# LBI

## Management Accounts

## 1 July to 30 September 2019

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

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All amounts are in EUR thousands,
unless otherwise stated

# Endorsement by the Board of Directors and the CEO

LBI ehf. (hereafter "LBI" or the “Company”) is a private limited liability company incorporated and domiciled in Iceland. The Company's registered office is at 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, equity instruments, claims on bankrupt estates, real estate, 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.

During the third quarter of 2019, LBI actively managed its asset portfolio and worked to resolve disputed and contingent claims.

Net cash inflow from assets during the period amounted to EUR 0.9 million.

During the quarter, EUR 37 thousand in disputed claims lodged under Art. 113 of the Icelandic Bankruptcy Act were finally rejected. Additional information about the development in disputed and contingent claims lodged against the Company under Art. 113 of the Icelandic Bankruptcy Act is provided in Notes 15 and 16.

As of 30 September 2019, the Company's total assets amounted to EUR 115.7 million and total liabilities amounted to EUR 115.7 million. The profit for the period amounted to EUR 168 thousand, which is reflected in the adjustments to the stated value of the Convertible Notes.

On 30 September 2019, 564 shareholders were registered in the Company's share registry.

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.

Reykjavík, 24 October 2019

The Board of Directors

Richard Katz

Chairman

Kolbeinn Árnason

Christian Digemose

Chief Executive Officer

Ársæll Hafsteinsson

# Income Statement for the period 1 July to 30 September 2019

| | Notes | 2019<br>1/7 - 30/9 | 2019<br>1/4 - 30/6 |
|---|---|---|---|
| Interest, dividend and fee income | 4 | 0 | 49 |
| Net change in value | 5 | 841 | 466 |
| Net exchange difference | | 240 | 430 |
| **Operating income** | | 1.082 | 945 |
| Salaries and related expenses | 6 | (605) | (1.946) |
| General and administrative expenses | 7 | (332) | (363) |
| **Operating expenses** | | (937) | (2.310) |
| Reversal of reserves held in escrow | 12/16 | 23 | 1.984 |
| Adjustment to value of the Convertible Notes | 12 | (168) | (620) |
| **Financing activities** | | (145) | 1.364 |
| **Profit before taxes** | | 0 | 0 |
| Taxes | 13 | | |
| **Profit for the period** | | 0 | 0 |

All amounts are in EUR thousands, unless otherwise stated

# Balance Sheet as at 30 September 2019

| Assets | Notes | 30.9.2019 | 30.6.2019 |
|---|---|---|---|
| Cash | 8 | 11.920 | 11.860 |
| Restricted cash | 9 | 15.134 | 15.140 |
| Loans to customers | 10 | 1.931 | 2.692 |
| Claims on bankrupt estates and other assets | 11 | 86.754 | 86.018 |
| **Total assets** | | 115.739 | 115.711 |
| | | | |
| **Liabilities** | | | |
| Convertible Notes | 12 | 115.036 | 114.868 |
| Other liabilities | | 703 | 843 |
| **Total liabilities** | | 115.739 | 115.711 |
| | | | |
| **Equity** | | | |
| Share capital | | 11.277 | 11.277 |
| Accumulated deficit | | (11.277) | (11.277) |
| **Total equity** | 14 | 0 | 0 |
| | | | |
| **Total liabilities and equity** | | 115.739 | 115.711 |

