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**KAUPTHING BANK HF**

**CREDITORS' REPORT**

- December 2010 -

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## Disclaimer

This report (including all subsequent amendments and additions) was prepared by the Resolution Committee for the creditors of Kaupthing Bank hf. ("Kaupthing", the "Bank") for information purposes only and is not intended for third party publication, distribution or release, in any manner. It should give creditors an overview of the background, the current situation and the potential steps going forward. The additions and amendments to this report since the previously published versions of this report are intended to give the creditors information on recent developments but are not necessarily and should not be regarded as an exhaustive list of all developments which creditors may consider material. In preparing and updating this report, the Bank has not taken account of the interest of any particular creditor or group of creditors.

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This report does not include an estimate of the likely level of recoveries for creditors. Very material uncertainties continue to exist regarding the timing and realisable value of assets and the eventual level of creditors' claims. The Resolution Committee wish to caution creditors against using the data in this report to estimate likely recovery as any such estimates are likely to be materially misleading. The actual realisable value of the Bank's assets and liabilities may differ materially from the values set forth herein. Factors which may lead to material differences include:

- (a) Resolution of issues regarding the quantum of claims
- (b) The realisation method(s) used over time
- (c) The impact of set off and netting including in connection with derivative contracts
- (d) Movements in currency exchange rates and interest rates
- (e) Prevailing market conditions

Nothing in this report should be relied upon by any person for any purposes including, without limitation, in connection with trading decisions relating to the Bank. The Bank, the Resolution Committee, the Winding-up Committee, nor the Moratorium Supervisor accepts any responsibility for any such reliance.

This report is published in English and Icelandic. In case of any discrepancies between the content of the English and Icelandic version the English language version takes precedence.

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## The Bank's Creditors' Report

During the moratorium and the winding-up proceedings the Bank's Creditors' Report will be compiled on a regular basis and will be available on the Bank's website, [www.kaupthing.com](http://www.kaupthing.com). It is for creditors and other interested parties to keep abreast of the main developments and achievements.

Major additions and amendments from previously published reports will be highlighted in blue text while all minor changes will be in black text. Text, which is not applicable anymore may be deleted without any notification to the readers of the report and can be found in older publications. Updates will continue to be published on the Bank's website to keep creditors informed of the latest progress of the Bank's operations. Further information on communications with creditors can be found in chapter 4.8 *Creditor relations*.

Readers' attention is drawn to the terms of the disclaimer concerning the content and the purpose of this report at the beginning and the end of the report.

## Abbreviations

The following abbreviations are used in this report:

FME	The Icelandic Financial Supervisory Authority
The ResCom	The Resolution Committee
ICC	Informal Creditors' Committee
The Bank, Kaupthing	Kaupthing Bank hf.
Arion Bank	Arion banki hf. (formerly New Kaupthing)
CBI	The Central Bank of Iceland
IMF	International Monetary Fund
The Disbursement Act	Act No. 125/2008 on the Authority for Treasury Disbursements due to Unusual Financial Market Circumstances etc.
The Transfer Decision	Decision of the FME on the disposal of assets and liabilities of Kaupthing Bank hf. to Arion Bank dated 21 October 2008
The Bankruptcy Act	Icelandic Act on Bankruptcy, etc., No. 21/1991
Act on Financial Undertakings	Act on Financial Undertakings, No. 161/2002, cf. Act No. 44/2009 and subsequent amendments.

# 1. The Bank

## 1.1 *The Resolution Committee - Appointment and approach*

On 9 October 2008, Kaupthing Bank's board of directors resigned on its own initiative due to the Bank's financial difficulties and a Resolution Committee (the "ResCom") was appointed for the Bank by the FME in accordance with Act no. 125/2008 on the Authority for Treasury Disbursements due to Unusual Financial Market Circumstances etc. (the "Disbursement Act") passed in reaction to the collapse of the banking system in Iceland. The ResCom immediately assumed control of the Bank and wields all the authority of the Bank's board of directors. The role and duties of the ResCom are laid down in the Act on Financial Undertakings, no. 161/2002, as amended by Act no. 44/2009 and subsequent amendments, (the "Act on Financial Undertakings"), also the Act no. 21/1991 on Bankruptcy etc. (the "Bankruptcy Act"). According to Act no. 44/2009 the ResCom is given power by law to represent the Bank in all matters, safeguard its interests and maximise asset value. The provisions of articles 102 and 103 of the Act on Financial Undertakings clearly state that the ResCom has a legal obligation to maximise the value of the Bank's assets and preserving the interests of the creditor body as a whole.

The ResCom was initially appointed by FME, which is an independent government entity, but the ResCom's independence has been enhanced with the enactment of Act no. 44/2009. The ResCom is comprised of two Supreme Court attorneys and two Certified Public Accountants, namely the following:

- Steinar Thor Gudgeirsson, Attorney to the Supreme Court of Iceland – Chairman
- Johannes Runar Johannsson, Attorney to the Supreme Court of Iceland
- Knutur Thorhallsson, Certified Public Accountant
- Theodor Sigurbergsson, Certified Public Accountant

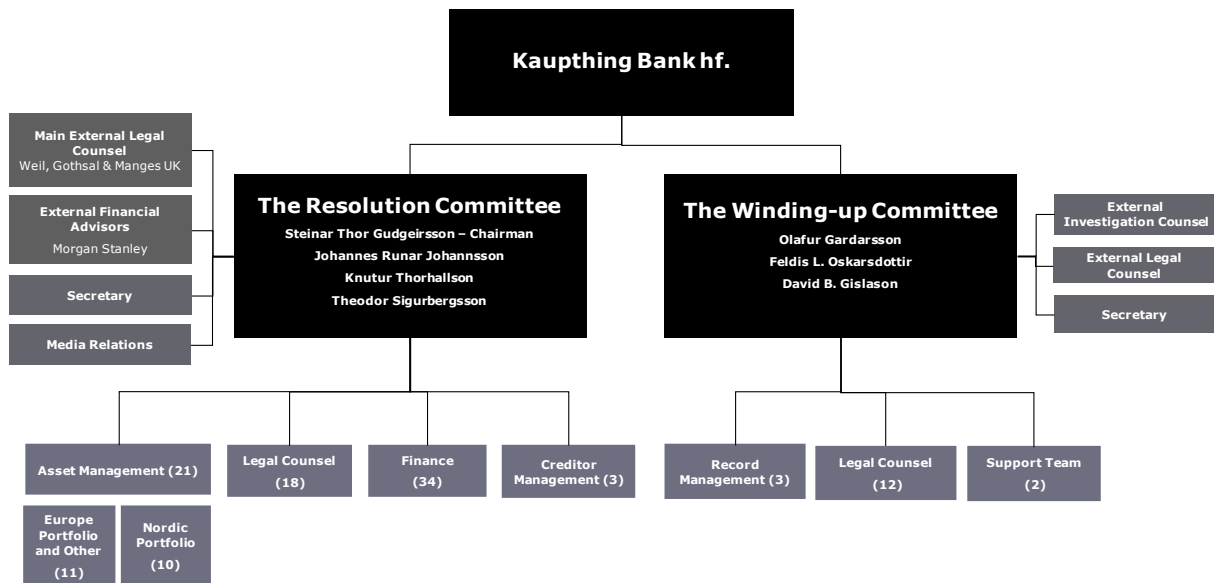
The ResCom handles the Bank's affairs, including directing its daily operations, ensuring assets are handled properly, concluding contracts and other legal instruments on its behalf, and safeguarding its interests to the utmost extent possible.

The ResCom's principal objective is to ensure proper handling of, and maximise the value of the Bank's assets to the benefit of its creditors and to return value to creditors as timely as possible.

In order to maximise the value of the Bank's assets, the Bank focuses on the following processes:

- Restructuring of non-performing assets (loans, upside participation and taking equity positions) which was largely completed in 2009
- Monetisation of current asset pool through
  - Run-down over time
  - Collection of assets
  - Disposal of certain assets
  - Continuous monitoring of assets regarding optimal timing for exit and performance
- If beneficial and required, support of current assets through prolongation of current loans, equity injection or new loans (very restrictive)
- Litigation

On 25 May 2009, the Reykjavík District Court approved a request from the ResCom and appointed a Winding-up Committee for the Bank to handle the Bank's claims' process. The appointment was in accordance with the recent amendments to the Act on Financial Undertakings. In short, the ResCom is responsible for the asset side of the Bank and its daily operation, but the Winding-up Committee administers the formal process of filing claims, handles all claims against the Bank and makes decisions regarding their recognition.



Organizational structure of the Bank.

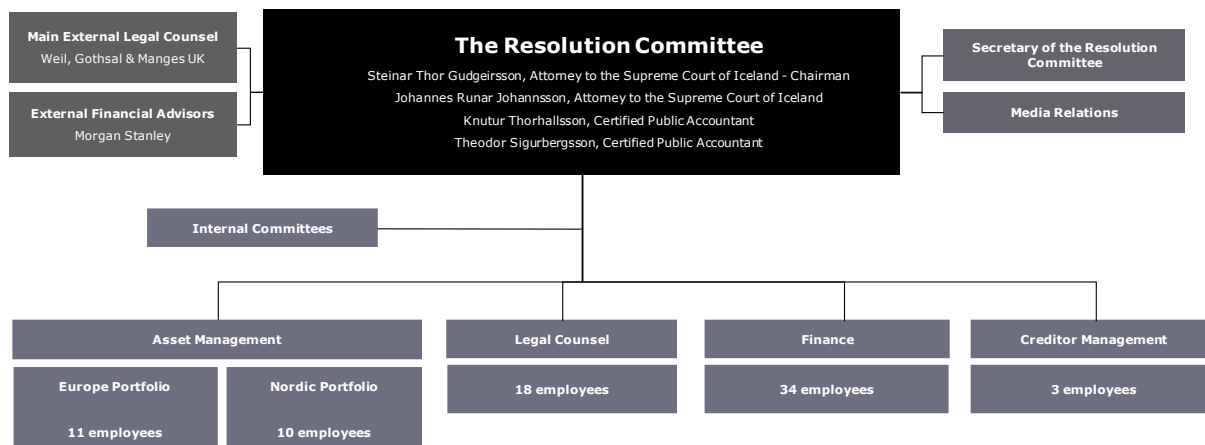
In the beginning the ResCom was up against major challenges where many borrowers were in great turmoil because of the Bank's status and the collapse of 85% of the banking system in Iceland. The main task was to stabilize the situation and to retain value wherever possible by preventing the collapse of different assets and by refusing strongly any fire sale bids. Assets were saved and transferred from branches and a subsidiary in the Nordic region to the Bank. Despite difficult circumstances in the beginning, objectives were achieved.

Other tasks completed by the ResCom during the initial phase include: maintaining the Bank's commercial banking operations in Iceland, protecting depositors both domestically and overseas in accordance with the Disbursement Act, and ensuring cash flow in all currencies both domestically and to/from foreign jurisdictions. Further information on initial tasks of the ResCom can be found in Appendix A5 *Initial tasks of the ResCom*.

## 1.2 The ResCom - Structure and divisions

In order to perform its primary duties and to achieve its objectives, the ResCom must possess the requisite expertise to manage the assets and to provide the necessary services. Therefore the ResCom has hired experts in various fields to manage the Bank's assets, which include portfolio of cash, loans, derivatives, securities and equity stakes in subsidiaries in addition to other assets.

Four divisions have been created which report to the ResCom and each division is headed by a managing director responsible for the operation of that division. The ResCom holds weekly update meetings with the management team to review and discuss recent and overall progresses and highlights. The ResCom also retains external advisors to ensure that creditors' interests are served at all times.



The ResCom's structure.

### 1.2.1 Internal committees

In addition to the four divisions and to further strengthen the infrastructure and the operations of the Bank, several working committees have been established. The ResCom or its sub committees hold regular meetings each working day and work within formal guidelines and procedures to resolve the tasks at hand.

The *Asset Committee* was established shortly after the date of the ResCom's appointment and has the role of both credit committee and investment committee in a traditional financial institution. The Asset Committee holds two regular meetings each week. It comprises two members of the ResCom and three managing directors of the Asset Management team. All credit related decisions are referred to the Asset Committee. All major decisions of the Asset Committee are referred to the ResCom for approval. The ResCom makes the final decision whether to approve or decline a request.

The *Finance Committee* is responsible for the Bank's finances. Its main role is to formulate the finance division's strategy in terms of book-keeping and accounting procedures. The committee comprises two members from the ResCom and the managing director of Finance. The committee is responsible for all financial disclosure both externally and internally to the ResCom and its sub-committees. The Finance Committee defines which guidelines the Bank adheres to, both with respect to accounting rules and international standards and internal work procedures. The committee develops and oversees the execution of budgetary plans. The committee is also responsible for management of cash and cash equivalents.

The *Inspection Committee* has the role of reviewing certain transactions and to prepare and commence legal proceedings against parties that might be in debt to the Bank due to those transactions, or are alternatively responsible for potential loss of the Bank resulting from the transactions. The aim is, in other words, to realise all possible claims which the Bank might have against third parties in relation to the specific transactions mentioned above, including claims arising from unusual action by the former management of the Bank or third parties. The committee comprises two members from the ResCom. This committee is also responsible for all correspondence and communication with the Special Investigation Commission ("SIC"), operating under the provision of Act No. 142/2008, the FME and the Special Prosecutor, operating under the provision of Act No. 135/2008.

The *Set-off and Netting Committee* is responsible for preparation of netting and set-off cases, collection of claims deriving from derivative contracts and related matters. The Set-off and Netting Committee consists of one member from the ResCom, one member from the Winding-Up Committee and the managing director of Legal. The committee was originally established in February 2009 but was re-established in the beginning of June 2009 following the appointment of the Winding-up Committee. The participation of the Winding-up Committee is needed for the set-off process, as its current role is to evaluate all claims brought against the Bank, including claims that might be used for set-off.

## 1.2.2 Divisions

### Asset management

The role of the unit is to develop the Bank's asset pool of loans and securities with the ultimate goal of securing maximum recovery from these assets. This is done by pro-active management of every asset, maintaining a cash flow plan for the Bank's loan portfolio which is updated regularly; by assessing the capital requirements of the asset portfolio and the Bank's capacity to meet this. Each loan in the loan portfolio has a designated account manager who is responsible for them.

Currently, there are 21 employees in the division, most of whom are highly experienced in the investment & corporate banking field with up to 17 years experience in the industry. The team comprises specialists with diversified background and experience, both domestically and internationally, across corporate finance, corporate banking, private equity, leverage finance, operational and capital restructuring and workouts supported with a team of legal specialists with extensive experience across all legal aspects of banking transactions.

The specialists in the asset management division lead the projects internally and the process is supported by an external advisory service as needed. Tasks where the asset management has engaged with external advisers include corporate finance advisory, due diligence reports, business verification, tax planning and appraisal and valuation.

In 2009 and H1 2010, fees generated from the loan portfolio more than covered the costs of running the asset management division.

### Legal counsel

Currently, there are 18 employees in legal counsel. The division provides support and legal advice to the ResCom in general as well as in individual projects, such as the capitalisation of Arion Bank, closure and winding down the subsidiaries and branches of the Bank and the overall restructuring of the Bank. This division comprises legal experts with extensive knowledge in financial legislation, the Icelandic bankruptcy legislation and corporate law in general. In addition, the division provides support and legal advice to all the other divisions within the Bank as needed. Responsibility for each account in the loan portfolio has been allocated and employees of the team are involved in the legal aspects of all transactions.

The legal counsel division works with the Bank's external legal counsel with respect to the foreign derivatives portfolio and leads the legal work stream with respect to the Icelandic derivatives portfolio. The division is responsible for collection of claims and preparation for litigation both domestically and internationally in collaboration with external legal counsel. The division furthermore works together with external advisors on investigation and recovery in regard to unusual transactions. The division supervises the hiring of outside legal experts, both in Iceland and abroad, and monitors the quality of the work they provide and has an overview of expenses incurred by external legal advice.

### Finance

The division is responsible for executing all aspects of the Bank's finances according to guidelines provided by the Finance Committee which is as mentioned above, a sub-committee of the ResCom.

The finance division has four sub-divisions currently with a total of 34 employees:

*Accounting and Reporting* which is responsible for all accounting procedures. The unit prepares the Statement of Assets which is issued in the Creditors' Report semi-annually as well as other reports more frequently for internal purposes.

*Portfolio management* ("PM") manages and monitors specific asset classes on the balance sheet, in some cases in co-ordination with the asset management function. The unit is split into three sub-units:

- *PM – Loans*, works closely with the asset management unit. The team monitors, analyses and manages all loans and matters related to them in co-operation with the respective account managers. This entails tasks like loan administrative matters, collateral analysis, covenant monitoring, cash flow projections, credit risk analysis, internal and external reporting etc.
- *PM – Cash and securities*, analysis and monitors the bank's bonds and equity stakes as well as managing the cash reserves of the bank.

- *PM– Subsidiaries and other assets*, analysis the bank's subsidiaries, branches and other assets categories on the balance sheet.

The portfolio management unit co-operates extensively with the accounting and reporting unit in preparation of the Statement of Assets.

*Operations* is responsible for day-to-day operations, records management, and human resource matters.

*Derivatives* is responsible for valuations of outstanding unsettled derivative trades and management of open trades. In addition, the unit is responsible for the preparation of settlement notices to counterparties and other back office functions in relation to the settlement of the derivatives book.

#### Creditor Management

From the outset the ResCom has maintained a comprehensive information disclosure to all creditors which is done at the Bank's own initiative and without any legal obligations. The Creditor Management team is responsible for relations with creditors and, in addition to do so, has supervised communications with the Informal Creditors' Committee ("ICC"). Further information regarding communication with creditors and the ICC can be found in chapter 4.8 *Creditor relations*.

The team manages the relationship with Morgan Stanley, the Bank's financial advisor, and is involved in their main projects, including the capitalisation of Arion Bank and the overall restructuring of the Bank.

The website, [www.kaupthing.com](http://www.kaupthing.com) is a source where creditors, the media and other parties can access regular updated information about the Bank. Material concerning the ResCom is maintained and updated by the Creditor Management team. Interested parties can send questions, read the latest announcements and updates and can keep abreast of the main developments since 9 October 2008. The website has been updated to include material relating to the Winding-up Committee. The users of the website can subscribe to news and updated material, such as new updates of the Creditors' Report.

To further step up relations with all creditors, the ResCom has at its own initiative started a series of meetings undertaken to present the Bank's matters at a regular basis open for all creditors. There will be quarterly (or event-driven) Creditors' Report Update Meetings with dial-in opportunity for creditors. The first three meetings were held 15 March 2010, 7 June 2010 and 12 October 2010 in London. Presentations from the meetings are available on the Bank's website.

### 1.3 Operations of the Bank

#### Current operations – separation from Arion Bank

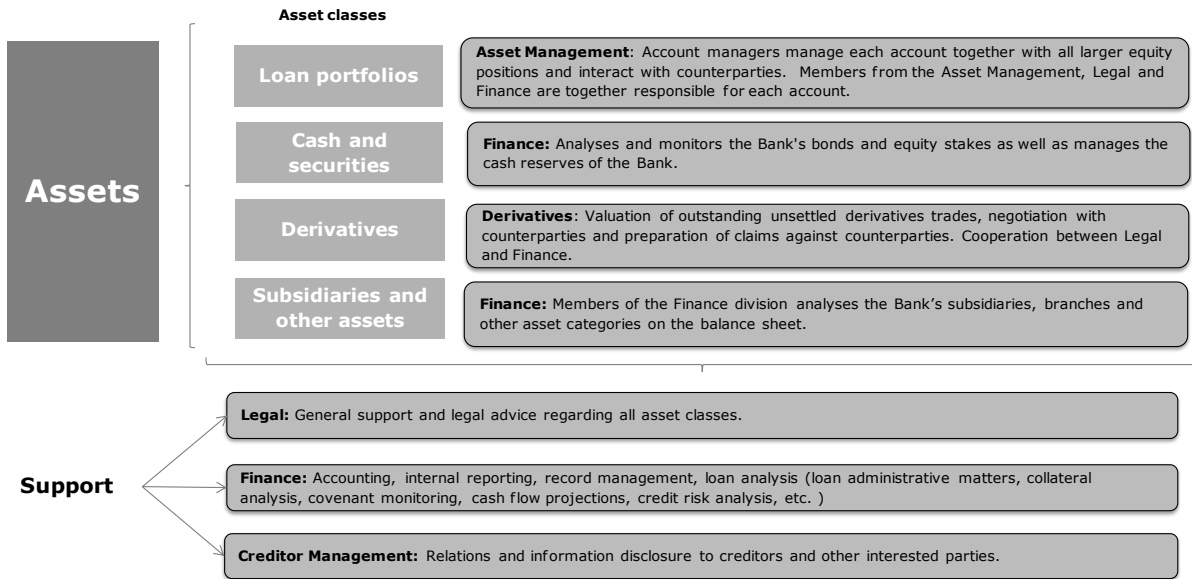
The Bank's organizational structure and separation from Arion Bank, together with highly skilled people, ensure the operational independence of Kaupthing. The separation from Arion Bank and other operational improvements have resulted in decreased outsourcing need from Arion Bank.

Core supporting and back-office functions exist within the Bank and the appropriate IT and service support from Arion Bank is available when needed

The final decision to move the Bank's offices was made in late in 2009 and subsequently implemented in a matter of days.

#### Management of assets – Internal Structure

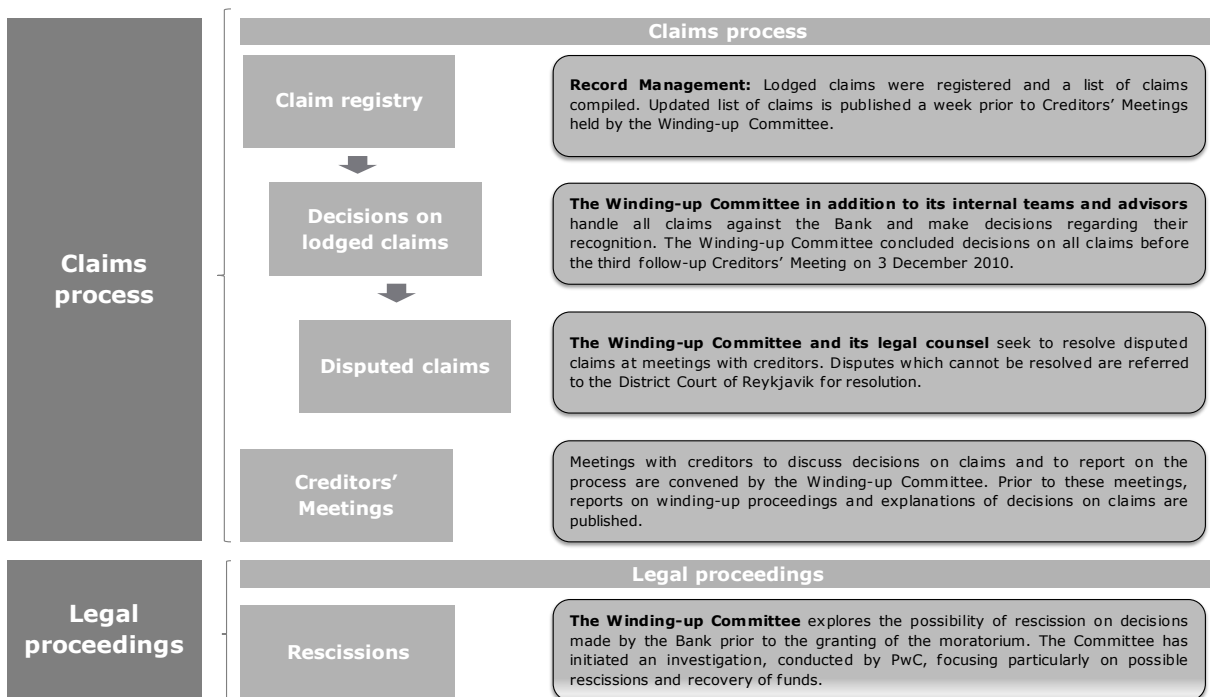
The ResCom has the objective and duty to maximize the value of the Bank's assets and takes all major decisions regarding the management of the Bank's assets. Over 70 employees are working for the ResCom. These employees are crucial to the ResCom achieving its objectives, handling the management of assets and all other recovery efforts. The divisions of the ResCom work together with the ultimate goal to maximize the value of the Bank's assets. As mentioned before, each division has special tasks and duties within the Bank. Below is a diagram to clarify the internal structure.



**Extensive cooperation between all divisions of the Bank.**

The claims process – Internal Structure

The Winding-up Committee administers the formal process of filing claims, handles all claims against the Bank and makes decisions regarding their recognition. Currently, 15 employees are working for the Winding-up Committee. Below is a diagram to clarify the internal structure and tasks of the Winding-up Committee.



## Operating costs

The table below sets out the operating costs of the Bank, i.e. for both the ResCom and the Winding-up Committee, for H1 2010.

(mISK)	H1 2010
Salaries and salary related cost	325
ResCom and WuC	141
External advisors	2.407
- Domestic	511
- Foreign	1.896
Other expenses	395
VAT and other taxes	435
<b>Total</b>	<b>3.703</b>

- The annualized operating costs in H1 2010 were approx. 0.28% of the total carrying value of ISK 2,650bn as at the end of H1 2010.
- Salaries and salary related cost of all the Bank's employees and the cost related to the four members of the ResCom and three members of the Winding-up Committee are fully covered by fee income.
- ISK 435 million or 12% of the Bank's operating cost during the period, in the form of VAT and other taxes.
- The largest items in the external advisory costs are related to the activities of the Bank's financial advisor, forensic work conducted on behalf of the Inspection Committee and the settlement of the derivatives book.
- Other expenses include expenses related to IT services, housing, offices, custody services, travelling and other staff and administration items.

## 1.4 Timeline of events

### 6 – 9 October 2008

- Icelandic parliament passes the Disbursement Act
- FSA in the UK succeeds in having administrators appointed over KSF
- The Bank's board of directors requests that the FME take control of the Bank pursuant to the Disbursement Act

### 9 October – 22 October 2008

- FME appoints a ResCom which immediately assumes control of the Bank
- Arion Bank established
- Certain domestic assets and domestic deposits transferred to Arion Bank in accordance with the decision of the FME on the disposal of assets and liabilities of Kaupthing Bank hf. to Arion Bank dated 21 October 2008 (the "Transfer Decision")

### 22 October 2008 – 30 December 2009

- The ResCom establishes communications with creditors for consultation and feedback
- Moratorium granted and Olafur Gardarsson appointed as the Moratorium Supervisor
- Moratorium is recognized as a foreign main proceeding under Chapter 15 of the US Bankruptcy Code
- Morgan Stanley appointed as the main financial advisor

- Creditors' meeting convened by the Moratorium Supervisor on **5 February 2009**
- Moratorium of the Bank extended by the District Court of Reykjavik to **13 November 2009**
- Important amendments made to the Act on Financial Undertakings on **22 April 2009**
- The Bank's Winding-up Committee appointed on **25 May 2009**
- The formal claim process administered by the Winding-up Committee started on 30 June 2009 and last for 6 months, or until **30 December 2009**
- **20 July 2009**: The agreement between the ResCom and the Government on the capitalization of Arion Bank announced
- **14 August 2009**: The Government capitalized Arion Bank with approx. ISK 72bn in common equity which allows Arion Bank to function as a fully operational bank
- **3 September 2009**: The Bank's ResCom and the Government signed an agreement on settlement between the Bank and Arion Bank in accordance with the agreement announced on 20 July 2009
- A creditors' meeting jointly held by the ResCom and the Moratorium Supervisor on **20 October 2009** to discuss the agreement between the ResCom and the Government on Arion Bank and to discuss the possible extension of moratorium on debt payments.
- **13 November 2009**: A nine months extension of moratorium was requested at the District Court of Reykjavik. The Bank was granted an extension of moratorium on debt payments until **13 August 2010**
- **1 December 2009**: The ResCom announced it would acquire 87% share in Arion Bank
- **30 December 2009**: The formal claim registration process ended

#### *1 January 2010 to date*

- **On 11 January 2010**: FME granted the Bank's subsidiary, Kaupskil ehf., permission to own a qualifying holding in Arion Bank on behalf of Kaupthing.
- **On 22 January 2010**: The list of claims made available to creditors
- **29 January 2010**: Creditors' meeting held by the Winding-up Committee to discuss the list of claims and decisions by the Winding-up Committee on claims lodged; to the extent these were available.
- **15 March 2010**: Creditors' Report update meeting held by the ResCom in London
- **18 May 2010**: A follow-up creditors' meeting from 29 January 2010 held by the Winding-up Committee which gave a general overview of its decisions on claims which had been made by that time.
- **7 June 2010**: Creditors' Report Update Meeting held by the ResCom in London.
- **9 August 2010**: The Moratorium Supervisor of the Bank called for a Creditors' Meeting. The sole purpose of the meeting was to discuss the possible extension of moratorium on debt payments.
- **13 August 2010**: The moratorium period ended. A hearing to consider an extension was held on 13 August 2010 at the District Court of Reykjavik.

