

KAUPTHING GROUP UK LIMITED
DIRECTOR'S REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

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Company Information

Directors

J Johannsson

Registered Office

43-44 New Bond Street, 4th Floor, London, W1S 2SA

Auditors

Haines Watts
Chartered Accountants
Registered Auditor
London

Director's Report

The director present his annual report, together with the audited Financial Statements of Kaupthing Group UK Limited (the "Company"), for the year ended 31 December 2012

PRINCIPAL ACTIVITY

The Company is an investment holding company

BUSINESS REVIEW

The principal risks and uncertainties affecting an investment holding company are that the value of its investments may be adversely affected by a variety of factors. An event occurred when the Company's principal subsidiary, Kaupthing Singer & Friedlander Limited, was put into administration on 8 October 2008 following a prolonged period of turbulence in the banking sector. Not only has this significantly affected the value of the Company's investments (the effect on the balance sheet is shown in Note 7 to the Financial Statements), but it has also affected the Company's liquidity as most of the Company's cash, as well as the cash of its other subsidiaries, was held in accounts with Kaupthing Singer & Friedlander Limited.

The administrators of Kaupthing Singer & Friedlander Limited have indicated in their progress report to 7 April 2013 there should be a minimum recovery of 84p in the £1 although the final amount could be higher or lower. For the purposes of these Financial Statements, the directors have applied a 84% recovery of cash held on deposit with Kaupthing Singer & Friedlander Limited. Given that the director does not believe that the Company will have significant imminent liabilities, the director believes that the Company will remain a going concern for the 12 months from the date of this report.

IMMEDIATE AND ULTIMATE PARENT UNDERTAKINGS

The Company's immediate parent undertaking is Kaupthing Holdings UK Limited, a company incorporated and registered in England and Wales. The Company's ultimate parent undertaking is Kaupthing hf, a company incorporated and registered in Iceland.

DIRECTORS

The name of the director of the Company as at the date of this report appears on page 2.

Mr Johannsson served as a director throughout the year, however Mr Gudgeirsson resigned on 13 January 2012.

DIRECTORS' AND OFFICERS' INSURANCE

The ultimate parent company maintains an insurance policy for the directors and officers against liabilities incurred in the conduct of their duties.

RESULTS AND DIVIDENDS

The total comprehensive income for the year ended 31 December 2012 was £302,000 (2011: £477,000), as set out on page 8.

During 2012 no interim dividends were paid (2011: £nil).

The director does not recommend the payment of a final dividend in respect of 2012 (2011: £nil).

FINANCIAL INSTRUMENTS / RISK MANAGEMENT

A risk assessment for the period to 31 December 2012 has been completed. Please see note 12 to the Financial Statements.

POLITICAL AND CHARITABLE DONATIONS

The Company has not made any political or charitable donations or incurred any political expenditure during the year (2011: £nil).

DIRECTOR'S INTERESTS

The director held no beneficial interests in the capital of the Company throughout the year ended 31 December 2012.

The Company made no provision for qualifying third party indemnities during the year.

Director's Report (continued)

STATEMENT OF DISCLOSURE TO THE AUDITORS

The director who held office at the date of approval of this Director's Report confirms that so far as they are aware, there is no relevant audit information of which the Company's auditors are unaware, and the director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information

AUDITORS

Haines Watts are deemed to be re-appointed under Section 487(2) of the Companies Act 2006

BY ORDER OF THE BOARD


J Johansson
Director

6 November 2013

Registered Office
43-44 New Bond Street
4th Floor
London, W1S 2SA

Statement of Directors' Responsibilities

STATEMENT OF DIRECTOR'S RESPONSIBILITIES IN RESPECT OF THE DIRECTOR'S REPORT AND FINANCIAL STATEMENTS

The director is responsible for preparing the Director's Report and the Financial Statements in accordance with applicable law and regulations

Company law requires the director to prepare Financial Statements for each financial year. Under that law the director has elected to prepare the Financial Statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the director must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these Financial Statements, the director is required to

- select suitable accounting policies and then apply them consistently,
- make judgments and accounting estimates that are reasonable and prudent and,
- state that the Financial Statements comply with IFRSs as adopted by the European Union

The director is responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the Financial Statements comply with the Companies Act 2006. He is also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

KAUPTHING GROUP UK LIMITED

Auditor's Report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS

We have audited the Financial Statements of Kaupthing Group UK Limited for the year ended 31 December 2012 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Cash Flows, the Statement of Changes in Equity and the related notes 1 to 14. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Section 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of director and auditors

As explained more fully in the Director's Responsibilities Statement, the director is responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the Financial Statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of Financial Statements is provided on the APB's website at www.frc.org.uk/apb/scope/UKNP.

