

LBI ehf.

Annual Financial Statements

2015

LBI ehf.
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Reg. No. 540291-2259

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Endorsement by the Winding- up Board

The financial statement of LBI ehf. is prepared in accordance with generally accepted accounting principles in Iceland.

In general

The name of the Company was LBI hf. (now LBI ehf.) and it is hereafter referred to as “LBI” or “the Company”. The Company's legal venue is in Reykjavík.

On 7 October 2008 the Icelandic Financial Supervisory Authority (hereafter “FME”) took over Landsbanki Íslands hf. by virtue of authorisations in Act No. 125/2008, which took effect on 6 October 2008. FME assumed the authority of the shareholders' meeting, dismissed the Board of Directors and appointed a Resolution board for the Company. The Resolution board was to direct all the Company's affairs, including supervising handling of its assets and directing its operations. The role of the Resolution board was originally defined in a Decision by FME of 7 October 2008, with its principal role to take over and manage the Company's activities, protect its assets and maximise their value for the benefit of creditors.

In November 2008 the Icelandic parliament Althingi passed Act No. 129/2008 which established a special remedy, a moratorium for financial undertakings. Landsbanki Íslands hf. was granted such a moratorium on 5 December 2008 by a Ruling of the Reykjavík District Court, in tandem with which the engagement of an Appointee in moratorium for LBI was accepted. Originally the moratorium was granted until 26 February 2009, but a ruling of the Reykjavík District Court on 3 March 2009 extended the moratorium period until 26 November 2009.

Following a review of the Act on Financial Undertakings, No. 161/2002, the Althingi adopted amendments to this Act with Act No. 44/2009, which took effect on 22 April 2009. This Act provided, among other things, for changes to the substance and nature of the moratorium which had previously been enacted. With the entry into force of the said Act LBI's winding-up proceedings commenced. Following the amendments to the Act the purpose of the moratorium was actually to ensure the proper progress of the Company's winding-up and non-discrimination among creditors in this process within the limits prescribed by law. Provision was made for the appointment of a Winding-up Board for a financial undertaking and the division of responsibilities between the Resolution boards and Winding-up Boards of those financial undertakings which had already been granted a moratorium pursuant to the rules of Act No. 129/2008. The Reykjavík District Court appointed a Winding-up Board for LBI on 29 April 2009 at the request of the Company's Resolution board. The role of Winding-up Boards was to handle those tasks not specifically entrusted to the Resolution boards by Act No. 44/2009, including handling the processing and payment of any and all claims against financial undertakings as well as taking decisions on how the winding-up proceedings would conclude once the time was ripe to do so. Following the appointment of the Winding-up Board the main responsibility for the Company's affairs rested jointly with the Winding-up Board and Resolution board with a specific internal division of responsibilities between them. The work and status of those persons comprising the Resolution board and Winding-up Board were subject to the same rules as apply to liquidators under the Act on Bankruptcy etc., No. 21/1991. The Company's moratorium in the form provided for in Temporary Provision V of Act No. 44/2009 was extended by a Ruling of the Reykjavík District Court pronounced on 26 November 2009 until 26 August 2010 and then once more until 5 December 2010 by a ruling pronounced on 26 August 2010.

In accordance with the amending Act No. 132/2010 and at the request of the Winding-up Board and Resolution board of LBI, the District Court in Reykjavík decided in a Ruling pronounced on 22 November 2010 that LBI's winding-up proceedings should be governed by the general rules of the Act on Financial Undertakings, specifically Part B of Chapter XII of Act No. 161/2002, having regard to Points 3 and 4 of Temporary Provision V of the same Act; in tandem with this the Company's moratorium was cancelled.

Amendments in Act No. 78/2011 provided for the Winding-up Boards to take over as of the beginning of 2012 those tasks which had been entrusted to the Resolution boards. In accordance therewith LBI's Resolution board concluded its work at year-end 2011 and since 1 January 2012 LBI's Winding-up Board has managed the Company's affairs under the supervision of creditors, the courts and FME, as the amending Act No. 78/2011 provided for special supervision by FME of the operations and business practices of financial undertakings directed by a Winding-up Board.

Activities of LBI in 2015

At LBI's creditors' meeting held on 12 March 2015 the status of the Company's winding-up proceedings was discussed together with plans for its conclusion. At the meeting it was stated that, according to revised estimates on cash flows (payments received), in part due to the settlement agreements with Landsbankinn hf. of 4 December 2014, it was expected that payment of recognised priority claims lodged with reference to Art. 112 of Act No. 21/1991 could be completed by year-end 2016 and a composition concluded thereafter. According to the then applicable legislation on compositions of financial undertakings in winding-up proceedings it was not a realistic option to present a composition proposal until the said priority claims had been fully paid and a final conclusion had been reached on claims lodged in 2013-2015, claiming priority with reference to Articles 109-111 of Act No. 21/1991 after the expiry of the time limit for lodging claims. The meeting was informed that preparation for the composition process had begun and that the aim was to be able to conclude a composition in the winter of 2016/2017, or around a year earlier than previously anticipated. Agreements on the settlement between LBI and Landsbankinn hf. of 4 December 2014 were also presented to the creditors' meeting, together with the exemption from capital controls granted that same day to make partial payments to creditors in foreign currency, as authorised in the sixth paragraph of Art. 102 of Act No. 161/2002 as well as provisional approval for further exemptions for the same purpose. Partial payments towards priority claims equivalent to around ISK 400 billion were disbursed on 18 December 2014, with the outstanding balance on priority claims following those payments around ISK 210 billion.

