

LBI

Management Accounts 1 January to 31 March 2019

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 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 7.9 million.

During the quarter, EUR 20.7 million of 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 17 and 18.

As of 31 March 2019, the Company's total assets amounted to EUR 133.2 million and total liabilities amounted to EUR 133.2 million. The profit for the period amounted to EUR 35 thousand, which is reflected in the adjustments to the stated value of the Convertible Notes.

On 31 March 2019, 567 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, 22 May 2019

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 2019

	Notes	2019 1/1 - 31/3	2018 1/10- 31/12
Interest, dividend and fee income	4	57	74
Net change in value	5	1.263	18.475
Net exchange difference		148	(96)
Operating income		<u>1.468</u>	<u>18.453</u>
Salaries and related expenses	6	(1.508)	(1.329)
General and administrative expenses	7	(2.727)	(1.202)
Operating expenses		<u>(4.235)</u>	<u>(2.531)</u>
Reversal of reserves held in escrow	14/18	2.802	3.546
Adjustment to value of the Convertible Notes	14	(35)	(19.469)
Financing activities		<u>2.767</u>	<u>(15.922)</u>
Profit before taxes		<u>0</u>	<u>0</u>
Taxes	15		
Profit for the period		<u>0</u>	<u>0</u>

Balance Sheet as at 31 March 2019

Assets	Notes	31.3.2019	31.12.2018
Cash	8	20.860	13.958
Restricted cash	9	15.160	15.172
Loans to customers	10	10.645	10.631
Equities	11	231	171
Claims on bankrupt estates	12	82.246	82.003
Other assets	13	4.063	10.382
Other receivables		0	478
Total assets		<u>133.205</u>	<u>132.795</u>
Liabilities			
Convertible Notes	14	131.237	131.433
Other liabilities		1.969	1.363
Total liabilities		<u>133.205</u>	<u>132.795</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>133.205</u>	<u>132.795</u>

Statement of Cash Flows for the period 1 January to 31 March 2019

	2019	2018
	1/1 - 31/3	1/10- 31/12
Cash flows (to) from assets		
Interest received on cash	6	47
Restricted cash- net cash inflow (outflow)	0	0
Loans to customers - principal payments inflow	619	305
Loans to customers - interest/fee income	51	28
Equities - net cash inflow	412	162
Claims on bankrupt estates - net cash inflow	0	182
Other assets and other sources - net cash inflow	6.345	13.577
Other receivables - net cash inflow	497	0
Net cash from assets	<u>7.930</u>	<u>14.301</u>
Cash flows (to) from other operating activities		
Salaries and related expenses	(1.407)	(1.038)
General and administrative expenses	<u>(2.300)</u>	<u>(1.589)</u>
Net cash (to) from other operating activities	<u>(3.707)</u>	<u>(2.627)</u>
Cash flow (to) from financing activities		
Reversal of reserves held in escrow	2.570	3.401
Redemption of Convertible Notes	0	(25.535)
Net cash (to) from financing activities	<u>2.570</u>	<u>(22.134)</u>
(Decrease) increase in cash	6.794	(10.460)
Effects of foreign exchange rate adjustments on cash	108	(20)
Cash at the beginning of the period	<u>13.958</u>	<u>24.439</u>
Cash at the end of the period	<u><u>20.860</u></u>	<u><u>13.958</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, 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 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 17 and 18 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.

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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	
	31.3.2019	31.12.2018
USD	0,8911	0,8728
GBP	1,1612	1,1129

At the end of the reporting period, the Company held assets in currencies other than EUR, GBP, USD totalling the equivalent of EUR 3.6 million (see Note 19).

Notes to the Income Statement

4. Interest, dividend and fee income

	2019	2018
	1/1 - 31/3	1/10 - 31/12
Cash and restricted cash balances	6	47
Loans to customers	52	27
Total	57	74

5. Net change in value

	2019	2018
	1/1 - 31/3	1/10 - 31/12
Loans to customers.....	632	4.511
Equities.....	54	131
Claims on bankrupt estates.....	243	24
Other assets.....	334	13.809
Total	1.263	18.475

The recoverable value of the Company's assets was increased by EUR 1.3 million during the quarter, primarily on account of higher than expected proceeds from the sale of collateral securing an exposure in the loan to customer portfolio, unexpected dividend distributions from a bankrupt estate and a reassessment of recoveries in other assets.

6. Salaries and related expenses

	2019	2018
	1/1 - 31/3	1/10 - 31/12
Salaries.....	1.263	1.104
Pension fund.....	154	140
Other salary related expenses.....	92	85
Total	1.508	1.329

Average number of full-time positions during the period	5	6
Number of full-time positions at the end of the period	5	6

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7. General and administrative expenses

	2019 1/1 - 31/3	2018 1/10 - 31/12
External advisors.....	2.131	1.118
Premises expenses.....	10	14
Other expenses.....	586	71
Total	2.727	1.202

Notes to the Balance Sheet

8. Cash

	31.3.2019	31.12.2018
Cash.....	20.860	13.958
Total	20.860	13.958

9. Restricted cash

	31.3.2019	31.12.2018
Indemnity Fund.....	14.915	14.932
Trustee Indemnity Fund.....	245	240
Total	15.160	15.172

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.

