LBI

Financial Statements

2016

LBI ehf
Sóltún 26
105 Reykjavík
Reg. No. 540291-2259

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Independent Auditors report

To the Board of Directors and the Shareholders of LBI ehf.

Opinion

We have audited the financial statements of LBI ehf. for the year ended December 31, 2016 which comprise the report of the Board of Directors and the CEO, the income statement, the balance sheet, the statement of cash flows, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of LBI ehf. as at December 31, 2016, and its financial performance and its cash flows for the year then ended in accordance with the Icelandic Financial Statement Act.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of LBI ehf. in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and Icelandic Institute of State Authorized Public Accountants, Code of Ethics (FLE Code) and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Matter

The financial statements of LBI ehf. for the year ended December 31, 2015, were not audited. The comparative amounts and disclosures included in the financial statements are unaudited.

Other information

The Board of Directors and the CEO are responsible for the other information. The other information comprises the supplemental information.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and the CEO for the Financial Statements

The Board of Directors and the CEO are responsible for the preparation and fair presentation of the financial statements in accordance with the Icelandic Financial Statement Act, and for such internal control as the Board of Directors and the CEO determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors and the CEO are responsible for assessing LBI ehf.'s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors and the CEO either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of LBI ehf.'s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Kópavogur, 19 April 2017

Deloitte ehf.

Lárus Finnbogason

State Authorized Public Accountant

Jón Kristinn Lárusson

State Authorized Public Accountant

Report of the Board of Directors and the CEO

LBI ehf. (hereafter "LBI" or the “Company”) is a private limited liability company incorporated and domiciled in Iceland. The Company's registered office is at Sóltún 26, 105 Reykjavík.

LBI's main activity is the management and controlled monetisation of its asset portfolio, which includes, among other things, cash, loans, bond and equity instruments, claims on bankrupt estates, real estate, unsettled derivative contracts and litigation claims against third parties.

LBI’s winding-up proceedings under the Icelandic Act on Bankruptcy etc. (the “Icelandic Bankruptcy Act”) were concluded on 25 December 2015 (the “Composition Effective Date”) following final confirmation by the Icelandic Courts of the Company’s composition, which was approved by LBI’s composition creditors on 23 November 2015 (the "Composition Agreement"). On 6 January 2016, the Central Bank of Iceland (the “CBI”) granted LBI an exemption from capital controls in Iceland as a precondition for the Company’s ability to implement the Composition Agreement.

As provided for under the Composition Agreement, LBI made a voluntary contribution to the Icelandic State (the “Stability Contribution”) and entered into an agreement with the CBI whereby the Company undertook to transfer ISK cash balances and certain assets to the CBI (the “Assignment Agreement”). These assets were transferred to the CBI during the first quarter of 2016. The Assignment Agreement furthermore provided for specific assets to be retained by LBI (the “Retained Assets”), subject to additional Stability Contributions (the "Additional Stability Contributions") in the future under certain circumstances. Additional Stability Contributions made during the year and information related to the Company’s expectations for Additional Stability Contributions going forward are provided in Note 19 to these Financial Statements.

Pursuant to the Composition Agreement, LBI repaid in full the remaining balance of recognised claims held by priority creditors on 11 January 2016. On 8 February 2016, LBI made de minimis cash payments (the “DMP”) to each creditor with recognised claims subject to the Company's composition. On 23 March 2016, LBI furthermore issued new shares and convertible notes (the "Convertible Notes") to its composition creditors in settlement of their claims, the Company’s existing share capital was cancelled and new Articles of Association were adopted.

The Convertible Notes are linked to the value of the Company’s assets as LBI’s payment obligations thereunder are determined by the net cash ultimately realised from the monetisation of the Company’s assets. The book value of the Convertible Notes is therefore adjusted in line with net asset value at the end of each reporting period. Reference is made to Note 17 of these Financial Statements for further information on the Convertible Notes.

LBI has placed in escrow DMP, Convertible Notes and Convertible Note redemption payments pending the resolution of disputed and contingent claims lodged under Art. 113 of the Icelandic Bankruptcy Act during the Company’s winding-up proceedings. LBI is furthermore obligated to issue new shares for any disputed or contingent Art. 113 claims which may become recognised claims under the Composition Agreement. Additional information about the Company’s obligations to issue new shares and reserves placed in escrow on account of disputed and contingent Art. 113 claims is provided in Notes 21 and 22 to these Financial Statements.

The Company continued to be managed by the Winding-up Board between the Composition Effective Date and 14 April 2016, when the Winding-up Board was replaced by a new Board of Directors elected at a shareholders’ meeting held in Reykjavik.

Operations in 2016

During the financial year 2016, LBI implemented the terms of its Composition Agreement as outlined above, actively managed its asset portfolio and worked to resolve disputed and contingent claims. Net cash inflow from assets during the year amounted to EUR 738.7 million, derived primarily from EUR 477.9 million in aggregate prepayments received towards certain series of bonds issued by Landsbankinn and EUR 236.0 million from repayments and controlled monetisation of the Company's loans to customer exposures. During the year, the Company repaid the remaining balance of EUR 1,482.6 million in recognised claims held by priority creditors and redeemed an aggregate EUR 717.3 million of Convertible Notes pro-rata to their outstanding nominal amount.

Over the year, EUR 91.6 million in disputed Art. 113 claims were finally resolved, of which EUR 91.5 million were finally rejected and EUR 30 thousand were finally recognised. Contingent Art. 113 claims remain unchanged from the prior year at EUR 31.6 million. Disputed priority claims in the total amount of EUR 292.9 million were finally rejected during the year, whereas none were finally recognised.

As of 31 December 2016, the Company's total assets amounted to EUR 862.2 million (2015: EUR 3,153 million) and total liabilities amounted to EUR 862.2 million (2015: EUR 3,153 million). The profit for the year was nil after adjusting the value of the Convertible Notes by EUR 34.4 million so as to equal the estimated net realisable value of the Company's assets. No dividends were paid during the year.

Risk Factors and Risk Management

LBI's holding of financial assets gives rise to various risks. The Company proactively manages risk by ensuring that an appropriate governance framework and internal controls are in place.

The Convertible Notes are directly linked to the value of the Company's assets. Any changes to the valuation of the Company's assets due to market developments or perceived risk will therefore have a direct effect on the value of the Convertible Notes. LBI's payment obligations under the Convertible Notes cannot exceed the net realisable value of the underlying assets of the Company, except upon acceleration following an event of default. To give a true and fair view of the financial position, the book value of the Convertible Notes is adjusted in line with the net realisable value of the Company's assets at the end of each financial reporting period, resulting in assets being equal to liabilities and causing the equity of the Company to be nil except in the unlikely event that the asset recoveries exceeded the nominal outstanding of the Convertible Notes.

A significant portion of LBI's assets is denominated in currencies other than the functional currency of the Company and the currency denomination of the Convertible Notes, which gives rise to foreign exchange risk. LBI does not utilise forward contracts, derivatives or other forms of financial hedging.

Although the majority of claim disputes have been settled, it should be noted that the definitive amount of the Company's liabilities cannot be finally determined until all disputed claims have been resolved. LBI is exposed to risk from the potential recognition of disputed claims lodged under Art. 109-113 of the Icelandic Bankruptcy Act and subsequently rejected during the Company's winding-up proceedings. All of the disputed claims have been referred to the Icelandic courts for resolution. The Company periodically reviews the risks associated with the potential recognition of these claims. Reference is made to Notes 21-23 for further information on disputed claims and their potential impact on the Company's liabilities.

Going Concern

The Financial Statements have been prepared on the basis that the Company will be able to effectively manage the timing of asset realisations. External events (whether political, economic, regulatory and/or legal in nature) could affect the time scale, ability and process for such realisations. Due to the nature of its operations, the Company has a finite life. The Convertible Notes will be fully converted into equity when all recoverable assets of the Company have been realised and all available non-ISK cash has been applied toward the redemption of outstanding Convertible Notes. Following the full conversion of the Convertible Notes into equity, the Company will be dissolved.

Other Matters

The Financial Statements for the year ended 31 December 2016 have been prepared in accordance with the Icelandic Act on Annual Accounts No. 3/2006 (the "Act on Annual Accounts") and are presented in EUR, which the Company adopted as its functional currency from 2016. During 2016, the Company reclassified its assets into new categories to better reflect the nature and similarities of exposures included in each asset category and the manner in which they are managed.

The financial statements for the year ended 31 December 2015 were originally presented in ISK, which was the Company's functional currency at the time. The 2015 financial statements reflected the effect of the Composition Agreement even though the cancellation of the existing share capital, the issuance of new shares and the Convertible Notes did not formally occur until 2016. For comparative purposes, the year-end results for 2015 have been restated in EUR while certain balance sheet and income statement items have been reclassified in these Financial Statements for consistency with the new categories adopted by the Company during 2016.

Share Capital and Shareholders

The Company's new share capital was denominated in ISK at the time of issuance on 23 March 2016. At an extraordinary general meeting held on 16 September 2016, the shareholders of LBI unanimously approved the conversion of the Company's share capital from ISK into EUR. The share capital of LBI thus changed from ISK 1,600,000,000 (1,600,000,000 Class A Shares each with a nominal value of ISK 1) to EUR 11,338,671.96 (1,133,867,196 Class A Share each with a nominal value of EUR 0.01).

Pursuant to its Articles of Association, the Company is both authorised and obligated to issue 36.7 million new Class A shares each of EUR 0.01 to cover any disputed or contingent claims lodged under Art. 113 of the Icelandic Bankruptcy Act which may become finally recognised under LBI's Composition Agreement. On 20 October 2016, LBI issued 2,761 new Class A Shares with a nominal value of EUR 27.61 to holders of previously disputed claims which were finally recognised during the reporting year.

The Company's share capital is divided into two classes of shares, being 1,133,869,957 Class A Shares and nil Class B Shares as of 31 December 2016. The rights of shareholders in each class are the same apart from the fact that shareholders holding Class B Shares do not enjoy voting rights except as set out in the Company's Articles of Association.

