

# LBI

## Financial Statements 2020

LBI ehf  
Ármúli 21  
108 Reykjavík  
Reg. No. 540291-2259

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## Independent Auditors report

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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, 2020 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, 2020, 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) together with the ethical requirements that are relevant to our audit of the financial statements in Iceland, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Emphasis of Matter**

We draw attention to Note 11 to the Financial Statements which describes the uncertainty related to the value of LBI's claims against the Landsbanki Luxembourg estate. Our opinion is not qualified in respect of this matter.

### **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, 25 March 2021

Deloitte ehf.



Hilmar A. Alfreðsson

State Authorized Public Accountant



Jón Kristinn Lárusson

State Authorized Public Accountant

## Endorsement by the Board of Directors and the CEO

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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 Ármúli 21, 108 Reykjavík.

LBI's main activity is the management and controlled monetisation of its asset portfolio, which includes, among other things, cash, loans, 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 Bankruptcy Act were concluded on 25 December 2015 according to the terms of the composition agreement approved (the "Composition Agreement") following which LBI issued new shares and convertible notes (the "Convertible Notes") to its composition creditors in settlement of their claims on 23 March 2016.

### Operations in 2020

During the financial year 2020, LBI actively managed its asset portfolio and worked to resolve disputed and contingent claims. Net cash inflow from assets during the year amounted to EUR 13.9 million, derived from EUR 11.6 million from restricted cash, EUR 1.4 million from loans to customers and EUR 0.8 million from claims on bankrupt estates and other assets.

During the year, the Company redeemed an aggregate EUR 7.0 million of Convertible Notes pro-rata to their outstanding nominal amount.

Over the year, EUR 22.3 million in disputed and contingent Art. 113 claims were finally resolved, resulting in claims of EUR 7.4 million being finally accepted and claims of EUR 14.9 million being finally rejected. All disputed and contingent Art. 113 claims have now been finally resolved.

As of 31 December 2020, the Company's total assets amounted to EUR 111.7 million (2019: EUR 116.2 million) and total liabilities amounted to EUR 111.7 million (2019: EUR 116.2 million). The profit for the year was nil after adjusting the value of the Convertible Notes by EUR 2.8 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 and other 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. A 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.

### 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 2020 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.

There is some uncertainty due to the Covid-19 virus as to what effect it will have on the company. Realization of its assets may take more time but it is the opinion of the company's management that this will not have negative impact on the asset valuation

## Share Capital and Shareholders

On 31 December 2020, 567 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 2020 were as follows:

#	Shareholder / Control	Number of shares	% Ownership	Aggregate control
1	Anchorage Capital Group LLC			46,0%
	ACMO S.a.r.l.	525.283.099	42,9%	
	AIO IV S.a.r.l.	16.106.342	1,3%	
	ACMO Finance (Ireland) Limited	12.817.741	1,0%	
	PCI Fund LLC	6.138.126	0,5%	
2	Deutsche Bank AG, Frankfurt	191.287.015	15,6%	15,7%
3	Taconic Capital Advisors LP			8,2%
	TCA Opportunity Investments Sarl	90.406.480	7,4%	
	TCA Event Investements Sarl	10.045.164	0,8%	
4	Goldman Sachs International			8,1%
	ELQ Investors II Ltd.	60.525.350	4,9%	
	Goldman Sachs International	38.653.010	3,2%	
5	Burlington Loan Management DAC	65.464.639	5,3%	5,4%
6	Merrill Lynch International	21.652.844	1,8%	1,8%
7	CarVal Investors			1,6%
	CVIC Cayman Securities Ltd.	7.778.282	0,6%	
	CVI AA Cayman Securities LP	5.845.225	0,5%	
	Carval GCF Cayman Securities Ltd.	3.188.549	0,3%	
	CVI AV Cayman Securites LP	2.475.273	0,2%	
8	Citigroup Global Markets Ltd.	14.848.006	1,2%	1,2%
9	One Tusk Master Fund LP	12.643.005	1,0%	1,0%
10	Ríkisábyrgðasjóður	12.028.711	1,0%	1,0%
<b>Total</b>		<b>1.097.186.861</b>	<b>89,5%</b>	<b>90,1%</b>

**Statement by the Board of Directors and the CEO**

The Financial Statements for the year ended 31 December 2020 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 2020 give a true and fair view of the financial performance of the Company and describe the principal risks and uncertainties faced by the Company.

