institutions specified by types of claims:

	31.12.2015		31.12.2014	
	Gross amount	Amortised cost	Gross amount	Amortised cost
Restricted bank accounts	3,090	3,090	3,052	3,052
Indemnification fund*	9,924	9,924	-	-
Cash collateral held with banks against guarantees	385	385	5,287	5,287
Frozen/emptied bank accounts	-	-	304	304
Claims against credit institutions before set-off against counterclaims	13,399	13,399	8,643	8,643
Subject to set-off	-	-	(14)	(14)
Claims against credit institutions after set-off	13,399	13,399	8,629	8,629

* The Indemnification fund is as approved by the creditors of the Company on 30 September 2015. The indemnity covers various parties in relation to the winding-up proceedings and the composition and is held by third party trustee on behalf of the relevant indemnified parties.

Loans to customers

17. Loans to customers specified by portfolios:

	Gross amount	Amortised cost	Gross amount	Amortised cost
Operating loan portfolio	159,217	62,772	185,588	76,108
NOA loan portfolio	865,663	27,194	916,285	22,257
Loans to customers	1,024,880	89,966	1,101,873	98,365

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.

18. Loans to customers specified by sectors:

	Gross amount	Amortised cost	Gross amount	Amortised cost
Holding Company	670,023	26,224	719,284	21,090
Real Estate	62,870	20,145	77,910	21,201
Business and Industrial Products	39,090	19,755	45,307	24,265
Consumer Goods and Retail	35,134	11,983	33,145	19,366
Other Consumer Services	10,353	10,347	10,722	10,629
Individuals	116,024	170	120,990	157
Other	91,386	1,342	94,515	1,657
Loans to customers	1,024,880	89,966	1,101,873	98,365

Amounts are in ISK millions

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

	31.12.2015	31.12.2014
Holding Company/UK**	23%	20%
Consumer Goods and Retail/UK**	13%	20%
Business and Industrial Products/Scandinavia*	12%	10%
Other Consumer Services/UK**	12%	10%
Real Estate/Other	10%	11%
Real Estate/Scandinavia*	9%	8%
Business and Industrial Products/Scandinavia*	7%	8%
Holding Company/UK**	6%	0%
Business and Industrial Products/Scandinavia*	3%	3%
Real Estate/Scandinavia*	2%	1%
Ten largest loans of total loans to customers	97%	91%

* 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.

20. Loans to customers - portfolios specified by performance:

	31.12.2015					
	Operating loan portfolio		NOA loan portfolio		Total	
	Gross amount	Amortised cost	Gross amount	Amortised cost	Gross amount	Amortised cost
Performing loans	57.5%	82.2%	0.0%	0.6%	9.0%	57.5%
Loans on view list	0.6%	0.7%	0.0%	0.0%	0.1%	0.5%
Loans on watch list	41.9%	17.1%	100.0%	99.4%	90.9%	42.0%
	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.

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

21. Bonds and debt instruments specified by sectors:

	31.12.2015	31.12.2014
Holding Companies	4,500	3,803
Financial Services	1,013	973
Governments - listed	438	857
Energy and Environment	412	578
Bonds and debt instruments	6,363	6,211

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Shares and instruments with variable income

22. Shares and instruments with variable income are specified as follows:

	31.12.2015	31.12.2014
Listed	5,216	12,352
Unlisted	266,649	244,695
Shares and instruments with variable income	271,865	257,047

23. Shares and instruments with variable income specified by sectors:

	31.12.2015	31.12.2014
Financial Services *	177,705	158,998
Real Estate	61,390	57,642
Holding Company	12,583	14,063
Consumer Goods and Retail	10,503	16,320
Consumer Services: Other	4,857	4,926
Life Sciences	4,363	3,199
Energy and Environment	105	1,118
Other	359	781
Shares and instruments with variable income	271,865	257,047

* As at 31 December the Company indirectly owns 87.0% of the equity in Arion Bank through its intermediate holding company Kaupskil. Kaupskil's ownership in Arion Bank is accounted for at fair value, ISK 167.7 billion (31.12.2014: ISK 139.8 billion), where the fair value of each share held in Arion Bank corresponds to its book value.