- **18 August 2010:** The District Court of Reykjavik granted an extension of the moratorium until 24 November 2010
- **21 September 2010:** A second follow-up creditors' meeting from 29 January 2010 and 18 May 2010 held by the Winding-up Committee.
- **12 October 2010:** Creditors' Report Update Meeting held by the ResCom in London.
- **22 November 2010:** With a ruling of the District Court of Reykjavik the Bank formally entered winding-up procedure. Icelandic law provides for automatic end of the moratorium period upon entering into winding-up procedure. The ResCom and Winding-up Committee jointly applied to the District Court of Reykjavik to formally recognise that the Bank is in a winding-up procedure to ensure the Bank enjoys the same protections from litigation, collection measures and other depletion of assets as it has had during the moratorium. After amendments made to the Act on Financial Undertakings on 22 April 2009 this change in legal status will not affect current operations of the Bank. The ResCom continues to operate under a winding-up proceedings with the same aim as before to maximise the value of assets. That may include waiting for the maturity of assets rather than disposing of them immediately. For further information on this insignificant difference in legal status see chapter 4 Legal status and process going forward.
- **3 December 2010:** A third follow-up creditors' meeting from 29 January 2010, 18 May 2010 and 21 September 2010 held by the Winding-up Committee.

#### *Next steps*

- **13 April 2011:** The Winding-up Committee will convene a Creditors' Meeting. The purpose of the meeting is to give further overview of the Winding-up Committee's recognition of claims completed by 3 December 2010 in addition to give an overview of disputes regarding decisions on claims.

## 2. Statement of Assets

*Please note that supplementary material to this Statement of assets can be found in a presentation which is published on the Bank's website in connection with the publication of the Creditors' Report.*

### 2.1 Valuation of the Bank's assets

The financial information in this subchapter as at 30 June 2010 and 31 December 2009 was prepared by the ResCom and employees of Kaupthing with the assistance of external advisors where appropriate for Kaupthing Bank hf., the parent company. The financial information is neither audited nor reviewed by independent auditors. The financial information is presented in Icelandic krona ("ISK"), rounded to the nearest million.

The ResCom emphasizes that the valuation herein is a historic valuation only, and one which only takes into account the Bank's current strategy, to safeguard and increase the value of the Bank's assets achieved to 30 June 2010 and not thereafter. No attempts were made to assess the possible future value of assets, or to estimate likely recovery of creditors' claims. Whilst significant data is included in this report, readers are cautioned against estimating the likely level of recoveries as material uncertainties exist regarding, inter alia, the level of realizations and eventual level of recognized claims.

A formal process for the creditors of the Bank to file claims against the Bank began on 30 June 2009 and ended on 30 December 2009. The liabilities of the Bank are currently being determined through a formal process administered by the Winding-up Committee. Until the Winding-up Committee has taken decisions on all claims and disputes have been settled, the real and accurate amount of liabilities is uncertain. According to Act no. 44/2009, claims should generally be filed as at 22 April 2009 in the relevant currency and converted into ISK at the exchange rate published by the Central Bank of Iceland on 22 April 2009. Hence, the liability side has been fixed in ISK as at that date. The estimated liability side fixed at 22 April 2009 was published in the Bank's half year figures as at 30 June 2009. In the event there are discrepancies between the liabilities estimate presented by the Resolution Committee there and the accepted claims finally determined by the Winding-up Committee, the determination of the latter prevails. The notes to the Statement of Assets include summary information from the Winding-up Committee's List of Claims as at 23 September 2010.

The Bank continues work on further confirming and ascertaining earlier accounting of the Bank's assets. In some cases however, the data and information used in this work is incomplete or insufficient. In such cases the Bank uses best efforts and cautious valuation methods in determining asset value. Due to the aforesaid, some discrepancies are inevitable when comparing earlier financial statements published by the Bank. The Bank endeavours to use the most accurate information available at any given time for the preparation of financial information and reserves the right to make any necessary amendments to the financial information from time to time to reflect any changes.

The valuation of assets does not fully take into account the impact of set-off. Set-off impact could clearly make a material difference to overall creditor recoveries. Further information on set-off is provided in note 29. Further information will be provided on this matter as it becomes available.

As noted in this report's disclaimer, the actual realisable value of the Bank's assets and liabilities may differ materially from the values set forth herein. Factors which may lead to material differences include:

- (a) Resolution of issues regarding the quantum of claims
- (b) The realisation method(s) used over time
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- (e) Prevailing market conditions

The financial information as it appears may be a redacted version and should be viewed as such. Readers' attention is drawn to other terms of the disclaimer at the beginning and the end of this report.

## 2.1.1 Valuation methodology

The valuation methodology for each asset class is abbreviated below .

Cash in hand	The balance of all cash accounts as at 30 June 2010 without any discount and including accrued unpaid interest up to 30 June 2010.
Loans to and claims against credit institutions	Loans to and claims against credit institutions are valued at estimated fair value. Estimated credit risk of the counterparty has been taken into account in provisions for losses.
Loans to customers	<p>Loans to customers are valued at estimated fair value. The methods of assessing the fair value of the loans are based on the principles presented in the September 2009 edition of the International Private Equity and Venture Capital Valuation Guidelines (can be found at <a href="http://www.evca.eu">www.evca.eu</a>, the official website of European Private Equity &amp; Venture Capital Association). The Fair Value derived is an estimate of the hypothetical price at which an orderly transaction would take place between market participants at the reporting date and not the price the Bank could expect to receive in a forced transaction, insolvent liquidation or a distressed sale. However the hypothetical price takes into account the market conditions as at the reporting date. The methods applied for valuation are the following (in order of importance):</p> <ol style="list-style-type: none"><li>1) Valuation of loans that have traded recently is based on the transaction value (i.e. last price). The background to the respective transaction and any substantial price fluctuations (general and abstract) that may have characterized such a trade are taken into consideration;</li><li>2) Received recent offers for loans or known recent trades of comparable loans;</li><li>3) The value of the underlying collateral, in particular for asset backed loans, using 3rd party valuations of the collateral where applicable; and</li><li>4) 3rd party valuations of loans.</li></ol> <p>5) When nothing of the above was available, the Bank applied one of the following methods:</p> <ol style="list-style-type: none"><li>a) for loans of carrying value, i.e. notional value including accrued interests, exceeding ISK 2 billion, a judgment is made of the value of individual loans applying an appropriate and reasonable valuation multiples or other valuation techniques likely to be used by a prospective purchaser of the loan and for comparable loans, taking into account ranking of the relevant loans in the capital structure, or;</li><li>b) for loans with carrying value of less than ISK 2 billion a categorization into good-, medium-, and poor assets based on each account managers judgment and the data at hand. The categories were assigned with the following valuations: "Poor asset" valued at 20% of carrying value, "medium asset" valued at 50% of carrying value, and finally a "good asset" valued at 75% of carrying value. The values assigned reflect the loan market in general by taking into account various loan indices with appropriate discounts for the Bank's portfolio due to lack of liquidity and the small-scale size of these exposures. For loans with less than ISK 2 billion carrying value but where information according to valuation method 5 a) has been gathered then valuation according method 5 a) is used.</li></ol>
Bonds and debt instruments	<p>Listed and liquid: The assets in this asset category are valued at estimated fair value based on the quoted closing price on 30 June 2010.</p> <p>Unlisted and listed illiquid: The assets in this asset category are valued at estimated fair value. The methods of assessing the fair value are based on the principles presented in the September 2009 edition of the International Private Equity and Venture Capital Valuation Guidelines and are similar to the methodology applied to the Loans to Customers as described above. Illiquidity discount was applied to less liquid positions.</p> <p>Pledged positions: the pledged positions are represented at the assumed market value of the underlying collateral as at the bank's interpretation of the valuation date of the underlying agreements.</p>
Shares and instruments with variable income	<p>Listed and liquid: The assets in this asset category are valued at estimated fair value based on the quoted closing price on 30 June 2010.</p> <p>Unlisted and listed illiquid: The assets in this asset category are valued at estimated fair value. The methods of assessing the fair value are based on the principles presented in the September 2009 edition of the International Private Equity and Venture Capital Valuation Guidelines and are similar to the methodology applied to the Loans to Customers as described above. Illiquidity discount was applied to less liquid positions.</p> <p>Pledged positions: the pledged positions are represented at the assumed market value of the underlying collateral as at the Bank's interpretation of the valuation date of the underlying agreements.</p>

Derivatives and unpaid derivatives	<p>This category includes mainly terminated trades but some trades are still live. Terminated trades are converted to the relevant termination currency as at the termination date where relevant, e.g. for ISDA counterparties and for most asset swap contracts. Other contracts are booked in accordance with the original contract currencies.</p> <p>The calculated amount of derivatives before provisions is based on the Bank's own valuations, which may differ significantly from the final settlement amounts. When determining the value of more complex derivatives and structured products, the Bank is using the services of external advisors as appropriate who specialize in derivative valuations and risk management services. Derivative assets and liabilities with the same legal entity are netted.</p> <p>Most of the derivatives are not quoted in active markets but in that case the valuation is based on quoted prices. A market is considered active if quoted prices are readily and regularly available and those prices represent actual and regularly occurring market transactions on an arm's length basis. For all other derivatives fair value is determined by using valuation techniques. The Bank uses widely recognised valuation models for the common and simpler derivatives like options and interest rate and currency swaps. For more complex instruments, the Bank uses proprietary models, which usually are developed from recognised valuation models. Some of the inputs into these models may not be directly observable from market data but are commonly derived from market observables, e.g. from market prices or rates.</p> <p>Default valuation rules under the ISDA framework generally favour the non-defaulting counterparty which may result in adverse effect on the value of the derivatives. Once ISDA derivative contracts have been terminated the non-defaulting counterparty must determine the net amounts owed by or to the defaulting counterparty. Close-out notices providing details of such calculations enable the Bank to reconcile amounts. Some provisions were made to the Bank's valuation of ISDA derivatives to account for potential disputes in valuation. For Non-ISDA counterparties, a significant valuation adjustment was made on derivative assets to account for credit, liquidity and collateral risk associated with each counterparty.</p> <p>Foreign exposures in this category on the asset side are converted to ISK as at the date of this account, 30 June 2010.</p>
Investments in subsidiaries	<p>Investments in subsidiaries are accounted for by an equity method where value is derived from subsidiaries net assets as at 30 June 2010 except for FIH which is shown as fully pledged against a loan with the Central Bank of Iceland at the estimated current value of the obligation.</p>
Other assets	<p>Other assets are valued at estimated fair value. Estimated credit risk of the counterparty has been taken into account in provisions for losses.</p>

2.1.2 Statement of Assets

## Statement of Assets

### 30 June 2010

	Notes	30.06.2010	31.12.2009
<b>Assets</b>			
Cash in hand .....	3	195.456	176.066
Loans to and claims against credit institutions .....	4-7	305.329	323.267
Loans to customers .....	8-14	304.013	450.948
Bonds and debt instruments .....	15-17	56.108	63.025
Shares and instruments with variable income .....	18-21	197.485	178.379
Derivatives and unpaid derivatives .....	22-23	229.930	239.017
Investments in subsidiaries .....	24	216.114	141.626
Other assets .....	25	2.522	7.540
	<b>Total Assets</b>	<b>1.506.957</b>	<b>1.579.868</b>
	<b>Total Assets in mEUR</b>	<b>9.611</b>	<b>8.788</b>

All amounts in ISK million unless otherwise specified.

## 2.1.3 Notes on the Statement of Assets

1. Breakdown of assets at fair value net of pledged assets and liabilities related to estate admin cost and known priority liabilities - estimated netting due to derivatives is taken into account:

	30.6.2010			30.6.2010			31.12.2009	30.6.2009
	Fair value	Pledged positions	Liabilities related to admin cost and known liabilities*	Fair value (net)	Fair value (net)	Fair value (net)	Fair value (net)	
<b>Assets</b>								
Cash in hand .....	195.456	-	-	195.456	176.066		98.799	
Loans to and claims against credit institutions .....	305.329	(266.679)	-	38.650	53.481		42.899	
Loans to customers .....	304.013	-	-	304.013	366.894		357.259	
Bonds and debt instruments .....	56.108	(48.930)	-	7.178	9.539		12.344	
Shares and instruments with variable income .....	197.485	(139.964)	-	57.521	28.849		35.055	
Derivatives and unpaid derivatives .....	229.930	(115.454)	-	114.476	118.812		102.556	
Investments in subsidiaries .....	216.114	(102.451)	-	113.663	27.276		26.077	
Other assets .....	2.522	-	-	2.522	7.540		9.102	
<b>Total assets at fair value .....</b>	<b>1.506.957</b>	<b>(673.478)</b>	<b>-</b>	<b>833.479</b>	<b>788.457</b>		<b>684.091</b>	
Less: Liabilities related to estate admin cost and known priority liabilities* .....	-	-	(30.960)	(30.960)	(45.545)		(53.022)	
<b>Total .....</b>	<b>1.506.957</b>	<b>(673.478)</b>	<b>(30.960)</b>	<b>802.519</b>	<b>742.912</b>		<b>631.069</b>	
Total in mEUR .....	9.611	(4.295)	(197)	5.118	4.132		3.525	

\* Liabilities related to the administration of the estate and known priority liabilities represent liabilities which are listed by the Resolution Committee in note 28. Until all claims have been recognized and disputes settled by the Winding-up Committee, the real and accurate amount of liabilities, including but not limited to priority claims, is uncertain. It should also be noted that this estimate is put forth by the Resolution Committee and does not reflect the decisions of the Winding-up Committee on individual claims.

The valuation herein of the Bank's assets is based on the methodologies described in the chapter 2.1.1 Valuation Methodology and is a historical valuation only. No attempts were made at this time to assess the possible future value of assets, nor to estimate likely recovery of creditors' claims.

The table above does not fully take into account the impact of set-off as further described in note 29.

It should also be noted that there were significant movements in foreign exchange rates in H1 2010. FX conversion table can be found in note 30.

2. Breakdown of assets on carrying value and fair value:

	30.6.2010			Fair value (net)
	Carrying value	Carrying value (unpledged)	Provision	
Cash in hand .....	195.456	195.456	-	195.456
Loans to and claims against credit institutions .....	340.202	73.523	(34.873)	38.650
Loans to customers .....	1.233.716	1.233.716	(929.703)	304.013
Bonds and debt instruments .....	56.108	7.178	-	7.178
Shares and instruments with variable income .....	197.485	57.521	-	57.521
Derivatives and unpaid derivatives .....	369.216	253.762	(139.286)	114.476
Investments in subsidiaries .....	216.114	113.663	-	113.663
Other assets .....	41.981	41.981	(39.459)	2.522
<b>Total assets .....</b>	<b>2.650.278</b>	<b>1.976.800</b>	<b>(1.143.321)</b>	<b>833.479</b>
Total assets in mEUR .....	16.903	12.608	(7.292)	5.316

### Cash in hand

3. Cash in hand broken down by currency:

	30.6.2010	31.12.2009
	Total	Total
EUR .....	56.661	40.865
GBP .....	50.193	41.353
NOK .....	27.498	26.441
SEK .....	26.810	24.730
USD .....	22.935	17.240
ISK .....	7.475	22.999
Other .....	3.884	2.438
<b>Cash in hand .....</b>	<b>195.456</b>	<b>176.066</b>
Cash in hand in mEUR .....	1.247	979

## Loans to and claims against credit institutions

4. Loans to and claims against credit institutions specified by types of loans at carrying value:

	30.6.2010		31.12.2009	
	Unpledged	Pledged	Total	Total
Bank accounts .....	21.580	141.563	163.143	280.579
Subordinated loans to subsidiaries .....	46.054	125.116	171.170	172.861
Other loans .....	5.889	-	5.889	5.946
<b>Loans to and claims against credit institutions .....</b>	<b>73.523</b>	<b>266.679</b>	<b>340.202</b>	<b>459.386</b>
Loans to and claims against credit institutions in mEUR .....	469	1.701	2.170	2.555

5. Loans to and claims against credit institutions specified by types of loans at fair value:

	30.6.2010		31.12.2009	
	Unpledged	Pledged	Total	Total
Bank accounts .....	21.580	141.563	163.143	181.394
Subordinated loans to subsidiaries .....	15.687	125.116	140.803	140.965
Other loans .....	1.383	-	1.383	908
<b>Loans to and claims against credit institutions .....</b>	<b>38.650</b>	<b>266.679</b>	<b>305.329</b>	<b>323.267</b>
Loans to and claims against credit institutions in mEUR .....	246	1.701	1.947	1.798

6. Loans to and claims against credit institutions specified by geographical location of the counterparty at carrying value:

	30.6.2010		31.12.2009	
	Unpledged	Pledged	Total	Total
Domestic .....	5.423	125.813	131.236	129.286
Foreign .....	68.100	140.866	208.966	330.100
<b>Loans to and claims against credit institutions .....</b>	<b>73.523</b>	<b>266.679</b>	<b>340.202</b>	<b>459.386</b>
Loans to and claims against credit institutions in mEUR .....	469	1.701	2.170	2.555

7. Loans to and claims against credit institutions specified by geographical location of the counterparty at fair value:

	30.6.2010		31.12.2009	
	Unpledged	Pledged	Total	Total
Domestic .....	1.147	125.813	126.960	124.587
Foreign .....	37.503	140.866	178.369	198.680
<b>Loans to and claims against credit institutions .....</b>	<b>38.650</b>	<b>266.679</b>	<b>305.329</b>	<b>323.267</b>
Loans to and claims against credit institutions in mEUR .....	246	1.701	1.947	1.798

## Loans to customers

8. Loans to customers at carrying value and fair value - breakdown by portfolio:

	30.6.2010		31.12.2009	
	Carrying value	Fair value	Carrying value	Fair value
Europe .....	243.421	146.604	325.803	176.033
Nordic .....	179.489	120.627	231.377	152.294
NOA* .....	810.806	36.782	707.983	38.567
Pledged** .....	-	-	107.917	84.054
<b>Loans to customers .....</b>	<b>1.233.716</b>	<b>304.013</b>	<b>1.373.080</b>	<b>450.948</b>
Loans to customers in mEUR .....	7.869	1.939	7.638	2.508

\* Non-operational assets

\*\* Includes a portfolio of ISK mortgage loans, FX mortgage loans and loans to Icelandic municipalities, organisations and other government related entities, which had previously been pledged by the Bank to the ICB. In January 2010 this portfolio, ISK 84.054 million (at fair value) along with ISK 28.771 million (at fair value) of loans from the loans to customers' portfolio, was injected into Arion Bank as part of the Bank's capitalization of Arion Bank.

9. Loans to customers specified by sectors:

	30.6.2010		31.12.2009	
	Carrying value	Fair value	Carrying value	Fair value
Industry .....	176.608	80.675	206.694	99.980
Real estate .....	146.321	64.073	172.888	83.457
Holding companies .....	708.194	50.613	615.637	58.715
Trade .....	54.461	48.055	114.706	64.129
Service .....	48.456	36.723	66.350	52.776
Individuals .....	99.676	23.874	196.805	91.891
<b>Loans to customers .....</b>	<b>1.233.716</b>	<b>304.013</b>	<b>1.373.080</b>	<b>450.948</b>
Loans to customers in mEUR .....	7.869	1.939	7.638	2.508

10. Loans to customers specified by geographical location:

	30.6.2010		31.12.2009	
	Carrying value	Fair value	Carrying value	Fair value
Scandinavia* .....	312.077	142.472	388.201	257.497
UK** .....	665.555	136.434	709.573	153.308
Other .....	256.084	25.107	275.306	40.143
<b>Loans to customers .....</b>	<b>1.233.716</b>	<b>304.013</b>	<b>1.373.080</b>	<b>450.948</b>
Loans to customers in mEUR .....	7.869	1.939	7.638	2.508

\* Scandinavia includes Iceland

\*\* UK includes UK overseas territories and Crown dependencies

In almost all cases, the geographical location is determined by using the registration country of the underlying operation.

11. Loans to customers - breakdown by currency:

	30.6.2010		31.12.2009	
	Carrying value	Fair value	Carrying value	Fair value
GBP .....	458.551	136.608	531.676	156.033
SEK .....	111.284	66.439	127.294	74.832
EUR .....	285.831	51.659	259.287	79.106
USD .....	259.053	31.179	234.847	40.651
Other .....	118.997	18.128	219.976	100.326
<b>Loans to customers .....</b>	<b>1.233.716</b>	<b>304.013</b>	<b>1.373.080</b>	<b>450.948</b>
Loans to customers in mEUR .....	7.869	1.939	7.638	2.508

12. Ten largest loans in loans to customers at fair value - sector and geographical location:

	30.6.2010	31.12.2009
UK* / Trade .....	9%	7%
UK* / Real estate .....	8%	5%
UK* / Holding company .....	8%	6%
Scandinavia** / Industry .....	6%	4%
Other / Real estate .....	6%	4%
Scandinavia** / Industry .....	4%	3%
Scandinavia** / Real estate .....	4%	3%
Scandinavia** / Industry .....	3%	2%
UK* / Service .....	3%	3%
UK* / Service .....	3%	2%

\* UK includes UK overseas territories and Crown dependencies

\*\* Scandinavia includes Iceland

In almost all cases, the geographical location is determined by using the registration country of the underlying operation.

13. Loans to customers - breakdown by performance:

	30.6.2010							
	Europe*		Nordic		NOA		Total	
	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value
Performing loans .....	75,2%	95,6%	76,3%	79,1%	0,0%	0,0%	23,2%	75,9%
Loans on view list .....	0,0%	0,0%	10,6%	12,7%	0,0%	0,0%	1,6%	5,5%
Loans on watch list .....	24,8%	4,4%	13,1%	8,2%	100,0%	100,0%	75,2%	18,6%
	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%

\* The Europe portfolio excludes project Los Angeles and the Bank's financing of NoHo Square (real-estate development at standstill) where the Bank has also all the equity.

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.

14. Loans to customers - maturity profiles by portfolios:

	30.6.2010			
	Europe*	Nordic	NOA	Total
In default* .....	10.214	15.947	810.806	836.967
2010 .....	7.984	39.473	-	47.457
2011 .....	44.625	18.447	-	63.072
2012 .....	42.102	29.698	-	71.800
2013 .....	17.568	28.630	-	46.198
2014 .....	22.749	40.341	-	63.090
2015 and later .....	55.626	6.953	-	62.579
<b>Total .....</b>	<b>200.868</b>	<b>179.489</b>	<b>810.806</b>	<b>1.191.163</b>
Total in mEUR .....	1.281	1.145	5.171	7.597

\* The Bank's financing of NoHo Square (real-estate development at standstill) where the Bank has also all the equity is not included in the numbers presented above.

The maturity profile is based on the carrying value translated at the 30 June 2010 spot rate.

The table above is based on contractual maturity specified in the underlying loan agreements unless an acceleration event has occurred. Due to restructurings and re-financing the maturity profile may change over time.

**Bonds and debt instruments**

15. Bond and debt instruments are specified as follows:

	30.6.2010			31.12.2009
	Unpledged	Pledged	Total	Total
Listed .....	6.436	43.276	49.712	56.442
Unlisted .....	742	5.654	6.396	6.583
<b>Bonds and debt instruments .....</b>	<b>7.178</b>	<b>48.930</b>	<b>56.108</b>	<b>63.025</b>
Bonds and debt instruments in mEUR .....	46	312	358	351

16. Bonds and debt instruments specified by issuer:

	30.6.2010			31.12.2009
	Unpledged	Pledged	Total	Total
Financial institutions .....	-	30.281	30.281	33.853
Housing Financing Fund .....	4.845	8.317	13.162	13.484
Government .....	1.770	8.289	10.059	12.939
Corporates .....	563	2.043	2.606	2.749
<b>Bonds and debt instruments .....</b>	<b>7.178</b>	<b>48.930</b>	<b>56.108</b>	<b>63.025</b>
Bonds and debt instruments in mEUR .....	46	312	358	351

The pledged positions are represented at the assumed market value of the underlying collateral as at the Bank's interpretation of the valuation date of the underlying agreements.

17. Unpledged positions in bonds and debt instruments broken down by currencies:

	30.6.2010
ISK .....	6.615
USD .....	563
<b>Unpledged positions in bonds and debt instruments .....</b>	<b>7.178</b>
Unpledged positions in bonds and debt instruments in mEUR .....	46

**Shares and instruments with variable income**

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

	30.6.2010			31.12.2009
	Unpledged	Pledged	Total	Total
Listed .....	5.454	139.964	145.418	154.648
Unlisted .....	52.067	-	52.067	23.731
<b>Shares and instruments with variable income .....</b>	<b>57.521</b>	<b>139.964</b>	<b>197.485</b>	<b>178.379</b>
Shares and instruments with variable income in mEUR .....	367	893	1.260	992

19. Ten largest positions in shares and instruments with variable income - sector and geographical location:

	30.6.2010			31.12.2009
	Unpledged	Pledged	Total	Total
Trade/UK .....	-	40.740	40.740	43.474
Service/UK .....	-	31.674	31.674	33.769
Financial/Scandinavia .....	-	27.599	27.599	29.835
Industry/UK .....	-	22.843	22.843	24.246
Retail/UK .....	20.046	-	20.046	1.824
Industry/Other .....	10.900	-	10.900	6.671
Retail/UK .....	7.541	-	7.541	5.674
Financial/Scandinavia .....	-	6.615	6.615	7.022
Financial/Other .....	6.428	-	6.428	4.494
Industry/Scandinavia .....	-	5.615	5.615	6.001
<b>Ten largest positions total .....</b>	<b>44.915</b>	<b>135.086</b>	<b>180.001</b>	<b>163.010</b>
Ten largest positions total in mEUR .....	286	862	1.148	907

\* Scandinavia includes Iceland

The pledged positions are represented at the assumed market value of the underlying collateral as at the Bank's interpretation of the valuation date of the underlying agreements.

