



# CREDITORS' REPORT

5 JUNE 2013



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# IMPORTANT NOTICE

This report (including all subsequent amendments and additions) has been prepared by the Winding-up Committee of Kaupthing hf. (hereafter Kaupthing, or the "Company") as a routine update to creditors for information purposes only and is not intended for third party publication, distribution or release in any manner. This report contains a summary of some of the principal issues concerning the Company and is intended to give creditors information on recent developments but is not necessarily and should not be regarded as an exhaustive list of all developments which creditors may consider material. Furthermore, this report contains a summary of the changes to the list of claims from the last meeting on 31 May 2012.

No reliance can be placed on any of the information provided in this report by any person for any purpose including, without limitation, in connection with any investment decision in relation to the acquisition or sale of any financial instruments or claims. Information contained in this report in no way constitutes investment advice.

No representation or warranty, express or implied is given by the Company, its Winding-up Committee, employees and advisers as to the fairness, accuracy or completeness of the contents of this report or any other document or information supplied, or which may be supplied at any time or any opinions or projections expressed herein or therein, nor is any such party under any obligation to correct any inaccuracies or omissions in this report which may exist or become apparent. In particular, for reasons of commercial sensitivity, information on certain matters has not been included in this report. The information in this report has not been independently verified.

This report, including but not limited to any forward-looking statements herein, applies only as of the date hereof and is not intended to give any assurances as to future results. The Company expressly disclaims any obligation or undertaking to disseminate any updates or revisions to the information in this report, including any financial data or forward-looking statements, and will not publicly release any revisions it may make to such information that may result from any change in the Company's expectations, or any change in the events, conditions or circumstances on which these forward-looking statements are based, or other events or circumstances arising after the date hereof.

The Company, its Winding-up Committee, employees and advisers are under no circumstances responsible for any damage or loss which may occur as a result of any of the information provided in this report. The Company, its Winding-up Committee, employees and advisers do not accept any liability in any event including (without limitation) any damage or loss of any kind which may arise including direct, indirect, incidental, special or consequential damages, expenses or losses arising out of, or in connection with the use or inability to use this report.

The financial information contained in the chapter *Financial Statements 2012* of this report is extracted from and must be read in conjunction with the Company's Financial Statements for the year ended 31 December 2012, published on the Company's public website on 19 April 2013 (the "Financial Statements"). Your attention is drawn to the Important Notice in the Financial Statements.

The financial information contained in this report (and in the Financial Statements) is not audited, not consolidated and has not been prepared in accordance with, nor does it contain all of the information required for full financial statements prepared in accordance with, any generally accepted accounting principles or International Financial Reporting Standards. The Company's valuation of its assets is based on the valuation methodology described in note 3 in the Financial Statements. When the Company refers to "fair value" in this report with respect to its assets it is to fair value as described in that valuation methodology. The classification of assets is described in note 4 in the Financial Statements.

The financial information contained in this report reflects historic valuations as at 31 December 2012. These valuations do not represent an assessment of the possible future value of the Company's assets, or an estimate of the likely recovery of unsecured creditors' finally accepted claims. Material uncertainties continue to exist which could affect recoveries of unsecured creditors, including the ultimate amount of finally accepted priority claims and unsecured claims and the realisable value of the Company's assets. Realisable values of the Company's assets may be materially different at any given point in time as most of the non-cash assets are complex, illiquid and not standardised, and their values are subject to a number of material uncertainties, including general economic and market conditions which have been and may continue to be volatile. The realisable values of the Company's assets could also be affected by the realisation strategies undertaken, including the time period permitted for realisations.

The Company wishes to caution creditors against using the data in this report or the Financial Statements to estimate likely recovery as any such estimates are likely to be materially misleading. The actual realisable value of the Company's assets and liabilities may differ materially from the values set forth herein and therein.

The valuations in this report take into account the estimated impact of set-off when both parties agree that 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. Comparison for the year ended 31 December 2011 has been adjusted accordingly. The additional negative impact of disputed set-off claims on the valuation of total assets as of 31 December 2012 is estimated to be between ISK 0-25 billion. The exact impact of disputed set-off could make a material difference to overall creditor recoveries.

This report does not include an estimate of the likelihood of a composition being proposed to the Company's unsecured creditors, of the potential timing of any such proposal or the chances of successful approval and confirmation of any such proposal.

Any and all limitation and disclaimer of liability set out above in regard to the Company shall apply as a limitation and disclaimer of liability in regard to the Winding-up Committee and the Company's employees and advisers.

The use of the Company's material, works or trademarks is forbidden without written consent except where otherwise expressly stated. Furthermore, it is prohibited to publish material prepared or gathered by the Company without written consent.

# ADDRESS FROM THE WINDING-UP COMMITTEE

## **To Kaupthing's creditors**

Since the last creditors meeting in May 2012, Kaupthing has maintained focus on its key areas of operations. These include diverse asset management operations, resolution of disputed claims and preparation of a composition proposal.

Our primary goal is, and remains, to preserve and maximise the value of Kaupthing's assets. Opportunities for realisation of assets are only pursued when all conditions for value maximisation are met. Legal constraints continue to hinder active portfolio management of Kaupthing's assets. In other words, until such time as Kaupthing is in the position to make distributions to unsecured creditors, emphasis must be on managing and monitoring assets in what is effectively a closed and diminishing portfolio. Dedicated teams of in-house specialists and large numbers of external advisers have determinately pursued strategies to maintain and maximise the value of Kaupthing's asset portfolio in face of various challenges.

We have overseen a very significant reduction in outstanding priority claims since the last creditors' meeting was held in May 2012. These decreased from ISK 223.4 billion to ISK 123.3 billion, being an ISK 100.1 billion reduction. During 2012 the reductions in total outstanding claims amounted to ISK 242.7 billion.

The on-going restructuring of Kaupthing ranks among the largest restructurings globally. The project has proven challenging and innumerable issues have had to be resolved as part of the process. The scope of work in relation to the preparation of a composition proposal far exceeds other projects undertaken by the Company since October 2008. In 2012, very significant progress was made in preparing for the launch a proposed composition proposal. In May last year, we even went as far as fixing a target period of launching a composition proposal within the third quarter of 2012, assuming satisfactory resolution of the outstanding issues, including requisite third party consents and approvals and no new issues arising. In October 2012, we believed that Kaupthing was close to being in a position to launch a composition proposal. As matters progressed, however, Kaupthing was ultimately not in a position to launch a composition proposal due to issues concerning the currency controls in effect in Iceland as described further below. We announced this change in events in November last year.

Last year we took steps in accordance with the applicable laws on foreign currency controls to receive an exemption from the currency controls, such an exemption being required in order to make distributions under a composition proposal to persons not domiciled in Iceland. This entailed filing a formal exemption request with the Central Bank of Iceland. While we have not received a formal response from the Central Bank of Iceland in respect of the exemption request, we have engaged in discussions with their representatives in order to explore how the process can be expedited.

We are of the opinion that a composition agreement with the Company's unsecured creditors is achievable and, accordingly, will seek to conclude the winding-up proceedings by means of a composition agreement. We are fully committed to this composition process. However, our abil-

ity to launch a composition proposal is subject to a number of prerequisite conditions, several of which are in third party control. For this reason, we are unfortunately not in a position to provide Kaupthing's creditors with a revised target launch of a composition proposal at this time.

The period leading up to the introduction of a composition proposal will be used productively. Not only will we continue to review and refine the already advanced structure of a composition proposal, but we will also begin a transition process which ultimately will bring the operations of Kaupthing out of the winding-up proceedings and into a more conventional corporate environment. To that end we have commenced two work streams. One aimed at identifying and engaging persons to take seats on Kaupthing's board of directors post any composition as well as designating a person to take on the role of chief executive officer. The other work stream is comprised of six projects which have the aim of adjusting and preparing the operations of Kaupthing for changes brought on by a composition proposal and the ending of the winding-up proceedings.

The informal creditors' committee and the Winding-up Committee together initiated a process for the selection of candidates for the new board of directors and the role of chief executive officer. A board selection committee was formed in consultation with the informal creditors' committee to carry out the board selection process together with Korn/Ferry Whitehead Mann. The board selection committee was comprised of a number of creditor representatives. As a result of this process, candidates for the role of chairman of the board and the role of chief executive officer were selected. To the extent possible and practicable, we will seek to involve the candidates selected for the role of chairman of board of directors and the role of chief executive officer in the transition process leading up to a composition.

Kaupthing's creditors are aware of the concerns raised by various parties in relation to the Icelandic assets held by Kaupthing. In particular, concerns have been raised that effects of the distribution of Icelandic assets to foreign creditors may have an adverse impact on the value of the Icelandic krona. We have, together with Glitnir hf., set up a joint process to analyse what effect potential distributions to creditors will have on Iceland's foreign currency position and financial stability. This analysis will be useful in any discussion to be held concerning exemption from the currency controls and distribution to creditors.

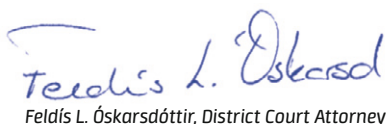
More time has passed since the last general creditors' meeting than was expected. We had intended to convene a creditors' meeting in conjunction with a launch of a composition proposal. As the timing of a launch of any composition proposal is uncertain, we wish to update Kaupthing's creditors on the progress made and how Kaupthing will respond to the unexpected delays in the composition process. To that end we convened a creditors' meeting on 5 June 2013 and have prepared this report to assist Kaupthing's vast creditor group in understanding the financial situation and operations of Kaupthing. The report is also intended to inform creditors as to the status of the on-going restructuring as well as the commencement of the transition process leading up to the launch of a composition proposal.



Davíð B. Gíslason, District Court Attorney



Jóhannes R. Jóhannsson, Supreme Court Attorney



Feldís L. Óskarsdóttir, District Court Attorney



Theodór S. Sigurbergsson, Certified Public Accountant

# INTRODUCTION

## Events Leading to the Winding-up Proceedings

The Company was established in 1982, initially as a securities firm, and subsequently extended its operations into investment banking. The Company became a commercial bank in 2003 and provided integrated financial services to companies, institutional investors and individuals. Following a period of rapid growth in the years 2005 to 2007, the Company experienced financial difficulties during the international liquidity crisis, which were manifested in problems obtaining access to funding and a run on deposits in October 2008.

On 7 October 2008, legislative Act no. 125/2008 (the "Emergency Act"), took effect in an attempt to stabilise the Icelandic economy and provide means to deal with the urgent financial and operational difficulties experienced by the Icelandic financial sector. The Emergency Act empowered the Icelandic Financial Supervisory Authority (the "FME") to take special measures in relation to financial institutions, including the ability to assume the authority of shareholders at shareholders' meetings and to appoint a resolution committee to replace a financial institution's board of directors.

On 8 October 2008, the board of directors of the Company resigned. On 9 October 2008, the FME took over the powers of the Company's shareholders at shareholders' meetings and appointed a resolution committee to replace the board of directors of the Company (the "Resolution Committee"). The Resolution Committee took immediate actions to manage and safeguard the Company's assets and other interests. On 24 November 2008, the Company entered into moratorium proceedings.

On 22 April 2009, Act no. 44/2009 took effect amending the Act on Financial Undertakings no. 161/2002 (the "Act on Financial Undertakings"). Pursuant to the Act on Financial Undertakings, the Resolution Committee was given the power to represent the Company in all matters, including all powers of the Company's shareholders at shareholders' meetings. The Act on Financial Undertakings furthermore required the Resolution Committee to file a request with the District Court of Reykjavik for a winding-up committee to be appointed to allow for a formal claims process to begin. On 25 May 2009, the District Court of Reykjavik approved a request from the Resolution Committee, pursuant to the Act on Financial Undertakings, to appoint a winding-up committee (the "Winding-up Committee") alongside the Resolution Committee. The Winding-up Committee became responsible for processing all claims against the Company and making determinations regarding the acceptance or rejection of such claims.



Up until 1 January 2012, the Resolution Committee and the Winding-up Committee jointly managed the Company's affairs. The Resolution Committee was responsible for the daily operations of the Company and managing its assets. The Winding-up Committee was responsible for the administration of the formal claims process and determination regarding the acceptance or rejection of claims against the Company.

## Winding-up Proceedings

On 22 November 2010, the moratorium proceedings ended and court-ordered winding-up proceedings commenced, with retrospective effect from 22 April 2009.

Pursuant to Act on Financial Undertakings no. 78/2011, the Resolution Committee's role came to an end on 1 January 2012 and all of its responsibilities, powers and authority were transferred to the Winding-up Committee. From 1 January 2012 the Company has been managed by the Winding-up Committee, which has the governing authority and powers of the Company's board of directors and shareholders at shareholders' meetings. The Winding-up Committee is responsible for all of the Company's affairs, including directing its daily operations, managing the Company's assets, administering the claims process and safeguarding the Company's other interests with the principal objective of preserving the interests of the creditor body as a whole.

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

## Ending the Winding-up Proceedings

According to paragraph 5 of Art. 102 of the Act on Financial Undertakings, a winding-up committee shall evaluate whether it is likely that the assets of a financial institution will suffice to meet its obligations.

Art. 103a of the Act on Financial Undertakings stipulates that if it is established that the assets of a financial institution in winding-up will not be sufficient to meet in full the payment of the claims its winding-up committee has not finally rejected as valid claims, it may seek a composition agreement with its unsecured creditors to conclude the winding-up proceedings. Furthermore, Art. 103a of the Act on Financial Undertakings provides that the financial institution can only remain in winding-up proceedings as long as a composition agreement with the financial institution's unsecured creditors is achievable and has not been rejected by those creditors. Otherwise, pursuant to paragraph 4 of Art. 103a of the Act on Financial Undertakings, the winding-up committee is required to apply to the relevant District Court for the financial institution to be placed into bankruptcy proceedings.

The Winding-up Committee has concluded that the Company's assets will not be sufficient to meet in full the payment of the claims that the Winding-up Committee has not finally rejected. Accordingly, the only options available to the Company to end the winding-up proceedings are as follows:

**(a) composition agreement that will bind all unsecured creditors holding claims affected by the composition agreement**

*The Winding-up Committee may submit a composition proposal to the Company's unsecured creditors. A composition agreement refers to an agreement to settle or relinquish debts concluded between a company and a certain majority of its unsecured creditors who would be affected by the terms of the composition agreement. If submitted by the Company and approved by the requisite majority of unsecured creditors affected by the terms of composition agreement and confirmed by the Icelandic Courts, the composition agreement binds all of the Company's unsecured creditors affected by the terms of the composition agreement.*

**(b) bankruptcy proceedings**

*As referred to above, the Company can only remain in winding-up proceedings for as long as a composition proposal with unsecured creditors affected by the terms of the composition proposal is achievable and has not been rejected by those unsecured creditors. Otherwise, pursuant to paragraph 4 of Art. 103a of the Act on Financial Undertakings, the Winding-up Committee shall make a request to the District Court of Reykjavik that the Company ordered into bankruptcy proceedings.*

The Winding-up Committee is of the opinion that a composition agreement with the Company's unsecured creditors is achievable, cf. article 103a of the Act on Financial Undertakings, and, accordingly, will seek to conclude the winding-up proceedings by means of a composition agreement. This is subject to a number of prerequisite conditions, the fulfilment of which may be in third party control. The timing and conclusion of the winding-up proceedings by means of a composition agreement is uncertain as further described in the chapter. *Composition Proposal and Issues Relating to the Currency Controls.*

## Communications with Creditors

Throughout the winding-up proceedings, interested parties have had access to financial information and updates of the Company through its website, [www.kaupthing.com](http://www.kaupthing.com).

The Company has regularly convened meetings with its creditors, including general creditors' meetings, to present the progress of the claims process and to update creditors on the developments in the winding-up proceedings. General creditors' meetings are held in accordance with Art. 103 of the Act on Financial Undertakings which provides that a winding-up committee shall convene general meetings of creditors to present significant developments in respect of the interests of the relevant financial institution in winding-up. The last general creditors' meeting was held on 31 May 2012.

In 2012 the Company created a new online portal for its creditors (the "Secure Website") in the context of a composition proposal. The Secure Website will be the portal through which all creditors will be able to provide the requisite details. The Secure Website provides a platform on which the Company will be able to make ongoing communications with its creditors.

In 2008, the Company established an informal creditors' committee ("the ICC") which was comprised of representatives of the Company's largest known creditors at that time. The purpose of establishing the ICC was to provide a forum for constructive dialogue with creditors. Communication with the ICC has allowed the Company to take the views of creditors into consideration during the course of the winding-up proceedings and obtain direct feedback on certain key decisions and developments.

Following the completion of the claims registration process in January 2010, it became apparent that there had been a significant change in the make-up of the Company's creditors. In response to this, in February 2010, the Company invited all creditors to apply to join the ICC, subject to the fulfilment of certain conditions and requirements. The Company based its selection to the ICC on (a) the total size of the claims applicants represented and (b) an aim to ensure representation from all types of creditor groups.

As of the date of this report, the ICC consists of three large creditors, the Asset Management Company of the CBI, Bayerische Landesbank and Deutsche Bank Trust Company Americas. A further member is Bingham McCutchen (London) LLP, as representatives to a group of creditors holding certain notes and other debt instruments issued by the Company. Since March 2012, the ICC has been advised by Talbot Hughes Mckillop LLP in relation to the on-going restructuring of the Company.

The ICC meets on a regular basis to discuss developments relating to the Company, both internal and external. The meetings with the ICC provide a venue for the Winding-up Committee to receive direct feedback from representatives of a cross section of creditor interests. The ICC is a consultative body and does not have any decision-making power. The ICC does not represent all creditors and owes no duties to the creditors of the Company.

In addition to communicating with the ICC, the Winding-up Committee has on-going communications with representatives of other groups of creditors.

# COMPOSITION PROPOSAL AND ISSUES RELATING TO THE CURRENCY CONTROLS

## Composition Proposal of the Winding-up Committee

The Company's Winding-up Committee has been working in close consultation with the ICC and their respective advisers on a potential composition proposal with the Company's unsecured creditors.

The scope of work in relation to the preparation of the composition proposal far exceeds other projects undertaken by the Company since October 2008. The proposed restructuring of the Company ranks among the largest restructurings globally with approximately 13,000 creditors from over 100 jurisdictions holding outstanding claims amounting to ISK 2,988.4 billion out of originally filed claims amounting to ISK 7,316 billion. Significant investment has been made in the process, both by the Company and various creditors. Since early 2011, a large proportion of working hours of the Company's employees and the Winding-up Committee has been devoted to work streams relating to structuring and documenting a composition proposal, in particular from a legal, financial, regulatory and tax perspective. Around half of the total operating costs of the Company in 2012 related to the preparation of the composition proposal and connected work streams. Total external advisory costs in 2012 were around ISK 5.3 billion, of which external advisory costs related to the preparation of a composition proposal accounted for ISK 4.2 billion.

While preparation of a composition proposal was a general priority for the Winding-up Committee in 2011 and 2012, the Company also ensured that that ordinary business operations and the on-going claims process would not suffer as a result. In 2013 the preparation of the composition proposal continues to receive priority attention.

Morgan Stanley & Co. Ltd. has acted as leading financial adviser to the Company since 2008 and its international restructuring experience, capital market knowledge and close relationship with the Company has proven a valuable asset in developing a suitable structure, analysing the commercial impact of the composition proposal and providing advice on all relevant commercial aspects.

In May 2011, White & Case LLP was engaged to act as the leading external legal advisor in the preparation of the composition proposal. This has included advising the Company on various legal aspects of structuring and implementing a composition proposal. In particular, time has been spent with the Company considering various structuring options for the composition proposal, particularly from a regulatory perspective. Key work streams have included, amongst other items, structuring of distributions to be made to creditors pursuant to any composition proposal. This includes advice in relation to structuring the relevant documentation, consideration of the mechanism for transfer of control to creditors, extensive regulatory analysis, advice in respect of international recognition of any composition proposal and advice in relation to all documentation required to implement the Company's restructuring. As such, the firm has played a significant role in advising

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the Company on developing the terms of a composition proposal. Furthermore, a large number of law firms in approximately 100 jurisdictions have been engaged throughout to provide legal advice on jurisdiction specific issues. This has included regulatory and tax analysis, advice relating to international recognition of the composition proposal and general structuring and implementation advice on a jurisdiction specific basis.

As part of the preparation for the composition, the Company has engaged Deloitte (UK) LLP to provide tax advice on the likely tax implications of different structures in a potential composition proposal for the Company and its creditors. Furthermore, the Company has also applied for, and received, a binding ruling from Icelandic tax authorities on the treatment of its tax losses, which was considered a major milestone in the tax analysis work stream.

The purpose of a composition agreement with the Company's unsecured creditors is to end the winding-up proceedings and thereby enable the Company to operate as an Icelandic holding company post-composition. A composition agreement will also, importantly, enable the Company to distribute the cash currently held by the Company to its creditors, as well as transferring control of the Company to creditors. By structuring the Company as an asset management vehicle, a mechanism will be put in place for distributions to creditors of future cash realisations from the Company's assets. As a consequence of any composition agreement a new board of directors will be elected. It may be expected that a board of directors will adopt a strategy which focuses on monetising the Company's assets in a value maximising manner, taking into account the time value of capital.

The introduction of a composition proposal is conditional upon the Company first receiving an exemption from the Central Bank of Iceland (the "CBI") from the currency controls based on Act no. 87/1992 on Foreign Exchange (the "Foreign Exchange Act"). The exemption is required in order to make distributions to creditors domiciled outside of Iceland. On 24 October 2012 the Company submitted an exemption request to the CBI, but a response has not yet been received.

