

LBI

Management Accounts 1 January to 31 March 2018

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

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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, 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.

During the first quarter of 2018, 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 10.9 million, resulting from the release of restricted cash, repayment of exposures in loans to customers and a distribution received from the Landsbanki Luxemburg estate.

During the quarter, EUR 20.1 million of disputed Art. 113 claims and EUR 68.3 million of disputed priority claims lodged under Art. 109 of the Icelandic Bankruptcy Act were finally rejected. Additional information about the development in disputed and contingent claims lodged against the Company under the Icelandic Bankruptcy Act is provided in Notes 17-19.

As of 31 March 2018, the Company's total assets amounted to EUR 182.8 million and total liabilities amounted to EUR 182.8 million. The profit for the period amounted to EUR 0.6 million, which is reflected in the adjustments to the stated value of the Convertible Notes.

On 31 March 2018, 572 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 significant portion of LBI's assets is denominated in currencies other than the functional currency of the Company and the currency denomination of the Convertible Notes, which gives rise to foreign exchange risk. LBI does not utilise forward contracts, derivatives or other forms of financial hedging.

Reykjavík, 28 May 2018

The Board of Directors

Richard Katz

Chairman

Kolbeinn Árnason

Christian Digemose

Chief Executive Officer

Ársæll Hafsteinsson

Income Statement for the period 1 January to 31 March 2018

	Notes	2018 1/1 - 31/3	2017 1/10- 31/12
Interest, dividend and fee income	4	164	824
Net change in value	5	975	8,835
Net exchange difference		(318)	(260)
Operating income		<u>821</u>	<u>9,398</u>
Salaries and related expenses	6	(1,253)	(2,728)
General and administrative expenses	7	(1,580)	(965)
Operating expenses		<u>(2,833)</u>	<u>(3,693)</u>
Reversal of reserves held in escrow	14.18	2,660	3,451
Adjustment to value of the Convertible Notes	14	(649)	(9,156)
Financing activities		<u>2,012</u>	<u>(5,705)</u>
Profit before taxes		<u>0</u>	<u>0</u>
Taxes	15		
Profit for the year		<u><u>0</u></u>	<u><u>0</u></u>

Balance Sheet as at 31 March 2018

Assets	Notes	31/03/2018	31/12/2017
Cash	8	43,466	34,752
Restricted cash	9	15,203	20,090
Loans to customers	10	29,843	32,021
Equities	11	228	186
Claims on bankrupt estates	12	84,155	85,274
Other assets	13	9,348	10,956
Other receivables		539	505
Total assets		<u>182,782</u>	<u>183,785</u>
 Liabilities			
Convertible Notes	14	181,626	181,292
Other liabilities		1,155	2,493
Total liabilities		<u>182,782</u>	<u>183,785</u>
 Equity			
Share capital		11,262	11,262
Accumulated deficit		(11,262)	(11,262)
Total equity	16	<u>0</u>	<u>0</u>
Total liabilities and equity		<u>182,782</u>	<u>183,785</u>

Statement of Cash Flows for the period 1 January to 31 March 2018

	2018	2017
	1/1 - 31/3	1/10- 31/12
Cash flows (to) from assets		
Interest received on cash	0	409
Restricted cash- net cash inflow (outflow)	4,861	0
Landsbankinn term deposit - principal payments inflow (outflow) ..	0	138,850
Landsbankinn term deposit - interest income	0	421
Loans to customers - principal payments inflow	1,965	2,445
Loans to customers - interest/fee income	183	35
Equities - net cash inflow	0	922
Claims on bankrupt estates - net cash inflow	2,900	0
Other assets and other sources - net cash inflow	966	8,826
Other receivables - net cash inflow	0	1,237
Net cash from assets	<u>10,874</u>	<u>153,144</u>
Cash flows (to) from other operating activities		
Salaries and related expenses	(2,432)	(1,691)
General and administrative expenses	(1,895)	(1,411)
Net cash (to) from other operating activities	<u>(4,327)</u>	<u>(3,102)</u>
Cash flow (to) from financing activities		
Reversal of reserves held in escrow	2,298	1,889
Redemption of Convertible Notes	0	(140,465)
Net cash (to) from financing activities	<u>2,298</u>	<u>(138,576)</u>
(Decrease) increase in cash	8,846	11,466
Effects of foreign exchange rate adjustments on cash	(132)	(254)
Cash at the beginning of the period	<u>34,752</u>	<u>23,540</u>
Cash at the end of the period	<u><u>43,466</u></u>	<u><u>34,752</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, real estate, unsettled derivative contracts 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.
Equities	All equities are valued at estimated recoveries. To the extent such assets are subject to market quotations, the Company

