FINANCIAL STATEMENTS

FOR THE YEAR
ENDED 31 DECEMBER 2013

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

CONTENTS

FINANCIAL STATEMENTS

FOR THE YEAR
ENDED 31 DECEMBER 2013

ENDORSEMENT BY THE WINDING-UP COMMITTEE

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

The Winding-up Committee is responsible for all of the Company's affairs, including directing its daily operations, managing the Company's assets, administrating the claims process and safeguarding the Company's interests for the benefit of the Company's creditors.

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

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

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

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

The Winding-up Committee, after consultation with creditors and other parties, is preparing the Company for a creditor´s composition. However, as the vast majority of the Company´s assets is located abroad and/or denominated in foreign currencies, and given the fact that the bulk of claims against the Company is held by creditors domiciled abroad, the execution of such a composition agreement with the creditors will not be possible, due to the capital controls provided for in the Foreign Exchange Act No 87/1992, without an exemption from the Central Bank of Iceland ("CBI"). The Company has submitted an exemption application but has not received a formal response from the CBI. Furthermore, according to the Act on Financial Undertakings if a composition is ultimately not achievable then the Winding-up Committee shall petition for the Company to be subject to bankruptcy proceedings by a ruling of the District Court.

Operations in 2013

In 2013, the Company continued the active management of its diverse portfolio of assets in accordance with the aim of the Winding-up Committee to maximise value of assets until distributions can be made to unsecured creditors. Determination of claims against the Company likewise continued.

An important court decision was rendered in respect of the priority status of FRB deposit agreements when the Icelandic Supreme Court dismissed arguments that FRB claims should enjoy priority status as deposits under Art. 112 of the Bankruptcy Act. This judgement led to considerable reduction in disputed priority claims in the Company's winding-up proceedings.

In December 2013 legislative amendments were made on the Bank Tax Act No. 155/2010 which imposed a new tax on the Company based on finally accepted claims in excess of ISK 50 billion as at year end. The Winding-up Committee has expressed doubts as to the legitimacy of the Bank Tax and reserves all rights in that respect, including but not limited to, having the validity of the taxation tested before Icelandic Courts.

As of 31 December 2013 the Company´s total assets amounted to ISK 778 billion and outstanding claims amounted to ISK 2,879 billion.

In 2013 the finally accepted priority claims in accordance with Art. 109, 110 and 112 were paid in full, amounting to ISK 19.3 billion.

ENDORSEMENT BY THE WINDING-UP COMMITTEE

General

The Company´s risk management possibilities are severely restricted under Icelandic legislation. Reference is made to note 4 in the financial statements for further discussion on the Company´s risk management.

The financial statements are prepared on the basis that the Company will be able to manage the timing of realisation of its assets. The realisable values of the Company´s assets may be different at any given point in time as most of the non-cash assets are complex, illiquid and not standardised and subject to a number of material uncertainties, including general economic and market conditions which have been and may continue to be volatile. Reference is made to note 2e regarding uncertainties/use of estimates and judgements.

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

Statement by the Winding-up Committee

The financial statements of Kaupthing hf. for the year ended 31 December 2013 have been prepared in accordance with the Icelandic Act on Annual Accounts No. 3/2006. Previous financial statements of the Company were prepared in accordance with a special purpose accounting framework. The effects of the change in accounting framework are disclosed in note 34.

In our opinion, the financial statements and endorsement by the Winding-up Committee give a true and fair view of the development and performance of the Company´s operations during the year ended 31 December 2013 and its financial position at year end and describe the principal risks and uncertainties faced by the Company.

The Winding-up Committee has today discussed the financial statements of Kaupthing hf. for the year 2013 and confirms them by means of their signatures.

Reykjavik, 3 March 2014,

Winding-up Committee:

Feldis L. Oskarsdottir

Johannes R. Johannsson

Theodor S. Sigurbergsson

INDEPENDENT AUDITOR'S REPORT

To the Winding-up Committee of Kaupthing hf.

We have audited the accompanying financial statements of Kaupthing hf., which comprise the Balance Sheet as at 31 December 2013, the Income Statement and Statement of cash flows for the year then ended, the Endorsement by the Winding-up Committee and a summary of significant accounting policies and other explanatory notes. As part of our audit we have additionally audited the Balance Sheet as at 31 December 2012.

The Winding-up Committee´s Responsibility

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of Kaupthing hf. as at 31 December 2013 and 31 December 2012, of its financial performance and cash flows for the year ended 31 December 2013 in accordance with the Icelandic Act on Annual Accounts.