All amounts are in EUR thousands,
unless otherwise stated

## Statement of Cash Flows for the period 1 July to 30 September 2019

| | 2019<br>1/7 - 30/9 | 2019<br>1/4 - 30/6 |
|---|---|---|
| **Cash flows (to) from assets** | | |
| Interest received on cash | 0 | 0 |
| Restricted cash- net cash inflow (outflow) | 0 | 0 |
| Loans to customers - principal payments inflow | 962 | 8.408 |
| Loans to customers - interest/fee income | 0 | 49 |
| Claims on bankrupt estates and other assets | (56) | 543 |
| **Net cash from assets** | 906 | 9.000 |
| **Cash flows (to) from other operating activities** | | |
| Salaries and related expenses | (750) | (2.098) |
| General and administrative expenses | (339) | (751) |
| **Net cash (to) from other operating activities** | (1.089) | (2.849) |
| **Cash flow (to) from financing activities** | | |
| Reversal of reserves held in escrow | 23 | 1.815 |
| Redemption of Convertible Notes | 0 | (16.820) |
| **Net cash (to) from financing activities** | 23 | (15.005) |
| (Decrease) increase in cash | (160) | (8.853) |
| Effects of foreign exchange rate adjustments on cash | 220 | (146) |
| Cash at the beginning of the period | 11.860 | 20.860 |
| **Cash at the end of the period** | 11.920 | 11.860 |

All amounts are in EUR thousands,
unless otherwise stated

# Notes

## General information

### 1. Reporting entity

LBI ehf. is a private limited liability company incorporated and domiciled in Iceland. The Company's registered office is at 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, and litigation claims against third parties.

### 2. Basis of preparation

#### Statement of compliance

The Management Accounts 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.

In these Management Accounts, interest in subsidiaries and associates are measured at fair value as the intention of the Company is to liquidate or sell subsidiaries in the short to medium term.

#### Going concern

The Management Accounts 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. |

| | |
|---|---|
| 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. 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. |

Due to the ongoing monetisation of its asset portfolio and the resulting reduction in the number of individual exposures, the Company has decided to merge certain asset categories in order to simply its financial reporting. As of 30 June 2019 and going forward, Equities, Other Assets and Other Receivables will be reported together with Claims on Bankrupt Estates in a new asset category called Claims on Bankrupt Estates and Other Assets.

### Functional currency

These Management Accounts 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 Management Accounts 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 Management Accounts have been prepared on the basis that LBI is able to manage the realisation of its assets and transact its ongoing business with appropriate regard to the interests of all its stakeholders. Accordingly, the estimate of value attributed to each asset is dependent on the realisation strategy presently pursued for such asset. As such, asset value does not necessarily represent the price at which an orderly transaction could take place between market participants on the reporting date. Rather, such values are intended to represent the value of assets based on a longer-term estimate of recoverable value.

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

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

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

Although the majority of claim disputes have been settled, it should be noted that the definitive amount of the Company's liabilities cannot be finally determined until all disputed claims have been resolved. Reference is made to Notes 15 and 16 for further information on disputed claims and their potential impact on the Company's liabilities.

### Interest, dividend and fee income

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

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

### Impairment

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

Where the cost of assets has been impaired and the reasons for the impairment no longer applies, the previously recognised impairment loss is reversed. 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 selling rates published by the CBI on the Balance Sheet date. Profit and loss resulting from exchange rate movements are included in profit/loss for the reporting period.

| | 30.9.2019 | 30.6.2019 |
|---|---|---|
| USD | 0,9151 | 0,8780 |
| GBP | 1,1263 | 1,1132 |

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 Note 17).

# Notes to the Income Statement

## 4. Interest, dividend and fee income

| | 2019<br>1/7 - 30/9 | 2019<br>1/4 - 30/6 |
|---|---|---|
| Cash and restricted cash balances | 0 | 0 |
| Loans to customers | 0 | 49 |
| **Total** | 0 | 49 |

## 5. Net change in value

| | 2019<br>1/7 - 30/9 | 2019<br>1/4 - 30/6 |
|---|---|---|
| Loans to customers | 200 | 456 |
| Claims on bankrupt estates and other assets | 641 | 10 |
| **Total** | 841 | 466 |

The recoverable value of the Company's assets was increased by EUR 0.8 million during the quarter, primarily on account of higher recovery expectations on claims against the Heritable Bank estate and on loans to customer exposures as a whole.

