Glitnir banki hf

Statement of Assets and Liabilities

Incorporating an estimate of the value of assets and a computation of liabilities

6 February 2009

Disclaimer

This document includes a Statement of Assets and Liabilities (incorporating an estimate of the value of assets and a computation of liabilities) of Glitnir banki hf. ("Old Glitnir" or "the Bank") as at 31 December 2008 (the "Statement of Assets and Liabilities"). You should review carefully the Statement of Assets and Liabilities and read the Supplementary Notes and Appendices attached to it. The actual realisable value of Old Glitnir's assets and the amount of its liabilities may differ materially from the estimated value of assets and computation of liabilities set forth in the Statement of Assets and Liabilities. Certain factors that might cause the actual value of Old Glitnir's assets and the amount of liabilities to differ are set forth in Supplementary Note 2, Limitations.

Under the terms of the Moratorium on creditor proceedings granted to Old Glitnir on 24 November 2008, no claim may be brought against the Bank until the end of the Moratorium. As a consequence of this and other factors, there may be potential claims of which the Resolution Committee is unaware. Due to the absence of any reliable information relating to these, no estimate of the resulting liability and associated cost has been incorporated in the Statement of Assets and Liabilities.

Introduction

Introduction

- Under the terms of the Moratorium on creditor proceedings granted to Glitnir banki hf. ("Old Glitnir" or "the Bank") on 24 November 2008 by the District Court of Reykjavik, the Moratorium Appointee of Old Glitnir is required to set out the assets and liabilities of Old Glitnir, together with an estimate of the value of the assets and a computation of the liabilities as at the Reference Date (the "Statement of Assets and Liabilities").

- The Reference Date under the terms of the Moratorium legislation is 15 November 2008, being the date on which the revised Moratorium legislation was passed. Given the relevance of financial information to the estimated value of assets at a more recent date, together with the practical difficulties of preparing financial and accounting information at a non period end date, the Statement of Assets and Liabilities is prepared from data as at 31 December 2008. Given the limited number of transactions since the Reference Date, the use of this date is an appropriate approximation.

- The Statement of Assets and Liabilities is to be presented to creditors of Old Glitnir at the Creditors' Meeting on 6 February 2009. In addition, the Statement of Assets and Liabilities will be presented at the hearing of the District Court of Reykjavik on 13 February 2009.

- The Statement of Assets and Liabilities has been prepared by the Moratorium Appointee in conjunction with the Resolution Committee, and employees of Old Glitnir, incorporating the assistance of international professional service firms where appropriate. The Statement of Assets and Liabilities was approved by the Resolution Committee and the Moratorium Appointee on 4 February 2009 as appropriate for the purposes described in the paragraphs above.

- The Statement of Assets and Liabilities is presented in ISK throughout, with values translated at the mid rates published by the Icelandic Central Bank for 31 December 2008 (as detailed in Appendix 4). A significant proportion of the assets and liabilities of Old Glitnir are denominated in foreign currencies. As a result, the estimated values presented herein may be materially impacted by movements in foreign exchange rates.

- The notes included in this document form an integral part of the Statement of Assets and Liabilities and should be reviewed in conjunction with it.

Statement of Assets and Liabilities

Statement of Assets and Liabilities

ISKbn	Notes	Recorded balance sheet amount as at 31.12.2008	Balances subject to set-off	Recorded balance sheet amount after set-off as at 31.12.2008	Estimated value of assets and computation of liabilities	
Assets						
Loans to customers	A	907	(460)	447	198	
Loans to banks	B	371	(235)	136	113	
Derivatives	C	112	(40)	72	72	
Bonds and debt instruments	D	220	(128)	92	19	
Shares and equity investments	E	83	-	83	22	
Investment in subsidiaries	F	183	-	183	110	
Cash and balances with central banks		26	-	26	26	
Other assets		55	-	55	25	
Total assets before instrument from New Glitnir banki hf.		1,957	(864)	1,094	586	1
Instrument from New Glitnir banki hf.		-	-	-	422	2
Total assets		1,957	(864)	1,094	1,008	
Liabilities						
Debt issued and other borrowed funds	G	(2,822)	747	(2,075)	(2,075)	
Subordinated bonds		(180)	-	(180)	(180)	
Derivatives	C	(61)	10	(51)	(51)	
Wholesale deposits		(55)	-	(55)	(55)	
Deposits from central banks and other banks		(31)	-	(31)	(31)	
Guarantees		-	-	-	(18)	
Other liabilities		(7)	-	(7)	(7)	
		(3,157)	757	(2,399)	(2,417)	