On 1 January 2016, LBI was in winding-up proceedings and its shareholder base was different from that subsequently effected by its Composition Agreement. On 23 March 2016, the existing share capital was cancelled and new shares were issued. On 31 December 2016, 601 shareholders were registered in the Company's share registry. The ten largest shareholders of the Company and their respective ownership stake as of 31 December 2016 were as follows:

#	Shareholder / Control	Number of shares	% Ownership	Aggregate control
1	Anchorage Capital Group LLC			48.5%
	ACMO S.a.r.l.	486,663,432	42.9%	
	AIO III S.a.r.l.	31,196,171	2.8%	
	AIO IV S.a.r.l.	14,922,178	1.3%	
	ACMO Finance (Ireland) Limited	11,875,360	1.0%	
	PCI Fund LLC	5,686,841	0.5%	
2	Taconic Capital Advisors LP.			8.2%
	TCA Opportunity Investments Sarl	83,759,649	7.4%	
	TCA Event Investements Sarl	9,306,627	0.8%	
3	Burlington Loan Management Limited	84,162,553	7.4%	7.4%
4	Goldman Sachs International	28,098,385	2.5%	7.4%
	ELQ Investors II Ltd.	56,075,428	4.9%	
5	CarVal Investors			4.8%
	CVF LUX Master S.a.r.l.	23,996,885	2.1%	
	CVF Lux Securities Trading Sarl	15,706,878	1.4%	
	CVIC Lux Securities Trading Sarl	4,775,708	0.4%	
	CVI AA LUX Securities S.A.R.L.	4,507,084	0.4%	
	CarVal GCF Lux Securities Sárl.	2,954,122	0.3%	
	CVIC LUX Master S.a.r.l.	2,430,702	0.2%	
	CVI CHVF Lux Securities Sárl	532,256	0.0%	
6	Deutsche Bank AG, London Branch	30,621,968	2.7%	2.7%
7	Marble Ridge Master Fund LP	18,430,169	1.6%	1.6%
8	Bayerische Landesbank	16,259,172	1.4%	1.4%
9	Gladwyne Investments			1.8%
	Gladwyne Master Fund Limited	15,396,063	1.4%	
	Pareturn Gladwyne Absolute Credit	4,950,141	0.4%	
10	Ríkisábyrgðasjóður	10,370,292	0.9%	0.9%
Total		**962,678,064**	**84.9%**	**84.9%**

All amounts are in EUR thousands,
unless otherwise stated

Statement by the Board of Directors and the CEO

The Financial Statements for the year ended 31 December 2016 have been prepared in accordance with the Act on Annual Accounts.

It is the opinion of the Board of Directors and the Chief Executive Officer that the Financial Statements of LBI for the year 2016 give a true and fair view of the financial performance of the Company and describe the principal risks and uncertainties faced by the Company.

Comparative numbers from the 2015 financial statements, which were approved and presented by the Winding-Up Board, are unaudited. The endorsement of the Board of Directors and the CEO of LBI does not extend to the comparative numbers presented from the 2015 financial statements.

The Board of Directors and the Chief Executive Officer hereby endorse the Financial Statements of LBI for the year 2016 and recommend that they be approved at the Annual General Meeting of the Company.

Reykjavík, 19 April 2017

The Board of Directors

Richard Katz
Chairman

Kolbeinn Árnason

Christian Digemose

Chief Executive Officer

Ársæll Hafsteinsson

Income Statement 2016

	Notes	2016	Unaudited 2015
Interest, dividend and fee income	4	41,479	71,958
Net change in impairment	5	50,495	519,849
Other operating income (expense)	6	3,022	
Net exchange difference		(2,539)	(65,838)
Operating income		92,456	525,969
Salaries and related expenses	7	(15,236)	(10,647)
General and administrative expenses	8	(23,249)	(38,041)
Operating expenses		(38,485)	(48,689)
Reversal of reserves held in escrow	22	12,090	
Adjustment to value of the Convertible Notes	17	(34,389)	563,037
Adjustment to claims pursuant to the Composition Agreement			9,275,960
Financing activities		(22,299)	9,838,997
Profit before Stability Contribution and taxes		31,673	10,316,277
Stability Contribution	19	(31,673)	(130,891)
Taxes	18		(18,602)
Profit for the year		0	10,166,784

All amounts are in EUR thousands, unless otherwise stated

Balance Sheet as at 31 December 2016

Assets	Note	31/12/2016	Unaudited 31/12/2015
Cash	9	42,425	1,556,126
Restricted cash	10	89,757	119,706
Landsbankinn term deposit	11	141,540	94,036
Landsbankinn bonds	12	420,197	887,119
Loans to customers	13	48,194	354,291
Equities and bonds	14	5,763	15,006
Claims on bankrupt estates	15	80,789	74,367
Other assets	16	32,412	48,165
Other receivables		1,097	4,218
Total assets		862,175	3,153,033

Liabilities	Note	31/12/2016	Unaudited 31/12/2015
Priority claims		0	1,486,044
DMP		0	20,934
Convertible Notes	17	785,479	1,478,345
Tax liabilities	18	19,525	19,211
Stability Contribution	19	50,023	135,074
Other liabilities		7,147	13,426
Total liabilities		862,175	3,153,033
Equity			
Share capital		11,283	11,339
Accumulated deficit		(11,283)	(11,339)
Total equity	20	0	0
Total liabilities and equity		862,175	3,153,033

All amounts are in EUR thousands,
unless otherwise stated

Statement of Cash Flows 2016

	2016	Unaudited 2015
Cash flows (to) from assets		
Interest received on cash	1,187	8,961
Restricted cash- net cash inflow (outflow)	(243)	(77,356)
Landsbankinn term deposit - principal payments inflow (outflow)	(54,576)	(94,036)
Landsbankinn term deposit - interest income	2,152	
Landsbankinn bonds - principal payments	477,908	478,727
Landsbankinn bonds - interest income	28,130	37,352
Loans to customers - principal payments inflow	235,974	100,203
Loans to customers - interest/fee income	7,780	9,947
Equities and bonds - net cash inflow	4,949	272,667
Claims on bankrupt estates - net cash inflow	15,136	118,482
Other assets - net cash inflow	20,348	81,861
Net cash from assets	738,747	936,809
Cash flows (to) from other operating activities		
Salaries and related expenses	(9,095)	(10,139)
General and administrative expenses	(22,489)	(45,950)
Other operating income (expenses)	3,290	
Paid taxes		(47,991)
Net cash (to) from other operating activities	(28,294)	(104,079)
Cash flow (to) from financing activities		
Priority claims	(1,482,600)	
DMP	(20,789)	
Reversal of reserves held in escrow	5,875	
Redemption of Convertible Notes	(717,308)	
Net cash (to) from financing activities	(2,214,821)	
(Decrease) increase in cash	(1,504,368)	832,729
Effects of foreign exchange rate adjustments on cash	(9,334)	1,353
Cash at the beginning of the period	1,556,126	722,044
Cash at the end of the period	42,425	1,556,126

All amounts are in EUR thousands, unless otherwise stated

Notes

General information

1. Reporting entity

LBI ehf. is a private limited liability company incorporated and domiciled in Iceland. The Company's registered office is at Sóltún 26, 105 Reykjavík.

LBI's main activity is management and controlled monetisation of its asset portfolio which includes, among other things, cash, loans, bond and equity instruments, real estate, unsettled derivative contracts and litigation claims against third parties.

2. Basis of preparation

Statement of compliance

These Financial Statements have been prepared in accordance with the Act on Annual Accounts.

The Financial Statements were approved and authorised for issue by the Board of Directors and CEO on 19 April 2017.

Going concern

The Financial Statements have been prepared on the basis that the Company will be able to effectively manage the timing of asset realisations. External events (whether political, economic, regulatory and/or legal in nature) could affect the time scale, ability and process for such realisations. Due to the nature of its operations, the Company has a finite life. The Convertible Notes will be fully converted into equity when all recoverable assets of the Company have been realised and all available non-ISK cash has been applied toward the redemption of outstanding Convertible Notes. Following the full conversion of the Convertible Notes into equity, the Company will be dissolved.

Valuation methodology

The valuation methodology underlying each asset category 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-depth valuation exercise. Further information regarding the valuation methodology for each asset is as follows:

Balance sheet item	**Valuation methodology**
Cash and restricted cash...........	Recognised at nominal value.
Landsbankinn term deposit....	Recognised at nominal value plus accrued interest.
Landsbankinn bonds...............	Recognised at amortised cost, applying the effective interest rate method, with estimates made for impairment.
Loans to customers..................	Recognised at amortised cost, applying the effective interest rate method, with estimates made for impairment reflecting the creditworthiness of the borrower, underlying collateral if any and other relevant factors. Assessment of the impairment on syndicated facilities is in part informed by market quotations but does not rely exclusively on such quotations.
Equities and bonds..................	All equities and bonds are valued at estimated recoveries. To the extent such assets are subject to market quotations, the

	Company reviews such quotations in assessing its recoveries but does not rely exclusively on such quotations.
Claims on bankrupt estates.....	Realisable value is based on best estimate of recoverability, in part reflecting information provided by the administrator of the relevant estate.
Other assets............................	Real estate is valued at realisable value. Unsettled derivative contracts which are disputed claims, and claims against entities which have concluded their winding-up proceedings in Iceland by way of a composition agreement, are valued based on best estimate of recoverability.
Other receivables....................	Valued at nominal amount.
Convertible Notes...................	Recognised at the lesser of net asset value or nominal amount outstanding at the end of the period.
Other liabilities........................	Valued at nominal amount.

Functional currency

These Financial Statements are presented in EUR, which the Company adopted as its functional currency from the year 2016. All amounts have been rounded to the nearest thousand, except where otherwise stated. A significant proportion of the Company's assets are denominated in currencies other than EUR. As a result, the estimated values presented herein may be materially impacted by exchange rate movements.

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 nonetheless differ materially from these estimates and assumptions made.

The Financial Statements have been prepared on the basis that LBI is able to manage the realisation of its assets and transact its ongoing business with appropriate regard to the interests of all its stakeholders. Accordingly, the estimate of value attributed to each asset is dependent on the realisation strategy presently pursued for such asset. As such, asset value does not necessarily represent the price 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.

Limited active markets exist for some of the assets held by the Company. To the extent that the estimated asset values are based on inputs that are less observable or unobservable in the market, estimation of value requires a more subjective judgement. Accordingly, management has been required to apply such judgement considerably in estimating values for certain assets.

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

The realisable value of the Company's assets may differ at various points in time, as some of the non-cash assets are complex, illiquid and non-standardised, and subject to a number of material uncertainties, including general economic and market conditions and legal outcomes which have been and may continue to be volatile. Changes in the underlying assumptions used for measurement could materially affect these stated values.

Although the majority of claim disputes have been settled, it should be noted that the definitive amount of the Company's liabilities cannot be finally determined until all disputed claims have been resolved. Reference is made to Notes 21-23 for further information on disputed claims and their potential impact on the Company's liabilities.

Interest, dividend and fee income

Interest and fee income is recognised on an accrual basis except interest income on cash held at bank which is recognised from account statements.