Emphasis of matter

Without qualifying our opinion, we draw your attention to:

Note 2c to the financial statements which describe that Kaupthing hf. is in winding-up proceedings and that the financial statements are prepared on a going concern basis and that the valuation of assets assumes Kaupthing hf. is able to manage the timing of the realisation of its assets.

Notes 2e, 35 and 36 to the financial statements concerning the book values of assets involving accounting estimates and judgements, and the sensitivity of these book values to changes in reasonably possible alternative assumptions and estimates. Actual amounts realised in the future from these assets could differ from current estimates and significant uncertainty exists over whether the differences may be material to the financial statements.

Other matters

The 2012 financial statements of Kaupthing hf. were prepared in accordance with a special purpose framework and the following specific account lines audited; Total assets, Outstanding Claims and Operating Expenses.

Reykjavik, 12 March 2014

Ernst & Young ehf.

Margrét Pétursdóttir, Partner

INCOME STATEMENT
for the year ended 31 December 2013

	Notes	2013	2012
Interest income	6	6,665	8,759
Net impairment reversal (loss)	7	5,347	(13,942)
Net financial income	8	21,499	2,100
Net foreign exchange rate (loss) gain		(59,509)	40,828
Changes in claims registry	9	94,403	523,350
Late filed priority claims in dispute	23	(15,307)	-
Operating income		**53,098**	**561,095**
Salaries and related expenses		(1,319)	(1,234)
General and administrative expenses		(3,807)	(7,415)
Operating expenses	10	**(5,126)**	**(8,649)**
Profit before taxes		**47,972**	**552,446**
Bank tax	24	(9,932)	-
Profit for the year		**38,040**	**552,446**

Financial Statements of Kaupthing hf. 2013 7 Amounts are in ISK millions

BALANCE SHEET
as at 31 December 2013

	Notes	31.12.2013	31.12.2012
Assets			
Cash at bank	11	418,566	417,627
Loans to and claims against credit institutions	12	9,982	22,380
Loans to customers	13-16	104,781	146,086
Bonds and debt instruments	17	6,306	7,874
Shares and instruments with variable income	18-19	210,757	200,564
Unsettled derivative receivables	20	14,146	20,698
Other assets	21	13,544	31,572
Total Assets		**778,082**	**846,801**
Liabilities			
Claims	22-23	2,878,725	2,994,802
Other liabilities		1,171	1,785
Bank tax	24	9,932	-
Total Liabilities		**2,889,828**	**2,996,587**
Equity			
Share capital		7,270	7,270
Share premium		136,471	136,471
Accumulated deficit		(2,255,487)	(2,293,527)
Total Equity	**25**	**(2,111,746)**	**(2,149,786)**
Total Liabilities and Equity		**778,082**	**846,801**
Other information	26-36		

Financial Statements of Kaupthing hf. 2013 8 Amounts are in ISK millions

STATEMENT OF CASH FLOWS
for the year ended 31 December 2013

	Notes	2013	2012
Cash flows from assets			
Interest received		6,701	9,932
Dividend received		650	915
Loans to and claims against credit institutions - principal payments		767	9,105
Loans to and claims against credit institutions - long term deposits		10,031	-
Loans to customers - principal payments		36,564	41,896
Loans to customers - principal outflow / RCF		(2,555)	(5,160)
Bonds and debt instruments - principal payments		4,333	771
Shares and instruments with variable income - (purchase) realisation of equity stakes		(11)	639
Unsettled derivative receivables - net cash inflow		3,544	6,951
Other assets - cash received (paid)		18,446	(1,322)
Other inflow (outflow)		80	(916)
Net cash from assets		**78,550**	**62,811**
Cash flows from other operating activities			
Fee income		391	226
Other financial inflow		1,214	868
Operating expenses		(5,688)	(8,072)
Net cash to other operating activities		**(4,083)**	**(6,978)**
Cash flows from claims			
Payment of claims Art. 109 and 110		(5,797)	-
Payment of claims Art. 112		(13,469)	-
Custody account - claims Art. 112 in dispute		(562)	-
Custody account - late filed claims Art. 109 and 110 in dispute	23	(15,307)	-
Net cash to claims		**(35,135)**	**-**
Net cash from operating activities		39,332	55,833
Effects of foreign exchange adjustments on cash at bank		(38,393)	28,883
Cash at bank at the beginning of the year		417,627	332,911
Cash at bank at the end of the year	11	**418,566**	**417,627**

Significant non cash transactions

Non-cash transactions comprise set-off settlements and nettings where assets and outstanding claims were offset or netted. Significant non-cash transactions during the year 2013 amount to ISK 12.5 billions.