1. As noted in the limitations section, there is considerable uncertainty regarding the ultimate realisable value of the Bank's assets. In order to illustrate this uncertainty, the Resolution Committee has made an estimate of the range of likely outcomes for asset realisation of 'Total assets before instrument from New Glitnir banki hf.' based solely on adjustments to the credit risk assumption used on loans (including those in subsidiaries) and derivative assets being ISK445bn to ISK680bn. Due to the extent of the uncertainty and the other factors that may change, the actual outcome may fall outside this range.
2. The estimate of value for the instrument from New Glitnir banki hf. is presently unknown, and no attempt has or can be made to estimate its value, due to the preliminary state of discussions with New Glitnir banki hf. and accordingly the value shown in the Statement of Assets and Liabilities is the estimate published by the FME on 14 November 2008.

Supplementary notes

Supplementary notes

1. Basis of preparation

- The Statement of Assets and Liabilities has been prepared on the basis that the Bank is able to manage the realisation of its assets and transact its ongoing business having appropriate regard to the interests of all its creditors. Accordingly, the estimate of value attributed to each asset is dependent on the realisation strategy presently adopted for assets, which varies between available for sale, manage to sale, or hold to maturity. As such, the estimated values for certain asset classes represented in the Statement of Assets and Liabilities are not necessarily intended to represent prices at which an orderly transaction could take place between market participants as at 31 December 2008. Rather, it is intended to represent the value of assets based on a longer term estimate of recoverable value.

- The balance sheet is shown on an unconsolidated basis. The estimated values attributable to investment in subsidiaries is based upon an estimate of the value of the underlying net assets of the subsidiaries and not the carrying value of the investment in the stand-alone company accounts.

- The computation of liabilities as at the Reference Date may not be complete or accurate as a number of the existing and potential liabilities are subject to legal uncertainty. As a result, the computation of liabilities included in the Statement of Assets and Liabilities has been estimated and will be subject to change and clarification over time.

- The Act No. 125 / 2008 provides for claims for ‘deposits’ to have priority when distributing the assets of a bankrupt financial undertaking. It remains to be resolved which liabilities or deposits of the Bank this provision applies to, and how this Act should be implemented. It is possible that certain deposit creditors of the Bank will have an entitlement to be paid out in full, and that there will be a corresponding decrease in the assets available to make distributions to other unsecured creditors. No consideration of this has been included in the Statement of Assets and Liabilities.

Supplementary notes

2. Limitations

Estimated value

- The methodology used to estimate the values of assets within each asset class has been based on the application of the Bank's present asset realisation strategy. The methodology does not represent an exhaustive attempt to take into account all factors that the Bank or other market participants would consider when performing an in-depth valuation exercise.

- The asset realisation strategy and valuation methodology are likely to change over time as the Bank continues its systematic assessment and categorisation of each asset class and refines its approach to realisation having appropriate regard to the interests of all its creditors.

- The assumptions used to estimate value of assets are sensitive to changes in market conditions (including interest rates, currency rates, equity prices, market indices and counterparty credit worthiness) and, as such, the values presented are preliminary estimates based on the application of a high-level asset realisation strategy at a point in time.

- The Statement of Assets and Liabilities is presented in ISK throughout, with values translated at the mid rates published by the Icelandic Central Bank for 31 December 2008 (see Appendix 4). A significant proportion of the assets and liabilities of Old Glitnir are denominated in foreign currencies. As a result, the estimated asset values and the computation of liabilities presented here may be materially impacted by future movements in foreign exchange rates.

