

LBI

Financial Statements 2021

LBI ehf
Ármúli 21
108 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, 2021 which comprise the report of the Board of Directors, 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, 2021, 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 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 for the Financial Statements

The Board of Directors 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 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 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 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, 12 April 2022

Deloitte ehf.



Hilmar A. Alfreðsson

State Authorized Public Accountant



Jón Kristinn Lárusson

State Authorized Public Accountant

Endorsement by the Board of Directors

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 2021

During the financial year 2021, LBI actively managed its asset portfolio, which includes, among other things, cash, loans, equity instruments, claims on bankrupt estates, real estate, and litigation claims against third parties. Net cash inflow from assets during the year amounted to EUR 4.5 million, derived from EUR 0.6 million from loans to customers and EUR 3.9 million from claims on bankrupt estates and other assets.

On 5 November 2021, the Company exercised its option to partially convert EUR 58,3 million of Convertible Notes pro-rata to their outstanding nominal amount into 58,310,358 new Class A Shares with a nominal value of EUR 583,103.58.

As of 31 December 2021, the Company's total assets amounted to EUR 113.7 million (2020: EUR 111.7 million) and total liabilities amounted to EUR 113.7 million (2020: EUR 111.7 million). The profit for the year was nil after adjusting the value of the Convertible Notes by EUR 2.2 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 2021 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 2021, 558 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 2021 were as follows:

#	Shareholder / Control	Number of shares	% Ownership	Aggregate control
1	Anchorage Capital Group LLC			46,0%
	ACMO S.a.r.l.	550.434.748	42,9%	
	AIO IV S.a.r.l.	16.877.547	1,3%	
	ACMO Finance (Ireland) Limited	13.431.481	1,0%	
	PCI Fund LLC	6.432.032	0,5%	
2	Deutsche Bank AG, Frankfurt	284.080.510	22,1%	22,3%
3	Taconic Capital Advisors LP			8,2%
	TCA Opportunity Investments Sarl	94.735.331	7,4%	
	TCA Event Investements Sarl	10.526.147	0,8%	
4	Burlington Loan Management DAC	68.599.223	5,3%	5,4%
5	Goldman Sachs International	40.503.796	3,2%	3,2%
6	Citigroup Global Markets Ltd.	28.807.338	2,2%	2,3%
7	Merrill Lynch International	22.689.627	1,8%	1,8%
8	Stonehill			1,5%
	Stonehill Master Fund, Ltd.	11.577.886	0,9%	
	Stonehill Institutional Partners, L.P.	7.948.417	0,6%	
9	Ríkisábyrgðasjóður	12.604.671	1,0%	1,0%
10	Barclays Bank PLC (EUR)	8.198.564	0,6%	0,6%
Total		1.177.447.318	91,7%	92,3%

Statement by the Board of Directors

The Financial Statements for the year ended 31 December 2021 have been prepared in accordance with the Act on Annual Accounts.

It is the opinion of the Board of Directors that the Financial Statements of LBI for the year 2021 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 hereby endorse the Financial Statements of LBI for the year 2021 and recommend that they be approved at the Annual General Meeting of the Company.

Reykjavík, 12 April 2022

The Board of Directors



Christian Digemose
Chairman



Kolbeinn Árnason



Richard Katz

Income Statement 2021

	Notes	2021	2020
Interest, dividend and fee income	4	7	(25)
Net change in value	5	6.737	9.311
Net exchange difference		329	(319)
Operating income		<u>7.073</u>	<u>8.967</u>
Salaries and related expenses	6	(1.618)	(1.326)
General and administrative expenses	7	(3.267)	(6.676)
Operating expenses		<u>(4.885)</u>	<u>(8.001)</u>
Reversal of reserves held in escrow		0	1.813
Adjustment to value of the Convertible Notes	12	(2.188)	(2.778)
Financing activities		<u>(2.188)</u>	<u>(965)</u>
Profit before taxes		<u>0</u>	<u>0</u>
Taxes	13		
Profit for the period		<u>0</u>	<u>0</u>