Financial Statements of Kaupthing hf. 2013 9 Amounts are in ISK millions

NOTES

General information

1. Reporting entity

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

The Winding-up Committee is responsible for all of the Company´s affairs, including directing its daily operations, managing the Company´s assets, administrating the claims process and safeguarding the Company´s interests for the benefit of the Company´s creditors.

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

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

2. Basis of preparation

a) Statement of compliance

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

The Company applies the exception of Article 5(2) of the Act on Annual Accounts to use an accounting policy that deviates from the provisions in the Act on Annual Accounts in order for the financial statements to provide a true and fair view of the Company´s performance and financial position. Due to the purpose of the Company to liquidate/sell subsidiaries in the short/medium term, subsidiaries and associates are recorded as Shares and instruments with variable income and are measured at fair value. However, the Act on Annual Accounts requires subsidiaries and associates to be recorded in accordance with the equity method or at cost. The book value of these Shares and instruments with variable income measured at fair value is ISK 166 billion while the equity value is 184 billion.

The financial statements were authorised for issue by the Winding-up Committee on 3 March 2014.

b) Change in accounting framework

The adoption of the Act on Annual Accounts requires the company to apply/implement the following changes/adjustments to accounting policies used:

(1) Loans to and claims against credit institutions, Loans to customers, Unsettled derivative receivables and Other assets are measured at amortised cost instead of previous measurement at fair value.

(2) Interest income was previously accounted for on a cash receipts basis and has changed to an accrual basis. An exception applies for lending which is in default, in which case accruing interest income is stopped until the loan is performing again.

A total of ISK 172,218 million, reflected in the financial statements for the year ended 31 December 2012, have been reclassified to conform with the classification of the same assets in the financial statements for the year ended 31 December 2013. Refer to note 34 for a further breakdown of the amount reclassified.

c) Going concern

The Company is in winding-up proceedings in accordance with Act No. 161/2002 on Financial Undertakings (the "Act on Financial Undertakings"). The Winding-up Committee plans to maximise the value of assets until distributions can be made to unsecured creditors. The financial statements are prepared on the basis that the Company will be able to manage the timing of realisation of its assets beyond a 12 month time horizon. External events, political, regulatory and/or legal, could affect the time scale, ability and process for such realisations.

d) Basis of measurement

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

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

Basis of preparation, continued

e) Uncertainties/use of estimates and judgements

The Company has assets in respect of which limited or no observable market data is available and/or which are subject to legal action. The value of those assets is based on judgements regarding various factors as appropriate. Considerable judgement has been applied in recognising and determining the value of those assets. Changes in the underlying assumptions used in the measurement methods could materially affect these stated values.

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

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported value. The estimates and underlying assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates and assumptions made.

The realisable value of the Company´s assets may be different at any given point in time as most of the non-cash assets are complex, illiquid and not standardised and subject to a number of material uncertainties, including general economic, legal and market conditions which have been and may continue to be volatile.

Refer to discussion on uncertainties and impairment/valuation methods in note 35 and sensitivities in note 36.

f) Set-off

In the financial statements, assets and liabilities are offset and the net amounts presented, when there is a legally enforceable right to set-off the recognised amounts and an intention to either settle on a net basis or to realise the assets and settle the liabilities simultaneously.

The impact of disputed set-off is not taken into account in the financial statements. Until all disputes have been concluded the real and accurate amount of claims accepted for set-off remains uncertain. Further information on disputed set-off is provided in note 29.

3. **Significant accounting policies**

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

Impairment
Assets measured at amortised cost are reviewed at each reporting date to determine whether there is any indication of impairment. Impairment losses are determined by an evaluation of the exposures on a case-by-case basis, using the valuation methods outlined in note 35. Reasonable prudence is exercised in the valuation of individual items and potential losses which arise in the course of the financial year or in respect of previous financial years are taken into account. Impairment losses are recognised when losses are either incurred or foreseeable.

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

Cash at bank
Cash at bank consists of cash and term deposits with credit institutions. Cash at bank comprises balances with up to three months´ maturity.

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

Loans to customers
Loans to customers are measured at amortised cost. Impairment is assessed for all loans on a case-by-case basis.

Bonds and debt instruments / Shares and instruments with variable income
Listed and liquid instruments are valued at fair value based on the quoted closing price on 31 December 2013.

Unlisted and listed illiquid instruments are valued at fair value. Fair value measurements for financial instruments for which no or limited observable market data is available are determined by using the valuation methods outlined in note 35. The methods of assessing the fair value are based on the market value of underlying factors of the financial instrument in question when applicable. For other financial instruments the value produced by a model or other valuation method is adjusted to allow for a number of factors as appropriate.