20. Ten largest unpledged positions in shares and instruments with variable income - sector and geographical location:

	30.6.2010	31.12.2009
Retail/UK .....	20.046	1.824
Industry/Other .....	10.900	6.671
Retail/UK .....	7.541	5.674
Financial/Other .....	6.428	4.494
Industry/UK .....	3.266	2.929
Real estate/UK .....	3.032	3.136
Other/UK .....	1.966	203
Retail/UK .....	993	203
Industry//UK .....	848	760
Real estate/Other .....	779	809
<b>Ten largest unpledged positions total .....</b>	<b>55.799</b>	<b>26.703</b>
Ten largest unpledged positions total in mEUR .....	356	149

21. Unpledged positions in shares and instruments with variable income broken down by currencies:

	30.6.2010
GBP .....	35.462
EUR .....	17.343
USD .....	3.709
SEK .....	467
NOK .....	407
DKK .....	133
<b>Unpledged positions in shares and instruments with variable income .....</b>	<b>57.521</b>
Unpledged positions in shares and instruments with variable income in mEUR .....	367

## Derivatives and unpaid derivatives - assets

22. Derivatives and unpaid derivatives are specified as follows by status:

	30.6.2010		30.12.2009	
	Carrying value	Provision	Fair value	Fair value
Derivatives .....	6.618	(2.507)	4.111	7.581
Unpaid derivatives* .....	362.598	(136.779)	225.819	231.436
<b>Derivatives and unpaid derivatives .....</b>	<b>369.216</b>	<b>(139.286)</b>	<b>229.930</b>	<b>239.017</b>
Derivatives and unpaid derivatives in mEUR .....	2.355	(888)	1.466	1.330

Estimated netting effects on derivatives on the asset side amount to ISK 115.454 million as described in note 1.

\* Matured and terminated trades, and unpaid cash flow from open trades

23. Derivatives and unpaid derivatives are specified as follows by type:

	30.6.2010		31.12.2009	
	Carrying value	Provision	Fair value	Fair value
Unpaid FX Trades, Asset Sw aps, Interest Rate Sw aps, FX Options* .....	6.618	(2.507)	4.111	231.452
Open FX Trades, Asset Sw aps & Interest Rate Sw aps .....	-	-	-	7.313
Unpaid Credit Derivatives* .....	360.192	(134.919)	225.273	(5.978)
Unpaid Equity Options* .....	(5.659)	1.552	(4.107)	5.902
Open Caps, Floors, Barriers .....	5.779	(1.201)	4.579	269
Unpaid Caps, Floors, Barriers* .....	2.286	(2.212)	74	59
<b>Derivatives and unpaid derivatives .....</b>	<b>369.216</b>	<b>(139.286)</b>	<b>229.930</b>	<b>239.017</b>
Derivatives and unpaid derivatives in mEUR .....	2.355	(888)	1.466	1.330

Estimated netting effects on derivatives on the asset side amount to ISK 115.454 million as described in note 1.

\* Matured and terminated trades, and unpaid cash flow from open trades

A derivative contract is accounted for as an asset if the total net position of all derivatives contract of the counterparty is in the Bank's favour. Negative unpaid carrying value in the analysis of assets is therefore always counteracted by positive values of other contracts by the same counterparty.

## Investments in subsidiaries

24. Investments in subsidiaries specified by entities and geographical location:

	Functional currency	Ow nership	30.6.2010			31.12.2009
			Unpledged	Pledged	Total	Total
Kaupskil ehf. (Arion Bank), Iceland .....	ISK	100,0%	88.520	-	88.520	-
FIH Erhvervsbank, Denmark .....	DKK	99,9%	-	86.235	86.235	97.047
Kaupthing Mortgage Inst. Investor Fund, Iceland .....	ISK	100,0%	-	16.216	16.216	17.303
Norvestia Oyj, Finland .....	EUR	32,7%	7.525	-	7.525	8.776
NBS Diversified Credit Fund, UK .....	EUR	99,9%	5.463	-	5.463	6.264
Kaupthing Sverige AB, Sw eden .....	SEK	100,0%	4.769	-	4.769	5.103
Kirna ehf., Iceland .....	ISK	100,0%	4.123	-	4.123	3.557
Other .....	-	-	3.263	-	3.263	3.576
<b>Investments in subsidiaries .....</b>			<b>113.663</b>	<b>102.451</b>	<b>216.114</b>	<b>141.626</b>
Investments in subsidiaries in mEUR .....			725	653	1.378	788

The equity stake in FIH Erhvervsbank is shown as fully pledged against a loan with the Central Bank of Iceland at the estimated current value of the claim. On 18 September 2010 (event occurring after the date of the above valuation) the Central Bank of Iceland as a pledgee of the Bank's shares in FIH entered into an agreement to sell the shares to a consortium of funds. This claim against Kaupthing will be fully settled with this transaction and the Central Bank of Iceland will not have a deficiency claim against Kaupthing in relation to this transaction.

On 11 January 2010 the Icelandic FSA granted Kaupskil ehf. with a permission to own 87% in Arion Bank on behalf of Kaupthing.

The Bank controls 56.0% of the votes in Norvestia Oyj despite holding only 32.7% of outstanding shares, and the company is thus considered to be a subsidiary of the Bank.

## Other assets

25. Other assets are specified as follows:

	30.6.2010	31.12.2009
	Total	Total
Accounts receivables .....	37.717	40.549
Sundry assets .....	4.264	4.003
<b>Other assets at carrying value .....</b>	<b>41.981</b>	<b>44.552</b>
Provisions .....	(39.459)	(37.012)
<b>Other assets at fair value .....</b>	<b>2.522</b>	<b>7.540</b>
Other assets in mEUR .....	16	42

## Other Information

### Claim process

26. A formal process for the creditors of the Bank to file claims against the Bank began on 30 June 2009 and ended on 30 December 2009.

The liabilities of the Bank are currently being determined through a formal process administered by the Winding-up Committee. Until the Winding-up Committee has taken decisions on all claims and disputes have been settled, the real and accurate amount of liabilities is uncertain. According to Act no. 44/2009, claims should have been filed as at 22 April 2009 in the relevant currency and converted into ISK at the exchange rate published by the Central Bank of Iceland on 22 April 2009. Hence, the liability side has been fixed in ISK as at that date. The estimated liability side fixed at 22 April 2009 was published in the Bank's half year figures as at 30 June 2009. In the event there are discrepancies between the liabilities estimate presented by the Resolution Committee there and the accepted claims finally determined by the Winding-up Committee, the determination of the latter prevails.

The total amount of claims in the claim registry as at 23 September 2010 is approx. ISK 6,442 billion. Since the expiration of the time limit for lodging claims on 30 December 2009, the total amount of claims lodged has decreased by ISK 874 billion from the total of ISK 7,316 billion at that time. The aggregate amount of claims exceeds the Bank's liabilities as recognised in its balance sheet of 30 June 2009, ISK 4,129 billion. Priority and senior claims, lodged under article 109-113 amount now to ISK 5,889 billion compared to ISK 3,679 billion as recognised in the Bank's balance sheet of 30 June 2009. The difference can in part be explained by claims lodged for deposits which the Bank has already repaid, significant amount of bond claims and some deposits claims lodged in duplicate or triplicate, and off-balance sheet items, such as claims for damages and guarantees. Furthermore, creditors generally lodge claims at maximum levels. The aforementioned claims add up to at least ISK 2,000 billion.

Breakdown of claims against the Bank under each article and by type as at 23 September 2010:

	Art. 109	Art. 110	Art. 111	Art. 112	Art. 113	Art. 114	Total
Guarantees .....	1.287	-	114	152.709	144.160	1.358	299.628
Derivatives .....	26.862	8.728	13.865	118	434.489	18.867	502.929
Miscellaneous .....	26.226	1.539	0	12	143.057	1	170.834
Deposit Agreements .....	-	-	-	216.817	89.389	4.684	310.890
Deposits .....	1.700	-	-	8.312	35.835	31	45.878
Reimbursements .....	-	-	-	1.308	315	9	1.632
Loan Agreements .....	-	-	201.193	18	354.621	5.639	561.472
Invoices .....	159	731	-	70	2.621	251	3.832
Contracts .....	-	43.569	-	-	47.747	0	91.316
Damages .....	26.537	317.948	-	1.012	211.344	60.977	617.818
Bonds .....	9.080	-	102.012	12.601	3.245.600	461.150	3.830.443
Interests .....	87	0	48	4.957	634	92	5.818
<b>Total .....</b>	<b>91.936</b>	<b>372.515</b>	<b>317.231</b>	<b>397.934</b>	<b>4.709.814</b>	<b>553.060</b>	<b>6.442.491</b>

As at 23 September 2010, priority claims lodged under article 109-112, amounted to ISK 1.180bn. The total amount of priority claims against Kaupthing Bank is thus ISK 912bn lower than presented at the Creditors' Meeting on 18 May 2010, at which time they amounted to ISK 2.092bn.

Included in the table above is ISK 103bn above and below is claim from the ICB related to a EUR 500m loan granted in October 2008 with a security in FIH shares. On 18 September 2010, the ICB as a pledgee, agreed to sell the shares in FIH. The ICB's claim against Kaupthing is fully settled with this transaction and the ICB will not have a deficiency claim against Kaupthing. Thus, by completion of the transaction, priority claims will further decrease by ISK 103bn and accepted claims will decrease by ISK 93bn.

Status of claims lodged under each article:

	Art. 109	Art. 110	Art. 111	Art. 112	Art. 113	Art. 114	Total
Total lodged .....	91.936	372.515	317.231	397.934	4.709.814	553.060	6.442.491
<b>Adjusted amount*</b> .....	<b>69.924</b>	<b>383.667</b>	<b>237.238</b>	<b>378.503</b>	<b>4.820.099</b>	<b>553.060</b>	<b>6.442.491</b>
Accepted .....	1	10.172	93.077	9	1.361.297	-	1.464.555
Rejected** .....	67.148	329.928	11.466	166.313	1.691.791	452.383	2.719.028
Decision postponed .....	2.775	43.568	132.696	212.182	1.767.010	100.677	2.258.907

Please note that the decisions made by the Winding-up Committee, summarized in the table above may not be final

\*Adjusted amount is the total amount of all claims that decision is made on under respective Article, i.e. rejected, approved or postponed. The difference between it and total amount lodged is when the Winding-up Committee accepts a claim with different priority than claimed.

\*\* Claims here under have been rejected, moved under Art. 114 and no decision taken.

27. Claims recognized by the Winding-up Committee - final decision\*

Final decisions had been taken on ISK 361 billion of claims as at 23 September 2010. The final amounts accepted or rejected under each article can be seen below .

	Total amount accepted	Accepted under each article					
		Art. 109	Art. 110	Art. 111	Art. 112	Art. 113	Art. 114
Guarantees .....	-	-	-	-	-	-	-
Derivatives .....	474	-	-	-	-	474	-
Miscellaneous .....	1.585	-	-	-	-	1.585	-
Deposit Agreements .....	136	-	-	-	-	136	-
Deposits .....	-	-	-	-	-	-	-
Reimbursements .....	0	-	-	-	0	-	-
Loan Agreements .....	93.077	-	-	93.077	-	-	-
Invoices .....	323	-	-	-	-	323	-
Contracts .....	-	-	-	-	-	-	-
Damages .....	1	1	-	-	-	-	-
Bonds .....	68	-	-	-	-	68	-
Interests .....	795	-	-	-	-	795	-
<b>Total accepted .....</b>	<b>96.457</b>	<b>1</b>	<b>-</b>	<b>93.077</b>	<b>0</b>	<b>3.380</b>	<b>-</b>

	Total amount rejected	Rejected under each article					
		Art. 109	Art. 110	Art. 111	Art. 112	Art. 113	Art. 114
Guarantees .....	37.271	-	-	0	35.999	-	1.272
Derivatives .....	-	-	-	-	-	-	-
Miscellaneous .....	32	5	4	0	12	12	-
Deposit Agreements .....	2	-	-	-	-	2	0
Deposits .....	1.723	-	-	-	548	1.172	3
Reimbursements .....	231	-	-	-	156	69	5
Loan Agreements .....	8.233	-	-	8.233	-	-	-
Invoices .....	339	-	4	-	8	112	215
Contracts .....	1	-	1	-	-	-	-
Damages .....	109	16	61	-	5	24	3
Bonds .....	213.911	4.978	-	253	179	100.079	108.422
Interests .....	2.452	65	-	46	447	1.832	63
<b>Total rejected .....</b>	<b>264.303</b>	<b>5.064</b>	<b>70</b>	<b>8.532</b>	<b>37.353</b>	<b>103.302</b>	<b>109.983</b>

Among those above is an agreed claim of EUR 550 million from the Central Bank of Iceland regarding the loan for FIH which was accepted under article 111 as a secured claim. On 18 September 2010 the Central Bank of Iceland as a pledgee of the Bank's shares in FIH entered into an agreement to sell the shares to a consortium of funds. This claim against Kaupthing will be fully settled with this transaction and the Central Bank of Iceland will not have a deficiency claim against Kaupthing in relation to this transaction. Thus, by completion of the transaction, finally accepted claims will further decrease by Iby ISK 93bn.

\* The Winding-up Committee's decision is deemed final if the creditor concerned accepts the Committee's decision on its claim and he or other creditors do not object to the decision, or if objections to the decision have been received too late.

28. Liabilities related to administration of the estate and known priority liabilities

The table above is put forth for illustrative purposes only and represents priority liabilities that are known to the Resolution Committee. Until all claims have been recognized and disputes settled by the Winding-up Committee, the real and accurate amount of liabilities, including but not limited to priority claims, is uncertain. It should also be noted that this table is put forth by the Resolution Committee and does not reflect the decisions of the Winding-up Committee on individual claims.

	30.6.2010	31.12.2009
Compensation Instrument with Arion Bank hf.* .....	29.917	44.927
Liability to Arion Bank hf. ....	-	-
Accounts payable - costs of managing the Bank while in moratorium process .....	775	612
Deposits** .....	10	6
Other .....	258	-
<b>Liabilities related to administration of the estate and known priority liabilities .....</b>	<b>30.960</b>	<b>45.545</b>

\* In October 2008 all of the Bank's deposit liabilities in Iceland were transferred to Arion Bank. (previously New Kaupthing Bank hf.), and also the bulk of the Bank's assets that relate to its Icelandic operations, such as loans and other claims. This transfer was done according to the FME's Transfer Decision dated 21 October 2008. Negotiations on the valuation of the assets and liabilities were concluded on 3 September 2009 when the Government and the Bank agreed not to conclude the valuation of the assets at present but in 3 years time. This solution allows the Bank to capture further upside in the valuation of the assets.

The Bank is to provide cover for any negative initial value ("valuation gap") from the transfer of assets and liabilities from the Bank to Arion Bank; the valuation gap was assessed at ISK 38.358 million as at 22 October 2008. The value of the assets is guaranteed for the time period of the agreement which ends 30 June 2012. The valuation gap amounted to ISK 29.917 million as at 30 June 2010. The valuation gap is denominated 50% in EUR and 50% in ISK. The current decrease in the valuation gap is due to revaluation of the underlying assets, currency movements and accrued interests. The size of the valuation gap will be reassessed at least annually. Therefore, the size of the valuation gap can decrease but has been capped at the initial value save for currency movements and accrued interests.

\*\* The deposits in this category are defined as priority claims acc. to Act no. 125/2008.

## 29. Set-off

The valuation of assets and liabilities in this report does not take fully into account the impact of set-off.

The real and accurate amount of set-off claims finally accepted, remains uncertain until all claims have been recognized and disputes settled by the Winding-up Committee. The Winding-up Committee received set-off claims from close to 100 counterparties amounting to approximately ISK 650 billion. It should be noted that set-off claims are lodged in different ways and many of them are lodged at a maximum level. Not all claims regarding set-off may fulfill the conditions that a declaration for set-off must fulfill according to Icelandic law and in some cases creditors only reserve the rights to a possible set-off. All amounts regarding set-off must be reviewed bearing that in mind.

The Resolution Committee has independently reviewed the list of set-off claims provided by the Winding-up Committee and currently estimates likely set-off effects on an approximate, rough and preliminary basis of ISK 100 - 150 billion in total on the face value of the respective liabilities. As the Resolution Committee has noted before, the exact set-off effects on the assets and liabilities side may differ and the committee estimates that the effects on the asset side will be substantially lower since some of the assets that are subject to set-off have already been impaired or provisioned for. The committee's estimation takes into account the fact that substantial amount of the set-off claims filed are already accounted for in note 1. It should also be stressed that this estimation is put forth by the Resolution Committee and does not reflect the decisions of the Winding-up Committee on individual claims.

Set-off impacts can make a material difference to overall creditor recoveries. Further information will be provided on this matter as it becomes available.

## 30. Foreign exchange rates

The foreign exchange rates used in the preparation of the balance sheet as at 30 June 2010 is based on Reuters foreign exchange rates as at 16:30 on that date. The foreign exchange rates used in the preparation of the income statement is the exchange rates at the end of the transaction day. The table below displays the foreign exchange rates used for the balance sheet as at 30 June 2010 and the foreign exchange rates for past comparison period.

	<u>30.6.2010</u>	<u>31.12.2009</u>
AUD .....	108,10	112,53
CAD .....	120,37	119,74
CHF .....	118,49	121,18
DKK .....	21,05	24,16
EUR .....	156,79	179,78
GBP .....	190,92	202,65
JPY .....	1,44	1,35
NOK .....	19,69	21,63
SEK .....	16,46	17,54
USD .....	127,66	125,43

## 2.2 Overview of H1 2010 Statement of Assets

### Results

- Excluding FX fluctuations, the actual value increase of the Bank's assets\* amounted to ISK 119bn in H1 2010.
- The effect of the appreciation of the Bank's functional currency (ISK) on the Bank's account was great during 1H 2010.
  - The ISK appreciated by 9% in H1 2010. Since major part of the Bank's assets are in other currencies the sharp appreciation of the ISK had significant negative impact on the Bank's reported asset values
- Including FX fluctuations, the value of the Bank's assets\* increased by ISK 60bn in H1 2010.
- Significant value increase in the loans to customers' portfolio and in shares and instruments with variable income.
- Fee income amounted to ISK 800m covering the majority of the Bank's internal operating cost and fully covers salaries and salary related cost.
- The cash reserve amounts to ISK 195bn and increased by ISK 19bn in H1 2010 despite negative impact of ISK 12bn deriving from FX changes on reported cash reserve and ISK 14,5bn cash payment as part of Arion Bank's capitalization.
- Total annualized operating cost in H1 2010 was 0,28% of total assets at carrying value (ISK 2.650bn).

### Development of the Bank's Asset Base\* in H1 2010

Assets	ISK million			EUR million		
	30.06.2010	31.12.2009	% change	30.06.2010	31.12.2009	% change
Cash in hand .....	195.456	176.066	11,0%	1.247	979	27,3%
Loans to and claims against credit institutions .....	38.650	53.481	-27,7%	247	297	-17,1%
Loans to customers .....	304.013	366.894	-17,1%	1.939	2.041	-5,0%
Bonds and debt instruments .....	7.178	9.539	-24,8%	46	53	-13,7%
Shares and instruments with variable income .....	57.521	28.849	99,4%	367	160	128,6%
Derivatives and unpaid derivatives .....	114.476	118.812	-3,6%	730	661	10,5%
Investments in subsidiaries .....	113.663	27.276	316,7%	725	152	377,8%
Other assets .....	2.522	7.540	-66,6%	16	42	-61,6%
<b>Total assets .....</b>	<b>833.479</b>	<b>788.457</b>	<b>5,7%</b>	<b>5.316</b>	<b>4.386</b>	<b>21,2%</b>
Less: Liabilities related to estate admin cost and known priority liabilities .....	-30.960	-45.545	-32,0%	-197	-253	-22,1%
<b>Total assets* .....</b>	<b>802.519</b>	<b>742.912</b>	<b>8,0%</b>	<b>5.118</b>	<b>4.132</b>	<b>23,9%</b>

All amounts in table in mISK and mEUR.

The value of the Bank's assets\* increased in H1 2010 by ISK 60bn or 8% and by EUR 986m or 24% in EUR.

\* Assets at fair value net of pledged positions, liabilities related to estate administration cost and known priority liabilities.

## Bridge - Development of the Bank's Asset Base\* in H1 2010

Bridge at fair value (unpledged)	Fair value unpledged as at 31.12.2009	Cash flow	FX changes and other	Real value changes	Kaupskil equity injection	Fair value unpledged as at 30.06.2010
Cash in hand .....	176	45,5	-12	0,5	-14,5	195,5
Loans to and claims against credit institutions .....	53,5	-6	-9			38,5
Loans to customers .....	367	-29	-24	18	-28	304
Bonds and debt instruments .....	9,5	-3,5		1		7
Shares and instruments with variable income .....	29	-0,5	-4,5	33,5		57,5
Derivatives and unpaid derivatives .....	119	-3,5	-5	4		114,5
Investments in subsidiaries .....	27,5	-0,5	-2,5	23	66	113,5
Other assets .....	7,5	-4,5	-0,5			2,5
Less: Payment of known priority liabilities .....	-45,5			15		-30,5
<b>Total assets .....</b>	<b>743</b>	<b>-2</b>	<b>-58</b>	<b>95</b>	<b>24</b>	<b>802</b>
Operating costs in period.....		4				
Interest and fee income in Loans to customers.....		-6				
Loan repayments into temporarily pledged bank accounts.....		4				
		<b>0</b>				

All amounts in table in bnISK.

\* Assets at fair value net of pledged positions, liabilities related to estate administration cost and known priority liabilities.

Excluding FX fluctuations, the actual value increase of the Bank's assets\* amounted to ISK 119bn in H1 2010.

- ISK 33,5bn from Shares and instruments with variable income
- ISK 24bn due to over-collateralization of pledged positions realized in the Kaupskil equity injection
- ISK 23bn from Investments in subsidiaries (thereof ISK 22bn related to Arion Bank)
- ISK 18bn from Loans to customers (Europe ISK 6bn, Nordic ISK 11bn and NOA ISK 1bn)
- ISK 15bn in reduced priority liabilities (compensation instrument with Arion Bank)
- ISK 5,5bn from other asset classes

## Statement of Assets on Carrying Value and Fair Value as at end of H1 2010

Assets	Carrying value 30.06.2010			Fair value 30.06.2010	
	Total	Unpledged	Provision	Unpledged	Weighted average
Cash in hand .....	195.456	195.456	0	195.456	100,0%
Loans to and claims against credit institutions .....	340.202	73.523	-34.873	38.650	52,6%
Loans to customers .....	1.233.716	1.233.716	-929.703	304.013	24,6%
Bonds and debt instruments .....	56.108	7.178	0	7.178	100,0%
Shares and instruments with variable income .....	197.485	57.521	0	57.521	100,0%
Derivatives and unpaid derivatives .....	369.216	253.762	-139.286	114.476	45,1%
Investments in subsidiaries .....	216.114	113.663	0	113.663	100,0%
Other assets .....	41.981	41.981	-39.459	2.522	6,0%
<b>Total assets .....</b>	<b>2.650.278</b>	<b>1.976.800</b>	<b>-1.143.321</b>	<b>833.479</b>	<b>42,2%</b>
Total assets (EUR).....	16.903	12.608	-7.292	5.316	42,2%

All amounts in table in mISK and mEUR.

- Total assets under management as at the end of H1 2010 amounted to ISK 2.650bn at carrying value, including assets pledged to counterparties amounting to ISK 673bn.
- Unpledged assets amounted to ISK 1.977bn at carrying value and ISK 833bn at fair value.

Please note that supplementary material to this Statement of assets can be found in a presentation which is published on the Bank's website in connection with the publication of the Creditors' Report. The supplementary material contains further analysis on each asset class.

## 2.3 The Loans to customers portfolio

### 2.3.1 The loan portfolios - overview

Loans to customers are divided into three portfolios:

- **Nordic portfolio:** the vast majority of loans to customers in the Nordic region.
- **Europe portfolio:** the vast majority of loans to customers in Europe.
- **NOA portfolio:** mainly non-operating assets.

The Nordic and Europe portfolios are actively managed by the asset management team and the vast majority of the stakes in these portfolios have underlying operations or assets.

The loans in the NOA portfolio are under the supervision and management of the Inspection Committee and undergo thorough revision by the Committee.

#### Changes in H1 2010

The fair value of the Loans to customers amounted to ISK 304bn and decreased by ISK 147bn in H1 2010.

- The decrease is driven by transfer of loans to Arion Bank of ISK 28bn, (see description below), inflow due to principal repayments of ISK 29bn and negative FX changes of ISK 24bn.

Value increase, excluding FX variations, in H1 2010 related to Loans to customers amounted to ISK 18bn.

- Europe portfolio: ISK 147bn at fair value (actual value increase in H1 2010 ISK 6bn)
- Nordic portfolio: ISK 121bn at fair value (actual value increase in H1 2010 ISK 11bn)
- NOA portfolio: ISK 37bn at fair value (actual value increase in H1 2010 ISK 1bn)

#### Loans transferred to Arion Bank

The fourth portfolio, which is not anymore a part of the Bank's assets, called the pledged portfolio which amounted to ISK 84bn at fair value as at YE 2009 and included a portfolio of ISK mortgage loans, FX mortgage loans and loans to Icelandic municipalities, organisations and other government related entities, which had been pledged by the Bank to the CBI before the collapse of the Bank.

- In January 2010, when the equity injection into Arion Bank was executed. The assets of this pledged portfolio were injected into Arion Bank and are therefore not included in Kaupthing's parent company accounts as at the end of H1 2010.
- The loans in the Nordic portfolio which were injected into Arion Bank amounted to ISK 20,4bn at fair value and ISK 21bn at carrying value.
- The loans in the Europe portfolio which were injected into Arion Bank amounted to ISK 7,6bn at both fair value and carrying value.

### 2.3.2 Positions under Asset Management – Process and Procedures

As mentioned before, the Nordic and Europe portfolios are actively managed by the asset management team and the vast majority of the stakes in these portfolios have underlying operations or assets.

The mandate of the asset management division can be divided into five steps: stabilization, consolidation, full overview, which leads to the ordinary management of the position and ends with an exit strategy.

*Stabilization:* The asset management team was up against major challenges in the beginning. The main task was to stabilize the situation and to retain value wherever possible by preventing the collapse of different assets and by refusing strongly any fire sale bids.

*Consolidation:* The Bank protected assets in its foreign entities in the Nordic region and finally managed to transfer assets back to the parent company. Loans were transferred from branches and a subsidiary in the Nordic region to the parent company.

*Full overview:* Once the initial challenges had been overcome, a more comprehensive and thorough approach was taken on the portfolio. Responsibility was allocated between employees from asset management, portfolio management, finance and legal counsel. Positions were analyzed and prioritized by urgency and size. A detailed facility by facility review was carried out and strategies for all exposures and their recovery were formulated.

*Management:* With a full overview of all the positions, the Bank went into ordinary management and relevant actions were taken for each asset. The aim is to secure maximum recovery with pro-active management. Further objectives for each exposure above ISK 1bn were set and, when appropriate, external advisors and consultants hired to ensure top class expertise.

*Exit strategy:* When previous steps were completed a solid foundation had been set up for the development of a medium to long term strategy for each position with the aim of ensuring realization of its maximum value.

The ultimate goal is to develop the optimal solution for each position and thereby maximize recovery value for the creditors of the Bank.

## Asset Disposal Process

### Overview

From the outset the Bank has followed a structured process when and how decisions are being made regarding potential asset disposals. The Bank is not actively trying to sell off assets and has strongly refused any fire sale bids; however, all reasonable potential monetization possibilities are examined. To that end, all loan and equity positions managed by the asset management team have a dedicated account- and portfolio manager who constantly monitors the performance and monetization opportunities for each asset.

As a part of a continuous company analysis and monitoring, future target values for year-end 2012 have been established by Kaupthing for all loan and equity positions exceeding ISK 1bn. The Bank has carried out a detailed review for each of these exposures to derive the 2012 target values. The target values are based on tailored strategies for recovery of the exposures with the aim of ensuring maximum recovery within a reasonable timeframe. Further objectives including operating plans and milestones, risk limitations, update reporting and monitoring for each exposure are set and, when appropriate, external advisors and consultants are engaged to provide input on valuation and counsel in analysing potential options available to the Bank.