In the first half of 2015 exchanges began between representatives of the Icelandic authorities and certain creditors and their advisors as to how the winding-up of financial undertakings which failed in the autumn of 2008 could be concluded without upsetting exchange rate, monetary and financial stability. The outcome of these exchanges came to light on 8 June 2015 when the Ministry of Finance published news announcements on its website presenting proposals of a specific group of creditors and their advisors, stating at the same time that the Task Force on Capital Account Liberalisation considered it possible to propose to the Steering Group for Capital Account Liberalisation that exemptions be granted from capital controls, should the proposals be effected. That same day two bills of legislation were submitted to the Althingi, the former amending Act No. 161/2002 with proposed amendments to Articles 103 and 103 a of that Act authorising the delivery of a stability contribution and various provisions concerning the composition process, and the latter on a stability levy. These bills, with some proposals for amendments from the parliamentary Economic and Trade board, were passed by the Althingi on 3 July last year and entered into force on the 17th of that same month. The Act amending the Act on Financial Undertakings etc. is No. 59/2015 and the Act on a Stability Levy is No. 60/2015. Under the last-mentioned Act, in order for LBI not to be a taxable entity as referred to in Art. 2 of the Act the Company's winding-up proceedings would have to be completed prior to year-end 2015 and it could be concluded from the interpretative sources that the assumption was that this time limit meant that its composition would have to have been finally confirmed prior to that point in time.

Following consultation with major creditors the Winding-up Board of LBI sent in a letter of 24 August 2015 a communication to the Central Bank of Iceland, confirming that LBI intended to conclude the Company's winding-up proceedings based on the above-mentioned creditors' proposals of 8 June 2015 and in accordance with those authorisations provided for in Articles 103 and 103 a of Act No. 161/2002, with the amendments made by Act No. 59/2015.

At a creditors meeting held by LBI on 2 October 2015 an account was given of the status of the composition process as well as the Winding-up Board's decision to turn over assets to the Central Bank in the form of a stability contribution, as provided for in the authorisation in the third paragraph of Art. 103 of Act No. 161/2002, cf. subparagraph c of Art. 1 of Act No. 59/2015, in connection with concluding winding-up proceedings with the confirmation of a composition. This decision by the Winding-up Board was prepared on the basis marked out by the proposals of certain creditors in a letter to the Steering Group on Capital Account Liberalisation of 8 June 2015.

Once a formal and binding decision on a stability contribution had been taken at the creditors' meeting in accordance with the instructions in the third paragraph of Art. 103 of Act No. 161/2002, cf. subparagraph c of Art. 1 of Act No. 59/2015, the Winding-up Board of LBI sent a formal request to the Central Bank of Iceland on 6 October 2015 for an assessment and certificate as referred to in the fourth paragraph of Art. 103 of Act No. 161/2002, cf. subparagraph h of Art. 2 of Act No. 59/2015, and for exemptions from capital controls in accordance with provisions of Act No. 87/1992, on Foreign Currency.

Activities of LBI in 2015 contd.

On 13 October 2015 the composition proposal of LBI was published and work commenced on distributing it to composition creditors together with an Information Memorandum on the proposal and the composition process. On 28 October 2015 the Central Bank of Iceland published an announcement that the bank had concluded its assessment of the existing draft composition proposal from LBI and published a report on this assessment on 27 October. This stated that in the Bank's assessment the existing draft composition of LBI satisfied the requirements of the Foreign Currency Act in that fulfilment of the composition, together with the proposed mitigating measures, would neither result in instability in exchange rate and monetary affairs nor upset financial stability.

On 24 September 2015 a bill was submitted to the Althingi which proposed, among other things, amendments to Art. 103 a of Act No. 161/2002, on Financial Undertakings, concerning the composition process of financial undertakings in winding-up and the conclusion of their winding-up proceedings. The bill, with amendments, was adopted as law by the Althingi on 4 November, attested to on 5 November and published the following day as Act No. 107/2015, which took effect on 6 November 2015.

Art. 5 of Act No. 107/2015 added a new Temporary Provision to Act No. 60/2015, on a Stability Levy. According to this new provision those parties who previously operated as commercial banks or savings banks but were in winding-up proceedings would not be taxable entities as provided for in Art. 2 of the Act on a Stability Levy if they had concluded their winding-up proceedings prior to 15 March 2016, on the condition that a composition proposal had been approved at a voting meeting convened on the basis of the second sentence of the third paragraph of Art. 103 a of Act No. 161/2002 and a written request submitted for confirmation of the composition to a District Court Judge, in accordance with Chapter IX of Act No. 21/1991, by 31 December 2015.