Reasonable prudence is exercised in the valuation of individual items and potential losses which arise in the course of the financial year, in respect of previous financial years or are foreseeable, are taken into account.

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

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

Disputed set-off, which is further discussed in note 29, may significantly affect this asset class.

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

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

NOTES

4. Risk management

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

The Company still has significant non-cash assets. The portfolio of non-cash assets includes loans, bonds, shares and instruments with variable income. The portfolio is static in nature and the book value is primarily affected by underlying borrower/investee business financial results. The Company´s risk management possibilities are limited as the Company´s legal status does not allow for executing hedging of its exposures, whether it is FX, market, interest rate et.al.risk. Active management of the assets continues, pending their eventual monetisation or maturity.

The Company considers credit risk associated with its Loans to customers´ portfolio a material risk factor due to the varied credit quality of borrowers. The Company also considers concentration risk a significant risk factor as the Company´s Loans to customers´ portfolio is highly concentrated in terms of number of borrowers and their geographical and industry sector distribution. Further, there is a legal risk associated with the portfolio due to enforcement issues related to borrowers that have defaulted on their contractual obligations.

Market risk is the prospective risk that market price movements negatively impact the value of the assets of the Company. This includes movements in equity prices, interest rates and prices of foreign currency. Market risk is considerable but the Company's means to mitigate this risk are severely limited.

At present the Company does not consider liquidity risk a material risk factor. However, the Company recognises the future need for re-assessment of the risk factor in relation to possible distribution to creditors.

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

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

Due to recent legal and political developments, the Company considers future taxation and other legislative amendments to the current winding up proceedings to be or could be a material risk factor.

The Company recognises that risk factors may change over time, risk factors which are currently deemed minor may become important and vice versa or new risk factors might emerge which are currently unknown to the Company. The company will continue to monitor and reassess the various risk factors which it believes are most relevant at any given time and which may affect its operations.

5. Foreign exchange rates

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

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

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

Financial Statements of Kaupthing hf. 2013 13 Amounts are in ISK millions

NOTES

Notes to the Income Statement

6. Interest income is specified as follows:	2013	2012
Cash at bank	2,087	1,758
Loans to and claims against credit institutions	117	532
Loans to customers	3,980	6,148
Bonds and debt instruments	299	297
Other	182	24
Interest income	6,665	8,759

7. Net impairment reversal (loss) is specified as follows:	2013	2012
Impairment reversal on loans to and claims against credit institutions	227	22
Impairment reversal on loans to customers	23,730	16,538
Impairment reversal on unsettled derivative receivables	2,655	7,523
Impairment reversal on other assets	238	618
Impairment reversal	26,850	24,701
Impairment loss on loans to and claims against credit institutions	-	(200)
Impairment loss on loans to customers	(19,319)	(33,899)
Impairment loss on unsettled derivative receivables	(975)	(3,766)
Impairment loss on other assets	(1,209)	(778)
Impairment loss	(21,503)	(38,643)
Net impairment reversal (loss)	5,347	(13,942)

8. Net financial income is specified as follows:	2013	2012
Dividend income	650	650
Net gain (loss) on bonds and debt instruments	1,632	(5,427)
Net gain on shares and instruments with variable income	16,251	6,438
Other financial income	2,966	439
Net financial income	21,499	2,100

9. Changes in claims registry is specified as follows:	2013	2012
Outstanding claims liabilities at beginning of the year	2,994,802	3,522,838
Outstanding claims liabilities at the end of the year	2,879,287	2,994,802
Total	115,515	528,036
Payment of claims - Art. 109 and 110	(5,797)	-
Payment of claims - Art. 112	(13,469)	-
Set-off and amendments	(1,846)	(4,686)
Changes in claims registry	94,403	523,350

Financial Statements of Kaupthing hf. 2013 14 Amounts are in ISK millions

10. Operating expenses is specified as follows:

	2013	2012
Salaries	1,016	970
Salary related expenses	303	264
External advisors	3,021	6,492
Other expenses	786	923
Operating expenses	5,126	8,649

External advisory expenses are specified as follows:	2013	2012
Winding-up Committee	264	269
Professional service	1,459	1,969
Legal services	981	3,376
Non recoverable VAT	317	878
External advisors	3,021	6,492
Average number of employees	56	63

Notes to the Balance Sheet

Cash at bank

11. Cash at bank specified by geographical location:

	31.12.2013			31.12.2012		
	Iceland	Other	Total	Iceland	Other	Total
Non ISK	44,848	353,550	398,398	36,335	364,221	400,556
ISK	20,168	-	20,168	17,071	-	17,071
Cash at bank	65,016	353,550	418,566	53,406	364,221	417,627