Although the Bank is not actively seeking to dispose of its assets, it remains open to direct approaches from interested parties and is willing to consider offers should valuation levels be acceptable (e.g. loan repayment at par). However, when assets are not put in a formal sales process, interested parties have to make their own review and due diligence based on available public information. All offers are evaluated based on an established framework (see below) and e.g. compared with updated target values before a decision is taken.

### *Framework and process for potential asset monetization*

To date, the asset management team has been focused on value creation and to support and restructure the loan portfolio as needed while very few assets have been sold. To ensure value maximization, all assets are constantly monitored and potential monetization opportunities assessed. To this end, the Bank established an asset monetization framework. The following are the main considerations that could trigger a potential asset monetization for a particular asset:

- estimated current value/potential disposal value > future target value
- unfavourable risk/return to hold and support asset
- too large/expensive to support asset, e.g. major refinancing need, large payout or investments needed
- restrictions to hold on to an asset due to e.g. regulatory / legal reasons
- bids for loan exposure at par, full repayment plus interest

If one or more of the above conditions are fulfilled with respect to a particular asset, a proposal outlining the main pros and cons of holding or monetizing the asset, may be submitted to the Asset Committee.

#### *The Asset Committee's decision criteria*

The principal criteria for potential monetization are based on the Bank's target valuation of assets. The Asset Committee has established certain criteria to evaluate proposals for a potential asset disposal. Decisions are made with advice from external advisors in all larger cases and as needed in the case of smaller exposures.

Among the most significant issues:

- Thorough analysis of potential options based on most recent obtainable information.
- Expected value achieved through disposal compared to the expected value if retained including certainty of achieving such a value.
- Proposal considered within the context of current valuation, market interest, trading levels in the market and future target value.

The Bank always has the option to hold and support assets if it is deemed more favourable. The Asset Committee with the support of relevant advisors can either accept or reject the submitted proposal.

#### *Process design*

If a proposal to monetize an asset is considered acceptable by the Asset Committee, a final sales process is designed and executed by the asset management and the legal teams. Decisions are made on deadlines, timeline and documentation are finalised internally with external legal advice as needed.

It is the ResCom's general procedure that larger equity positions are sold in a formal sales process (i.e. mostly through auctions) or public placements.

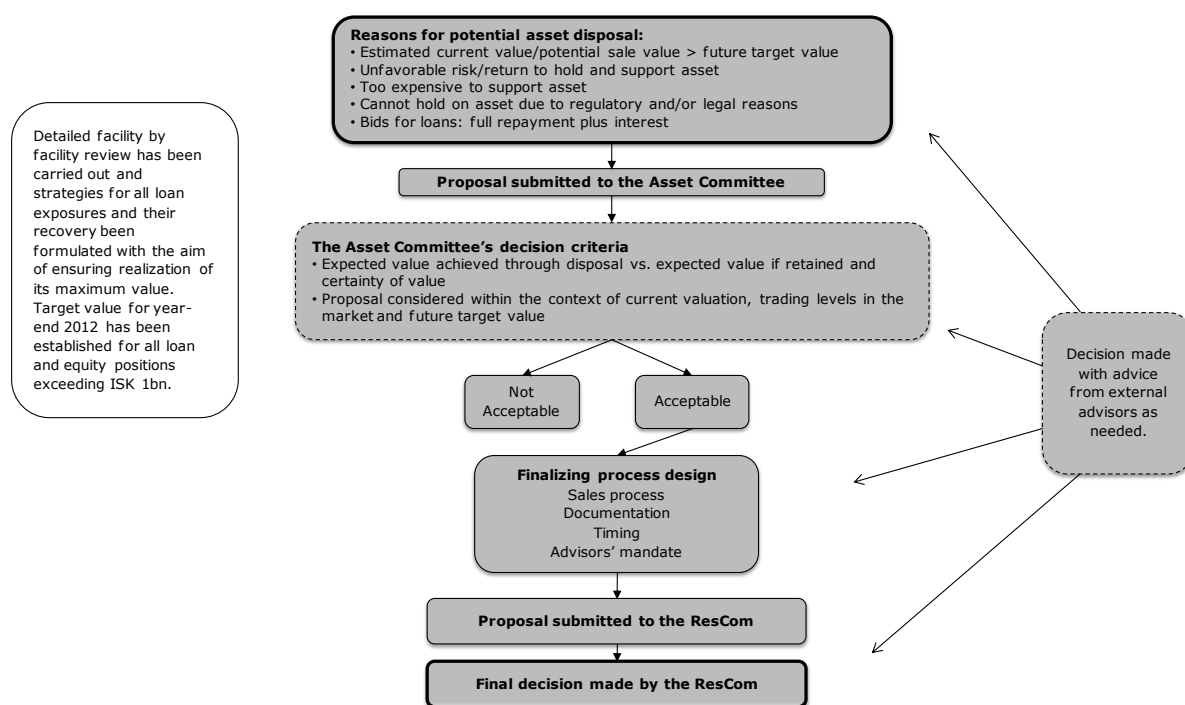
- The objective is that all formal asset sales will be announced publicly on the Bank's website.
- If deemed more favourable, equity positions may be sold through a different process.

However, loan positions are generally sold in private placements, to date mainly leading to full repayments.

For larger equity positions, the asset management team appoints an external advisor to run a sales process where conventional tools, such as financial, legal and commercial due diligence is carried out. The internal asset management and legal teams work closely with the relevant advisor throughout the process.

If the proposal to monetize an asset is considered acceptable by the Asset Committee the account manager together with the relevant managing director in the asset management team submits a proposal to the ResCom for final approval. A final decision on asset disposal is always made by the ResCom.

## Asset monetization framework



### 2.3.3 Restructuring

In 2008 and 2009, the majority of the loan portfolio in active management (i.e. Europe and Nordic) was restructured. The restructuring projects required a significant time and effort from the asset management team, the internal legal counsel and the members of the ResCom. As most of the active portfolios have now been restructured, the Bank does not anticipate many restructuring exercises to be completed going forward. When restructuring assets, the debt level is set at a level not lower than perceived enterprise value at restructuring. This leaves little leeway for unfavourable development of any particular asset. It can therefore be expected that ultimately some assets that have undergone restructuring might drop again to the watch list and be in a need for further reorganisation.

#### Progress in restructuring work

In December 2008, 76% of Europe portfolio and 41% of the Nordic portfolio (since April 2009) was on the Bank's watch list (or had the risk of getting there). Those are loans whereby cash flow is insufficient to service debt and there are (repeated) covenant breaches. Some of which (a) are in industries badly hit by recession; or (b) had owners that were distressed because of the financial crises and unable to support their assets; or (c) had the wrong capital structure to start with.

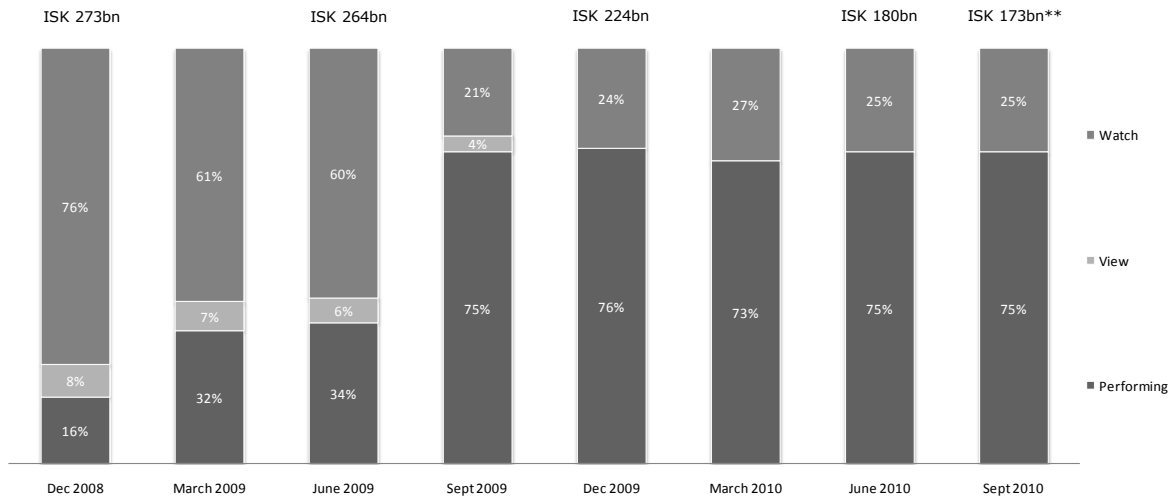
A considerable part of the Nordic and Europe loan portfolio has undergone restructuring. As at 30 September 2010, only approx. 25% of the Europe and 14% of the Nordic loan balance were still on the watch list. The status of loan portfolios is categorised in the following manner:

- *Performing loans:* Loans to entities where cash flow is sufficient to service debt, i.e. interest and principal repayments and no breaches in agreements are foreseeable in the future.
- *Loans on view list:* Loans to entities where cash flow is sufficient to service debt, i.e. interest and principal repayments, but agreements have been breached or are likely to be breached in the foreseeable future. Some banks include this category within performing loans.
- *Loans on watch list:* Loans to entities where cash flow is insufficient to service debt, i.e. interest and principal repayments and agreements have been breached repeatedly.

The graphs below shows the portfolios based on the carrying value in the respective month.

The increase in performance is mainly driven by an extensive financial restructuring work, covenant resets, active management and improved market conditions.

## Europe portfolio\*



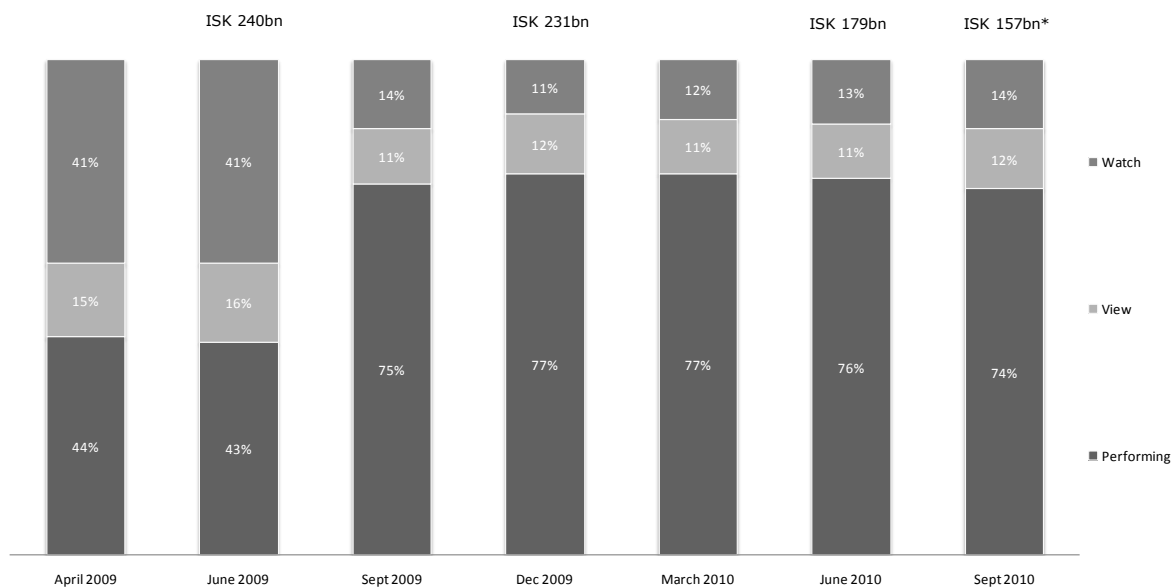
\* The Europe portfolio excludes the Bank's financing of the former Middlesex Hospital site (real-estate development in Fitzrovia, London) where the Bank has also all the equity project Los Angeles (9900 Wilshire project in Beverly Hills, a luxury residential scheme) and.

\*\* Based on valuation from Statement of Assets as at 30 June 2010.

Debt to equity conversion of approximately ISK 80bn is a major factor in increased performance in 2009 and contributes to the decrease in carrying value in 2009.

In the last quarter of 2009 certain option value assets were transferred back to the Bank from Arion Bank as part of the capitalization agreement. These assets had low fair value ascribed to them and sometimes high carrying value. Option value assets are valued at insignificant amount as at 30 June 2010, but ResCom believes there is a possible future upside of few million Euros. The transfer of the option value assets back to the Bank was a part of the overall aim of the ResCom to make sure that value of all assets was being maximised. This transfer explains the increase in the watch list between September 2009 and December 2009.

## Nordic portfolio



\* Based on valuation from Statement of Assets as at 30 June 2010.

Majority of the loans in the Nordic portfolio were transferred from the respective countries in Q1 2009. The decrease in carrying value in the Europe and Nordic loan portfolios in H1 2010 is primarily driven by:

- Principal repayments in H1 2010, mainly from performing loans, of ISK 28bn
- Loans transferred to Arion Bank as part of its capitalization of ISK 28bn
- The carrying value has been reduced in accordance with the debt-to-equity conversion implemented in H1 2010 of ISK 8bn
- Considerable FX fluctuations in H1 2010 which result in decrease in the carrying value as it is reported in ISK

In H1 2010, the Bank wrote-off a part of its exposure to Mosaic Fashions (in administration since March 2009) of carrying value ISK 36bn. Other write-offs in the period amounted to ISK 1bn.

#### Additional observations on performance in the Europe and Nordic Portfolios

- Mainly performing loans have been repaid
  - Therefore, since the Bank's Loans to customers' portfolio is a static portfolio, it is expected that the portfolio shows declining performance through time - everything else being equal
- Arion Bank was recapitalised with performing loans
  - Transfer of performing assets in the recapitalization of Arion Bank skews the comparison between periods
- Substantial parts of the loans that are now on the watch list are expected to remain on the watch list for some time.
  - These loans (including some option value assets transferred from Arion Bank to Kaupthing in Q4 2009 at Kaupthing's request) will only become performing after a formal composition has taken place
- Sometime after restructuring one should expect some setback in performance of a static portfolio.
  - Even though this has not been the experience so far, one should keep in mind that when restructuring assets, the debt level is set at a level not lower than perceived enterprise value at restructuring. This leaves little leeway for unfavourable development of any particular asset. It can therefore be expected that ultimately some assets might drop to the watch list and that the assets will be in a need for further reorganisation.
- Many of the loans on the watch list are accruing default interest which inflates the carrying value of watch list assets.

#### *Equity value being created*

The Bank has acquired a controlling interest in several companies and the Bank has, as an equity holder, tried to make sure that its views are presented by nominating board members while also making sure to retain other board members with industrial know-how and expertise. The Bank has already started to see equity value being created in some of the restructuring cases. Equity acquired through debt for equity swaps is classified as *Shares and instruments with variable income* in the Bank's financial information.

In all of the major restructuring cases, the Bank has hired external advisors. Depending on the nature of the restructuring projects, these external parties can be financial advisors, legal counsels, real estate consultants, retail experts, accountants, auditors in the relevant countries etc. The cost of these is in most cases paid by the respective borrower.

#### *Restructuring – case studies*

The objective of all restructuring efforts is to maximize the likelihood of recouping the Bank's previous full exposure, protecting the Bank's interests and the company value going forward. Before restructuring the account is analyzed extensively, taking into account various other options, other creditors, collateral position etc.

Common scenarios where restructuring is a real option:

- Insufficient cash flow to service the debt, the company has no real equity and there is a risk of management behaving irrationally.

- Potential equity value and the Bank gain a legal avenue to the asset due to e.g. covenant breaches.

Following are important practicalities which the Bank takes into account when executing a capital restructuring. The aim is to find the right balance between:

- Operational disruptions and the possible outcome of the restructuring exercise.
- The costs associated with the financial restructuring and its complications, against future cost savings while bearing in mind how easily the structure can be managed.
- What incentives to give to other stakeholders: sound understanding of the company's future prospects and its value are of utmost importance in this respect.
- The aim is to set the debt level not lower than perceived enterprise value at restructuring.

Following is list of some restructuring cases implemented by the Bank. This list cannot be taken as conclusive.

#### *Aurora Fashions / Mosaic Fashions*

The Bank and the former senior management of Mosaic Fashions established Aurora Fashions Limited ("Aurora") to take over the retail brands Karen Millen, Coast, Warehouse and Oasis, which previously belonged to Mosaic Fashions Limited ("Mosaic"). The administrators which were appointed to Mosaic Fashions sold in an asset deal parts of Shoe Studio to Dune and parts of the Principles assets to Debenhams. This operation was completed with considerable efforts from Deloitte, DLA Piper and BDO Stoy Hayward.

Mosaic had been experiencing significantly deteriorating earnings due to the UK recession compounded by financial difficulties. After attempts to restructure the business in consultation with key stakeholders, Mosaic's board of directors decided on 1 March 2009 to request that the company be put into administration. This step was necessary as it seemed clear that Mosaic would not be able to meet its obligations to its creditors. Furthermore, attempts to restructure the business with a view to securing its continued operations had failed.

Currently, Aurora is financially sound with reduced capital requirements and fit to meet the challenges in the retail market. The new structure will strengthen the brands by bringing a greater management focus to operations and providing opportunities to create a more flexible cost structure by reducing fixed expenses.

To date the transaction has proved successful although the UK retail environment still remains challenging. The aim is to continue focusing on de-leveraging the business but also preserving the upside if and when the retail market recovers. Once the benefits of Aurora's strategy become evident, the ResCom is confident that there will be a significant recovery for the Bank.

Aurora Fashions filed its financial results for the H1 2010 ending 31 July 2010. The company reports global retail sales of GBP 362 million and EBITDA up 36% to GBP 17,8 million. Other key figures reported:

- LFL sales up 5%
- 37 new stores opened
- On-line sales grow by 34%

Further information on Aurora Fashions' operations and performance can be found at [www.aurorafashions.com](http://www.aurorafashions.com).

#### *All Saints*

To project the Bank's exposure to a shareholder loan, the Bank reached an agreement with the main shareholders of the British retail chain All Saints, which will consolidate the company's position as the leading design led brand on the British market. New investment equivalent to ISK 600 million, valued at ISK 7.541million as at end of H1 2010, was made in H1 2009 to protect the Bank's assets and its interests in a holding structure. All Saints was founded in 1994 and was acquired by Kevin Stanford in 2003, at which point its sales were less than GBP 5m. Since then the company has been transformed into a brand that holds a strong position on the British High Street. The company has demonstrated

robust growth in both revenues and strong LFL performance in challenging market conditions. The Bank rates the company's prospects positive going forward despite the difficult conditions in the UK retail market. Furthermore, this enabled the company to secure GBP 30m refinancing of its debt and further grow its business in the UK and internationally. These agreements removed the uncertainty over the company's shareholding and funding, and allow it to continue its growth.

#### *Former Middlesex Hospital Site*

The former Middlesex Hospital site on Mortimer Street in Fitzrovia, was bought for GBP 175m in June 2006 in a joint venture by Kaupthing and the CPC Group. In Q4 2008, Kaupthing swapped its shares in another project (the 9900 Wilshire project in Beverly Hills, a luxury residential scheme) with the CPC Group in exchange for their shares in the Middlesex project. Both sites had been held in joint ventures by Kaupthing and the CPC group.

From the outset the Bank has followed a structured process when and how decisions are made regarding potential asset disposals. The Bank applied the standard asset disposal process framework (see chapter 2.3.2 *Positions under Asset Management – Process and Procedures*) for the Middlesex Site. CB Richard Ellis was engaged to handle the sales process in light of their extensive knowledge of the site and their previous work for the Bank during 2H 2009 as co-advisor. A satisfactory opinion was received from an experienced third party on the engagement agreements.

Following a detailed strategy review and in light of positive trends in the Central London property market, the Bank decided to put the site in the core of West End in London into a formal sales process which commenced in Q2 2010. An announcement on the sales process was published 2 March 2010 on the Bank's website, [www.kaupthing.com](http://www.kaupthing.com), and incorporated in the Creditors' Report 9 March 2010. This was overall a good sales process, which led to competitive bidding. After receiving first round of bids by 18 May 2010 the Bank together with its advisors investigated several different options, including straight sale, sale with an overage and a joint venture partnership ("JV").

The conclusion following a rigorous process was, as announced on the Bank's website 10 December 2010, to enter into a 50/50 JV partnership with Aviva Investors and appoint Exemplar Properties as development manager for the site. Kaupthing will put in the land but Aviva will fund the planning and the development costs up to the land value. The bid that came from Aviva and Exemplar was deemed the strongest one in terms of financials, vision and experience. Additionally, the scheme produced by Exemplar and Aviva was in the Bank's view the best and most thoroughly considered proposal for the site. Kaupthing is bound by confidentiality and will therefore not disclose details of the JV agreement.

The three-acre site will be transformed into an integrated sustainable, mixed-use community centred on a new landscaped public realm that embraces the listed hospital chapel. The practical completion of the construction of the high-quality scheme is expected in late 2014.

To be designed by leading architectural practice Sheppard Robson, the site's new master plan will include a mix of open market residential apartments, affordable homes, retail, Grade A commercial space, and amenity for local occupiers including a health centre and an education facility. Kaupthing, Aviva Investors and Exemplar Properties intend to submit a new planning application to Westminster City Council in mid-2011. Following the grant of planning permission, work will commence on site immediately.

The ResCom's principal objective is to ensure proper handling of, and to maximise the value of the Bank's assets to the benefit of its creditors. The Bank's long term JV objectives are maximization of the market value of the commercial property, capital receipts of the residential property and the project IRR. The Bank deems that the development of the site through the JV with Aviva will maximise the value to the Bank's creditors.

CB Richard Ellis and Olswang acted as advisors for the Bank during the sales process.

Further information on the Middlesex project can be found in an announcement on the Bank's website.

### *Huurre Group Oy*

The Bank supported a major restructuring of one of North-Europe's leading commercial refrigeration companies, Huurre Group Oy (HQ in Finland) to strengthen the Group's financial position in the current challenging economical climate. As a result of this, the equity ratio of the Group substantially improved. Simultaneously, the loan facilities were extended, having a maturity of three years secured the Group's financing to mid 2012. Following the restructuring, the Bank owns 100% of the Group's equity. For the restructuring, PwC participated in the valuation and regarding business sensitivity study. Deloitte advised on tax and structuring and Olswang and Borenus gave advice on legal issues and documentation.

### *Bay Restaurant Holdings Limited and Town & City Pub Company Limited*

Bay Restaurant Group announced on 17 September 2010 the sale of 22 ha ha bar & grill restaurants ("ha ha") to Mitchells & Butlers for a consideration of GBP 19.5 million. This part of Bay's operations EBITDA amounted to GBP 2.6 million in the fiscal year ending in February 2010.

After capital restructuring in July 2009, Kaupthing Bank and another bank became major shareholders in Plato Company 3 which is the 100% holding company of Bay and sister company T&C Pub Company. The combined group was highly leveraged and the Bank owned a substantial part of its debts or close to 60%. The rest of the debt was owned by a single bank. The group agreed with its banks, on a partial debt-for-equity swap conversion which reduced its debt by approx. GBP 90m. For this transaction, PwC gave advice on tax and restructuring and Slaughters & May on legal issues and documentation.

Following thorough analysis of potential options and in light of strong interest received through reversed enquires, a number of highly regarded advisory firms were approached and had the opportunity to pitch for an advisory role. As part of the mandate process the advisory firms were asked to produce a desk top valuation of the brands within Plato Company 3 and give their recommendation. The previous enquires for ha ha and the valuation received indicated that potential sale value could be in line with the future target value of the Bank (see chapter 2.3.2 *Positions under Asset Management – Process and Procedures*). McQueen was appointed as an advisor based on their comprehensive experience of the industry.

Subsequently, it was decided to start a formal auction process for ha ha in April 2010. Vendor due diligence was conducted and around 20 offers were received. The final price negotiated is at the top end of the valuations received and in line with the Bank's future target value.

The Bank's ResCom is of the opinion that the sales price is strong and that selling ha ha restaurants at this point in time provides more benefits to the creditors of the Bank than a later exit. EBITDA multiples in the sale around 7,5x which the ResCom considers particularly good for a leasehold business. The alternative was an extensive and costly roll-out of the brand in the next few years.

Furthermore, the disposal of ha ha enables Bay to sharpen the focus on the remaining La Tasca operations, which comprises 75 restaurants, mainly in the UK. It is anticipated that although the vast majority of the sale proceeds will be used to repay the two banks, some of the proceeds will be reinvested in the La Tasca business as Bay embarks on a two year investment programme in the brand.

Further information can be found in announcement from Bay Restaurant Group, and also in a news release from Mitchells & Butlers.

### *PMS properties*

The Bank finished the restructuring of a SEK 1,1bn portfolio of twelve properties in Sweden. Eleven out of the twelve properties were refinanced in cooperation with the previous owners, the P.M.S. Group Ltd. in Israel, while one of the assets was refinanced through a bankruptcy process. A proactive approach taken by the Bank secured a considerable equity injection by the owners in both processes and a profit sharing structure. The loans mature in less than five years time and include prepayment incentives for the borrowers.

### *Celsius portfolio*

The Bank agreed with the shareholders of the Celsius property portfolio to extend the maturity of the EUR 142m facility for 24 months. This is a portfolio of French properties on long term lease contracts to the likes of Carrefour and Arriva. The portfolio benefits from a strong rental income that enables full payment of interest and some amortisation of principal over the term. The Bank believes the extension is a good result for both the Bank and the shareholders as asset values are likely to improve in the near future.

### *Acta*

In 2007, Kaupthing Bank Sverige AB granted loans of approx. SEK 1.2bn (ca. EUR 120m) to approx. 3,200 customers of Acta Kapitalförvaltning ("Acta") to invest in bonds issued by Lehman Brothers Treasury Co. B.V. ("Lehman bonds") and guaranteed by Lehman Brothers Holdings Inc. Customers were advised by external party Acta. These loans were transferred to the Bank from its subsidiary in Sweden when it was sold to Ålandsbanken. In February 2010, Kaupthing entered into an agreement with Acta which involves an offer to the relevant customers.

The offer was based on the following:

- Repayment of 60% of nominal amount.
- Transfer Lehman bonds to Kaupthing. The value of the bonds in this transaction was set at 30% of nominal amount.
- Accordingly, the value to Kaupthing of the accepted offer at the time of the offer amounted to 90% of the nominal amount of the loans.
- For the accepting clients, the due dates were postponed for three months. For non-accepting customers, Kaupthing proceeded with collection of original loan amount (maturing during Q1 – Q2 2010).
- The accepting clients agreed not to direct any lawsuits against Acta, Kaupthing or Ålandsbanken.

On 11 May 2010, approx. 85% had accepted the offer, by amount and number.

Compared to transfer value to Kaupthing, taking into consideration other related transactions, the accepted offers result in approx. full recovery for the Bank, based on the current market value of Lehman Treasury bonds.