Balance Sheet as at 31 December 2021

Assets	Notes	31.12.2021	31.12.2020
Cash	8	14.308	14.582
Restricted cash	9	243	224
Loans to customers	10	315	600
Claims on bankrupt estates and other assets	11	98.851	96.288
Total assets		<u>113.716</u>	<u>111.694</u>
 Liabilities			
Convertible Notes	12	113.099	110.910
Other liabilities		617	784
Total liabilities		<u>113.716</u>	<u>111.694</u>
 Equity			
Share capital		12.761	12.178
Accumulated deficit		(12.761)	(12.178)
Total equity	14	<u>0</u>	<u>0</u>
Total liabilities and equity		<u>113.716</u>	<u>111.694</u>

Statement of Cash Flows 2021

	2021	2020
Cash flows (to) from assets		
Interest received on cash	7	12
Restricted cash- net cash inflow (outflow)	0	11.553
Loans to customers - principal payments inflow	591	1.426
Loans to customers - interest/fee income	0	21
Claims on bankrupt estates and other assets	3.914	838
Net cash from assets	<u>4.513</u>	<u>13.850</u>
Cash flows (to) from other operating activities		
Salaries and related expenses	(1.817)	(1.456)
General and administrative expenses	(3.265)	(3.482)
Net cash (to) from other operating activities	<u>(5.083)</u>	<u>(4.938)</u>
Cash flow (to) from financing activities		
Reversal of reserves held in escrow	0	1.687
Redemption of Convertible Notes	0	(7.000)
Net cash (to) from financing activities	<u>0</u>	<u>(5.313)</u>
(Decrease) increase in cash	(570)	3.600
Effects of foreign exchange rate adjustments on cash	295	(172)
Cash at the beginning of the period	14.582	11.155
Cash at the end of the period	<u><u>14.308</u></u>	<u><u>14.582</u></u>

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 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 on 12 April 2022.

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:

Balance sheet item	Valuation methodology
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

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	
	31.12.2021	31.12.2020
USD	0,8833	0,8149
GBP	1,1906	1,1118

At the end of the reporting period, the Company held assets in currencies other than EUR, GBP, USD totalling the equivalent of EUR 2.8 million (see Supplemental Information A.).

Notes to the Income Statement

4. Interest, dividend and fee income

	2021	2020
Cash and restricted cash balances	7	(46)
Loans to customers	0	21
Total	7	(25)

5. Net change in value

	2021	2020
Loans to customers.....	270	(256)
Claims on bankrupt estates and other assets.....	6,467	9,567
Total	6,737	9,311

Estimated recoverable value increased by net EUR 6.7 million during the year (2020: EUR 9.3 million), primarily on account of EUR 2.9 million in increased recovery expectations on LIB's claim against the Landsbanki Luxembourg estate and to a lesser extent expected recovery of Company funds in the equivalent of EUR 2.5 million held by a foreign entity which used to provide services to one of LBI's former foreign branches and EUR 1.1 million in recoveries from the settlement of a damages claim brought by the Company against former service providers.

Estimated recoverable value increased in the fourth quarter by EUR 1.8 million, almost solely on account of an increase in expected recovery on LBI's claim against the Landsbanki Luxembourg estate.

6. Salaries and related expenses

	2021	2020
Salaries.....	1,360	1,103
Pension fund.....	173	145
Other salary related expenses.....	85	78
Total	1,618	1,326

Average number of full-time positions during the period.....	1,5	1,625
Number of full-time positions at the end of the period.....	1,5	1,5

Total salaries and fees paid to the Company's directors and management for the year 2021 amounted to EUR 1.2 million (2020: EUR 0.9 million).

Notes

7. General and administrative expenses

	2021	2020
External advisors.....	3.094	5.534
Premises expenses.....	34	42
Other expenses.....	139	1.100
Total	3.267	6.676

Notes to the Balance Sheet

8. Cash

	31.12.2021	31.12.2020
Cash.....	14.308	14.582
Total	14.308	14.582

9. Restricted cash

	31.12.2021	31.12.2020
Trustee Indemnity Fund.....	243	224
Total	243	224

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 thousands has been deposited into the 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.