Dividend income is recognised when the shareholder's right to receive payment has been established (provided that the economic benefits are expected to flow to the Company and the amount of income can be measured reliably).

Impairment

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

Where the cost of assets has been impaired and the reasons for the impairment no longer applies, the previously recognised impairment loss is reversed. The amount of the reversal is recognised in the income statement.

Stability Contribution

As part of the Composition Agreement confirmed by the District Court of Reykjavik on 18 December 2015 (which became final and binding under Icelandic law on 25 December 2015), LBI made a voluntary Stability Contribution to the Icelandic State and entered into the Assignment Agreement with the CBI. The Assignment Agreement provides for the Company to transfer certain specific assets to the CBI or such entity as the CBI may designate. The majority of these assets were transferred during the first quarter of 2016. The Assignment Agreement furthermore provided for specific assets to be retained by LBI, the Retained Assets, subject to Additional Stability Contributions under certain circumstances. The Retained Assets currently held by LBI are as follows:

(i) A cash amount initially of ISK 3.0 billion (the "ISK Opex Reserve Fund") which was deposited into a separate account to be used for payments of ISK-denominated operating expenses incurred by the Company during the period of 1 January 2016 to 31 December 2018. Pursuant to the Assignment Agreement, any ISK funds remaining in this separate account on 31 December 2018 must be transferred to the CBI as an Additional Stability Contribution;

(ii) A cash amount initially of ISK 6.0 billion (the "ISK Priority Claims Reserve Fund") which was deposited to a separate account for the settlement of disputed ISK-denominated priority claims lodged under Art. 109-111 of the Icelandic Bankruptcy Act, to the extent that such claims are finally recognised, and to pay the Special Financial Administration Tax for 2015. Pursuant to the Assignment Agreement, any ISK funds remaining in this separate account, after all such claims have been resolved and such tax payment has been made, must be transferred to the CBI as an Additional Stability Contribution; and

(iii) Certain assets, rights and litigation where a realisation would result solely in ISK proceeds or combined ISK and non-ISK proceeds; any ISK proceeds must be transferred to the CBI as an Additional Stability Contribution if and when realised. No value is assigned to prospective ISK proceeds from these assets in LBI's Balance Sheet. Cash received from these zero-value assets is reflected in the income statement as an increased value and is then expensed for the same amount as an Additional Stability Contribution. Cash received by LBI which has not been transferred to the CBI at the end of each reporting period is furthermore listed as an asset under Restricted Cash and then fully offset by an increase in Stability Contribution under liabilities.

3. Currency exchange rates

From the year 2016, the Company's functional currency is EUR instead of ISK. Upon making this change in the functional currency, all balance sheet comparative amounts were converted to EUR at the prevailing ISK / EUR exchange rate on 31 December 2015 and all income statement comparatives were converted at the average ISK / EUR exchange rate for the period 1 January to 31 December 2015.

Transactions in foreign currencies are initially recorded at the rates of exchange prevailing on the date of each transaction. Monetary assets and liabilities denominated in foreign currency are converted using the selling rates published by the CBI on the Balance Sheet date. Profit and loss resulting from exchange rate movements are included in profit/loss for the reporting period.

	Balance Sheet date	
	31/12/2016	31/12/2015
ISK	0.0084	0.0071
USD	0.9467	0.9167
GBP	1.1657	1.3586
CAD	0.7028	0.6601
DKK	0.1345	0.134
NOK	0.1101	0.1044
SEK	0.1044	0.1090
CHF	0.9302	0.9234
JPY	0.0081	0.0076

All amounts are in EUR thousands,
unless otherwise stated

Notes to the Income Statement

4. Interest, dividend and fee income

	2016	2015
Cash and restricted cash balances	3,220	10,061
Landsbankinn term deposit	2,173	2
Landsbankinn bonds	25,362	38,757
Loans to customers	10,724	15,689
Equities and bonds	0	4,401
Other assets	0	3,050
Total	41,479	71,958

Interest, dividend and fee income for the 2016 financial year totalled EUR 41.5 million (2015: EUR 72.0 million), primarily on account of interest income on the Landsbankinn bonds and to a lesser extent on loans to customers. Owing to prepayments of certain series of the Landsbankinn bonds and the monetisation of other interest-bearing exposures during the year, interest, dividend and fee income fell compared to the prior year.

5. Net change in impairment

	2016	2015
Loans to customers	(11,093)	70,188
Equities and bonds	4,910	1,734
Claims on bankrupt estates	29,165	411,772
Other assets	27,513	36,155
Total	50,495	519,849

6. Other operating income (expense)

	2016	2015
Allocation of Convertible Notes to LBI from DBTCA	7,022	0
Off-balance-sheet reclassification effect	(4,001)	0
Total	3,022	0

At the time of its composition, LBI held through custodians USD 57.6 million of its own bonds which were issued before its winding-up proceedings. Under the terms of the Composition Agreement, the bonds entitled LBI to an allocation of EUR 9.5 million in Convertible Notes that were initially distributed to Deutsche Bank Trust Corporation Americas ("DBTCA") in its capacity as trustee for holders of the relevant bonds. LBI received such allocation from DBTCA in the form of EUR 6.2 million in Convertible Notes and EUR 3.3 million in cash, the latter representing Convertible Notes redemption payments since issuance. The allocation is recorded as part of other operating income based on the book value of the Convertible Notes (EUR 3.7 million) and the amount of cash received (EUR 3.3 million).Certain exposures previously reported in loans to customers with a EUR 4.0 million valuation have been reclassified as off-balance-sheet items in line with the Company's decision not to assign any value to certain litigation against third parties due to the high level of uncertainty associated with valuing such exposures and as any related disclosure could be commercially prejudicial to LBI.

All amounts are in EUR thousands, unless otherwise stated

7. Salaries and related expenses

	2016	2015
Salaries	12,735	8,526
Pension fund	1,304	849
Other salary related expenses	1,197	1,273
Total	15,236	10,647
Of which: ISK	7,732	6,414
Of which: non-ISK	7,504	4,233
Total	15,236	10,647
Average number of full-time positions during the year	21	39
Number of full-time positions at the end of the year	12	32

Total salaries and fees (inclusive of certain amounts in Note 8) paid to the Company's directors and management and to members of the Winding-up Board for the year 2016 amounted to EUR 7.7 million (2015: EUR 4.3 million).

8. General and administrative expenses

	2016	2015
Winding-up Board and CEOs	1,167	4,266
External advisors	19,280	26,509
Premises expenses	379	628
Other expenses	2,423	6,639
Total	23,249	38,041
Of which: ISK	10,261	15,523
Of which: non-ISK	12,988	22,518
Total	23,249	38,041

Notes to the Balance Sheet

9. Cash

	31/12/2016	31/12/2015
Non-ISK	31,420	1,533,896
ISK Opex Reserve Fund	11,005	22,230
Total	42,425	1,556,126

As of 31 December 2016, the remaining balance in the ISK Opex Reserve Fund amounted to ISK 1.3 billion (EUR 11.0 million). These funds are retained by LBI in a separate account for the payment of ISK-denominated operating expenses. Pursuant to the terms of the Assignment Agreement, any ISK funds remaining on 31 December 2018 must be paid to the CBI and will therefore not be available for distribution to the Company's stakeholders (see Note 2). The Company expects that the ISK Opex Reserve Fund will be depleted during 2017.

All amounts are in EUR thousands, unless otherwise stated

10. Restricted cash

	31/12/2016	31/12/2015
ISK Priority Claims Reserve Fund	52,283	42,350
ISK cash with respect to an Additional Stability Contribution	17,265	45,133
ISK cash on escrow	0	12,222
Indemnity Fund	19,949	20,000
Trustee Indemnity Fund	260	0
Total	89,757	119,706

The ISK Priority Claims Reserve Fund amounts to ISK 6.2 billion (EUR 52.3 million), which is held in a separate account for the settlement of certain ISK-denominated claims against the Company. Of this amount, ISK 2.3 billion (EUR 19.5 million) will be used to pay the Special Financial Administration Tax for 2015 (see Note 18). The remaining balance is retained for the settlement of certain ISK-denominated disputed priority claims lodged under Art. 109-111 of the Icelandic Bankruptcy Act, to the extent that such claims are finally recognised. Pursuant to the terms of the Assignment Agreement, any funds remaining in the ISK Priority Claims Reserve Fund must be transferred to the CBI when these claims have been resolved. The ISK Priority Claims Reserve Fund will therefore not be available for distribution to the Company's stakeholders (see Note 2). The increase in the year is explained by accrued interests and foreign exchange changes.

Pursuant to the terms of its Composition Agreement, LBI undertook to transfer to the CBI all ISK-denominated cash balances (net of the ISK Opex Reserve Fund and the ISK Priority Claims Reserve Fund) as part of its Stability Contribution and any future ISK-denominated cash realised from Retained Assets as Additional Stability Contributions. Further to a ruling by the Supreme Court of Iceland on 6 October 2016, LBI received a payment of ISK 2.1 billion (EUR 17.3 million) from Brim hf. for a Retained Asset. Brim hf. made the payment with reservations, demanding recourse to LBI for reimbursement of the amount paid. The payment received from Brim hf. remains classified as a Retained Asset and a corresponding amount is allocated for Additional Stability Contribution at year-end 2016, as the ISK-denominated payment is to be transferred to CBI to the extent not reimbursed by LBI to Brim hf.

In connection with obtaining approval from CBI of its Composition Agreement, LBI reached an agreement with Landsbankinn in September 2015 related to certain ISK claims lodged by LBI into the estate of a former subsidiary of Landsbankinn. As a part of this agreement LBI agreed to pay ISK 1.7 billion (EUR 12.2 million) to Landsbankinn and placed the amount into escrow until finally released in early 2016.

All amounts are in EUR thousands,
unless otherwise stated

An indemnity fund (the "Indemnity Fund") consists of EUR 19.95 million (of an initial allocation of EUR 20 million), which has been placed in a term deposit account with a foreign bank under the terms of the indemnification provided by the Company in favour of various parties in relation to the winding-up proceedings and the composition. The term deposit bears floating interest rates which are currently negative. In the event that the Indemnity Fund is drawn prior to 25 December 2017, LBI is required to top-up the balance to EUR 20 million. The Indemnity Fund will be reduced by EUR 5 million and such amounts returned to LBI if no qualifying claims have been made, threatened or alleged against the beneficiaries on or before 25 December 2017. In the event that the Indemnity Fund is drawn on between 26 December 2017 and 25 December 2019, LBI is required to top-up the balance to EUR 15 million. Any balance remaining in the Indemnity Fund on 25 December 2025 will be returned to LBI.