- Given the current economic climate, particularly the financial and liquidity crisis, there are no active markets for many of the financial instruments held by the Bank. To the extent that the estimated asset values and computation of liabilities are based on inputs that are less observable or unobservable in the market, the estimation of value requires more judgment. Accordingly, the Bank has applied considerable judgement in determining the estimate of values for certain assets and liabilities, notably those relating to loans to customers, unlisted equity instruments and complex derivative products.

Supplementary notes

2. Limitations (continued)

Information included in the Statement of Assets and Liabilities

- The determination of the ownership of certain assets is not complete and in particular current estimates of the Bank's collateral will be subject to subsequent legal findings including rights of set-off and other claims. If the ownership of the Bank's collateral changes, the estimate of value of the Bank's assets and the computation of its liabilities may be materially impacted.

- The estimated value of derivative positions is based on high-level assumptions as to which of the Bank's counterparties have issued legal default notices. The Bank has applied assumptions regarding the issuance of legal default notices but these may not be complete or accurate, and it is likely that information regarding the issuance of legal default notices will be amended or otherwise changed. Therefore, the actual realisable value of the Bank's assets and the amount of its liabilities may be different than the value set forth in this Statement of Assets and Liabilities.

- This Statement of Assets and Liabilities was prepared using the Bank's information, based on current data and assumptions, which are subject to confirmation and change. The Bank may amend, supplement or otherwise change the information it provided for the preparation of this Statement of Assets and Liabilities. Due to the related uncertainties, the actual realisable value of the Bank's assets and the amount of its liabilities may differ materially from the values set forth in this Statement of Assets and Liabilities.

Supplementary notes

3. Balances subject to set-off

- Balances subject to set-off included in the Statement of Assets and Liabilities represent an estimate of the effect of both legal netting and creditor offset based on an interpretation of the potential rights of the Bank and its counterparties.

3.1 Legal netting

- As part of the development of the realisation strategy the Bank is undertaking a review of all default and close-out notices received on a counterparty-by-counterparty basis across all relevant financial instruments.

- **Derivatives** – given the volume of business undertaken by the Bank and the complexities involved in reviewing the population of transactions where many have been executed under master agreements and are now part of the default and close-out notice review, a number of assumptions have been made regarding the legal status and value of derivative positions in the Statement of Assets and Liabilities. These are set out in more detail in Appendix 3.

- **Bonds/ loans and associated Sale and Repurchase Agreements/ TRS** – with respect to the recorded balance sheet assets, the Bank has set-off the recorded balance sheet amount of Repo/ TRS collateral. With respect to the corresponding liability set-off, the Bank has set-off the estimated value of the relevant assets. As a result, the amount set-off on the asset side is greater than that set-off on the liability side.

Supplementary notes

3. Balances subject to set-off (continued)

3.2 Creditor offset

- For assets and liabilities held with the same counterparty the Bank has applied the following netting assumptions to the Statement of Assets and Liabilities, based on the Bank's present legal interpretation:
  - known counterparties have had their liability positions netted against corresponding identifiable asset positions with the same counterparty; and
  - for the remaining liability positions where the identity of the ultimate beneficial owner is not known, an estimate of the impact of netting against assets on the balance sheet has been presented based on an extrapolation of known netting positions.

- Further, the Bank has applied the FME guidance dated 14 October 2008 to net down the balance sheet for counterparties with known liability positions at New Glitnir with their corresponding assets held by Old Glitnir.

4. Range of likely outcomes

- The methodology used by the Bank to prepare the range of likely outcomes for asset realisation of 'Total assets before instrument from New Glitnir banki hf.' shown in the Statement of Assets and Liabilities has been derived solely by adjusting credit risk assumptions on loans (including those in subsidiaries) and derivative assets. It specifically does not stress the base case for foreign exchange and interest rate movements, changes to bond and equity prices or changes to the status of legal netting. For the avoidance of doubt, no account has been taken in the range of likely outcomes for changes to the value of the instrument from New Glitnir banki hf.