The Board of Directors and the Chief Executive Officer hereby endorse the Financial Statements of LBI for the year 2020 and recommend that they be approved at the Annual General Meeting of the Company.

Reykjavík, 25 March 2021

The Board of Directors



Richard Katz

Chairman



Kolbeinn Árnason



Christian Digemose

Chief Executive Officer



Arsæll Hafsteinsson



## Income Statement 2020

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	Notes	2020	2019
Interest, dividend and fee income .....	4	(25)	186
Net change in value .....	5	9.311	3.966
Net exchange difference .....		(319)	804
<b>Operating income</b>		<u>8.967</u>	<u>4.956</u>
Salaries and related expenses .....	6	(1.326)	(4.784)
General and administrative expenses .....	7	(6.676)	(3.935)
<b>Operating expenses</b>		<u>(8.001)</u>	<u>(8.720)</u>
Reversal of reserves held in escrow .....	12/16	1.813	4.808
Adjustment to value of the Convertible Notes .....	12	(2.778)	(1.045)
<b>Financing activities</b>		<u>(965)</u>	<u>3.764</u>
<b>Profit before taxes</b>		<u>0</u>	<u>0</u>
Taxes .....	13		
<b>Profit for the period</b>		<u>0</u>	<u>0</u>

## Balance Sheet as at 31 December 2020

<b>Assets</b>	<b>Notes</b>	<b>31.12.2020</b>	<b>31.12.2019</b>
Cash .....	8	14.582	11.155
Restricted cash .....	9	224	15.109
Loans to customers .....	10	600	2.270
Claims on bankrupt estates and other assets .....	11	96.288	87.674
<b>Total assets</b>		<u>111.694</u>	<u>116.209</u>
<b>Liabilities</b>			
Convertible Notes .....	12	110.910	115.258
Other liabilities .....		784	951
<b>Total liabilities</b>		<u>111.694</u>	<u>116.209</u>
<b>Equity</b>			
Share capital .....		12.178	12.174
Accumulated deficit .....		(12.178)	(12.174)
<b>Total equity</b>	14	<u>0</u>	<u>0</u>
<b>Total liabilities and equity</b>		<u>111.694</u>	<u>116.209</u>

## Statement of Cash Flows 2020

	2020	2019
<b>Cash flows (to) from assets</b>		
Interest received on cash .....	12	37
Restricted cash- net cash inflow (outflow) .....	11.553	0
Loans to customers - principal payments inflow .....	1.426	10.112
Loans to customers - interest/fee income .....	21	149
Claims on bankrupt estates and other assets .....	838	7.752
<b>Net cash from assets</b>	<u>13.850</u>	<u>18.050</u>
<b>Cash flows (to) from other operating activities</b>		
Salaries and related expenses .....	(1.456)	(4.569)
General and administrative expenses .....	(3.482)	(4.071)
<b>Net cash (to) from other operating activities</b>	<u>(4.938)</u>	<u>(8.640)</u>
<b>Cash flow (to) from financing activities</b>		
Reversal of reserves held in escrow .....	1.687	4.408
Redemption of Convertible Notes .....	(7.000)	(16.820)
<b>Net cash (to) from financing activities</b>	<u>(5.313)</u>	<u>(12.411)</u>
(Decrease) increase in cash .....	3.600	(3.001)
Effects of foreign exchange rate adjustments on cash .....	(172)	198
Cash at the beginning of the period .....	11.155	13.958
<b>Cash at the end of the period</b>	<u><u>14.582</u></u>	<u><u>11.155</u></u>

## General information

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### 1. Reporting entity

LBI ehf. is a private limited liability company incorporated and domiciled in Iceland. The Company's registered office is at Ármúli 21, 108 Reykjavík.