Although it has not received a formal reply to its exemption request, the Company has actively engaged in discussions with the CBI in order to assist with and expedite the analysis undertaken by the CBI in respect of the exemption request. The Company does not have information on the current status of the analysis of the CBI.

When the Company submitted the exemption request to the CBI the Winding-up Committee believed that the composition preparation had made significant progress from a legal and commercial perspective. The Winding-up Committee furthermore considered the documentation and necessary analysis to be sufficiently advanced. A launch of the composition proposal to the Company's unsecured creditors was believed to be possible, subject to the Company being granted the Foreign Exchange Act exemption and any other third party approvals.

Due to uncertainties on the timing and content of any formal response from the CBI, it is currently not possible to provide a revised target launch date for a potential composition proposal. The Company, together with its advisers, continues to move forward with preparations for a potential composition proposal and is working closely with the ICC and the CBI, as may be required, to address any concerns or questions that may arise. If the CBI grants an exemption and all other regulatory and third party matters are resolved which make a composition a viable option, the Company aims at proceeding as swiftly as practically possible to put forward a composition proposal taking into account any requirements the CBI and any other governmental authority may impose. The Winding-

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*When the Company submitted the exemption request to the CBI the Winding-up Committee believed that the composition preparation had made significant progress from a legal and commercial perspective. The Winding-up Committee furthermore considered the documentation and necessary analysis to be sufficiently advanced. A launch of the composition proposal to the Company's unsecured creditors was believed to be possible, subject to the Company being granted the Foreign Exchange Act exemption and any other third party approvals.*

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up Committee will provide further information to the Company's creditors regarding any potential composition proposal or any other material updates in respect to the Company's on-going restructuring when possible.

It must however be stressed that even if the CBI grants an exemption from the currency controls, and all other third party conditions are met, the preparation and launch of a composition proposal may require some time to conclude as various issues may need to be re-addressed taking i.a. into account the time since the exemption request was submitted.

In the meantime, the Winding-up Committee continues to work with the ICC and their respective advisers on progressing all work streams on the potential composition proposal which are not reliant on the Foreign Exchange Act exemption or other third party approvals.

### Issues relating to the Currency Controls

According to recent analysis made by the CBI and as published in their report *Financial Stability 2013-1*, the CBI estimates that the winding-up of the Company, in particular the distribution of Icelandic assets to foreign creditors, will contribute negatively to Iceland's underlying external position<sup>1</sup> and balance of payments, placing adverse pressure on the Icelandic krona. The CBI's estimate is based on the fair value of the Company's assets and the CBI's breakdown of claims into domestic and foreign.

The situation described above applies to other entities in Iceland which are in a similar position as the Company, in particular Glitnir hf. ("Glitnir") and LBI hf. ("Old Landsbanki"), although to different degrees. In the report *Financial Stability 2013-1*, the CBI estimates the total underlying external position of Iceland to be 58.0% of 2012 gross domestic product. Thereof, 45.0% of 2012 gross domestic product is estimated as a result of the winding-up of the Company, Glitnir and Old Landsbanki. Out of the three, the winding-up of the Company has by far the smallest effect on the underlying external position. As regards the effects of the winding-up of the Company, Glitnir and Old Landsbanki on Iceland's balance of payments, the single greatest negative impact, and resulting adverse pressure on the Icelandic krona, is due to the debt in foreign currency owed by Landsbankinn hf. to Old Landsbanki.

The CBI has stated that Icelandic assets ultimately distributed to creditors not domiciled in Iceland present an issue for financial stability in Iceland. According to the CBI, the manner in which payments are made to creditors of the Company may have a material impact on the financial stability of the Icelandic economy. The CBI has also stated that it is necessary to find ways of ensuring that these distributions do not threaten the financial stability of Iceland and that these issues need to be conclusively addressed before any potential composition proposals of the Company or Glitnir can proceed. The Winding-up Committee understands that this concern is one of the reasons why the CBI has not responded to the Company's request for an exemption from the currency controls.

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*It must however be stressed that even if the CBI grants an exemption from the currency controls, and all other third party conditions are met, the preparation and launch of a composition proposal may require some time to conclude as various issues may need to be re-addressed taking i.a. into account the time since the exemption request was submitted.*

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<sup>1</sup> *External position* refers to the net position of assets and liabilities between residents and non-residents in Iceland (i.e. the net international investment position ("NIIP")). The CBI refers to the *underlying external position* as being the NIIP excluding the pharmaceutical company Actavis and the financial institutions in winding-up (as the NIIP includes the gross liabilities of those financial institutions which will be largely written down), but including the estimated effect of distributions from the financial institutions in winding-up.

As discussed in the chapter *Composition Proposal of the Winding-up Committee*, the Winding-up Committee filed a request with the CBI for exemption from the currency controls on 24 October 2012, such an exemption being required in order to make distributions under a composition proposal to persons not domiciled in Iceland. The Winding-up Board of Glitnir has done the same in respect of its own potential composition proposal.

The Winding-up Committee and the Winding-up Board of Glitnir have established a joint project to analyse the impact of the exemption requests in the context of Iceland's foreign currency position and financial stability. The analysis produced by the project can be used in any discussions with the CBI and other relevant authorities concerning the exemption requests.

The project is structured to reflect the wish of the Winding-up Committee and the Winding-up Board of Glitnir to establish a process that will support their discussions with the CBI but at the same time ensures that creditor feedback is taken into account. Discussions with the CBI, concerning the exemption requests, may impact creditor recoveries. To ensure the functionality of the joint project and the efficient transmission of information between creditor representatives on one hand, and the Winding-up Committee and Winding-up Board of Glitnir on the other, a small working group has been appointed to form a common forum for the parties. The Winding-up Committee and the Winding-up Board of Glitnir have, after consulting with the ICC and Glitnir's informal creditors committee, jointly appointed Talbot Hughes McKillop LLP to assist with review of public economic data and to work on the development of proposed solutions within the scope of the project.

The working group will review options and make recommendations in relation to Icelandic krona issues but the responsibility for decision making and strategy relating to the Company's exemption request, and negotiating any ultimate solution, is solely with the Winding-up Committee. The Winding-up Committee will continue to take advice from other advisers not affiliated with project as well as any other stakeholders where input is needed or helpful in resolving issues concerning the Company's exemption request.

# TRANSITION PERIOD

## General Overview

Since the appointment of the Resolution Committee in October 2008 the Company has gone through several phases of change. On appointment, the Resolution Committee assumed all authority of the Company's board of directors. Initial focus was on safeguarding and managing the Company's asset portfolio as well as conducting a general fact finding and analysis of the Company. Following this initial period, the Company moved towards stabilising assets and initiating a claims process which allowed creditors' claims to be dealt with in an orderly fashion. The Company has since endeavoured to maximise recovery of assets to the extent possible and has made significant progress in resolving disputed claims against the Company. Both political and legislative developments in Iceland have all the while affected the Company.

As the Company moves towards presenting a composition proposal to its creditors, further changes are on the horizon, e.g. in respect of corporate governance and ordinary business operations. A fundamental change, inherent in any composition proposal, is that ultimate responsibility for the governance of the Company will be transferred from the Winding-up Committee to a new board of directors.

As discussed in the chapter *Composition Proposal and Issues Relating to the Currency Controls*, the delay in obtaining the required exemption from the CBI from the currency controls has meant that the period leading up to a launch of a composition proposal is longer than initially expected. The Winding-up Committee believes it is important to make the best use of the period leading up to a composition and has to that end expedited certain work streams which otherwise would have awaited the implementation of a composition agreement.

Four key areas of preparation for a composition proposal include (a) the identification and selection of candidates for a board of directors and a chief executive officer for the Company post composition, (b) development of strategies for the Company prior to composition while at the same time laying the foundations for the Company following a composition agreement, (c) improving internal processes in order to provide the required reporting to key stakeholders post composition, and (d) implementing and maintaining a sound internal organisation structure throughout.

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*The Winding-up Committee believes it is important to make the best use of the period leading up to a composition and has to that end expedited certain work streams which otherwise would have awaited the implementation of a composition agreement.*

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## Identifying Management Talent for the Company post Composition

### Changes in governance structure post composition

Any composition proposal, once approved by the Icelandic courts, will transfer the powers of the Winding-up Committee to a conventional corporate governance structure. This means, under Icelandic company law, that ultimate corporate powers and responsibilities will vest in a board of directors which sits at the top of the governance structure. The role of the board of directors is to set down the general direction and strategy as well as making sure that proper procedures and controls are in place. A chief executive officer, responsible to the board of directors, carries out all day-to-day management of the Company. The role of the chief executive officer is extensive and quite varied under Icelandic law and includes, amongst other things, responsibility for implementing the Company's direction and strategy, overseeing the Company's business operations, managing its assets as well as responsibility for the Company's human resources. The board of directors and the chief executive officer can in turn appoint other officers and management personnel, such persons being responsible for certain operations to the board of directors and the chief executive officer.

It is one of the responsibilities of the Winding-up Committee to ensure that a satisfactory governance structure is established which is capable of implementation as part of any composition proposal and will ensure that the Company continues to be appropriately managed following any composition agreement.

In the spring of 2012, with these responsibilities in mind, the Winding-up Committee commenced a process of selecting persons for places on the Company's board of directors and for the post of chief executive officer.

### Board Selection Process – Selection of Chief Executive Officer

The Winding-up Committee, taking into account the views of the ICC, had several aims in mind when commencing the board selection process. Specifically, any candidates for a place on the Company's board of directors, or for the post of chief executive officer, would have to (a) possess expertise and experience in the areas of business operations carried out by the Company, (b) complement each other so that the group of candidates could be comprised of individuals drawing on expertise and experience across a range of sectors, (c) be available to engage with the Company prior to composition in order to be prepared for their respective roles and, (d) where appropriate, be available to contribute to the Company in their respective fields of expertise prior to composition.

The Winding-up Committee engaged the management recruitment firm Korn/Ferry Whitehead Mann to formalise and manage the board selection process. The scope of their instructions included identifying potential candidates, organising interviews and carrying out an appraisal of short listed candidates.

To assist with the board selection process, and in consultation with the ICC, the Winding-up Committee formed a board selection committee which was comprised of a number of representatives of the Company's creditors. The board selection committee further defined the criteria for selection of candidates for the board of directors and for the post of chief executive officer and carried out interviews with potential candidates. The board selection committee was assisted by the advisory firm Talbot Hughes McKillop LLP.

As a result of interviews carried out by the board selection committee and Korn/FerryWhitehead Mann, the board selection committee identified a short list of candidates which, along with recommendations from the board selection committee, was submitted to the Winding-up Committee for review. If a composition proposal is approved by the Company's unsecured creditors, the chairman designate, along with other members of a proposed board, will be nominated as part of implementation of the composition agreement. The board of directors would subsequently appoint the chief executive officer.

#### **Chairman of the Board of Directors – Chief Executive Officer**

As a result of the board selection process, the board selection committee has identified a candidate for the post of chairman, who will head the Company's board of directors post any composition agreement, and a candidate for the post of chief executive officer to take on the management of day-to-day business operations.

##### **Malcolm Fallen, Chairman designate**

*Mr. Fallen is the chief executive officer of Candover Investments plc, a role he has held since September 2009, having joined in March 2009 as interim chief operating officer to lead a strategic review of the business. Following a successful restructuring completed by mid 2011, his role became part time. He is also chairman of Innovia Films, a private equity backed international specialty packaging business.*

*Mr. Fallen was chief executive officer of KCOM Group plc, an information technology and telecommunications service provider with focus on the United Kingdom, from 2003 until 2008, having originally joined as chief financial officer in early 2001. Prior to KCOM, he was the chief financial officer of Eircom plc, the incumbent telecommunications operator in Ireland, which he joined prior to its privatisation.*

*Mr. Fallen qualified as an accountant with Arthur Andersen, and has a degree in economics from Queens' College, Cambridge.*

##### **Matthew Turner, CEO designate**

*Mr. Turner is the former international head of global private equity at Merrill Lynch. Mr. Turner is an experienced private equity leader with significant experience in complex restructuring and work outs of private equity owned assets.*

*Mr. Turner started his career with PPM Ventures, the private equity arm of the Prudential and then worked with the London based private equity firm Palamon Capital Partners where he led a number of successful transactions. Mr. Turner then moved to Merrill Lynch as the European head of private equity. Following the acquisition of Merrill Lynch by Bank of America, Mr. Turner was appointed global head of private equity and alternative assets, including the global distressed portfolio. He was also a member of the international investment committee of the bank.*

*Additionally, Mr. Turner was appointed as head of all the EMEA debt for equity assets, global bank problem and legacy assets and EMEA infrastructure with overall responsibility for asset portfolio with an enterprise value of over EUR 6 billion.*

*Mr. Turner left Bank of America Merrill Lynch in July 2011 to join Blenheim Partners where he was responsible for the acquisition and management of a number of distressed assets.*

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*As a result of the board selection process, the board selection committee has identified a candidate for the post of chairman, who will head the Company's board of directors post any composition agreement, and a candidate for the post of chief executive officer to take on the management of day-to-day business operations.*

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### **Involvement of Chairman Designate and CEO Designate in the period leading up to a composition proposal**

To the extent possible and practicable the Winding-up Committee will seek to involve the Chairman designate and the CEO designate in the business operations of the Company prior to a composition proposal in areas where their experience and expertise can be of most value to the Company. In particular, the Winding-up Committee will seek to involve the Chairman designate and the CEO designate in decisions regarding future operations, which may impact the Company post a composition agreement. Taking the views of the Chairman designate and the CEO designate on board is beneficial to making the operational transition, from winding-up proceedings into a more conventional corporate environment, as seamless as possible.

In the interim period until any composition proposal has been approved, the Chairman designate and the CEO designate will be engaged as consultants to the Company. All responsibility for management and decision making, however, remains solely with, and is the duty of, the court appointed Winding-up Committee.

Both the Chairman designate and the CEO designate will be members of the Change Programme committee, along with members of the Winding-up Committee, governing the Change Programme which is discussed below.

## **Developing and Implementing Strategies**

### **Overview**

The Winding-up Committee has initiated a programme to prepare for the changes which a composition agreement will bring to the Company (the "Change Programme"). The Change Programme has in turn been divided into six work streams, each with its own purpose and aim. The work streams are not necessarily interdependent and need not be initiated or concluded at the same time. Work has already begun on some of the work streams, while others are expected to be commenced in the summer or autumn of 2013. Timing is subject to the progress of other projects, such as the progress of the potential composition proposal.

In order to maximise benefit from the Change Programme post composition, the Chairman designate and the CEO designate will be members of the committee governing the Change Programme. Members from the Winding-up Committee will make up the other members of the Change Programme committee. The programme committee will seek such external advisory support as it requires to effectively implement the Change Programme.

### **People**

The ability of the Company to retain skilled and motivated employees is somewhat different from operating companies. This is due to the fact that the Company has a static asset portfolio which is being wound down and a diminishing project base. This unavoidably creates uncertainty among the employees of the Company for what the future holds in terms of employment and limits their ability to progress their careers at the Company. Notwithstanding these challenges, the Company has still been successful in retaining most of its key employees.

The objective of the people work stream is to create a structure whereby the Company can continue to retain and attract skilled, motivated employees and to align the interests of the Company and employees. This includes implementing the right organisational structure, review of contractual terms, designing and implementing incentives and a formal appraisal process. The objective is also to prepare the Company for any loss of key employees and to develop a contingency strategy. Long term employment strategies will be determined the board of directors post implementation of a composition agreement.

### **Asset Management**

Asset management strategies for individual assets, following a composition agreement, may differ from strategies currently in place. It is expected that management strategies for individual assets will be revisited by a new board of directors if a composition agreement is reached.

With the above in mind, the asset management work stream is intended to continue to review goals for the orderly realisation of the Operating Loan Portfolios, as well as related equity and bond positions, prior to or post composition. This includes reviewing the strategy for individual assets and preparing a detailed scenario analysis and timeline for how and when the assets can be monetised.

### **Financial Framework**

Moving the Company out of the legal regime governing winding-up proceedings and into a corporate environment following a composition agreement will introduce more stringent financial reporting requirements. This comes as a result of legal obligations as well as being an expected requirement of the Company's stakeholders and internal management.

The objective of this work stream is to define the additional reporting processes and standards that the Company will need to meet. Apart from fulfilling external requirements, the aim is to further enable the Company to provide insightful information for evidence based decisions and management.

The Company has decided to appoint a chief financial officer who will, as part of the project, review the current finance function of the company, make recommendations as to preferred structure and reporting processes as well as designing an effective finance framework, if needed to improve current processes. The chief financial officer is still to be appointed.

The Winding-up Committee has decided to initiate a process to select an external auditor. The external auditor will be selected to audit the Company post implementation of a composition agreement. An external audit review of valuations of certain assets may be carried out before implementation of any composition agreement.

### **Risk Management**

The objective of the risk management work stream is to establish a risk based approach to management of the Company and its assets. The project includes a companywide review of controls and procedures as well as a review of external risks to individual assets and asset classes with the aim to identify, and, where possible, mitigate risk.

Risk management will work to increase risk awareness at the Company and ensure that the team complies with the strategic intent and risk policy set by the Winding-up Committee. Risk profiles shall be developed on an enterprise and portfolio level to assist managers and the board of directors in the decision making process. A review of proposals will be conducted by risk management where special attention will be paid to the timing and amount of realisation of funds and drain on resources.

In addition, the purpose of the risk work stream is to provide a further quantitative support to the Company's operations, including valuations and scenario analysis. A risk review for the Company will provide a global risk overview of the Company, with the focus on credit and concentration risk, market risk, operational risk as well as legal and macro-economic risk.

### Stakeholder Communications

It is vital for the Company to have a close relationship with stakeholders. Creditors have at all times stressed their wish to receive as much detailed and accurate information concerning the Company and its operations as possible. Changes resulting from a composition agreement will automatically mean, amongst other requirements, that the reporting requirements of the Company will increase. Increased scope of stakeholder communications may mean that processes have to be refined.

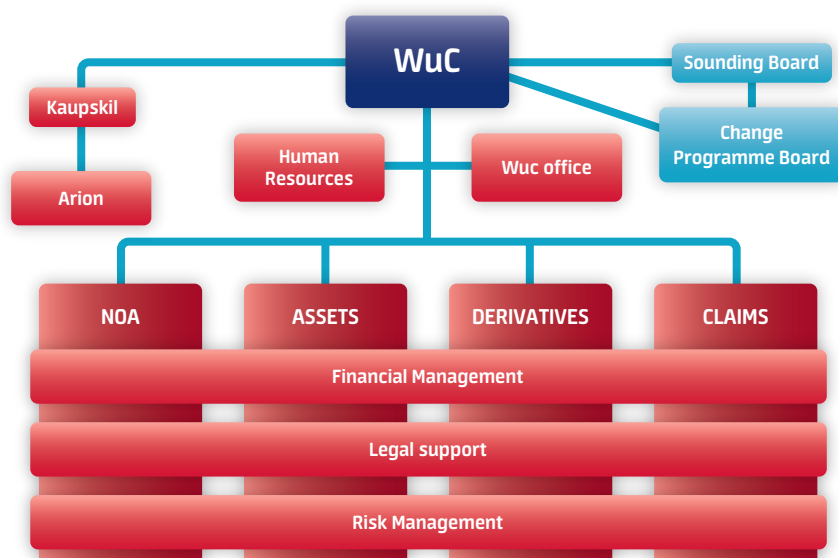
The objective of the stakeholder communications work stream is to continue to review protocols for communication with stakeholders, including creditors, employees and others. This includes further considering and identifying key stakeholders and developing the Company's communications strategy to create a more effective and tailored stakeholder communication platform, which is aligned with satisfying the needs of the Company's stakeholders and meeting its legal obligations post any composition agreement.

### Board Designates

The board designates work stream will establish an induction programme for the board of directors designates which will support a seamless transition at the time of a composition agreement. The project is further intended to provide the possibility of engaging with board designates where specific skills and expertise are may be helpful to the Company before any launch of a composition proposal.

### Interim Organisation Structure

The Winding-up Committee recently introduced a new organisation structure. The design and implementation of the new organisation structure is an integral part of the people work stream and reflects the business operations of the Company. The organisation structure is intended to determine and enhance roles and responsibilities for the relevant departments of the Company. The Chairman designate and the CEO designate were involved in forming the organisation structure.



# FINANCIAL STATEMENTS 2012

## Assets as of 31 December 2012

As of 31 December 2012, the fair value of the Company's assets, taking agreed set-off into account, was ISK 857.8 billion. This compares to ISK 832.4 billion as of 31 December 2011. In 2012 the real value of assets decreased by ISK 14.5 billion but due to foreign exchange effects, the fair value increased by ISK 25.4 billion or by 3.0%. Measured in euros, the total fair value of assets decreased by EUR 163 million, from EUR 5,242 million to 5,079 million or by 3.1%.

"Cash in hand" amounted to ISK 417.6 billion as of 31 December 2012 and increased by ISK 84.7 billion during the year, primarily due to principal and interest repayments in respect of the "loans to customers" asset class and changes due to movements in foreign exchange rates. As of 31 December 2012, "Cash in hand" represented 48.7% of the Company's assets at fair value. This compares to 40.0% as of 31 December 2011.