### *2.3.4 Repayments and exits*

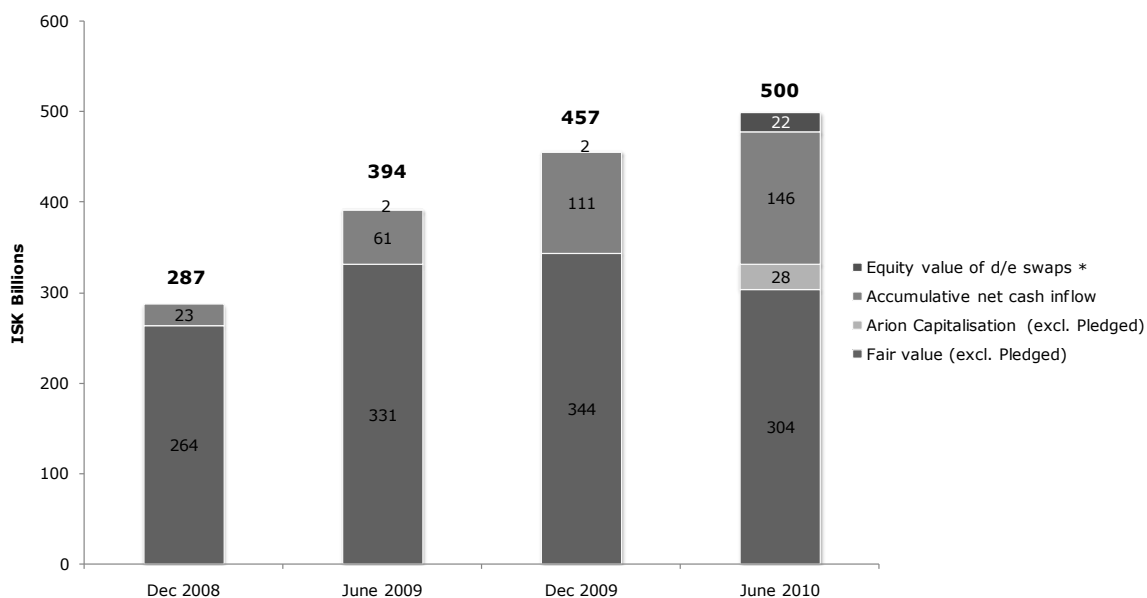
The Bank is not actively trying to sell off assets and strongly refuses any fire sale bids. From October 2008 to the end of Q3 2010, 42 loans have been realised with a total cash flow amounting to approx. ISK 76bn, thereof 32 loans have been paid in full, amounting to approx. ISK 58bn. Please note that numbers are converted to ISK as at the end of each relevant quarter.

Quarter	Number of loans	Amount (mISK)	Recovery
Q3 2010	2 loans	2.640	100,0%
Q2 2010	5 loans	4.728	90,4%
Q1 2010	5 loans	9.147	94,0%
Q4 2009	8 loans	22.912	97,2%
Q3 2009	5 loans	7.549	100,0%
Q2 2009	12 loans	9.409	95,4%
Q4 2008	5 loans	19.351	77,7%
<b>In total</b>	<b>42 loans</b>	<b>75.736</b>	<b>90,7%</b>

In total from October 2008 the weighted average recovery of realised loans has been 90,7%, in 2009 alone it was 97,3% and 93,8% in Q1-Q3 2010.

### 2.3.5 Development of fair value and accumulative net cash inflow

The picture below shows the fair value in addition to the accumulative net cash inflow and equity value created from the Loans to customers' portfolio since December 2008. The picture is shown net of pledged assets and is converted to ISK as at 30.06.2010 FX rate.



Hands-on asset management and loan restructurings together with improved market conditions continue to create value in loans and equity positions. It is the ResCom's view that the ability of the customers to repay debt has on average improved over the period.

### 2.3.6 NOA portfolio

The Non Operating Assets portfolio ("NOA") is part of the loans to customers portfolio. As at the end of H1 2010 NOA portfolio amounted to ISK 811bn at carrying value and ISK 37bn at fair value. The NOA portfolio is under the supervision of a sub-committee of the ResCom, the Inspection Committee ("IC") and comprises loans, securities and transactions under examination. The IC comprises two people, both of whom are members of the ResCom. A number of internal employees are working for the IC. Each account/project is handled by a dedicated team of at least an account manager and a lawyer. These teams are responsible for managing the matters within the NOA portfolio on a day-by-day basis with the support of various internal departments and staff.

Vast majority of the loans in the NOA portfolio is to holding companies and other SPV's, mainly non-domestic entities. Most of the loans in the portfolio are in default. The portfolio currently comprises 28 entity groups which are all under examination. They are all categorised as being under watch until the IC has concluded its examination. The number of entities in each group under examination ranges from 1 to more than 250. Loans and historical transactions in this portfolio are scrutinized and dealings and documents for each borrower are thoroughly examined.

The primary aspects of its work are: reviewing and investigating these transactions, and preparing and commencing legal proceedings and collection against parties that might be liable to the Bank as a result of those transactions. With some degree of simplification it can be said that the NOA portfolio contains:

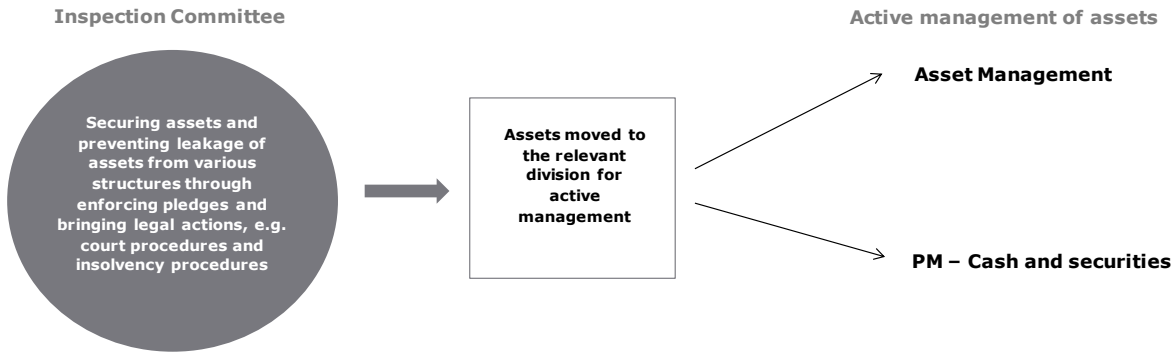
- Loans or transactions made to related parties, such as shareholders, subsidiaries and senior management
- Loans where large exposures yield low or no direct recovery
- Loans made into complex structures or non-operational SPVs
- Other irregular loans or transactions

The main objective of the IC is to continue to focus on the maximisation of the recovery of assets in the portfolio, including by bringing damages claims where appropriate. Having exercised security over the majority of liquid assets secured, the IC intends to finalise the exercise of security over the remaining assets. Receiverships and liquidations which have been commenced or are about to commence will continue in order to realise assets in the companies under receivership and also to access information which will enable the IC to investigate additional potential claims for recovery. The IC also intends to continue or commence legal proceedings for recovery and damages claims as and when sufficient information and evidence can be collected and the potential recovery under such claims can be properly identified.

External advisors to the IC consists of several law firms and accounting firms, including expert forensic auditors from Grant Thornton UK and counsel from Weil, Gotshal & Manges UK and Olswang which both provide expert legal advice and litigation services to the IC, and Conyers Dill & Pearman, a leading law firm with expertise in offshore jurisdictions. These parties have very diverse and international experience of handling insolvencies and investigating cases of this type.

Many of the loans and transactions in the NOA portfolio have in common that legal proceedings may increase recovery for the Bank. Legal collection proceedings and/or enforcement actions have been commenced against entities in 11 of the structures. The committee has been successful in securing the assets and prevent leakage of assets from various structures through enforcing pledges and bringing legal actions (for example court procedures and commencing insolvency procedures). The committee has obtained repayments (both full and partial) from a number of entities under examination and has also taken control of some assets through the enforcement of securities.

The IC is not managing operating assets. When assets are acquired, e.g. by enforcing pledges; those assets are moved to the relevant divisions for active management.



In autumn 2008, the ResCom, at the request of the FME, engaged PwC Iceland to investigate whether the Bank or parties connected to it, had in the weeks before the collapse of the bank deviated from its internal rules or violated the rules governing the activities of financial undertakings, the securities transactions act or the general penal code. A detailed report was submitted to the FME on 30 December 2008 and it has already become the basis for further investigations.

The Winding-up Committee has engaged PwC Iceland to investigate measures taken by the Bank before it was granted a moratorium and the IC will be working closely with the Winding-up Committee and PwC Iceland who are focusing particularly on possible rescissions and damages claims in relation to domestic parties. The Winding-up Committee has already referred cases to the relevant authorities based on this investigation, and a number of rescission and other actions are under preparation and will be put into effect in the near future.

*Settlement of proceedings regarding Somerfield*

In June 2010, the ResCom, the trustees of the Tchenguiz Discretionary Trust ("TDT"), namely Investec Trust Guernsey and Bayeux Trustees, and other parties reached a settlement of the proceedings issued by Isis Investments against Kaupthing, the trustees of TDT and other parties in the High Court of England and Wales ("the English Proceedings"). The parties also reached a settlement of the

related proceedings brought by Kaupthing and others against the trustees of TDT and others in the High Court of the British Virgin Islands ("the BVI Proceedings").

The terms of the settlement are confidential between the parties, save the following:

- the monies subject to the dispute, being monies arising out of the sale of the Somerfield supermarket chain to the Co-operative Ventures Limited, are released and the due amount will be paid ultimately to the Liquidator of Oscatello Investments Limited
- this is a full and final settlement of all claims raised in the English Proceedings and the BVI Proceedings between Kaupthing and the trustees of TDT
- the trustees of TDT have undertaken to withdraw the part of their claim filed in the winding-up of Kaupthing in respect of the monies arising out of the sale of the Somerfield supermarket chain to the Co-operative Ventures Limited

The ResCom believes that this is a very satisfactory outcome for the Bank and that the terms of the settlement are in the best interest of Kaupthing and therefore its creditors.

Weil, Gotshal & Manges represented Kaupthing in the English Proceedings and advised the ResCom on the settlement.

#### *Special Investigation Commission's Report*

The IC oversees and is responsible for all communications with external investigation agencies, such as the FME, the Special Investigation Commission and the Special Prosecutor as well as the Serious Fraud Office in the UK.

Following the publication of the Special Investigation Commission's report, the ResCom and its employees went over and analysed the information in the report concerning Kaupthing to assess whether all questionable aspects of Kaupthing activities referred to in the report had been examined by the ResCom or its sub-committees. The conclusion was that all cases related to Kaupthing which are discussed in the report of the Special Investigation Commission have been examined by the Bank.

As provided for by law, the main objective of the ResCom is to maximise the recovery of assets belonging to Kaupthing Bank and its creditors. In those instances where the ResCom has in the course of its work become aware of events which could give rise to grounds for suspicion of criminal behaviour, it is obliged by law to notify the competent authorities thereof. Since it commenced work on 9 October 2008, the ResCom has co-operated extensively and successfully with the authorities and has turned over a large quantity of data concerning dozens of cases, which have been under examination by the authorities. These involve various transactions which in some instances amount to tens or even hundreds of billions of ISK. The examination by ResCom has, for instance, been directed at lending to related parties and to the Bank's largest clients, extraordinary transactions and transactions with and through the bank's subsidiaries abroad.

The Bank has in all instances notified competent authorities immediately of all incidents of possible misconduct or events which could give cause for grounds for suspicion of criminal behaviour. Such incidents are also being reviewed by the IC for potential damages claims where such claims may maximize the value of the Bank's assets. It should be pointed out that the ResCom is not obliged to seek such knowledge beyond what it acquires through the gathering of information in the course of its work.

The ResCom has provided those parties investigating events in the wake of the Banks' collapse, including the Special Prosecutor, the Financial Supervisory Authority, the Special Investigation Commission, the Director of Internal Revenue and the Directorate of Tax Investigations in Iceland, with all assistance requested in investigating cases. Furthermore, the ResCom has willingly provided the investigators concerned with ready access to all its data and such information as has been requested. The ResCom has responded to all queries and requests addressed to it by the above-mentioned parties and set up special facilities to facilitate their work. The ResCom has also offered investigators access to the information and data which it has gathered and compiled with the assistance of its foreign advisors.

### 2.3.7 External advisors

To uphold utmost professional standards, and in line with wishes from many of its largest creditors the ResCom deploys necessary expertise in every aspect of its operations. This entails hiring various external experts for advice on numerous on-going or stand-alone projects. The ResCom, as requested by representatives of the creditors, appointed Morgan Stanley as its main financial advisor. Amongst projects, they have advised and assisted with, is the negotiation with the Ministry of Finance and resulting agreements on the capitalization of Arion Bank and has been involved to some extent in all larger restructuring cases. Throughout the due diligence and negotiation process regarding Arion Bank the Bank used advisors as deemed necessary including Morgan Stanley, Weil, Gotshal & Manges UK and Lex.

Currently, Morgan Stanley is leading the overall restructuring work of the Bank itself and the formulation of composition proposals that may be presented to creditors at a later stage. Weil, Gotshal & Manges UK is the main external legal counsel on litigation and recovery proceedings. Alvarez and Marsal has been retained to manage the overall process of the winding down of the derivatives book and execute a plan that will maximise recoveries. Furthermore, the business law firm Olswang was appointed as an external legal counsel to work on the legal process associated with recoveries of the derivatives portfolio. Capacent and PwC Iceland have been assisting the Bank regarding valuation and accounting. The ResCom has hired a forensic team from Grant Thornton UK to examine voidable measures focusing particularly on possible rescissions and damages claims in relation to foreign parties. The Winding-up Committee has engaged PwC Iceland to do the same for domestic parties.

In all of the major restructuring cases, the Bank has hired external advisors. For specialised projects the Bank has hired the top class advisors in the respective fields with industrial know-how, expertise and domestic market knowledge. Depending on the nature of the restructuring projects, these external parties can be financial advisors, legal counsels, real estate consultants, retail experts, accountants, auditors, etc. The cost of these is in most cases paid by the respective borrower.

In addition to the experts already mentioned, the following parties have been engaged in resolving and working on various legal matters for the Bank:

- CHSH Cerha Hempel Spiegelfeld Hlawati and WOLF THEISS in Austria
- Plesner and Holts in Denmark
- Borenius, Maples and Hannes Snellman in Finland
- Herbert Smith and Allen & Overy in France
- Heuking Kühn Lüer Wojtek in Germany
- Simmons & Simmons in Hong Kong
- Juris, Lex, Landslog Law Offices and Fulltingi in Iceland
- Studio Legale Carnelutti in Italy
- Molitor, Fisch & Associes, Kleyr, Grasso and Associes in Luxembourg
- Wiborg Rein in Norway
- Cuatrecasas and Goncalves Pereira in Spain
- Winge, Mannheimer Swartling, Lindahl and Frank Advokat, in Sweden
- Allen & Overy and Loyens & Loeff in the Netherlands
- DLA Piper, Slaughter and May, Hammonds, Olswang, Smith&Williamson, Rosenblatt, Heatons, Sidley Austin and Allen & Overy in the UK
- Nixon Peabody and John Day in the USA

Tasks, where the asset management has engaged external advisers include corporate finance advisory, due diligence reports, business verification, tax planning and appraisal and valuation.

- KPMG, advice on restructuring in Denmark
- Deloitte, tax advice and structuring in Finland
- PwC, valuation and business sensitivity study in Finland
- Pareto, valuation in Norway
- PwC, advice on restructuring in Sweden
- Capacent, advice on restructuring and valuation in Sweden

- Catella, advice on restructuring in Sweden
- Ernst & Young, tax advice in Sweden
- Newsec, real estate advice in Sweden
- BDO Stoy Hayward, advice on tax and restructuring and valuation in the UK
- Deloitte, valuation in the UK
- PwC, advice on tax and restructuring and business valuation in the UK

### *2.3.8 Morgan Stanley asset valuation and restructuring review*

In H1 2010, Morgan Stanley, the Bank's main financial advisor, completed a detailed report on the Bank's operations and performance. The report and its extensive summary provide a detailed overview of the Bank's asset base and an independent assessment of the 2009 valuation level including indication of potential upside. Furthermore, the report provides an assessment and overview on restructurings performed by the Bank since October 2008. The contractual cash flow profile from the asset base is summarized along with the costs associated with running the administration. Finally the report illuminates the Bank's current strategy for value maximization and monetization.

Following the publication, the ResCom has reviewed and analysed the information in the report. The ResCom has come to the conclusion that overall the restructurings have been carried out on a solid and thorough basis compared to best practice international standards including analyzing options available to the Bank and consulting advisers as needed and that no immediate different actions is necessary.

ICC members and other private creditors with significant and valid interest have access to an extensive summary of the Morgan Stanley report, subject to the signing of hold harmless letter with Morgan Stanley and NDA with Kaupthing.

Members of the ICC and all other groups of creditors with significant interest have the opportunity to appoint an independent advisor. Financial advisors have full access to the Morgan Stanley report and group Q&A meetings with Morgan Stanley.

## 2.4 Derivatives

### Overview

#### Portfolio Summary as at 30 June 2010

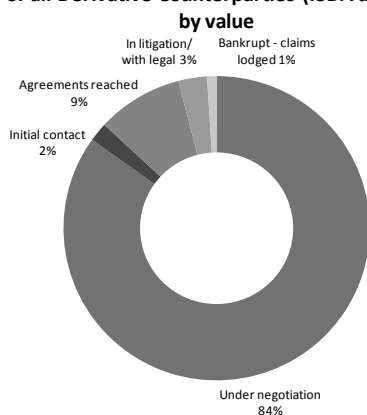
		Non-ISDA Total	ISDA
<b>Counterparties</b>	<b>#</b>	<b>281</b>	<b>86</b>
<i>Icelandic</i>		243	11
<i>Foreign</i>		38	75
Kaupthing entities		15	
<b>Trades</b>	<b>#</b>	<b>1517</b>	<b>1276</b>

The vast majority of transactions with foreign counterparties were traded under the ISDA agreements, most of which have been terminated by the counterparty, while vast majority of transaction with domestic counterparties are traded under general market agreements and a minority under ISDA agreements.

#### Progress by value

Status of all derivatives counterparties by value as at November 2010 can be found below.

Status of all Derivative Counterparties (ISDA and non-ISDA)



	Non-ISDA	ISDA	Total
<b>Assets status by value<sup>(1)</sup></b>	%	%	%
Remaining to be actioned	0%	0%	0%
Initial contact	0%	6%	2%
Under negotiation	88%	79%	84%
Agreements reached <sup>(2)</sup>	8%	13%	9%
In litigation/with legal	4%	1%	3%
Bankrupt - claims lodged	1%	1%	1%
<b>Total</b>	100%	100%	100%

#### Notes

(1) By value = Absolute net fair value after collateral at 30 June 2010, excluding cash payments received

(2) Settlement values may not equal the book values. Includes "settled in principal" and zero statements

### *Progress by number of counterparties since January 2010*

The table below shows the progress of the derivative portfolio since January 2010 by number of counterparties.

<b>ISDA</b>				
	<b>January</b>	<b>May</b>	<b>August</b>	<b>November</b>
<b>Status by counterparty</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
Remaining to be actioned	64%	10%	3%	0%
Initial contact	26%	39%	7%	2%
Under negotiation	9%	34%	57%	52%
Agreements reached	1%	6%	20%	33%
In litigation/with legal	0%	1%	2%	2%
Bankrupt - claims lodged	0%	10%	10%	10%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

<b>Non-ISDA</b>				
	<b>January</b>	<b>May</b>	<b>August</b>	<b>November</b>
<b>Status by counterparty</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
Remaining to be actioned	29%	27%	1%	1%
Initial contact	14%	9%	2%	1%
Under negotiation	41%	26%	33%	31%
Agreements reached	12%	30%	48%	51%
In litigation/with legal	5%	6%	12%	13%
Bankrupt - claims lodged	0%	3%	3%	3%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

#### *External advisors*

Alvarez & Marsal ("A&M") manages the overall process of the winding down of the derivatives book with the aim to maximise recoveries. To do this A&M works with and coordinates the work of the employees of the Bank along with external derivatives valuation specialists. Furthermore, the business law firm Olswang acts as an external legal counsel associated with recoveries of the derivatives portfolio.

#### *The process*

A predefined process is strictly followed with counterparties being prioritised based on their importance to the estate. Four work streams have been defined for the derivatives recovery: Counterparty interaction, Valuations, Legal and Back office-Treasury. A further distinction was made between parties operating under ISDA agreements (predominantly international counterparties) and the Bank's General Terms (predominantly domestic counterparties).

Each stream is predominantly staffed by employees of the Bank supported by external advisors where specialist expertise is required. All streams follow a narrowly defined process to achieve resolution of the exposures involving systematic checks on the streams' output and a full audit trail to ensure all factors are considered and checked in arriving at initial valuations. After legal due diligence and valuation analysis each individual proposal is submitted to the Bank's management for approval before proceeding. There are two major gateways in the process; firstly, before commencing interaction with the counterparty and; secondly, before commencing settlement negotiations. Finally, once a value has been agreed in principal with the counterparty, this will be approved by the ResCom and/or the Winding-up Committee.

Thus, oversight and control of the derivatives process is ensured by the requirement to have the Bank's management sign-off at these key stages in the interaction with counterparties, i.e. strategy for

recovery, initiation of contact, agreement of amounts with counterparty and a decision to litigate. A full audit trail is maintained per counterparty.

#### *Open derivatives*

There are open derivatives both in the domestic and the foreign derivatives book and the total number of open derivatives contracts is less than 200. The transactions concern mainly plain vanilla interest rate swaps (IRS) and long term FX/Currency swaps with non-ISDA domestic counterparties. Process has been set up for a regular review in order to determine whether the positions should be kept or terminated in order to maximise the recovery of the contracts.

#### *Status update*

The derivatives team continues to deal with the primary barriers to rapid settlement:

- Wide discrepancies in ISK rates used leading to protracted analysis and ongoing negotiations escalating to the highest levels in our counterparties
- External independent valuation audit/support now in place for credit and structured trades
- Set-off now well progressed but continues to stall while counterparty's object to decisions
- Greater level of legal dispute (especially where there are wide valuation spreads) than anticipated coupled to absence of legal precedent

## 2.5 Overview of the Bank's branches and subsidiaries

The ResCom has conducted a substantial amount of work to: i) secure the future business of entities, ii) restructure and sell off entities, iii) close down entities. Furthermore, members of the ResCom or its representatives have been nominated to replace former representatives of the Bank in subsidiaries which are still effectively controlled by the Bank.

### 2.5.1 Subsidiaries: Current status

The table below summarizes the status of operational entities of the Bank. These are entities that are mentioned in note 19 of chapter 2.1.3 *Notes on the Statement of Assets* in addition to Arion Bank.

Name of subsidiary	Current status
Arion Bank	Operational and 87% of its share capital owned by the Bank
FIH	Operational and owned by the Bank
Kaupthing Mortgage Institutional Investor Fund	Operational and wholly owned by the Bank
Norvestia	Operational and 32.7% owned by the Bank. The bank holds 56% of the voting rights
NBS Diversified Credit Fund	In redemption process and wholly owned by the Bank
Kaupthing Bank Sweden	Partially sold and in the process of being wound down. Wholly owned by the bank
Kirna	A holding company and wholly owned by the Bank
Other	Companies wholly owned by the Bank and in the process of being wound down

More details on the subsidiaries are provided below.

**Arion Bank**, a commercial bank with operations in Iceland is a subsidiary of the Bank. On 6 October 2008 the Disbursement Act was passed by the Icelandic parliament, providing the FME with the authority and power to intervene in the operations of financial undertakings in order to respond to the unusual circumstances in the Icelandic financial sector. On 9 October 2008, in accordance with the same act, the FME appointed the ResCom to take control of the Bank. On 21 October 2008, the FME issued the Transfer Decision, by which it determined that certain specific assets of the Bank and certain specific obligations of the Bank were transferred to Arion Bank. According to the FME, these actions were taken to secure the continuation of vitally important domestic banking and payment services.

Under the Transfer Decision, Arion Bank took over the entire Bank's deposit liabilities in Iceland, and also the bulk of the Bank's assets that relate to its Icelandic operations, such as loans and other claims. Other assets and liabilities remained in the Bank and therefore under the control of the ResCom. The FME appointed Deloitte to prepare an independent net asset valuation for Arion Bank and Oliver Wyman was appointed to co-ordinate the valuation process and review the valuation. The valuation of the net assets by Deloitte and the review of the valuation by Oliver Wyman took longer than initially envisaged but was completed towards the end of April 2009.

PwC audited the asset transfer from the Bank to Arion Bank to ensure that it was completed in full accordance with the FME transfer decision. PwC concluded that some assets that were initially moved

to Arion Bank should have stayed with the Bank. Hence, this was corrected and these assets increased the size of the corporate loan portfolio of the Bank. It should be added that all cash flow to and from the assets since the FME transfer decision was made were corrected for between the two banks. ResCom supported these amendments as they are in full accordance with the FME transfer decision and the Committee consider these assets to be above average quality of the Bank's assets.

Total of approx. ISK 190bn in assets at book value were transferred back, thereof approx. ISK 90bn which were unpledged. These assets presented additional value to the creditors, but instead negatively affected the size of the compensation instrument. The liabilities related to the pledged assets had remained within the Bank based on the preliminary balance sheets.

ResCom with its financial advisor, Morgan Stanley and creditors' representatives, negotiated with the Government during the summer 2009 on the disposition of the assets and liabilities taken over by Arion Bank in October 2008. ResCom entered into a Heads of Terms Agreement with the Government on 17 July 2009 and signed binding agreements on 3 September 2009.

On 1 December ResCom announced its decision regarding Arion Bank. ResCom, in consultation with the creditors and supported by its financial advisor throughout the process, decided that the Bank and thereby its creditors acquires 87% of common equity in Arion Bank. The Government will continue to own 13% of common equity. ResCom believes that active ownership of Arion Bank will maximize the value of assets which were transferred between the banks. As part of the agreement ResCom contributed ISK 66 billion to the capitalization.

The assets used for the capitalization can be seen in note 27 in chapter 2.1.3 *Notes on the Statement of Assets*. The assets were valued at the transfer prices to Arion Bank. The valuation was conducted by a third party.

#### Kaupthing capitalization assets

Amounts in ISKm	Carrying Value	Market Value	Transfer %
<b>Corporate Loans</b>	<b>29.424</b>	<b>28.771</b>	<b>98%</b>
<b>Other Loans</b>	<b>107.917</b>	<b>84.054</b>	<b>78%</b>
<b>Cash (ISK)</b>	<b>14.428</b>	<b>14.428</b>	<b>100%</b>
<b>Liability to the ICB</b>	<b>(61.253)</b>	<b>(61.253)</b>	<b>100%</b>
	<b>90.516</b>	<b>66.000</b>	

Key points of the agreement:

- The Bank acquired 87% of the share capital in Arion Bank and 13% remain under Government ownership.
- ResCom contributed ISK 66 billion in common equity instead of the Government.
- Arion Bank remains governed by Icelandic law and Icelandic supervisory institutions ensuring deposits held in the bank remain as secure as before.
- Arion Bank is an independent operating subsidiary of the Bank.
- Kaupthing's subsidiary, Kaupskil holds Kaupthing's voting rights in Arion and appoints four members to the board of Arion Bank and the Government one.

Arion Bank is fully capitalized and its liquidity position is strong. The bank has been profitable since it was established in October 2008. With the ResCom's involvement, Arion Bank is a strong bank and well positioned to lead the development of the Icelandic economy for the good of Icelandic people and domestic companies as well as its owners. The agreement with the Government entails that the Government contributes a subordinated, FX denominated loan which further increased Arion Bank's capital ratio.

Arion Bank has published its financial results for Q3 2010. Net earnings in the third quarter totalled ISK 976 million. Foreign exchange loss and the depreciation of loans related to corporate and household debt restructuring had a negative impact on results during the third quarter. Return on equity was 10.4% on an annualised basis. The Bank's capital ratio increased by 1.7 percentage points during the

third quarter and was 18.1% on 30 September 2010. Further information on the financial results can be found on Arion Bank's website, [www.arionbanki.is](http://www.arionbanki.is).