LBI's main activity is management and controlled monetisation of its asset portfolio which includes, among other things, cash, loans, equity instruments, claims on bankrupt estates, real estate 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 25 March 2021.

#### 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 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:

<b>Balance sheet item</b>	<b>Valuation methodology</b>
Cash and restricted cash	Recognised at nominal value.
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.

## Notes

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Claims on bankrupt estates and other assets	Realisable value for claims against bankrupt estates is based on best estimate of recoverability, in part reflecting information provided by the administrator of the relevant estate. Equities 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. Real estate is valued at realisable value. Disputes are valued at estimated recoveries. Value derived from settlement of disputes reported off balance sheet are reported under this category. Other receivables are 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

This Financial Statements are presented in EUR, which is the Company's functional currency. All amounts have been rounded to the nearest thousand, except where otherwise stated. A proportion of the Company's assets are denominated in currencies other than EUR. As a result, the estimated values presented herein may be 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.

### **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. Income from assets classified off balance sheet is recognised as reversal of impairment. 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 contribution to the Icelandic State (the "Stability Contribution") and entered into an agreement with the Central Bank of Iceland ("CBI") whereby the Company undertook to transfer ISK cash balances and certain assets to the CBI (the "Assignment Agreement"). 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.

The Retained Assets held by LBI during the reporting period comprised certain assets, rights and litigation where a realisation could result solely in ISK proceeds or combined ISK and non-ISK proceeds; and where 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 on LBI's Balance Sheet. Any cash received on account of a Retained Asset will be held off balance sheet until returned to CBI as Additional Stability Contribution.

## **3. Currency exchange rates**

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 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.

## Notes

	Balance Sheet date	
	31.12.2020	31.12.2019
USD .....	0,8149	0,8912
GBP .....	1,1118	1,1733

At the end of the reporting period, the Company held assets in currencies other than EUR, GBP, USD totalling the equivalent of EUR 0.2 million (see Supplemental Information A.).

## Notes to the Income Statement

### 4. Interest, dividend and fee income

	2020	2019
Cash and restricted cash balances .....	(46)	37
Loans to customers .....	21	149
<b>Total</b>	<b>(25)</b>	<b>186</b>

### 5. Net change in value

	2020	2019
Loans to customers.....	(256)	1.752
Claims on bankrupt estates and other assets.....	9.567	2.214
<b>Total</b>	<b>9.311</b>	<b>3.966</b>

Estimated recoverable value increased by net EUR 9.3 million during the year (2019: EUR 4.0 million), driven by increased recovery expectations on LBI's claim against the Landsbanki Luxembourg estate and partially offset by primarily a decrease in the recoverability of the Company's general unsecured claim against a bankrupt individual in the UK included in loans to customers.

### 6. Salaries and related expenses

	2020	2019
Salaries.....	1.103	3.938
Pension fund.....	145	554
Other salary related expenses.....	78	293
<b>Total</b>	<b>1.326</b>	<b>4.784</b>
Average number of full-time positions during the period.....	1,625	3
Number of full-time positions at the end of the period.....	1,5	2

Total salaries and fees paid to the Company's directors and management for the year 2020 amounted to EUR 0.9 million (2019: EUR 2.3 million).

## Notes

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### 7. General and administrative expenses

	2020	2019
External advisors.....	5.534	3.128
Premises expenses.....	42	46
Other expenses.....	1.100	762
<b>Total</b>	<b>6.676</b>	<b>3.935</b>

## Notes to the Balance Sheet

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### 8. Cash

	31.12.2020	31.12.2019
Cash.....	14.582	11.155
<b>Total</b>	<b>14.582</b>	<b>11.155</b>

### 9. Restricted cash

	31.12.2020	31.12.2019
Indemnity Fund.....	0	14.864
Trustee Indemnity Fund.....	224	245
<b>Total</b>	<b>224</b>	<b>15.109</b>