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

Loans to and claims against credit institutions

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

	31.12.2013		31.12.2012	
	Gross amount	Amortised cost	Gross amount	Amortised cost
Domestic				
Long term deposits	-	-	10,911	10,911
Foreign				
Cash collateral held with banks against guarantees	6,118	6,118	6,646	6,646
Frozen/emptied bank accounts	4,095	4,095	5,173	5,173
Other loans	262	238	886	634
Loans to and claims against credit institutions before set-off against counterclaims	10,475	10,451	23,616	23,364
Subject to set-off	(469)	(469)	(984)	(984)
Loans to and claims against credit institutions after set-off	10,006	9,982	22,632	22,380

Disputed set-off, which is further discussed in note 29, may significantly affect this asset class.

Amounts are in ISK millions

NOTES

Loans to customers

13. Loans to customers specified by portfolios:

	31.12.2013		31.12.2012	
	Gross amount	Amortised cost	Gross amount	Amortised cost
Operating loan portfolio	193,419	83,418	240,117	114,382
NOA loan portfolio	984,190	21,363	1,012,674	31,704
Loans to customers	1,177,609	104,781	1,252,791	146,086

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

14. Loans to customers specified by sectors:

	31.12.2013		31.12.2012	
	Gross amount	Amortised cost	Gross amount	Amortised cost
Business and Industrial Products	44,706	24,669	53,110	31,789
Real Estate	80,810	22,531	86,806	25,218
Consumer Goods and Retail	33,269	21,190	40,680	31,997
Holding Company	789,946	20,398	834,166	36,924
Consumer Services: Other	15,180	14,118	20,316	15,262
Individuals	120,370	284	124,383	2,685
Other	93,328	1,591	93,330	2,211
Loans to customers	1,177,609	104,781	1,252,791	146,086

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

	31.12.2013	31.12.2012
Holding Company/UK**	19%	20%
Consumer Goods and Retail/UK**	11%	11%
Real Estate/Other	11%	7%
Consumer Goods and Retail/UK**	9%	8%
Consumer Services: Other/UK**	9%	6%
Real Estate/Scandinavia*	8%	7%
Business and Industrial Products/Scandinavia*	8%	7%
Business and Industrial Products/Scandinavia*	8%	6%
Consumer Services: Other/UK**	4%	3%
Business and Industrial Products/Scandinavia*	4%	6%
Ten largest loans of total Loans to customers	91%	81%

* Scandinavia includes Denmark, Finland, Norway, Sweden and Iceland.
** UK includes UK overseas territories and Crown dependencies.
The geographical location is determined by using the registration country where the majority of the underlying operation is located.

Financial Statements of Kaupthing hf. 2013 16 Amounts are in ISK millions

16. Loans to customers - portfolios specified by performance:

	31.12.2013					
	Operating loan portfolio		NOA loan portfolio		Total	
	Gross amount	Amortised cost	Gross amount	Amortised cost	Gross amount	Amortised cost
Performing loans	51.5%	81.6%	0.1%	2.4%	8.3%	65.5%
Loans on view list	0.8%	0.4%	0.0%	0.0%	0.1%	0.3%
Loans on watch list	47.7%	18.0%	99.9%	97.6%	91.6%	34.2%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

The performance categories are defined as follows:

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

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

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

Bonds and debt instruments

17. Bonds and debt instruments specified by sectors:

	31.12.2013	31.12.2012
Holding Companies	3,686	2,939
Financial Services	970	1,031
Governments - listed	849	1,649
Energy and Environment	801	974
Consumer Goods and Retail	-	1,281
Bonds and debt instruments	6,306	7,874

Shares and instruments with variable income

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

	31.12.2013	31.12.2012
Listed	12,686	12,307
Unlisted	198,071	188,257
Shares and instruments with variable income	210,757	200,564

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

	31.12.2013	31.12.2012
Financial Services *	137,759	126,420
Real Estate	43,719	39,228
Holding Company	12,742	18,127
Consumer Goods and Retail	8,250	7,242
Consumer Services: Other	2,879	4,164
Life Sciences	2,169	1,874
Energy and Environment	1,783	1,609
Other	1,456	1,900
Shares and instruments with variable income	210,757	200,564

* The Company indirectly owns 87% of the equity in Arion Bank through its intermediate holding company Kaupskil ehf. The Company holds 32.7% of the outstanding shares in Norvestia Oyj in listed B-shares and unlisted A-shares and controls 56% of the votes. Listed share price as at 31 December 2013 is EUR 7.05 (2012: EUR 6.21) and the market value of 32.7% of the shares is equivalent to ISK 7,607 million (2012: ISK 7,597 million). Both Arion Bank and Norvestia are accounted for at fair value which is based on the price of 1 times the book value of equity.