### Effects on assets at fair value as a result of disputed set-off

The Company estimates, on a preliminary basis, that effects of disputed set-off on assets at fair value, as of 31 December 2012, estimated to be approximately ISK 0-25 billion. The exact quantum of set-off effects on assets will differ from effects on liabilities. The set-off effects will be impacted by a number of factors, including (a) assets being valued at estimated fair value while liabilities are not, (b) the fair value of assets may change considerably over time which may significantly affect any set-off amount and (c) several counterparties who have declared set-off, did not file a claim or only filed a claim net of set-off. In these instances potential set-off effects will only reduce the fair value of assets but will not reduce liabilities. Any set-off analysis will be based on a number of assumptions, including Winding-up Committee decisions with regards to the acceptance or rejection of the relevant claim against the Company and rights to set-off.

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*"Cash in hand" amounted to ISK 417.6 billion as of 31 December 2012 and increased by ISK 84.7 billion during the year, primarily due to principal and interest repayments in respect of the "loans to customers" asset class and changes due to movements in foreign exchange rates.*

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## Development of Kaupthing's Assets in 2012

	ISK million			EUR million		
	31.12.2012	31.12.2011	% change	31.12.2012	31.12.2011	% change
<b>Assets</b>						
Cash in hand	417,627	332,911	25.4%	2,473	2,096	18.0%
Loans to and claims against credit institutions	22,38	29,91	(25.2%)	133	188	(29.6%)
Loans to customers	191,891	232,881	(17.6%)	1,136	1,467	(22.5%)
Bonds and debt instruments	7,874	11,842	(33.5%)	47	75	(37.5%)
Shares and instruments with variable income	28,346	39,897	(29.0%)	168	251	(33.2%)
Derivatives	20,698	53,776	(61.5%)	123	339	(63.8%)
Investments in subsidiaries	137,377	116,347	18.1%	813	733	11.0%
Other assets	31,572	14,868	112.3%	186	93	99.7%
<b>Total Assets</b>	<b>857,765</b>	<b>832,432</b>	<b>3.0%</b>	<b>5,079</b>	<b>5,242</b>	<b>(3.1%)</b>

### Assets by currency breakdown

As of 31 December 2012, 27.7% of the Company's assets were denominated in pound sterling, 25.2% in euro and 16.0% in Icelandic krona. Other major currencies include Swedish krona, US dollar, Norwegian krona and Danish krona. As the Company's reporting currency is Icelandic krona, fluctuations in exchange rates between Icelandic krona and the foreign currencies in which the Company's assets are denominated will impact the fair values reflected in the Company's Financial Statements.

The table below shows the breakdown of assets by currency as of 31 December 2012, but does not take into consideration the registered domiciles of counterparties.

### Asset classes broken down by currencies

ISK millions	31 December 2012								
	EUR	GBP	NOK	SEK	USD	ISK	DKK	Other	Total
Cash in hand	126,969	76,932	36,888	101,958	51,509	17,071	5,061	1,239	417,627
Loans to and claims against credit institutions	440	1,363	3,626	7,584	462	-	4,367	4,538	22,380
Loans to customers	26,241	127,499	3,079	15,789	14,552	661	1,059	3,011	191,891
Bonds and debt instruments	1,281	1,280	-	-	-	5,313	-	-	7,874
Shares and instruments with variable income	13,025	11,900	359	576	2,361	19	106	-	28,346
Derivatives	15,193	1,984	-	-	2,218	1,196	107	-	20,698
Investments in subsidiaries	8,654	16,748	-	1,374	-	110,601	-	-	137,377
Other assets	24,003	100	15	4,210	679	2,554	11	-	31,572
<b>Total assets</b>	<b>215,806</b>	<b>237,806</b>	<b>43,967</b>	<b>131,491</b>	<b>71,781</b>	<b>137,415</b>	<b>10,711</b>	<b>8,788</b>	<b>857,765</b>
Total assets in mEUR	1,278	1,408	260	779	425	814	63	52	5,079
% of Total assets	25.2%	27.7%	5.1%	15.3%	8.4%	16.0%	1.3%	1.0%	

### Breakdown of assets, with or without Icelandic exposure, by domicile of counterparty

The table below shows a breakdown of (a) assets in Icelandic krona, (b) a breakdown of all assets in foreign currency where counterparties are domiciled in Iceland and (c) breakdown of all assets in foreign currency where counterparties are domiciled outside of Iceland. All figures are as of 31 December 2012.

### Breakdown of ISK and FX assets

ISK millions	31 December 2012				
	ISK assets	FX from Icelandic counterparties	Total ISK assets and FX from Icelandic counterparties	FX from non-Icelandic counterparties	Total assets
Cash in hand	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	189,993	191,891
Bonds and debt instruments	5,313	-	5,313	2,561	7,874
Shares and instruments with variable income	19	274	293	28,053	28,346
Derivatives	1,196	-	1,196	19,502	20,698
Investments in subsidiaries	110,601	13,370	123,971	13,406	137,377
Other assets	2,554	8,384	10,938	20,634	31,572
<b>Total assets</b>	<b>137,415</b>	<b>70,511</b>	<b>207,926</b>	<b>649,839</b>	<b>857,765</b>
Total assets in mEUR	814	417	1,231	3,848	5,079
% of Total assets			24%	76%	

## Cash

“Cash in hand” amounted to ISK 417.6 billion as of 31 December 2012 and increased by ISK 84.7 billion or 25% during the year. As of 31 December 2012, approximately 48.7% of the fair value of the Company's total assets was “cash in hand”. Of the total “cash in hand” of ISK 417.6 billion, ISK 400.6 billion was held in foreign currencies and ISK 17.0 billion was held in Icelandic krona.

The table below summarises the Company's cash flow for the year 2012 and for the year 2011.

### Statement of Cash Flows

ISK millions	2012	2011
<b>Cash inflow</b>		
Cash in hand - interest received	1,758	3,068
<b>Loans to and claims against credit institutions - principal payments</b>	<b>9,105</b>	<b>22,430</b>
Loans to and claims against credit institutions - interest payments	247	138
Loans to customers - principal payments	41,896	66,044
Loans to customers - interest payments	7,724	9,435
Loans to customers - fee payments	226	505
Bonds and debt instruments - principal payments	771	185
Bonds and debt instruments - interest payments	297	859
Shares and instruments with variable income - realisation of equity stakes	662	3,784
Shares and instruments with variable income - dividend	261	470
Derivatives - net cash inflow	6,951	10,830
Investments in subsidiaries - dividend received	560	475
Other assets - cash received	-	2,378
Other inflow	868	-
<b>Total cash inflow</b>	<b>71,326</b>	<b>120,601</b>
<b>Cash outflow</b>		
Restricted cash	-	(9,982)
Loans to customers - principal outflow / RCF	(5,160)	(11,362)
Shares and instruments with variable income - purchase of equity stakes	(23)	(338)
Bonds and debt instruments - new bond	-	(9)
Investments in subsidiaries - capital injection	-	(104)
Other assets - net cash outflow	(1,322)	-
Operating expenses	(8,072)	(6,373)
Other outflow	(916)	(366)
<b>Total cash outflow</b>	<b>(15,493)</b>	<b>(28,534)</b>
<b>Net increase in cash in hand</b>	<b>55,833</b>	<b>92,067</b>
<b>FX changes</b>	<b>28,883</b>	<b>9,716</b>
<b>Cash at the beginning of the year</b>	<b>332,911</b>	<b>231,128</b>
<b>Cash at the end of the year</b>	<b>417,627</b>	<b>332,911</b>

The most significant cash inflows in 2012 are related to principal and interest payments and fee income received from the asset class “loans to customers” of ISK 49.8 billion, prin-



principal and interest payments received from "loans to and claims against credit institutions" of ISK 9.3 billion and inflows related to "derivatives" of ISK 6.9 billion. At the same time, asset support<sup>2</sup> related to "loans to customers" amounted to ISK 5.2 billion and operating expenses paid in 2012 amounted to ISK 8.1 billion. Furthermore, the cash reserve increased by approximately ISK 28.9 billion due to depreciation of the Icelandic krona in 2012. Further breakdown of the cash flows in 2012 can be found in the Statement of Cash Flows above.

The following table shows a breakdown of "cash in hand" by currency as of 31 December 2012 compared to 31 December 2011.

### Cash in hand – developments in 2012

ISK millions	31 December 2012		31 December 2011		Change	
	Currency	ISK	Currency	ISK	Currency	ISK
EUR	752	126,969	642	101,891	110	25,078
SEK	5,182	101,958	4,510	80,285	672	21,673
GBP	370	76,932	324	61,572	46	15,360
USD	402	51,509	326	39,834	76	11,675
NOK	1,603	36,888	1,490	30,543	113	6,345
Other		23,371		18,786		4,585
<b>Total</b>		<b>417,627</b>		<b>332,911</b>		<b>84,716</b>
Total in mEUR		2,473		2,096		

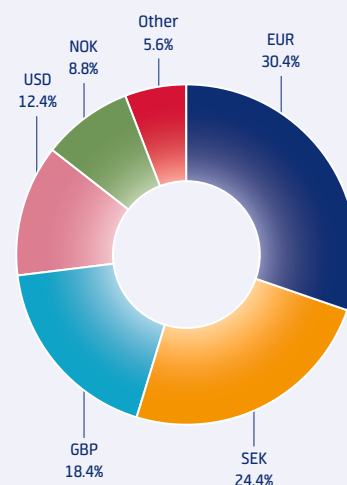
Cash collection continued in the first quarter of 2013, asset monetisation particularly in the "other assets" asset class were short-term receivables amounting to ISK 15.4 billion, primarily relating to a settlement with a number of Icelandic pension funds. Net principal and interest payments relating to the "loans to customers" asset class amounting to ISK 9.4 billion. The "cash in hand" asset class amounts to ISK 417.9 billion as at 31 March 2013 and increased remotely compared to 31 December 2012 due to negative fx changes of ISK 25.1 billion.

The chart to the right shows the "cash in hand" by currencies as of 31 December 2012.

Several changes have been made recently to the Foreign Exchange Act. Two of these recent changes to the Foreign Exchange Act have directly affected the Company. These changes were made on 13 March 2012, with Act No. 17/2012, amending the Foreign Exchange Act and further amendments to the Foreign Exchange Act were made on 9 March 2013 by Act No 16/2013. These amendments provide for limitations on the exemptions afforded to the Company in respect of the statutory prohibition against cross-border movement of foreign currency.

Cash deposits in foreign currencies held with foreign financial institutions or with the CBI as of end of day 12 March 2012 are exempted from the ban on cross-border movement of foreign currency as provided for in paragraph 2 Art. 13 b of the Foreign Exchange Act, but are subject to notification and reporting to the CBI. These deposits are referred to herein as being *unrestricted*. That is though not so say, that these deposits can be distributed to creditors as part of a composition agreement without authorisation from the CBI.

### Cash in hand – currency breakdown



<sup>2</sup> Kaupthing has outstanding revolving credit facilities which are drawn and repaid in the ordinary course of business and which are both reflected in the principal outflow and net principal repayments of "loans to customers". During 2012, the Company applied ISK 5.2 billion to support loan positions in the European and Nordic loan portfolios, primarily in the form of short-term loans to provide working capital for operations. Repayments from the same companies amount to ISK 3.7 billion and net outflow in 2012 is therefore ISK 1.5 billion.

Cross-border transfers of cash deposits in foreign currency, that were deposited or have accrued after 12 March 2012, from the Company's accounts held at (a) foreign financial institutions or (b) the CBI, are subject to the currency controls. All cash deposits in foreign currency in domestic financial institutions are subject to the currency controls. Cross-border transfer by the Company of such cash deposits requires prior approval from the CBI. These deposits, which are not exempted from the ban on cross-border movement of foreign currency, set out in paragraph 2 Art. 13 b of the Foreign Exchange Act and are therefore subject to currency controls, are referred to herein as being *restricted*.

The CBI can set down rules which define conditions to be fulfilled in order for an exemption from currency restrictions to be granted. Such rules have not yet been published. Furthermore, the currency controls do not permit assets denominated in Icelandic krona to be converted into foreign currency or to be transferred out of Iceland. This could materially affect the value of the Company's Icelandic assets. In August and September 2012, the Company moved a significant portion of its cash reserves from the CBI to financial institutions in Europe.

The following table describes the effect these restrictions have on the Company's "cash in hand" broken down by the domicile of the financial institutions where the cash deposit was held as of 31 December 2012.

#### Cash in hand – restriction and geography breakdown

ISK millions	31 December 2012				
	Iceland	UK	Sweden	Finland	Total
<b>Non ISK</b>					
Unrestricted	158	326,822	174	2	327,156
Restricted after 12.3.2012	6,446	33,782	2,741	700	43,669
Restricted before 12.3.2012	29,731	-	-	-	29,731
<b>Total</b>	<b>36,335</b>	<b>360,604</b>	<b>2,915</b>	<b>702</b>	<b>400,556</b>
<b>ISK</b>	<b>17,071</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>17,071</b>
<b>Cash in hand</b>	<b>53,406</b>	<b>360,604</b>	<b>2,915</b>	<b>702</b>	<b>417,627</b>
Cash in hand in mEUR	316	2,135	18	4	2,473

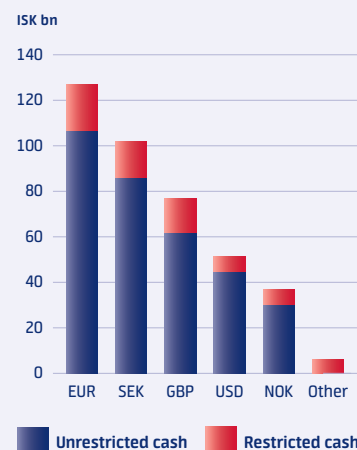
#### Operating Costs in 2012

The table below shows the operating costs of the Company in 2012.

#### Operating Costs in 2012

ISK millions	2012	2011
Salaries and salary related cost	1,234	1,089
Winding-up Committee	269	230
External Legal Services	3,376	1,827
– Domestic	242	131
– Foreign	3,134	1,696
Other External Advisors	1,969	1,964
– Domestic	131	462
– Foreign	1,838	1,502
Other expenses	839	883
VAT	959	313
<b>Total</b>	<b>8,646</b>	<b>6,306</b>

#### Cash in hand – restriction and currency breakdown of foreign currencies



The following chart shows the effect of the restrictions on the largest foreign currencies.

Total operating costs in 2012 were ISK 8.6 billion or approximately 0.4% of the total carrying value of assets and 1.0% of the total fair value of assets as of 31 December 2012. The largest items in external legal services and other external advisers are related to the Company's potential restructuring. The cost in relation to the potential restructuring amounted to ISK 4.2 billion in 2012 compared to ISK 1.1 billion in 2011. Other expenses include expenses related to IT services, housing, offices, custody services, travelling and other staff and administration items.

## Non-Cash Assets

### General overview

The Company holds a portfolio of assets including loans, bonds, equity stakes, derivatives and sundry claims, across various sectors and geographies.

In the below sections, the Company's "loans to customers" portfolio is divided into three sub-portfolios, the European loan portfolio, the Nordic loan portfolio (together the "Operating Loan Portfolios"), which are predominantly made up of loans to borrowers with underlying operating businesses, and the non-operating loan portfolio (the "NOA Loan Portfolio") which is made up of loans to borrowers with little or no underlying business operations.

The Operating Loan Portfolios and the asset classes "shares and instruments with variable income", "bonds and debt instruments" and "investments in subsidiaries" will be collectively referred to as the "Operating Asset Classes" to distinguish those assets from other asset classes which have little or no underlying business operations (e.g. the NOA Loan Portfolio and the "derivatives" asset class).

### High concentration in asset portfolio

The Company's largest asset position is its 87.0% equity interest in Arion bank hf. ("Arion bank"), which represented 25.1% of the fair value of the Company's non-cash assets as of 31 December 2012. The Company's equity interest in Arion bank is valued at 87.0% of Arion bank's total shareholders' equity which will not necessarily reflect any future realised value by the Company. The Company's three largest non-cash asset positions besides Arion bank are positions in (a) a real estate development at Fitzroy Place in London, (b) a company in liquidation and (c) the Karen Millen Group (formerly part of Mosaic Fashions), a clothing retail business in the United Kingdom.

### High complexity requiring time for conversion into cash

Given the complexity of many of the Company's assets, it may be difficult to monetise assets quickly or on acceptable terms. Bespoke solutions for each asset may have to be developed. In particular, as discussed in more detail in the special section on Arion bank below, there are significant impediments to realising value from the Company's ownership in Arion bank. There may also be challenges to realising value from many of the Company's other asset positions. Lastly, the Company may have to invest significant sums of cash to provide support to certain asset positions, e.g. through capital contributions and refinancing of loans.

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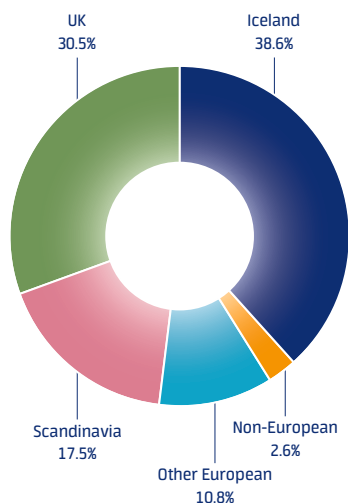
*Given the complexity of many of the Company's assets, it may be difficult to monetise assets quickly or on acceptable terms. Bespoke solutions for each asset may have to be developed.*

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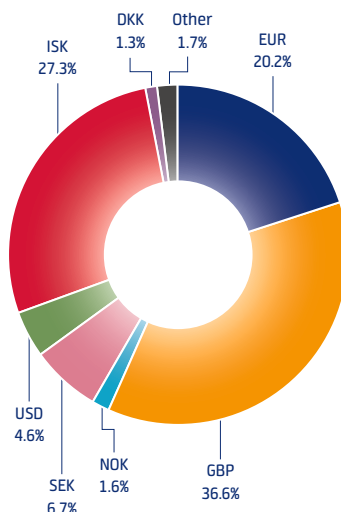
### Geographic breakdown

As of 31 December 2012, a majority of the Company's non-cash assets was located in three regions, Iceland representing 38.6% of fair value of non-cash assets, including the shareholding in Arion bank (65.0% of the fair value of Icelandic non-cash assets), the United Kingdom (including crown territories and dependencies) representing 30.5% of fair value of non-cash assets and Scandinavia representing 17.5% of fair value of non-cash assets.

### Non-cash assets - regional breakdown



### Non-cash assets - currency breakdown

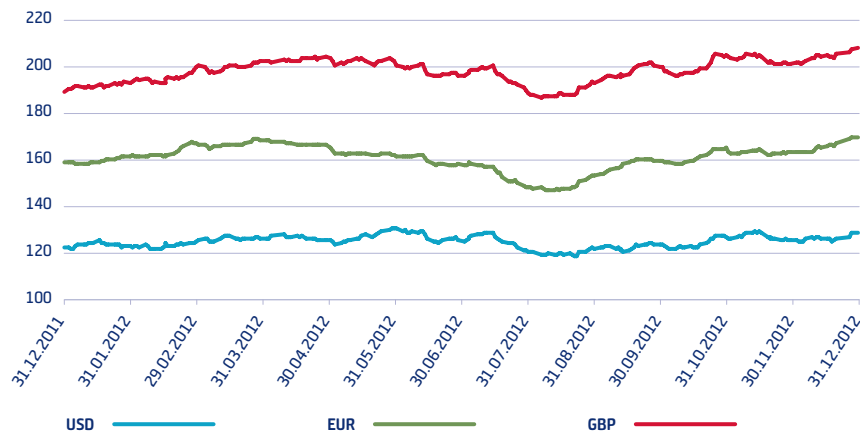


### Currency breakdown

As of 31 December 2012, 36.6% of the fair value of non-cash assets were denominated in pound sterling, 27.3% in Icelandic krona and 20.2% in euro. Other major currencies include Swedish krona, US dollar, Norwegian krona and Danish krona.

As the Company's reporting currency is Icelandic krona, fluctuations in exchange rates between Icelandic krona and the foreign currencies in which the Company's assets are denominated will impact the fair values reflected in the Company's Financial Statements.

### Exchange rates of Icelandic krona in major currencies



### Currency table

	31.12.2012	31.12.2011
AUD	133.00	125.40
CAD	128.51	120.25
CHF	139.91	130.79
DKK	22.64	21.36
EUR	168.89	158.80
GBP	208.18	190.30
JPY	1.48	1.59
NOK	23.01	20.50
SEK	19.67	17.80
USD	128.09	122.24

### Limited income-generating capability

The Company has relatively few remaining assets which generate material amounts of regular income (e.g. loan interest and dividends). Therefore, the Company's future cash flows will be primarily dependent upon realisations of asset positions. With respect to assets within the Operating Asset Classes, realisations of asset positions in which the Company has equity only, or an equity and debt interest, can generally be expected to be pursued through a sale of the position and sometimes refinancing by another lender. The values achieved through such realisations will be dependent upon a number of factors, including the performance of the businesses underlying the assets and prevailing economic and financial market conditions. In the interim, some of these positions may require some kind of asset support. It is likely that realisation of asset positions in which the Company only has debt can be pursued through the repayment of outstanding principal or refinancing by another lender. With respect to assets within the "loans to and claims against credit institutions", the NOA Loan Portfolio, and the derivative portfolio, realisations would generally be expected to occur through the resolution of legal disputes, settlement negotiations, enforcing security or insolvency proceedings.

### Debt and equity holdings representations

Several of the Company's largest asset positions are reflected across multiple asset classes in the Company's Financial Statements, particularly in the Operating Asset Classes. In many instances this is a consequence of debt restructurings where the Company has taken equity positions as a condition of restructuring loans (e.g. debt to equity swaps). In particular, a number of asset positions are reflected in both the "loans to customers" and "shares and instruments with variable income" asset classes in the Financial Statements.