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	reviews such quotations in assessing its recoveries but does not rely exclusively on such quotations.
Claims on bankrupt estates	Realisable value is based on best estimate of recoverability, in part reflecting information provided by the administrator of the relevant estate.
Other assets	Real estate is valued at realisable value. Unsettled derivative contracts which are disputed claims, are valued based on best estimate of recoverability. Value derived from settlement of disputes reported off balance sheet are reported under this category.
Other receivables	Valued at nominal amount.
Convertible Notes	Recognised at the lesser of net asset value or nominal amount outstanding at the end of the period.
Other liabilities	Valued at nominal amount.

Functional currency

These 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 significant proportion of the Company's assets are denominated in currencies other than EUR. As a result, the estimated values presented herein may be materially impacted by exchange rate movements.

Uncertainties / use of estimates and judgements

The preparation of the 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 17-19 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 Assignment Agreement furthermore provided for specific assets to be retained by LBI, the Retained Assets, subject to Additional Stability Contributions under certain circumstances. The Retained Assets held by LBI during the reporting period are as follows:

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

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(ii) Certain assets, rights and litigation where a realisation would result solely in ISK proceeds or combined ISK and non-ISK proceeds; any ISK proceeds must be transferred to the CBI as an Additional Stability Contribution if and when realised. No value is assigned to prospective ISK proceeds from these assets in LBI's Balance Sheet. Previously, the Company recorded any cash received on account of a Retained Asset as an asset in Restricted Cash and as a liability in the form of an Additional Stability Contribution. From 31 December 2017, 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.

	Balance Sheet date	
	31/03/2018	31/12/2017
USD	0.8064	0.8347
GBP	1.1414	1.1270

At the end of the reporting period, the Company held assets in currencies other than EUR, GBP, USD totalling the equivalent of EUR 6.5 million (see Note 21).

Notes to the Income Statement

4. Interest, dividend and fee income

	2018	2017
	1/1 - 31/3	1/10 - 31/12
Cash and restricted cash balances	(19)	386
Landsbankinn term deposit	0	403
Loans to customers	183	35
Total	164	824

5. Net change in value

	2018	2017
	1/1 - 31/3	1/10 - 31/12
Loans to customers.....	(430)	3,216
Equities.....	40	128
Claims on bankrupt estates.....	1,768	1
Other assets.....	(403)	5,490
Total	975	8,835

Notes

Reported value of claims on bankrupt estates increased by EUR 1.8 million in the period due to increased recoveries expected from the Landsbanki Luxembourg estate, whereas recovery expectations decreased on a net basis for exposures in loans to customers and other assets.

6. Salaries and related expenses

	2018 1/1 - 31/3	2017 1/10 - 31/12
Salaries.....	1,050	2,271
Pension fund.....	123	280
Other salary related expenses.....	79	177
Total	1,253	2,728
Average number of full-time positions during the period	7	8
Number of full-time positions at the end of the period	6	7

7. General and administrative expenses

	2018 1/1 - 31/3	2017 1/10 - 31/12
External advisors.....	1,440	626
Premises expenses.....	23	6
Other expenses.....	118	333
Total	1,580	965

Increase in external advisors' expenses is mainly explained by foreign legal costs related to litigation settlements finalised in the fourth quarter of 2017 and during the reporting period.