10. Loans to customers

As of 31 December 2021, 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. During the year, the Company received EUR 321 thousands from the estate.

During the year, the Company furthermore realised an unexpected recovery of EUR 270 thousands on a disputed tax claim. The value of the related zero-recovery loan was written up accordingly and the funds released to the Company during the period.

Loans to customers	31.12.2021	31.12.2020
Bankrupt individual (UK).....	315	600
Total	315	600

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 brought criminal actions against the Landsbanki Luxembourg estate as a result of which the Criminal Court in Paris ordered a stay on the collection and enforcement of outstanding loans to borrowers domiciled in France until the conclusion of the legal proceedings, which has impeded the expected cash flow in the form of dividend payments from the Landsbanki Luxembourg estate to LBI and delayed 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.

On 31 January 2020, the Paris Appeal Court 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. In November 2021, the *Cour de Cassation* considered these challenges to be inadmissible, thereby upholding the decision of the Paris Appeal Court. As a result of the *Cour de Cassation* decision, the stay on the collection and enforcement of outstanding loans to borrowers domiciled in France has effectively been lifted.

Landsbanki Luxembourg is also subject civil proceedings in Spain. These proceedings, too, may impact the timing and amounts of recoveries on the portfolio.

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

The estimated recoverable value of LBI's claim against the Landsbanki Luxembourg estate was increased by EUR 2.9 million during the year based on the balance of court rulings and legal considerations for the French and Spanish loan exposures taken together.

During the year, LBI received EUR 0.3 million in distributions from the Landsbanki Luxembourg estate of which EUR 0.2 million were received in the fourth quarter.

Notes

At 31 December 2021, LBI's claims against the Landsbanki Luxembourg estate amounted to EUR 337.9 million.

Other assets

As of 31 December 2021, 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. On 22 June 2021, the Milan Court of First Instance handed down a judgement dismissing the Company's claims. In July 2021, the Company decided to appeal the decision to the Milan Court of Appeal. First procedural hearing before the Milan Court of Appeal was held in December 2021. As proceedings before the appellate court are usually faster than before the court of first instance, it is currently expected that a decision on the appeal will be rendered in the first half of 2023.

During the year, the Company recognised estimated recoverable value in the equivalent of EUR 2.5 million on funds held by a foreign entity which used to provide services to one of LBI's former foreign branches. The Company furthermore received EUR 1.1 million from the settlement of a damages claim brought by the Company against former service providers during the fourth quarter.

Liabilities

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 2021.....	473.835	0	473.835
Convertible Notes redeemed.....	0	0	0
Partial Conversion of Notes.....	(58.310)	0	(58.310)
Nominal amount outstanding 31 December 2021.....	415.524	0	415.524

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

Notes

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.

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 5 November 2021, the Company exercised its option to partially convert EUR 58,3 million of Convertible Notes pro-rata to their outstanding nominal amount into 58,310,358 new Class A Shares with a nominal value of EUR 583,103.58.

All disputed and contingent Art. 113 claims with reserves on escrow was resolved before end 2020.

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

	31.12.2021	31.12.2020
Book value outstanding at the beginning of the period.....	110.910	115.258
Convertible Notes redeemed.....	0	(7.000)
Adjustment of value relating to net asset value.....	2.188	2.778
Convertible Notes cancelled by book value.....	0	(126)
Book value of the Convertible Notes at the end of the period.....	<u>113.099</u>	<u>110.910</u>

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
2012	2022	80.102
2013	2023	49.267
2014	2024	103.020
2015	2025	0
2016	2026	0
2017	2027	8.035
2018	2028	0
2019	2029	0
2020	2030	0
2021	2031	0
	Total	<u>240.424</u>

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Equity

14. Changes in Equity

The Company's share capital is divided into two classes of shares, being 1,284,160,086 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.