Once the above-mentioned assessment by the Central Bank of Iceland was available and the said statutory amendments had taken effect, the composition proposal, which provided for a waiver equivalent to 85.62% of composition claims, was updated on 6 November 2015 along with other composition documentation to reflect the above-mentioned legislation. A new creditors' meeting was convened for 23 November 2015 at 10:00 am at Hilton Hótel Nordica, Suðurlandsbraut 2 in Reykjavik, to vote on the composition proposal of LBI and an advertisement to this effect published in the Legal Gazette on 6 November 2015, as provided for in the first paragraph of Art. 151 of Act No. 21/1991, cf. the second sentence of the third paragraph of Art. 103 a of Act No. 161/2002. The meeting was also advertised in the international editions of the Financial Times and Wall Street Journal. The meeting announcement was also published on the creditors' area of LBI's website together with all composition documents.

According to the fourth paragraph of Art. 103 a of Act No. 161/2002, a request for confirmation of a financial undertaking's composition had to be accompanied by an assessment by the Central Bank of Iceland of the economic impact of the composition proposal and its impact on stability in exchange rate and monetary affairs and on financial stability. In a certificate dated 18 November 2015 the Central Bank of Iceland confirmed its assessment, in accordance with the above-mentioned statutory provision, that the composition proposal of LBI would neither cause instability in exchange rate and monetary affairs nor upset financial stability.

A meeting was held with voters to vote on the above-mentioned composition proposal of LBI on 23 November 2015. In tallying the votes regard was only had for the votes cast, as provided for in sentences 12 and 13 of the third paragraph of Art. 103 a of Act No. 161/2002, cf. subparagraph f of Art. 2 of Act No. 59/2015, on votes by number, and subparagraph f of Art. 4 of Act No. 107/2015, on votes by amount of claim. To be approved, the composition proposal of LBI required the consent of 60% of the votes by number and 85% of the votes by amount of claims of those voters participating in the voting. The composition proposal was approved by 99.76% of votes by amount of claims and 99.67% of votes by number and was therefore approved by voters.

Activities of LBI in 2015 contd.

In a letter of 26 November 2015 to the Reykjavík District Court, the Winding-up Board requested confirmation of LBI's composition and the action for composition was filed with the Court on 15 December 2015. No representatives of creditors or other parties with interests at stake attended the Court session and the request was immediately accepted for a Ruling. A Ruling pronounced on 18 December 2015 confirmed LBI's composition. As the Ruling was not appealed to the Supreme Court of Iceland the composition was finally binding upon the expiration of the time limit for appeal on 25 December 2015, and LBI's winding-up proceedings thereby concluded. In accordance with the substance of LBI's composition and in the manner prescribed in the third paragraph of Art. 103 a of Act No. 161/2002 on Financial Undertakings, the Winding-up Board is to continue to direct the Company's activities and see to the fulfilment of its composition, including the delivery of new share capital. Thereafter a shareholders' meeting is to be convened where a Board of Directors is to be elected by new shareholders.

In other respects LBI's activities have consisted of mandatory aspects of the Company's winding-up proceedings, the supervision, disposition and recovery of assets, pursuit of court actions and resolution of disputes concerning claims against the Company. No partial payments were made in 2015 towards recognised priority claims but it should be pointed out that their outstanding balance of around ISK 210 billion was paid on 11 January 2016. That same day the Central Bank of Iceland granted LBI an exemption from capital controls which made the distributions possible.

Operating results for the year 2015

LBI's profit for the year 2015 amounted to ISK 1.440,7 billion. According to the balance sheet the Company's assets amount to ISK 446,8 billion and the book value of its equity is equal to 0. No dividend is paid, as regards to changes in the equity, the board refers to the statement of changes in equity which are a part of the financial statements. The majority of this profit is due to income recognised as a result of a write-down of debt in accordance with the Company's composition.

It is the opinion of the board of directors and the managing director of LBI that these financial statements present all the information necessary to show the position of the Company at year-end, the operating results for the year and the financial developments during the year 2015.

The board of directors of LBI hereby confirm the financial statements for the year 2015 with their signatures.