Unsettled derivative receivables

24. Unsettled derivative receivables specified by counterparties:

	31.12.2015		31.12.2014	
	Gross amount	Amortised cost	Gross amount	Amortised cost
ISDA counterparties				
Unsettled derivative receivables, before set-off against counterclaims	-	-	13,211	13,211
Subject to set-off	-	-	(414)	(414)
Unsettled derivative receivables, after set-off	-	-	12,797	12,797
Non-ISDA counterparties				
Unsettled derivative receivables, before set-off against counterclaims	1,180	41	3,255	143
Subject to set-off	(36)	(36)	-	-
Unsettled derivative receivables, after set-off	1,144	5	3,255	143
NOA counterparties*				
Unsettled derivative receivables	30,857	-	31,952	-
Unsettled derivative receivables before set-off	32,037	41	48,418	13,354
Unsettled derivative receivables after set-off	32,001	5	48,004	12,940

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

Other assets

25. Other assets specified by type:

	31.12.2015		31.12.2014	
	Gross amount	Amortised cost	Gross amount	Amortised cost
Accounts receivable	28,682	3,531	31,663	3,597
Claims on bankrupt entities	114,529	14,947	103,377	10,280
Sundry assets	5,648	5,648	3,722	1,026
Other assets	148,859	24,126	138,762	14,903

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Liabilities

26. Composition liabilities and claims

During the winding-up proceedings the liabilities of the Company were determined through a formal claims filing process which was administered by the Winding-up Committee. Although the majority of all claim disputes (98.1% by value) have been resolved it should be noted that the definitive amount of the Company's liabilities cannot be finally determined until all disputed claims have been resolved.

Outstanding claims are specified as follows:	31.12.2015	31.12.2014
General claims - Art. 113 finally accepted by the Winding-up Committee	2,746,444	2,786,274
General claims - Art. 113 accepted by the Winding-up Committee in set-off dispute	-	13,897
Rejected disputed claims - Art. 113	53,531	66,367
Own bonds under US MTN 144a programme	-	(40,474)
Outstanding claims	2,799,975	2,826,064
Payments to custody account due to rejected disputed priority claims	(36)	(454)
Total claims in Balance Sheet	2,799,939	2,825,610

On 23 October 2015 the Company gave notice to its creditors of the launch of its composition proposal (the "Composition Proposal"). The Composition Proposal was approved on 24 November 2015 by the creditors of the Company at a composition voting meeting and thus became the Composition Agreement of the Company. On 15 December 2015 the District Court of Reykjavik confirmed the Composition Agreement and on 23 December 2015 the Composition Agreement became final and binding under Icelandic law (the "Effective Date").

Following the occurrence of the Effective Date the Composition Agreement became binding upon the creditors of the Company with respect to their composition claims. Consequently all liabilities relating to composition claims were adjusted pursuant to the Composition Agreement cf. paragraphs 1-3 of Art. 60 of the Bankruptcy Act. Furthermore when a Composition Agreement becomes binding it results in that all subordinated debt is cancelled cf. paragraph 3 of article 28. Subordinated debt is thus not included in the table above.

	31.12.2015
Outstanding claims	2,799,975
Adjustment of claims pursuant to the terms of the Composition Agreement	(1,955,137)
Composition liabilities*	844,838
De Minimis Cash Payment (DMCP)	12,633
Composition Cash Payment	230,244
GBP Convertible Notes	588,091
Equity	13,870
Composition liabilities*	844,838
Adjustment of value of the GBP Convertible Notes relating to net asset value	(168,459)
Composition liabilities (after adjustment*)	676,379