On 16 June 2010, the Supreme Court of Iceland published its judgement on exchange-rate linked car loans which creates uncertainty with respect to both legal aspects as well as financials. At this point, it is not clear whether this will affect Arion Bank as it is not clear to which loans the judgment applies to. Furthermore, the financial impact on the affected loans, if any, is uncertain as it is not clear what type of interest or index will replace foreign currency index, if any. Arion Bank has estimated the possible effects on its capital base and the loan book but until the Supreme Court has made judgements on other similar cases, the magnitude of effects cannot be estimated with any certainty. For further information see announcement from Arion Bank on its website, [www.arionbanki.is](http://www.arionbanki.is).

Another judgement on exchange-rate linked car loans was published by the Supreme Court of Iceland on 16 September 2010. Arion Bank has published a statement in response to the Supreme Court judgement and the bill of law announced by the Minister of Economic Affairs on that occasion. Further information in an announcement from Arion Bank on its website, [www.arionbanki.is](http://www.arionbanki.is).

*FIH* was a subsidiary acquired by Kaupthing in 2004. FIH, which is regulated by Danish Banking legislation, supervised by the Danish Financial Supervisory Authorities and headquartered in Copenhagen, is the sixth largest bank in Denmark with assets of DKK 125 billion.

In 2009, the board of directors of FIH adopted a plan to adjust and focus FIH's future activities to meet the demanding market situation of the financial sector. As part of this adjustment, FIH closed down the equities trading, research and wealth management department. FIH re-focused on the core business areas: loans to corporate customers supplemented by two advisory units: Corporate Finance (FIH Partners) and Financial Solutions (advisory related to strategic risk management and liability management).

On 18 September 2010 the CBI as a pledgee of the Bank's shares in FIH entered into an agreement to sell the shares in FIH to a consortium consisting of ATP, PFA, Folksam and CPDyvig ("the Consortium").

Kaupthing owned 99.89% of the share capital in FIH. The entire share capital of FIH owned by Kaupthing was pledged to the CBI under a pledge agreement related to a EUR 500 million loan granted by the CBI to Kaupthing in the beginning of October 2008, a few days prior to the collapse of the Bank.

In co-operation with the CBI, FIH and the Danish Financial Stability Company, Kaupthing initiated a sales process of FIH in May this year. Morgan Stanley was engaged to advise Kaupthing and to conduct an extensive sales process where a broad range of strategic and financial investors was contacted. The CBI as a pledgee agreed to sell the shares in FIH to the Consortium. The CBI's claim against Kaupthing is fully settled with this transaction and the CBI will not have a deficiency claim against Kaupthing.

As part of this transaction the repayment of Kaupthing's EUR 100 million subordinated loan granted to FIH in 2005 has been agreed.

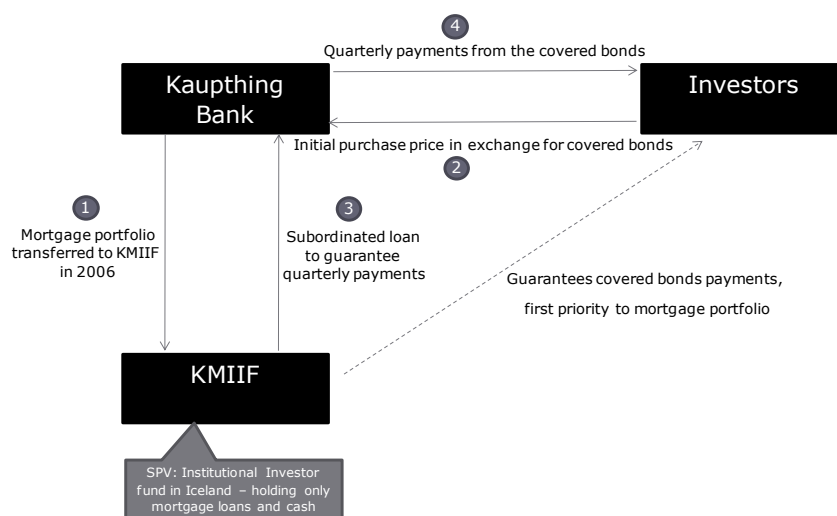
Completion of the transaction is among others subject to the relevant regulatory approvals.

Morgan Stanley acted as exclusive financial advisor to Kaupthing in this transaction.

Further information on the transaction can be found in announcement from the CBI. Further information on FIH operations and performance can be found at [www.fih.dk](http://www.fih.dk) and [www.fih.com](http://www.fih.com).

**Kaupthing Mortgage Institutional Investor Fund** ("KMIIF") is an operational subsidiary 100% owned by the Bank. The fund was established in 2006 when KMIIF acquired a large part of Kaupthing's mortgage portfolio financed via subordinated loan and an equity contribution by Kaupthing. Kaupthing issued covered bonds which are guaranteed by KMIIF. Purpose of the covered bonds was to fund Kaupthing's mortgage portfolio. The terms and conditions of the covered bonds reflect the

terms and conditions of the underlying mortgages. Covered bonds are indexed linked, ISK denominated with two maturities, 25-year and 40-year (originally) – most in the 40-year maturity class (now WAL 32.5-year). The fund is performing and services all outstanding debt. The underlying mortgages are serviced by Arion Bank and the covered bonds are serviced by Stefmir, a subsidiary of Arion Bank. All board members are appointed by Stefmir and are independent from the Bank.



Flow of funds: On a quarterly basis, the Bank pays interest and principal to investors, and receives the same amounts from the fund (subordinated loan has exactly the same terms as the covered bonds). Fund receives proceeds from mortgage payments.

**Norvestia** is a Finnish publicly listed Investment Company. The Bank owns 32.7% of the outstanding shares and holds 56% of the voting rights. ResCom has two representatives on the board: Steinar Thor Gudgeirsson and Hilmar Thor Kristinsson. Initially, the ResCom received offers for the Bank's shares in Norvestia which were about 40% lower than the net asset value at that time. The ResCom concluded that the offered price was unacceptable and decided to hold on to the shares. Since then, the Bank has received in total EUR 3.76m dividend payments in 2009 and 2010. At year-end 2009 the share price has risen approximately 44% from October 2008. Furthermore, more feasible offers have been received, indicating that the value of the Bank's stake has increased by approx. EUR 25m.

Further information on this entity can be found at [www.norvestia.fi](http://www.norvestia.fi).

**NBS Diversified Credit Fund** is Irish open-ended investment entity and is wholly owned by the Bank. The entity was established in 2006 in co-operation with New Bond Street Asset Management and invested in bonds and CDSs. All positions have been sold or wound down. The only asset in the entity is cash. The cash, EUR 35m, is on deposit with five banks. The entity is in a redemption process. The ResCom has no board members.

**Kaupthing Bank Sweden** was an operational subsidiary 100% owned by the Bank. After 9 October 2008, ResCom managed to keep the entity operational. Without ResCom's co-operation with Riksbanken, the Swedish Central Bank, and the Swedish Financial Authorities (Finansinspektionen), the entity would most likely have been closed down and the assets sold at a fire sale to cover the liabilities. Instead the ResCom managed to dispose of certain assets after a structured sales process while other assets were transferred to the Bank.

Shortly after the collapse of the Bank, Kaupthing Pension Consulting and Kaupthing Finans were sold as these business lines did not constitute a core business for Kaupthing Sweden. At the end of March 2009, the ResCom closed a transaction with Ålandsbanken. The ResCom believes that the transaction with Ålandsbanken constitutes a good deal for the Bank as the sale price was reasonable and enabled Kaupthing Bank Sweden to pay 100% of subordinated loans to the Bank of some SEK 6bn (through transfer of assets worth SEK 6bn) and around 50% of its equity. This transaction also freed up cash for the Bank since Riksbanken returned to the Bank EUR 170m it had pledged, plus Icelandic government bonds and bonds issued by the Icelandic Housing Financing Fund of ISK 9.5bn.

The corporate loan portfolio and some other loans and equity positions have been moved to the Bank as a payment for the subordinated loan and are now under management by the Nordic asset management team of the Bank. These assets fit well with the other asset pools the Bank is currently managing. This portfolio accounted for the majority of the Swedish corporate banking assets of the Bank.

Deposits held by Kaupthing Sweden have been repaid to depositors. The repayment was originally funded with a loan from Riksbanken, the Swedish Central Bank, but the above mentioned sale to Ålandsbanken allowed for immediate repayment of the facility. This facility was put in place in early October last year by Riksbanken in order for Kaupthing Bank Sweden to be able to pay back all deposits. Riksbanken was very co-operative but a repayment was required at the earliest convenience.

If the entity had not been sold, there is a substantial risk that only the deposits which had already been paid and perhaps the Riksbanken's facility could be repaid. However, this solution enabled the Bank to settle the Riksbanken facility as well as retrieving a sizable loan portfolio. In case of a bankruptcy of the entity, the recovery of the subordinated loan had presumably been very low, there would have been uncertainty over how much the Bank had retrieved from the Swedish Central Bank and the equity would have been worthless. The result of the transaction is therefore that assets of approx. EUR 800m at nominal value were retrieved.

The Res Com has one representative on the board: Orn Gudmundsson, Deputy Managing Director of the Nordic asset management team.

Further information on this entity can be found at [www.kaupthing.se](http://www.kaupthing.se).

**Kirna** is an Icelandic holding company and is wholly owned by the Bank. The entity was established 1990 and owns 100% of outstanding shares in four companies; Aircraft Financing, Haukthing, ISIS Investments and Kaupthing fjarmagnun. The ResCom has all representatives on the board in these companies.

**Other** subsidiaries are all wholly owned by the Bank. All are in the process of being wound down with the net assets distributed to the Bank. Total net asset value of these entities is ISK 3.263m as at 30 June 2010.

## 2.5.2 Subsidiaries/Branches in administration, wound down or in the process of being wound down by the Bank

The table below summarizes entities that have been wound down or are in the process of being deregistered.

Name of entity (subsidiary/branch)	Current status
Kaupthing Singer & Friedlander ("KSF")	In administration
Kaupthing Singer & Friedlander (Isle of Man)	In liquidation
Kaupthing Bank Luxembourg ("KT Lux")	Dissolved
Kaupthing New York	Dissolved
Kaupthing Kabushiki Kaisha (Japan)	Has been wound down
Kaupthing (Hong Kong)	In liquidation
Kaupthing EDGE Austria	Has been wound down and is in the process of being deregistered
Kaupthing Bank Finland	Has been wound down and assets transferred to the Bank
Kaupthing EDGE Germany	Has been wound down and deregistered
Kaupthing Bank Norway	Under administration and assets transferred to the Bank
Kaupthing Bank Sweden (branch)	Is being wound down and has been deregistered
Kaupthing Bank Dubai and Qatar	Has been wound down and is in the process of being deregistered

Furthermore, the Bank had branches in Italy, France, the United Kingdom, the Netherlands, Spain and the Faroe Islands. These branches were not conducting banking operation in October 2008 and what limited functions they had at that time have since been wound down in all material respects.

According to the Disbursement Act, deposits made by private individuals and companies are priority claims. Whether the legislation applies to depositors depends on which entity in the Kaupthing Group they were deposited with. The legislation only applies to Icelandic financial undertakings. The Bank has repaid all deposits made at foreign branches belonging to the Bank which are defined by Icelandic law as priority claims.

More details on the subsidiaries and branches are provided below.

***Kaupthing Singer & Friedlander ("KSF")*** was a wholly owned subsidiary of the Bank, acquired in 2005. It was an established bank in the UK offering integrated financial services to companies, institutional investors and individuals. These services included corporate banking, investment banking, treasury services, and comprehensive wealth management services for private banking clients.

On 8 October 2008, KSF was taken into administration and Maggie Mills, Tom Burton, Alan Bloom and Patrick Brazzill of Ernst & Young, UK, were appointed as administrators. Kaupthing EDGE UK was transferred by the UK Treasury to ING Group and later the same day, the entity was put into administration on the application of the FSA.

The assets and liabilities of KSF are not part of the estate and the ResCom is not responsible for the administration. Further information on this entity can be found on the liquidators' website [www.kaupthingsingers.co.uk](http://www.kaupthingsingers.co.uk).

On 20 October 2009, the High Court of England handed down its decision on the judicial review of the legitimacy of the decision taken by the UK Treasury to transfer assets and deposits from Kaupthing Edge accounts at KSF in October 2008.

The Bank's ResCom has since last autumn been of the opinion that it was necessary to let the court judge whether or not the UK Treasury's actions were just and legal. The sole objective of this litigation was to bring all existing and available information to the surface so that the ResCom would know on what grounds the UK Treasury based its actions.

By its application for judicial review, Kaupthing Bank claimed that the UK Treasury had exceeded its powers. It was Kaupthing's case that the transfer order had been made for the purpose of protecting KSF's depositors in the UK rather than for maintaining the stability of the UK financial system as a whole.

In a preliminary ruling on 3 March 2009, Kaupthing was given permission to proceed with the application for judicial review, and, at that stage, the court expressly recognised the importance of the case to the nation of Iceland as a whole.

The Court heard the main application on 10 July 2009, when evidence and arguments concerning the UK Treasury's intervention into the operations of KSF were presented.

The court considered contemporaneous documents as well as witness statements submitted by the UK Treasury and the Bank. The court concluded that, although the contemporaneous documents provided only an incomplete statement of the UK Treasury's reasoning process, it was satisfied that a proper process had been followed. The court held that the UK Treasury had acted within its statutory powers and there had been no error in its decision-making process.

***Kaupthing Singer & Friedlander (Isle of Man)*** was a wholly owned subsidiary of the Bank. The entity carried out traditional banking activities as well as asset management activities for a broad spectrum of corporate and private customers along.

At a hearing in the Isle of Man High Court on Wednesday 27 May 2009, a Winding-up Order was made placing the Company into liquidation. Michael Simpson of PricewaterhouseCoopers and Peter Spratt of PricewaterhouseCoopers (London) were appointed as joint provisional liquidators of the entity and Joint Deemed Official Receiver at that time.

The assets and liabilities of KSF IoM are not part of the estate and the ResCom is not responsible for the administration. Further information on this entity can be found on the administrators' website [www.kaupthingsingers.co.im](http://www.kaupthingsingers.co.im).

***Kaupthing Bank Luxembourg*** ("KT Lux") was a wholly owned subsidiary of the Bank. *Kaupthing Bank Belgium* and *Kaupthing Bank Luxembourg, Geneva Branch* were branches of KT Lux. The main services offered at KT Lux were private banking and wealth management. On 9 October 2008, KT Lux's board of directors applied for a suspension of payments status with the Luxembourg District Court sitting in commercial matters. KT Lux was granted this status and its management was monitored by administrators. The Court appointed PricewaterhouseCoopers Luxembourg, represented by Mrs Emmanuelle Caruel-Henniaux and Mr Franz Fayot, to act as KT Lux's administrators. This decision also applied to the Belgian branch of KT Lux.

KT Lux together with its management designed a restructuring plan approved by its creditors and the Luxembourg District Court. The plan involved a corporate restructuring of KT Lux, resulting in dividing it up. As of 13 July 2009 the banking operations were transferred to Banque Havilland S.A., a newly-created Luxembourg company which provides private banking service. Furthermore, some of KT Lux assets and liabilities were moved to a securitisation company called Pillar Securitisation S.à r.l. Due to this division, KT Lux was dissolved without being liquidated and the administration period is therefore over.

The assets and liabilities of KT Lux are not part of the estate and the ResCom is not responsible for the administration.

**Kaupthing New York** was a wholly owned subsidiary of the Bank established in 2000. The entity focused on securities brokerage and investment banking. The entity, as well as two other subsidiaries of the Bank in the United States, has been dissolved.

**Kaupthing Kabushiki Kaisha (Japan)** has been wound down without the need for any insolvency proceeding.

**Kaupthing (Hong Kong)** is in insolvent liquidation.

**Kaupthing EDGE Austria** was a branch of the Bank. It was established in 2008 and offered competitive solutions for depositors. Depositors have now been paid back. The entity has been wound down and is in the process of being deregistered.

**Kaupthing Bank Finland** was a branch of the Bank. The branch offered a wide range of investment banking services to companies, institutions and wealthy private individuals. Following the appointment of the ResCom the Finnish FSA took charge of the branch on 9 October 2008. A few days after 9 October 2008, ResCom managed to prevent the entity from going into administration along with the associated potential fire sale of assets to protect the asset base of the Bank. In co-operation with the Finnish authorities, the ResCom negotiated loans to the entity with three commercial banks in Finland which were guaranteed in part by the Finnish authorities. This enabled the entity to repay deposits in the branch. The credit portfolio and certain other assets of Kaupthing Bank Finland were pledged against these loans. There was a pressure to sell assets to repay the loans from the local banks and the Bank's local operations were disrupted and proactive management of assets suffered. The asset management operation was sold as well as a part of the loan portfolio. The remaining part of the loan portfolio has been transferred to the Bank and is now managed by the asset management team. The branch was closed down at the end of January 2009. Had the entity ended up in administration, the assets of the entity would have been sold in order to pay back depositors and it is unlikely that any assets would have been transferred to the Bank in Iceland. Therefore, ResCom believes that this was the best solution for the Bank as it prevented potential fire sale of assets and instead, assets of approx. EUR 107m at nominal value were transferred and consolidated on the balance sheet in Iceland.

**Kaupthing EDGE Germany** was a branch of the Bank. It was established in 2008 and offered competitive solutions for depositors. The operation was seized by the German government, and its assets frozen by the German Financial Regulatory Authority, BaFin. On 22 June 2009 the BaFin lifted its freeze on the assets of the Bank.

Since 2008, the Bank worked hard in co-operation with the German authorities to develop a solution which fully ensured the secure repayment of deposits to the Bank's customers.

DZ Bank AG, which was appointed as the payment agent for the entity's customers, seized EUR 55m, which in the opinion of the Bank should have been used to reimburse the entity's depositors. Litigations on this matter are ongoing.

In mid-April 2009, the Bank announced that it had secured sufficient funds to reimburse all Edge deposits in Germany. In mid-May the Bank was ready to start the repayment process and sent letters to more than 34,000 depositors.

On 22 June 2009, the repayment process commenced and was completed by the end of the year 2009. Repayments to Edge depositors in Germany amounted to approx. EUR 322m.

**Kaupthing Bank Norway** was a branch of the Bank. Kaupthing entered the market in Norway in 2003, when the Bank acquired Tyren Holding AS, an asset management company. The branch provided comprehensive financial services including asset management, in a separate entity, and private banking to wealthy private individuals, investment banking and capital markets services to companies, institutional investors and private clients. In addition, it had started to provide their clients with banking services, adding retail banking and corporate banking to its range of services.

On 11 October 2008, the Norwegian government placed a freezing order on the assets of the entity and related companies and placed the operation of the branch under administration. In co-operation with the Norwegian government, ResCom managed to prevent the immediate sale of assets from the entity, including the Bank's position in Storebrand, which would have been done to pay back depositors. Instead, the deposits held by the branch were repaid to depositors by the Norwegian Banks' Guarantee Fund. In February, the ResCom and the administrators in Norway reached an amicable agreement which included release of the assets which were under administration in Norway. As a result, the majority of the corporate loan portfolio has been transferred to the Bank in Iceland and other assets saved from imminent fire sale. This agreement also prevented lengthy and very costly process of dealing with the administrators and netting the entity. If the ResCom had not managed to prevent the immediate sale of assets from the entity, the entity had presumably only been able to pay back part of the deposits and no assets would have been left to be transferred to the parent company. The result is that imminent fire sale of assets was prevented which resulted in retrieval of assets of approx. EUR 365m at nominal value.

**Kaupthing Bank Sweden** was a branch of the Bank in Sweden. It held the EDGE deposits in Sweden which have been repaid as described above in the clause on the Swedish subsidiary. The branch is in the process of being wound down and has been deregistered.

**Kaupthing Bank Dubai and Qatar** were two branches of the Bank, one in the Dubai International Financial Centre and one in the Qatar Financial Centre, both established in 2007. The branches focussed on providing investment banking services in the region. The ongoing operations of the branches have been sold to the Bank's previous management in Dubai and Qatar. The proceeds from the sale are held by the Bank.

## 2.6 Development of certain equity and equity related stakes

### *Refresco*

Refresco is a European market leader of fruit juice and soft drink production for private label and contract manufacturing. Refresco is a well run and profitable company with proven track record of implementing buy and build strategy. In 2009, Refresco's revenue was EUR 1.140m, with EUR 120m in EBITDA and net debt of EUR 497m. Without further capital injection, Refresco did not have the ability to continue its buy & build strategy going forward. Controlling owner of Refresco is Ferskur Holding 1 BV, a consortium of Icelandic investors, Stodir, Kaupthing and Vifilfell. Kaupthing's ownership was 21.7% pre-transaction.

Ferskur initiated a full scale sales process in 2008 inviting vast number of investors. The process was aborted early 2009, with the support of Kaupthing after it failed to crystallize what Kaupthing believed was a fair value for its stake. The experience of 2008 sales process helped to identify a handful of strong, reputable investors which the owners believed could become valuable minority investors and who understand the strengths of the business. In late March 2010 the shareholders and the management reached an agreement with 3i an international private equity investor where 3i would subscribe for new shares in Refresco (directed share issue) worth EUR 84m for a 20% minority stake in the share capital of Refresco. The total value of the equity injection will be fully utilized to realize further growth of the company. 3i's investment in Refresco is a clear vote of confidence in Refresco's management, strategy and the company's majority shareholder

### *Kaupthing's rationale and conclusion*

Based on reasonable assumptions, Refresco is more valuable if it continues its buy & build strategy which it has been implementing successfully. The financing of continued buy & build strategy was doable at an implied reference price of EV/EBITDA 6.5x which benefited all shareholders, taking the dilution into account. The financing of continuing buy and build was not doable by Ferskur, as such.

Investment made by third party is also expected to bring added benefits to the investment in Refresco:

- 3i's investment brought a benchmark valuation to the asset, future exit attempts should have more chance of being viewed as being based on strengths (rather than weaknesses like the 2008 exit attempt);
- acts as a final blow to any rumour of instability and financial difficulties as a company completely run by troubled Icelandic investors;

- 3i is a reputable investor which has good network and in-depth understanding of the business from its previous ownership.

Refresco has ambitious growth plan, bringing in 3i as minority investor to provide the equity funding needed allows for this support which the Bank believes will lead to more value creation for creditors without any capital outflow from Kaupthing.

An announcement on the Refresco transaction was published 25 March 2010 on the Bank's website, [www.kaupthing.com](http://www.kaupthing.com) and incorporated in the Creditors' Report 30 April 2010.

Further information on Refresco can be found on its website, [www.refresco.com](http://www.refresco.com).

### *Storebrand*

In December 2009 the Bank sold its 24,700,000 shares in Storebrand ASA representing an aggregate of 5.5% of the share capital of the company. The selling price was determined in an accelerated book built offering. The shares were sold to institutional investors. Following the transaction, the Bank and its affiliates do not own any further shares in Storebrand.

The imminent potential asset sales in October 2008 would have included the Bank's position in Storebrand (approx. 5.5% of outstanding shares) at NOK 10 per share. However, the ResCom managed to reach an agreement with the Norwegian administrators allowing the Bank to hold on to its shares for more than a year.

The ResCom followed the movements of the stock very closely during the year. When the price approached NOK 40 per share the ResCom sought advice from banks and securities firms on potential sale of the shares. At that time analysts had set a target price for the stock in the range of NOK 40-45 per share and by setting its target price at NOK 40 per share the ResCom was securing a 3 fold return on what otherwise would have been cash deposits if the Norwegian administrator had completed his sales process. In a favourable market trend, the ResCom finally sold its shares successfully on 1 December 2009.

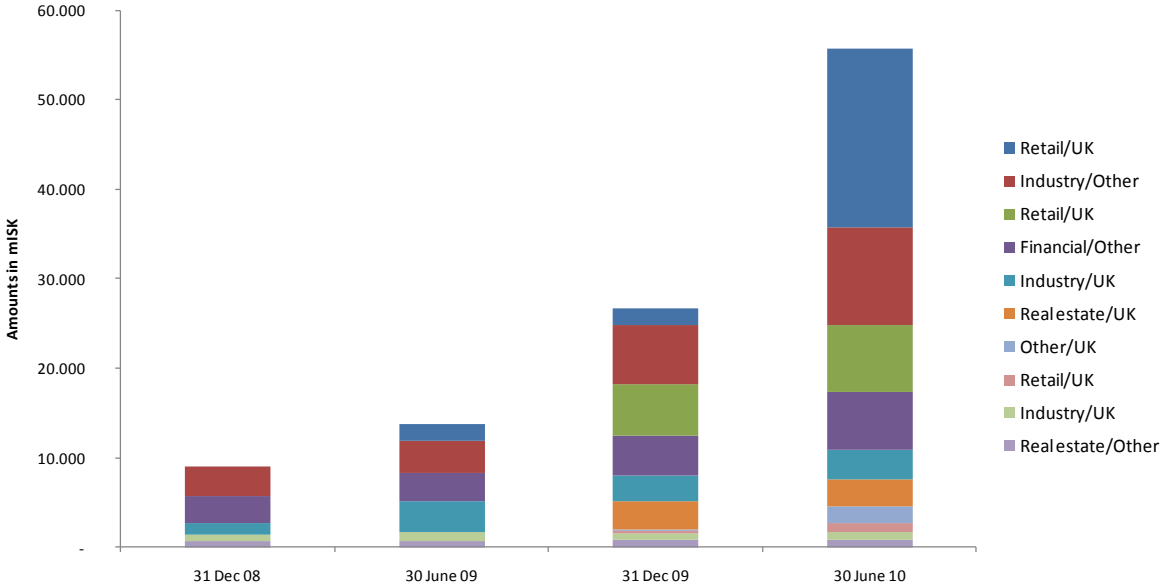
The selling price was NOK 39 per share (only 2.5% discount to closing of NOK 40 per share). The price was below NOK 40 per share for the following month but has in the past weeks risen above that level.

If the shares had been sold by the administrator in late 2008, the proceeds would have amounted to NOK 247m or EUR 25m (2008 year-end FX). However, the proceeds when the ResCom sold the shares in December 2009 amounted to NOK 963m or EUR 116m (2009 year-end FX).

Therefore, the gain of holding on to the shares is approx. 290% measured in NOK and approx. 360% if measured in EUR.

The Bank received quotes from large banks and brokerage firms on the potential sale of its holding. An agreement was reached with Morgan Stanley which engaged Carnegie and Enskilda to assist in the sales process.

### Shares and Instruments with Variable Income – 10 Largest Unpledged Positions



- Excluding FX fluctuations, the actual value increase amounts to ISK 33,5bn in H1 2010
- This significant value increase comes from equity positions through debt for equity swaps and general asset management.
  - When converting debt for equity the Bank endeavours to set the debt level not lower than perceived enterprise value at restructuring

# 3 The Claiming Process

## 3.1 The Winding-up Committee

On 25 May 2009, the Reykjavik District Court approved a request from the ResCom and appointed a Winding-up Committee for the Bank, as provided for in Act No. 44/2009, amending the Act on Financial Undertakings. Olafur Gardarsson, Supreme Court Attorney and the Bank's moratorium supervisor, District Court Attorney Feldis Lilja Oskarsdottir and District Court Attorney David Benedikt Gislason were appointed to the Winding-up Committee. The ResCom and Winding-up Committee jointly direct the Bank's affairs, cf. the divisions of tasks provided for in Points 3 and 4 of Temporary Provision V of the Act on Financial Undertakings. The appointment of the Winding-up Committee allowed the formal claiming process to begin, while the ResCom continues to perform its role of safeguarding the Bank's assets in order to ensure that as much as possible is received for claims.

Below is an organization chart for the Winding-up Committee.