## 6. Salaries and related expenses

| | 2019<br>1/7 - 30/9 | 2019<br>1/4 - 30/6 |
|---|---|---|
| Salaries | 496 | 1.629 |
| Pension fund | 78 | 272 |
| Other salary related expenses | 31 | 45 |
| **Total** | 605 | 1.946 |

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Management Accounts 30/09/2019 unless otherwise stated

| | | |
|---|---|---|
| Average number of full-time positions during the period | 2 | 2 |
| Number of full-time positions at the end of the period | 2 | 2 |

### 7. General and administrative expenses

| | 2019<br>1/7 - 30/9 | 2019<br>1/4 - 30/6 |
|---|---|---|
| External advisors | 271 | 264 |
| Premises expenses | 9 | 14 |
| Other expenses | 52 | 85 |
| **Total** | 332 | 363 |

## Notes to the Balance Sheet

### 8. Cash

| | 30.9.2019 | 30.6.2019 |
|---|---|---|
| Cash | 11.920 | 11.860 |
| **Total** | 11.920 | 11.860 |

### 9. Restricted cash

| | 30.9.2019 | 30.6.2019 |
|---|---|---|
| Indemnity Fund | 14.882 | 14.899 |
| Trustee Indemnity Fund | 252 | 241 |
| **Total** | 15.134 | 15.140 |

An indemnity fund (the "Indemnity Fund") has been placed in a term deposit account with a foreign bank under the terms of the indemnification provided by the Company in favour of various parties in relation to the winding-up proceedings and composition. The term deposit bears floating interest rates which are currently negative. In the event that the Indemnity Fund is drawn on between 26 December 2017 and 25 December 2019, LBI is required to top-up the balance to EUR 15 million. Any balance remaining in the Indemnity Fund on 25 December 2025 will be returned to LBI. The Company has entered into discussions with the beneficiaries under the Indemnity Fund with a view to replacing the Indemnity Fund with an insurance policy as provided for under the relevant agreement entered by the parties in connection with LBI's composition.

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 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.

All amounts are in EUR thousands, unless otherwise stated

## 10. Loans to customers

As of 30 September 2019, the estimated recoverable value in the loan to customer portfolio was accounted for by leveraged lending, mortgage exposures to an individual secured by residential real estate and exposures to Danish limited liability structures known as Kommanditselskaber ("K/S").

| **Loans to customers by sector** | 30.9.2019 | 30.6.2019 |
|---|---|---|
| Real Estate | 1.835 | 2.274 |
| Services | 0 | 300 |
| Other | 96 | 118 |
| **Total** | 1.931 | 2.692 |

| **Loans to customers by country** | 30.9.2019 | 30.6.2019 |
|---|---|---|
| UK | 1.835 | 2.574 |
| Netherlands | 0 | 21 |
| Other Europe | 96 | 98 |
| **Total** | 1.931 | 2.692 |

As of 30 September 2019, the two largest exposures in the portfolio by estimated recoverable value accounted for EUR 1.8 million, or 95.0% of the estimated recoverable value of all loans to customers, whereas the aggregate outstanding balance for these two exposures amounted to EUR 33.4 million, or 98.4%, of the entire portfolio. The largest exposure is to an individual who has filed for bankruptcy in the United Kingdom. The Company is the largest creditor of the individual's estate but expects that a very substantial majority of the outstanding balance will ultimately be uncollectible. In September 2019, the Company received a dividend payment of GBP 274 thousand from the individual's estate. Final creditor distributions from the individual's estate is expected in the first quarter of 2020 In August 2019, the Company collected a final payment of EUR 453 thousand on a loan to customer exposure, increasing the estimated recovery by EUR 432 thousand.

| Counterpary | Type of Exposure | Collateral | Balance |
|---|---|---|---|
| Individual | Mortgage / equity loan | Residential real estate | 32.067 |
| Corporate | K/S | Commercial property lease | 1.361 |
| | | **Total** | 33.427 |

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Management Accounts 30/09/2019 unless otherwise stated