Supplementary notes

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5. Valuation principles

- The valuation principles underlying the estimated value for each major asset category are shown below. A detailed description of the methodology for each asset category is shown in Appendix 3.

Asset class	Valuation methodology
Loans to customers	Credit adjusted discounted cash-flow model based on a ‘hold to sale’ or ’hold to maturity’ strategy
Loans to banks	Credit adjusted discounted cash-flow model based on a ‘hold-to-maturity’ strategy
Derivative assets – international counterparties	For international counterparties: Realisable value estimated based on an assumed close-out on 7 October 2008
Derivative assets – Icelandic counterparties	For Icelandic counterparties: Realisable value with credit valuation adjustment
Derivative liabilities	Realisable value based on an assumed close-out on 7 October 2008
Bonds and debt instruments	Realisable value based on directly or indirectly observable valuation inputs
Listed equities	Realisable value based on observable valuation inputs
Unlisted equities	Realisable value based on valuation inputs that are not quoted in markets that are active or for which significant inputs are not directly observable
Other assets	Realisable value based on valuation inputs that are not quoted in markets that are active or for which significant inputs are not directly observable
Instrument from New Glitnir banki hf.	The estimate of value for the instrument from New Glitnir banki hf. is presently unknown due to the preliminary state of discussions with New Glitnir banki hf. and accordingly the value shown is that published by the FME on 14 November 2008. No attempt has been made to revise the value attributed to it by the FME.

Appendices

Appendix 1 - Glossary of terms

Statement of Assets and Liabilities	An estimate of the value of Old Glitnir's assets and a computation of its liabilities, as required under the terms of the Moratorium on creditor proceedings granted on 24 November 2008
FME	The Icelandic Financial Supervisory Authority
IRS	Interest Rate Swap
ISK	Icelandic Krona
New Glitnir	New Glitnir banki hf.
Old Glitnir or the Bank	Glitnir banki hf.
OTC	Over the Counter
Reference Date	15 November 2008
Repo	Sale and Repurchase Agreement
Resolution Committee	The Resolution Committee of Glitnir banki hf.
TRS	Total Return Swap

Appendix 2 – Asset / Liability Classes

A - Loans to customers

ISKbn	Recorded balance sheet amount as at 31.12.2008	Estimated value
Loans to Customers		
Recorded Balance Sheet amount	907.0	
Amounts subject to set-off (1)	(460.3)	
	446.7	197.7

ISKbn	Recorded balance sheet amount as at 31.12.2008	Estimated value
Loans to Customers after set-off		
Iceland		
Holding Companies	129.1	7.6
Manufacturing	11.8	5.6
Property & Real Estate	25.0	4.2
Utilities	2.3	1.3
Other	35.3	6.4
	203.5	25.2
International		
Financial Institutions	21.7	5.3
Fish & Maritime	94.8	71.1
Holding Companies	10.1	9.2
Manufacturing	34.7	20.5
Retail	7.3	4.5
Utilities	4.0	3.0
Other	70.7	58.9
	243.2	172.5
Total Loans to Customers	**446.7**	**197.7**

1. The estimated value of the 'Amounts subject to set-off' of ISK460.3bn shown in the adjacent table is ISK290bn. This amount of ISK290bn has been set-off against the corresponding liabilities.

Appendix 2 – Asset / Liability Classes

B - Loans to banks

ISKbn	Recorded balance sheet amount as at 31.12.2008	Estimated value
Loans to Banks		
Recorded balance sheet amount	370.9	
Loans subject to set-off (1)	(235.3)	
	135.7	
Net loans to Icelandic banks	22.9	-
Net loans to international banks	4.7	4.7
Net loans to subsidiaries or former subsidiaries of the Bank	108.1	108.1
Total Loans to Banks	**135.7**	**112.8**

1. The estimated value of the 'Loans subject to set-off' shown in the adjacent table is ISK235bn. This amount has been set-off against the corresponding liabilities.