When analysing connections between positions in the Operating Asset Classes, a classification can be made not only by asset classes as set out in the Financial Statements, but also as to whether the assets are (a) subsidiaries of the Company (the "Subsidiaries" category), (b) positions where the Company has a majority of voting rights in the underlying entity and holds debt (the "Controlling Equity Interests & Debt" category), (c) positions where the Company only holds debt (the "Debt Only" category), (d) positions where the Company holds debt but does not have majority of voting rights in the underlying entity (the "Minority Equity Interests & Debt" category), or (e) equity positions where the Company holds no debt and does not have majority of voting rights in the underlying entity (the "Minority Equity Interests only" category).

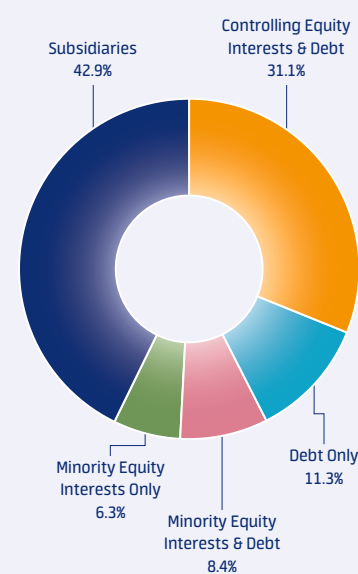
The *Subsidiaries* category and the *Controlling Equity Interests & Debt* category account for majority of fair value of the Operating Asset Classes or 74.0% as of 31 December 2012. The *Debt Only* category, *Minority Equity Interests & Debt* category and *Minority Equity Interests Only* category account for 26.0% of the fair value of the Operating Asset Classes as of 31 December 2012. These positions are reflected in all of the "loans to customers", "shares and instruments with variable income", "bonds and debt instruments" and "investments in subsidiaries" asset classes in the Financial Statements.

The category *Controlling Equity Interests & Debt* in the graph to the right, is diverse and includes companies that engage in real estate, consumer goods and retail, business and industrial products, financial and banking services and consumer services. Of the companies in this category, 79.1% are located in the United Kingdom (including crown territories and dependencies).

The *Debt Only* positions constitute 11.3% of the fair value of the Operating Asset Classes, with the majority of the companies in this category located in Scandinavia (71.3%). Positions in the Company's *Debt Only* category are spread over various sectors, including real

*Several of the Company's largest asset positions are reflected across multiple asset classes in the Company's Financial Statements, particularly in the Operating Asset Classes.*

### Operating Asset Classes - breakdown by type of exposure



estate, business and industrial products, consumer goods and retail, holding companies and government agencies.

Positions in the *Minority Equity Interests & Debt* category and *Minority Equity Interests Only* category are diverse both in terms of geography and sector.

### Major development of Operating Asset Classes in 2012

#### Operating Asset Classes 31 December 2012 (fair value)

<i>ISK millions</i> Asset classes as set out in Financial Statements	Subsidiaries	Controlling Equity Interests & Debt	Debt Only	Minority Equity Interests & Debt	Minority Equity Interests Only	Grand Total
Loans to customers (Nordic and European)	-	92,061	32,588	24,574	-	149,223
Bonds and debt Instruments	1,031	1,281	3,904	1,658	-	7,874
Shares and instruments with variable income	-	7,073	-	916	20,357	28,346
Investments in subsidiaries	137,377	-	-	-	-	137,377
<b>Grand Total</b>	<b>138,408</b>	<b>100,415</b>	<b>36,492</b>	<b>27,148</b>	<b>20,357</b>	<b>322,820</b>

#### Operating Asset Classes 31 December 2011 (fair value)

<i>ISK millions</i> Asset classes as set out in Financial Statements	Subsidiaries	Controlling Equity Interests & Debt	Debt Only	Minority Equity Interests & Debt	Minority Equity Interests Only	Grand Total
Loans to customers (Nordic and European)	-	96,125	59,926	31,295	-	187,346
Bonds and debt Instruments	1,100	6,012	4,730	-	-	11,842
Shares and instruments with variable income	-	17,701	-	1,941	20,255	39,897
Investments in subsidiaries	116,347	-	-	-	-	116,347
<b>Grand Total</b>	<b>117,447</b>	<b>119,838</b>	<b>64,656</b>	<b>33,236</b>	<b>20,255</b>	<b>355,432</b>

### Change in Operating Asset Classes in 2012 (fair value)

ISK millions Asset classes as set out in Financial Statements	Subsidiaries	Controlling Equity Interests & Debt	Debt Only	Minority Equity Interests & Debt	Minority Equity Interests Only	Grand Total
Loans to customers (Nordic and European)	-	(4,064)	(27,338)	(6,721)	-	(38,123)
Bonds and debt Instruments	(69)	(4,731)	(826)	1,658	-	(3,968)
Shares and instruments with variable income	-	(10,628)	-	(1,025)	102	(11,551)
Investments in subsidiaries	21,030	-	-	-	-	21,030
<b>Grand Total</b>	<b>20,961</b>	<b>(19,423)</b>	<b>(28,164)</b>	<b>(6,088)</b>	<b>102</b>	<b>(32,612)</b>

Classification into categories is based on categorisation as of 31 December 2012, but applying fair value as of 31 December 2012 or 31 December 2011 as applicable.

The above table shows the change in fair value of the Operating Asset Classes during 2012 where fair value decreased by ISK 32.6 billion. Much of this change is due to positions in the Debt Only category decreasing by ISK 28.2 billion and positions in the Controlling Equity Interests & Debt category decreasing by ISK 19.4 billion, which is somewhat offset by an increase in the fair value of the Subsidiaries category amounting to ISK 21.0 billion. The change is primarily made up of three elements, being principal payments amounting to ISK 35.7 billion, a real value decrease amounting to ISK 15.4 billion and the positive effect of depreciation of the Icelandic krona of ISK 16.8 billion on the value of the assets measured in Icelandic krona.

### Operating Asset Classes – developments in 2012 broken down by type of exposure

ISK millions Category	Fair value (ISK) YE 2011	Principal paid	Transfers in 2012	Total FX difference	Real value increase/ decrease	Fair value YE 2012
Subsidiaries	117,447	(67)	-	910	20,118	138,408
Controlling Equity Interests + Debt	119,838	(3,651)	-	9,205	(24,977)	100,415
Debt Only	64,656	(23,621)	(28)	3,295	(7,810)	36,492
Minority Equity Interests + Debt	33,236	(7,698)	1,717	1,890	(1,997)	27,148
Minority Equity Interests Only	20,255	(647)	-	1,489	(740)	20,357
<b>Total</b>	<b>355,432</b>	<b>(35,684)</b>	<b>1,689</b>	<b>16,789</b>	<b>(15,406)</b>	<b>322,820</b>

During 2012 the total fair value of positions in the Subsidiaries category increased by ISK 21.0 billion. Much of this change is due to higher valuation of the Company's equity interest in Arion bank, or ISK 14.4 billion categorised as a real value increase.

The fair value of positions in the *Controlling Equity Interests & Debt* category decreased by ISK 19.4 billion in 2012. The *Controlling Equity Interests & Debt* category is to a large extent comprised of highly leveraged companies, in particular companies operating in the retail sector in the United Kingdom. About half of the negative real value change amounting to ISK 25.0 billion, is due to the market weakness in the retail sector in 2012 in the United Kingdom in assets where the Company has controlling equity interest.

The fair value of the positions in the *Debt Only* category decreased by ISK 28.2 billion in 2012, mainly due to principal payments amounting to ISK 23.6 billion and downward revision of the fair value by ISK 7.8 billion. The latter was primarily due to uncertainty regarding underlying business operations of certain asset positions and outcomes of some of the asset workouts at year end.

The fair value of the positions in the *Minority Equity Interests & Debt* category decreased by ISK 6.1 billion in 2012. This was largely driven by principal payments of ISK 7.7 billion.

### Operating Asset Classes – developments in 2012 broken down by sectors

ISK millions	Fair value ISK YE 2011	Principal paid	Transfers in 2012	FX difference	Real value increase/decrease	Fair value YE 2012
Business and Industrial Products	45,702	(12,316)	-	2,126	(3,723)	31,789
Consumer Goods and Retail	63,494	(6,648)	-	4,381	(20,707)	40,520
Consumer Services: Other	24,338	(5,323)	-	1,991	(1,580)	19,426
Holding Company	17,358	(2,229)	1,464	600	(5,871)	11,322
Individuals	3,682	(487)	-	306	(998)	2,503
Other	16,815	(3,906)	225	997	275	14,406
Real Estate	66,596	(4,708)	-	5,478	(2,920)	64,446
Subsidiaries	117,447	(67)	-	910	20,118	138,408
<b>Grand Total</b>	<b>355,432</b>	<b>(35,684)</b>	<b>1,689</b>	<b>16,789</b>	<b>(15,406)</b>	<b>322,820</b>

The table above summarises the aforementioned changes in the fair value of the Operating Asset Classes in 2012 across sectors.

Major contributors to the real value change are positions within the *Consumer Goods and Retail* sector which accounted for more than half of the total real value change, when the *Subsidiaries* sector is excluded. The fair value of the assets within the *Consumer Goods and Retail* sector was revised downward by ISK 20.7 billion in 2012, mainly due to valuation changes of two retail companies in the United Kingdom, where slowdown in sales and squeezing of margins has led to more compressed valuation levels. The retail market in the United Kingdom has significantly deteriorated since early 2011 as consumer confidence has declined, prices of inputs increased and the industry has been further challenged by increasing internet sales. Furthermore, the fair value of the assets within the *Holding Company* sector has been revised downward by ISK 5.9 billion, mainly linked to the uncertain outcome of a workout of a Scandinavian borrower group, where the complex group structure of the borrower has resulted in increased uncertainty. The fair value of the assets within the *Business and Industrial Products* sector decreased in 2012, by ISK 3.7 billion. This sector is very concentrated in terms of where the companies provide their services. The companies mainly provide investment goods to retail clients, which, as stated above, have been hit by a decline in consumer confidence. These three above mentioned sectors account for 85.0% of the real value change in 2012 when the *Subsidiaries* sector is excluded.



## Loans to Customers - European and Nordic Loan Portfolios

The Company's European loan portfolio is mostly derived from former lending activities in connection with leveraged acquisitions, mainly in the United Kingdom and Europe, and the Nordic loan portfolio consists of loans to smaller and medium-sized companies, mainly in Scandinavia. The Company's lending activities effectively ceased in October 2008 and since October 2008 most of the positions in the European and Nordic loan portfolios have either been repaid or restructured.

The European and Nordic loan portfolios have together been defined in the sections above as the "Operating Loan Portfolios" for ease of reference.

Each position in the Operating Loan Portfolios has a designated account manager within the asset management department supervised by the respective manager, supported by an internal legal counsel who is involved in the legal aspects of all transactions. From inception, every major account within the Operating Loan Portfolios has been analysed by the Company and a future applicable plan developed for each account together with management of the respective entities. As a result of extensive restructuring work since 2008, the Company has become an equity owner in many accounts. The Company has acquired a controlling interest in several companies and has, as an equity holder, endeavoured to ensure that its views are represented by nominating members to the board of directors while also making sure to retain directors with industrial know-how and expertise.

In all major restructuring cases, external advisers have been appointed. Specialists within the asset management and legal divisions lead the restructuring projects internally. The process is supported by external advisers as needed. For specialised projects the Company has sought to appoint top-class advisers in the respective fields with industrial know-how, expertise and domestic market knowledge. Depending on the nature of the restructuring projects, these external parties include financial advisers, legal counsels, real estate consultants, retail experts, accountants and auditors. The cost is in most cases paid by the respective borrower, or the Company where the Company holds the equity.

The Company has engaged external advisers to carry out various tasks, including providing corporate finance advice, due diligence reports, business verification, tax planning and appraisal and valuation. Financial advice in such fields as tax, restructuring and valuation has, amongst others, been provided by KPMG, Deloitte, PricewaterhouseCoopers, Ernst&Young and BDO Stoy Hayward. Real-estate appraisal has been provided by, amongst others, CBRE and Catella. Legal advisers include Olswang, Allen&Overy, Clifford Chance, Mannheimer Swartling, Lindahl, Arntzen de Besche Advokatfirma and Cederquist.

# AURORA FASHIONS

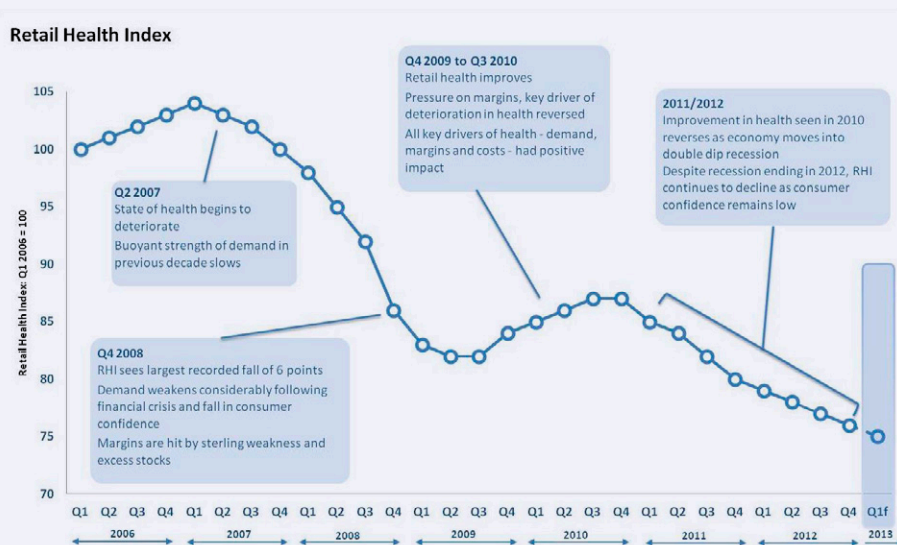
Aurora Fashions ("Aurora") is a fashion retailer group which owns, develops, and manages Coast, Oasis and Warehouse, three leading fashion brands in the medium price segment. The group which is headquartered in the United Kingdom operates in 38 countries, with global revenues of over GBP 500 million and employs 6,900 people worldwide. The Company is Aurora's controlling shareholder.

Aurora was formed by the Company to take over brands which belonged to Mosaic Fashions ("Mosaic") when Mosaic went into administration in the first quarter of 2009. Aurora took over the brands, Karen Millen, Oasis, Warehouse and Coast, but Karen Millen was later demerged from the group. In the process, the business renegotiated all its leases with landlords and consolidated the brands' respective head offices and distribution centres.

Since Aurora was formed the business has responded to changing consumer trends with a number of incentives such as development in multi-channel retailing, international expansion and cost savings.

In order to increase the value of the enterprise Aurora recently made Coast operationally independent from the group, merging the management of Oasis and Warehouse and removing the group structure. This action will de-layer the management structure with the aim of creating savings as well as creating more independent and agile businesses that will be better placed to attract talent and further.

The industry has been hit by number of administrations in recent years due to deteriorating market conditions as seen e.g. in the Retail Think Tank Health Index below (<http://retailthinktank.co.uk/>). As can be seen in the graph below the index reached an all-time low in the fourth quarter of 2012, significantly lower than in the economic crisis in 2009, as the United Kingdom economy hit a double dip recession and consumer confidence remained low. In the first quarter of 2013 the index slightly improved but there is no significant improvement expected in the short term.



To date the cash recovery to the Company from the Mosaic administration, through Aurora, has been satisfactory despite challenging market circumstances in the United Kingdom retail industry.

## KAREN MILLEN

Karen Millen is a women's designer clothing brand, specializing in tailoring, coats and eveningwear. Karen Millen was part of Aurora Fashions until March 2011 when it was demerged from the group and was established as a separate business. Karen Millen, which is headquartered in the United Kingdom, operates in 45 countries with global revenues of approximately GBP 250 million of which now over 50.0% is international. Karen Millen employs over 1,800 people worldwide. The Company is Karen Millen's controlling shareholder.

Sales contracted in 2011 and Mike Shearwood, the CEO of Aurora overtook the responsibility of Karen Millen to further strengthen the management team. A number of operational and management changes were made in 2012 which led to improvements in the second half of the year and are expected to come to full force in 2013. The brand's current main objective is to re-energise the brand by re-developing the product strategy in terms of style and price, attracting younger customers and investing in its show case stores and internet presence.

Karen Millen has expanded significantly globally over the last four years opening 150 new international stores, of which 63 are solus stores and 88 are concessions, both through franchise and own investment. Karen Millen entered the Chinese market in 2012 with new stores in Beijing and another store opening in Shanghai in 2012 as well as continued to expand via franchise in existing and new markets. As of today, more than half of Karen Millen's revenues are generated outside the United Kingdom.

### Performance development at carrying value

The status of loans in the Operating Loan Portfolios is classified in the following manner:

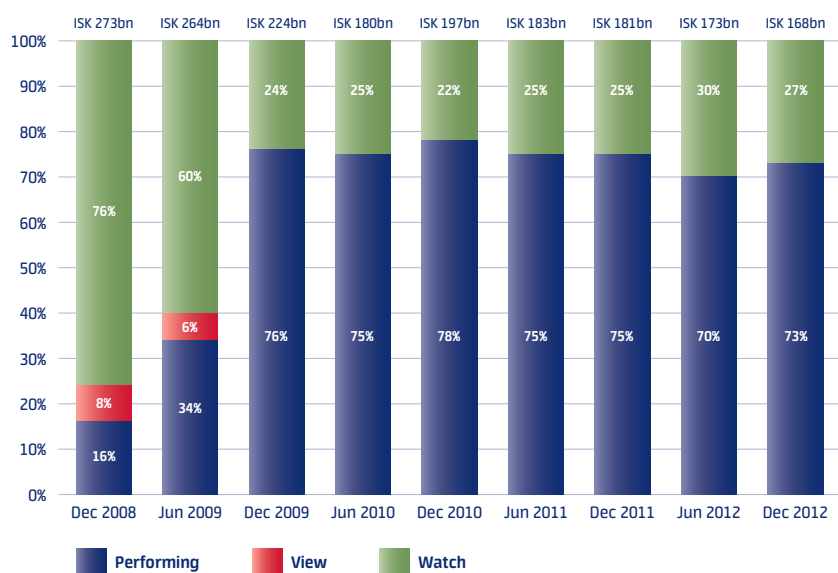
*Performing loans:* Loans to entities where cash flow is sufficient to service debt, i.e. interest and principal repayments and no breaches in agreements are foreseeable in the future.

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

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

The graphs below demonstrate the performance of the portfolios semi-annually based on the carrying value in the respective month.

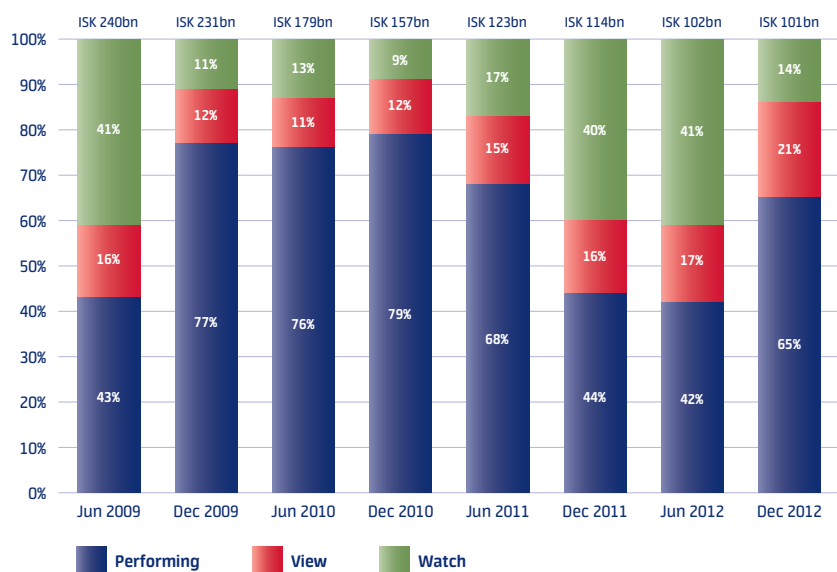
### European Portfolio<sup>3</sup> – Performance development



Debt to equity conversion is a major factor in increased performance in 2009 and contributes to the decrease in carrying value in 2009. Furthermore, the increase in performance is also driven by extensive financial restructuring work, covenant resets and active management.

<sup>3</sup> Since December 2011 European portfolio excludes debt which is still held against Jane Norman (in administration) after its pre-pack administration.

## Nordic Portfolio – Performance development



The above graph demonstrates the performance of the Nordic loan portfolio from June 2009. The majority of the loans in the portfolio were transferred from Kaupthing Sweden and branches of the Company in the Nordic region to the Company in the first half of 2009. This portfolio accounted for the majority of the corporate banking assets of Kaupthing Sweden.

The main reason for the significant drop in performing loans in the Nordic loan portfolio in December 2011 is due to one significant account being transferred from “performing” to “watch” status in the second half of 2011. Additionally, a few smaller performing loans have been repaid and written off, see further information in the section Realisation of Value below. The increase in performance in the second half of 2012 is mainly driven by restructuring of one account.