An indemnity fund (the "Indemnity Fund") was placed in a term deposit account with a foreign bank under the terms of the indemnification provided by the Company in favour of certain beneficiaries (the "Beneficiaries") in relation to the Company's winding-up proceedings and composition. In the period, LBI and the Beneficiaries reached an agreement to terminate the indemnity arrangements agreed as part of the Company's Composition, including the Indemnity fund. Net of consideration paid to the Beneficiaries and expenses related to the termination of the indemnity arrangements, an amount of EUR 11.6 million was released to the Company from the Indemnity Fund. As part of the termination of the indemnity arrangements, LBI released the Beneficiaries from any liabilities arising from the Composition and related matters (the "Indemnity Release"). However, the Company agreed to issue new indemnity covering certain action taken by Beneficiaries in the period up to 14 April 2016. The new indemnity would automatically lapse and cease to have any effect if Bondholders holding at least two thirds (66.667%) in nominal value of the total amount of outstanding Bonds executed Deeds of Adherence.

Further to an announcement made by the Company on 24 September 2020, holders of Convertible Notes were invited to execute a deed of adherence to the Indemnity Release in return for a release fee in proportion to the number of Convertible Bonds held. Holders representing 89.8% of the Convertible Notes outstanding had executed deeds of adherence to the Indemnity Release by the deadline of 26 October 2020, further to which a total release payment of EUR 898 thousand was made, and the new indemnity therefore lapsed and ceased to have effect, as described above.

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"). The first of four equal instalments in the amount of USD 275 thousand has been deposited into the



## Notes

Trustee Indemnity Fund which could 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. As of 31 December 2020, all disputed and contingent Art. 113 claims have been finally resolved and all associated reserves therefore released.

### 10. Loans to customers

As of 31 December 2020, the estimated recoverable value in the loan to customer portfolio was attributable to a single unsecured loan exposure to an individual subject to bankruptcy proceedings in the UK. The Company is the largest unsecured creditor of the individual's estate but expects that a very substantial majority of the outstanding balance will ultimately be uncollectible.

<b>Loans to customers by sector</b>	31.12.2020	31.12.2019
Real Estate.....	0	1.330
Bankrupt individual (UK).....	600	848
Other.....	0	92
<b>Total</b>	<b>600</b>	<b>2.270</b>

<b>Loans to customers by country</b>	31.12.2020	31.12.2019
UK.....	600	2.178
Other Europe.....	0	92
<b>Total</b>	<b>600</b>	<b>2.270</b>

### 11. Claims on bankrupt estates and other assets

#### 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 mainly 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 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.

A ruling from the Criminal Court of First Instance in Paris was announced on 28 August 2017 where Landsbanki Luxembourg and nine former directors, executives and wealth management advisors were acquitted of all charges. On 1 September 2017, the Public Prosecutor and the borrowers in question appealed the judgement to the Paris Appeal Court.

The main hearing for the Paris Appeal Court was held during the period of May through July 2019. On 31 January 2020, the Paris Appeal largely upheld the judgement of the Criminal Court of First Instance in Paris of 28 August 2017, acquitting all the accused parties and dismissing all the borrowers' claims for damages.

In February 2020, a challenge of the Paris Appeal Court decision was submitted to the *Cour de cassation* by the French Public Prosecutor and certain individual borrowers which has given rise to subsequent and pending procedural filings in advance of a ruling from the *Cour de cassation* which is expected during the course of 2021.

Landsbanki Luxembourg is also subject civil proceedings in Spain. 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.

During the year, the Company provided funding to the Landsbanki Luxembourg estate in the amount of EUR 4.7 million for the purpose of funding the ongoing expenses and ensuring an orderly liquidation of the estate. Both the nominal amount and the estimated recoverable value of LBI's total claims against the Landsbanki Luxembourg estate were increased accordingly as the Company believes that the funds will eventually be returned to LBI in full by way of future distributions. The increase was partially offset by EUR 1.5 million received in distributions from the Landsbanki Luxembourg estate during the year.

At 31 December 2020, LBI's claims against the Landsbanki Luxembourg estate amounted to EUR 338.2 million.