An indemnity fund has been placed with Wilmington Trust in its capacity as trustees under the trust deed executed in relation to the issuance of the Convertible Notes (the "Trustee Indemnity Fund"). During the year, the first of four equal instalments in the amount of USD 275 thousand was deposited into the Trustee Indemnity Fund which will total USD 1.1 million when fully funded. The Trustee Indemnity Fund will be held for the benefit of Wilmington Trust and any remaining funds released under certain conditions three months after the Convertible Notes are redeemed, cancelled or converted.

Neither cash nor restricted cash includes reserves placed in escrow pursuant to the Composition Agreement to cover disputed and contingent claims lodged under Art. 113 of the Icelandic Bankruptcy Act.

11. Landsbankinn term deposit

	31/12/2016	31/12/2015
Term deposit with Landsbankinn (EUR)	72,610	45,374
Term deposit with Landsbankinn (GBP)	56,431	41,100
Term deposit with Landsbankinn (USD)	12,500	7,563
Total	141,540	94,036

LBI maintains a term deposit denominated in EUR, GBP and USD with Landsbankinn in an amount equivalent to EUR 141.5 million as of 31 December 2016 (2015: EUR 94.0 million). The term deposit matures on 9 October 2018 and bears interest at 1.5% over 3-month EUR EURIBOR / GBP LIBOR / USD LIBOR. Further to an agreement between LBI and Landsbankinn, LBI was permitted to defer a contractual commitment to deposit EUR 27.2 million, GBP 18.2 million and USD 5 million into the term deposit to facilitate payments under the Company's composition. These amounts were deposited by LBI in April 2016.

12. Landsbankinn bonds

LBI held the entirety of the bonds issued by Landsbankinn and outstanding at year-end under each of the four series detailed below, which as of year-end 2016 amounted to the equivalent of EUR 420.2 million (2015: EUR 887.1 million):

	31/12/2016	31/12/2015
Series 2020 (USD)	161,390	250,281
Series 2022 (EUR)		193,279
Series 2024 (USD)	258,807	250,281
Series 2026 (EUR)		193,279
Total	420,197	887,119

All amounts are in EUR thousands,
unless otherwise stated

The Landsbankinn bonds have senior ranking and are secured by a pledge on part of Landsbankinn's loan portfolio, subject to a minimum coverage ratio of 115% on the aggregate principal amount outstanding across the four series. The Landsbankinn bonds are callable at par at any time and are not subject to prepayment penalty.

During 2016, Landsbankinn prepaid in full the bonds issued under Series 2022 and Series 2026, and partially prepaid the bonds issued under Series 2020 and Series 2024, as follows:

- On 15 April 2016, Landsbankinn prepaid EUR 20.0 million towards principal outstanding under Series 2022;
- On 15 September 2016, Landsbankinn prepaid the remaining balance outstanding under Series 2022 and Series 2026, and prepaid USD 24.0 million towards principal outstanding under Series 2024;
- On 25 November 2016, Landsbankinn prepaid USD 36.0 million towards principal outstanding under Series 2020; and
- On 5 December 2016, Landsbankinn prepaid USD 40.0 million towards principal outstanding under Series 2020.

As of 31 December 2016, the outstanding principal amount was USD 170 million under Series 2020 and USD 271 million under Series 2024 of the Landsbankinn bonds as set out below:

Series	Currency	Outstanding Principal	Base rate	Margin	Step up margin from 9.10.2018	Maturity
Series 2020	USD	170,000	3 m Libor	2.90%	3.50%	09/10/2020
Series 2024	USD	271,000	3 m Libor	2.90%	3.95%	09/10/2024

On 14 March 2017, Landsbankinn fully prepaid the remaining USD 170 million principal balance outstanding under Series 2020 and partially prepaid Series 2024 in the principal amount of USD 111 million.

Landsbankinn had the option until 25 March 2017 to convert the bonds, in part or in full, into senior unsecured bonds under Landsbankinn's EMTN programme, subject to Landsbankinn having a long-term credit rating in foreign currency of at least BB+ from Standard & Poor's or Ba1 from Moody's at the time the option is exercised (the "Conversion Option"). In the event of a conversion, the terms of the senior unsecured bonds would be determined by reference to market terms as supported by a fairness opinion from an internationally-recognised investment bank. The Conversion Option had not been exercised at the time of its expiry.

On or after 9 October 2018, LBI can require Landsbankinn to convert all of the bonds into Eurobonds that shall, with certain defined exceptions, have substantially the same terms and conditions as the bonds prior to such conversion. In the event that Landsbankinn and LBI are unable, within a defined time limit, to reach an agreement on the terms and conditions of the Eurobonds other than previously agreed, a panel of three experts in such Eurobonds and Eurobonds Secondary Documents shall be formed to determine the terms of the Eurobonds and the Eurobond Secondary Documents. Landsbankinn shall, at its own expense, make a reasonable effort to list such Eurobonds on the London Stock Exchange, Bourse de Luxembourg or the Dublin Stock Exchange (or such other exchange as may be agreed by LBI) on or as soon as practicable following such conversion.

All amounts are in EUR thousands, unless otherwise stated

13. Loans to customers

The loans to customers portfolio was reduced significantly during the 2016 financial year, largely as a result of repayments (EUR 191.4 million) and to a lesser degree by the controlled monetisation of three exposures (EUR 44.6 million). Furthermore, the Company transferred ISK-denominated loans with an aggregate estimated recoverable value of EUR 50.7 million to the CBI in 2016 as part of its Stability Contribution and as provided for under the Assignment Agreement. The vast majority of the estimated recovery attributable to ISK-denominated loans transferred to the CBI were in the form of loan exposures to the Icelandic real estate sector. During 2016, the valuation of the portfolio was reduced by EUR 11.1 million and exposures with estimated recoverable value of EUR 4.0 million were taken off-balance sheet.

Loans to customers by sector	31/12/2016	31/12/2015
Real Estate	29,518	84,766
Services	10,882	52,805
Retail	6,017	13,910
Fishery		103,852
Food Production		70,000
Industrial Products		14,992
Manufacturing		792
Other	1,778	13,174
	48,194	354,291

Loans to customers by country	31/12/2016	31/12/2015
UK	26,988	73,790
France	6,250	32,828
Germany	4,643	5,783
Netherlands	20	3,697
Canada		102,924
Iceland		50,665
Other Europe	10,293	84,605
Total	48,194	354,291

As of 31 December 2016, the estimated recoverable value in the portfolio is primarily accounted for by leveraged lending to corporate counterparties, mortgages to individuals secured by residential real estate and 21 exposures to Danish limited liability structures known as Kommanditselskaber ("K/S").

All amounts are in EUR thousands,
unless otherwise stated

K/S entities are tax-transparent and efficient property-owning vehicles targeted towards high net worth and high income-generating Danish individuals. At origination, the investors had to fulfil certain criteria for income and net worth to qualify as an investor into the K/S structure. Senior lending to these entities has been provided by local banks (from the country of the origination of the underlying asset) whereas the second lien (junior positions) is held by LBI with estimated recoverable value based on real estate value, lease payments and guarantees of the individuals owning the respective K/S structure. A combination of tenant defaults, declining property values in some markets, distressed senior and junior banks, inability to secure refinancing of maturing debt obligations and weakening strength of K/S investors financial capacity, have put pressure on recovery values.

As of 31 December 2016, the ten largest exposures in the loans to customers category by estimated recoverable value accounted for EUR 44.6 million, or 92.5%, of the estimated recoverable value of all loans to customers, whereas the aggregate outstanding balance for these ten exposures amounted to EUR 137.5 million, or 91.4%, of the entire portfolio.

Counterparty	Type of Exposure	Collateral	Balance
Individual	Mortgage / equity loan	Residential real estate	70,158
Individual	Mortgage	Residential real estate (sold / in contract)	26,251
Corporate / Individual	K/S	Commercial property lease	13,415
Corporate	Mortgage	Commercial real estate	7,113
Corporate	Leveraged lending	Second lien in all assets	6,067
*Corporate	Syndicated loan	Unsecured	5,772
*Corporate	Leveraged lending	First lien on all assets	5,157
Corporate / Individual	K/S	Commercial property lease	1,515
Individual	K/S	Personal guarantees	1,447
Corporate / Individual	K/S	Commercial property lease	631
		Total	137,526

The two largest exposures by outstanding balance are in the form of loans to individuals, which are secured by mortgages on residential properties in the United Kingdom and continental Europe. In one instance, the Company has sold or contracted to sell the mortgaged properties. However, the release of proceeds is subject to ongoing court proceedings in Iceland related to a claim filed by the individual against LBI. In the other instance, the individual has recently filed for bankruptcy in the United Kingdom and the Company is the largest creditor of the estate. In this latter case, the Company expects that the very substantial majority of the outstanding balance will ultimately be uncollectible.

(*) During the first quarter of 2017, two of the ten largest exposures by estimated recoverable value were monetized; one, in the form of leveraged lending to a service company in the United Kingdom, was repaid in full and another, in the form of a syndicated loan to a company in the German retail sector, was sold. These exposures represented an aggregate 20.1% of estimated recoverable value of the loans to customers portfolio at year-end 2016. In each case, the recovery realised by such monetisation was consistent with the carrying value for the loan at year-end 2016.

14. Equities and bonds

During the course of 2016, the Company sold the majority of its equity and bond positions in line with its controlled monetisation strategy. The remaining equity and bond positions as of 31 December 2016 are all unlisted and have primarily arisen from the past restructuring of credit exposures with EUR 3.3 million, or 57.7% of the estimated recoverable value, attributable to one equity position, which was sold in the first quarter of 2017 at a price consistent with its carrying value at 31 December 2016.

All amounts are in EUR thousands,
unless otherwise stated

15. Claims on bankrupt estates

	31/12/2016	31/12/2015
Landsbanki Luxembourg	74,355	61,000
Baugur	4,803	10,585
Heritable Bank	1,632	0
Other	0	2,782
Total	80,789	74,367

Landsbanki Luxembourg

LBI is the sole remaining creditor of the Landsbanki Luxembourg estate, which has been subject to liquidation proceedings in Luxembourg since late 2008. Information set forth below regarding legal matters pertaining to the Landsbanki Luxembourg estate is based on communications from that estate's liquidator, and not all of such information has been independently verified by LBI management.