Financial Statements of Kaupthing hf. 2013 17 Amounts are in ISK millions

Unsettled derivative receivables

20. Unsettled derivative receivables specified by counterparties:

	31.12.2013		31.12.2012	
	Gross amount	Amortised cost	Gross amount	Amortised cost
ISDA counterparties				
Unsettled derivative receivables, before set-off against counterclaims	20,809	20,724	28,563	28,046
Subject to set-off	(7,238)	(7,153)	(8,744)	(8,653)
Unsettled derivative receivables, after set-off	13,571	13,571	19,819	19,393
Non-ISDA counterparties				
Unsettled derivative receivables, before set-off against counterclaims	5,227	599	10,513	1,305
Subject to set-off	(30)	(24)	-	-
Unsettled derivative receivables, after set-off	5,197	575	10,513	1,305
NOA counterparties*				
Unsettled derivative receivables	30,669	-	33,484	-
Unsettled derivative receivables before set-off	56,705	21,323	72,560	29,351
Unsettled derivative receivables after set-off	49,437	14,146	63,816	20,698

*NOA counterparties relate to unsettled derivative receivables which are connected to NOA Loans to customers. Disputed set-off, which is further discussed in note 29, may significantly affect this asset class.

Other assets

21. Other assets specified by type:

	31.12.2013		31.12.2012	
	Gross amount	Amortised cost	Gross amount	Amortised cost
Accounts receivables	32,778	3,985	35,705	4,988
Claims on bankrupt entities	106,449	9,302	111,103	10,747
Sundry assets	4,586	2,501	23,225	20,391
Other assets before set-off against counterclaims	143,813	15,788	170,033	36,126
Subject to set-off	(2,244)	(2,244)	(11,877)	(4,554)
Other assets after set-off	141,569	13,544	158,156	31,572

Financial Statements of Kaupthing hf. 2013 18 Amounts are in ISK millions

NOTES

Claims and claim process

22. The liabilities of the Company are currently being determined through a formal process administered by the Winding-up Committee. A total of 28,167 claims were lodged before the deadline for lodging claims on 30 December 2009, for a total amount of ISK 7,316 billion. The Winding-up Committee completed its decision on all claims by the Creditors´ Meeting on 3 December 2010. Until all disputes have been settled, the real and accurate amount of the Company´s liabilities is uncertain. According to Act No. 44/2009, claims should generally have been filed as at 22 April 2009 in the relevant currency and converted into Icelandic krona at the exchange rate published by the Central Bank of Iceland on 22 April 2009. Hence, the liability side has been fixed in Icelandic krona as of that date for all relevant claims.

    As of year end 2013, the total amount of claims registered in the list of claims, amounted to ISK 4,203 billion (2012: ISK 4,345 billion). The list of claims incorporates all claims lodged against the Company except those claims which were filed and later withdrawn by creditors and therefore includes claims which have been finally rejected by the Winding-up Committee. The list of claims excludes finally accepted priority claims (Art. 109 and 110) which have been paid in full.

Outstanding claims are specified as follows:	31.12.2013	31.12.2012
Priority claims finally accepted by the Winding-up Committee	13,469	796
General claims finally accepted by the Winding-up Committee	2,731,915	2,568,142
General claims accepted by the Winding-up Committee but in dispute due to priority	-	207,177
General claims accepted by the Winding-up Committee in set-off dispute	58,173	71,997
Rejected disputed claims - Art. 109	-	7,642
Rejected disputed claims - Art. 111	5,157	5,157
Rejected disputed claims - Art. 112	563	3,336
Rejected disputed claims - Art. 113	129,385	238,958
Payment of accepted priority claims under Art. 112	(13,469)	-
Own bonds under US MTN 144a programme	(40,474)	(92,318)
Subject to set-off	(5,432)	(16,085)
Outstanding claims	2,879,287	2,994,802
Payments to custody account due to rejected disputed priority claims	(562)	-
Total claims in Balance Sheet	2,878,725	2,994,802

23. Late filed priority claims in dispute:

Late filed priority claims in dispute:	31.12.2013	31.12.2012
Late filed priority claims Art. 109 - 110 in dispute	15,307	-
Custody account related to priority claims in dispute	(15,307)	-
Late filed priority claims in dispute	-	-

    On 26 April 2013 the Winding-up Committee paid finally accepted claims under Art. 109 and 110 of the Bankruptcy Act. At the same time, and at 1 October 2013, payments were made into custody accounts for disputed claims under Art. 109 and 110 of the Bankruptcy Act, including late filed priority claims. Payments were made in the currency in which the relevant claim was lodged. Payments equivalent to ISK 15.3 billion were made into custody accounts in relation to the late filed priority claims. These claims continue to be in dispute.