The Winding-up Committee administers the formal claiming process, handles all claims against the Bank and makes decisions regarding their recognition. The Winding-up Committee invited creditors of Kaupthing Bank to lodge their claims in writing within six months of the first publication of a formal notice in the Icelandic Legal Gazette (*Lögbirtingablaðið*) on 30 June 2009. Accordingly, the deadline to lodge claims was 30 December 2009. Once the time limit for lodging claims expired the Winding-up Committee compiled a list of claims lodged. The list of lodged claims was made available to creditors one week prior to the meeting, on 22 January 2010, on a secure website and at the offices of the Winding-up Committee at Borgartun 26 in Reykjavik. An updated list of claims is published on a secure website for creditors a week prior to Creditors' Meetings convened by the Winding-up Committee.

The Winding-up Committee shall make independent decisions on recognising claims, including the priority given to them. Having regard for the final sentence of the first paragraph of Art. 119 of the Bankruptcy Act, no decisions will be taken on deferred claims pursuant to Art. 114 of the Bankruptcy Act.

The Winding-up Committee held a creditors' meeting on 29 January 2010 where it presented its decisions on lodged claims as it was available at that time. Follow-up creditors' meetings were held on 18 May 2010, 21 September 2010 and 3 December 2010 where the Winding-up Committee discussed further the list of claims and decisions taken by the Winding-up Committee on claims lodged.

## 3.2 Summary of claims

A total of 28,167 claims were lodged before the deadline at 30 December 2009, amounting to ISK 7.316bn. Claims against the bank were received from creditors in 119 countries. However, as at 26 November 2010 the total amount of claims in the list of claims amounted to ISK 6.297bn. The decrease can mainly be attributed to, partially withdrawn claims, amendments to large claims and court rulings.

Overview of claims in the list of claims for each article as at 26 November 2010:

Art. 109:	ISK 91.979 million	(Specific ownership of an asset)
Art. 110:	ISK 221.849 million	(Claims for administration of the estate)
Art. 111:	ISK 214.193 million	(Secured claims)
Art. 112:	ISK 392.569 million	(Priority claims)
Art. 113:	ISK 4.823.862 million	(General claims)
Art. 114:	ISK 552.764 million	(Subordinated claims)

At the Creditors' Report meeting in London on 15th March 2010, the Winding-up Committee laid out its target to complete its decision on all claims by the Creditors' Meeting on 3 December 2010. That objective has been reached as the Winding-up Committee has finalized its assessment and decision on all the claims lodged against the Bank. However, as many objections were filed, the decisions in question are not final until disputes have been settled.

As shown above, the total amount of claims lodged is approx. ISK 6.297bn as at 26 November 2010, at the ISK exchange rates of the CBI on 22 April 2009. The aggregate amount of claims exceeds the Bank's liabilities as recognised in its Statement of Assets as at 30 June 2009. The difference can in part be explained by claims lodged for deposits which the Bank has already repaid, significant amount of bond claims and some deposits claims lodged in duplicate or triplicate, off-balance sheet items, such as claims for damages and guarantees. Furthermore, creditors generally lodge claims at maximum levels.

### Breakdown of Claims by Article and Type as at 26 November 2010

Type	Art. 109	Art. 110	Art. 111	Art. 112	Art. 113	Art. 114	Total
Guarantees	1.287	-	114	151.424	145.496	1.358	299.679
Derivatives	26.862	170	13.803	118	434.078	18.864	493.894
Miscellaneous	26.226	1.539	0	12	143.086	1	170.864
Deposit Agreements	-	-	-	216.820	89.389	4.684	310.893
Deposits	1.700	-	-	8.312	35.835	31	45.878
Reimbursements	-	-	-	1.327	296	9	1.632
Loan Agreements	-	-	188.994	18	366.820	5.639	561.472
Invoices	159	731	-	70	2.621	248	3.828
Contracts	-	1	-	-	47.747	0	47.749
Damages	26.534	219.407	-	1.001	211.588	60.977	519.507
Bonds	9.125	-	11.234	8.511	3.346.272	460.861	3.836.003
Interests	87	0	48	4.957	634	92	5.817
<b>Total</b>	<b>91.979</b>	<b>221.849</b>	<b>214.193</b>	<b>392.569</b>	<b>4.823.862</b>	<b>552.764</b>	<b>6.297.216</b>

All amounts in table in mISK.

### Priority Claims Analysis as at 3 December 2010

ISK 2.019bn was initially lodged as priority claims with reference to Art. 109-112. The basis for some of the claims filed appeared challengeable. A strong focus has thus been put on reducing priority claims before 3rd December 2010. A joint task force was established by the WuC and ResCom to reduce priority claims, which resulted in substantial progress. Total priority claims registered in the claim registry as at 26 November 2010 amounted to ISK 921bn. Post 26 November 2010, priority claims registered in the claim registry have further decreased by ISK 89bn to ISK 832bn due to an amendment from one claimant (a lodged priority claim moved under general claims). Claims against pledged or third party assets amount to ISK 141bn. In addition, ISK 140bn of priority claims, still

registered in the claim registry, but have been rejected finally or its priority rejected and the claims moved to general claims under Art. 113 with no objections from the claimant

Therefore, as of today the actual priority claims against unpledged assets\* amount to ISK 551bn.

Breakdown of the priority claims list as at today:

- Accepted by the WuC – final and in dispute	ISK 10bn
- Rejected by the WuC and in litigation <sup>1)</sup>	ISK 255bn
- <u>Rejected by the WuC and in dispute<sup>2)</sup></u>	<u>ISK 286bn</u>
<b>TOTAL actual priority claims against unpledged assets*</b>	<b>ISK 551bn</b>

Claims against pledged or third party assets<sup>3)</sup> ISK 141bn

1) Filing has been made to the District Court of Reykjavik

2) Meetings to settle the disputes have been held / are about to be held

3) This category includes secured claims which have already been accounted for in the subtraction of the pledged assets on the balance sheet. Residual claims, when applicable, will be moved to general claims (Art. 113). This category also includes claims against assets which are pledged to the bank but owned by 3rd parties and will therefore not affect the net position of the asset side of the balance sheet.

#### Status of Claims Lodged under each Article

Article	Art. 109	Art. 110	Art. 111	Art. 112	Art. 113	Art. 114	Total
<b>Total lodged</b>	<b>91.979</b>	<b>221.849</b>	<b>214.193</b>	<b>392.569</b>	<b>4.823.862</b>	<b>552.764</b>	<b>6.297.216</b>
Adjusted amount*	68.880	233.001	130.790	180.218	5.131.565	552.764	6.297.216
Accepted	1	10.172	104.731	13	2.851.884	-	2.966.800
Rejected**	68.879	222.829	26.059	180.204	2.279.681	552.764	3.330.416

All amounts in table in mISK.

Please note that the decisions made by the Winding-up Committee, summarized in the table above as at 26 November 2010, may not be final. Decisions are in many cases under dispute.

\*Adjusted amount is the total amount of all claims that decision is made on under respective article, i.e. rejected, approved or postponed. The difference between adjusted amount and the total amount lodged is when the Winding-up Committee recognises a claim with different priority than claimed.

\*\*Claims here under have been rejected or moved under Art. 114 (subordinated claims). With reference to the final sentence of the first paragraph of Article 119 of the Act on Bankruptcy, etc., No. 21/1991, no decision will be made on subordinate claims.

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\* After adjusting for lodged priority claims that have been finally rejected (not in dispute) or finally accepted as general claims with reference to Art. 113. Furthermore, this number is also adjusted for priority claims against pledged assets or third party assets which would not be repaid prior to general claims from the pool of unpledged assets in the case they were recognized.

### Final Decisions on Claims by the Winding-up Committee – Accepted

Type	Total	Art. 109	Art. 110	Art. 111	Art. 112	Art. 113
Guarantees	1.648					1.648
Derivatives	7.904					7.904
Miscellaneous	1.585					1.585
Deposit Agreements	1.059					1.059
Reimbursements	1				1	
Loan Agreements	272.374			93.077		179.298
Invoices	547					547
Contracts	1					1
Damages	1	1				
Bonds	142.070					142.070
Interests	795					795
<b>Total accepted</b>	<b>427.984</b>	<b>1</b>	<b>0</b>	<b>93.077</b>	<b>1</b>	<b>334.906</b>

All amounts in table in mISK.

### Final Decisions on Claims by the Winding-up Committee – Rejected

Type	Total	Art. 109	Art. 110	Art. 111	Art. 112	Art. 113	Art. 114
Guarantees	37.831	325			36.006	223	1.276
Derivatives	2.601	960				1.637	4
Miscellaneous	77	5	4		12	57	
Deposit Agreements	2					2	
Deposits	16.809	1.611			3.132	12.063	3
Reimbursements	231				157	69	5
Loan Agreements	21.591			8.233		11.828	1.530
Invoices	552		4		8	319	221
Contracts	8		1			7	
Damages	2.185	16	77		5	2.062	25
Bonds	617.372	5.049		293	393	301.944	309.693
Interests	2.463	65		46	464	1.825	63
<b>Total rejected</b>	<b>701.721</b>	<b>8.032</b>	<b>86</b>	<b>8.572</b>	<b>40.176</b>	<b>332.035</b>	<b>312.820</b>

All amounts in table in mISK.

- As at 26 November 2010, final decisions had been taken on claims amounting to ISK 1.130bn. The Winding-up Committee's decision is deemed final if the creditor concerned accepts the Committee's decision on its claim and he or other creditors do not object to the decision, or if objections to the decision have been submitted too late.
  - Thereof accepted claims amounted to ISK 428bn, see breakdown of accepted claims by each article and type above.
  - Thereof, rejected claims amounted to ISK 702bn, see breakdown of rejected claims by each article and type above.

The Winding-up Committee's decision is deemed final if the creditor concerned accepts the Committee's decision on its claim and he or other creditors do not object to the decision, or if objections to the decision have been submitted too late.

## 4. Legal status and process going forward

### 4.1 Introduction

On 24 November 2008, the Bank entered into moratorium proceedings. Post several extensions in 2009 and 2010, the moratorium period ended on 22 November 2010.

Following a ruling of the District Court of Reykjavik on 22 November 2010, the Bank formally entered winding-up proceedings. Icelandic law provides for automatic end of the moratorium period upon entering into winding-up proceedings. The ResCom and Winding-up Committee jointly applied to the District Court of Reykjavik to formally recognize that the Bank is in a winding-up proceedings. This was done in order to ensure that the Bank continues to enjoy the same protections from litigation, collection measures and other depletion of assets as it has had during the moratorium.

### 4.2 The winding-up proceedings and applicable legislation

On 17 November 2010, the ResCom and Winding-up Committee jointly applied to the District Court of Reykjavik for the Bank to enter into winding-up proceedings. The ResCom and Winding-up Committee decided that it would be prudent to submit an application for *the Bank* to enter winding-up proceedings before 24 November 2010 (the maximum moratorium date) in order to ensure a smooth transition from the moratorium proceedings.

There will be no significant changes in the legal status or operations of the Bank because of this transition. Indeed, for creditors and counterparties, the change should hardly be noticeable.

Upon entering into winding-up proceedings, the ResCom shall continue to manage the interests of the Bank with the same aim as before to maximise the value of assets. That includes waiting for the maturity of assets if deemed beneficial rather than disposing of them immediately.

The ResCom shall continue to hold the powers of the board of directors as well as the powers of the Bank's shareholders' meeting.

Article 103 of the Act on Financial Undertakings stipulates that during winding-up proceedings the ResCom shall manage the interests of the Bank according to the same rules as a trustee would be subject to according to the Bankruptcy Act, although with some exceptions. The exceptions mainly concern the objective for the ResCom to maximise the value of the Bank's assets which includes waiting for the Bank's outstanding claims to mature, instead of realising them immediately. To this end, the ResCom is allowed to disregard a decision of a creditors' meeting if the ResCom deems such a decision contrary to its objective of maximizing asset value. This means that the ResCom has ample time to safeguard the interests of the Bank and its creditors.

The reference to provisions governing the actions of a trustee under the Bankruptcy Act entail that the ResCom has the capacity to manage the Bank's assets and it alone can dispose of its assets and answer for its obligations. The ResCom acts for the Bank in court and executes agreements on behalf of the Bank as before. The ResCom shall make sure that all assets are disposed of in the most efficient manner possible and shall enforce all claims owned by the Bank. The ResCom furthermore takes such actions as necessary to prevent losses to the Bank's interests.

The ResCom can convene creditors' meetings as appropriate to introduce measures taken in regard to the Bank's interests. In such meetings suggestions or decisions may be sought from creditors in regard to measures which have yet to be taken and suggestions may be sought on matters regarding the management of the Bank's interests. The creditors' meeting cannot influence measures which have already been taken by the ResCom, only such measures which have yet to be realised. The ResCom is allowed to consult with individual creditors in matters concerning the relevant creditor's interests.

A petition for the Bank to enter insolvent liquidation cannot be filed nor can its assets become subject to an attachment, an execution or a forced sale while the winding-up proceedings remain in effect. No law suit can be commenced against the Bank while the winding-up proceedings are in effect unless such action is specifically provided for by law or relates to criminal proceedings.

The ResCom is committed to protecting the interests of creditors by preventing the provisional attachment or freezing of assets. The winding-up proceedings, like the moratorium before, provides the Bank with appropriate protection from legal actions, such as the freezing of assets. In the European Economic Area the Bank shall seek recognition for the winding-up proceedings on a case-by-case basis on grounds of the EU Winding-Up Directive No. 2001/24/EC. The Bank has also been granted recognition and injunctive relief under Chapter 15 of the United States Bankruptcy Code. This has provided the Bank with protection for its assets in the United States. The ResCom has successfully opposed freezing orders in the United States, Luxembourg, Germany, Finland, Austria and the Netherlands. Without the moratorium before and now the winding-up proceedings, preventing proposed freezing orders could be considerably more difficult for the Bank.

During the winding-up proceedings, the Winding-up Committee shall continue to decide the recognition of claims and resolve disputes with creditors on recognition of claims.

### **4.3 Overview of the moratorium**

As stated above, the Bank entered moratorium proceedings on 24 November 2008 pursuant to chapters III-IV of the Bankruptcy Act, cf. also Act 129/2008 amending the Act on Financial Undertakings no 161/2002. Following an amendment to the rules applicable to the moratorium by way Act no. 44/2009, the moratorium, which ended on 22 November 2010, was based on the main rules, principles and characteristics of winding-up proceedings.

The moratorium ended, and the winding-up proceedings began, on 22 November 2010. Because of the legislative amendments by way of Act 44/2009, there is only a negligible difference in legislation applying to Kaupthing whether in moratorium or winding-up proceedings. The end of the moratorium has therefore not affected the operations of the Bank.

Applying for the moratorium in November 2008 was, in the opinion of the ResCom, a necessary step to gain protection from litigation, collection measures and other depletion of assets and to ensure that all creditors of the Bank are treated fairly and appropriately in accordance with Icelandic law through the protection of the Bank's assets.

### **4.4 Closing of the winding-up proceedings**

As previously outlined, the Bank was first granted a moratorium on debt payments and a license for financial reorganization in a court hearing on 24 November 2008. The District Court could never authorize a moratorium lasting longer than a total of 24 months from the court hearing, i.e. until 24 November 2010. The Bank entered winding-up proceedings pursuant to a decision of the District Court of Reykjavik on 22 November 2010.

The current winding-up proceedings are however in essence a temporary period for the estate. Article 103a of Act no. 161/2002 on Financial Undertakings implies that the estate can only remain in winding-up proceedings as long as a composition is targeted or achievable as the Winding-up Committee is otherwise obliged, according to fourth paragraph of Article 103a, to put the estate into liquidation. The winding-up proceedings of the Bank shall conclude by means of one of the following:

i) Insolvent liquidation

In insolvent liquidation, the management of the assets of the Bank would vest in a liquidator. According to the Bankruptcy Act, the trustee in bankruptcy shall ensure that the winding-up is concluded without undue delay, although there may be some room for value maximisation by way of reference from Article 103 a. of Act no. 161/2002 on Financial Undertakings. In addition, a Bank in insolvent liquidation would forfeit its banking license, could face forced asset sales, and have less flexibility to support its assets.

ii) Composition with Creditors (Scheme of Arrangement)

A composition with creditors seeks to solve a debtor's financial difficulties by proportionally reducing creditors' claims but at the same time allows the debtor to stay solvent. This arrangement endeavours

to maximize debt recovery and preserves creditors' interest by granting the debtor the opportunity to be restructured and support assets instead of being forced into an immediate sale of assets. If the winding-up proceedings of the Bank were to be concluded by arrangement composition with creditors, potential restructuring options of the Bank can be considered and evaluated.

The minimum creditor support required for a scheme of arrangement is 60% in terms of value (minimum) and 60% by number of creditors voting. Claims are converted into Icelandic krona as of 22 April 2009 but distributions can be in any currency specified under the scheme.

It should be pointed out that the ResCom is working towards a solution whereby the restructuring of the Bank will be completed by a Composition with creditors.

## *4.5 Icelandic composition legislation overview*

### *4.5.1 Introduction*

The composition with creditors in the Bank's case follows largely the same legal approach as if it were conducted under insolvency proceedings. The main difference being that there is no requirement for Kaupthing to seek prior approval of at least 25% of creditors' by the total value of claims.

This overview, focuses exclusively on the rules applicable to Kaupthing and general rules applicable to compositions of creditors shall not be considered except as they apply to Kaupthing.

The key concept of the composition with creditors is that it is an agreement on the payment or release of debt obligations which is binding on all creditors, provided that certain majority of creditors holding composition claims has approved the composition proposal. The composition with creditors seeks to make the Bank solvent through the release of debt obligations or debt to equity conversion, rather than disposition of assets and financial reorganisation which the moratorium was intended to provide for.

### *4.5.2 Composition Claims*

#### *Calculation of Composition Claims*

Composition claims shall be calculated as at 22 April 2009, including accrued interest, indexation, foreign exchange effects and other ancillary claims accumulated at that time. According to the aforesaid, the calculation of claims should be in line with the claims as submitted in the claim filing process where 22 April 2009 was the cut-off date for interest etc.

### *4.5.3 Composition Proposal*

The Bank will prepare a composition proposal. It must state to what extent the debtor offers payment and the form of payments, the dates of the payments, whether interest, and if so, at what rate, will be paid on claims from the date a composition agreement is concluded and until the date of payment, if deferred payment is envisaged, whether security, and if so of what kind, will be placed to secure performance of the composition agreement.

### *4.5.4 Creditors' Meeting to consider Composition Proposal*

#### *Convening of Creditors' Meeting*

Once the Bank is satisfied that the composition proposal can be put to a vote by creditors, a special creditors' meeting shall be summoned by the publishing of a notice to that effect at least two weeks prior to the Creditors' Meeting. The notice shall be published in the Icelandic Legal Gazette (*Lögbirtingablaðið*).

The Winding-up Committee shall prepare a register of the rights to vote on the proposal, specifying the voting rights attached to composition claims. The number of creditors shall be stated as well as the percentage amounts attached to each composition claim. The register shall include only the claims that have been recognised and to which voting rights are attached in the opinion of the Winding-up Committee.

## Voting

The composition proposal must be approved by the same proportion of votes by value as the proportion of composition claims to be released according to the composition proposal, but never less than 60% of votes by value. The composition proposal must in any event be approved by 60% of creditors by number. If neither proportional nor total release of debt obligations is proposed, the composition proposal must be approved by 60% of all voting creditors by number as well as of the 60% amounts of composition claims belonging to voting creditors.

Example: If 75% of all composition claims shall be released according to the composition proposal, then the composition proposal must be approved by at least 75% by value and 60% of creditors by number.

Voting creditors can vote on the composition proposal in writing and shall such votes be tallied if they reach the Winding-up Committee before end of voting at the creditors' meeting, so long as no one is present on behalf of the creditor to vote on his behalf. A vote submitted in writing must fulfil certain requirements, such as signatures having been witnessed etc. Creditors can grant a power of attorney to a representative as well.

## Effects of Disputed Votes

If disputed votes can affect the voting results, the Winding-up Committee shall endeavour to resolve the dispute if all the disputing parties are present. If they are not present, then the Winding-up Committee shall convene a separate meeting with the disputing parties in an effort to solve the dispute. If the dispute cannot be solved, the Winding-up Committee shall forward the argument to the District Court of Reykjavík to be ruled on.

Forwarding disputes to the District Court of Reykjavík can delay the process but, depending on when the composition proposal will be voted on, the court will already have decided on a number of claims through the claims filing process before the composition proposal is voted on.

## 4.5.5 *Legal Effect of Composition*

If the composition proposal is approved by the creditors, the Winding-up Committee must obtain a confirmation of the District Court of Reykjavík of the composition agreement. The composition agreement shall take effect when Winding-up Committee's submission for confirmation has been approved by a final court decision, by the District Court of Reykjavík or the Supreme Court of Iceland.

The composition agreement shall be binding on creditors and their successors in regard to their claims. The composition agreement does not affect a creditors' right to enforce security or guarantees granted by third parties.

## 4.6 Creditors' meetings

It derives from Act no. 44/2009 the matters considered at creditors' meetings are mainly twofold, firstly there are matters concerning the management of the ResCom of the interests of the Bank and secondly, the recognition of claims by the Winding-up Committee.

The ResCom can convene creditors' meetings, as it deems appropriate, to introduce measures taken in regard to the Bank's interests. The ResCom may seek proposals or decisions regarding measures that have yet to be taken, and provide for opportunities for making such proposals. The creditors' meeting cannot affect measures already carried out by the ResCom. The ResCom is allowed to confer with individual creditors in matters concerning the relevant creditors' interests.

A creditor is entitled to attend a creditors' meeting if the creditor has filed a claim against the Bank with the Winding-up Committee and if such claim has not been finally dismissed by the Winding-up Committee. Creditors' meetings regarding the management of the Bank's interests and the recognition claims will not be held until the deadline for filing claims has passed. If a creditor does not attend a meeting, the relevant creditor may lose the right to oppose matters or present claims regarding matters which were decided or presented at the meeting.

A creditor who wants to lodge an objection to a decision made by the Winding-up Committee, to be discussed at the creditors' meeting, must deliver objections in writing to the Winding-up Committee no later than at the creditors' meeting.

If objections against the Winding-up Committee's recognition of a claim are not raised either before or at that meeting, the Winding-up Committee's recognition of the claim may be considered final according to Paragraph 3 of Article 120 of the Bankruptcy Act.

However, if objection is raised to a decision by the Winding-up Committee, the Winding-up Committee will attempt to resolve the dispute and invite the parties involved to a special meeting to seek to resolve the dispute. If the dispute cannot be resolved at such a meeting it will be referred to the Reykjavik District Court for resolution, cf. Articles 120 and 171 of the Act on Bankruptcy etc. No. 21/1991. Parties to such disputes are the creditor(s) against whom an objection is raised; creditor(s) who have raised the objection on the decision concerning the claim; and the Winding-up Committee. Chapter XXIV of the Bankruptcy Act, applies to the handling of such disputes by the District Court. Rulings by the District Court in such disputes may be appealed against to the Supreme Court within two weeks of their pronouncement. Appeals to the Supreme Court of Iceland against rulings are normally presented in writing, but the Court may decide to allow oral proceedings as well, if it deems necessary. A court resolution of a dispute comprises a final outcome on the amount of a claim and its priority and will serve as the basis for disbursements.

Voting rights are determined by the amount of each creditors claim if matters regarding the management of the Bank's interests are put to a vote. For a creditors' meeting to be quorate, creditors holding at least a third of the total voting rights must be present at the meeting. To disregard a decision of the majority of creditors, the ResCom must in most cases have specific reasons for doing so. The ResCom can thus disregard decisions of a creditors' meeting if they are contrary to law, dishonest, cannot be executed, contrary to interests of creditors not attending, discriminate against the minority or if the decisions are contrary to the goal of maximising the value of the Bank's assets.

### 4.7 Overall restructuring and distribution to creditors

As mentioned before, the winding-up procedure can end either through composition with creditors or insolvent liquidation of the Bank. The ResCom believes that the interests of the creditors are best served by restructuring the Bank's operations and has together with Morgan Stanley its financial advisor been working on developing structuring solutions on how the assets can be passed over to creditors. The aim is to ensure ongoing support to the assets and build a structure where creditors can exit their holdings over time.

#### Work streams

Work has commenced on the various parts of the restructuring (see work streams below). The eventual timing is subject to the progress of the winding-up proceedings and depends on how substantial disputed claims will be and the time it will take to settle these disputes.



Work streams.

#### Target structure for the Bank

- After composition with creditors the Bank operates as a parent company or as new SPV as ongoing asset management company.
- Value realization for creditors through convergence of claims into cash distribution and issuance of instruments.
- Strategy focused on value maximization through cash collection, separate monetization of holdings and work out of other assets.

#### Overall Restructuring of Kaupthing

From the outset the ResCom and Winding-up Committee have been focused on finding the best possible closure for all relevant parties in a realistic time frame and distributing the resulting value to creditors. Any payment of general claims cannot be made until resolution of major priority claims disputes is concluded. This creates an uncertainty when distribution or partial payments can be made to creditors. The Winding-up Committee is doing its utmost to expedite the process both through the court system and by resolving issues outside of the courts. Further information on issues concerning the process of lodging claims and decisions by the Winding-up Committee on claims lodged can be found on the Winding-up Committee's secure website for creditors.

As presented at the Creditors' Meeting on 3 December 2010, following alternatives can be explored according to Icelandic law:

### 1) Composition

- a) Status Quo as continuation of winding-up proceedings with a composition as a final target
- b) Interim structure with increased creditor involvement while remaining in winding-up proceedings with a composition as a final target
- c) Composition with general creditors which would make the bank solvent and give control and governance to creditors

### 2) Insolvent liquidation

Main considerations when evaluating Kaupthing alternatives may include value maximization, governance/control, time to payout, instruments for creditors/trading ability, tax implications, legal structure and future activities.

As stated before, the ResCom and the Winding-up Committee are reaching out to creditors to seek guidance on timing and the suggested route going forward.

- More information on this topic will be disclosed in future monthly updates of the Creditors' Report.
- Morgan Stanley, the Bank's financial advisor, remains available for discussions upon requests.
- The Bank's e-mail address, [creditorcontact@kaupthing.com](mailto:creditorcontact@kaupthing.com), remains open for creditors' feedback.

The ResCom and the Winding-up Committee do not have a preferred alternative and are seeking feedback from creditors thereof. Any timing for adopting an alternative remains unclear at this stage.

As the Winding-up Committee has completed its decision on all claims lodged, a basis for creditors is established to give feedback on the alternatives above. However, uncertainties remain with regard to the outcome of ongoing disputes and resulting impact on available assets for general creditors. This will need to be taken into account when evaluating the abovementioned alternatives. Disputed claims have been/ will be settled in settlement meetings or referred to the Icelandic courts for determination where necessary.

## 4.8 *Creditor relations*

### Communication with all creditors

The ResCom and the employees of the Bank have from the outset carried out ambitious and extensive disclosure to all creditors. In fact, information available for creditors is far beyond any legal obligation to do so and it is the Bank's opinion that disclosure is more extensive than could be expected from most banks in similar position. The Bank is determined to maintain this comprehensive information disclosure to all creditors.

The Bank will continue to publish information to creditors through the following channels:

The website [www.kaupthing.com](http://www.kaupthing.com)

The website, [www.kaupthing.com](http://www.kaupthing.com) is a source where creditors, the media and other parties can access regular updated information about the Bank. Interested parties can send questions, read the latest announcements and updates and can keep abreast of the main developments since 9 October 2008. The users of the website can subscribe to news and updated material, such as new updates of the Creditors' Report.