Notes to the Balance Sheet

8. Cash

	31/03/2018	31/12/2017
Cash.....	43,466	34,223
ISK Opex Reserve Fund.....	0	529
Total	43,466	34,752

As of 31 March 2018, the Company's cash balance amounted to EUR 43.5 million. The remaining balance in the ISK Opex Reserve Fund was depleted during the period so all future expenses in ISK will be covered by converting funds from EUR to ISK.

9. Restricted cash

	31/03/2018	31/12/2017
Indemnity Fund.....	14,981	19,861
Trustee Indemnity Fund.....	222	230
Total	15,203	20,090

Notes

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 Indemnity Fund was reduced to EUR 15 million during the reporting period and EUR 4.9 million was returned to LBI. 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.

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 will total USD 1.1 million when fully funded. The Trustee Indemnity Fund will be held for the benefit of Wilmington Trust and any remaining funds released under certain conditions three months after the Convertible Notes are redeemed, cancelled or converted.

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

10. Loans to customers

As of 31 March 2018, the estimated recoverable value in the loan to customer portfolio was primarily accounted for by mortgages to individuals secured by residential real estate and by exposures to Danish limited liability structures known as Kommanditselskaber ("K/S").

Loans to customers by sector	<u>31/03/2018</u>	<u>31/12/2017</u>
Real Estate.....	28,656	28,998
Services.....	325	325
Retail.....	23	1,054
Other.....	840	1,645
Total	<u>29,843</u>	<u>32,021</u>

Loans to customers by country	<u>31/03/2018</u>	<u>31/12/2017</u>
UK.....	18,974	19,937
France.....	6,270	6,270
Germany.....	25	25
Netherlands.....	21	21
Other Europe.....	4,554	5,769
Total	<u>29,843</u>	<u>32,021</u>

As of 31 March 2018, the five largest exposures in the portfolio by estimated recoverable value accounted for EUR 28.6 million, or 95.0% of the estimated recoverable value of all loans to customers, whereas the aggregate outstanding balance for these five exposures amounted to EUR 67.9 million, or 73.2%, of the entire portfolio.

Notes

Counterparty	Type of Exposure	Collateral	Balance
Individual	Mortgage / equity loan	Residential real estate	36,274
Individual	Mortgage	Residential real estate (sold)	25,828
Corporate	Leveraged lending	Senior unsecured	3,422
Corporate	K/S	Commercial property lease	1,452
Corporate	K/S	Commercial property lease	871
Total			67,846

The two largest exposures by outstanding balance are in the form of loans to two individuals, which are or were secured by mortgages on residential properties in the United Kingdom and continental Europe.

The largest exposure is to an individual who has filed for bankruptcy in the United Kingdom. The Company is the largest creditor of the estate, but expects that a very substantial majority of the outstanding balance will ultimately be uncollectible.

As of 31 March 2018, the second largest exposure was to an individual, Kevin Stanford, who had brought a case against LBI in the District Court of Reykjavik resulting in proceeds from the enforcement sale of residential properties in the United Kingdom and continental Europe being held on escrow by the English Courts pending the outcome of the litigation in Iceland. On 15 March 2018, pursuant to a settlement agreement between LBI and Kevin Stanford, the case brought against LBI in the District Court of Reykjavik by Kevin Stanford was discontinued. The escrow funds, equivalent to EUR 21.6 million, have mostly been released to LBI after the reporting period – representing 72.5% of the total reported value from loans to customers. These recoveries are in line with reported value and will not affect previously estimated recoveries.

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 31 March 2018, the Company's loan to customer portfolio comprised twenty-three K/S exposures with an aggregate balance of EUR 19.6 million, of which six are against solvent K/S entities and seventeen are against individual investors who guaranteed the obligations of failed K/S entities.

11. Equities

The remaining equity positions as of 31 March 2018 are all unlisted and have primarily arisen from the past restructuring of credit exposures.