K/S entities are tax-transparent and efficient property-owning vehicles targeted towards high net worth and high income-generating Danish individuals. At origination, the investors had to fulfil certain criteria for income and net worth to qualify as an investor into the K/S structure. Senior lending to these entities was provided by local banks (from the country of the origination of the underlying asset) whereas the second lien (junior positions) is held by LBI with estimated recoverable value based on real estate value, lease payments and guarantees of the individuals owning the respective K/S structure. A combination of tenant defaults, declining property values in some markets, distressed senior and junior banks, inability to secure refinancing of maturing debt obligations and weakening strength of K/S investors financial capacity, have put pressure on recovery values. As of 30 September 2019, the Company's loan to customers portfolio comprised four K/S exposures where recovery is expected with an aggregate balance of EUR 1.9 million, of which one is against a solvent K/S entity and three are against individual investors who guaranteed the obligations of failed K/S entities.

## 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.

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. The main hearing for the Paris Appeal Court was held during the period of May through July 2019. The Paris Appeal Court's decision is due to be rendered on 4 December 2019.

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.

At 30 September 2019, LBI's claims against the Landsbanki Luxembourg estate amounted to EUR 335.1 million.

### Heritable Bank

Heritable Bank is a former financial institution and a former subsidiary of LBI, which has been subject to bankruptcy proceedings in Scotland since October 2008. LBI was awarded a finally recognised general unsecured claim in the amount of GBP 70 million and a finally recognised subordinated claim in the amount of GBP 7 million against the Heritable Bank estate. To date, the Heritable Bank estate has made aggregate distributions to holders of general unsecured creditors equal to 98% of their finally admitted claims. At 30 September 2019, LBI's general unsecured claim against the Heritable Bank estate amounted to EUR 1.6 million.

Following an update report from the liquidator of the Heritable Bank estate, LBI has increased the estimated recovery of its claims from EUR 89 thousand to EUR 732 thousand. The final distribution from the Heritable Bank estate is expected in the first quarter of 2020.

Under a subsidiary guarantee provided by LBI to Heritable Bank prior to its bankruptcy proceedings, 67 holders of unsecured claims against Heritable Bank lodged contingent Art. 113 claims against LBI to the extent that these claims would not be fully satisfied by the Heritable Bank estate. LBI has fully reserved against these contingent Art. 113 claims and has placed into escrow an aggregate EUR 3.9 million in sufficient de minimis cash payments (the "DMP"), Convertible Notes and Convertible Note redemption payments to cover its maximum potential obligations (see Note 16). While these escrow allocations will be returned to LBI in their entirety if the Heritable Bank estate's general unsecured claims recover 100% of their principal amount, it is now anticipted that approximately 47% of the escrow allocations amounts will be returned based on LBI's recovery expectations for the Heritable Bank estate's general unsecured claims.

### Other assets

As of 30 September 2019, other assets primarily consist of cash balances held in escrow against liabilities potentially arising from the monetisation of assets and nostro account balances with HSBC's Milan Branch which remain subject to resolution and collection.

In 2015, the Company reached an agreement with BNP Paribas, as the successor to Fortis in Belgium, regarding a bank account held in the name of LBI. As part of the agreement, certain funds are held on escrow account until 19 March 2020 to cover potential claims which might arise from third parties on BNP Paribas until that time. The amount on escrow is expected to be released in March 2020.

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. The main hearing in the case has been scheduled for December 2020.

# 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 at the beginning of the period.. | 571.015 | 0 | 571.015 |
| Convertible Notes redeemed................................................................. | 0 | 0 | 0 |
| Convertible Notes cancelled.................................................................. | 0 | 0 | 0 |
| Nominal amount outstanding at the end of the period............. | 571.015 | 0 | 571.015 |

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 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.

As of 30 September 2019, Convertible Notes in the nominal amount of EUR 913 thousand and Convertible Note redemption payments in the amount of EUR 2.2 million were held in escrow to cover disputed and contingent Art. 113 claims pursuant to the Composition Agreement.