The GBP Convertible Notes have a final maturity on 2031, are non interest bearing, unsecured, convertible into equity in certain circumstances and contain certain restrictions on dealing with the Company's assets. In accordance with Icelandic law it is allowed when exiting winding-up proceedings to offer payments under composition which have uncertain recoveries. The Composition Agreement of the Company has such a clause. Pursuant to their terms the payments under the GBP Convertible Notes could not (except in a case of an accellaration following an event of default thereunder) exceed the realisation value of the underlying assets of the Company. This is reflected by adjusting the stated value of the GBP Convertible Notes in line with net asset value. Increase in net asset value can later lead to an increase in the stated value of the GBP Convertible Notes. Such increase can never lead to a higher stated value than the nominal amount outstanding at each time.

* It should be noted that Composition liabilities reflect liabilities pursuant to the Composition Agreement. This amount might increase, pending certain litigation cases which the Company has initiated, and the Company's Articles of Association and the GBP Convertible Notes i.a. take that into account.

* Composition liabilities include ISK 16.062 million for disputed claims which are still to be finally determined. Pursuant to the terms of the Composition Agreement and in accordance with Icelandic law, the DMCP, Composition cash payments and GBP Convertible Notes with respect to disputed unsecured claims, have been placed into a custody account in the name of the Company until such time that the disputes are resolved. If such disputes are resolved in favor of the Company the relevant cash will be returned to the Company and the relevant outstanding GBP Convertible Notes will be cancelled. Similarly the Articles of Association of the Company provide for the right and obligation to issue shares if disputes are resolved in favor of such creditors.

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27. Stability Contribution

On 21 October 2015 the Company submitted to the CBI a revised request (the "October 2015 Exemption Request") for certain exemptions from the Act on Foreign Exchange, which replaced an earlier exemption request filed by the Company in September 2015. In the October 2015 Exemption Request the Company agreed that, subject to the occurrence of the Effective Date and the CBI granting the exemptions set out in the October 2015 Exemption Request, it would make certain payments to the CBI and enter into certain other arrangements for the benefit of the CBI (the "Stability Contribution").

The Stability Contribution contemplated by the October 2015 Exemptions Request comprises:

(i) the issuance and delivery to the CBI of an ISK denominated secured promissory note in a principal amount of ISK 84 billion, bearing 5,5% interest per annum with a 3 years maturity (the "Secured Note"),

(ii) the assignment to the CBI (or such entity as the CBI may designate) of certain claims against Glitnir hf. and other specified domestic Icelandic counterparties (the "Transferred Assets"),

(iii) the transfer to the CBI (or such entity as the CBI may designate) of any amounts in ISK recovered by the Company in respect of certain specified claims ("Proceeds of Certain Claims"),

(iv) transfer to the CBI (or such other party as the CBI may designate) of cash held by the Company in ISK on pre-agreed dates (net of certain agreed hold-backs) (the "ISK Cash Sweep"),

(v) the long term refinancing of Arion Bank, by purchasing notes issued by Arion Bank through its EMTN bond program with a seven year maturity for a total amount of USD 747.481.000 (c.a. ISK 97 billion), such amount being set-off against a loan which the Company bought from the CBI and the Company's FX deposits at Arion Bank (the "Refinancing"), and

(vi) entering into a profit sharing agreement with the CBI, whereby the Company undertakes to share with the CBI (or such other party as the CBI may designate), any realised economic return received by the Company in cash on its indirect 87.0% stake in Arion bank on a total return basis in excess of ISK 100 billion as follows:

- the portion which is more than ISK 100 billion but less than or equal to ISK 140 billion: 33¹/₃ : 66²/₃ (CBI : the Company);
- the portion which is more than ISK 140 billion but less than or equal to ISK 160 billion: 50 : 50 (CBI : the Company); and
- the portion which is more than ISK 160 billion: 75 : 25 (CBI : the Company).

(the "Arion Bank Profit Sharing Agreement")

At a creditors meeting on 13 November 2015 the creditors of the Company approved and authorised the Winding-up Committee to make the Stability Contribution and on 23 December 2015 the Effective date occurred. The Company completed the refinancing of Arion Bank on 11 January 2016 and the remaining Stability Contribution came into effect on 15 January 2016 when the Company was granted the relevant exemptions by the CBI.