Notes

12. Claims on bankrupt estates

	31/03/2018	31/12/2017
Landsbanki Luxembourg.....	83,179	84,311
Baugur.....	160	158
Heritable bank.....	815	805
Kaupping S+F.....	1	1
Total	<u>84,155</u>	<u>85,274</u>

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 aggregate amounts of the cash or mortgage-repayment, inclusive of accrued interest thereon, are shown in the table below as "Cash release".

The table below shows the breakdown of the loans as estimated by LBI in EUR millions. Loan balances shown below have been updated as of 31 March 2018 and include interest accruals at full default rates. Information shown below related to collateral values, except in limited circumstances, has not been updated since 31 December 2016. There is considerable uncertainty regarding the estimated collateral value shown below. Amounts shown do not take into account continuing administrative and legal expenses, expected cost of enforcements and sales, discount for distressed sales or potential claims from third parties.

Location # Clients	Outstanding Loan Balance		Estimated Collateral Value	Lesser of Balance or Collateral Value	
	Cash release	Total Balance	Total	Cash release	Total Balance
France 66	60.4	152.7	119.6	58.5	108.9
Spain 198	61.3	140.0	95.5	53.3	91.2
Other 2	.7	.9	.6	.4	.6
Total 266	122.3	293.6	215.7	112.2	200.7

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.

Landsbanki Luxembourg is also subject to criminal complaints and 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.

In February 2018, the Company received a EUR 2.9 million distribution from the Landsbanki Luxembourg estate. An additional distribution of EUR 1.2 million was received after the reporting period.

At 31 March 2018, LBI's claims against the Landsbanki Luxembourg estate amounted to EUR 345.2 million, whereas the aggregate balance of outstanding equity release loans amounted to EUR 293.6 million with an estimated recoverable value, net of certain costs expected to be incurred in connection with their monetisation, of EUR 83.2 million.

Baugur

LBI holds accepted claims against the estate of Baugur hf., which is subject to liquidation proceedings in Iceland. Only a small residual recovery is expected.

Heritable Bank

Heritable Bank is a former financial institution and a former subsidiary of LBI, which has been subject to bankruptcy proceedings in Scotland since October 2008. LBI was awarded a finally recognised general unsecured claim in the amount of GBP 70 million (EUR 79.9 million) and a finally recognised subordinated claim in the amount of GBP 7 million (EUR 8.0 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. LBI's estimated recoveries assume that the cumulative distributions will be 99% of admitted general unsecured claims (and nil on the subordinated claims) based on reports from the administrators of the Heritable Bank estate.

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 18). While these escrows will be returned to LBI in their entirety if the Heritable Bank estate's general unsecured claims recover 100% of their principal amount, only half of the escrows will be returned if the general unsecured claims recover 99% of their principal amount.

In addition, the UK Financial Services Compensation Scheme (the "FSCS") has lodged a claim against LBI based on the same subsidiary guarantee, seeking compensation of its interest expense in the

Notes

period from 8 October 2008 until 22 April 2009. This claim is disputed by LBI and has been referred to the Icelandic Courts for resolution. LBI has fully reserved against this disputed Art. 113 claims and has placed into escrow EUR 13.8 million in sufficient DMP, Convertible Notes and Convertible Note redemption payments to cover its maximum potential obligations (see Note 18). On 9 October 2017, the District Court of Reykjavik ruled in the favour of LBI dismissing the claim on a procedural basis. On 5 December 2017, the Supreme Court of Iceland reversed the ruling and referred the main case back to the District Court. The main hearing in the Reykjavik District Court is expected before the end of 2018.