Other liabilities

24. Bank tax

    In December 2013, with effect from 31 December 2013, the Bank Tax Act No. 155/2010 ("the Bank Tax Act") was amended and now applies to financial undertakings in winding-up proceedings. The Company has estimated its potential liabilities due to the bank tax in respect of the year ended 31 December 2013 to be ISK 9,932 million. The Bank Tax Act imposes a 0.376% tax on finally accepted claims in excess of ISK 50.0 billion as of year end.

Financial Statements of Kaupthing hf. 2013 19 Amounts are in ISK millions

Equity

25. Changes in equity is specified as follows:

	Share capital	Share premium	Accumulated deficit	Total
2013				
Equity as at 1 January 2013	7,270	136,471	(2,293,527)	(2,149,786)
Profit for the year	-	-	38,040	38,040
Equity as at 31 December 2013	7,270	136,471	(2,255,487)	(2,111,746)
2012				
Equity as at 1 January 2012	7,270	136,471	(2,845,973)	(2,702,232)
Profit for the year	-	-	552,446	552,446
Equity as at 31 December 2012	7,270	136,471	(2,293,527)	(2,149,786)

Other Information

26. Assets, classification and measurement:

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

	31.12.2012				
	Gross amount	Impairment	Amortised cost	Fair value	Total
Cash at bank	417,627	-	417,627	-	417,627
Loans to and claims against credit institutions	22,632	(252)	22,380	-	22,380
Loans to customers	1,252,791	(1,106,705)	146,086	-	146,086
Bonds and debt instruments*	7,874	-	-	7,874	7,874
Shares and instruments with variable income*	200,564	-	-	200,564	200,564
Unsettled derivative receivables	63,816	(43,118)	20,698	-	20,698
Other assets	158,156	(126,584)	31,572	-	31,572
Total assets	2,123,460	(1,276,659)	638,363	208,438	846,801

* Gross amount equals fair value.

Amounts are in ISK millions

27. Assets specified by ISK and FX assets:

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

	31.12.2012				
	ISK assets	FX from Icelandic counter-parties	Total ISK assets and FX from Icelandic counter-parties	FX from non-Icelandic counter-parties	Total assets
Cash at bank	17,071	36,335	53,406	364,221	417,627
Loans to and claims against credit institutions	-	10,911	10,911	11,469	22,380
Loans to customers	661	1,237	1,898	144,188	146,086
Bonds and debt instruments	5,313	-	5,313	2,561	7,874
Shares and instruments with variable income	110,620	13,644	124,264	76,300	200,564
Unsettled derivative receivables	1,196	-	1,196	19,502	20,698
Other assets	2,554	8,384	10,938	20,634	31,572
Total assets	137,415	70,511	207,926	638,875	846,801
% of Total assets			25%	75%	

The tables above show a breakdown of assets in Icelandic krona, assets in foreign currency where counterparties are domiciled in Iceland and assets in foreign currency where counterparties are domiciled outside of Iceland.

Financial Statements of Kaupthing hf. 2013 21 Amounts are in ISK millions

28. Assets specified by currencies:

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

	31.12.2012							
	GBP	EUR	ISK	SEK	USD	NOK	Other	Total assets
Cash at bank	76,932	126,969	17,071	101,958	51,509	36,888	6,300	417,627
Loans to and claims against credit institutions	1,363	440	-	7,584	462	3,626	8,905	22,380
Loans to customers	81,694	26,241	661	15,789	14,552	3,079	4,070	146,086
Bonds and debt instruments	1,280	1,281	5,313	-	-	-	-	7,874
Shares and instruments with variable income	63,489	21,679	110,620	1,950	2,361	359	106	200,564
Unsettled derivative receivables	1,984	15,193	1,196	-	2,218	-	107	20,698
Other assets	100	24,003	2,554	4,210	679	15	11	31,572
Total assets	226,842	215,806	137,415	131,491	71,781	43,967	19,499	846,801
% of Total assets	26.79%	25.48%	16.23%	15.53%	8.48%	5.19%	2.30%	

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

29. Set-off

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

The Winding-up Committee currently estimates, on a preliminary basis, additional effects of disputed set-off on assets as of 31 December 2013 to be approximately ISK 0-21 billion. The exact set-off effects on the assets and liabilities will differ as a) the assets are subject to foreign currency movements while claims are not, b) the assets may considerably change over time which may significantly affect the set-off amount and c) several counterparties who have indicated their intention to set-off may not have filed a claim or filed a claim net of set-off; in these instances potential set-off effects will only impact the assets and not the claims. This set-off analysis is based on a number of assumptions including the finality of the Winding-up Committee's decisions, as at the reporting date, with regards to the validity of the relevant claim and rights to set-off where applicable.