The liabilities relating to the Stability Contribution are specified as follows:

The Secured Note	84,000
The Arion Bank Profit Sharing Agreement	28,483
Transferred Assets	18,025
Proceeds of Certain Claims	159
ISK Cash Sweep	5,159
Total Stability Contribution	135,826

The Secured Note and the Transferred Assets were delivered in January 2016 but other assets will be delivered as and when they are realised in ISK.

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28. Effect of the CBI exemption in 2016 enabling settlement of the Composition and related agreements

In January 2016, the CBI provided their approval of Kaupthing's exemption request to the Foreign Exchange Act which enabled Kaupthing to settle it's obligations established under the Composition Agreement & related Stability Contributions. The effect of the settlements effected in January 2016 are reflected in the table below and include:

Assets	Balance sheet 31.12.2015	Arion Bank Funding	Stability contribution	Composition Agreement	Total
Cash at bank	410,228	(97,235)	-	(242,877)	70,116
Claims against credit institutions	13,399	-	-	-	13,399
Loans to customers	89,966	-	(2)	-	89,964
Bonds and debt instruments	6,363	97,235	(3,167)	-	100,431
Shares and instruments with variable income	271,865	-	-	-	271,865
Unsettled derivative receivables	5	-	-	-	5
Other assets	24,126	-	(14,856)	-	9,270
Total assets	815,952	-	(18,025)	(242,877)	555,050
Liabilities					
Composition liabilities	676,379	-	-	(676,379)	-
Stability contribution	135,826	-	(102,025)	-	33,801
Secured note	-	-	84,000	-	84,000
GBP Convertible Notes	-	-	-	419,632	419,632
Other liabilities	3,747	-	-	-	3,747
Total liabilities	815,952	-	(18,025)	(256,747)	541,180
Equity					
Share capital*	7,270	-	-	6,600	13,870
Share premium	136,471	-	-	(136,471)	-
Accumulated deficit	(143,741)	-	-	143,741	-
Total equity	-	-	-	13,870	13,870
Total liabilities and equity	815,952	-	(18,025)	(242,877)	555,050

The Stability Contribution has been included as a liability in the Balance Sheet as the Company submitted the Composition Proposal on the basis of the Stability Contribution being made as a pre-requisite to receive the necessary exemptions from the Foreign Exchange Act. The Company was however unable to fulfill the terms of the Composition Agreement, including decreasing the share capital and issue new equity to relevant creditors, until January 2016 when the relevant agreements were entered into and became legally binding and the Company was granted the relevant exemptions from the CBI.

Some settlements related to these agreements, such as the Arion Bank Profit Sharing Agreement, ISK Cash Sweeps and for disputed claims, will be made in future financial periods and have already received exemption by the CBI.

* Pursuant to Art. 103a of the Act on Financial Undertakings a composition proposal may contain a clause that shares will be issued which may be set off against a part of a claim which has been accepted in the winding-up proceedings and as part of fulfilling a composition agreement. Furthermore, in the case where the total assets of a company are not sufficient to meet its liabilities it is allowed, in connection with such a share increase, to decrease the Company's share capital to zero without any further compensation to shareholders. This number reflects the maximum number of shares the Company is obliged to issue under the Composition Agreement with respect to accepted claims after decreasing the previous share capital to zero.

29. Tax liabilities

The law on Bank tax, act No.155/2010, 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 the end of the year.

Since the Company entered into a Composition Agreement as of 23 December 2015, the bank tax is no longer applicable in respect of the year ended 31 December 2015 (31.12.2014: ISK 10,136 million).