The Bank has launched a new website. In addition to a visual makeover, the purpose of launching the new website is to enhance information disclosure to creditors and other stakeholders. The website is now more accessible and user-friendly.

Creditors that have a claim against the Bank have access to the creditors' secure website. An updated list of claims is published on a secure website for creditors a week prior to Creditors' Meetings convened by the Winding-up Committee.

## Creditors' Report

This Creditors' Report will continue to be published on regular basis on the Bank's website. The report is intended to keep creditors informed of the latest progress of the Bank's operations. The report includes e.g. comprehensive financial information (published twice a year), description of main processes and procedures (i.e. detailed Asset Disposal Process), updated information on performance and repayments of the loan portfolio, case studies on the largest loan restructuring cases as well as updates on other asset classes. In addition, the report gives updated summary of the claims lodged against the Bank.

## E-mail

Creditors are invited to direct any general questions they may have to a specific e-mail addresses. General questions pertaining to the Bank's general operation should be sent to [creditorcontact@kaupthing.com](mailto:creditorcontact@kaupthing.com). Questions to the Winding-up Committee regarding claims and the claiming process should be sent to: [winding-up@kaupthing.com](mailto:winding-up@kaupthing.com).

## Creditors' Meetings

The Bank has held numerous meetings with creditors, including:

*General Creditors' Meetings* held as legally obliged as part of the winding-up proceedings to present the progress of the claiming process and in relation to the extension of the moratorium period.

*Creditors' Report Update Meetings* open for all creditors are convened by the ResCom to present the Bank's matters on regular basis. The ResCom anticipates convening 3-4 Creditors' Report Update Meetings per year following the publications of the Creditors' Report. The first three meetings were held 15 March 2010, 7 June 2010 and 12 October 2010 in London. Presentations from the meetings are available on the Bank's website.

*ICC Meetings* are convened by the Resolution Committee as a platform for communications with the Informal Creditors' Committee ("ICC"). The ICC is a structured forum, and provides ongoing dialogue with key creditors and creditors' groups to take their views into account.

The Winding-up Committee has, as part of the winding-up proceedings, held meetings to give a general overview of its decisions on claims. Presentations from Creditors' Meetings held by the Winding-up Committee are available on Winding-up Committee's Creditors' Secure Website.

## Morgan Stanley asset valuation and restructuring review

In H1 2010, Morgan Stanley, the Bank's main financial advisor, completed a detailed report on the Bank's operations and performance. The report and its extensive summary provide a detailed overview of the Bank's asset base and an independent assessment of the 2009 valuation level including indication of potential upside. Furthermore, the report provides an assessment and overview on restructurings performed by the Bank since October 2008. The contractual cash flow profile from the asset base is summarized along with the costs associated with running the administration. Finally, the report illuminates the Bank's current strategy for value maximization and monetization.

ICC members and other private creditors with significant and valid interest have access to an extensive summary of the Morgan Stanley report, subject to the signing of hold harmless letter with Morgan Stanley and NDA with Kaupthing Bank.

Members of the ICC and all other groups of creditors with significant interest have the opportunity to appoint an independent advisor. Financial advisors have full access to the Morgan Stanley report and group Q&A meetings with Morgan Stanley.

## Appointment of the ICC

The Informal Creditors' Committee ("ICC") is provided as a structured forum, and ongoing dialogue, for the ResCom with key creditors and creditors' group to take views from creditors into account including in relation to the composition to be proposed. Other important objective, of establishing the ICC, is to get direct feedback from creditors on key decisions and developments for the estate.

The ICC does not have any formal decision power and is purely consultative in nature. Parties of the ICC do not represent other creditors unless such creditors have formed a group under which they have elected a representative of their group.

Initially, the ICC was established at ResCom's own initiative, it composed of representatives of the Bank's largest known creditors and included a broad cross section of financial institutions. The members of the ICC were chosen in co-operation with the ResCom's former advisor Deloitte LLP. The claims registration process was completed in January 2010 and a significant change in the composition of the group of creditors was noticeable. In the beginning of February 2010 the ResCom invited all creditors who are interested in participating in the ICC to apply.

Overview of some conditions and requirements for joining the ICC:

- Members were required to sign non-disclosure and confidentiality agreements as material non-public information is likely to be disclosed which may affect their ability to trade.
- Signing of Morgan Stanley hold harmless letter.
- Representatives are required to attend committee meetings and conference calls.
- No compensation is paid to members of the Creditors' Committee for travelling or other incurred expenses.
- Members acting for a group of creditors can pass on information to already disclosed parties they represent provided that these parties have signed respective non-disclosure and confidentiality agreements and other undertakings that might be required.

The ResCom received several applications from creditors and creditors' groups. The selection was based on total size of represented claims and overall representation of type of creditors in the Creditors' Committee.

Four members were appointed, they are:

- Bingham McCutchen (London) LLP, the legal advisor to an ad hoc committee of holders of certain notes and other debt obligations issued by Kaupthing.
- International Commercial Lenders Group (ICLG), representing a group of unsecured loan creditors and commercial banks.
- Deutsche Bank Trust Company Americas, as a trustee of certain classes of US notes issued by Kaupthing.
- The Asset Holding Company of the Central Bank of Iceland.

The ResCom extends gratitude to all ICC members for their active participation and helpful contribution to date.

# Appendices

## *A1 Meeting minutes: Creditors' Meeting held 5 February 2009*

Minutes recorded by Kaupthing Bank's Moratorium Supervisor at a creditors' meeting, cf. Art. 14 of the Icelandic Act no. 21/1991 on Bankruptcy etc.

A meeting was held on Thursday 5 February 2009 at 10:00 a.m. at Hilton Reykjavík Nordica, Sudurlandsbraut 2 in Reykjavík, with the creditors of Kaupthing Bank hf., Borgartún 19, 105 Reykjavík, ID-No. 560882-0419, concerning the bank's authorisation for a moratorium.

Olafur Gardarsson, Attorney to the Supreme Court of Iceland, Moratorium Supervisor, chaired the meeting and recorded the minutes, cf. Art. 14 paragraph 2 of Icelandic Act no. 21/1991. The meeting was called in accordance with the provisions of Article 98, paragraph 3 of the Act no.161/2002 on Financial Undertakings, cf. Act no 129/2008.

The meeting was attended by representatives of the bank's creditors, a total of 250 people. Given that the majority of those present did not speak Icelandic it was decided that the main section of the meeting would be held in English. Tomas Jonsson, Attorney to the Supreme Court of Iceland, helped the Moratorium Supervisor chair the meeting. The Bank's ResCom was also present to answer questions.

The Moratorium Supervisor gave a report on the assets and liabilities as of the reference date, explained how he believed the debtor's finances could be reorganised and described what measures had already been taken in this respect. Those attending the meeting received a copy of a presentation, and a detailed summary in English and Icelandic by the Moratorium Supervisor was also distributed.

The Moratorium Supervisor announced his proposal that an application be made to extend the moratorium by nine months at the next hearing of the Reykjavík District Court which is to be held on 13 February at 2:00 p.m.

The Moratorium Supervisor then sought the views of the creditors on his actions and proposals for action. When the Moratorium Supervisor had finished, creditors were given the opportunity to ask questions and put across their points of view. Twenty-one people raised questions.

Questions were raised concerning various topics which had been discussed in the Moratorium Supervisor's presentation and the Moratorium Supervisor and members of the ResCom answered these questions as far as they were able. A summary of the questions raised and the committee members' replies is enclosed with these minutes. A German investor speaking on behalf of more than 800 German deposit holders declared the group's support for the extension of the bank's moratorium. A letter was also presented from two creditors in which they agreed to the extension but only for a further three months.

No objections were raised to the extension of the moratorium. The Moratorium Supervisor asked the meeting twice whether anybody objected to applying for an extension to the moratorium. No objections were raised.

At the end of the meeting the Moratorium Supervisor presented the main points from the minutes to the meeting and invited those present to add any remarks they may have. The minutes were approved in their current form.

The meeting was adjourned at 12.15 p.m.  
Ólafur Gardarsson

## A2 Meeting minutes: Creditors' Meeting held 20 October 2009

registration no. of Kaupthing Bank hf. 560882-0419;

meeting jointly held by

i) Kaupthing Bank's ResCom, according to Article 103, Paragraph 3 of Act no. 161/2002 on Financial Undertakings, cf. Act no. 44/2009 and Temporary Provisions to Act no. 44/2009;

ii) and Kaupthing Bank's Moratorium Supervisor cf. Chapter 2 of Act no. 21/1991 on Bankruptcy etc., cf. Article 2 and 4 of Act no. 129/2008, still in effect according to the provisions of Article 10, Paragraph 2, of Act no. 44/2009 (both Acts amending Act no. 161/2002 on Financial Undertakings).

The meeting was held at Hilton Reykjavik Nordica, Suðurlandsbraut 2 in Reykjavík, on October 20, 2009, and commenced at 10 am.

Registered at the meeting were 104 representatives of creditors.

Members of the panel at the meeting were:

Tómas Jónsson, Attorney to the Supreme Court, Chairman of the meeting.

Ólafur Gardarsson, the Moratorium Supervisor and member of Kaupthing's Bank Winding-up Committee.

Steinar Thór Gudgeirsson, Chairman of the ResCom.

Knútur Thórhallsson, Deputy Chairman of the ResCom (during items 1, 2)

Theodór Sigurbergsson, member of the ResCom.

Eva Sóley Gudbjörnsdóttir, Managing Director of Finance, Kaupthing Bank.

Kolbeinn Árnason, Managing Director of Legal, Kaupthing Bank.

Dieter Turowski, representative of Kaupthing's exclusive financial advisor Morgan Stanley.

Karsten Hofacker, representative of Kaupthing's exclusive financial advisor Morgan Stanley.

Halldór Bjarkar Lúdvígsson, Managing Director of Asset Management – Nordic Portfolio, Kaupthing Bank (during items 1-2, 6).

Dominic McCahill, representative of Weil Gotshal & Manges, legal advisors to Kaupthing (during items 1-2, 4-6).

Finnur Sveinbjörnsson, CEO of Arion Bank (during items 3-6).

Björk Thórarinsdóttir, Managing Director of Credit, Arion Bank (during item 4-6).

### 1. Introduction

Ólafur Gardarsson welcomed the creditors.

The main purpose of the meeting is to provide creditors with an update on key events and activities since the last meeting in February, to provide creditors with the latest financial information on the Bank, to provide creditors with an overview of the processes and a summary of the Capitalization Agreement on Arion Bank, to outline the next steps and restructuring options of the Bank and to discuss the possible extension of the Bank's moratorium on debt payments. According to Icelandic law, no binding decisions can be made at the meeting.

Tómas Jónsson, Attorney to the Supreme Court of Iceland, was asked to serve as chairman of the meeting. He assumed the duties of the chairman and confirmed that the meeting was called as prescribed by law. Given that the majority of those present did not speak Icelandic it was decided that the meeting would be held in English.

### 2. Key Events and Progress during the Moratorium

#### 2.A. Key Milestones

Steinar Thór Gudgeirsson presented key milestones. Steinar discussed the general approach of the ResCom, which ultimate task and duty is to maximize the value of the Bank's assets and pass on the value to its creditors. Steinar presented a summary of the Bank's balance sheet and the status of maximizing the value of the assets. Steinar furthermore discussed the status of the Bank's subsidiaries and branches and the organizational structure of the Bank.

## 2.B. Loan Restructuring / Europe and Nordic

Halldór Bjarkar Lúdvígsson presented an overview of the loan restructuring in the Europe portfolio (fair value as at 30 June 2009 approx. 140 bn ISK) and Nordic portfolio (fair value as at 30 June 2009 approx. 170 bn ISK). The mandate of the asset management division can be broken into five steps, which were discussed: stabilization, consolidation, full overview, which leads to management of the assets and ends with *value optimization and exit strategy*. Halldór presented an overview of loans to customers by portfolio and sector, as well as a past cash-flow analysis. According to his presentation, a considerable part of the Nordic and Europe portfolios has undergone major restructuring and Halldór discussed the Bank's restructuring principles and core values. In all major cases the Bank has relied on valuation work or input by third party advisors. Halldór furthermore discussed actions taken on the portfolios and the progress with the restructuring work, as well as giving an overview of full repayments and exits.

## 2.C. Financial Information Update

Eva Sóley Guðbjörnsdóttir presented an update on the financial information of the Bank, including information on the Bank's balance sheet, cash in hand, development of loans to customers at fair value and information on derivatives.

## 3. Capitalisation Agreement on Arion Bank

### 3.A. Overview of Agreements with the Government

Kolbeinn Árnason presented an overview of the agreements with the Government relating to Arion Bank and discussed the two options available to the Bank. The ResCom has the sole power to decide whether to choose option 1 (Kaupthing to acquire Arion Bank) or option 2 (Government retains Arion Bank). Kolbeinn presented a summary of the key terms of both options. According to option 1, Kaupthing would receive an 87% ownership following a capitalization contribution of 65% (ISK Cash and Icelandic related assets), approx. equalling 66 bn ISK (ownership might possibly be increased to 90% under option 1). According to option 2, Kaupthing would have the right to repurchase 90% of the equity from the Government during the exercise period of one month following the publication of the annual report for the years 2010-2014. Kolbeinn also discussed Kaupthing's consultation with creditors and creditors' due diligence. For further details, reference is made to Kolbeinn's presentation and further publicly available information.

### 3.B. Presentation of Arion Bank

Finnur Sveinbjörnsson presented an overview of Arion Bank. Finnur presented the balance sheet and income statement of Arion Bank, as well as a cash flow analysis. He also discussed Arion Bank's five year business plan and presented an analysis of the loan portfolio. Finnur furthermore discussed the recovery process within Arion Bank, including a breakdown of recovery cases by sectors. Finnur discussed the current liquidity position of Arion Bank and the FX imbalance. Finally Finnur discussed the upside potential of Arion Bank and the importance of ownership for the next few months.

### 3.C. Due diligence and Summary / Review of Capitalisation Options

Karsten Hofacker presented a summary of due diligence on Arion Bank carried out by Kaupthing and its advisors. Due diligence is ongoing, as audit of financials is not yet completed. Due diligence to date has focused on balance sheet analysis / net asset valuation of Arion Bank, detailed analysis of the business plan, liquidity risk and profit improvement measures. Karsten discussed a summary of the valuation and a returns profile with regards to the two options.

Dieter Turowski presented an overview of the pros and cons with regards to the two options.

### 3.D. Creditor Consultation Process

Max Ziff, representative of Houlihan Lokey, discussed the due diligence on Arion Bank assets and the choice between the two options previously presented (option 1 and option 2).

Chip Fisher from Bingham McCutchen, representing a group of bond holders, and a member of the Informal Creditors' Committee (ICC) and the ICC Sub-Committee, discussed Kaupthing Bank's creditor consultation process. Chip expressed his view that he was happy with the work of the ResCom with respect to guarding the interests of creditors.

A lunch break was made at 12.45 pm.

During the lunch break creditors were invited to submit written questions for the following Q&A session.

The meeting commenced again at 1.20 pm.

#### 4. Morgan Stanley overview

John Hepburn, from Morgan Stanley, discussed the role of Morgan Stanley with regards to the work of the ResCom.

#### 5. Next Steps and Restructuring Options

##### 5.A. Legal Overview

Ólafur Gardarsson discussed the Bank's moratorium and gave a legal overview of the moratorium process. The first moratorium was granted from 24 November 2008 until 13 February 2009. According to the Icelandic legislation, the moratorium can be granted for up to 24 months. An extension was granted from 13 February 2009 until 13 November 2009 and another extension of 9 months will be requested on 13 November 2009. The moratorium can be concluded in the following ways, which were discussed by Ólafur: (1) Winding-up process pursuant to Act no. 44/2009; (2) Composition of creditors (Scheme of arrangement); (3) Insolvent liquidation.

##### 5.B. Overall Restructuring

Dieter Turowski discussed the work streams of the restructuring process of Kaupthing Bank.

Karsten Hofacker discussed the target structure for the Bank, the current legal paths for restructuring as well as the liability restructuring.

##### 5.C. Moratorium Extension

Ólafur Gardarsson announced his proposal that an application be made to extend the moratorium by nine months at the next hearing of the Reykjavik District Court which is to be held on 13 November 2009. The arguments presented included the fact that a Chapter 15 protection in the USA might be terminated should the moratorium not be extended. Ólafur then sought the views of the creditors on this proposal, in accordance with the Act on Bankruptcy etc.

Arnar Thór Jónsson from the law firm Réttur, acting on behalf of more than twenty bank creditors, presented concerns and objections to the capitalisation agreement. A formal letter to the ResCom was also received by the chairman from the law firm, detailing the concerns and objections further.

No objections were made to the extension of the moratorium.

#### 6. Q&A

Questions submitted during the lunch break were addressed by panellists (one question was also addressed by Gisli Óttarsson, Managing Director of Risk Management at Arion Bank). Any remaining questions will be dealt with in due course and published on the website. Unanswered questions directed to Arion Bank regarding SPM will be dealt with by Arion Bank.

Following this Dominic McCahill discussed the ruling of the High Court of England today, relating to Kaupthing's application for judicial review of the legitimacy of the decision taken by the UK Treasury to transfer assets and deposits from Kaupthing Edge accounts at Kaupthing Singer and Friedlander in October 2008. The Court held that the UK Treasury had acted within its statutory powers and there had been no error in its decision-making process.

The chairman of the meeting presented the main points from the minutes to the meeting and invited those present to comment on them. No comments were made.

Steinar Thór Gudgeirsson adjourned the meeting.

The meeting was adjourned at 3 pm.

Minutes recorded by Kaupthing Bank's Moratorium Supervisor, cf. Act no. 21/1991 on Bankruptcy etc.

### A3 Meeting minutes: Creditors' Meeting held 9 August 2010

Minutes recorded by Kaupthing Bank's Moratorium Supervisor at a Creditors' Meeting 9 August 2010, cf. Art. 14 of the Icelandic Act no. 21/1991 on Bankruptcy etc.

A meeting was held 9 August 2010 at 10:00 a.m. at Grand Hotel Reykjavik, Sigtun 38 in Reykjavik, open for all creditors of Kaupthing Bank hf. ("the Bank"), Borgartún 26, 105 Reykjavik, ID-No. 560882-0419, concerning the Bank's authorisation for extension of moratorium on debt payments.

Olafur Gardarsson, Attorney to the Supreme Court of Iceland, Moratorium Supervisor, chaired the meeting and recorded the minutes, cf. Art. 14 paragraph 2 of Icelandic Act no. 21/1991. The meeting was called in accordance with the provisions of Article 98, paragraph 3 of the Act no.161/2002 on Financial Undertakings, cf. Act no 129/2008.

Vidar Ludviksson, Attorney to the Supreme Court of Iceland, was appointed as independent chairman for the meeting.

Members of the panel at the meeting were:

Vidar Ludviksson, Attorney to the Supreme Court, Chairman of the meeting.

Olafur Gardarsson, the Moratorium Supervisor and member of the Winding-up Committee of Kaupthing Bank.

Steinar Thor Gudgeirsson, Chairman of the Resolution Committee of Kaupthing Bank.

Eva Soley Gudbjornsdottir, Managing Director of Finance, Kaupthing Bank.

Throstur Rikhardsson, Legal Counsel of the Winding-up Committee

Those attending the meeting received a copy of the presentation, and the Bank's Creditors' Report July 2010 Update was available in English and Icelandic at the meeting.

The Moratorium Supervisor gave a short summary of the purpose of this Creditors' Meeting which was to discuss the possible extension of the Bank's moratorium on debt payments and to provide creditors with an update on key events and activities since November 2009 when the moratorium was last extended.

The Moratorium Supervisor summarized the similarities between moratorium and winding-up proceedings and presented the main reasons for applying for moratorium. The Moratorium Supervisor believes it is prudent to utilize all legal means possible to preserve the interest of creditors. Therefore, as a precaution, and for added certainty at this point in time the Bank proposed to request for an extension of moratorium throughout the maximum period. Timeline of events throughout the moratorium period from 2008-2010 was presented.

Steinar Thor Gudgeirsson, the chairman of the Resolution Committee gave overview of key milestones and summarized the key events since November 2009 when the moratorium was last extended. Steinar also discussed a report completed by Morgan Stanley in 1H 2010 on asset valuation and restructuring review performed by the Bank.

Eva Soley Gudbjornsdottir, Managing Director of Finance, gave overview of the latest financial information as at YE2009. Eva presented overview of each asset class as at YE2009 and the development of the Bank's asset base in 2009. Furthermore, Eva announced that updated statement of assets as at 30 June 2010 is being prepared and expected to be released in the September Update of the Creditors' Report.

Olafur, the Moratorium Supervisor, introduced overview of key figures in the list of lodged claims. Olafur announced that the current claim registry amounts to ISK 6.895bn. Olafur presented the progress made by the Winding-up Committee to date and that decisions had been made on 71% of all lodged priority claims by amount. Furthermore, Olafur announced that the stated objective is to conclude decisions on all lodged claims before the Creditors' Meeting held on 3 December 2010.

Olafur presented that the Bank is focused on finding the best possible closure for all relevant parties in a realistic time frame and distributing the resulting value to creditors. Whereas the total amount of claims lodged as priority claims (Art. 109-112) is well above the total fair value of the Bank's unpledged

assets as at 31 December 2009 the timing of distribution to creditors and possible partial payments to creditors are uncertain and therefore, an accurate timing cannot be given.

In the end, Olafur discussed next step regarding the extension of moratorium and stated that for added certainty at this point in time, it is the opinion of the Moratorium Supervisor that it is prudent to utilize all legal means possible to preserve the interest of creditors. Therefore, as a precaution, the Bank proposed to request for an extension of moratorium throughout the maximum period.

The Moratorium Supervisor announced his proposal that an application be made to extend the moratorium until 24. November 2010 at the next hearing of the Reykjavik District Court which is to be held on 13 August at 11:30 a.m.

The Moratorium Supervisor then sought the views of the creditors on his actions and proposals for action. When the Moratorium Supervisor had finished, creditors were given the opportunity to provide their opinions on the proposed extension of moratorium until 24 November 2010.

No objections were raised to the extension of the moratorium. The Moratorium Supervisor asked the meeting whether anybody objected to applying for an extension to the moratorium. No objections were raised.

At the end of the meeting the Moratorium Supervisor presented the main points from the minutes to the meeting and invited those present to add any remarks they may have. The minutes were approved in their current form.

The meeting was adjourned at 10:30 a.m.

Olafur Gardarsson

## A4 Exchange rates

Exchange rates for ISK against all major currencies as at 30 June 2009, 31 December 2009 and 30 June 2010.

Date	USD	GBP	CAD	DKK	NOK	SEK	CHF	JPY	EUR
30.06.2010	127,66	191,87	120,37	21,05	19,69	16,46	118,49	1,44	156,79
31.12.2009	125,43	202,65	119,74	24,16	21,63	17,54	121,18	1,35	179,78
30.06.2009	127,56	210,04	109,91	24,04	19,84	16,52	117,78	1,32	179,04

## **A5 Initial tasks of the ResCom**

At its inception, the ResCom had the objectives laid out below. Some of these objectives were set with reference to the Disbursement Act. However, it should be noted that the ResCom played no part in determining the creation of Arion Bank.

***Maintaining the Bank's commercial banking operations in Iceland*** in line with the Disbursement Act. The ResCom worked hard to ensure that the daily operations of the Bank's branches were not significantly affected. This objective was reached when Arion Bank was formally established on 18 October 2008 and took over the Bank's commercial banking operation in Iceland on 22 October 2008.

***Protecting depositors both domestically & overseas in accordance with the Disbursement Act.*** The ResCom co-operated abroad with governments, financial authorities and central banks. This objective was achieved domestically, where Arion Bank is now responsible for domestic deposits and, abroad where According to the Disbursement Act, deposits received by the Bank or its branches are priority claims against the Bank. The Bank is thus under an obligation to repay these deposits prior to non-priority claims. Icelandic law does not affect the repayment of deposits received by subsidiaries or their branches. Possible repayment of those deposits is the concern of the boards of directors or administrators of the relevant subsidiaries.

***Ensuring cash flow in all currencies both domestically and to/from foreign jurisdictions.*** The difficulties that were experienced with payments to and from Iceland were primarily due to the actions of foreign governments and foreign currency restrictions imposed by the CBI. Efficient movement of capital was vital for the Icelandic economy. These difficulties were resolved in part with the Transfer Decision.

***Ensuring expertise and knowledge by hiring key employees.*** One of the main tasks of the ResCom is to safeguard the value of the Bank's assets until they have been transferred to creditors. In order to achieve this aim, there must be sufficient expertise in place to manage the assets and provide the necessary services. This objective was achieved through the appointment of several qualified full-time and part-time employees. Around 75 employees now work for the ResCom, supported by an external advisory service as needed to ensure expertise in every case.

***Finalizing the Bank's balance sheet.*** The aggregate balance sheet has been divided between the Bank and Arion Bank as at 22 October 2008. Separate balance sheets for the Bank and Arion Bank had to be prepared. Financial disclosure and financial information is an ongoing process, financial information for the Bank is published twice a year in the Creditors' Report.

***Preserving the interests of creditors.*** The ResCom has focused from the outset on protecting the assets of the Bank and preserving value for creditors. Creditors have been informed of developments via the Bank's website, creditor contact address and press releases. This objective is an ongoing task and will not be fully attained until a permanent solution for the assets, satisfactory to the creditors of the Bank has been identified and executed.

### **Prevent the provisional attachment of assets and facilitate the retrieval of the Bank's assets**

The ResCom is committed to protect the interests of creditors by preventing litigations, the provisional attachment or freezing orders on assets. In the European Economic Area the Bank seeks recognition of the moratorium on a case-by-case basis on grounds of the EU Winding-Up Directive No. 2001/24/EC. The Bank has also been granted an injunctive relief and the moratorium recognized as a foreign main proceeding under Chapter 15 of the United States Bankruptcy Code. This has provided the Bank with protection for its assets in the United States. The ResCom has also facilitated the release of assets through negotiations with local authorities or private parties in several countries.

### **Collecting claims and enforcing securities**

The Bank continues to enforce rights against its debtors in case of non-performance of obligations. That includes enforcing pledges and other securities, taking control of relevant entities etc.

## Disclaimer

This report (including all subsequent amendments and additions) was prepared by the Resolution Committee ("ResCom") for the creditors of Kaupthing Bank hf. ("the Bank") for information purposes only. It should give creditors an overview of the background, the current situation and the potential steps going forward. The additions and amendments to this report since the previously published versions of this report are intended to give the creditors information on recent developments but are not necessarily and should not be regarded as an exhaustive list of all developments which creditors may consider material. In preparing and updating this report, the Bank has not taken account of the interest of any particular creditor or group of creditors.

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This report does not include an estimate of the likely level of recoveries for creditors. Very material uncertainties continue to exist regarding the timing and realisable value of assets and the eventual level of creditors' claims. The Resolution Committee wish to caution creditors against using the data in this report to estimate likely recovery as any such estimates are likely to be materially misleading. The actual realisable value of the Bank's assets and liabilities may differ materially from the values set forth herein. Factors which may lead to material differences include:

- (a) Resolution of issues regarding the quantum of claims
- (b) The realisation method(s) used over time
- (c) The impact of set off and netting including in connection with derivative contracts
- (d) Movements in currency exchange rates and interest rates
- (e) Prevailing market conditions when assets are sold

Nothing in this report should be relied upon by any person for any purposes including, without limitation, in connection with trading decisions relating to the Bank. Neither the Bank, the Resolution Committee, the Winding-up Committee, nor the Moratorium Supervisor accepts any responsibility for any such reliance.

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