In the fourth quarter of 2020, the Company reviewed the recovery expectations in respect of its claim against the Landsbanki Luxembourg estate and increased the estimated value by EUR 8.6 million. The Company notes that the estimated recoverable value on its claim against the Landsbanki Luxembourg estate is based on expected net proceeds from collections or collateral enforcements on the underlying loan portfolios in France and Spain, and does not necessarily represent the value which would be obtained if the loan portfolio was offered for sale in the current market.

## Notes

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### Heritable Bank

In the year, the Company received a final dividend payment from the Heritable Bank estate equivalent to EUR 739 thousand, increasing estimated recovery by EUR 19 thousand.

Upon receiving the final dividend payment from the Heritable Bank estate, LBI finally approved the amounts of the 67 Heritable Bank contingent Art. 113 claims lodged against the Company. Consequently, applicable payments held on escrow were allocated to claimholders and the excess reserves reversed to the Company.

### Other assets

As of 31 December 2020, other assets primarily consist of nostro account balances with HSBC's Milan Branch, which remain subject to resolution and collection, and a real estate property in France which the Company bought on a public auction in January 2020 to defend the interests of the Landsbanki Luxembourg estate.

The Company filed litigation against HSBC's Milan Branch in Italy in March 2017. The dispute arises from the withdrawals of funds by HSBC from bank accounts in the name of LBI at the HSBC Milan Branch. It is currently expected that the Milan Court of first instance will render its decision during the second quarter of 2021 but may be delayed due to the Covid-19 pandemic.

## Liabilities

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### 12. 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:

	Noteholders	LBI	Total
Nominal amount outstanding 1 January 2020.....	481.379	0	481.379
Convertible Notes redeemed.....	(7.000)	0	(7.000)
Convertible Notes cancelled.....	(545)	0	(545)
Nominal amount outstanding 31 December 2020.....	473.835	0	473.835

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 and asset support. 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

## Notes

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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.

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 value of the Company's assets at the end of each financial reporting period. While an increase in asset value can lead to an increase in the book value of the Convertible Notes, the book value of the Convertible Notes can never be higher than the nominal amount outstanding.

On 15 December 2020, the Company redeemed EUR 7.0 million of Convertible Notes pro-rata to their outstanding nominal amount.

During the year 2020, Convertible Notes in the nominal amount of EUR 0.5 million (book value of EUR 0.1 million) were returned to LBI from escrow and subsequently cancelled following the final rejection of disputed and contingent Art. 113 claims.

As of 31 December 2020, all disputed and contingent Art. 113 claims with reserves on escrow have been resolved.

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

	<u>31.12.2020</u>	<u>31.12.2019</u>
Book value outstanding at the beginning of the period.....	115.258	131.433
Convertible Notes redeemed.....	(7.000)	(16.820)
Adjustment of value relating to net asset value.....	2.778	1.045
Convertible Notes cancelled by book value.....	(126)	(400)
Book value of the Convertible Notes at the end of the period.....	<u>110.910</u>	<u>115.258</u>

## Notes

### 13. Taxes

#### 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
2011	2021	59.753
2012	2022	75.740
2013	2023	46.585
2014	2024	97.411
2015	2025	0
2016	2026	0
2017	2027	7.597
2018	2028	0
2019	2029	0
2020	2030	0
	<b>Total</b>	<b>287.086</b>

## Equity

### 14. Changes in Equity

The Company's share capital is divided into two classes of shares, being 1,225,849,728 Class A Shares and nil Class B Shares. 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.

Pursuant to its Articles of Association, the Company is both authorised and obligated to issue up to 36.8 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.

The share capital of the Company as of 31 December 2020 is specified as follows:

	Shares	Ratio	Amount
Total share capital at year-end .....	1.225.849.728	100,0%	12.258.497
Own shares at year at year-end .....	(8.058.812)	-0,7%	(80.588)
	<u>1.217.790.916</u>	<u>99,3%</u>	<u>12.177.909</u>

Change in equity is specified as follows:

	Share capital	Accumulated deficit	Total equity
Equity as of 1 January 2020 .....	12.174	(12.174)	0
Shares allocated to LBI .....	(1)	1	0
New share capital issued .....	5	(5)	0
Profit for the period .....	0	0	0
Equity as of 31 December 2020 .....	<u>12.178</u>	<u>(12.178)</u>	<u>0</u>

## Notes

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During the year, the Company issued 525,924 new Class A Shares with a nominal value of EUR 5,259 to a holders of previously contingent Art. 113 claims which were finally accepted during the period.