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Equity

30. Changes in equity is specified as follows:

	Share capital	Share premium	Accumulated deficit	Total
Changes in equity in 2015				
Equity as at 1 January 2015	7,270	136,471	(2,180,999)	(2,037,258)
Profit for the year	-	-	2,037,258	2,037,258
Equity as at 31 December 2015	7,270	136,471	(143,741)	-
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)

Off Balance Sheet information

31. Late filed priority claims in dispute

	31.12.2015	31.12.2014
Late filed priority claims in dispute and related custody accounts at the beginning of the year	19,218	15,307
New late filed priority claims under Art. 109/110 during the year	27	2,802
Withdrawal of late filed priority claims under Art. 109/110 during the year	(27)	-
Foreign exchange rate difference	114	1,109
Total late filed priority claims under Art. 109/110 in dispute at the end of the year	19,332	19,218
Cash placed on custody accounts at the end of the year	(19,332)	(19,218)
Total	-	-

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

These claims continue to be in dispute.

32. Obligations

	31.12.2015	31.12.2014
Undrawn RCF	3,837	3,462
Undrawn funding obligation*	5,355	6,867
Arion Bank contingent support**	6,900	6,900
Total obligations	16,092	17,229

* Calculated net funding obligation, which Kaupthing entered into in regards to JV Project Fitzroy.

** In accordance with the FME's conditions when Arion Bank was acquired by Kaupskil, Kaupthing undertook to maintain certain liquid funds which could be used to support Arion Bank if needed. This amount is currently ISK 6.9 billion.

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Other Information

33. Assets specified by ISK and FX assets:

31.12.2015	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	4,506	42,026	46,532	363,696	410,228
Claims against credit institutions	-	-	-	13,399	13,399
Loans to customers	159	50	209	89,757	89,966
Bonds and debt instruments	3,167	-	3,167	3,196	6,363
Shares and instruments with variable income	171,753	8,017	179,770	92,095	271,865
Unsettled derivative receivables	5	-	5	-	5
Other assets	3,596	14,350	17,946	6,180	24,126
Total assets	183,186	64,443	247,629	568,323	815,952
% of Total assets			29%	71%	

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
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%	

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.

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34. Assets specified by currencies:

31.12.2015	GBP	EUR	ISK	SEK	USD	NOK	Other	Total assets
Cash at bank	69,553	133,432	4,506	77,691	93,553	30,247	1,246	410,228
Claims against credit institutions	9,924	-	-	385	-	-	3,090	13,399
Loans to customers	50,162	17,314	159	10,560	10,866	-	905	89,966
Bonds and debt instruments	-	588	3,167	94	2,514	-	-	6,363
Shares and instruments with variable income	79,002	15,936	171,753	1,215	3,884	17	58	271,865
Unsettled derivative receivables	-	-	5	-	-	-	-	5
Other assets	2,613	14,498	3,596	3,319	4	-	96	24,126
Total assets	211,254	181,768	183,186	93,264	110,821	30,264	5,395	815,952
% of Total assets	25.89%	22.28%	22.45%	11.43%	13.58%	3.71%	0.66%	

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
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%	

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 at year end 2015.

35. 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.

2015	Income	Expenses	Assets	Liabilities
Subsidiaries and Arion Bank	3,569	215	355,855	119

2014	Income	Expenses	Assets	Liabilities
Subsidiaries and Arion Bank	3,724	326	335,437	337

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NOTES

36. Tax

The Company is, during the winding-up proceedings, subject to various taxes and levies. After the winding-up proceedings are finalised the Company should not be subject to the Surcharge on Income and Financial Activities Tax. Below is a summary of certain tax issues that may have an impact on the financial status of the Company.

Surcharge on Income ("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.

Kaupthing paid, with reservation, ISK 4.5 billion in November 2014 (for the year 2013) in respect of this taxation. Kaupthing's Winding-up Committee has disputed this taxation on the basis that Kaupthing is not a taxable entity and for the relevant period on the basis that tax losses could be used to offset against the surcharge until 2014. The dispute is currently in process before the Internal Revenue Board.