Reykjavík, 23 march 2016

The Winding- up Board

Income Statement for the year 2015

	Note	2015	2014
Interest income	4	10.249	15.574
Net reversal of impairment	5	76.080	4.124
Net financial income		282	324
Net foreign exchange rate gain (loss)		(11.149)	10.071
Operating income		<u>75.461</u>	<u>30.093</u>
Salaries and related expenses	6	(1.506)	(1.446)
Other operating expenses	7	(5.620)	(11.374)
Operating expenses		<u>(7.126)</u>	<u>(12.820)</u>
Stability contribution	16	(19.141)	0
Adjustment of claims pursuant to the composition agreement	14	1.394.269	0
Profit before taxes		<u>1.443.464</u>	<u>17.273</u>
Taxes	15	<u>(2.722)</u>	<u>(6.801)</u>
Profit for the year		<u><u>1.440.742</u></u>	<u><u>10.472</u></u>

Balance Sheet as at 31 December 2015

		31.12.2015	31.12.2014
Cash and cash equivalents	8	234.648	111.700
Loans to financial institutions	9	24.021	32.623
LB financing	10	125.714	200.421
Loans and receivables	11	54.408	61.322
Bonds and equity instruments	12	2.034	42.273
Unsettled derivatives receivable	13	837	1.312
Other assets		5.155	3.838
Total assets		<u>446.816</u>	<u>453.490</u>
Liabilities			
Accepted priority claims	14	210.587	209.641
Accepted general claims	14	0	1.671.613
Composition liabilities	14	212.463	0
Tax liabilities	15	2.722	6.801
Stability contribution	16	19.141	0
Other liabilities		1.903	0
Total liabilities		<u>446.816</u>	<u>1.888.055</u>
Equity			
Share capital		1.600	10.663
Other equity		(1.600)	(1.445.228)
Total equity		<u>0</u>	<u>(1.434.565)</u>
Total liabilities and equity		<u>446.816</u>	<u>453.490</u>

Statement of cash flows for the year 2015

Operating activities

Profit for the year	1.440.742	10.472
Net reversal of impairment	(76.080)	(4.124)
Stability contribution	19.141	0
Adjustment of claims pursuant to the composition agreement	(1.394.269)	0
Foreign exchange loss (gain)	11.149	(10.071)
Net taxes	2.722	6.801
	<u>3.405</u>	<u>3.078</u>
Loans to financial institutions	6.105	3.244
LB financing	73.275	50.914
Loans and receivables	7.715	129.588
Bonds and Equity instruments	30.559	(1.875)
Payment of claims	0	8.503
Other liabilities	1.888	(400.013)
Net cash from (to) operating activities	<u>122.948</u>	<u>(206.560)</u>
Net increase (decrease) in cash and cash equivalents	122.948	(206.561)
Cash at bank at the beginning of the year	111.700	318.261
Cash at bank at the end of the year	<u>234.648</u>	<u>111.700</u>

Changes in equity

Changes in equity in 2015

	Share capital	Other equity	Total equity
Equity as at 1 January 2015	10.663	(1.445.228)	(1.434.565)
Share capital written off	(10.663)	10.663	0
Issued new share capital	1.600		1.600
Translation difference		(7.777)	(7.777)
Profit for the year		1.440.742	1.440.742
Equity as at 31 december 2015	1.600	(1.600)	0

Changes in equity in 2014

	Share capital	Other equity	Total equity
Equity as at 1 January 2014	10.663	(1.457.940)	(1.447.277)
Translation difference		2.240	2.240
Profit for the year		10.472	10.472
Equity as at 31 december 2014	10.663	(1.445.228)	(1.434.565)

Notes

1. Operations

LBI is a Company domiciled in Iceland. The Company's registered office is at Álþheimar 74, 104 Reykjavík.

The Company was in winding-up proceedings in accordance with Act on financial undertakings, which were concluded on 25 december 2015 following a final confirmation of the Company's Composition Agreement. In accordance with the Act on Financial Undertakings the Winding-up board continues to have the authority of the board of directors and the power of the shareholders at a shareholders meeting following the conclusion of the winding-up proceedings until a shareholders meeting has been convened and a new board has been elected which will operate the Company in accordance with the objectives laid out in the Company's new Articles of Association.

During the winding up proceedings the winding up board's principal objectives was to ensure the proper handling of claims against the Company and maximize the value of the Company's assets to the benefit of it's creditors.

2. Accounting policies

Statement of compliance

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

Change in comparative amounts

Due to changes in the presentation on the income statement, comparative amounts have been changed accordingly. In the prior year special tax on financial institutions (bank tax) was not deducted from net income, a correction has been made to amend the aforementioned error.

Basis of preparation

The Act on Annual Accounts requires subsidiaries and associates to be recorded in accordance with the equity method or at cost but also allows for a use of another accounting policy in order for the financial statements to provide a true and fair view of the Company's performance and financial position.

The financial statement has been prepared on the basis that LBI 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 financial statement are not necessarily intended to represent prices at which an orderly transaction could take place between market participants on the reporting date. Rather, such values are intended to represent the value of assets based on a longer term estimate of recoverable value.

Going concern

The financial statements are prepared on the basis that the Company will be able to manage the timing of realisation of its assets. External events, political, economic, regulatory and/or legal, could affect the time scale, ability and process for such realisations.

Notes

2. Accounting policies contid.

Basis of measurement

The financial statements are prepared on the historical cost basis except for bonds and debt instruments and shares and instruments with variable income which are measured at fair value.

The methodology used to estimate the value of assets within each asset class is based on the application of the Company's present asset realisation strategy. The methodology does not represent an exhaustive attempt to take into account all factors that the Company or other market participants would consider when performing an in-dept valuation exercise. For further information regarding valuation of asset classes, see the chapters below.