### Information relating to claims not reflected in the Balance Sheet

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

<b>Disputed Art.113 claims</b>	2020	2019
Claims at the beginning of the period.....	311	50.895
Finally rejected claims.....	(311)	(35.471)
Finally accepted claims.....	0	(15.113)
<b>Disputed Art. 113 claims at the end of the period</b>	<b>0</b>	<b>311</b>

During the year, EUR 311 thousand in disputed Art. 113 claims were finally rejected and the related reserves held in escrow reversed to LBI. As of 31 December 2020, no further reserves are held on escrow against disputed Art. 113 claims.

<b>Contingent Art. 113 claims</b>	2020	2019
Claims at the beginning of the period.....	21.992	21.992
Finally rejected claims.....	(14.625)	0
Finally accepted claims.....	(7.367)	0
<b>Contingent Art. 113 claims at the end of the period</b>	<b>0</b>	<b>21.992</b>

During the year, EUR 22.0 million of contingent claims lodged under Art. 113 of the Icelandic Bankruptcy Act were resolved, resulting in claims of EUR 7.4 million being finally accepted and claims of EUR 14.6 million being finally rejected. As of 31 December 2020, no further reserves are held on escrow against contingent Art. 113 claims.

#### 16. 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.

### Reserves for Disputed Art. 113 claims

	Convertible notes	Conv. notes redemption	DMP	Class A Shares
Reserves 1.1.2020 .....	3	10	59	1
Reversed to LBI .....	(3)	(10)	(59)	(1)
Reserves 31.12.2020 .....	0	0	0	0

During the year, total reserves of EUR 73 thousand in the form of EUR 59 thousand in DMP, EUR 10 thousand in Convertible Notes redemption payments and Convertible Notes in the nominal amount of EUR 3 thousand (book value of EUR 1 thousand) were released from escrow and returned to LBI due to the final rejection of all remaining disputed Art. 113 claims. As such, all reserves held in escrow against disputed Art. 113 claims have now been released.

### Reserves for Contingent Art. 113 claims

	Convertible notes	Conv. notes redemption	DMP	Class A Shares
Reserves 1.1.2020 .....	766	2.225	786	143
Partially accepted claims .....	(225)	(652)	(741)	(42)
Reversed to LBI .....	(541)	(1.573)	(45)	(101)
Reserves 31.12.2020 .....	0	0	0	0

Upon receipt of the final dividend payment from the Heritable Bank estate, LBI finally approved the amounts of the 67 Heritable Bank contingent Art. 113 claims lodged against the Company. Consequently, applicable payments held in escrow was allocated to claimholders and excess reserves were reversed to the Company.

The allocation to claimholders from reserves held in escrow was comprised of EUR 741 thousand in DMP, EUR 652 thousand in Convertible Notes redemption payments and Convertible Notes in the nominal amount of EUR 225 thousand (book value of EUR 52 thousand).

The excess reserves released to LBI from escrow was comprised of EUR 45 thousand in DMP, EUR 1.6 million in Convertible Notes redemption payments and Convertible Notes in the nominal amount of EUR 541 thousand (book value of EUR 125 thousand).

## 17. 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.

Pursuant to the Assignment Agreement, all ISK recovered from Retained Assets are to be transferred to the CBI (with the exception of any legal costs awarded by the courts) while all recoveries

denominated in foreign currencies accrue to LBI. LBI holds the final decision-making powers on the pursuit and settlement of cases where the potential recovery is denominated in both ISK and foreign currencies following consultation with the CBI. However, LBI may not dispose or discontinue its pursuit of any asset or claim denominated in ISK 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**

In 2011 and 2012, LBI initiated three court cases before the District Court of Reykjavik (cases no. E-3826/2011, E-3827/2011, and E-991/2012) against four former employees of LBI, four former directors of the Company (case no. E-991/2012 only) and 26 insurers of directors' and officers' liability insurance policies which were purchased by LBI in 2008.