Appendix 2 – Asset / Liability Classes

C - Derivatives

ISKbn	Estimated value of derivative assets	Computation of derivative liabilities	Net
Derivatives			
Recorded Balance Sheet amount	112.3	(61.1)	
Amounts subject to set-off (1)	(39.9)	9.9	
	72.4	(51.2)	21.2

ISKbn	Estimated value of derivative assets	Computation of derivative liabilities	Net
Icelandic Counterparties			
Banks and other financial institutions	7.6	(0.8)	
Investment companies	12.0	(15.6)	
Pension Funds	4.5	(0.0)	
Seafood Industry	1.2	-	
Public bodies	9.2	-	
Other Companies	7.7	(5.8)	
Individuals	0.1	(0.0)	
Total	42.4	(22.3)	20.1
International Counterparties			
Banks and other financial institutions	23.6	(26.1)	
Investment companies	-	(2.6)	
Seafood Industry	3.8	(0.0)	
Other Companies	2.7	(0.2)	
Total	30.0	(28.9)	1.1
	72.4	(51.2)	21.2

1. The estimated value of the ‘Amounts subject to set-off’ shown in the adjacent table for assets is ISK39.9bn. This amount has been set-off against the corresponding liabilities.

   The estimated value of the ‘Amounts subject to set-off’ shown in the adjacent table for liabilities is ISK9.9bn. This amount has been set-off against the corresponding assets.

ISKbn	Estimated Value of Net position
Type of Product	
IRS	56.1
FX Derivatives	(31.4)
Others	(3.6)
	21.2

Appendix 2 – Asset / Liability Classes

D - Bonds and debt instruments

ISKbn	Recorded balance sheet amount as at 31.12.2008	Estimated value
Bond positions		
Recorded Balance Sheet amount	220.2	
Amounts subject to set-off	(128.4)	
	91.8	19.3

- The estimated realisable value of the ‘Amounts subject to set-off’ of ISK128.4bn shown in the above table is ISK86bn. This amount of ISK86bn has been set-off against the corresponding liabilities.

ISKbn	Estimated value
Bond positions	
Icelandic Sovereign	7.6
Icelandic Banks	2.1
Other Icelandic counterparties	1.5
International counterparties	8.1
	19.3

Appendix 2 – Asset / Liability Classes

E - Shares and equity instruments

ISKbn	Recorded balance sheet amount as at 31.12.2008	Estimated value
Equities		
Listed		2.6
Unlisted		19.0
Total	**83.4**	**21.6**

- Over 97 per cent of the estimated value of shares and equity instruments is linked to the performance of international companies.

Appendix 2 – Asset / Liability Classes

F - Investments in subsidiaries

ISKbn	Recorded balance sheet amount as at 31.12.2008	Country	Estimated value of underlying net assets
Investment in subsidiaries			
Glitnir eignarhaldsfelag ehf.	0.4	Iceland	
ISB Norway AS	0.0	Norway	
Glitnir Luxembourg	179.8	Luxembourg	
Ruven Capital	2.5	Netherlands	
Total investment in subsidiaries	**182.8**		**110.5**

Appendix 2 – Asset / Liability Classes

G - Liabilities

ISKbn	Recorded balance sheet amount as at 31.12.2008	Balances subject to set-off	Computation of liabilities
Debt issued and other borrowed funds			
International bond programmes	1,735.0		
Domestic bond programmes	131.5		
Loans from banks	953.3		
Other	2.5		
Total debt issued and other borrowed funds	2,822.3	(747.0)	2,075.3

Appendix 2 – Asset / Liability Classes

G - Liabilities

ISKbn	Recorded balance sheet amount as at 31.12.2008
International bond programmes (before set-off)	
Currency analysis	
EUR	796.5
USD	630.9
GBP	87.9
CHF	74.9
AUD	47.3
CAD	22.9
JPY	20.5
Other	54.1
Total international bond programmes	1,735.0
Domestic bond programmes (before set-off)	
Currency analysis	
ISK	131.5
Total bond programmes (before set-off)	1,866.5