All amounts are in EUR thousands,
unless otherwise stated

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

| | 30.9.2019 | 30.6.2019 |
|---|---|---|
| Book value outstanding at the beginning of the period | 114.868 | 131.237 |
| Convertible Notes redeemed | 0 | (16.820) |
| Adjustment of value relating to net asset value | 168 | 620 |
| Convertible Notes cancelled by book value | 0 | (169) |
| Book value of the Convertible Notes at the end of the period | 115.036 | 114.868 |

## 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 |
|---|---|---|
| 2009 | 2019 | 92.024 |
| 2010 | 2020 | 0 |
| 2011 | 2021 | 68.847 |
| 2012 | 2022 | 87.268 |
| 2013 | 2023 | 53.675 |
| 2014 | 2024 | 112.236 |
| 2015 | 2025 | 0 |
| 2016 | 2026 | 0 |
| 2017 | 2027 | 8.753 |
| 2018 | 2028 | 0 |
| | **Total** | **422.804** |

# Equity

## 14. Changes in Equity

The Company's share capital is divided into two classes of shares, being 1,135,688,397 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 36.0 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.

All amounts are in EUR thousands, unless otherwise stated

The share capital of the Company as of 30 September 2019 is specified as follows:

| | Shares | Ratio | Amount |
|---|---|---|---|
| Total share capital at the end of period | 1.135.688.397 | 100,0% | 11.356.884 |
| Own shares at year at the end of period | (7.958.319) | -0,7% | (79.583) |
| | 1.127.730.078 | 99,3% | 11.277.301 |

Change in equity is specified as follows:

| | Share capital | Accumulated deficit | Total equity |
|---|---|---|---|
| Equity as of 30 June 2019 | 11.277 | (11.277) | 0 |
| Shares allocated to LBI | 0 | 0 | 0 |
| New share capital issued | 0 | 0 | 0 |
| Profit for the period | 0 | 0 | 0 |
| Equity as of 30 September 2019 | 11.277 | (11.277) | 0 |

All amounts are in EUR thousands,
unless otherwise stated

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

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

| **Disputed Art.113 claims** | 2019<br>1/7 - 30/9 | 2019<br>1/4 - 30/6 |
|---|---|---|
| Claims at the beginning of the period | 348 | 30.161 |
| Finally rejected claims | (37) | (14.700) |
| Finally accepted claims | 0 | (15.113) |
| **Disputed Art. 113 claims at the end of the period** | 311 | 348 |

All disputed Art. 113 claims have been referred to the Icelandic courts for resolution.

During the quarter ended 30 September 2019, EUR 37 thousand in disputed Art. 113 claims were finally rejected.

| **Contingent Art. 113 claims** | 2019<br>1/7 - 30/9 | 2019<br>1/4 - 30/6 |
|---|---|---|
| Claims at the beginning of the period | 21.992 | 21.992 |
| Finally rejected claims | 0 | 0 |
| Finally accepted claims | 0 | 0 |
| **Contingent Art. 113 claims at the end of the period** | 21.992 | 21.992 |

The resolution of all remaining contingent claims depends on the extent to which further payments are made by the Heritable Bank estate towards general accepted claims (see Note 11). Any further payments from the Heritable Bank estate towards its general unsecured claims will lower the contingent claims on LBI causing a reversal of reserves held against those claims. It is currently expected that approximately 47% of the EUR 22.0 million in contingent claims will be finally rejected.

### 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.

As stated in the Company's Articles of Association, LBI is authorised and obligated to issue and allocate new shares up to a maximum amount of EUR 360 thousand of which EUR 46 thousand effectively remain authorised in proportion to any disputed and contingent claims which may become finally accepted under the Composition Agreement.

| **Reserves for Disputed Art. 113 claims** | Convertible notes | Conv. notes redemption | DMP | Total reserves |
|---|---|---|---|---|
| Reserves 1.7.2019 | 4 | 10 | 82 | 96 |
| Partially accepted claims | 0 | 0 | 0 | 0 |
| Redemption payments | 0 | 0 | 0 | 0 |
| Reversed to LBI | 0 | 0 | (23) | (23) |
| Reserves 30.09.2019 | 4 | 10 | 59 | 73 |