Uncertainties/ use of estimates and judgements

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported values. The estimates and underlying assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Reasonable prudence is exercised in the valuation of individual assets and foreseeable losses are taken into account. Actual results may differ materially from these estimates and assumptions made.

Given the current economic climate there are limited active market of many of the financial instruments held by the Company. To the extent that the estimated assets values are based on inputs that are less observable or unobservable in the market, the estimation of value requires more judgement. Accordingly, the Winding-Up Board 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, complex derivative products and set-offs.

The Company has assets in respect of which limited or no observable market data is available and/or which are subject to legal action. The value of those assets is based on judgements regarding various factors as appropriate. Considerable judgement has been applied in recognising and determining the value of those assets.

The realisable value of the Company's assets may be different at any given point in time as most of the non-cash assets are complex, illiquid and not standardised and subject to a number of material uncertainties, including general economic and market conditions and legal uncertainties which have been and may continue to be volatile. Changes in the underlying assumptions used in the measurement methods could materially affect these stated values.

Although the majority of all claim disputes have been resolved it should be noted that the definitive amount of the Company's liabilities can't be determined in a final manner until all disputed claims have been resolved. Reference is made to note 14 for further information on disputed claims and the effect of the Composition Agreement on the Company's liabilities.

Interest income

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

Notes

2. Accounting policies contd.

Impairment

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

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

Cash and cash equivalents

Cash at bank consists of cash and term deposits with credit institutions. Cash at bank comprises balances with up to one year maturity.

Loans to customers and financial institutions

Loans to customers and financial institutions are measured at amortised cost.

Bonds and equity instruments

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

Reasonable prudence is exercised in the valuation of individual assets and foreseeable losses are taken into account.

Other assets

Other assets are measured at amortised cost.

Composition liabilities

Composition liabilities means the payment obligations of the Company pursuant to the terms of the Composition Agreement as outlined in note 14.

Stability contribution

The Company has realised the Stability Contribution in the Income Statement and included it as a liability in the Balance Sheet in accordance with the terms of the Stability Contribution as laid out in the Company's request dated 6 October 2015 for certain exemptions from the Act on Currency Control no. 87/1992 to the CBI and subsequent agreements entered into between the Company and the CBI in relation to the Stability Contribution. Reference is made to note 16 regarding the Stability Contribution.

Notes

2. Accounting policies contd.

Creditor set-off

For assets and liabilities held with the same counterparty, the Company has used the claims register as the known source of liabilities and set them off against corresponding identifiable asset positions with the same counterparty. Amounts subject to set-off included in the Balance sheet represent an estimate of the effect of both legal netting and creditor set-off based on an interpretation of the potential rights of the Company and its counterparties. If the rights of the Company and its counterparties were ultimately to prove different to that assumed, the estimated value of the Company assets and the computation of its liabilities may be materially impacted.

Functional and presentation currency

The financial statement is presented in Icelandic Krona (ISK), which is functional currency of the Company. All amounts are in million unless otherwise stated. Foreign currencies values are translated at the FX rates published by the Landsbankinn hf. at year end. A significant proportion of the Company's assets are denominated in foreign currencies. As a result, the estimated values presented herein may be materially impacted by movements in foreign exchange rates. Foreign currency transactions have been translated at the spot exchange rate at the date of transaction.

	Year end exchange rate	
	31.12.2015	31.12.2014
EUR	141,71	154,70
USD	129,90	127,20
GBP	192,53	198,14
CAD	93,54	109,91
DKK	18,99	20,78
NOK	14,79	17,19
SEK	15,44	16,49
CHF	130,86	128,65
JPY	1,08	1,07

3. Income statement

	2015			2014
	Iceland	UK	Total	Total
Net interest income	9.614	635	10.249	15.574
Net reversal of impairment	74.689	1.391	76.080	4.124
Net financial income	265	16	282	324
Net foreign exchange rate gain (loss)	(12.471)	1.321	(11.149)	10.071
Salaries and related expenses	(984)	(522)	(1.506)	(1.446)
Other operating expenses	(5.506)	(114)	(5.620)	(11.374)
Stability contribution	(19.156)	0	(19.156)	0
Adjustment of claims	1.394.284	0	1.394.284	0
Profit before taxes	1.440.737	2.727	1.443.464	17.273

Notes

4. Interest income

Interest income is specified as follows:

	2015			2014
	Iceland	UK	Total	Total
Loans to customers	2.500	387	2.887	1.101
Other interest income	7.115	247	7.362	14.473
	9.615	635	10.249	15.574

5. Net reversal of impairment

Net reversal of impairment is specified as follows:

	2015			2014
	Iceland	UK	Total	Total
Loans to Financial institutions	64.864	0	64.864	8.144
Loans and receivables	10.610	1.291	11.901	20.677
Bonds and Equity instruments	2	100	103	131
Unsettled derivatives receivable	762	0	762	1.442
Other assets	(1.550)	0	(1.550)	(26.270)
	74.689	1.391	76.080	4.124