13. Other assets

Other assets primarily consist of real estate, exposures to foreign financial institutions and corporate entities. The remaining exposures to foreign financial institutions and corporate entities are in the form of unsettled derivative contracts and nostro account balances which in both cases remain subject to resolution and collection. As of 31 March 2018, a total balance of EUR 26.1 million was unresolved with five counterparties as summarised in the table below:

Counterparty	Contract	Unresolved matter	Jurisdiction	Balance
Raffaelsen Zentralbank	GMRA / GMSLA	Valuation / Close-out	UK	14,751
HSBC	Nostro Account	Set-off	Italy	6,158
KAS Bank	GMSLA	Valuation	Iceland / UK	3,091
Greif International Holding	ISDA	Suspended payment	UK	1,490
BNP Paribas	Deposit Account	Potential 3rd party claims	Belgium	643
Total				26,133

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

On 11 April 2018, the UK Courts of Appeal ruled against the Company in its appeal of a UK Commercial Court decision in LBI's case against Raiffeisen Zentralbank. No expected recoverable value was assigned to the outcome of the appeal so this final ruling will not affect previously reported recoveries on other assets.

The Company filed litigation against HSBC 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 next procedural hearing in this case is scheduled for 13 September 2018.

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. During the period, the Company received EUR 1.1 million as partial release of the amount held on escrow. The remaining amount is expected in March 2020.

KAS Bank lodged a claim against LBI based on the closeout calculations of a GMSLA agreement. The dispute is currently with the Reykjavik District Court, where LBI has raised counterclaims on KAS Bank related to the closeout. The main hearing with the Reykjavik District Court is expected before the end of 2018.

LBI is pursuing collection against Greif International Holding B.V. (previously known as Pack2Pack B.V.), which suspended payments under a derivative trade in reliance on provisions of the ISDA Master Agreement whereby the non-defaulting party is allowed to suspend payment until the

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applicable default is cured. Greif International Holding B.V. is a Dutch subsidiary of Greif, Inc. (NYSE: GEF). LBI lodged a claim for declaratory relief with the High Court of Justice in February 2018 to enforce the collection of its claim.

Liabilities

14. 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..	668,764	0	668,764
Convertible Notes redeemed.....	0	0	0
Convertible Notes cancelled.....	(1,159)	0	(1,159)
Nominal amount outstanding at the end of the period.....	667,605	0	667,605

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

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

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

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

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

During the period, Convertible Notes in the nominal amount of EUR 1.2 million (book value of EUR 314 thousand) were returned to LBI from escrow and subsequently cancelled following the final rejection of disputed Art. 113 claims.

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As of 31 March 2018, Convertible Notes in the nominal amount of EUR 9.3 million and Convertible Note redemption payments in the amount of EUR 18.5 million were held in escrow to cover disputed and contingent Art. 113 claims pursuant to the Composition Agreement.

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

	31/03/2018	31/12/2017
Book value outstanding at the beginning of the period.....	181,292	314,163
Convertible Notes redeemed.....	0	(140,465)
Adjustment of value relating to net asset value.....	649	9,156
Convertible Notes cancelled by book value.....	(314)	(1,563)
Book value of the Convertible Notes at the end of the period.....	181,626	181,292

15. 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
2008	2018	688,764
2009	2019	102,326
2010	2020	0
2011	2021	76,555
2012	2022	97,038
2013	2023	59,684
2014	2024	124,801
2015	2025	0
2016	2026	0
	Total	1,149,167

Equity

16. Changes in Equity

The Company's share capital is divided into two classes of shares, being 1,134,170,953 Class A Shares and nil Class B Shares as of 31 March 2018. 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 36.7 million new Class A shares each of EUR 0.01 to cover any disputed or contingent claims lodged under Art. 113 of the Icelandic Bankruptcy Act which may become finally recognised under LBI's Composition Agreement.