Appendix 2 – Asset / Liability Classes

G - Liabilities

ISKbn	Recorded balance sheet amount as at 31.12.2008
Loans from banks (before set-off)	
Currency analysis	
EUR	774.9
USD	84.7
ISK	47.3
GBP	19.7
SEK	9.2
CHF	7.8
Other	9.7
Total loans from banks (before set-off)	953.3

Appendix 3 – Valuation methodology

1. Loans to customers and banks

- The estimated values have been derived after consideration of the Bank's present asset realisation strategy. The measurement methodology is designed on the assumption that the loan portfolio will not be subject to forced market sales in the near-term and loans will be held to maturity or worked out over the relevant timeframe. As such, the estimated values represented in the Statement of Assets and Liabilities are not necessarily intended to represent prices at which an orderly transaction could take place between market participants as at 31 December 2008. Rather, it is intended to represent the value of assets based on a longer term estimate of recoverable value.

- The valuation technique uses a three step methodology:

  - **Step 1 -** an estimate of the net present value of each loan is calculated. The net present value is based on an estimate of the future interest cash flows using current rates and spreads and based on full repayment of principal. The discount rate applied to arrive at present value is not risk-adjusted.
  - **Step 2 -** application of credit risk adjustments. An adjustment is made to the net present value of loans, at a borrower level, based on a high-level estimate of the probability that the borrower could default prior to realisation and the recovery rate in the event of default. Given the time available, and in order to simplify the exercise, borrowers were segregated into three risk categories based on an internal risk weighting methodology (see table below).
  - **Step 3** - an estimate of the costs of realisation for the loans to customers and banks based on a forecast of operating costs for the Bank over the relevant period.

- Within each risk category the portfolio was subject to a high level review of borrower performance, collateral quality and subordination levels as well as a review of more general information about the economic outlook of each underlying sector. In the absence of specific indicators of a deterioration of value at a borrower level, default and recovery assumptions have been applied consistently at a risk-weighted level.

Appendix 3 – Valuation methodology

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1. Loans to customers and banks (continued)

Risk categorisation for loans to customers

Risk weighting	Categorisation	Indicative categorisation factors
1	Performing loans	– Performing in line with budget/forecasts. – Operating in a sector that is considered to suffer least in a recession. – Occupies leading market positions in its core operations. – Strong track record of operating through sectoral downturn. – Largely asset backed.
2	Loans under stress	– Under-performance against budget and stress on senior leverage position but the business is able to generate sufficient cash to cover its interest and principal payment obligations. – Operating in a sector that is likely to suffer in a recession but where the asset is expected to trade through (albeit with under-performance to plan). – Potential for covenant re-set requests. – Occupies a leading market position in a sector considered more likely to suffer materially in a recession and as such is likely to be an ongoing player. – Likely to remain sufficiently cash generative to service debt even with under-performance to plan.
3	Non-performing loans	– Significant under performance, re-structuring required, potential or actual risk of loss. – High total leverage multiple across lending to borrower. – Internal risk rating of asset is equivalent to CCC or less. – Operating in a sector that is considered to suffer materially in recession. – Likelihood of covenant breaches/material re-set requests in the short/medium term. – Likelihood of a restructuring exercise in the short/medium term. – Already in restructuring.

Appendix 3 – Valuation methodology

2. Derivatives

- Derivative assets and liabilities amounts on the recorded balance sheet represent net positions after consideration of the effects of netting and legal set-off. These have been based on the estimated realisable value recorded in the Bank's sub-ledger system.