The share capital of the Company as of 31 December 2021 is specified as follows:

	Shares	Ratio	Amount
Total share capital at year-end	1.284.160.086	100,0%	12.841.601
Own shares at year at year-end	(8.058.800)	-0,6%	(80.588)
	<u>1.276.101.286</u>	<u>99,4%</u>	<u>12.761.013</u>

Change in equity is specified as follows:

	Share capital	Accumulated deficit	Total equity
Equity as of 1 January 2021	12.178	(12.178)	0
Shares allocated to LBI	0	0	0
New share capital issued	583	(583)	0
Profit for the period	0	0	0
Equity as of 31 December 2021	<u>12.761</u>	<u>(12.761)</u>	<u>0</u>

During the year, the Company issued 58,310,358 new Class A Shares with a nominal value of EUR 583,103.58 in connection with the partial conversion of the Convertible Notes in November 2021.

Information relating to claims not reflected in the Balance Sheet

15. 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 (the "Straumur Cases").

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 "Grettir Case"). 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 appealed the judgement in the Grettir Case to the Landsrettur Court of Appeal which held the main hearing on 15-16 April 2021.

On 28 May 2021, the Landsréttur Court of Appeal handed down a judgement by which the D&O Insurers, the former CEO, Halldor J. Kristjansson, and the former Head of corporate finance, Sigrídur Elin Sigfusdóttir were acquitted. The individuals were acquitted on same grounds as in the first instance.

The acquittal of the D&O Insurers is based on the grounds that in the beginning of 2008, when the insurance was renewed, the company was negligent when giving information on the status of the company. The Court specifically addresses incorrect information on holding of own shares in the company, insufficient reporting of need for impairment of loans to large groups and insufficient information on large exposures. The Court also refers to market manipulation being conducted within the bank at the time of renewal the D&O policy.

The Court found that the former CEO, Sigurjon Þ. Arnason, is obliged to pay LBI ISK 50 million with default interest from the day the case was filed before the Reykjavik District Court in November 2011. The Court found that Arnason was liable due negligence in relation to not securing that a valid bank guarantee, securing a large loan exposure, was called when the loan was not paid back. The

Notes

Court lowered the amount payable by Arnason at its discretion based on law on limited liability companies.

The Company will need to transfer any ISK payment received from Sigurjon P. Arnason to the Central Bank of Iceland as additional stability contribution.

Finally, the Court awarded legal cost to the D&O Insurers, the former CEO, Halldor J. Kristjansson, and the former Head of Corporate Finance in the total amount of ISK 36 million payable by LBI. Previously, the Reykjavik District Court had awarded legal cost to Halldor J. Kristjansson and the former Head of Corporate Finance in the total amount of ISK 30 million payable by LBI. Therefore, total legal cost awarded to the D&O Insurers, the former CEO's and the former Head of Corporate Finance amounted to principal amount of ISK 66 million.

On 23 June 2021, the Company submitted its appeal request to the Supreme Court of Iceland.

On 15 September 2021, the Supreme Court of Iceland announced that it had rejected LBI's request for an appeal on the appellate court Landsréttur's decision in the Grettir case. At the same time, the Supreme Court also announced that it had rejected a request for appeal from one of the defendants, Sigurjón Árnason former CEO of Landsbanki Íslands hf.

The Supreme Court's reasoning for its decision is short. It simply states that the requirements for an appeal have not been met. The Supreme Court states that a judgement in the case would not be of value as a precedent in addition to existing court decisions. It further states that it cannot be seen that the decision of Landsréttur is obviously wrong on merits or in form.

This decision has the consequences that the Landsréttur's decision is final and LBI will need to pay legal fees (and associated default interest of ISK 9.6 million) to the D&O Insurers, the former CEO, Halldor J. Kristjansson, and the former Head of Corporate Finance in the aggregate amount of ISK 75.6 million, which the Company paid in September 2021.

New Straumur Case

The Board of LBI decided to abide by the Reykjavik District Court rulings in the Straumur Cases. 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 (the "New Straumur Case"). 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.

Following the Supreme Court's rejection of LBI request for an appeal on the decision in the Grettir Case, the New Straumur Case was discontinued and cancelled in early October 2021. The Reykjavik District Court decided awarded the defendants a total of ISK 2.3 million in legal costs, which the Company paid in October 2021.