6. Salaries and related expense

Salaries and related expense are specified as follows:

	2015			2014
	Iceland	UK	Total	Total
Salaries	813	434	1.248	1.035
Salary related expenses	171	87	258	412
	984	522	1.506	1.446

7. Other operating expenses

Other operating expenses are specified as follows:

	2015			2014
	Iceland	UK	Total	Total
General administrative expenses	382	0	382	294
Legal services	3.364	50	3.414	2.221
Other external advisors	842	3	845	951
Cost of housing	46	38	84	43
Non recoverable VAT	396	0	396	0
Other operating expenses	474	24	498	7.865
	5.506	114	5.620	11.374

Notes

8. Cash and cash equivalents

	<u>31.12.2015</u>	<u>31.12.2014</u>
Cash and cash balances with Icelandic banks.....	24.007	98.696
Cash balances with Central Bank.....	6	7
Cash balances with foreign banks.....	<u>210.635</u>	<u>12.998</u>
	<u>234.648</u>	<u>111.700</u>

9. Loans to financial institutions

	<u>31.12.2015</u>	<u>31.12.2014</u>
Iceland.....	<u>24.021</u>	<u>32.623</u>
	24.021	32.623

10. LBI Financing

	<u>31.12.2015</u>	<u>31.12.2014</u>
Bond issued by Landsbanki Íslands hf.	<u>125.714</u>	<u>200.421</u>
	125.714	200.421

The Icelandic Ministry of Finance, the Resolution board and Landsbankinn hf. signed an agreement regarding an issue of a debt instrument that Landsbankinn hf. will issue to the Resolution board as a payment for the assets transferred to Landsbankinn hf. from LBI. Under the terms of the settlement Landsbankinn hf. issued a bond in foreign currencies EUR, USD og GBP and interest were calculated as of 9th of October 2008 and nominal value of 871 million EUR, USD 734 million and GBP of 275 million. The interest rate of the bond were 3 month EURIBOR for EUR and a 3 month LIBOR for GBP and USD and 1,75% margin for the first five years and a margin of 2,90% for the following five years. According to the settlement the maturity of the bond is 9th of October 2018.

According to the aforementioned settlement from the 15th of December 2009 Landsbankinn hf. could possibly issue another bond to the Company, for total 92 billion ISK if certain underlying assets would increase in value on a certain period between 9 October 2008 until 31 December 2012. An independent assessment was made to determined if the assets had increased in value and delivered the work on the 15th of March 2013 and according to that valuation the bond should be issued for the full agreed amount. The new bond was issued 11 April 2013. The bond nominal value was in EUR 270,519,352.19, in USD 214,078,853.51 and in GBP 88,271,315.88. The bonds carry variable interest rates and call for quarterly payments commencing in 2014, with the final maturity in October 2018. Upon the issue of the new bond for the full possible amount, the Company relinquished its share in Landbankinn to the Icelandic Government as per the provisions of the settlement from 15 December 2009.

Landsbankinn and LBI came to an agreement on the 4th of December 2014 regarding an issue of a new bonds instead of the aforementioned bonds.

In accordance with LBI's plans for final settlement of outstanding recognised priority claims in connection with the conclusion of the Company's winding-up proceedings with its composition, LBI reached agreements with Landsbankinn hf. on 18 September 2015 for prepayment of the B1, B2 and B3 tranches of Landsbankinn's bonds in full and prepayment of 45% of the C1, C2 and C3 tranches of Landsbankinn's bonds. A supplementary agreement between the parties of 6 October 2015 provides for prepayment of the remaining amounts outstanding on the C1, C2 and C3 tranches (55%) of the Landsbankinn bonds. The payments are to be placed in three term deposit accounts, one for each currency (EUR, USD and GBP) which will be locked in until 9 October 2018.

Notes

10. LBI Financing contd.

On 6 October 2015 an agreement was also reached granting Landsbankinn unilateral right to convert those Landsbankinn bonds which would still be outstanding following the conclusion of LBI's winding-up proceedings to EUR-denominated market bonds under the bank's EMTN Note Programme. It should be pointed out that the granting of this conversion option was among the stability conditions which LBI agreed to. An agreement of 9 December 2015 amended the above-mentioned supplementary agreement of 6 October 2015, making 37.5% of the amounts prepaid on the Landsbankinn bond tranches C1, C2 and C3 (55%) unencumbered and free for disposal by LBI, however, with the condition that LBI must deposit this amount into term deposit accounts no later than 30 September 2016 and earlier if LBI's liquidity position made this possible.

All payments which Landsbankinn hf. obliged itself to make to LBI under the above-mentioned agreements were delivered before year-end 2015. The amounts which LBI must place in term deposit accounts no later than 30 September 2016 are: EUR 27,225,000, USD 4,950,000 and GBP 18,150,000.

At year-end 2015 the outstanding principal on Landsbankinn's bond tranches D, E, F and G was equivalent to ISK 125,7 billion based on the exchange rates as of 31 December 2015.