The residual assets of the Landsbanki Luxembourg estate consist of equity release loans to individuals domiciled mainly in France and Spain. All loans are secured by first-lien mortgages on residential property owned by the respective borrowers. As a general matter, when an equity release loan was originally advanced, a portion of the proceeds was made available to the applicable borrower in cash or in the form of a repayment on an existing mortgage; other proceeds may have been invested in securities. The aggregate amounts of the cash or mortgage-repayment, inclusive of accrued interest thereon, are shown in the table below as "Cash release".

The table below shows the breakdown of the loans as estimated by LBI in EUR millions. There is considerable uncertainty regarding the estimated collateral value shown below. Amounts shown do not take into account continuing administrative and legal expenses, expected cost of enforcements and sales, discount for distressed sales or potential claims from third parties.

Location	# Clients	Outstanding Loan Balance		Estimated Collateral Value	Lesser of Balance or Collateral Value	
		Cash release	Total	Total	Cash release	Total
France	66	58.1	143.8	111.2	56.4	99.1
Spain	207	58.5	142.7	106.2	51.0	98.4
Other	2	.7	.9	.6	.4	.6
Total	275	117.3	287.4	218.0	107.9	198.2

French debtors have brought criminal actions against the Landsbanki Luxembourg estate and the Criminal Court in Paris has ordered a stay on the collection and enforcement of outstanding loans to borrowers domiciled in France until the legal proceedings are concluded. This action impedes the expected cash flow in the form of dividend payments from the Landsbanki Luxembourg estate to LBI, and will delay collection of these loans and the liquidation process as a whole. Legal proceedings under the jurisdiction of the Criminal Court in Paris will start on 2 May 2017 and a ruling from the Court of First Instance could be expected in Q3 2017.

There are also criminal complaints in Spain made by several groups of customers and many civil cases. These proceedings, too, may impact the timing and amounts of recoveries on the portfolio.

In November 2012, several customers in France and Spain brought a criminal complaint in Luxembourg against the liquidator, alleging that the former activities of Landsbanki Luxembourg are criminal and thus that the estate's liquidator should be convicted for money laundering by trying to execute the mortgages. Other criminal complaints have been filed in Luxembourg in 2016 and 2017 based on the same grounds against the liquidator personally.

Collections on Landsbanki Luxembourg's loans may take several years due to the time requirements of criminal proceedings and enforcement procedures. Because of this, LBI's presented estimated recovery numbers are subject to great uncertainty, both in timing and amount.

At 31 December 2016, LBI's claims against the Landsbanki Luxembourg estate amounted to EUR 348.1 million, whereas the aggregate balance of outstanding equity release loans amounted to EUR 287.4 million with an estimated recoverable value, net of certain costs expected to be incurred in connection with their monetisation, of EUR 74.4 million.

During the year, the estimated recoverable value increased by EUR 14.0 million – reflecting an upwards EUR 19.4 million revaluation of LBI's exposure, less EUR 5.4 million received from the Landsbanki Luxembourg estate in August 2016.

Baugur

LBI has filed claims against the estate of Baugur hf, which is subject to liquidation proceeding in Iceland. The value attributed to the claims is based on the expected non-ISK denominated recoveries of LBI's finally recognised claims, which stood at EUR 4.8 million as at end of year 2016. Estimated recoverable value decreased by EUR 5.8 million during the year, reflecting the receipt of EUR 1.3 million in distributions from the Baugur estate and a downwards revaluation of the exposure by EUR 4.5 million as these distributions were made in ISK and transferred to CBI as an Additional Stability Contribution (see Notes 2 and 18). Of the reported estimated recovery as at end of 2016, LBI received distributions from the Baugur estate of GBP 3.9 million (EUR 4.6 million) during the first quarter of 2017.

Heritable Bank

Heritable Bank is a former financial institution and a former subsidiary of LBI, which has been subject to bankruptcy proceedings in Scotland since October 2008. LBI was awarded a finally recognised general unsecured claim in the amount of GBP 70 million (EUR 60 million) and a finally recognised subordinated claim in the amount of GBP 7 million (EUR 6 million) against the Heritable Bank estate. To date, the Heritable Bank estate has made aggregate distributions to holders of general unsecured creditors equal to 98% of their finally admitted claims. The estimated recovery as of 31 December 2016 is based on the expectation that the remaning balance of LBI's general unsecured claim of GBP 1.4 million (EUR 1.6 million) will be paid in full, which reflects an upwards valuation adjustment of EUR 1.6 over the year.

Other

All expected distributions from other bankrupt estates were received during 2016, leaving a nil balance of estimated recoverable value on these exposures at year-end.

16. Other assets

Other assets primarily consist of real estate, exposures to foreign financial institutions and corporate entities, and claims against entities which have concluded their respective winding-up proceedings in Iceland by way of a composition.

The exposures to foreign financial institutions and corporate entities are in the form of unsettled derivative contracts and nostro account balances which in both cases remain subject to resolution and collection. As of 31 December 2016, a total balance of EUR 34.7 million was in unresolved with eight counterparties as summarised in the table below:

Counterparty	Contract	Unresolved matter	Jurisdiction	Balance
Raiffeisen Zentralbank	GMRA / GMSLA	Valuation / Close-out	UK	14,751
HSBC	Nostro Account	Set-off	Italy	6,158
Commerzbank	GMRA / Nostro Account	Valuation / Set-off	Iceland / Germany	4,946
KAS Bank	GMSLA	Valuation	Iceland / UK	3,091
Financial Institution	GMSLA	Rescission Claim / Set-off	Iceland / UK	2,180
BNP Paribas	Deposit Account	Potential 3rd party claims	Belgium	1,768
Corporate Entity	ISDA	Suspended payment	UK	1,490
Commerzbank (Dresdner)	ISDA / Nostro Account	Valuation / Set-off	Iceland / Germany	339
			Total	**34,723**

Balances reported in the table above may not incorporate all amounts that LBI may be legally eligible to obtain should it prevail in the applicable legal disputes.

In March 2016, a ruling was handed down in the UK Royal Courts of Justice against LBI in its suit against Raiffeisen Zentralbank. The year-end 2016 accounts include no expected recovery for this matter, although the balance is still reported outstanding pending LBI's determination of whether or not to pursue an appeal of such judgment.

LBI filed litigation against HSBC Milan Branch in Italy after the end of the year. The dispute arises from the withdrawals of funds by HSBC from bank accounts in the name of LBI at the HSBC Milan Branch.

There are two cases currently with the District Court of Reykjavik between LBI and Commerzbank A.G. The first case concerns the valuation of a GMRA closeout and its impact on a claim that may be awarded to Commerzbank. In that case, LBI has filed a counterclaim relating to withdrawals from a bank account at Commerzbank. The second case concerns the rejection of a claim filed by Commerzbank, as the successor to Dresdner Bank, under an ISDA contract. LBI has, in this case too, filed a counterclaim due to withdrawals from bank accounts at Dresdner. Commerzbank contends, in both cases, that any counterclaim concerning the bank accounts should be subject to German jurisdiction.

In 2005, LBI reached an agreement with BNP Paribas, as the successor to Fortis in Belgium, regarding a bank account held in the name of LBI. As part of the agreement, certain funds are held on escrow account until 19 March 2020 to cover potential claims which might arise from third parties on BNP Paribas until that time.

KAS Bank lodged a claim against LBI based on the closeout calculations of a GMSLA agreement. The dispute is currently with the Reykjavik District Court, where LBI has raised counterclaims on KAS Bank related to the such closeout. KAS Bank has argued, in its defence of the counterclaim, that the matter is subject to UK jurisdiction.

All amounts are in EUR thousands,
unless otherwise stated

LBI has a standstill agreement with an international bank in respect of a disputed tri-party set-off against undisputed closeout amounts under a GMSLA contract. The standstill agreement is in place while LBI pursues a bond-buyback case against the same counterparty in the Icelandic courts.

LBI is pursuing collection against a Dutch corporation that suspended payments under a derivative trade in reliance on provisions of the ISDA Master Agreement which allow the non-defaulting party to suspend payment until the applicable default is cured.

In July 2016, an out-of-court settlement was reached and a corresponding payment received in respect of two derivative contracts that were unresolved as of year-end 2015.

Liabilities

17. Convertible Notes

Pursuant to the Composition Agreement the Company issued Convertible Notes on 23 March 2016 in an aggregate nominal amount of EUR 2,041,382 thousand. The nominal amount of the Convertible Notes is specified as follows:

	2016	2015
Nominal amount outstanding at the beginning of the year	2,041,382	
Issued		2,041,382
Convertible Notes redeemed	(717,308)	
Convertible Notes cancelled	(1,802)	
Convertible Notes held by LBI	(14,756)	
Nominal amount outstanding at the end of the year	1,307,516	2,041,382

The Convertible Notes are unsecured, non-interest bearing, convertible into equity in certain circumstances and contain certain restrictions related to the Company's assets.

The final maturity of the Convertible Notes is 30 November 2035. The timing and amount of any early redemptions are determined by the realisation of the Company's assets. Under the terms of the Convertible Notes, LBI is required to make redemptions on 15 June and 15 December of each year equal to all available non-ISK cash held by the Company on such dates. Redemptions are made to the extent that its aggregate non-ISK cash balances exceed the equivalent of EUR 10 million after deduction of funds retained for budgeted operating expenses, asset support and settlement of priority claims lodged under Art. 109-111 of the Icelandic Bankruptcy Act. LBI has the option of making early redemptions at any time, subject to prior notification.

The Convertible Notes are convertible into equity on the final maturity date, in part or in full, or on a conversion date as defined in their terms. The Convertible Notes will be fully converted into equity when all recoverable assets of the Company have been realised and all available non-ISK cash has been applied toward the redemption of outstanding Convertible Notes. Following the full conversion of the Convertible Notes into equity, the Company will be dissolved.

Pursuant to LBI's Articles of Association, the Convertible Notes are contractually stapled to the Company's share capital on a pro-rata basis, which requires any transfer of the two instruments to occur simultaneously.

All amounts are in EUR thousands,
unless otherwise stated

LBI's payment obligations under the Convertible Notes cannot exceed the net realisable value of the underlying assets of the Company, except upon acceleration following an event of default. As such, the book value of the Convertible Notes is adjusted in line with the net asset value of the Company's, at the end of each financial reporting period. Increase in net asset value can later lead to an increase in the book value of the Convertible Notes. Such increase can never lead to a higher book value than the nominal amount outstanding.