- Given the volume of business undertaken by the Bank and the complexities involved in reviewing the population of transactions, a number of assumptions have been made regarding the legal status of derivative positions in the Statement of Assets and Liabilities. For the purposes of the Statement of Assets and Liabilities only, the following assumptions have been applied to derive the estimated values:

  – **International counterparties -** for both net derivative assets and liabilities positions with international counterparties the Bank has made the assumption that all positions crystallised under default notices during October 2008. An estimate of the close-out value of the net liabilities has been taken based on the realisable value of the portfolio as at 7 October 2008.

  – **Icelandic counterparties -** for net derivative asset positions with Icelandic counterparties the Bank has made the assumption that the positions have remained open (subject to eliminating maturing trades). As a result the estimated values for Icelandic derivative counterparties is based on the realisable value of the net derivative assets as at 31 December 2008. For net derivative liabilities positions the Bank has made the assumption that the positions crystallised under default notices during October 2008. An estimate of the close-out value of the net liabilities and included in the computation of liabilities has been taken based on the realisable value of the portfolio as at 7 October 2008.

Realisable Value

- The determination and complexity of realisable value is driven by the underlying product and the terms of each transaction. A significant proportion of the OTC derivative products have been valued using a series of transparent techniques, including closed-form analytic models.

Appendix 3 – Valuation methodology

GLITNIR

2. Derivatives (continued)

Realisable Value

- Other derivative products, typically the newest and most complex products or those where pricing inputs may not now be observable, require more judgment in the implementation of the valuation technique applied due to the complexity of the valuation assumptions and the reduced observability of inputs. Accordingly, many of these have been valued using simulation techniques or other recognised modelling approaches.

- A significant valuation adjustment has been applied on a counterparty basis for net derivative asset positions to reflect the Bank's present estimate of the credit and illiquidity risk associated with each counterparty and position respectively. This assessment is based on current and historic counterparty performance, information related to the quality of collateral associated with each counterparty and on initial negotiations with representative sector bodies with derivative exposures to the Bank.

3. Bonds

- The estimated value for the bond portfolio assumed to be unencumbered is based primarily on observable market inputs. The values represent an estimate of prices at which an orderly transaction could have been expected to take place between market participants at 31 December 2008 and accordingly has been based on quoted prices or indicative broker quotes.

Appendix 3 – Valuation methodology

4. Equities

- The estimated value for the listed equities portfolio assumed to be unencumbered is based primarily on observable market inputs. The value represents an estimate of prices at which an orderly transaction could have been expected to take place between market participants on 31 December 2008 and accordingly has been based on quoted prices or indicative broker quotes.

- The estimated value for the unlisted equities portfolio assumed to be unencumbered is based primarily on unobservable market inputs. The Bank has estimated values based on the fundamentals of each holding, including the initial transaction price and an underlying analysis of the performance of each issuer. The values also include assumptions as to the liquidity of positions.

5. Investment in subsidiaries

- The estimated value for investment in subsidiaries is based on the estimated value of the underlying net assets held in the subsidiaries. The methodologies employed to estimate the value of the underlying assets and liabilities are the same as those employed for assets and liabilities held directly by the Bank.

6. Cash and balances with central banks

- The estimated value for cash recognised at the central bank is book value.

7. Other assets

- The estimated value for other assets is based on book value with an adjustment for illiquidity where applicable.

8. Instrument from New Glitnir banki hf.

- The estimated value of the instrument from New Glitnir is the preliminary estimate published by the FME on 14 November 2008. The value and nature of this instrument is inherently uncertain and, as a result, the eventual value may be materially different from that included in the Statement of Assets and Liabilities. A process for determining the eventual nature and value of the instrument from New Glitnir is currently in progress.

Appendix 4 – Foreign exchange rates

Currency	Central Bank of Iceland – mid rates as at 15 November 2008	Central Bank of Iceland – mid rates as at 31 December 2008
EUR	171	169.97
USD	134.64	120.87
GBP	199.6	175.43
CAD	110.56	99.12
DKK	22.961	22.809
NOK	19.374	17.296
SEK	17.057	15.558
CHF	113.2	113.92
JPY	1.3862	1.3398