The Share capital of the Company as of 31 March 2018 is specified as follows:

	Shares	Ratio	Amount
Total share capital at the end of period	1,134,170,953	100.0%	11,341,710
Own shares at year at the end of period	(7,958,319)	-0.7%	(79,583)
	1,126,212,634	99.3%	11,262,126

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Change in equity is specified as follows:

	Share capital	Accumulated deficit	Total equity
Equity as at 1 January 2016	11,339	(11,339)	0
Own shares allocated back	(55)	55	0
New share capital issued	0	(0)	0
Profit for the year 2016	0	0	0
Equity as of 1 January 2017	11,283	(11,283)	0
Shares allocated to LBI	(24)	24	0
New share capital issued	3	(3)	0
Profit for the period	0	0	0
Equity as of 31 December 2017	11,262	(11,262)	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 31 March 2017	11,262	(11,262)	0

Information relating to claims not reflected in the Balance Sheet

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

Disputed Art. 113 claims	2018	2017
	1/1 - 31/3	1/10 - 31/12
Claims at the beginning of the period.....	169,840	220,318
Finally rejected claims.....	(20,079)	(50,477)
Finally accepted claims.....		
Disputed Art. 113 claims at the end of the period	149,761	169,840

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

LBI lost its six remaining court cases regarding claims for voiding at the Reykjavik District Court in December 2017. As LBI did not appeal the judgement in any of these cases, the ruling became final during the reporting period and reduced disputed Art. 113 claims by EUR 20.1 million.

Contingent Art. 113 claims	2018	2017
	1/1 - 31/3	1/10 - 31/12
Claims at the beginning of the period.....	21,992	31,587
Finally rejected claims.....		(9,595)
Finally accepted claims.....		
Contingent Art. 113 claims at the end of the period	21,992	21,992

The resolution of all remaining contingent claims now depends on the extent to which further payments are made by the Heritable Bank estate towards general accepted claims (see Note 12). 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. Based on LBI's current assumption that general unsecured claims against the Heritable Bank estate will receive a cumulative 99% of their allowed amount (as described in Note 12), EUR 11.0 million of such EUR 22.0 million contingent claims would be finally rejected.

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

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

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

As stated in the Company's Articles of Association, LBI is authorised and obligated to issue and allocate new shares up to a maximum amount of EUR 379 thousand of which EUR 194 thousand remain in proportion to any disputed and contingent claims which may become finally accepted under the Composition Agreement.

Reserves for Disputed Art. 113 claims	Convertible notes	Conv. notes redemption	DMP	Total reserves
Reserves 1.1.2018	9,438	18,687	2,333	30,457
Partially accepted claims	0	0	0	0
Redemption payments	0	0	0	0
Reversed to LBI	(1,159)	(2,298)	(48)	(3,505)
Reclass	(11)	11	0	0
Reserves 31.03.2018	8,268	16,399	2,285	26,953

Total reserves amounting to EUR 3.5 million, comprised of Convertible Notes in the nominal value of EUR 1.2 million (book value of EUR 314 thousand), EUR 2.3 million in Convertible Note redemption payments and 48 thousand in DMP allocations were released from escrow and returned to LBI during the reporting period due to the final rejection of disputed Art. 113 claims. A small EUR 11 thousand balance was reclassified during the period as it was previously reported incorrectly.

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Reserves for Contingent Art. 113 claims	Convertible notes	Conv. notes redemption	DMP	Total reserves
Reserves 1.1.2018	1,050	2,083	786	3,920
Redemption payments	0	0	0	0
Reversed to LBI	0	0	0	0
Reserves 31.3.2018	1,050	2,083	786	3,920

19. Disputed priority claims

	2018 1/1 - 31/3	2017 1/10 - 31/12
Disputed Priority claims at the beginning of the period.....	68,269	68,578
New filed Priority claims during the period.....	0	
Finally rejected Priority claims.....	(68,269)	(19)
Finally accepted Priority claims.....	0	
FX difference.....	0	(290)
Disputed Priority claims at the end of the period	0	68,269

As part of the settlement reached with Kevin Stanford and reported under loans to customers (see Note 10) all outstanding disputed priority claims have been resolved by 31 March 2018.

20. Litigation against third parties

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

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

Claim for Damages

LBI has brought the three below cases claiming damages against third parties. All cases involve claims made against individuals who held a management or Board position with LBI before it became insolvent. Damages are additionally sought from the liability insurers of LBI. It should be noted that the total sum that can be sought from the liability insurers from all of these three cases combined is EUR 50 million.