DMP reserves of EUR 23 thousand were released from escrow and returned to LBI during the period due to the final rejection of disputed Art. 113 claims.

| **Reserves for Contingent Art. 113 claims** | Convertible notes | Conv. notes redemption | DMP | Total reserves |
|---|---|---|---|---|
| Reserves 1.7.2019 | 909 | 2.225 | 786 | 3.920 |
| Redemption payments | 0 | 0 | 0 | 0 |
| Reversed to LBI | 0 | 0 | 0 | 0 |
| Reserves 30.09.2019 | 909 | 2.225 | 786 | 3.920 |

All amounts are in EUR thousands,
unless otherwise stated

## 17. Assets specified by currencies

| | 30.9.2019 | | | | |
|---|---|---|---|---|---|
| | EUR | USD | GBP | Other | Total |
| Cash | 8.950 | 1.022 | 1.096 | 851 | 11.920 |
| Restricted cash | 14.882 | 252 | 0 | 0 | 15.134 |
| Loans to customers | 814 | 0 | 0 | 1.117 | 1.931 |
| Claims on bankrupt estates and other assets | 84.340 | 879 | 736 | 799 | 86.754 |
| **Total** | 108.987 | 2.152 | 1.832 | 2.767 | 115.739 |
| % of total assets | 94% | 2% | 2% | 2% | 100% |

| | 30.6.209 | | | | |
|---|---|---|---|---|---|
| | EUR | USD | GBP | Other | Total |
| Cash | 9.409 | 1.035 | 816 | 601 | 11.860 |
| Restricted cash | 14.899 | 241 | 0 | 0 | 15.140 |
| Loans to customers | 1.430 | 0 | 0 | 1.262 | 2.692 |
| Claims on bankrupt estates and other assets | 84.285 | 843 | 93 | 797 | 86.018 |
| **Total** | 110.023 | 2.119 | 909 | 2.660 | 115.711 |
| % of total assets | 95% | 2% | 1% | 2% | 100% |

All amounts are in EUR thousands, unless otherwise stated

## 18. Drivers of change for the period 01/07/2019-30/09/2019

| **Asset categories** | 30.6.2019 | Net cash received | FX change | Value-change | Income | Operating expenses | Reserve and other reversals | 30.9.2019 |
|---|---|---|---|---|---|---|---|---|
| Cash | 11.860 | 906 | 220 | 0 | 0 | (1.089) | 23 | 11.920 |
| Restricted cash | 15.140 | 0 | 10 | 0 | 0 | (16) | 0 | 15.134 |
| Loans to customers | 2.692 | (962) | (0) | 200 | 0 | 0 | 0 | 1.931 |
| Claims on bankrupt estates and other assets | 86.018 | 56 | 39 | 641 | 0 | 0 | 0 | 86.754 |
| **Total** | 115.711 | 0 | 269 | 841 | 0 | (1.105) | 23 | 115.739 |

All amounts are in EUR thousands,
unless otherwise stated

## 19. Assets, classification and measurement

| Asset categories | 30.9.2019 Balance | 30.9.2019 Value | 30.6.2019 Balance | 30.6.2019 Value |
|---|---|---|---|---|
| Cash | 11.920 | 11.920 | 11.860 | 11.860 |
| Restricted cash | 15.134 | 15.134 | 15.140 | 15.140 |
| Loans to customers | 52.723 | 1.931 | 53.343 | 2.692 |
| Claims on bankrupt estates and other assets | 355.035 | 86.754 | 354.801 | 86.018 |
| **Total** | 434.813 | 115.739 | 435.144 | 115.711 |

The balance of loans to customers has been reduced in the period by EUR 0.6 million, mainly due to repayments.