Qualified opinion arising from non-consolidation of group companies

The Company has not produced consolidated accounts reflecting the results of its main subsidiary Kaupthing Singer & Friedlander Limited and other group companies despite the requirement for large groups to prepare them in accordance with the Companies Act 2006. Kaupthing Singer & Friedlander Limited went into administration on 8 October 2008 and no financial statements are available for that company for the year ended 31 December 2012.

Except for the necessary adjustments that would have been introduced in the Financial Statements to reflect the financial performance and position of the subsidiary companies of Kaupthing Group UK Limited, in our opinion the Financial Statements

- give a true and fair view of the state of the Company's affairs as at 31 December 2012 and of the Company's profit for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

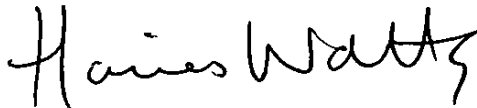
In our opinion the information given in the Director's Report for the financial year for which the Financial Statements are prepared is consistent with the Financial Statements.

Auditor's Report

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the Financial Statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit



Matthew Perry
Senior Statutory Auditor
For and behalf of Haines Watts
Chartered Accountants & Registered Auditor
New Derwent House
69 – 73 Theobalds Road
London
WC1X 8TA

13 November 2013

KAUPTHING GROUP UK LIMITED

Statement of Comprehensive Income

Statement of Comprehensive Income for the year ended 31 December 2012

Continuing operations	Notes	Year ended 31 December 2012 £'000	Year ended 31 December 2011 £'000
Interest income	3	49	33
Operating income		49	33
Administration expenses	4	(116)	(137)
Movement in Provisions	5	190	571
Profit before taxation		123	467
Income tax expense	6	(38)	-
Profit for the year		85	467
Other comprehensive income:			
Revaluation of investments	7	217	10
Other comprehensive income for the year, net of tax		302	477
Total comprehensive income for the year		302	477

The notes on pages 12 to 18 form part of these Financial Statements

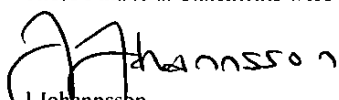
KAUPTHING GROUP UK LIMITED

Statement of Financial Position

Statement of Financial Position as at 31 December 2012

	Notes	As at 31 December 2012 £'000	As at 31 December 2011 £'000
ASSETS			
Non current assets			
Investment in subsidiaries	7	11,593	11,375
Other financial assets	8	1,015	2,507
		<u>12,608</u>	<u>13,882</u>
Current assets			
Cash and cash equivalents	9	10,794	7,690
Trade and other receivables		1,030	-
Current tax assets		-	38
		<u>11,824</u>	<u>7,728</u>
Total assets		<u>24,432</u>	<u>21,610</u>
LIABILITIES			
Current liabilities			
Trade and other payables	10	10,825	8,305
Total liabilities		<u>10,825</u>	<u>8,305</u>
NET ASSETS		<u>13,607</u>	<u>13,305</u>
EQUITY			
Share capital	11	79,390	79,390
Share premium		144,903	144,903
Other reserves		36,201	36,201
Capital redemption reserve		4,240	4,240
Retained earnings		(251,127)	(251,429)
Total equity		<u>13,607</u>	<u>13,305</u>

These Financial Statements were approved by the Board of Directors on 6 November 2013 and were signed on its behalf by