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

A case has been brought before the Reykjavik District Court against the two former CEOs of LBI and the Managing Director of the Corporate Banking division, as well as the liability insurers of LBI. The principal of the claim against parties other than the insurers is ISK 16.2 billion, while the principal of

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the claim against the insurers is limited to the maximum benefit under the policy which amounts to a total of EUR 50 million.

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

It is not possible to say when this action can be expected to conclude with a final court judgement, but the time frame can be estimated as at least 3-4 years.

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

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

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

It is not possible to say when this action can be expected to conclude with a final court judgement, but the time frame can be estimated as at least 3-4 years.

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

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

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

It is not possible to say when this action can be expected to conclude with a final court judgement, but the time frame can be estimated to be 3-4 years.

On 27 February 2018, the result of a procedural hearing at the District Court of Reykjavik was that the main hearing of the three cases against former employees of the Company and liability insurers would start on 29 October 2018. The main hearings are expected to last for 3-6 weeks with expected ruling in the first quarter of 2019.

Claims for Voiding

LBI lost its six remaining court cases regarding claims for voiding at the Reykjavik District Court in December. LBI did not appeal the judgement in any of these cases so they became final in January 2018.

Other Information

21. Assets specified by currencies

	31/03/2018				Total
	EUR	USD	GBP	Other	
Cash	33,818	4,395	2,927	2,325	43,466
Restricted cash	14,981	222	0	0	15,203
Loans to customers	11,508	0	15,382	2,954	29,843
Equities	0	0	228	0	228
Claims on bankrupt estates	83,179	0	976	0	84,155
Other assets	3,546	5,080	0	722	9,348
Other receivables	48	0	0	491	539
Total	147,080	9,697	19,513	6,492	182,782
% of total assets	80%	5%	11%	4%	100%

	31/12/2017				Total
	EUR	USD	GBP	Other	
Cash	26,212	5,062	2,309	1,169	34,752
Restricted cash	19,861	230	0	0	20,090
Loans to customers	11,147	0	17,220	3,655	32,021
Equities	0	0	186	0	186
Claims on bankrupt estates	84,311	0	964	0	85,274
Other assets	4,512	5,676	0	769	10,956
Other receivables	0	0	0	505	505
Total	146,042	10,967	20,678	6,098	183,785
% of total assets	79%	6%	11%	3%	100%

Other Information

22. Drivers of change for the period 01/01/2018-31/03/2018

Asset categories	31/12/2017	Net cash received	FX change	Value-change	Income	Operating expenses	Note Redemption	Reserve and other reversals	31/03/2018
Cash	34,752	10,874	(132)	0	0	(4,327)	0	2,298	43,466
Restricted cash	20,090	(4,861)	(8)	0	(19)	0	0	0	15,203
Loans to customers	32,021	(2,148)	217	(430)	183	0	0	0	29,843
Equities	186	(0)	2	40	0	0	0	0	228
Claims on bankrupt estates	85,274	(2,900)	12	1,768	0	0	0	0	84,155
Other assets	10,956	(966)	(239)	(403)	0	0	0	0	9,348
Other receivables	505	0	(2)	0	0	(13)	0	48	539
Total	183,785	0	(149)	975	164	(4,340)	0	2,346	182,782

Other Information

23. Assets, classification and measurement

Asset categories	31/03/2018		31/12/2017	
	Balance	Value	Balance	Value
Cash	43,466	43,466	34,752	34,752
Restricted cash	15,203	15,203	20,090	20,090
Loans to customers	96,613	29,843	98,617	32,021
Equities	2,770	228	2,681	186
Claims on bankrupt estates	351,985	84,155	354,757	85,274
Other assets	32,820	9,348	34,475	10,956
Other receivables	539	539	505	505
Total	543,396	182,782	545,878	183,785