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.

10. Loans to customers

As of 31 March 2019, the estimated recoverable value in the loan to customer portfolio was accounted for by leveraged and syndicated lending, mortgage exposures to an individual secured by residential real estate and exposures to Danish limited liability structures known as Kommanditselskaber ("K/S").

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Loans to customers by sector	<u>31.3.2019</u>	<u>31.12.2018</u>
Real Estate.....	5.696	5.535
Services.....	4.700	4.700
Other.....	249	396
Total	<u>10.645</u>	<u>10.631</u>

Loans to customers by country	<u>31.3.2019</u>	<u>31.12.2018</u>
UK.....	2.297	2.335
Germany.....	4.400	4.400
Netherlands.....	21	21
Other Europe.....	3.928	3.875
Total	<u>10.645</u>	<u>10.631</u>

As of 31 March 2019, the four largest exposures in the portfolio by estimated recoverable value accounted for EUR 10.3 million, or 96.3% of the estimated recoverable value of all loans to customers, whereas the aggregate outstanding balance for these four exposures amounted to EUR 41.9 million, or 71.3%, 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 April 2019, the Company received a dividend payment of EUR 3.7 million from the individual's estate related to sale of a real estate in Spain, increasing recoverable value by EUR 247 thousand.

In the period, the Company received a final EUR 289 thousand payment on a loan exposure where no recovery had been expected. The recoverable value of the exposure was increased accordingly.

<u>Counterparty</u>	<u>Type of Exposure</u>	<u>Collateral</u>	<u>Balance</u>
Individual	Mortgage / equity loan	Residential real estate	36.075
Corporate	Leveraged lending	Senior unsecured	3.458
Corporate	K/S	Commercial property lease	1.390
Corporate	Syndicated lending	Senior unsecured	1.000
Total			<u>41.924</u>

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 2019, the Company's loan to customers portfolio comprised ten K/S exposures where recovery is expected with an aggregate balance of EUR 2.5 million, of which one is against a solvent K/S entity and nine are against individual investors who guaranteed the obligations of failed K/S entities.

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11. Equities

The remaining equity positions as of 31 March 2019 is almost entirely accounted for by shares listed on the Alternative Investment Market in the UK ("AIM"), which LBI received as part of a settlement reached in January 2019 with KAS Bank related to the closeout of a GMSLA agreement and which were reclassified from other assets to equities during the reporting period. The monetisation of the AIM equity position was completed after the reporting period and resulted in increased recovery of EUR 32 thousand which is reflected in the estimated recoverable value as of 31 March 2019.

12. Claims on bankrupt estates

	<u>31.3.2019</u>	<u>31.12.2018</u>
Landsbanki Luxembourg.....	81.979	81.979
Baugur.....	174	0
Heritable bank.....	93	23
Other.....	1	1
Total	<u>82.246</u>	<u>82.003</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. LBI has not received updated information from the Landsbanki Luxembourg estate on the equity release loans since 31 March 2018.

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 is scheduled for 9 – 31 May 2019. The Paris Appeal Court's decision is currently expected before the end of Q3 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 31 March 2019, LBI's claims against the Landsbanki Luxembourg estate amounted to EUR 335.0 million, with an estimated recoverable value of EUR 82.0 million, net of certain costs expected to be incurred in connection with their monetisation.

Baugur

LBI holds accepted general unsecured claims against the estate of Baugur hf., which is subject to bankruptcy proceedings in Iceland. Recently Baugur hf. estate discovered it had funds on deposit in an account with a foreign financial institution, which is reflected in the increased recoverable value EUR 174 thousand. In May 2019, the funds were transferred to Baugur estate. The Baugur estate's final distribution to creditors and a formal closing of the estate's liquidation is expected before the end of Q2 2019.

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 81.3 million) and a finally recognised subordinated claim in the amount of GBP 7 million (EUR 8.1 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.

Following a recent report from the Heritable Bank estate, LBI has reassessed its expected recoveries and increased the estimated recoverable value from EUR 23 thousand to EUR 93 thousand.

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 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 anticipated that approximately 6% of the escrow allocations amounts will be returned based on LBI's recovery expectations for the Heritable Bank estate's general unsecured claims.

13. Other assets

As of 31 March 2019, other assets primarily consist of exposures to foreign financial institutions in the form of unsettled derivative contracts and nostro account balances which remain subject to

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resolution and collection. As of 31 March 2019, a total balance of EUR 6.8 million was unresolved with two counterparties as summarised in the table below:

Counterparty	Contract	Unresolved matter	Jurisdiction	Balance
HSBC	Nostro Account	Set-off	Italy	6.158
BNP Paribas	Deposit Account	Potential 3rd party claims	Belgium	643
Total				6.800

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.