The valuation in these financial statements takes into account the impact of set-off when the entity has a legally enforceable right to set-off the recognised amounts, and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously. The exact impact of disputed set-off could make a material difference to overall creditor recoveries.

Set-off impacts of disputed claims can make a material difference to overall creditor recoveries.

Financial Statements of Kaupthing hf. 2013 22 Amounts are in ISK millions

NOTES

30. Related Party

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

	Interest income/Dividend/Fee income	Expense	Assets	Liabilities
Subsidiaries	2,904	374	309,768	321

31. Taxes

Carry forward income tax losses specified by financial years:	31.12.2013
2008	2,362,775
2009	107,980
2010	-
2011	-
2012	18,210
Total carry forward income tax losses	2,488,965

The carry forward tax losses are based on the Company´s tax returns. Carry forward tax loss for the year ended 31 December 2013 has not yet been calculated. The tax losses expire in 10 years.

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

32. Contingent liabilities

Dispute on the currency exchange rate used for payments of priority claims under Art. 112 of the Bankruptcy Act:

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

The Winding-up Committee rejected the claim from the creditor and has maintained that it´s method of paying priority claims under Art. 112 of the Bankruptcy Act was legitimate. The dispute on the currency exchange rate has now been referred to the District Court of Reykjavik for resolution. The Winding-up Committee expects to have a final and binding ruling on the matter in the second half of 2014.

Should Icelandic Courts rule in favour of the creditor the Company estimates that additional payments to priority creditors that received payments under the euro-option could amount to EUR 4.4 million.

Other contingent liabilities related to assets:

Other contingent liabilities have been reflected in the respective asset book value.

33. Events after the balance sheet date

In February 2014 two claims were lodged against the Company under paragraph 3 of Art. 110 of the Bankruptcy Act, c.f. paragraph 5 of Article 118 of the Bankruptcy Act, for a total amount of EUR 226 million and SEK 155 million. No decision has been made by the Winding-up Committee with respect to these late filed priority claims.

Amounts are in ISK millions

34. Effects of change in accounting policies

Income Statement	2012	2012 Changes in accounting policy	2012 Total
Interest income	10,307	(1,548)	8,759
Net impairment loss	-	(13,942)	(13,942)
Net financial (expense) income	(34,639)	36,739	2,100
Net fee income	242	(242)	-
Net foreign exchange gain (loss)	40,828	-	40,828
Share of profit from subsidiaries	20,415	(20,415)	-
Other income	589	(589)	-
Changes in claim registry	451,090	72,260	523,350
Operating expenses	(8,646)	(3)	(8,649)
Profit for the year	480,186	72,260	552,446

Balance Sheet	31.12.2012 As at 31.12.2012	31.12.2012 Changes in accounting policy	31.12.2012 Total
Cash at bank	417,627	-	417,627
Loans to and claims against credit institutions	22,380	-	22,380
Loans to customers	191,891	(45,805)	146,086
Bonds and debt instruments	7,874	-	7,874
Shares and instruments with variable income	28,346	172,218	200,564
Unsettled derivative receivables	20,698	-	20,698
Investments in subsidiaries	137,377	(137,377)	-
Other assets	31,572	-	31,572
Total assets	857,765	(10,964)	846,801
Outstanding claims	3,067,062	(72,260)	2,994,802
Other liabilities	1,785	-	1,785
Equity	(2,211,082)	61,296	(2,149,786)
Total Liabilities and equity	857,765	(10,964)	846,801

In additions, a prior year gross amount of ISK 35,146 million (fair value ISK 0) relating to a claim on bankrupt company was reclassified from Loans to and claims against credit institutions to Other assets.

Financial Statements of Kaupthing hf. 2013 24 Amounts are in ISK millions

35. Uncertainties and valuation methods

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

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

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

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

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

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

36. Sensitivity analysis.

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

(a) if EBITDA multiple changes by 1.0x EBITDA then the value of the portfolio being looked at changes by 5.6%.
(b) if real estate value / market value changes by 20% the value of the portfolio being looked at changes by 4.9%.
(c) if price to book value changes by 0.3x book value, then the value of the portfolio being looked at changes by 15.6%.

If all inputs as listed above would change at the same time then the value of the portfolio being looked at changes by 26.0%.

Financial Statements of Kaupthing hf. 2013 26 Amounts are in ISK millions

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