During 2016, the Company redeemed an aggregate EUR 717.3 million of Convertible Notes pro-rata to their outstanding nominal amount: On 14 April 2016, the Company exercised its option of early redemption and redeemed EUR 16.5 million of Convertible Notes. In addition, EUR 43.6 million of Convertible Notes were redeemed on 30 June 2016. On 12 October 2016 and on 15 December 2016, the Company exercised its option of early redemption and redeemed EUR 418.7 million and EUR 238.5 million of Convertible Notes, respectively.

During the year 2016, Convertible Notes in the nominal amount of EUR 10.3 million plus EUR 5.2 million in cash were returned to LBI due to the final rejection of disputed Art. 113 claims. LBI furthermore received through DBTCA an allocation of Convertible Notes in the nominal amount of EUR 6.2 million plus EUR 3.3 million in cash on account of holding at the time of its composition certain of its own bonds issued prior its winding-up proceedings. Convertible Bonds received by LBI in the nominal amount of EUR 1.8 million were cancelled during the year, whereas Convertible Bonds in the nominal amount of EUR 14.8 million were held by LBI at year-end 2016.

As of 31 December 2016, Convertible Notes in the nominal amount of EUR 43.8 million and EUR 4.8 million (including redemption payments) were held in escrow to cover disputed and contingent Art. 113 claims, respectively, pursuant to the Composition Agreement.

The book value of the Convertible Notes is specified as follows:

	2016	2015
Book value outstanding at the beginning of the year	1,478,345	
Issued	0	2,041,382
Redeemed	(717,308)	
Adjustment of value relating to net asset value	34,389	(563,037)
Cancelled by book value	(1,082)	
Held by LBI at book value	(8,865)	
Book value of the Convertible Notes at the end of the year	785,479	1,478,345

On 5 April 2017, LBI exercised its option of early redemption and redeemed EUR 299.2 million of Convertible Notes pro rata to their outstanding amount. Prior to this redemption payment, LBI cancelled Convertible Notes held by the Company in the nominal amount of EUR 14.8 million.

18. Taxes

Special Financial Administration tax

The Company is liable for Special Financial Administration Tax for the year 2015, which amounted to ISK 2.3 billion (EUR 19.5 million) at year-end 2016 after the recognition of ISK 389 million (EUR 3.2 million) in tax credits. The tax was paid during the first quarter of 2017 and funded from the ISK Priority Claims Reserve Fund. LBI will not be liable for Special Financial Administration Tax thereafter.

All amounts are in EUR thousands, unless otherwise stated

Income tax

The Company is subject to general corporate income tax in Iceland at the rate of 20%. The Company has tax loss carry-forwards from previous years to offset future taxable income as set out below:

Income year	Expires	Tax loss
2008	2018	706,470
2009	2019	104,365
2010	2020	0
2011	2021	78,080
2012	2022	98,971
2013	2023	60,873
2014	2024	127,288
2015	2025	0
	Total	**1,176,046**

19. Stability Contribution

Pursuant to its Composition Agreement and the Assignment Agreement entered into with the CBI, the Company has undertaken to make certain voluntary contributions to the Icelandic State in the form of a Stability Contribution (ISK cash balances and ISK assets as of 31 December 2015) and Additional Stability Contributions (ISK cash proceeds from the monetisation or release of Retained Assets realised from 1 January 2016 onwards).

No balance sheet value is assigned to prospective ISK proceeds from Retained Assets. Cash received from these zero-value assets is reflected in the income statement as an increase in value and expensed for in the same amount as an Additional Stability Contribution during the relevant reporting period. Cash received by LBI which has not been transferred to the CBI at the end of each reporting period is listed as an asset under Restricted Cash and then fully offset by an increase in the allocation for Additional Stability Contributions under liabilities.

	31/12/2016	31/12/2015
ISK Priority Claims Reserve Fund	52,283	42,350
Special financial administrative tax for the 2015 financial year	(19,525)	(19,211)
ISK cash with respect to an Additional Stability Contribution	17,265	45,133
ISK assets with respect to an Additional Stability Contribution	0	67,310
Unexpensed Stability Contribution		(509)
Allocated cash for Stability Contribution	50,023	135,074

As of 31 December 2016, the amount allocated for Additional Stability Contributions totalled the equivalent of EUR 50 million (2015: 135.1 million).

A Stability Contribution equivalent to EUR 111.9 million, representing ISK cash balances (EUR 44.6 million) and ISK assets (67.3 million) as of year-end 2015, was transferred to the CBI in early January 2016 after payment of a tax liability in the amount of EUR 509 thousands.

The Company has furthermore allocated and fully expensed the ISK Priority Claims Reserve Fund as an Additional Stability Contribution after deducting, and recognising as a separate expense, the estimated Special Financial Tax liability for 2015.

All amounts are in EUR thousands,
unless otherwise stated

During the year, the ISK Priority Claims Reserve Fund increased by the equivalent of EUR 9.9 million on account of foreign exchange movements and interest income. The Special Financial Tax liability for 2015 increased by EUR 3.5 million due to foreign exchange movements but was offset by ISK 389 million (EUR 3.2 million) in tax credits.

Further to a ruling by the Supreme Court of Iceland on 6 October 2016, LBI received ISK 2.1 billion (EUR 17.3 million) from Brim hf. as payment for a Retained Asset. Brim hf. made the payment with reservations, demanding recourse to LBI for reimbursement. The payment received from Brim hf. remains classified as a Retained Asset and a corresponding amount is allocated for Additional Stability Contribution at year-end 2016, as the ISK denominated payment is to be transferred to CBI to the extent not reimbursed by LBI to Brim hf.

Following the final resolution of all ISK-denominated disputed priority claims lodged against LBI under Art. 109-111 of the Icelandic Bankruptcy Act, LBI transferred the residual balance of the ISK Priority Claims Reserve to the CBI on 8 March 2017 after paying the Special Financial Administrative Tax for 2015.

Equity

20. Changes in Equity

The Share capital of the Company as of 31 December 2016 is specified as follows:

	Shares	Ratio	Amount
Total share capital at year-end	1,133,869,957	100.5%	11,338,700
Own shares at year-end	(5,538,111)	-0.5%	(55,381)
	1,128,331,846	100.0%	11,283,318

Change in equity is specified as follows:

	Share capital	Accumulated deficit	Total equity
Equity as at 1 January 2015	75,247	(10,198,492)	(10,123,246)
Share capital written off	(75,247)	75,247	
New share capital issued	11,339		11,339
Translation difference	0	(54,877)	(54,877)
Profit for the year 2015	0	10,166,784	10,166,784
Equity as at 1 January 2016	11,339	(11,339)	0
Own shares allocated back	(55)	55	(0)
New share capital issued	0	(0)	0
Profit for the year 2016	0	0	0
Equity as of 31 December 2016	11,283	(11,283)	(0)

At an extraordinary general meeting held on 16 September 2016, the shareholders of LBI unanimously approved the conversion of the Company's share capital from ISK into EUR. The share capital of LBI thereby changed from ISK 1,600,000,000 (1,600,000,000 Class A Shares each with a nominal value of ISK 1) to EUR 11,338,671.96 (1,133,867,196 Class A Share each with a nominal value of EUR 0.01).

During 2016, the Company resolved certain claim disputes and in connection therewith, issued 2,761 new Class A Shares.

All amounts are in EUR thousands,
unless otherwise stated

Information relating to claims not reflected in the Balance Sheet

21. Disputed and contingent Art. 113 claims pursuant to the Composition Agreement

Disputed Art. 113 Claims	2016
Disputed Art. 113 claims at the beginning of the period	349,957
Finally rejected claims	(91,549)
Finally accepted claims	(30)
Disputed Art. 113 claims at the end of the period	258,379

All disputed Art. 113 claims were referred to the Icelandic courts for resolution before the end of 2015. During the course of the year, Art. 113 claims in the aggregate amount of EUR 91.5 million were finally rejected and a total of EUR 30 thousand of previously disputed claims became finally accepted. As of 31 December 2016, the ten largest disputed Art. 113 claims represent 82% of the total amount of remaining claims in dispute by the end of 2016.

Contingent Art. Claims	2016
Contingent Art. 113 claims at the beginning of the period	31,587
Finally rejected claims	0
Finally accepted claims	0
Contingent Art. 113 claims at the end of the period	31,587

Contingent Art. 113 claims remained unchanged during the year. Around 70% of these claims by amount are contingent on no further payments being made by the Heritable Bank estate towards general accepted claims (see Note 15). Any further payments from the Heritable estate towards its general unsecured claims will lower the contingent claims on LBI causing a reversal of reserves held against those claims.

22. Reserves for disputed and contingent Art. 113 claims pursuant to the Composition Agreement

Pursuant to the Composition Agreement, the Company has fully reserved against all disputed and contingent Art. 113 claims by placing into escrow sufficient DMP, Convertible Notes and Convertible Note redemption payments to cover its maximum potential obligation on such claims.

The reserves for disputed and contingent Art. 113 claims are held off balance sheet. To the extent disputed Art. 113 claims are finally rejected or contingent Art. 113 claims are ultimately reduced, the corresponding amount of DMP, Convertible Notes and Convertible Note redemption payments will be returned to LBI. Upon receipt, the Company recognises such reversal of reserves in the Income Statement and on the Balance Sheet.

As stated in the Company's Articles of Association, LBI is authorised and obligated to issue and allocate new shares up to a maximum amount of EUR 379 thousand of which EUR 299 thousand remain in proportion to any disputed and contingent claims which may become finally accepted under the Composition Agreement.

Reserves for Disputed Art. 113 claims	Convertible notes	Conv. notes redemption	DMP	Total reserves
Reserves 1.1.2016	59,300		3,050	62,350
Partially accepted claims	(5)			(5)
Redemption payments	(20,577)	20,577		0
Reversed DMP to LBI			(633)	(633)
Reversed from notes to LBI	(10,286)	(5,165)		(15,451)
Reserves 31.12.2016	28,432	15,412	2,417	46,261

A total of EUR 15.5 million in reserves for disputed Art. 113 claims was reversed from escrow during the year, comprised of EUR 10.3 million in Convertible Notes and EUR 5.2 million in Convertible Note redemption payments, due to disputed claims becoming finally rejected. In addition, LBI received EUR 633 thousand due to reversals of DMP allocations towards these claims.

Reserves for Contingent Art. 113 claims	Convertible notes	Conv. notes redemption	DMP	Total reserves
Reserves 1.1.2016	4,784		810	5,595
Redemption payments	(1,682)	1,682		0
Reversed DMP to LBI				0
Reversed from notes to LBI				0
Reserves 31.12.2016	3,103	1,682	810	5,595

Total reserves for Contingent Art. 113 claims remained unchanged over the period but reflect a reduction in Convertible Notes equal to the pro-rata Convertible Note redemption payments made during 2016.