The balance of loans to customers as of 31 March 2018 include aggregate exposures of EUR 4.1 million for which the Company expects zero recovery and which are not reflected in the tables below:

Loans to customers by sector	31/03/2018		31/12/2017	
	Balance	Value	Balance	Value
Services	4,422	325	4,411	325
Real Estate	70,972	28,656	71,673	28,998
Retail	13,385	23	13,395	1,054
Other	3,769	840	4,485	1,645
Total	92,548	29,843	93,964	32,021

Loans to customers by country	31/03/2018		31/12/2017	
	Balance	Value	Balance	Value
UK	70,633	18,974	71,462	20,976
France	5,927	6,270	5,927	6,270
Germany	1,000	25	1,000	25
Netherlands	205	21	205	21
Other Europe	14,783	4,554	15,369	4,730
Total	92,548	29,843	93,964	32,021

Other Information

24. Actual cash flow versus previously expected cash flow

Asset categories	Actual cash flow	Expected Cash flow
	1/1 - 31/03 2018	1/1 - 31/03 2018
Loans to customers	2,148	2,387
Equities	0	107
Claims on bankrupt estates	2,900	2,900
Other assets and other sources	966	
Total	6,014	5,394

Amounts by currency stated in EUR equivalent	Actual cash flow	Expected Cash flow
	1/1 - 31/03 2018	1/1 - 31/03 2018
USD	0	0
GBP	1,057	1,273
EUR	4,101	3,093
Other	855	1,027
Total	6,014	5,394

The primary reason for the higher than expected cash flow during the first quarter of 2018 is the receipt of EUR 1.1 million from escrow from BNP Paribas as reported in Note 13.

25. Asset monetisation plan for the next 12 months

Asset categories	2018			2019
	Q2	Q3	Q4	Q1
Loans to customers	23,128	1,592	4,046	93
Equities	148	0	57	0
Claims on bankrupt estates	1,200	0	2,016	0
Other assets	0	0	5,080	0
Total	24,477	1,592	11,200	93

Amounts by currency stated in EUR equivalent	2018			2019
	Q2	Q3	Q4	Q1
USD	0	0	5,080	0
GBP	15,507	0	873	0
EUR	7,685	1,457	4,741	0
Other	1,285	134	506	93
Total	24,477	1,592	11,200	93

26. 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).

In March 2017, LBI reached an agreement with the CBI to retain a payment received from Brim hf. of ISK 2.1 billion (EUR 16.5 million) further to a ruling by the Supreme Court of Iceland. Subsequent to a settlement reached between Brim hf. and the CBI after the end of the reporting period, the Company has transferred the full amount of ISK 2.1 billion (EUR 16.5 million) to CBI as Additional Stability Contribution. Any cash received on account of a Retained Asset is held off balance sheet until returned to CBI as Additional Stability Contribution.

27. Events after the Balance Sheet Date

On 28 March 2018, the Reykjavik District Court announced its judgment in 11 Money Market test cases rejecting all claims against LBI but not awarding any legal cost. These rulings were subject to a two-week appeal window, where one of the 11 cases was appealed to Landsrettur but the other 10 cases became finally rejected resulting in reversals of funds from escrow for around EUR 150 thousand.

On 11 April 2018, the UK Courts of Appeal ruled against LBI in its appeal of a UK Commercial Court decision in LBI's case against Raiffeisen Zentralbank. No expected recoverable value was assigned to the outcome of the appeal so this final ruling will not affect previously reported recoveries.

On 18 April 2018, the Reykjavik District Court announced its ruling regarding a disputed Art. 113 claim lodged by Goldman Sachs against the Company. The ruling accepted around two thirds of the disputed claim but LBI has since appealed the ruling.

On 4 May 2018, the Company received a EUR 1.2 million dividend payment from the Landsbanki Luxembourg estate.

In May 2018, the Company has received the majority of funds equivalent of EUR 21.6 million to be released from escrow in respect of a settlement of the Kevin Stanford case.