When reviewing the performance of the Operating Loan Portfolios, several factors need to be borne in mind. Firstly, predominantly performing loans have been repaid. Secondly, when Arion bank was recapitalised by the Company in 2010, certain Icelandic related performing loans were transferred to Arion bank as part of the capitalisation. The transfer of these Icelandic related performing loans in the recapitalisation of Arion bank skews the comparison between periods in the performance graphs. Thirdly, as the Operating Loan Portfolios are static portfolios in a wind-down, their performance should be expected to decline through time, everything else being equal. Fourthly, substantial parts of the loans, which are now on the watch list, are expected to remain on the watch list for some time. These loans, including some option value loans transferred from Arion bank to the Company in the second half of 2009, at the Company’s request, will only become performing after a formal composition within underlying operations of the asset has taken place, if at all. Fifthly, when the underlying operations of any of the Company’s assets are restructured, the debt level is generally set at a level not lower than perceived enterprise value at restructuring. This leaves little leeway for unfavourable development of any particular asset. It can therefore be expected that ultimately some assets may drop to the “watch list” and that the underlying operations will be in a need for further reorganisation.

As discussed above, a large proportion of the loans remaining in the Operating Loan Portfolios is made up of loans that have defaulted over the last four and a half years and

have had to be restructured. As of 31 December 2012, restructured loans in the Operating Loan Portfolios represented 89.2% of the total fair value of the Operating Loan Portfolios. As a consequence, the Company's current loan portfolio is largely made up of loans that have not performed in the past. Furthermore, loans that have been repaid since 2008 were generally to those borrowers with more positive operating performance and stable cash flows. Material uncertainties exist as to whether the remaining loans will perform in the future. The Company's remaining Operating Loan Portfolios may therefore be more volatile in the future than they have been in the past.

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*As of 31 December 2012, restructured loans in the Operating Loan Portfolios represented 89.2% of the total fair value of the Operating Loan Portfolios.*

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### Highly concentrated loan portfolio

The Company's Operating Loan Portfolios are highly concentrated. As of 31 December 2012, the Company's ten largest loans in the Operating Loan Portfolios constituted 82.7% of the fair value of the portfolios. Of these ten loans, six loans were positions which fall into the *Controlling Equity Interest & Debt* category. As of 31 December 2012, the six positions represented approximately 52.8% of the fair value of the Company's combined portfolios of loans, bonds and equity positions.

The table below shows the Company's ten largest positions in the Operating Loan Portfolios by fair value as of 31 December 2012.

### The ten largest loans in the Operating Loan Portfolios

Top 10 Loans	Kaupthing Equity Ownership Percentage	Sector	Region	% Fair Value of Operating Loan Portfolios
Loan 1	50%	Real Estate	UK*	22.1%
Loan 2	90%	Consumer Goods and Retail	UK*	10.7%
Loan 3	90%	Consumer Goods and Retail	UK*	7.8%
Loan 4	100%	Real Estate	Other European	7.0%
Loan 5		Business and Industrial Products	Scandinavia	6.9%
Loan 6		Real Estate	Scandinavia	6.5%
Loan 7	90%	Consumer Services: Other	UK*	6.3%
Loan 8	100%	Business and Industrial Products	Scandinavia	6.0%
Loan 9	25%	Business and Industrial Products	Scandinavia	5.8%
Loan 10		Holding Company	Scandinavia	3.6%
<b>Total top 10</b>				<b>82.7%</b>
<b>Total top 15</b>				<b>93.5%</b>
<b>Total number of loans (45) of greater than zero fair values</b>				<b>100.0%</b>

\* UK includes overseas territories and crown dependencies.

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

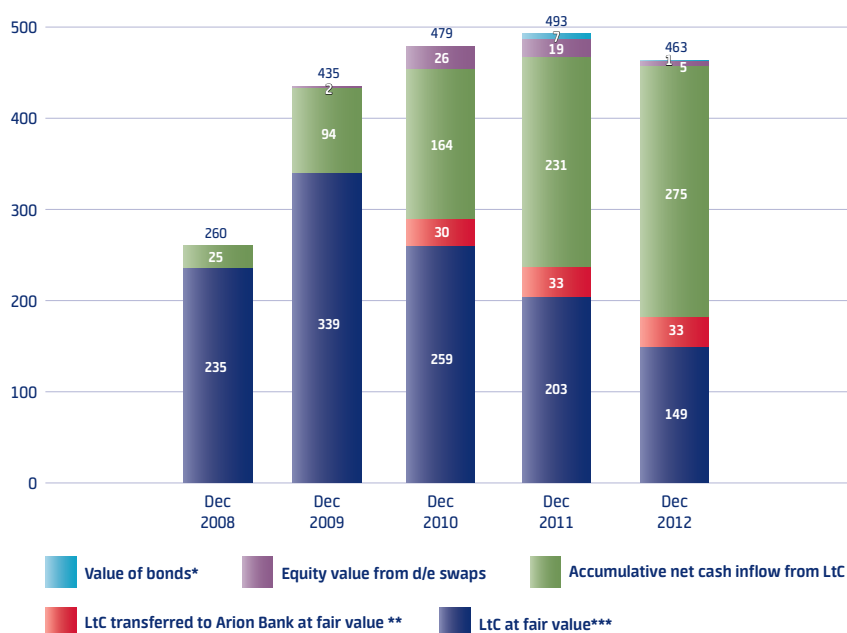
The development of the fair value of the Operating Loan Portfolios is shown in the graph below. The graph shows that since December 2008 the Operating Loan Portfolios have to a great extent been converted into different asset classes. The columns also show the fair value of bonds, equity and the remaining Operating Loan Portfolios at any given time, while the value of accumulated net cash inflow and the "loans to customers" transferred to Arion bank is fixed at the value when the relevant monetisation, cash outflow or transfer of assets took place.

The total value of the Operating Loan Portfolios, including all assets derived from the portfolios, peaked in December 2011 at ISK 493 billion. Since then, the value of this group of assets has decreased by ISK 30 billion, mainly due to revaluation of certain positions within the "shares and instruments with variable income" asset class and the Operating Loan Portfolios. When the underlying operations of any of the Company's assets are

restructured, the debt level is generally set at a level not lower than perceived enterprise value at restructuring. The assets are often highly leveraged immediately after the conversion which leaves little leeway for unfavourable development of any particular asset. Volatility in the value of the equity in the form of sharp increases or decreases can therefore be expected. Assets subject to these sensitivities are mainly in the European portfolio where current trading of the underlying businesses in 2012 was difficult.

### Operating Loan Portfolios – development of fair value and accumulative net cash inflow

ISK billions



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

\*\* ISK 30 billion is related to the capitalization of Arion bank in January 2010, and ISK 3 billion is related to the settlement and release of claims agreements made in the first half of 2011.

\*\*\* Fair value for each period is calculated on the basis of the exchange rate as applied in the 31 December 2012 Financial Statements.

In 2012, the Company received a total of ISK 7.6 billion in interest payments and ISK 0.2 billion in fees deriving from the Operating Loan Portfolios.

#### Realisation of value from the Operating Loan Portfolios

From October 2008 to 31 December 2012, 72 loans within the Operating Loan Portfolios have been realised with a total cash flow amounting to ISK 147.3 billion, thereof 56 loans have been paid in full, amounting to ISK 138.5 billion. In the table to the right, the numbers are converted to Icelandic krona at the end of each relevant quarter.

From October 2008 until end of December 2012 the weighted average recovery of realised loans within the Operating Loan Portfolios has been 82.6%. This compares to 98.0% in 2011 and 96.0% in 2010. The weighted average recovery in 2012 of realised loans was 51.6%, as a result of low recovery in carrying value in the fourth quarter of 2012. This was in turn due to one loan being sold at a relatively low price compared to its carrying value and loans to three very distressed borrowers being written off in the same period. The sale was an opportune measure taken by the Company to extract some value from this particular distressed asset. Furthermore, it was foreseen that the asset would be in need of substantial

From October 2008 to 31 December 2012, 72 loans within the Operating Loan Portfolios have been realised with a total cash flow amounting to ISK 147.3 billion, thereof 56 loans have been paid in full, amounting to ISK 138.5 billion.

#### Operating Loan Portfolios – realisation of value

Quarter	Number of Borrower Groups realised	Amount (mISK)*	Recovery
Q4 2012	5	127	0.5%
Q3 2012	3	3,470	100.0%
Q2 2012	2	3,727	99.4%
Q1 2012	3	19,513	100.0%
Q4 2011	2	230	77.5%
Q3 2011	4	10,726	100.0%
Q2 2011	6	29,214	97.2%
Q1 2011	5	8,728	100.0%
Q4 2010	5	8,680	100.0%
Q3 2010	2	2,640	100.0%
Q2 2010	5	4,728	90.4%
Q1 2010	4	9,484	94.2%
Q4 2009	7	16,875	100.0%
Q3 2009	5	7,549	100.0%
Q2 2009	11	8,317	94.9%
Q4 2008	3	13,322	79.7%
<b>Total</b>	<b>72</b>	<b>147,329</b>	<b>82.6%</b>

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

## STONEGATE

Following a capital restructuring in July 2009, the Company and a European bank became the major shareholders of Town & City Pub Company ("Town & City"), a pub group which operated 228 pubs and bars in the United Kingdom including the Yates's and Slug and Lettuce chain.

In June 2011, the major shareholders of Town & City, agreed to a merger of Town & City and Stonegate Pub Company. The merged entity was called Stonegate Pub Company ("Stonegate"), with TDR Capital, a leading European private equity firm, as the majority owner. The Company took a minority equity stake and rolled over debt facilities to the new enlarged business, ranking alongside debt held by TDR Capital.

The merger created the largest privately held managed pub operator in the United Kingdom. The combined group operates 547 pubs, employs over 10,000 people and has revenues approaching GBP 500 million. The senior management team of Town & City took key roles in the combined business. Deloitte and Slaughter & May advised the Company on the transaction.

In December 2012, Stonegate part-refinanced its debt with new capital provided by five European lending banks. Net proceeds were used to partially repay debt from TDR Capital, the Company and the European bank.

Prior to the refinancing, the business paid dividends from surplus cash to shareholders with the Company receiving its pro rata share.

The Company continues to hold a minority equity interest in Stonegate.



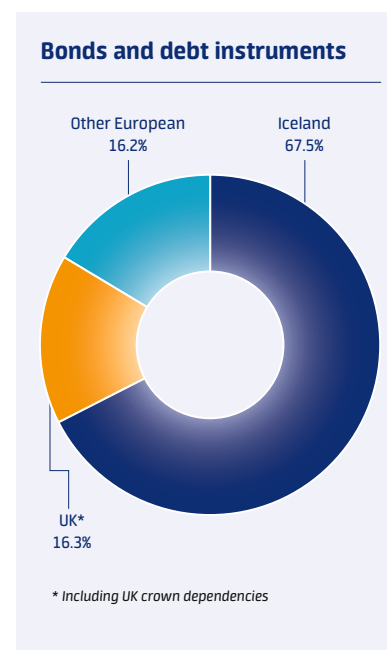
financing support but with the sale any such need was terminated. The sale and the write-off of the assets in the fourth quarter of 2012 did not have material impact on fair value of the assets as these assets had previously been valued at a very low fair value.

The majority of the loans which have been realised to date were performing at the time of realisation. The recovery of the loans that have been realised does not reflect the estimated recovery of the loans that remain in the portfolio. It is expected that realisations of value from positions in the Operating Loan Portfolios where the Company also owns controlling equity interest would generally be pursued through operating improvement strategies for the underlying assets and realisations of the positions at an opportune time. It is likely that realisation of value from positions in the Operating Loan Portfolios where the Company owns a minority or no equity interest would generally occur through other lenders refinancing the loans or through repayments of outstanding amounts. In the interim, these equity positions may also require support in the form of additional equity investments and/or loans.

## Bonds and Debt Instruments

The asset class “bonds and debt instruments” is mostly made up of domestic assets as 67.5% of assets at fair value are denominated in Icelandic krona. About ISK 2 billion, which represents 25.5% of fair value of the “bonds and debt instruments” asset class are inflation linked. The vast majority of bonds are unlisted and/or illiquid. The chart to the right shows the value of the asset class by the country of the issuer.

The positions in the Company’s “bonds and debt instruments” asset class are made up of debt instruments issued by (a) two entities related to the Company’s, (b) the Icelandic government and (c) private third parties. The fair value of the “bond and debt instruments” asset class is highly concentrated. As of 31 December 2012, the largest position was a composition instrument issued by an Icelandic counterparty which accounts for 21.1% of the fair value of the asset class. The second-largest position was Icelandic government bonds which account for 20.9% of the fair value, most of which are listed. The third-largest position was a subordinated debt instrument issued by a retail company in the United Kingdom, received as part of the restructuring of its capital structure in 2011, and which represents 16.3% of the fair value of the asset class as of 31 December 2012.



The remainder of the asset class consists mostly of structured debt instruments, CDOs and CMBSs, categorised below as *Holding Companies*, and bonds issued by companies falling into the *Energy and Environment* sector. The table below shows a breakdown of the Company's "bond and debt instruments" asset class as of 31 December 2012.

### Bonds and debt instruments – developments in 2012 broken down by sector

ISK millions	31.12.2011	Principal paid	Real value changes	FX changes	Other*	31.12.2012
<b>Bonds and debt instruments</b>						
Holding Companies	1,928	(589)	(208)	91	1,717	2,939
Governments	1,648	-	1	-	-	1,649
Consumer Goods and Retail	6,012	-	(5,096)	365	-	1,281
Financial Services	1,100	(67)	(2)	-	-	1,031
Energy and Environment	1,154	(115)	(65)	-	-	974
Government Agencies	5,376	-	-	-	(5,376)	-
Bonds and debt instruments before set-off against counterclaims	17,218	(771)	(5,370)	456	(3,659)	7,874
Subject to set-off	(5,376)	-	-	-	5,376	-
<b>Bonds and debt instruments after set-off</b>	<b>11,842</b>	<b>(771)</b>	<b>(5,370)</b>	<b>456</b>	<b>1,717</b>	<b>7,874</b>

\* ISK 1.7 billion categorised as holding companies were acquired as part of a settlement. ISK -5.4 billion categorised as government agencies were used to offset a claim as part of a settlement.

"Bonds and debt instruments" are valued at ISK 7.9 billion as of 31 December 2012 and decreased by ISK 4.0 billion in 2012, net of set-off with the Icelandic Housing Financing Fund in the second half of 2012. As a result of the set-off, all the bonds held by the Company issued by the Icelandic Housing Financing Fund, amounting to ISK 5.3 billion as of 31 December 2011, were transferred to the Icelandic Housing Financing Fund. The fair value of the asset class, net of set-off, decreased by 33.5% in 2012. This was mainly due to the performance of the underlying United Kingdom retail business operations of the third-largest bond position, which were negatively impacted by deteriorated economic conditions in the United Kingdom.

This asset class does not generate significant amounts of regular income through interest payments. During 2012, the Company received a total of ISK 0.3 billion in interest payments. During 2012, the Company received ISK 0.8 billion from principal repayments from this asset class. The average annual yield of performing bonds was 5.9% in 2012.

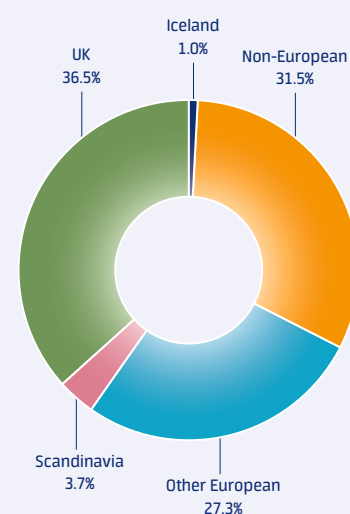
Repayments of bonds and other debt instruments in the asset class depend upon a number of factors, including the performance of the underlying businesses and prevailing economic conditions.

### Shares and Instruments with Variable Income

The asset class "shares and instruments with variable income" is predominantly foreign, with 46.0% of assets denominated in euro. The vast majority of shares, 83.4%, is unlisted. The chart to the right shows the value of the portfolio by the country of issuer.

The asset class consists mostly of unlisted equity positions in companies in which the Company made direct investments prior to October 2008 or which the Company has since acquired as a result of debt restructurings and debt to equity swaps (ISK 102 billion). The Company also has loans outstanding to many of these companies. The asset class also includes listed equity positions in companies that the Company acquired prior to October 2008.

### Shares and instruments with variable income – regional breakdown



As of 31 December 2012, listed equity positions constituted approximately 16.6% of the fair value of the asset class. The top three listed equity positions constituted 80.1% of the fair value of the listed equity positions.

As of 31 December 2012, unlisted equity positions amounted to 83.4% of the fair value of the asset class. The fair value of the unlisted equity positions is highly concentrated. The Company's five largest unlisted equity positions constituted approximately 93.5% of the fair value of all the unlisted equity positions and 78.0% of all equity positions as of 31 December 2012. The Company's largest unlisted equity positions include one financial company, Refresco, Asquith Nurseries and the Company's real estate development site at Fitzroy Place in London.

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*The Company's five largest unlisted equity positions constituted approximately 93.5% of the fair value of all the unlisted equity positions and 78.0% of all equity positions as of 31 December 2012.*

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The table below shows the five largest unlisted equity positions in the asset class as of 31 December 2012.

### The five largest unlisted equity positions

Position	Company is also a Lender	Ownership % *	Carrying/Fair Value in ISK million	Sector	Region	% of Total Value of Shares and Instruments with Variable Income Portfolio
Position 1	No	70.3%	6,582	Financial Services	Non-European	23.2%
Position 2	No	25.6%	6,170	Consumer Goods and Retail	Other European	21.8%
Position 3	Yes	90.0%	4,164	Consumer Services: Other	UK**	14.7%
Position 4	Yes	50.0%	2,892	Real Estate	UK**	10.2%
Position 5	No	100.0%	2,297	Real Estate	Non-European	8.1%
<b>Total</b>			<b>22,105</b>			<b>78.0%</b>

\* Effective ownership of the underlying business is different for:

Position 1 where it is 5.6%, position 2 where it is 16.7% and position 5 where it is 1.5%.

\*\* UK includes overseas territories and crown dependencies

Cash flows from the Company's unlisted and listed equity positions will be largely dependent upon realisations through sales. The values achieved through such realisations will be dependent upon a number of factors, including the performance of the underlying businesses and prevailing economic conditions. In addition, many of the unlisted equity positions are highly leveraged, such leverage including loans granted by the Company. During 2012, the Company received dividends amounting to ISK 0.2 billion from its unlisted equity portfolio which is 80.2% of the total dividends derived from the asset class.

In 2012, the fair value of the Company's unlisted equity positions was revised downward by ISK 12.7 billion. The downward revision in fair value was primarily due to negative performance of underlying businesses. **On the other hand devaluation of the Icelandic krona in 2012 resulted in positive impact of ISK 2.2 billion.** Further information can be found in the section Major Development of Operating Asset Classes in 2012 above.

## FITZROY PLACE

The former Middlesex Hospital site on Mortimer Street in Fitzrovia, now Fitzroy Place, was bought for GBP 175 million in June 2006 in a joint venture by the Company and the CPC Group. In the fourth quarter of 2008, the Company 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 the Company and the CPC group.

Following a detailed strategy review and in light of positive trends in the Central London property market, the Company decided to put the site in the core of West End in London into a formal sales process which commenced in the second quarter of 2010. An announcement on the sales process was published in March 2010 on the Company's website, [www.kaupthing.com](http://www.kaupthing.com). The process resulted in a competitive bidding, to the satisfaction of the Company. After receiving first round of bids by May 2010, the Company together with its advisers 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 Company's website in December 2010, to enter into a 50/50 JV partnership with Aviva Investors. The Company is involved in day to day decision making of the project and shares 50.0% of any profits. The bid that came from Aviva, with Exemplar as development manager, was deemed the strongest one in terms of financials, vision and experience. The Company's long term JV objectives are maximization of the market value of the commercial property, capital receipts of the residential property and the project internal rate of return. The Company deems that the development of the site through the JV with Aviva should maximise the value to the Company. CBRE and Olswang acted as advisers for the Company during the sales process.

A new planning application was submitted in September 2011 and consent was secured in February 2012. The approved scheme of GEA 932,437 sq. ft. is designed by Lifschutz Davidson Sandilands and Sheppard Robson, with interiors by designers Johnson Naylor.

The overall design of the scheme seeks to create a mixed use urban community which capitalises on the site's assets in terms of location, critical mass/size, heritage values etc. The scheme consists of two office buildings total of NIA 220,000 sq. ft. The buildings can be pre-let or let either as a whole, in part or combined. Fitzroy Place also comprises 235 private residential units, the residential accommodation and sizing of apartments has been designed with the twin objectives of maximising value and ensuring good velocity of sales. In addition to the offices and the residential units the scheme provides for 54 affordable units, 19,730 sq. ft. of retail, primary care facility, education facility and other uses.

The JV launched the pre-sales of residential units into the Asian market and in the United Kingdom in mid-year 2012 with the aim to sell 84 units for GBP 81 million before year end 2012. The JV sold 175 apartments for GBP 284 million in 2012. The residential units that remain unsold are considered likely to deliver sales receipts ahead of business plan.

The JV will be launching the offices to the market in the fourth quarter of 2013. The owners' objectives are to achieve completion of the construction of the development (practical completion) by December 2014 and project completion by the end of year 2016. The aim is to sell majority of the residential units and pre-let the offices and all retail prior to practical completion.

# REFRESCO

Refresco Group ("Refresco") is a European market leader in fruit juice and soft drink production for private label and contract manufacturing. In 2012, Refresco had volumes of circa 5 billion litres and EUR 1.5 billion in revenues. It is headquartered in the Netherlands and employs around 3,000 staff. The Company is one of Refresco's main shareholders.