The Company's reported financial statements have not included any recovery from the Grettir Case or the New Straumur Case (other than those already collected in settlements from certain insurers in November 2018). Accordingly, other than with respect to the prospective cost obligations above, the Supreme Court decision will not impact the reported values in the Company's future accounts.

16. 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

	31.12.2021				Total
	EUR	USD	GBP	Other	
Cash	7.631	1.028	2.882	2.767	14.308
Restricted cash	0	243	0	0	243
Loans to customers	0	0	315	0	315
Claims on bankrupt estates and other assets ...	98.849	0	0	2	98.851
Total	106.480	1.271	3.196	2.769	113.716
% of total assets	94%	1%	3%	2%	100%

	30.9.2021				Total
	EUR	USD	GBP	Other	
Cash	7.608	1.050	2.889	2.657	14.204
Restricted cash	0	237	0	0	237
Loans to customers	0	0	307	0	307
Claims on bankrupt estates and other assets ...	98.362	0	0	0	98.365
Total	105.970	1.287	3.196	2.657	113.113
% of total assets	94%	1%	3%	2%	100%

Supplemental Information

B. Drivers of change for the period 01/01/2021-31/12/2021

Asset categories	31.12.2020	Net cash received	FX change	Value-change	Income	Operating expenses	Note Redemption	31.12.2021
Cash	14.582	4.506	295	0	7	(5.083)	0	14.308
Restricted cash	224	0	19	0	0	0	0	243
Loans to customers	600	(591)	36	270	0	0	0	315
Claims on bankrupt estates and other assets .	96.288	(3.914)	8	6.467	0	2	0	98.851
Total	111.694	0	358	6.737	7	(5.081)	0	113.716

Supplemental Information

C. Drivers of change for the period 01/10/2021-31/12/2021

Asset categories	30.9.2021	Net cash received	FX change	Value-change	Income	Operating expenses	Note Redemption	31.12.2021
Cash	14.204	1.289	140	0	7	(1.331)	0	14.308
Restricted cash	237	0	5	0	0	0	0	243
Loans to customers	307	0	8	0	0	0	0	315
Claims on bankrupt estates and other assets .	98.365	(1.289)	(0)	1.772	0	2	0	98.851
Total	113.113	0	153	1.772	7	(1.330)	0	113.716

Supplemental Information

D. Assets, classification and measurement

Asset categories	31.12.2021		30.9.2021	
	Balance	Value	Balance	Value
Cash	14.308	14.308	14.204	14.204
Restricted cash	243	243	237	237
Loans to customers	50.916	315	50.753	307
Claims on bankrupt estates and other assets	345.755	98.851	347.027	98.365
Total	411.222	113.716	412.221	113.113

The balance of loans to customers as of 31 December 2021 include aggregate exposures of EUR 19.2 million for which the Company expects zero-recovery, and which are not reflected in the tables below:

Loans to customers (country)	31.12.2021		30.9.2021	
	Balance	Value	Balance	Value
Bankrupt individual (UK)	31.745	315	31.745	307
Total	31.745	315	31.745	307

Supplemental Information

E. Actual cash flow versus previously expected cash flow

Asset categories	Actual cash flow	Expected Cash flow
	1/10 - 31/12 2021	1/10 - 31/12 2021
Loans to customers	0	0
Claims on bankrupt estates and other assets	1.289	1.281
Total	1.289	1.281

Amounts by currency stated in EUR equivalent	Actual cash flow	Expected Cash flow
	1/10 - 31/12 2021	1/10 - 31/12 2021
USD	0	0
GBP	5	0
EUR	1.281	1.281
Other	3	0
Total	1.289	1.281

F. Asset monetisation plan for the next 12 months

Asset categories	2022			
	Q1	Q2	Q3	Q4
Loans to customers	0	0	0	315
Claims on bankrupt estates and other assets	324	0	0	0
Total	324	0	0	315

Amounts by currency stated in EUR equivalent	2022			
	Q1	Q2	Q3	Q4
GBP	0	0	0	315
EUR	324	0	0	0
Total	324	0	0	315