In November 2018, LBI reached a settlement agreement with 24 of the 26 insurers, which represented 47,8% of the amount underwritten under the above directors' and officers' liability insurance policies. The 24 insurers which were part of the settlement were discharged from the three ongoing court cases. The terms of the settlement are confidential.

As part of the proceedings of the case, but unrelated to the above settlement, LBI withdrew its claims against four former directors of LBI in case no. 991/2012.

All three court cases continued against four former employees of LBI and the two remaining insurers. The main hearing started on 29 October 2018 and concluded on 3 December 2018.

On 28 December 2018, the Reykjavik District Court handed down decisions in the three above referenced D&O-cases. In two of the cases, E-3826/2011 and E-991/2012, the court dismissed LBI's claims due to uncertainty around whether the loss incurred by LBI had already been compensated by a settlement of a court case that LBI had initiated against its former auditors.

In the third case, E-3827/2011 the Reykjavik District Court handed down a judgement by which the individual defendants, the two former CEOs and a former managing director were acquitted. The judgement was based on the conclusion that legitimate premises are insufficient to hold the employees liable for damages suffered by their employer. The insurers were acquitted on the grounds that the former two CEOs and a former managing director were not considered liable for LBI's losses.

Grettir case: LBI has appealed the judgement in the Grettir case, E-3817/2011, to the Landsrettur Court of Appeal. Landsréttur Court of Appeal held a procedural hearing in June 2020. The Landsréttur Court of Appeal has announced that the main hearing will be held in mid April 2021. Therefore, it can be expected that the court will render its decision before the end of Q2 2021.

New Straumur case: The Board of LBI decided to abide by the Reykjavik District Court rulings in cases no. E-3826/2011 and no. E-991/2012. However, at an extraordinary general meeting (EGM) held on 17 May 2019, LBI's shareholders decided to bring new legal action in which that part of the claims in the aforementioned cases pertaining to lending to Straumur-Burðarás Investment Bank hf. in October 2008 will be directed once more against the former CEOs of Landsbanki Íslands hf. and those insurers with whom a settlement has not already been reached. As explained above, claims for the same events were previously brought in cases that were dismissed by the Reykjavik District Court at the end of 2018. The formal court proceedings in the New Straumur case started in late May 2019 when the summons was served. The first court hearing before the Reykjavik District Court was held on 12 September 2019. The defendants have demanded that the case will be dismissed.



At a procedural hearing held in June 2020, the Reykjavik District Court decided that the main hearing on the insurer's dismissal claim will be postponed until a final court decision in the Grettir case is obtained.

### **18. Stability Contribution**

Pursuant to its Composition Agreement and the Assignment Agreement entered into with the CBI, the Company undertook to make certain voluntary contributions to the Icelandic State in the form of Additional Stability Contributions (ISK cash proceeds from the monetisation or release of Retained Assets realised from 1 January 2016 onwards).

Any cash received on account of a Retained Asset is held off balance sheet until returned to CBI as Additional Stability Contribution.

## Supplemental Information

### A. Assets specified by currencies

	31.12.2020				Total
	EUR	USD	GBP	Other	
Cash .....	10.116	1.470	2.765	231	14.582
Restricted cash .....	0	224	0	0	224
Loans to customers .....	0	0	600	0	600
Claims on bankrupt estates and other assets ...	96.284	0	0	4	96.288
<b>Total</b>	<b>106.400</b>	<b>1.694</b>	<b>3.365</b>	<b>235</b>	<b>111.694</b>
% of total assets .....	95%	2%	3%	0%	100%