23. Disputed priority claims

	2016
Disputed Priority claims at the beginning of the period	804,982
New filed Priority claims during the period	
Finally rejected Priority claims	(292,914)
Finally recognised Priority claims	
FX difference	(52,998)
Disputed Priority claims at the end of the period	459,070

All disputed priority claims lodged under Art. 109-111 of the Icelandic Bankruptcy Act during LBI's winding-up proceedings have been referred to the Icelandic courts for resolution. During the year, priority claims in the equivalent of EUR 292.9 million were finally rejected whereas none were finally recognised. The disputed priority claims remaining as of 31 December 2016 are comprised of (i) an Art. 109 claim lodged by Glitnir hf. in the amount of GBP 260.5 million (EUR 302.2 million); (ii) an Art. 110 claim lodged by Kaupthing in the amount of ISK 11.1 billion (EUR 86.7 million) which was then finally withdrawn on 3 March 2017; (iii) two Art. 111 claims lodged by an individual in the amounts of EUR 11.9 million and GBP 50.0 million (EUR 69.9 million); and (iv) two additional Art. 110 claims in the total amount of EUR 20 thousand.

All amounts are in EUR thousands, unless otherwise stated

24. Litigation against third parties

LBI has initiated a number of legal cases against third parties to recover losses due to actions of LBI's former management and Board of Directors. These cases include suits for damages against individuals and/or LBI's insurers as well as actions against foreign financial undertakings, legal entities and individuals demanding voiding of purchases by LBI of its own notes.

Pursuant to the Assignment Agreement, all recoveries in ISK from Retained Assets are to accrue to the CBI (with the exception of court costs awarded) while recoveries in foreign currencies accrue to LBI. It is LBI which holds final decision-making powers on pursuing cases with potential recovery in ISK and/or foreign currency, whether a settlement is reached, and if so how, in consultation with CBI representatives; however, it may not dispose of the asset (claim) without the CBI's consent. In the case of assets where the potential recovery is only in ISK, the CBI holds final decision-making power.

Claim for Damages
LBI has brought five cases claiming damages against third parties. Four out of these five cases involve claims made against individuals who held a management or Board position with LBI before it became insolvent. In three out of these four cases (i-iii), damages are additionally sought from the liability insurers of LBI. It should be noted that the total sum that can be sought from the liability insurers from all of these three cases combined is EUR 50 million.

(i) Bank Guarantees Not Enforced - damages also sought from the liability insurers

A case has been brought before the Reykjavik district court against the two former CEOs of LBI and the Managing Director of the Corporate Banking division, as well as the liability insurers of LBI. The principal of the claim against parties other than the insurers is ISK 16.2 billion, while the principal of the claim against the insurers is limited to the maximum benefit under the policy which amounts to a total of EUR 50 million.

LBI loaned an Icelandic financial undertaking ISK 19 billion on 2 October 2008 without any collateral being provided. The loan was not paid at maturity, the entity was taken over by the Financial Supervisory Authority and thereafter was placed in winding-up proceedings which concluded with composition. Only a portion of the loan was paid under the composition.

It is not possible to say when this action can be expected to conclude with a final court judgement, but the time frame can be estimated as at least 3-6 years.

(ii) Loans to an Icelandic Financial Undertaking- damages also sought from the liability insurers

A case has been brought before the Reykjavik district court against the two former CEOs of LBI as well as its liability insurers. The principal of the claim against parties other than the insurers is ISK 11.6 billion, while the principal of the claim against the insurers is limited to the maximum benefit under the policy which amounts to a total of EUR 50 million.

LBI loaned an Icelandic financial undertaking ISK 19 billion on 2 October 2008 without any collateral being provided. The loan was not paid at maturity, the entity was taken over by the Financial Supervisory Authority and thereafter was placed in winding-up proceedings which concluded with composition. Only a portion of the loan was paid under the composition.

It is not possible to say when this action can be expected to conclude with a final court judgement, but the time frame can be estimated as at least 3-6 years.

(iii) Disbursements on 6 October 2008- damages also sought from the liability insurers

A case has been brought before the Reykjavik district court against the two former CEOs of LBI, the head of Treasury and four Directors, as well as the liability insurers of LBI. The principal of the claim against parties other than the insurers is ISK 14.1 billion, USD 10.5 million and EUR 10.8 million, while the principal of the claim against the insurers is limited to the maximum benefit under the policy which amounts to a total of EUR 50 million.

This case concerns events which took place on 6 October 2008, on the last day LBI operated before a Resolution Committee was appointed for the bank. On that day, and in part after its general business had closed, LBI disbursed substantial amounts to two domestic financial undertakings and one of its subsidiaries; a substantial portion of these funds were lost.

It is not possible to say when this action can be expected to conclude with a final court judgement, but the time frame can be estimated as at least 3-6 years.

(iv) Purchase of Shares in LBI Trading Book

A case has been brought before the Reykjavik District Court against a former CEO of LBI, a former managing director of Securities and Treasury and a former head of Brokerage. The principal of the claim against the defendants is approximately ISK 1.2 billion.

This case concerns the purchase by LBI's Brokerage of own shares and shares in two other companies during the period from April to July 2008 for its so-called equity Trading Book II, which was intended to hold assets for brokering to LBI's customers. The claims are based on the contention that in these purchases the defendants exceeded their authorisations to acquire shares for the Trading Book and failed to comply with the obligation to dispose of the shares when the violation was realised. In so doing they caused a loss, as the shares were worthless upon the collapse of the bank.

The Reykjavík District Court pronounced its judgement in the case on 30 June 2015, ordering the former CEO and the former managing director of Securities and Treasury to pay ISK 237,678,000 plus interest. The District Court's verdict was appealed to the Supreme Court.

A judgement was pronounced in the Supreme Court case no. 641/2015 on 22 September 2016. The Supreme Court ruled against LBI in the case and no damages were awarded to LBI.

(v) Other

A case has been brought in France against two French individuals seeking to recover EUR 8 million improperly taken from LBI. It is expected that a French court may pronounce a judgement in 2017.

Claims for Voiding

(i) Redemption of Bonds and Bills prior to Maturity

LBI has brought 19 voiding actions before the Reykjavik district court against foreign financial undertakings, legal entities and individuals demanding voiding of purchases by LBI of its own notes during the last six months preceding the reference date of the winding-up proceedings. The total amount of the claims is approximately EUR 42.3 million, USD 641,700 and CHF 25,476. One of these cases has already been heard and decided by the district court.

LBI's claims are based primarily on the fact that LBI paid, during the period from 15 May to 6 October 2008, a debt to the defendants earlier than normal, since the above-mentioned note claims were paid before they matured. It is maintained that the payments are voidable on the basis of Art. 134 of the Icelandic Bankruptcy Act.

Similar legal cases have been brought by the other fallen Icelandic banks on the basis of the repurchase of their respective notes.

Although each of these cases has its unique features there are several fundamental legal questions that are in dispute in all of them. The Supreme Court of Iceland has decided to hear three cases of this nature on 24, 26 and 28 April. One of these cases is a case brought by LBI and two of the cases are brought by Kaupthing ehf. A final decision by the Supreme Court in these cases can be expected in the first half of May. It is expected that these decisions may form guidance on how to proceed with the remaining legal cases.

(ii) Payment of Salaries, Bonuses, Premia and Stock Options

During the year the Supreme Court ruled in favour of LBI in a case against a former CEO of LBI. In accordance with the Stability Contribution agreement, a confirmed claim of EUR 0.25 million (ISK 36 million) was transferred to the CBI.

Other Information

25. Events after the Balance Sheet Date

On 3 March 2017, Kaupthing withdrew a claim lodged against LBI under Art. 110 of the Icelandic Bankruptcy Act in the amount of ISK 11.1 billion (equivalent of EUR 86.7 million as of 31 December 2016). Following the withdrawal of Kaupthing's claim, all ISK-denominated disputed priority claims lodged against LBI under Art. 109-111 of the Icelandic Bankruptcy Act have been finally resolved. On this basis, and pursuant to the Assignment Agreement, LBI transferred the residual balance in the ISK Priority Claims Reserve Fund to the CBI on 8 March 2017 after paying the Special Financial Administrative Tax for the 2015 financial year.

On 10 March 2017, LBI and PricewaterhouseCoopers ("PwC") announced that an agreement had been reached with the effect that LBI's case against PwC pursued before the Icelandic courts has been settled. Terms of the settlement are subject to a confidentiality agreement.

On 14 March 2017, Landsbankinn fully prepaid the remaining USD 170 million principal balance outstanding under Bond Series 2020 and partially prepaid Bond Series 2024 in the principal amount of USD 111 million. The prepayment totalled USD 284.1 million, including USD 3.1 million in accrued and unpaid interest.

On 20 March 2017, the UK Royal Courts of Justice ruled against LBI in a case against Raiffeisen Zentralbank Österreich AG and Raiffeisen Bank International AG ("RZB"). The conclusion of the ruling is that LBI ehf does not have a claim against RZB. RZB had previously irrevocably withdrawn its claim lodged against LBI in Iceland. The judgement will reduce previously reported expected recoveries under other assets and will also result in expenses for LBI due to costs awarded to the defendants. LBI will review whether to appeal the judgement.

On 5 April 2017, LBI exercised its option of early redemption and redeemed EUR 299.2 million of Convertible Notes pro-rata to their outstanding nominal amount.

On 18 April, LBI and Kaupthing settled a long-running claim dispute. Results of this settlement are not included in the Q4 financials and will provide an estimated EUR 5.7 million uplift to estimated recoveries (Other assets) in Q1.