Name	Nominal value	Currency	Interest rate	Margin	Maturity
D	273.035.228	USD	Libor	2,90%/3,50%	9.10.2020
E	193.278.592	EUR	Libor	2,90%/3,65%	9.10.2022
F.....	273.035.228	USD	Libor	2,90%/3,95%	9.10.2024
G	193.278.592	EUR	Libor	2,90%/4,05%	9.10.2026

11. Loans and receivables

Loans and receivables were as follows:

	31.12.2015	31.12.2014
Iceland.....	44.071	46.921
UK.....	10.337	11.866
Netherlands.....	0	2.535
	<u>54.408</u>	<u>61.322</u>

12. Bonds and equity instruments

Bonds and equities were as follows:

	31.12.2015	31.12.2014
Iceland.....	1.306	41.297
UK.....	728	976
	<u>2.034</u>	<u>42.273</u>

13. Unsettled derivatives receivable

Unsettled derivatives were as follows:

	31.12.2015		31.12.2014	
	Gross amount	Amortised cost	Gross amount	Amortised cost
Unsettled derivatives receivable.....	16.306	837	40.213	1.312
	<u>16.306</u>	<u>837</u>	<u>40.213</u>	<u>1.312</u>

Notes

14. Composition liabilities and adjustment of claims

Disputed Proprietary, Administrative & Secured Claims

Lodged claims, that claim priority with reference to Articles 109 to and including 111 of the Bankruptcy Act which the Winding up Board has rejected where dispute has not been resolved will be treated and if later recognised paid in the following:

(i) Claims in ISK, To ensure sufficient funds the Winding up Board deposited to a special account in LBI name at the CBI the amount of ISK 6.000.000.000. To the extent the amount is not used to pay claims it will accrue to the CBI as part of the Stability Contribution.

(ii) Claims in FX, The Winding up Board and subsequently the Company's Board of Directors shall hold in reserve sufficient liquid assets in LBI to ensure payment of claims.

Accepted priority claims

At 31.12.2015 unpaid priority claims amounting to ISK 210,587,261,213 exist which have been finally recognised. In accordance with the Composition Agreement those claims were were finally settled on 11 January 2016 before there can be any payment of composition claims.

Claim Priority - Liability type	Accepted Amount	Paid from recoveries	Escrow allocations	Liabilities 31/12/2015
112 - Priority Claims				
Deposit.....	1.166.973	981.913	11	185.049
Deposit - Wholesale.....	145.432	122.291	0	23.141
Loans from Financial Institutions.....	14.186	11.853	76	2.257
Other liabilities.....	878	737	1	140
(Claims settled by lump sum payment).....	688	688	0	0
	<u>1.328.157</u>	<u>1.117.481</u>	<u>89</u>	<u>210.587</u>

General claims

During the winding-up proceedings the liabilities of the Company were determined through a formal claims filing process which was administered by the Winding-up Board. Although the majority of all claims disputed (96,08%) have been resolved, it should be noted that the definitive amount of the Company's liabilities can not be finally determined until all disputed claims have been resolved.

Accepted general claims as at the end of the winding up proceedings:

Claim Priority - Liability type	Accepted Amount	Settled by other means	Liabilities 31/12/2015
113 - general Claims*			
Deposit - Retail.....	237	0	237
Deposit - Wholesale.....	10.431	0	10.431
Derivatives.....	155.205	6.228	148.977
Loans from Financial Institutions.....	49.282	234	49.048
Other borrowings.....	183.037	864	182.172
Other liabilities.....	15.965	129	15.836
Securities Issued.....	1.226.408	24.735	1.201.674
	<u>1.640.565</u>	<u>32.191</u>	<u>1.608.375</u>

Notes

14. Composition liabilities and adjustment of claims contd.

*It should be noted that rejected disputed claims amount to ISK 54.214.672.071 which are still to be finally determined.

On 13 October 2015 the Company gave notice to its creditors of the launch of its composition proposal. The Composition Proposal was approved on 23 November 2015 by the creditors of the Company at a composition voting meeting and thus became the Composition Agreement of the Company. On 18 December 2015 the District Court of Reykjavik confirmed the Composition Agreement and on 25 December the Composition Agreement became final and binding under Icelandic law. Following the occurrence of the Effective Date the Composition Agreement became binding upon the creditors of the Company with respect to their composition claims. Consequently all liabilities relating to composition claims were adjusted pursuant to the Composition Agreement cr. Paragraphs 1-3 of Art. 60 of the Bankruptcy Act.