J Johansson
DIRECTOR

The notes on pages 12 to 18 form part of these Financial Statements

KAUPTHING GROUP UK LIMITED

Statement of Changes in Equity

Statement of changes in equity

	Share capital £'000	Share premium £'000	Other reserves £'000	Capital redemption reserve £'000	Retained earnings £'000	Total £'000
At 1 January 2011	79,390	144,903	36,201	4,240	(251,906)	12,828
Recognised gains and losses – 2011 Total comprehensive income for the year	–	–	–	–	477	477
Total recognised gains and losses	–	–	–	–	477	477
Balance at 1 January 2012	79,390	144,903	36,201	4,240	(251,429)	13,305
Recognised gains and losses – 2012 Total comprehensive income for the year	–	–	–	–	302	302
Total recognised gains and losses	–	–	–	–	302	302
Balance at 31 December 2012	79,390	144,903	36,201	4,240	(251,127)	13,607

The notes on pages 12 to 18 form part of these Financial Statements

KAUPTHING GROUP UK LIMITED

Statement of Cash Flows

Statement Cash Flows for the year ended 31 December 2012

	Notes	Year ended 31 December 2012 £'000	Year ended 31 December 2011 £'000
Total comprehensive income for the year		302	477
Adjustments to reconcile total comprehensive income before income tax to cash flow from operating activities			
Tax		38	-
Non cash movements			
- Revaluation of subsidiaries	7	(217)	(10)
Net decrease in operating assets			
- Other assets		461	906
- Net increase/(decrease) in operating liabilities			
- Other liabilities	10	2,520	(108)
Net cash flow from operating activities		<u>3,104</u>	<u>1,265</u>
Increase in cash and cash equivalents		<u>3,104</u>	<u>1,265</u>
Cash and cash equivalents at the beginning of year		<u>7,690</u>	<u>6,425</u>
Cash and cash equivalents at the end of the year	9	<u>10,794</u>	<u>7,690</u>
Cash flow from operating activities includes			
Interest received	3	49	33
Interest paid		-	-

The notes on pages 12 to 18 form part of these Financial Statements

Notes to Financial Statements

Note 1 Reporting entity

Kaupthing Group UK Limited (the "Company") is a company incorporated and domiciled in England. The address of the Company's registered office is 43-44 New Bond Street, 4th Floor, London, W1S 2SA. The principal activity of the Company is to act as an investment holding company.

Note 2 Accounting policies

2.1 Basis of preparation

Statement of compliance

The Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and applied in accordance with the Companies Act 2006. The Financial Statements have been prepared under the historical cost convention.

Going Concern

The Financial Statements are prepared on a going concern basis. The director does not believe that the Company will have significant imminent liabilities and the Company will remain a going concern for the 12 months from the date of signing these Financial Statements. In this regard, the director believes that a portion of the cash of the Company which was deposited will be recovered in the administration of Kaupthing Singer & Friedlander Limited. The administrators of Kaupthing Singer & Friedlander Limited have made a public statement that the likely amount recoverable in the administration will be at least 84% recovery of cash held on deposit with Kaupthing Singer & Friedlander Limited. The director believes that the Company will be in a position to meet such liabilities as they fall due given that the Company does not have any significant imminent liabilities.

As a result of the administration of its direct subsidiary Kaupthing Singer & Friedlander Limited the Company has not provided consolidated results.

The Financial Statements were authorised for issue by the Board of Directors of the Company on November 2013.

Basis of measurement

The Financial Statements are prepared on the historical cost basis.

Functional and presentation currency

The Financial Statements are presented in Pounds sterling, rounded to the nearest pound, which is the Company's functional currency.

2.2 Significant accounting judgements and estimates

The preparation of the Financial Statements in conformity with IFRS requires management to make judgements, estimates and assumptions. These judgements, estimates and assumptions affect the reported amounts of assets and liabilities as well as income and expenses in the Financial Statements presented. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimation is revised if the revision affects only that period or in the period of revision and future periods if the revision affects both current and future periods.

2.3 Change in accounting policies

The accounting policies adopted are consistent with those used in the previous financial year.

Notes to Financial Statements (continued)

Note 2 Accounting policies (continued)

2.4 Summary of significant accounting policies

(1) Income

a) Interest income

Interest income is recognised in the Statement of Comprehensive Income as it accrues, taking into account the effective yield of the asset or an applicable floating rate

(2) Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the Statement of Comprehensive Income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax

Deferred tax is provided using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

(3) Investment in subsidiaries

The Company's investment in its subsidiaries is stated at the director's valuation. At the balance sheet date an impairment review was undertaken as the recoverable amount was less than its carrying value.