Refresco announced in April 2013 its intention, subject to approval of competition authorities, to merge with Gerber Emig ("Gerber") a significant European bottling company with focus on juice and juice drinks. Gerber has volumes of circa 1.5 billion litres and revenue of EUR 0.8 billion. The merger will create a leading pan-European bottler of soft drinks and fruit juices to serve retail and branded customers. Shareholders in Gerber will own 30% of the shares in the combined group and Refresco shareholders will own 70% of the shares. As part of the merger and refinancing of Gerber's debt, Refresco's super-senior revolving credit facility, which currently is undrawn at EUR 75 million, will be increased to EUR 150 million. At completion of the merger it is envisaged that the new group will have an estimated EUR 50 million unused portion of the revolving credit facility outstanding in addition a cash position of approximately EUR 40 million. The combined group will have greater opportunities to invest in innovation, to achieve growth and to optimise the business. Deal preparation and negotiation took place in 2012 and January-April 2013.

This was the latest step in the development which started in late 2008 and at the beginning of 2009 when there was a major concern regarding Refresco's ownership structure. Ferskur Holding 1 BV, the controlling owner of Refresco at that time, initiated a sale process in middle of 2008 inviting a vast number of investors. The sales process was aborted early 2009 with the support of the Company after the sales process failed to crystallise what the Company believed was a fair value for the Company's stake in Refresco. 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. Following the aborted sales process, discussions were held with a potential minority investor investing into the business. These discussions resulted in a direct capital increase where 3i, an international private equity investor, invested for EUR 84 million for a 20.3% stake with other shareholders being diluted. The purpose was to fund further growth of the company in line with its buy and build strategy. Two material transactions were announced in 2010 and 2011, where Refresco acquired Soft Drinks International, a German producer of soft drinks and water, and Spumador, the largest producer of private label carbonated soft drinks and mineral water in Italy.

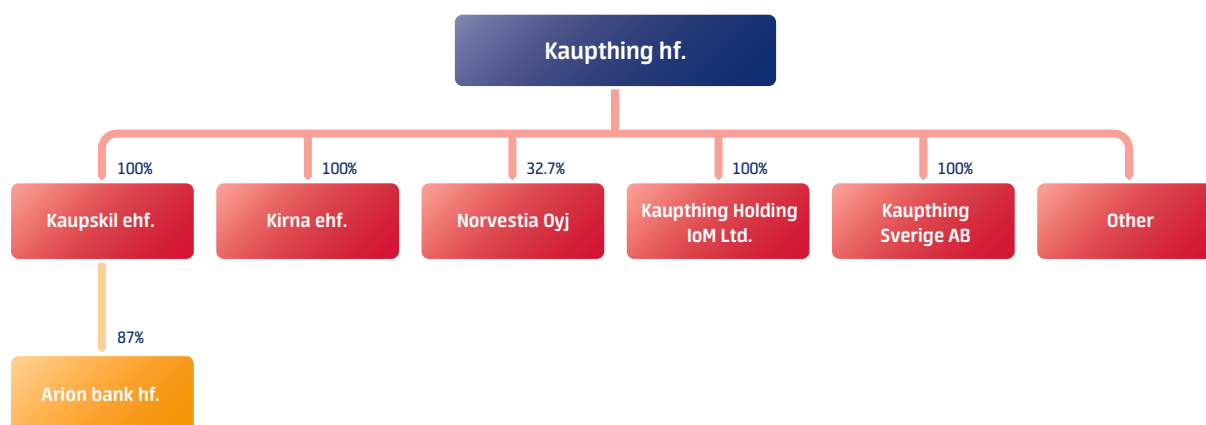
Refresco announced in May 2011 that it had successfully closed its senior secured notes offering and thereby refinanced all of its loans. The notes amounted to EUR 660 million. Of this amount, EUR 360 million is fixed (7NC3) at 7.375% and EUR 300 million floating (7NC1) at 3month EURIBOR + 400bps. The notes are due in 2018. Through the refinancing the Company was repaid at par the remainder of the debt that it had against Refresco, being approximately EUR 23 million.

Recent trading has been challenging. In 2011 this was to a great extent due to a poor summer season and increasing raw material prices. In the first half of 2012 there was a drop in sales due to difficult markets and deliberate loss of low margin volumes. In the second half of 2012 things have somewhat turned to the better. While revenue has been disappointing due to continued weak economic climate in Europe, costs are being tightly controlled.

## Investments in Subsidiaries

The asset class “investments in subsidiaries” includes (a) Kaupskil ehf. (“Kaupskil”), the holding company for the Company’s 87.0% shareholding in Arion bank, and (b) companies in which the Company owns a controlling equity interest and that were consolidated in the Company’s Financial Statements before 2008.

### The Company’s major subsidiaries



The asset class is highly concentrated. As of 31 December 2012, the three largest positions constituted approximately 95.7% of the fair value of the asset class. Arion bank constituted 80.5% of the fair value of the asset class, Kirna ehf. (“Kirna”) 9.7% and Norvestia Oyj. (“Norvestia”) 5.5%.

The asset class does not generate significant amounts of regular income through dividends. Only Norvestia has paid regular dividends. Dividends from Arion bank have required approval by the FME and the Icelandic government, which owns a 13.0% equity stake in Arion bank, had a veto right over dividends until the beginning of 2013. During 2012, the Company received ISK 0.6 billion in dividends from this asset class.

As discussed in more detail below, in the case of Arion bank and Norvestia, cash flows will be largely dependent upon realisations through sales of the positions.

#### Arion bank

Arion bank, which is the Company’s largest asset by fair value, is a commercial bank with operations in Iceland. On 21 October 2008, the FME issued a decision to divide the operations, assets and liabilities of the Company. The decision stated that certain specific assets and certain specific obligations of the Company would be transferred to Arion bank. As a result, Arion bank took over the entire deposit liabilities of the Company in Iceland and also the bulk of the Company’s assets that related to its Icelandic operations. According to the FME, these actions were taken to secure the continuation of vitally important domestic banking and payment services.

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*Arion bank, which is the Company’s largest asset by fair value, is a commercial bank with operations in Iceland.*

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The Company indirectly owns 87.0% of the equity in Arion bank through its intermediate holding company Kaupskil. The Company also has restricted cash deposits in Arion bank amounting to ISK 10.9 billion categorised as “loans to and claims against credit institutions” and two bonds issued by Arion bank amounting to ISK 1.0 billion. One of the bonds was acquired by the Company as part of a composition agreement with a third party and the other bond was acquired through a settlement with Arion bank. As of 31 December 2012, Arion bank represented 27.8% of the fair value of the Company’s non-cash assets.

During 2012, the fair value of the Company's interest in Arion bank was revised upward by ISK 14.5 billion. The upward revision in the fair value was due to the Company adjusting the value of its shareholding in Arion bank in accordance with the equity method of accounting. Arion bank's net earnings since its incorporation in 2008 have been between ISK 11.1 to ISK 17.1 billion per year which corresponds to an annual return on equity of 10.5% to 16.7%. This relatively healthy return on equity is despite a strong equity base. The capital ratio of the bank was 24.3% at year end 2012. It is deemed prudent to maintain such strong capital ratio in light of continued uncertainty in the bank's operational environment.

Due to current conditions imposed by the FME, and in spite of the Company holding an indirect 87.0% equity stake in Arion bank through Kaupskil, the Company is only entitled to appoint one director connected to the Company to each of the board of directors of Kaupskil and Arion bank. Other board members of Kaupskil and Arion bank shall be independent of the Company.

There may be complications when realising value from the Company's stake in Arion bank, i.e. currency controls currently in effect in Iceland do not permit Icelandic krona assets to be converted into foreign currency or to be transferred outside of Iceland. Furthermore, any purchaser of a qualified ownership, i.e. 10.0% or more of the equity in Arion bank, would need to be approved by the FME, based on certain suitability criteria including investment history, strategy for the investment, and the ability to support Arion bank.

Despite potential challenges for the sale of Arion bank, it has attracted interest from potential buyers. At the date of this report, such interest has not materialised in formal discussions. In light of the interest shown, the Winding-up Committee has entered into discussions with external advisory firms to advise the Winding-up Committee on any potential sales process which the Winding-up Committee may engage in.

#### **Norvestia**

Norvestia is a publicly listed Finnish investment management company. Through its subsidiaries, Norvestia invests in shares of Nordic companies, debt securities, hedge funds, private equity funds and various other instruments. The Company owns approximately 32.7% of Norvestia's equity, but has approximately 56.0% of the voting rights. From 2009 to 2013 the Company has received in total of EUR 9.3 million in dividend payments from Norvestia. Norvestia publishes its net asset value each month. At the end of April 2013 the net asset value per share was EUR 8.92 and the closing share price of the listed B shares was EUR 5.86. The Company has both B shares and A shares which are unlisted but with tenfold voting rights compared to the B shares.

#### **Kirna**

Kirna is a holding company, fully owned by the Company, with several fully owned subsidiaries. Kirna and its subsidiaries do not have any on-going business operations. Their current operations are exclusively devoted to liquidating the Company's remaining assets and pursuing litigation and/or settlement negotiations with respect to remaining assets.

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## Derivatives

The “derivatives” asset class consists of claims against counterparties in relation to matured or terminated derivative transactions. The derivative transactions relate mostly to interest rate swaps and long-term foreign exchange/currency swaps with a broad range of counterparties, including international banks, pension funds and holding companies.

The process of collecting and settling derivatives claims continues with the aim to maximise recoveries. The advisory firm Alvarez & Marsal was retained to work with the employees of the Company along with external derivatives valuation specialists. Furthermore, the law firm Olswang acts as an external legal counsel to the Company in respect of the recoveries of the derivatives portfolio.

Realisations of value from the asset class depend upon the Company being able to successfully negotiate settlements with counterparties, and in certain cases, prevail in litigation. Material valuation issues include (a) disputes over wide discrepancies in the Icelandic krona exchange rates, (b) large spreads in the market at the time of default, (c) set-off status, (d) responsiveness of counterparties and (e) related legal disputes. The Company has taken the uncertainties relating to on-going settlement negotiations into account when determining the fair value of the derivatives claims.

### Current status

As of 31 December 2012, 95.6% of the fair value of the derivatives claims, before set-off, related to transactions governed by ISDA agreements between the Company and foreign counterparties which had terminated the transactions. The remaining derivatives claims, other than those governed by ISDA agreements, mostly relate to agreements with domestic counterparties under the Company's general market terms.

The “derivatives” asset class is highly concentrated with the top six remaining positions accounting for 90.7% of the fair value of the “derivatives” asset class before set-off as of 31 December 2012. The portfolio consists of 36 remaining positions on the asset side. As of 31 December 2012, the fair value of the derivatives positions after set-off was 73.4% denominated in euro 10.7% in US dollar and 9.6% in pounds sterling while other currencies accounted for 6.3% of the fair value.

The fair value after set-off of the “derivatives” positions as of 31 December 2012 can be categorised as set out in the table to the right.

### Dispute over set-off rights

Over 70.0% of the remaining fair value of the “derivatives” asset class has been fixed and determined through negotiations with counterparties. Final settlements await rulings on set-off or finalisation of agreements in certain cases. It is expected that most of the cases where set-off is in dispute will be resolved when a final judgement has been rendered in a case brought by Commerzbank against the Company before the Icelandic courts.

### Settlement Agreement between the Company and Icelandic Pension Funds

In January 2013, the Company and seventeen Icelandic pension funds, (the “Pension Funds”), announced they had entered into a settlement agreement with respect to outstanding disputes relating to certain derivatives contracts. This settlement agreement was taken into account in the Company's Financial Statements.

### Derivatives – breakdown by case type

Case type	Number of cases	Fair value*
<b>ISDA</b>	<b>11</b>	<b>28,046</b>
<i>Cases settled in principle</i>	4	4.104
<i>Dispute over set-off rights</i>	4	16.964
<i>ISK issue</i>	3	6.978
<b>Non-ISDA</b>	<b>25</b>	<b>1.305</b>
<i>Pension Funds</i>	1	24
<i>Cases in litigation/other</i>	18	1.254
<i>Cases settled in principle</i>	6	27
<b>Total before set-off</b>	<b>36</b>	<b>29.351</b>
<b>Total after set-off</b>		<b>20.698</b>

\*Net fair value after impairment and collateral.



The settlement agreement resolved all of the parties' respective claims against each other in relation to currency and interest rate hedging contracts and certain other derivatives contracts that were entered into to reduce the foreign exchange rate and interest rate risks of the Pension Funds' asset portfolios.

The settlement agreement was an important milestone for both parties as it eliminated uncertainty concerning assets and liabilities for both the Company and the Pension Funds, and removed the need for lengthy legal proceedings.

### Progress by value

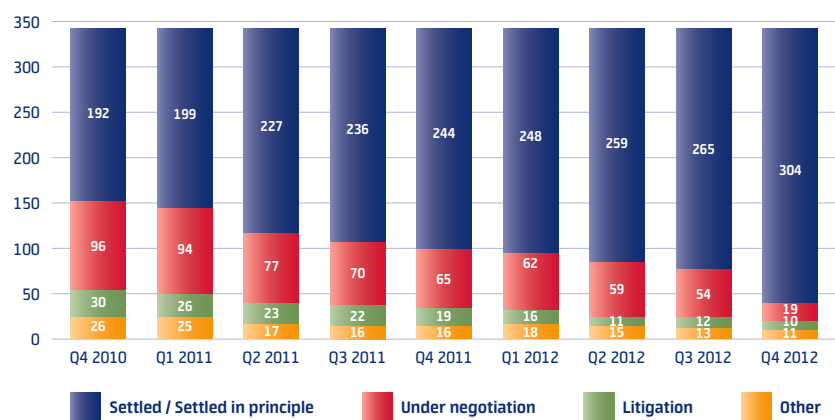
In 2012, a total of ISK 34.3 billion in cash, short-term payment obligations and securities was received by the Company as a result of derivatives settlements. Included in this figure is the Icelandic krona value of the Pension Funds' liabilities after set-off as determined by the settlement agreements entered into in late 2012 between the Company and the Pension Funds.

The Pension Funds paid the settlement amounts mostly in euro at a negotiated rate. A foreign exchange rate difference was realised in the books. This difference is reflected in the asset class "other assets" due to a reclassification of the payment obligations which were completed after year end 2012. In 2012, a total of ISK 22.7 billion was set off against derivatives claims. The fair value of the "derivatives" was revised upward by ISK 3.7 billion in part due to settlement negotiations.

It is expected that ISK 8.7 billion of the remaining fair value in this asset class will be subject to set-off. As of 31 December 2012 the resulting estimated fair value net of set-off was ISK 20.7 billion.

The total number of derivatives counterparties with outstanding positions at the time of the Company's default in October 2008 was 344. This includes both positions where the Company was a net debtor and net creditor. The table below shows the progress by number of counterparties. Cases where the claim value has been determined but not yet finalised it is categorised as *settled in principle*. In the year 2012, a total of 60 cases were *settled* or *settled in principle*. The category *other* represents primarily claims against bankrupt entities.

### Derivatives – progress by value




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*In 2012, a total of ISK 34.3 billion in cash, short-term payment obligations and securities was received by the Company as a result of derivatives settlements.*

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## Loans to Customers – NOA Loan Portfolio

The part of the Company's "loans to customers" asset class which has little or no underlying business operations has been defined above as the "NOA Loan Portfolio".

Each position within the NOA Loan Portfolio is handled by a designated account manager and internal legal counsel. Work streams in respect of the NOA Loan Portfolio are both commercially and legally intensive. In many cases the Company's recovery actions are contested by counterparties and recovery strategies must be reassessed on an on-going basis. In a few number of cases, counterparties have threatened or commenced proceedings against the Company in connection to related positions in the NOA Loan Portfolio.

The Company has engaged a number of external advisers to assist with recovery of positions in the NOA Loan Portfolio. These include leading accounting firms and the law firms Weil Gotshal & Manges, Olswang, Stewarts Law, Skadden Arps and Simmons & Simmons. Several firms with offshore expertise are regularly instructed by the Company. Where appropriate, the Company instructs leading barristers, such as Iain Milligan QC and Richard Snowden QC.

The NOA Loan Portfolio comprises loans made to foreign holding companies and special purpose vehicles, often through complex structures. The NOA Loan Portfolio also includes certain related party loans (e.g. loans to subsidiaries and former senior management).

In many cases, the loans in the NOA Loan Portfolio (a) were advanced to companies at the top of group structures where third party financing was received at lower levels, making the Company's loans structurally subordinated, (b) advanced to groups with companies in several offshore jurisdictions, (c) were advanced without adequate or appropriate security, (d) are linked to the Company itself, i.e. around 30.0% of the total carrying value of the NOA Loan Portfolio is exposure against the Company's own shares or bonds and/or (e) are disputed by the borrowers or security providers. Almost all of the loans in the NOA Loan Portfolio are in default, with many borrowers in liquidation.

Realisations from the NOA Loan Portfolio will depend upon (a) enforcing pledges securing defaulted loans, (b) receiving assets/cash through liquidation of borrowers (c) successfully negotiating settlements and/or (d) prevailing in litigation. With insignificant exceptions, the Company's view at present is that loans in the NOA Loan Portfolio will not be realised through sale.

From time to time, the Company may commence legal proceedings to recover positions in the NOA Loan Portfolio. By way of example, the Company has issued rescission claims against a major global financial institution, both in Iceland and England, in order to recover several loans in the NOA Loan Portfolio. The claims, which were brought in late June 2012, are for approximately EUR 509 million, plus interest. The claims relate to leveraged credit linked notes, referencing the Company, issued by the financial institution to two special purpose vehicles shortly prior to the Company's insolvency in late 2008. The Company funded the special purpose vehicles and alleges that the financial institution was aware that the Company itself, rather than the special purpose vehicles, was economically exposed in the transaction.

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

The Company has taken the characteristics of the NOA Loan Portfolio and issues around realisations of individual loans into account when determining the fair value of the NOA Loan Portfolio. As of 31 December 2012, the fair value of the NOA Loan Portfolio was ISK 42.7 billion which represented 4.2% of the total carrying value.

The columns in the graph to the right show the fair value of bonds and remaining NOA Loan Portfolio positions at any given time, while the value of accumulated net cash inflow is fixed at the value when the relevant monetisation took place or cash-flow was received.

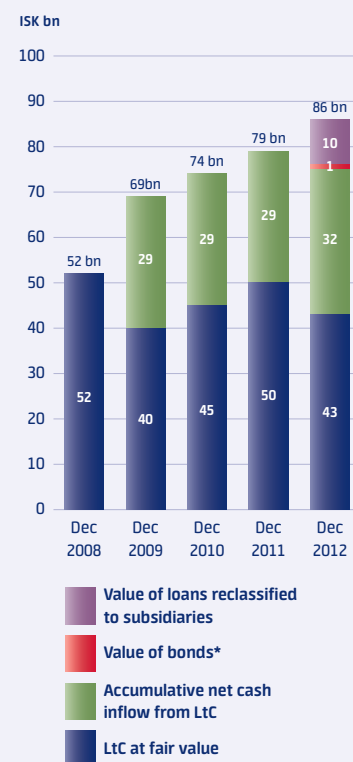
#### **Klakki ehf. (formerly Exista hf.)**

In April 2012, the Company and Klakki ehf. ("Klakki", formerly Exista hf.) reached an agreement on settlement of all claims and disputes between the parties. Klakki was the Company's largest shareholder and one of its largest borrowers prior to October 2008. As a result the Company is a net approved composition creditor of Klakki. All of Klakki's claims, being ISK 13.5 billion priority claims, ISK 209.2 billion senior unsecured claims and ISK 31.3 billion rescission and damages claims against the Company were withdrawn. All litigation between the parties has been cancelled.

#### **HH Sheikh Mohammed Bin Khalifa Bin Hamad Al Thani**

As announced on [www.kaupthing.com](http://www.kaupthing.com) in February 2013, the Company and Sheikh Mohammed Bin Khalifa Bin Hamad Al Thani, together with other related parties, have reached an agreement concerning the settlement of all claims and liabilities between them. This agreement was reached on a commercial basis with no admission of liability by any party. As a result of the settlement, legal proceedings commenced in Iceland by the Company against Sheikh Mohammed Bin Khalifa Bin Hamad Al Thani have been discontinued and all other claims and liabilities have been released. All other terms of the settlement remain confidential.

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



\* Value of bonds which were previously included in "loans to customers"

## Loans to and Claims against Credit Institutions

As of 31 December 2012, "loans to and claims against credit institutions" amounts to ISK 22.4 billion after set-off.

This asset class consists of (i) restricted cash, (ii) conditional guarantee accounts, (iii) frozen/emptied bank accounts and (iv) other loans to credit institutions.

### Restricted cash

Restricted cash is comprised of cash held at Arion bank under a term deposit, which amounted to ISK 10.9 billion as of 31 December 2012.

### Guarantee accounts

Guarantee accounts amounted to ISK 6.6 billion at fair value as of 31 December 2012 and consist of guarantees made to two counterparties in connection with a bondholder dispute concerning bonds issued by Lehman Brothers. Realisation of value from these assets will depend largely on the outcome of the bondholder dispute.