In accordance to temporary provision no. LVI., Section b., of the Income Tax Act no. 90/2003, income from debt forgiveness in relation to the winding up proceedings is not subject to the surcharge.

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

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 on the basis that the Company is not a taxable entity and the dispute is currently in process before the Internal Revenue Board.

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 1.8 billion in relation to VAT of contracted service from foreign service providers during the period from 1 January 2009 to 31 December 2015. In addition, Kaupthing paid (in August 2015) with reservation, ISK 1.0 billion for the years 2009-2012 and penalty interests of ISK 0.7 billion as a result of the tax authorities' review for these years. The paid amount is recognised in the Income Statement for the year 2015, see note 12. Kaupthing has appealed the tax authorities' conclusion and the dispute is currently in process before the Internal Revenue Board.

Income tax ("Tekjuskattur")

The Company is subject to a general corporate income tax at the rate of 20%. The Company has however sufficient tax losses carry forward to offset any taxable income for the year 2015.

Measured temporary differences between taxable values and book values in the Balance sheet are specified as follows:

	31.12.2015
Loans to customers	53,412
Bonds and debt instruments	1,865
Shares and instruments with variable income	(19,802)
Other	(8,223)
Composition liabilities	(168,460)
Stability contribution	135,826
FX distribution difference	22,926
Tax value in excess of book value	17,544

The Company has tax losses which arose in previous years for offset against future taxable profits.

Carry forward income tax losses specified by financial years:

Tax losses for the year 2012, carry forward to 2022	12,696
Tax losses for the year 2014, carry forward to 2024	13,889
Total carry forward income tax losses	26,585

The carry forward tax losses are based on the Company´s tax return for the year 2014 and an estimation of the tax base for the year 2015. 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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37. 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 did not have jurisdiction to hear the dispute. The English Court ruled in July 2015 that the Court did not have jurisdiction to hear the dispute in regard to the Company but that it does have jurisdiction to hear the dispute in regard to the Winding-up Committee member. The Tchenguiz Family Trust and the other plaintiffs have appealed the decision that the English Court does not have jurisdiction to hear the dispute in regard to the Company. It is the firm position of the Winding-up Committee that the allegations made have absolutely no basis in fact or in law. As the claim has not been filed with the Winding-up Committee in accordance with Art. 117 of the Bankruptcy Act, it is not recognised as a late filed priority claim in the winding-up proceedings.

In August 2015, proceedings were commenced before the High Court of Justice in London against the Company by the trustees of the Tchenguiz Discretionary 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. On the back of the aforementioned case in July 2015, which the Winding-up Committee and its advisors believe to be similar, 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 as against Kaupthing. The English Court ruled in November 2015 that the Court does not have jurisdiction to hear the dispute in regard to the Company. The Tchenguiz Discretionary Trust and the other plaintiffs have appealed the jurisdiction decision. 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 with the Winding-up Committee in accordance with Art. 117 of the Bankruptcy Act, it is not recognised as a late filed priority claim in the winding-up proceedings.

Other contingent liabilities related to assets:
Other contingent liabilities have been reflected in the respective asset book value.

38. Events after the Balance Sheet date

On 15 January 2016, after having made the payment of the Stability Contribution to the CBI, the Company was granted the final exemption by the CBI from the Foreign Exchange Act, cf. the October 2015 Exemption Request. Subsequently on 15 January 2016, the Company began making distributions of entitlements according to the Composition Agreement, to those eligible creditors who had properly completed and submitted valid entitlement letters before the relevant deadlines. Reference is made to Notes 26, 27 and 28 for further information.

As the Company has been granted the final exemption, its operations are no longer subject to some of the general restrictions imposed by the Foreign Exchange Act, such as the restrictions on cross-border transfers of foreign exchange, new lending between Kaupthing and foreign persons/entities and investments in securities denominated in foreign exchange. Following the Effective date and the receipt of the final exemptions from the Foreign Exchange Act the Company has better options to manage its risk, i.a. in respect of cash management and market risk subject to the terms of the GBP Convertible Notes.

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