(4) Cash and cash equivalents

Cash and cash equivalents in the Statement of Cash Flows consist of cash and demand deposits with other credit institutions.

Notes to Financial Statements (continued)

Note 2 Accounting policies (continued)**(5) New and revised IFRS**

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2013, and have not been applied in preparing these Financial Statements

However none of these is expected to have a significant effect on the Financial Statements of the Company

Note 3 Interest income

	Year ended 31 December 2012 £'000	Year ended 31 December 2011 £'000
Interest income from		
Cash balances	49	33
Interest income	49	33

Note 4 Administration expenses

	Year ended 31 December 2012 £'000	Year ended 31 December 2011 £'000
Auditor's remuneration is specified as follows		
Audit of Company financial statements pursuant to legislation	13	13
Other services	2	2
Auditor's remuneration	15	15

Note 5 Movement in Provisions

	Year ended 31 December 2012 £'000	Year ended 31 December 2011 £'000
Provisions against cash balances with group companies	(190)	(571)
Total Provisions	(190)	(571)

The extent to which amounts due from Kaupthing Singer & Friedlander Limited are recoverable is uncertain at the date of signing of these Financial Statements and to reflect this uncertainty the Director has applied a recovery rate of 84% (2011 82.5%)

Notes to Financial Statements (continued)

Note 6 Income tax expense

	Year ended 31 December 2012 £'000	Year ended 31 December 2011 £'000
Income tax expense is specified as follows		
Current tax	38	-
Income tax expense	38	-
	Year ended 31 December 2012 £'000	Year ended 31 December 2011 £'000
Current tax is specified as follows		
Domestic income tax on profits for the period	-	-
Adjustments in respect of previous periods	38	-
Current tax	38	-
Income tax expense	38	-
The tax charge for the year can be reconciled to the profit per the Income Statement as follows		
Profit before taxation	123	467
Tax at the domestic income tax rate of 26% (2011 – 27%)	32	126
Under provided in previous years	38	-
Other permanent differences	(32)	(126)
Income tax expense	38	-

Notes to Financial Statements (continued)

Note 7 Investment in subsidiaries

	31 December £'000
At 1 January 2011	342,876
Impairment against Investment in subsidiaries b/wd	(331,511)
Revaluation of investments	10
At 31 December 2011	11,375
Revaluation of a subsidiary	218
At 31 December 2012	11,593

On 8 October 2008, Kaupthing Singer & Friedlander Limited entered into administration and Maggie Mills, Tom Burton, Alan Bloom and Patrick Brazzill of Ernst & Young, UK, were appointed as administrators. The impairment (£332m) reflects the Director's estimate at the time of the loss to Kaupthing Group UK Limited as a result of administration of Kaupthing Singer & Friedlander Limited.

The administrators of Kaupthing Singer & Friedlander Limited have made a public statement that the likely amount recoverable in the administration will be at least 84% (2011: 82.5%). To reflect the improved rate a partial reversal of the 2008 impairment has been reported in the current year.

The Company ceased to control Wintrust Limited (in liquidation) ('Wintrust') with effect from 27 March 2012 as control passed to the liquidator. Since then the Company no longer has full visibility of costs and claims against Wintrust. The investment value used is an estimation of the realisable value of Wintrust based on the 84% recoverable rate stated by the administrators in their last public statement and reduced by an assessment of likely liabilities of Wintrust.

Details of the Company's subsidiary undertakings (direct*) at 31 December 2012 are as follows:

Name of subsidiary	Country of incorporation	Proportion of ownership	
		2012	2011
<i>Subsidiary placed into liquidation in 2012</i>			
Wintrust Limited (in liquidation) *	Great Britain	100%	100%
<i>Subsidiaries placed into liquidation in 2007</i>			
Singer & Friedlander Holdings Limited* (in liquidation)	Great Britain	100%	100%

Note 8 Other financial assets

	31 December 2012 £'000	31 December 2011 £'000
Other financial assets are as follows		
Amounts due from group undertakings	<u>1,015</u>	<u>2,507</u>

The amounts due from group undertakings comprises cash balances which were 'frozen' following the placing of Kaupthing Singer & Friedlander Limited into administration on 8 October 2008. These balances have been reclassified from cash and cash equivalents and certain tax assets. These amounts due represent an estimated recovery rate of 84p (2011: 82.5p) for each £.