### Frozen/emptied bank accounts

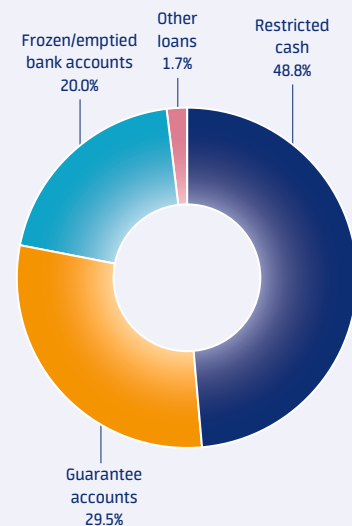
Frozen/emptied bank accounts are claims against international financial institutions for freezing/emptying the Company's bank accounts. As of 31 December 2012, the fair value of this asset class before set-off amounted to ISK 5.2 billion decreased by ISK 10.4 billion in the year 2012 mainly due to retrieval of six previously frozen bank accounts amounting to ISK 6.1 billion and ISK 4.9 billion in realized set-off. Realisations of these claims will depend on the Company successfully negotiating settlements or prevailing in litigation.

### Other

These include loans to credit institutions which are not included in asset classes discussed above, and their fair value before set-off amounted to ISK 0.6 billion as of 31 December 2012 and decreased by ISK 3.0 billion, in the year 2012 mainly due to principal repayments, thereof ISK 2.9 billion in relation to Arion bank's repayments of short term receivables.

The chart to the right shows the breakdown of fair value after set-off by types of exposure.

### Loans to and claims against credit institutions by type of exposure



## Other Assets

"Other assets" are valued at ISK 31.6 billion at fair value after set-off. The fair value increased by ISK 16.7 billion in 2012. The increase is primarily due to reclassification from derivatives of ISK 26.8 billion short-term receivables resulting from settlements offset by ISK 11.2 billion of foreign exchange effects relating to the same settlements.

Estimated set-off effects in this asset class amounts to approximately ISK 4.6 billion at fair value.

The chart to the right shows the breakdown of fair value after set-off by types of other assets.

## Certain Claims not Reflected in the Financial Statements

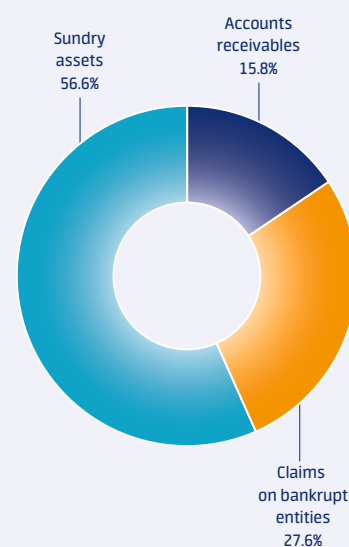
Following review of transactions which were entered into by the Company in the last months prior to 9 October 2008, the Winding-up Committee commenced approximately 50 rescission cases in accordance with Icelandic insolvency law. Most of the cases concern various payments of liabilities that the Company made prior to their respective due dates, including the repurchase of bonds issued by the Company. The defendants are mainly non-Icelandic financial institutions or funds. A number of cases have been withdrawn by the Company in light of new information and recent court rulings. Around 40 cases are still ongoing and await determination of the Icelandic courts. Timing of any final decisions remains uncertain.

Due to the nature of the rescission cases in question, in certain instances amounts are already reported as assets in the Company's Financial Statements as of 31 December 2012. As a consequence, any increase in carrying value or potential increase in fair value of assets that would be reflected in the Company's Financial Statements as a result of these rescission cases would be significantly less than the full nominal amounts related to the rescission cases. Furthermore, if the Company is successful in any given rescission case it may also result in an increase in claims against the Company.

The Company may hold damages claims against certain parties as a result of their tortious conduct in respect of the Company's interests prior to 9 October 2008. Proceedings for damages have been brought in a small number of cases.

The proceedings relating to these claims are on-going and the Company is not able to predict their outcomes or when they may be resolved. The Company is therefore unable to estimate the potential affect these claims may have on the values reflected on its Financial Statements.

### Other assets by type of exposure



# CLAIMS REGISTRY

## General Information

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. Claims were received from creditors in 119 countries.

The Winding-up Committee completed its decision on all claims by the Creditors' Meeting on 3 December 2010. Until all disputes on decision on claims 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 of 22 April 2009 in the relevant currency and converted into ISK at the exchange rate published by the CBI on 22 April 2009. Hence, the liability side has been fixed in Icelandic krona as of that date for all relevant claims.

## Summary of Lodged Claims

A total of 27,628 claims are currently recorded in the Company's claim registry, for a total amount of ISK 4,272.1 billion.

### Total amount of claims lodged

	Art. 109	Art. 110	Art. 111	Art. 112	Art. 113	Total
Total	27.013	846	88.930	262.145	3.893.155	4.272.089

Amounts above are in million ISK.

In 2012, two new claims amounting in total to the equivalent of ISK 16.4 billion were lodged against the Company under Art. 109 of the Act no. 21/1991 on Bankruptcy (the "Bankruptcy Act"). The Winding-up Committee rejected both claims with reference to Art. 118 of the Bankruptcy Act. As these claims were not filed within the aforementioned deadline for submitting claims and do not meet the conditions of Art. 109 of the Bankruptcy Act they were not added to the list of claims and are not included in the following claim tables. The larger claim, for a total amount of ISK 15.3 billion, has been referred to the District Court of Reykjavík for resolution<sup>4</sup>. No objection has yet been received to the rejection of the other claim amounting to ISK 1.1 billion.

## Changes to Decisions on Claims from 31 May 2012

### Comparison between 31 May 2012 and 5 June 2013

In light of the amount of claims lodged against the Company, and the significant amount of disputes with often no precedents, the claiming process has proven to be highly complex. Efforts by the Company to settle disputed claims are on-going. This can be done through settlements, by obtaining rulings from Icelandic Courts or simply with the withdrawal of objection by the respective creditors. This work has continued to progress well

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*In light of the amount of claims lodged against the Company, and the significant amount of disputes with often no precedents, the claiming process has proven to be highly complex.*

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<sup>4</sup> See further in chapter *Late Filed Priority Claims in Dispute*.

and has already resulted in a significant reduction of claims in addition to an increase in finally recognised claims.

Key changes in the claim registry from 31 May 2012 to 5 June 2013 include:

- Lodged claims under Art. 109-113 now amount to ISK 4,272 billion and have decreased by ISK 120.2 billion.
- Total outstanding claims (adjusted for own bonds under US MTN 144a and claims subject to set-off) amount to ISK 2,988.4 billion and have decreased by ISK 241.7 billion).
- Finally accepted priority claims (Art. 109-112) now amount to ISK 7 billion which is an increase of ISK 6.2 billion.
- Finally accepted unsecured claims (Art. 113) now amount to ISK 2,672 billion which is an increase of ISK 167.9 billion.
- Rejected claims in dispute amount to ISK 242.2 billion and have decreased by ISK 256.2 billion.
- Finally rejected claims now amount to ISK 1,175.5 billion which is an increase of ISK 142 billion.

The table below shows changes in the claims registry since the last creditors meeting on 31 May 2012

#### Changes in claim registry from 31 May 2012

Claims lodged under Art. 109-113			
	29.05.2013	24.05.2012	Changes
<b>Total lodged</b>	<b>4,272,089</b>	<b>4,392,291</b>	<b>(120,202)</b>
<b>Total accepted</b>	<b>2,854,357</b>	<b>2,860,327</b>	<b>(5,970)</b>
<i>Thereof, finally accepted (1)</i>	<i>2,671,199</i>	<i>2,503,264</i>	<i>167,930</i>
Art. 109	6,217	7	6,210
Art. 110	204	203	1
Art. 111	-	-	-
Art. 112	586	585	1
Art. 113*	2,664,193	2,502,469	161,719
<i>Thereof, accepted Art. 113 but disputed</i>	<i>183,158</i>	<i>357,063</i>	<i>(173,900)</i>
of which in dispute due to priority (2)	113,153	207,189	(94,031)
of which in set-off dispute (3)	70,005	73,916	(3,911)
of which challenged by third party	-	75,958	(75,958)
<b>Amendments under Art. 113</b>			
Kaupthing's own bonds under US MTN 144a programme	(92,318)	(92,318)	-
Subject to set-off (4)	(15,792)	(36,211)	21,358
<b>Rejected in dispute</b>	<b>242,200</b>	<b>498,392</b>	<b>(256,193)</b>
Art. 109	-	7,929	(7,929)
Art. 110	-	114	(114)
Art. 111	5,157	5,157	-
Art. 112	3,125	7,369	(4,244)
Art. 113	233,917	477,823	(243,906)
<b>Total outstanding after adjusting for Kaupthing's own bonds under US MTN 144a programme and claims subject to set-off</b>	<b>2,988,447</b>	<b>3,230,190</b>	<b>(241,743)</b>
<b>Finally rejected</b>	<b>1,175,532</b>	<b>1,033,574</b>	<b>141,958</b>

1) Includes all accepted claims which have not been objected to by creditors. Also includes claims which have been accepted, but are still in dispute and which have been objected to only by the respective claimant and not by other creditors; as the accepted amount in these cases will never be lower than what has already been accepted by the Winding-up Committee.

2) In these cases, there is a dispute between the Winding-up Committee and individual creditors regarding the priority status of claims. The priority of an accepted claim can therefore change, from Art. 113 to Art. 109-112, in accordance with final outcome of that claim.

3) Claims accepted by the Winding-up Committee as Art. 113 claims, but where there is a dispute as to either (a) the right of the holders to apply a set-off against the accepted claim or (b) the amount the holders may set-off against the accepted claim.

4) This shows claim amounts subject to set-off, where the right to set-off is not disputed but the set-off has not been finalised.

\* Finally accepted claims under Art. 113 for year 2012 is adjusted with respect to finally accepted set-off amounting to ISK 13.206 million.

All amounts in table in mISK.

The claim registry is presented net of finally accepted set-off and comparison for 31 May 2012 has been adjusted accordingly.

## Status of Priority Claims

The total amount of outstanding priority claims (claims lodged under Art. 109, 110 and 112 of the Bankruptcy Act) against the Company is currently ISK 123.3 billion. This is a decrease of ISK 100.1 billion from the last creditors meeting on 31 May 2012. Claims for a total amount of ISK 7 billion have been finally accepted under Art. 109–112 of the Bankruptcy Act but claims amounting to ISK 116.3 billion remain in dispute as shown below.

The table below shows outstanding priority claims<sup>5</sup> by article, excluding claims which have been finally rejected or finally accepted under Art. 113 of the Bankruptcy Act.

### Status of priority claims

	Art. 109	Art. 110	Art. 112	Total
Finally accepted	6,217	204	586	7,007
Accepted as 113 in dispute due to priority	-	-	113,153	113,153
Rejected disputed	-	-	3,125	3,125
<b>Outstanding claims</b>	<b>6,217</b>	<b>204</b>	<b>116,864</b>	<b>123,285</b>

All amounts in table in mISK.

In the table above, ISK 113.2 billion of claims which were lodged as priority claims under Art. 112, were rejected as priority claims by the Winding-up Committee but accepted as general claims under Art. 113. Included are claims amounting to ISK 100.4 billion, which are in dispute related to the priority status of FRB deposit agreements. On 22 March 2013, the Supreme Court of Iceland pronounced its judgement in the first case brought on regarding the dispute on the the priority status of the FRB deposit agreements before Icelandic courts. Further information about this judgement can be found in chapter *Significant Court Cases and Settlements Relating to Claims in 2012 and 2013*.

## Decision on Claims

### Summary of claims

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

### Summary of claims

Article	Art. 109	Art. 110	Art. 111	Art. 112	Art. 113	Total
<b>Total Lodged</b>	<b>27,013</b>	<b>846</b>	<b>88,931</b>	<b>262,145</b>	<b>3,893,155</b>	<b>4,272,089</b>
Total Adjusted *	17,576	670	16,251	53,011	4,184,592	4,272,100
<b>Accepted</b>	<b>6,217</b>	<b>204</b>	-	<b>586</b>	<b>2,847,351</b>	<b>2,854,357</b>
Thereof, Finally Accepted Claims	6,217	204	-	586	2,664,193	2,671,194
Thereof, Accepted but in set-off dispute	-	-	-	-	70,005	70,005
Thereof, Accepted but in dispute due to priority	-	-	-	-	113,153	113,158
<b>Rejected</b>	<b>11,359</b>	<b>466</b>	<b>16,251</b>	<b>52,425</b>	<b>1,337,241</b>	<b>1,417,742</b>
Thereof, finally	11,359	466	11,094	49,300	1,103,324	1,175,542
Thereof, in dispute	-	-	5,157	3,125	233,917	242,200
<b>Adjusted outstanding claims</b>	<b>6,217</b>	<b>204</b>	<b>5,157</b>	<b>3,711</b>	<b>3,081,268</b>	<b>3,004,239</b>
Kaupthing's own bonds under US MTN 144a Programme					(92,318)	(92,318)
Subject to set-off					(15,792)	(15,792)
<b>Adjusted outstanding claims - excluding claims subject to set-off and Kaupthing's own bonds under US MTN 144a Programme.</b>	<b>6,217</b>	<b>204</b>	<b>5,157</b>	<b>3,711</b>	<b>2,973,158</b>	<b>2,988,447</b>

\* In several cases the Winding-up Committee accepts a claim with different priority than lodged. Adjusted amounts in the table above are based on the Winding-up Committee decisions and represent the total amounts of all claims on which decisions have been made under the respective article, i.e. accepted or rejected. Adjusted outstanding claims represent the adjusted amounts under each article excluding finally rejected claims.

All amounts in table in mISK.

<sup>5</sup> It should be noted that finally accepted priority claims under Art. 109 and 110 of the Bankruptcy Act were paid in full by the Winding-up Committee in April 2013 and are therefore no longer outstanding against the Company. See further information in the chapter *Payment of Priority Claims*.



**Total adjusted outstanding claims**

Total adjusted outstanding claims shown by article and type, excluding (a) accepted set-off claims, (b) the Company's own bonds under the US MTN 144a programme and (c) subordinated claims lodged under Art. 114 of the Bankruptcy Act.

Adjusted outstanding amounts in the table below are based on the Winding-up Committee's decisions and represent the outstanding amounts of all claims on which decisions have been made under the respective article, i.e. accepted or rejected dispute claims, finally rejected claims are excluded. There may still be outstanding disputes concerning priority of claims as in several cases the Winding-up Committee accepts a claim with a different priority than lodged. Thus, the priority of claims in the table below might change as courts could rule against Winding-up Committee's decision on the priority of claims

**Total adjusted outstanding claims – by article and type**

Type	Art. 109	Art. 110	Art. 111	Art. 112	Art. 113	Total
Guarantees	-	-	-	2,345	34,444	36,789
Derivatives	6,210	-	5,157	-	63,370	74,738
Miscellaneous	-	179	-	-	93,312	94,419
Deposit Agreements	-	-	-	611	296,893	297,504
Deposits	-	-	-	-	-	-
Reimbursements	-	-	-	24	592	616
Loan Agreements	-	-	-	-	426,816	426,816
Invoices	-	21	-	-	1,648	1,669
Contracts	-	-	-	-	47,650	47,650
Damages	7	4	-	2	29,879	29,891
Bonds	-	-	-	-	1,977,736	1,977,736
Interests	-	-	-	728	819	1,547
<b>Total</b>	<b>6,217</b>	<b>204</b>	<b>5,157</b>	<b>3,711</b>	<b>2,973,158</b>	<b>2,988,447</b>

All amounts in table in mISK.

**Accepted claims**

The table below shows decisions by the Winding-up Committee which are considered final. A decision by the Winding-up Committee to accept a claim is considered final when the creditor concerned accepts the Winding-up Committee's decision and neither the creditor nor other parties object to the decision. The decision by the Winding-up Committee is then considered to be final, as provided for in the third paragraph of Art. 120 of the Bankruptcy Act.

**Finally accepted claims by article and type**

Type	Art. 109	Art. 110	Art. 111	Art. 112	Art. 113	Total
Guarantees	-	-	-	-	16,442	16,442
Derivatives	6,210	-	-	-	30,210	36,421
Miscellaneous	-	179	-	-	68,101	68,281
Deposit Agreements	-	-	-	-	106,013	106,013
Deposits	-	-	-	-	-	-
Reimbursements	-	-	-	17	519	531
Loan Agreements	-	-	-	-	416,628	416,628
Invoices	-	21	-	-	1,648	1,669
Contracts	-	-	-	-	42	42
Damages	7	4	-	-	918	929
Bonds	-	-	-	-	2,022,853	2,022,853
Interests	-	-	-	569	818	1,386
<b>Total</b>	<b>6,217</b>	<b>204</b>	<b>-</b>	<b>586</b>	<b>2,664,193</b>	<b>2,671,194</b>

All amounts in table in mISK.

The table below shows decision on claims where the Winding-up Committee has accepted a claim but there is still a dispute regarding (a) the priority status of the respective claim, i.e. the Winding-up Committee has accepted the claim under a different article than the claim was lodged under or (b) the right of the holders to apply a set-off against the accepted claim or the amount the holders may set-off against the accepted claim.

#### Accepted claims in dispute due to priority or set-off by article and type

Type	Art. 109	Art. 110	Art. 111	Art. 112	Art. 113	Total
Guarantees	-	-	-	-	-	-
Derivatives	-	-	-	-	720	720
Miscellaneous	-	-	-	-	-	-
Deposit Agreements	-	-	-	-	152,355	152,355
Deposits	-	-	-	-	-	-
Reimbursements	-	-	-	-	78	78
Loan Agreements	-	-	-	-	7,724	7,724
Invoices	-	-	-	-	-	-
Contracts	-	-	-	-	-	-
Damages	-	-	-	-	-	-
Bonds	-	-	-	-	22,286	22,286
Interests	-	-	-	-	-	-
<b>Total</b>	-	-	-	-	<b>183,163</b>	<b>183,163</b>

All amounts in table in mISK.

#### Rejected claims

The table below shows decision on claims where the Winding-up Committee has rejected a claim and the respective creditor has objected to that decisions and the dispute has not been resolved by a settlement, withdrawal of the objection by the creditor or a court ruling.

#### Rejected disputed claims by article and type

Type	Art. 109	Art. 110	Art. 111	Art. 112	Art. 113	Total
Guarantees	-	-	-	2,345	18,002	20,347
Derivatives	-	-	5,157	-	35,398	40,555
Miscellaneous	-	-	-	-	38,017	38,017
Deposit Agreements	-	-	-	611	38,525	39,136
Deposits	-	-	-	-	-	-
Reimbursements	-	-	-	7	-	7
Loan Agreements	-	-	-	-	2,484	2,484
Invoices	-	-	-	-	-	-
Contracts	-	-	-	-	47,608	47,608
Damages	-	-	-	2	28,961	28,963
Bonds	-	-	-	-	24,922	24,922
Interests	-	-	-	160	1	161
<b>Total</b>	-	-	<b>5,157</b>	<b>3,125</b>	<b>233,917</b>	<b>242,200</b>

All amounts in table in mISK.

The table below shows decisions by the Winding-up Committee which are considered final. A decision by the Winding-up Committee to reject a claim, in whole or in part, is considered final if the creditor concerned accepts the Winding-up Committee's decision and does not object to the decision, if a Court ruling confirms the Winding-up Committee's decision or if a claim is settled between the creditor and the Winding-up Committee. The decision by the Winding-up Committee is then considered to be final, as provided for in the third paragraph of Art. 120 of the Bankruptcy Act.

### Finally rejected claims by article and type

Type	Art. 109	Art. 110	Art. 111	Art. 112	Art. 113	Total
Guarantees	378	-	3	36,006	7,026	43,413
Derivatives	2,255	-	3,669	26	7,892	13,842
Miscellaneous	1,580	27	-	12	41,780	43,399
Deposit Agreements	-	-	-	2	643	645
Deposits	1,611	-	-	7,791	35,835	45,237
Reimbursements	-	-	-	674	211	885
Loan Agreements	-	-	7,056	18	11,763	18,837
Invoices	-	342	-	12	861	1,214
Contracts	-	1	-	-	63	64
Damages	206	95	-	531	20,346	21,178
Bonds	5,252	-	319	2,149	976,458	984,179
Interests	75	-	46	2,080	447	2,648
<b>Total</b>	<b>11,359</b>	<b>466</b>	<b>11,094</b>	<b>49,300</b>	<b>1,103,324</b>	<b>1,175,542</b>

All amounts in table in mISK

# RESOLUTION OF DISPUTES

## General Overview

If claims are in dispute the Winding-up Committee shall convene the parties in question to a meeting and endeavour to settle the dispute ("mediation process"). If disputes on claims cannot be resolved in this manner, they are referred by the Winding-up Committee to the District Court of Reykjavik for resolution, as provided for in the second paragraph of Art. 120 of the Bankruptcy Act, and Art. 171 of the same Act.

Since 30 December 2009 when the time limit to lodge claims passed, over 840 cases relating to claims have been referred to the District Court of Reykjavik for resolution. Currently over 80 cases are awaiting resolution before the District Court of Reykjavik or as applicable the Supreme Court of Iceland. Other cases have been concluded by a final court ruling, settlement or withdrawal by the parties.

## Rejected Disputed Claims

There are currently 3,859 claims in dispute where a claim has been rejected by the Winding-up Committee in part or in whole. The total amount that is disputed is ISK 242.2 billion.

The table below gives an overview of the largest disputed claims lodged under Art. 109-113 of the Bankruptcy Act which have been rejected by the Winding-up Committee in part or in whole and are currently in dispute. The table also shows the status of those claim, i.e. whether they are in process before Icelandic courts or undergoing mediation process, cf. paragraph 2 of Art. 120 of the Bankruptcy Act.