Outstanding general claims as at the beginning of 2015.....	1.671.613
Adjustment of claims pursuant to the composition agreement.....	(1.394.269)
Other adjustments.....	(64.881)
Composition liabilities	212.463

In accordance with the Composition Agreement the Composition liabilities are settled as here described:
Composition Claims up to the aggregate amount of ISK 11,821,975 will be settled with a de minimis payment in EUR of up to the equivalent amount of ISK 1,700,000 as a full and final settlement of such Claims. Creditors holding claims in excess of this amount also receive proportionate amount of new convertible Bonds issued by LBI pursuant to the Composition and new Shares in the Company, fully replacing the existing share capital of it. The Bonds will be issued in EUR with nominal value equivalent to ISK 288,059,442,384. Nominal value of the Shares is ISK 1,600,000,000. In exchange for the payments under the Composition Agreement the balance of all general claims against LBI is extinguished. Furthermore any Subordinated Claims against LBI are fully eliminated pursuant to the Composition Agreement and the relevant provision of Icelandic law.

15. Taxes

Special tax on financial institution

Imposition of tax on financial institutions /bank tax) for the year 2014 which was paid in 2015 amounted to ISK 6,8 billion. The company ceased to be subject to this tax once the composition proposal was approved in 2015. This means this means that for 2015 and subsequent year the Company will have no liability to pay the bank tax

Special financial administration tax (sérstakur fjársýsluskattur)

Act No. 165/2011 came into effect on 30 December 2011 amending the Income Tax Act. No. 90/2003. A new 6% tax on tax income base over ISK 1 billion was introduced, effective from 30 December 2011. Taxable parties are i.a. credit institutions, investment banks and other financial undertakings c.f. Act No. 161/2002. An amendment was introduced on 27 December 2013 with Act No. 142/2013, effective from 1 January 2014, which stated that tax losses carried forward and tax consolidation cannot be used to offset against the tax.

LBI has disputed this taxation on the basis that it is not a taxable entity and for the relevant period on the basis that tax losses could be used to offset against the tax.

In accordance to temporary provision no. LVI., Section b., of the Income Tax Act no. 90/2003, income from debt forgiveness in relation to the winding up proceedings is not subject to the tax.

The special financial administration tax is estimated to be ISK 2,72 billion.

Notes

15. Taxes contd.

VAT (Virðisaukaskattur)

LBI is not registered for VAT purposes and therefore the Company cannot reclaim any VAT paid on services in accordance with Icelandic VAT legislation. The Company is however obliged to return VAT of services from foreign service providers if the service is considered used in Iceland.

Income tax (tekjuskattur)

The Company is subject to a general corporate income tax at the rate of 20%. The Company has however sufficient tax losses carry forward to offset any taxable income for the year 2015.

16. Stability contribution

At the creditors' meeting on 2 October 2015, a decision was presented on the handing over of certain of LBI's domestic assets and rights as a stability contribution to the Central Bank of Iceland or parties to whom the bank referred, in accordance with an authorisation in the second paragraph of Art. 103 of Act No. 161/2002, on Financial Undertakings. In tandem with LBI's request to the Central Bank of Iceland for exemptions from capital controls of 6 October 2015, certain assets and rights were proposed as a stability contribution in order to satisfy the stability conditions for granting to LBI the requested exemptions and a certificate attesting that the Company's composition proposal was not considered to upset stability in exchange rate and monetary affairs and/or financial stability, cf. the fourth paragraph of Art. 103 a of Act No. 161/2002. A letter from the Central Bank of Iceland with provisional approval for the granting of exemptions of 11 November 2015, and a certificate of positive assessment of LBI's composition proposal confirmed that LBI's stability contribution satisfied the stability conditions and, furthermore, what assets and rights would be turned over if the composition proposal were approved by a vote and confirmed by the courts. On 25 December 2015 the composition became binding, and LBI's winding-up proceedings were thereby concluded. A written agreement on the transfer of assets and rights of LBI as a stability contribution was signed on 8 January 2016 and the delivery was made on 11 January 2016 (of cash) and 22 January 2016 (of other assets).

The liabilities relating to the stability contribution are specified as follows:

Loan agreements.....	8.043
Bonds and equities.....	1.318
Real estate assets.....	178
Cash payment.....	6.402
Allocated cash.....	3.200
	<hr/>
	19.141

According to the agreement on a stability contribution LBI retains two reserve funds in ISK. Reserve Fund 1, in the amount of ISK 6 billion, can be used by LBI to pay disputed claims with priority with reference to Articles 109-111 of Act No. 21/1991, on Bankruptcy etc., if obligation is recognised to make payment in ISK and for payment of special financial administration tax for the 2015 financial year. Insofar as Reserve Fund 1 is not used to pay these claims, LBI is to hand over the remaining amount as part of its stability contribution; this settlement is to be made no later than year-end 2018. Reserve Fund 1 is only expected to be used for payment of estimated special financial administration tax. The remainder, ISK 3,2 billion, is therefore recognised as part of the stability contribution (Allocated cash). Reserve Fund 2, amounting to ISK 3 billion, can be used by LBI to pay costs in ISK from 1 January 2016 until year-end 2018 and is expected to be fully utilised. Both Reserve Funds 1 and 2 are held in deposit accounts with Landsbankinn hf. in LBI's name and the Company must deliver reports on disbursements to the Central Bank of Iceland on a regular basis.

Notes

17. Approval of financial statements

The Financial Statements were approved by the board of directors and authorised for issue on 23 march 2016.