The balance of loans to customers as of 30 September 2019 include aggregate exposures of EUR 19.3 million for which the Company expects zero-recovery, and which are not reflected in the tables below:

| Loans to customers by sector | 30.9.2019 Balance | 30.9.2019 Value | 30.6.2019 Balance | 30.6.2019 Value |
|---|---|---|---|---|
| Services | 0 | 0 | 3.353 | 300 |
| Real Estate | 33.427 | 1.835 | 33.906 | 2.274 |
| Other | 532 | 96 | 745 | 118 |
| **Total** | 33.959 | 1.931 | 38.004 | 2.692 |

| Loans to customers by country | 30.9.2019 Balance | 30.9.2019 Value | 30.6.2019 Balance | 30.6.2019 Value |
|---|---|---|---|---|
| UK | 32.076 | 1.835 | 35.908 | 2.574 |
| Netherlands | 0 | 0 | 205 | 21 |
| Other Europe | 1.884 | 96 | 1.891 | 98 |
| **Total** | 33.959 | 1.931 | 38.004 | 2.692 |

All amounts are in EUR thousands, unless otherwise stated

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

| **Asset categories** | Actual cash flow 1/7 - 30/09 2019 | Expected Cash flow 1/7 - 30/09 2019 |
|---|---|---|
| Loans to customers | 962 | 1.322 |
| Claims on bankrupt estates and other assets | (56) | 0 |
| **Total** | 906 | 1.322 |

| **Amounts by currency stated in EUR equivalent** | Actual cash flow 1/7 - 30/09 2019 | Expected Cash flow 1/7 - 30/09 2019 |
|---|---|---|
| GBP | 308 | 0 |
| EUR | 419 | 1.130 |
| Other | 178 | 192 |
| **Total** | 906 | 1.322 |

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

| | 2019 | 2020 | | |
|---|---|---|---|---|
| **Asset categories** | Q4 | Q1 | Q2 | Q3 |
| Loans to customers | 48 | 862 | 48 | 48 |
| Claims on bankrupt estates and other assets | 0 | 732 | 325 | 1.676 |
| **Total** | 48 | 1.594 | 373 | 1.724 |

| | 2019 | 2020 | | |
|---|---|---|---|---|
| **Amounts by currency stated in EUR equivalent** | Q4 | Q1 | Q2 | Q3 |
| USD | 0 | 0 | 0 | 879 |
| GBP | 0 | 732 | 4 | 0 |
| EUR | 0 | 814 | 321 | 0 |
| Other | 48 | 48 | 48 | 845 |
| **Total** | 48 | 1.594 | 373 | 1.724 |

All amounts are in EUR thousands, unless otherwise stated

## 22. Budget for 2020

| | 2020 | | | |
|---|---|---|---|---|
| | Q1 | Q2 | Q3 | Q4 |
| **Salaries and related expenses** | | | | |
| Salaries | 317 | 239 | 239 | 239 |
| Pension fund | 43 | 32 | 32 | 32 |
| Other salary related expenses | 24 | 18 | 18 | 18 |
| **Total** | 384 | 289 | 289 | 289 |
| **General and administrative expenses** | | | | |
| External Advisors | 440 | 277 | 205 | 369 |
| Premises expenses | 9 | 9 | 9 | 9 |
| Other expenses | 59 | 251 | 43 | 43 |
| **Total** | 508 | 537 | 256 | 421 |
| **Operating expenses total** | 891 | 826 | 545 | 710 |

All amounts are in EUR thousands, unless otherwise stated

## 23. 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.

LBI has appealed the judgement in case E-3817/2011 to the Landsrettur Court of Appeal.

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 afore-mentioned 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 proceeding process started in late May 2019 when the summons were 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. The next procedural hearing is scheduled for November 2019, whereas a date for the main hearing on the dismissal claim has not yet been set.

## 24. 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.

## 25. Events after the Balance Sheet Date

As provided for under the terms and conditions of the Convertible Notes, LBI is preparing for a partial conversation of the Convertible Notes into equity in order to utilise tax loss carry-forwards from previous years that are due to expire at the end of 2019.

The Company is in the process of exploring potential financing should the need arise to support asset value.