If claims are in dispute the Winding-up Committee shall convene the parties in question to a meeting and endeavour to settle the dispute ("mediation process"). If disputes on claims cannot be resolved in this manner, they are referred by the Winding-up Committee to the District Court of Reykjavik for resolution, as provided for in the second paragraph of Art. 120 of the Bankruptcy Act, and Art. 171 of the same Act.

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*Since 30 December 2009 when the time limit to lodge claims passed, over 840 cases relating to claims have been referred to the District Court of Reykjavik for resolution.*

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### Analysis of disputed rejected claims

Total number	3,859
Total amount	242,199
- thereof priority and secured claims Art. 109-112	8,282
- thereof general unsecured claims Art. 113	233,917

*All amounts in table in mISK*

## Overview of largest disputed claims

Creditor	No. of claims	Article	Amount in dispute	%	Status
Kaupthing Capital Partners II	2	113	47,608	19.7%	Mediation process
Kaupthing Singer & Friedlander Ltd.	3	113	35,373	14.6%	Mediation process
Drómi	1	113	30,213	12.5%	Mediation process
Credit Suisse International	1	113	29,651	12.2%	Mediation process
Deutsche Bank Trust Company Americas	2	113	18,932	7.8%	Before the Supreme Court
Þb. Baugs Group hf.	3	113	16,541	6.8%	Before the District Court
Kaupthing Singer & Friedlander Isle of Man	1	113	16,248	6.7%	Mediation process
Damage claims from individuals relating to investment made in 2006	20	113	12,255	5.1%	Before the District Court
Deutsche Bank AG, London - FRB Agreements	6	113	8,278	3.4%	Mediation process
Merill Lynch International Bank Ltd.	1	111	3,644	1.5%	Mediation process
Credit Suisse Securites	1	113	2,581	1.1%	Before the District Court
Credit Suisse AG	1	113	2,574	1.1%	Mediation process
Deutsche Bank AG, London - Liquidity Facility	1	113	2,484	1.0%	Before the District Court
Tryggingarsjóður innstæðueigenda og fjárfesta (TIF)	1	112	2,317	1.0%	Before the District Court
Spron Verðbréf hf.	1	113	1,681	0.7%	Before the District Court
Bayerische Hypo- und Vereinsbank	1	113	1,586	0.7%	Mediation process
<b>Total</b>	<b>46</b>		<b>231,966</b>	<b>95.8%</b>	

All amounts in table in mISK.

## Accepted claims in dispute due to priority

Claims in this category have been accepted by the Winding-up Committee under a different article than lodged by the respective creditor. There are currently 13 such claims in dispute amounting to ISK 113.2 billion. The table below gives an overview of these claims.

### Accepted claims in disputed due to priority<sup>6</sup>

	No. of claims	Lodged article	Amount in dispute	%	Status
Claims relating to FRB agreements	6	112	100,312	88.7%	Before the District Court
Claims relating to Money market loans	7	112	12,841	11.3%	Before the District Court
<b>Total</b>	<b>13</b>		<b>113,153</b>	<b>100.0%</b>	

All amounts in table in mISK.

## Late Filed Priority Claims in Dispute

On 2 October 2012 the Company received a claim for USD 117 million and ISK 55 million which was filed under Art. 109 of the Bankruptcy Act. The claim relates to a payment in error by the creditor of USD 65 million to the Company on 3 October 2008. The claim thus relates to events that occurred prior to the appointment of the Resolution Committee of the Company on 9 October 2008. The claim was filed after the expiry date for lodging claims which was 30 December 2009. The Winding-up Committee rejected the claim as it doesn't meet the conditions of Art. 118, c.f. Art. 109 of the Bankruptcy Act. The dispute has been referred to the District Court of Reykjavik for resolution.

<sup>6</sup> See further in chapter *Significant Court Cases and Settlements Relating to Claims in 2012 and 2013*.

## Significant Court Cases and Settlements Relating to Claims in 2012 and 2013

### **Kaupthing Singer and Friedlander Isle of Man Ltd. v. Kaupthing hf.**

In a judgement of 10 June 2011 in case no. 201/2011, the Supreme Court of Iceland upheld the validity of the parental guarantee given by *Kaupthing hf.* to its subsidiary, *Kaupthing Singer and Friedlander Isle of Man Ltd.* ("KSFIOM"). The dispute on the outstanding amount under the parental guarantee remained however before the District Court of Reykjavík in case no. X-47/2010. The District Court case was reopened in 2012 but withdrawn by consent of both parties in 2013, after KSFIOM amended and lowered its claim amount from ISK 88.5 billion (GBP 463.2 million) to ISK 16.2 billion (GBP 85 million), based on KSFIOM's updated recovery estimates since the claim against the Company was initially lodged. It should be noted that there is still a dispute and uncertainty as to the outstanding amount under the guarantee which will largely depend on the final shortfall in the on-going liquidation of KSFIOM.

As a consequence the amount of rejected disputed claims was reduced by ISK 72.3 billion (GBP 378.2 million).

### **The Bank of Tokyo v. Kaupthing hf.**

On 25 February 2013, the Supreme Court of Iceland gave judgement in case no. 17/2013, *Kaupthing hf.* against *The Bank of Tokyo Mitsubishi UFJ Ltd.* ("Bank of Tokyo"). The claim from Bank of Tokyo was based on a forward foreign exchange swap of which the maturity was 9 October 2008. Bank of Tokyo sought to have their payment to the Company of USD 50 million returned as an asset of Bank of Tokyo under Art. 109 of the Bankruptcy Act. as the Company did not pay its leg of the foreign exchange swap. In its judgement the Supreme Court found that *Kaupthing* should have returned the funds in October 2008 and accepted a claim from Bank of Tokyo of USD 47.5 million under Art. 109 of the Bankruptcy Act.

As a consequence the amount of accepted priority claims increased by USD 47.5 million (ISK 6.2 billion).

### **Irish Bank Resolution Corporation Ltd. v. Kaupthing hf.**

The Supreme Court of Iceland confirmed on 27 February 2013 in case no. 89/2013 the ruling of the District Court of Reykjavík in the case of *Irish Bank Resolution Corporation Ltd.*, ("IBRC" (formerly known as Anglo Irish Bank Ltd.)) against *Kaupthing hf.* In its judgement the Supreme Court confirmed the decision of the Winding-up Committee of rejecting IBRC's claims in the winding-up proceedings as they were filed after the claim expiry date of 30 December 2009. The Supreme Court found that the exception found in point 2 of Article 118 of the Bankruptcy Act did not apply to IBRC's claims and as a consequence IBRC's claims, amounting to ISK 2,6 billion (EUR 15.4 million) have been finally rejected.

This judgement did not affect the status of lodged claims as IBRC's claims had not been entered into the claim registry.

### **BNAP S.A.R.L. v. Kaupthing hf.**

On 22 March 2013, the Supreme Court of Iceland pronounced its judgement in case no. 722/2012, *BNAP S.A.R.L.* ("BNAP") against *Kaupthing hf.* This was the first case brought before Icelandic courts regarding the dispute on the priority status of the FRB deposit agreements. The Supreme Court confirmed the ruling of the District Court of Reykjavík, although with different arguments, that claims under the FRB deposit agreements should rank as general unsecured claims in accordance with Art. 113 of the Bankruptcy Act in the winding-up proceedings of the Company. The Supreme Court found that claims based

on the FRB deposit agreements could fall within the “technical” definition of a deposit as defined in the third paragraph of Art. 9 of the Act. No. 98/1999, on Deposit Guarantees and an Investor-Compensation Scheme. The Supreme Court however dismissed the arguments of the BNAP that the claims should enjoy priority status under Art. 112 of the Bankruptcy Act. The Supreme Court found that the FRB deposit agreements were in fact securities and as such excluded from enjoying protection under the guarantee scheme in accordance with the first paragraph of Art. 9 of the Act. No. 98/1999, on Deposit Guarantees and an Investor-Compensation Scheme, and the third paragraph of Art. 102 of the Act on Financial Undertakings, and should therefore be ranked as general unsecured claims under Art. 113 of the Bankruptcy Act.

The judgement affected disputed claims under the FRB deposit agreements amounting to ISK 194.4 billion. The claim in question from BNAP amounted to ISK 86.5 billion and the other pending FRB cases amount to ISK 107.9 billion. This judgement has led to a considerable reduction in disputed priority claims in the winding-up proceedings. In addition to the claim of ISK 86.5 billion resolved by the court judgement, other claims amounting to ISK 7.5 billion have, following the judgement, been withdrawn from current court proceedings and are now finally accepted as general claims under Art. 113. A further reduction in disputed priority claims and corresponding increase in finally accepted general claims under Art. 113 of the Bankruptcy Act is subject to withdrawals of objections from other creditors holding FRB claims or to judgements from the courts in relevant cases. Claims amounting to ISK 100.4 billion are in dispute and in process before the District Court of Reykjavik. A main hearing in the remaining cases has been scheduled for October 2013 in the District Court of Reykjavik.

The Winding-up Committee considers the judgement from the Supreme Court to be clear and decisive and that it gives a clear precedent regarding other disputed FRB cases.

#### **Court rulings regarding disputed subordinated bond claims.**

The Winding-up Committee received in total approximately 4,000 claims for subordinated and capital bonds or notes (“Subordinated Bond Claims”) which were lodged as unsecured claims with reference to Art. 113 of the Bankruptcy Act instead of being lodged as subordinated claims under Art. 114. The Subordinated Bond Claims amounted to approximately ISK 417 billion. With reference to the terms of the bonds, all the claims were ranked as subordinated under Art. 114 of the Bankruptcy Act. In accordance with Art. 119 of the Bankruptcy Act no further decisions were made concerning the Subordinated Bond Claims as it is regarded as certain that nothing will be paid towards those claims upon distribution.

566 creditors with Subordinated Bond Claims amounting to ISK 12.8 billion in total, did not accept the Winding-up Committee’s decision on their claims. In accordance with Art. 120 of the Bankruptcy Act, cf. Art. 171 of Bankruptcy Act the Winding-up Committee referred all the outstanding disputes to the District Court of Reykjavik. As the Subordinated Bond Claims concerned various bond or note issuances, the Winding-up Committee and the creditor group agreed to bring one action before the courts for each issuance which would then serve as a precedent.

The Winding-up Committee has received five District Court rulings and one Supreme Court judgement concerning the aforementioned disputes, all of which confirmed the decisions taken by the Winding-up Committee. The courts agreed with the view of the Winding-up Committee, that the provisions of all the relevant indentures and offering circulars related to the Subordinated Bond Claims clearly set out the subordinated status of the bonds in question and that claims filed on account of those bonds cannot be ranked under Art.113 of the Bankruptcy Act.

As a result of the court rulings, all the remaining creditors with subordinated bond claims have withdrawn their objections and all disputes concerning the ranking of the Subordinated Bond Claim have been concluded.

**Deutsche Bank Trust Company Americas v. Kaupthing hf.**

On 24 April 2013, the District Court of Reykjavík ruled in two cases, each concerning a global claim filed by *Deutsche Bank Trust Company Americas* ("DBTCA") on account of the Series G senior global notes issued by the Company under the US MTN 144a programme. The dispute in both cases is identical and relates to the same series of notes.

The Series G global notes were issued with a 16.2% discount on nominal amount. The dispute between the Company and DBTCA mainly concerns how to treat the global notes upon the event of default, i.e. whether upon the event of default the outstanding amount of the global notes should be calculated as if the notes are discount notes, where the un-amortized amount/interests after the cut-off date 22 April 2009 is disallowed, or if the full nominal amount of the notes is due and payable.

The Winding-up Committee accepted the global claims with amendments, a decision which reflects only the amortized nominal amount of the notes at the cut-off date whereas DBTCA claimed for the full nominal amount of the notes with accrued interest. The difference between the two calculation methods, being the disputed amount is ISK 16.9 billion.

The District Court of Reykjavík ruled in favour of the Company in both cases and accepted that the amount due and payable is the amortized face amount of the notes as calculated by the Company. DBTCA has appealed the ruling to the Supreme Court of Iceland. It is not known when the case will be reviewed by the Supreme Court of Iceland.

**Settlement agreement with Kaupthing Singer & Friedlander Limited (in administration)**

In May 2012 Kaupthing concluded a partial settlement with Kaupthing Singer & Friedlander Ltd. ("KSF") in respect of their general unsecured claim filed against the Company of approximately ISK 132.9 billion. As a result of the settlement, KSF has two disputed claims against the Company in total amount of ISK 35.4 billion and a finally accepted claim of ISK 57.7 billion. The settlement thus reduced KSF's claims against the company by ISK 39.7 billion.



**Money Market loans/deposits from credit institutions**

The Company is currently waiting for the District Court of Reykjavik to give rulings in case no. X-263/2010, *Iccrea Banca S.p.A.* against *Kaupthing hf.* and in case no. X-266/2010, *Bank Pekao S.A. -Centrala* against *Kaupthing hf.* Both cases deal with the priority status of money market loans or deposits from foreign credit institution in the winding-up proceedings of the Company. The two cases were heard by the District Court of Reykjavik in April and May 2013 and rulings are expected in June 2013.

The rulings from the court could affect other similar claims from foreign credit institutions which are also in process before the District Court of Reykjavík. The total amount in dispute relating to priority status of money market loans or deposits from foreign credit institution in the winding-up proceedings of the Company amounts to ISK 13.5 billion.

In May 2013, the District Court of Reykjavik gave three rulings, in cases dealing with other Icelandic financial institutions in winding-up proceedings, regarding the priority status of money market loans or deposits from credit institutions. The Court found such claims to enjoy status as priority claims according to Art. 112 of the Bankruptcy Act. Those rulings have now been appealed to the Supreme Court of Iceland. It is not known when the Supreme Court will hear the cases.

# PAYMENT OF PRIORITY CLAIMS

## General Overview

The Winding-up Committee is authorized to pay priority claims which have been finally accepted and are undisputed in the winding-up proceedings, cf. paragraph 6 of Art. 102 of the Act on Financial Undertakings.

The Winding-up Committee will pay in full claims that are undisputed and were accepted under Art. 109, 110 and 112 of the Bankruptcy Act as priority claims. The Winding-up Committee will also pay, if applicable, the undisputed portion of otherwise disputed priority claims.

Disputed priority claims will be paid by depositing an amount equivalent to the maximum aggregate possible amount of all such disputed priority claims into custody accounts in the name of the Company. By making such deposit, the Winding-up Committee is deemed to have made a distribution to the relevant creditor in accordance with paragraph 6 of Art. 102 of the Act on Financial Undertakings. In instances where a priority claim is eventually resolved at an amount less than the payments made into the custody accounts in respect of that claim, the unused surplus will be revert to the Company. Interest earned on funds in the custody accounts, if any, after deduction of tax will be paid proportionately to holders of priority claims receiving payments from the custody accounts or, as the case may be, to the Company.

## Claims Lodged under Art. 109-110 of the Bankruptcy Act.

In accordance with paragraph 3 of Art. 99 of the Bankruptcy Act, claims accepted under Art. 109 and 110 of the Bankruptcy Act remain in their original currency until the date of payment.

Claims accepted under Art. 109 and 110 of the Bankruptcy Act were paid on 26 April 2013. Payments were made in the currency in which the relevant claim was lodged and accepted. At the same time payments were made into custody accounts for disputed claims under Art. 109 and 110 of the Bankruptcy Act.

Based on the claim registry as of the date of payment, the relevant currency of these payments was as follows:

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*Claims accepted under Art. 109 and 110 of the Bankruptcy Act were paid on 26 April 2013.*

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### Payment of accepted claims under Art. 109 and 110 of the Bankruptcy Act.

Currency	Amount in currency	mISK equivalent
ISK	210	210
USD	47.5	5,585
<b>Total</b>		<b>5,795</b>

*Finally accepted claims under Art. 109 and 110 of the Bankruptcy Act in the relevant currency of payment and ISK equivalent amount.\**

\* Based on the CBI selling rate on 26 April 2013.

### Payment into custody account for disputed claims (incl. late filed claims) under Art. 109 and 110 of the Bankruptcy Act.

Currency	Amount in currency	mISK equivalent
ISK	55	55
USD	116.7	13,712
<b>Total</b>		<b>13,767</b>

*Disputed claims under Art. 109 and 110 of the Bankruptcy Act, including late filed claims in dispute, in the relevant currency of payment and ISK equivalent amount.\**

\* Based on the CBI selling rate on 26 April 2013.

## Claims Lodged under Art. 112 of the Bankruptcy Act.

### Proposed payment of claims lodged under Article 112 of the Bankruptcy Act.

In accordance with paragraph 3 of Art. 99 of the Bankruptcy Act, claims in foreign currencies that were lodged under Art. 112 of the Bankruptcy Act were converted to Icelandic krona at the quoted selling rates of the CBI on 22 April 2009. Therefore, all claims against the Company accepted under Art. 112 of the Bankruptcy Act are now denominated and owed to creditors in Icelandic krona. Payment of priority claims under Art. 112 of the Bankruptcy Act will therefore be denominated in Icelandic krona.

Creditors with accepted or disputed claims under Art. 112 of the Bankruptcy Act may however elect to have any payment to which they are or might be entitled to be converted into an euro amount and then paid to them in euro<sup>7</sup> ("EUR-option").

The vast majority of priority claims accepted under Art. 112 of the Bankruptcy Act by number and by amount were initially lodged in euro. As Icelandic law provides the possibility for the Company to settle its Icelandic krona obligations to creditors in other currencies, the Company will offer creditors with accepted or disputed claims under Art. 112 of the Bankruptcy Act the possibility to receive any payment to which they are or might be entitled in euro as an alternative to Icelandic krona.

If a creditor with accepted or disputed claims under Art. 112 of the Bankruptcy Act chooses to be paid any priority claim payment in euro, any priority claim payment to which he may be entitled will be converted into euro at the selling exchange rate of the CBI on 22 April 2009 (EUR 1 = ISK 169.23) or, if it is higher (i.e. EUR 1 = ISK169.24 or greater), the selling exchange rate of the CBI on the exchange rate reference date which is 14 August 2013.

By way of an example, please see below several possible outcomes based on a scenario where a creditor has a priority claim of ISK 1.0 million according to the Claim Registry:

### Proposed payment of claims under Art. 112 – calculation example for EUR-Option

CBI selling exchange rate as at the Exchange Rate Reference Date	CBI selling exchange rate as at 22 April 2009	EUR amount of a payment of a priority claim of ISK 1,000,000
160.00	169.23	EUR 5,909.12 (1,000,000 / 169.23=5,909.12)
165.00	169.23	EUR 5,909.12 (1,000,000 / 169.23=5,909.12)
169.23	169.23	EUR 5,909.12 (1,000,000 / 169.23=5,909.12)
175.00	169.23	EUR 5,714.29 (1,000,000 / 175.00 = 5,714.29)
180.00	169.23	EUR 5,555.56 (1,000,000 / 180.00 = 5,555.56)

Please note that the Company will only settle priority claim payments in either Icelandic krona or euro.

### Restrictions on distribution of Icelandic krona to non-residents

Non-residents of Iceland, as defined in the Foreign Exchange Act, are not allowed to receive Icelandic krona into their own account due to currency restrictions in Iceland.

<sup>7</sup> Payment in euro is subject to certain conditions as set out under the "EUR-option".

If non-residents do not elect to receive priority claim payments in euro, the Icelandic krona amount will be deposited into a bank account in the name of the Company until non-Icelandic residents are allowed to receive payments in Icelandic krona in accordance with laws on foreign exchange. The Company cannot guarantee that the general currency restrictions will be lifted, which means that payments to non-residents electing to receive priority claim payments in Icelandic krona may be delayed for an indefinite period of time. The currency restrictions do not affect non-residents receiving euro into their own account.

**Timing of distribution for claims under Art. 112 of the Bankruptcy Act.**

The company has scheduled the initial distribution of payments on or around the target date which is 16 August 2013.

Priority creditors who wish to receive payment in the initial distribution will be required to submit their entitlement letter ("Priority Creditor Entitlement Letter") to the Company, a copy of which is as at today accessible on the secure website, prior to the submission deadline which is 5 August 2013. Submitting the letter after the submission deadline may result in a delay in receiving potential payment.

Creditors with disputed priority claims under Art. 112 of the Bankruptcy Act are also asked to submit to the Company their Priority Creditor Entitlement Letter and choose whether payment of their claim into the custody account is to be made in Icelandic krona or according to the EUR-option.

If a creditor fails to submit the required documentation/information to the Company the payments will be placed into the custody account, until the required information has been provided. Once the information has been received and verified by the Company, payment will take place on the nearest monthly payment date practicable for payments out of the custody account.

Disputed priority claims under Art. 112 of the Bankruptcy Act will be paid by depositing into the custody accounts in an amount equivalent to the maximum aggregate possible amount of all such disputed priority claims. By placing an amount into the custody accounts the Winding-up Committee is deemed to have made a distribution in accordance with paragraph 6 of Art. 102 of the Act on Financial Undertakings

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*If non-residents do not elect to receive priority claim payments in euro, the Icelandic krona amount will be deposited into a bank account in the name of the Company until non-Icelandic residents are allowed to receive payments in Icelandic krona in accordance with laws on foreign exchange.*

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*Priority creditors who wish to receive payment in the initial distribution will be required to submit their entitlement letter ("Priority Creditor Entitlement Letter") to the Company, a copy of which is as at today accessible on the secure website, prior to the submission deadline which is 5 August 2013.*

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**Kaupthing hf. – Creditor’s Report 5 June 2013**

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