Note 9 Cash and cash equivalents

	31 December 2012 £'000	31 December 2011 £'000
Cash and cash equivalents are as follows		
Other cash balances	<u>10,794</u>	<u>7,690</u>
Cash and cash equivalents	<u>10,794</u>	<u>7,690</u>

Cash balance with group companies are considered 'frozen' and have been restated to 'other financial assets' following the placing of Kaupthing Singer & Friedlander Limited into administration on 8 October 2008.

Notes to Financial Statements (continued)

Note 10 Trade and other payables

	31 December 2012 £'000	31 December 2011 £'000
Trade and other payables are specified as follows		
Accruals	125	75
Accounts payable	5	230
Amounts due to related parties	10,695	8,000
Trade and other payables	<u>10,825</u>	<u>8,305</u>

Note 11 Share capital

	31 December 2012 £'000	31 December 2011 £'000
Authorised:		
666,666,667 Ordinary shares of 0.135p each	<u>90,000</u>	<u>90,000</u>
Issued and fully paid:		
588,070,389 Ordinary shares of 0.135p each	<u>79,390</u>	<u>79,390</u>

Note 12 Financial risk management**(a) Introduction and overview**

The Company has exposure to the following risks from its holdings of financial instruments

- Credit risk
- Liquidity risk
- Market risk

Following the placing into administration of Kaupthing Singer & Friedlander Limited the risks faced by the Company are no longer managed within the framework established for the Kaupthing group (the "Group")

As the risks faced by the Company are deemed not to be significant they are not actively managed

(b) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations

The Company's exposure to credit risk is to its ultimate parent, Kaupthing hf, and its subsidiary, Arion Banki hf, in the form of cash balances held by them. The Company's financial assets with Kaupthing Singer & Friedlander Limited have been impaired following the placing into administration of this company

(c) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations from its financial liabilities

(i) Management of liquidity risk

The Company does not actively manage its liquidity risk

(ii) Exposure to liquidity risk

The table below summarises the remaining contractual undiscounted cash flows of the Company's financial liabilities

Notes to Financial Statements (continued)

Note 12 Financial risk management (continued)

	Carrying amount £'000	Gross nominal inflow/ (outflow) £'000	Up to 1 month £'000	1-3 months £'000	3-12 months £'000	1-5 years £'000	Over 5 years £'000
As at 31 December 2012							
Financial liabilities							
Other financial liabilities	10,825	(10,825)	(10,825)	–	–	–	–
Total financial liabilities	10,825	(10,825)	(10,825)	–	–	–	–
As at 31 December 2011							
Financial liabilities							
Other financial liabilities	8,305	(8,305)	(8,305)	–	–	–	–
Total financial liabilities	8,305	(8,305)	(8,305)	–	–	–	–

(d) Market risk

Market risk is the risk that changes in market prices, such as interest rates, equity prices, and foreign exchange rates will affect the Company's income or the value of its holdings of financial instruments

The Company's only exposure to market risk is from foreign exchange movements on its cash balance held with Kaupthing hf, and Arion Banki hf, a subsidiary of Kaupthing hf

(e) Fair values of financial assets and financial liabilities

The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, i.e. not during a forced sale or liquidation

The Company's financial assets and financial liabilities are held on the Statement of Financial Position at their fair values

Note 13 Related parties

- (i) The Company has lodged claims with the administrators of Kaupthing Singer & Friedlander Limited, a subsidiary company. At the year end the outstanding claim totals £3,044,592. A provision of £2,029,728 has been made against these balances (16% of the original claim). The net balance of £1,014,864 has been included in Other financial assets.
- (ii) The Company has intercompany balances outstanding to its subsidiaries amounting to £10,695,000 (2011: £8,000,000).
- (iii) The Company has intercompany balances due from its parent company amounting to £1,030,276 (2011: £nil).
- (iv) The Company has a cash balance of £10,738,252 (2011: £7,628,429) with Arion Banki hf, a subsidiary of Kaupthing hf.

Note 14 Ultimate parent company

The Company's ultimate parent company is Kaupthing hf, a company resident and incorporated in Iceland. Kaupthing hf is currently in winding up proceedings and the results of the Company are no longer consolidated in the financial statements of the Company's ultimate parent company.