	30.9.2020				Total
	EUR	USD	GBP	Other	
Cash .....	15.533	1.606	2.858	2.813	22.810
Restricted cash .....	0	235	0	0	235
Loans to customers .....	0	0	592	0	592
Claims on bankrupt estates and other assets ...	87.693	0	0	1	87.694
<b>Total</b>	<b>103.226</b>	<b>1.841</b>	<b>3.449</b>	<b>2.814</b>	<b>111.331</b>
% of total assets .....	93%	2%	3%	3%	100%

## Supplemental Information

### B. Drivers of change for the period 01/01/2020-31/12/2020

<b>Asset categories</b>	31.12.2019	Net cash received	FX change	Value-change	Income	Operating expenses	Note Redemption	Reserve and other reversals	31.12.2020
Cash .....	11.155	13.839	(172)	0	12	(4.938)	(7.000)	1.687	14.582
Restricted cash .....	15.109	(11.553)	(21)	0	(58)	(3.253)	0	0	224
Loans to customers .....	2.270	(1.447)	12	(256)	21	0	0	0	600
Claims on bankrupt estates and other assets .	87.674	(838)	(119)	9.567	0	3		0	96.288
<b>Total</b>	116.209	0	(300)	9.311	(25)	(8.188)	(7.000)	1.687	111.694

## Supplemental Information

### C. Drivers of change for the period 01/10/2020-31/12/2020

<b>Asset categories</b>	30.9.2020	Net cash received	FX change	Value-change	Income	Operating expenses	Note Redemption	Reserve and other reversals	31.12.2020
Cash .....	22.810	23	(11)	0	12	(1.251)	(7.000)	0	14.582
Restricted cash .....	235	0	(11)	0	0	0	0	0	224
Loans to customers .....	592	0	9	0	0	0	0	0	600
Claims on bankrupt estates and other assets .	87.694	(23)	(1)	8.614	0	3	0	0	96.288
<b>Total</b>	111.331	0	(14)	8.614	12	(1.248)	(7.000)	0	111.694

## Supplemental Information

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### D. Assets, classification and measurement

Asset categories	31.12.2020		30.9.2020	
	Balance	Value	Balance	Value
Cash .....	14.582	14.582	22.810	22.810
Restricted cash .....	224	224	235	235
Loans to customers .....	51.043	600	51.159	592
Claims on bankrupt estates and other assets .....	346.011	96.288	354.824	87.694
<b>Total</b>	<b>411.860</b>	<b>111.694</b>	<b>429.028</b>	<b>111.331</b>

The balance of loans to customers as of 31 December 2020 include aggregate exposures of EUR 19.0 million for which the Company expects zero-recovery, and which are not reflected in the tables below:

Loans to customers	31.12.2020		30.9.2020	
	Balance	Value	Balance	Value
Bankrupt individual (UK) .....	32.067	600	32.067	592
<b>Total</b>	<b>32.067</b>	<b>600</b>	<b>32.067</b>	<b>592</b>

## Supplemental Information

### E. Actual cash flow versus previously expected cash flow

<b>Asset categories</b>	Actual cash flow	Expected Cash flow
	1/10 - 31/12 2020	1/10 - 31/12 2020
Loans to customers .....	0	296
Claims on bankrupt estates and other assets .....	23	111
<b>Total</b>	<b>23</b>	<b>407</b>

<b>Amounts by currency stated in EUR equivalent</b>	Actual cash flow	Expected Cash flow
	1/10 - 31/12 2020	1/10 - 31/12 2020
USD .....	0	0
GBP .....	23	296
EUR .....	0	111
<b>Total</b>	<b>23</b>	<b>407</b>

### F. Asset monetisation plan for the next 12 months

<b>Asset categories</b>	2021			
	Q1	Q2	Q3	Q4
Loans to customers .....	0	300	0	300
Claims on bankrupt estates and other assets .....	112	0	0	0
<b>Total</b>	<b>112</b>	<b>300</b>	<b>0</b>	<b>300</b>

<b>Amounts by currency stated in EUR equivalent</b>	2021			
	Q1	Q2	Q3	Q4
USD .....	0	0	0	0
GBP .....	0	300	0	300
EUR .....	112	0	0	0
<b>Total</b>	<b>112</b>	<b>300</b>	<b>0</b>	<b>300</b>