Supplemental Information

A. Assets specified by currencies

	31/12/2016						
	EUR	USD	GBP	CAD	ISK	Other	Total
Cash	22,341	2,595	3,267	306	11,005	2,912	42,425
Restricted cash	19,949	260			69,548		89,757
Landsbankinn term deposit	72,610	12,500	56,431				141,540
Landsbankinn bonds		420,197					420,197
Loans to customers	19,125	15	23,240			5,815	48,194
Equities and bonds	1,837		3,926				5,763
Claims on bankrupt estates	74,355		6,434			0	80,789
Other assets	23,208	8,047	1,157			0	32,412
Other receivables					1,097		1,097
Total	233,424	443,614	94,455	306	81,649	8,726	862,175
% of total assets	27%	51%	11%	0%	9%	1%	100%

	30/09/2016						
	EUR	USD	GBP	CAD	ISK	Other	Total
Cash	387,062	55,392	4,912	10,105	11,989	1,785	471,244
Restricted cash	19,964	246			46,796		67,006
Landsbankinn term deposit	72,607	11,810	56,170				140,587
Landsbankinn bonds		465,714					465,714
Loans to customers	34,013	8,747	47,403	96,200		6,359	192,722
Equities and bonds	1,837		631				2,468
Claims on bankrupt estates	55,600		5,456				61,056
Other assets	27,639	7,603	1,103				36,345
Total	598,722	549,512	115,674	106,306	58,785	8,143	1,437,143
% of total assets	42%	38%	8%	7%	4%	1%	100%

All amounts are in EUR thousands,
unless otherwise stated

B. Drivers of change for the period 30/9/2016-31/12/2016

Asset categories	30/09/2016	Net cash received	FX change	Value-change	Income	Operating expenses	Stability Contrib.	Note Redemption	Reserve and other Reversals	31/12/2016
Cash	471,244	224,895	2,836		1,093	(9,091)		(657,252)	8,699	42,425
Restricted cash	67,006	17,054	3,674		2,022					89,757
Landsbankinn term deposit	140,587	(560)	949		564					141,540
Landsbankinn bonds	465,714	(76,660)	26,681		4,462					420,197
Loans to customers	192,722	(146,441)	1,920	(1,619)	1,612					48,194
Equities and bonds	2,468	(129)	5	3,418						5,763
Claims on bankrupt estates	61,056	(350)	31	26,143			(6,091)			80,789
Other assets	36,345	(17,810)	281	13,596						32,412
Other receivables	0					1,097				1,097
Total	1,437,143	0	36,378	41,539	9,753	(7,994)	(6,091)	(657,252)	8,699	862,175

The EUR 13.6 million net value increase in Other assets includes a payment of ISK 2.1 billion (EUR 17.2 million) from Brim hf., which is subject to an Additional Stability Contribution, as described in Note 10.

All amounts are in EUR thousands,
unless otherwise stated

C. Assets, classification and measurement

Asset categories	31/12/2016 Balance	31/12/2016 Value	30/09/2016 Balance	30/09/2016 Value
Cash	42,425	42,425	471,244	471,244
Restricted cash	89,757	89,757	67,006	67,006
Landsbankinn term deposit	141,540	141,540	140,587	140,587
Landsbankinn bonds	420,197	420,197	465,714	465,714
Loans to customers	155,071	48,194	426,489	192,722
Equities and bonds	8,346	5,763	6,231	2,468
Claims on bankrupt estates	1,005,777	80,789	1,093,362	61,056
Other assets	534,809	32,412	517,822	36,345
Other receivables	1,097	1,097		
Total	2,399,020	862,175	3,188,455	1,437,143

The net decrease in the balance of loans to customers during the quarter is primarily driven by EUR 144.8 m in principal payments, EUR 65.4 million in final write-offs on outstanding exposures for which no value was reported and no recovery was expected and EUR 54.0 million in write-offs on outstanding exposures with minimal recovery.

The net decrease in the balance of claims on bankrupt estates during the quarter is primarily driven by EUR 77.2 million in final write-offs on outstanding exposures for which no value was reported and no recovery was expected.

The balance of loans to customers as of 31 December 2016 and 30 September 2016 include aggregate exposures of EUR 4.6 million and EUR 69.9 million, respectively, for which the Company expects zero recovery and which are not reflected in the tables below:

Loans to customers by sector	31/12/2016 Balance	31/12/2016 Value	30/09/2016 Balance	30/09/2016 Value
Fishery			96,200	96,200
Services	15,727	10,882	103,573	41,570
Real Estate	109,660	29,518	109,881	29,636
Industrial Products			14,615	14,204
Retail	19,187	6,017	19,155	8,252
Other	5,873	1,778	13,122	2,860
Total	150,447	48,194	356,547	192,722

Loans to customers by country	31/12/2016 Balance	31/12/2016 Value	30/09/2016 Balance	30/09/2016 Value
Canada			96,200	96,200
UK	55,428	26,988	84,622	50,934
France	5,927	6,250	29,967	29,261
Germany	6,772	4,643	55,738	4,931
Netherlands	500	20	5,547	20
Other Europe	81,820	10,293	84,472	11,376
Total	150,447	48,194	356,547	192,722

All amounts are in EUR thousands, unless otherwise stated

During the first quarter of 2017, two of the ten largest exposures by estimated recoverable value were monetized; one, in the form of lending to a service company in the United Kingdom, was repaid in full and another, in the form of a loan to a company in the German retail sector, was sold - together representing an aggregate 20.1% of estimated recoverable value of the loans to customers portfolio at year-end 2016. In each case, the recovery realized by such monetization was consistent with the carrying value for such loan at year-end 2016.

D. Actual cash flow versus previously expected cash flow

Asset categories	Actual cash flow 1/10 - 31/12 2016	Expected Cash flow 1/10 - 31/12 2016
Cash	0	
Restricted cash	2,022	
Landsbankinn term deposit	560	552
Landsbankinn bonds	76,660	36,023
Loans to customers	146,441	143,912
Equities and bonds	129	0
Claims on bankrupt estates	350	5,456
Other assets and other sources	9,418	713
Total	235,580	186,656

Amounts by currency stated in EUR equivalent	Actual cash flow 1/10 - 31/12 2016	Expected Cash flow 1/10 - 31/12 2016
USD	84,492	44,969
GBP	22,494	28,734
EUR	23,451	15,717
CAD	101,513	96,750
Other	3,630	485
Total	235,580	186,656

Actual cash flow during the period exceeded expectations by EUR 40.2 million, primarily resulting from a EUR 38.7 million prepayment towards the Landsbankinn bonds which had previously not been forecasted.

The above figures include cash currency conversions of USD 16.4 million (EUR 14.8 million) into CAD 21.8 million (EUR 14.8 million).

Individual assets monetised over the period with a value in excess of EUR 10 million are comprised of: (i) USD 76 million in aggregate prepayment towards the principal amount outstanding under Series 2020 of the Landsbankinn bond (EUR 72.6 million); (ii) CAD 137.1 million (EUR 96.4 million) in repayment of all outstanding loans to a Canadian Fishery company recorded in loans to customers; (iii) GBP 19.1 million (EUR 21.2 million) in proceeds from the monetisation of an exposure to a UK services company recorded in loans to customers and (iv) EUR 5.3 million and USD 9.9 million (EUR 9.5 million) in proceeds from the monetisation of exposures to a French industrial products company recorded in loans to customers.

All amounts are in EUR thousands,
unless otherwise stated

E. Asset monetisation plan for the next 12 months

	2017			
Asset categories	Q1	Q2	Q3	Q4
Landsbankinn term deposit	552	564	564	558
Landsbankinn bonds	271,980	428	1,497	1,513
Loans to customers	12,046	1,429	5,904	992
Equities and bonds	3,673	1,837	253	0
Claims on bankrupt estates	4,639	0	0	163
Other assets and other sources	9,224	436	8,196	17,665
Total	302,114	4,694	16,414	20,892

	2017			
Amounts by currency in EUR equivalent	Q1	Q2	Q3	Q4
USD	281,052	507	9,623	1,592
GBP	13,904	440	693	1,758
EUR	5,793	3,535	5,768	16,725
Other	1,366	211	329	817
Total	302,114	4,694	16,414	20,892

The asset monetisation plan for the next 12 months includes interest collections on the Landsbankinn term deposit, the Landsbankinn bonds and performing credit exposures categorised as loans to customers with 100% estimated recoverable value. On 14 March 2017, Landsbankinn paid a total of USD 284.1 million in prepaid principal and accrued interest on outstanding bonds. Interest payments on Landsbankinn bonds beginning in Q2 2017 are expected to be lower than those in prior periods due to prepayments. Interest collections on performing credit exposures categorised as loans to customers with less than 100% estimated recoverable value are included in the asset monetisation plan to the extent that (i) the loan has been performing for the past 24 months or (ii) other circumstances give rise to the reasonable expectation that the borrower will make scheduled interest payments on the loan over the period, unless the Company expects to monetise the credit exposure by way of a sale in the secondary market within 12 months of the reporting date.

F. Disputed and contingent Art. 113 claims pursuant to the Composition Agreement

Disputed Art. 113 claims	31/12/2016	30/09/2016
Claims at the beginning of the period	336,385	336,398
Finally rejected claims	(78,007)	(13)
Finally recognised claims	0	(30)
Disputed Art. 113 claims at the end of the period	258,379	336,356

A claim from Kaupthing in the amount of EUR 65.0 million (ISK 9.2 billion) is removed from disputed claims in the period. Claims from seventeen other claimants totalling EUR 13.0 million (ISK 1.8 billion) became finally rejected in the period.

All amounts are in EUR thousands,
unless otherwise stated

Contingent Art. 113 claims	31/12/2016	30/09/2016
Claims at the beginning of the period	31,587	31,587
Finally rejected claims	0	0
Finally recognised claims	0	0
Contingent Art. 113 claims at the end of the period	31,587	31,587

G. Reserves for disputed and contingent Art. 113 claims pursuant to the Composition Agreement

Reserves for Disputed Art. 113 claims	Convertible notes	Conv. notes redemption	DMP	Total reserves
Reserves 30.09.2016	57,555	1,745	3,003	62,303
Allocation to partially accepted	(5)			(5)
Redemption payments	(18,394)	18,394		0
Reversed DMP to LBI			(586)	(586)
Reversed from notes to LBI	(10,725)	(4,726)		(15,451)
Reserves 31.12.2016	28,432	15,412	2,417	46,261

Reserves for Contingent Art. 113 claims	Convertible notes	Conv. notes redemption	DMP	Total reserves
Reserves 30.09.2016	4,644	141	810	5,595
Allocation to partially accepted				
Redemption payments	(1,541)	1,541		
Reversed DMP to LBI				
Reversed from notes to LBI				
Reserves 31.12.2016	3,103	1,682	810	5,595

As stated in the amended Company's Articles of Association, when any disputed and/or contingent claim becomes a recognised composition claim, LBI is authorised and obligated to issue and allocate new shares up to a maximum of EUR 379 thousand.

H. Disputed priority claims

	31/12/2016	30/09/2016
Disputed priority claims at the beginning of the period	458,929	468,090
New filed priority claims during the period		
Finally rejected priority claims	(82)	(223)
Finally recognised priority claims		
FX difference	223	(8,938)
Total	459,070	458,929

Note 21 in the financial statement explains the claims outstanding at 31 December 2016. One claim for EUR 82 thousand became finally rejected during the last quarter of 2016.

All amounts are in EUR thousands, unless otherwise stated