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.

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 remaining amount is expected in March 2020.

On 22 January 2019, LBI settled its dispute with KAS Bank related to the closeout calculations of a GMSLA agreement. The resulting increase in estimated recovery of LBI's net claims against KAS Bank was reflected in other assets for the period ended 31 December 2018 and included EUR 400 thousand of estimated recoverable value attributed to certain shares in a listed UK company, which were received by LBI as part of the settlement. During the quarter, the relevant shares were reclassified and is reported as equity as of 31 March 2019.

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..	589.629	0	589.629
Convertible Notes redeemed.....	0	0	0
Convertible Notes cancelled.....	(1.038)	0	(1.038)
Nominal amount outstanding at the end of the period.....	588.591	0	588.591

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

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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.

During the period, Convertible Notes in the nominal amount of EUR 1.0 million (book value of EUR 231 thousand) were returned to LBI from escrow and subsequently cancelled following the final rejection of disputed Art. 113 claims.

As of 31 March 2019, Convertible Notes in the nominal amount of EUR 2.5 million and Convertible Note redemption payments in the amount of EUR 5.9 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:

	<u>31.3.2019</u>	<u>31.12.2018</u>
Book value outstanding at the beginning of the period.....	131.433	137.645
Convertible Notes redeemed.....	0	(25.535)
Adjustment of value relating to net asset value.....	35	19.469
Convertible Notes cancelled by book value.....	<u>(231)</u>	<u>(145)</u>
Book value of the Convertible Notes at the end of the period.....	<u>131.237</u>	<u>131.433</u>

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:

Notes

Income year	Expires	Tax loss
2009	2019	90.422
2010	2020	0
2011	2021	67.649
2012	2022	85.749
2013	2023	52.740
2014	2024	110.283
2015	2025	0
2016	2026	0
2017	2027	8.601
2018	2028	0
	Total	415.444

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. 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 37.6 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 2019 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)
	<u>1,126,212,634</u>	<u>99.3%</u>	<u>11,262,126</u>

Change in equity is specified as follows:

	Share capital	Accumulated deficit	Total equity
Equity as of 1 January 2019	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 2019	<u>11.262</u>	<u>(11.262)</u>	<u>0</u>

Notes

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	2019	2018
	1/1 - 31/3	1/10 - 31/12
Claims at the beginning of the period.....	50.895	70.201
Finally rejected claims.....	(20.734)	(19.306)
Finally accepted claims.....	0	0
Disputed Art. 113 claims at the end of the period	30.161	50.895

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

During the quarter ended 31 March 2019, EUR 20.7 million in disputed Art. 113 claims were finally rejected.

Contingent Art. 113 claims	2019	2018
	1/1 - 31/3	1/10 - 31/12
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 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 recover a cumulative 98,12% of their allowed amount (as described in Note 12), it is currently expected that approximately 6% of the EUR 22.0 million in contingent claims will 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.

Notes

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 376 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	<u>Convertible notes</u>	<u>Conv. notes redemption</u>	<u>DMP</u>	<u>Total reserves</u>
Reserves 1.1.2019	<u>2.592</u>	<u>6.094</u>	<u>237</u>	<u>8.922</u>
Partially accepted claims	0	0	0	0
Redemption payments	0	0	0	0
Reversed to LBI	<u>(1.038)</u>	<u>(2.439)</u>	<u>(131)</u>	<u>(3.608)</u>
Reserves 31.03.2019	<u>1.554</u>	<u>3.654</u>	<u>106</u>	<u>5.314</u>

Total reserves of EUR 3.6 million in the form of Convertible Notes with a nominal value of EUR 1.0 million (book value of EUR 231 thousand), Convertible Note Redemption Payments (EUR 2.4 million) and DMP (EUR 131 thousand) were released from escrow and returned to LBI due to the final rejection of disputed Art. 113 claims.

Reserves for Contingent Art. 113 claims	<u>Convertible notes</u>	<u>Conv. notes redemption</u>	<u>DMP</u>	<u>Total reserves</u>
Reserves 1.1.2019	<u>935</u>	<u>2.198</u>	<u>786</u>	<u>3.920</u>
Redemption payments	0	0	0	0
Reversed to LBI	0	0	0	0
Reserves 31.03.2019	<u>935</u>	<u>2.198</u>	<u>786</u>	<u>3.920</u>

Other Information

19. Assets specified by currencies

	31.3.2019				Total
	EUR	USD	GBP	Other	
Cash	11.350	6.247	1.542	1.720	20.860
Restricted cash	14.915	245	0	0	15.160
Loans to customers	9.577	0	0	1.068	10.645
Equities	0	0	231	0	231
Claims on bankrupt estates	81.979	0	268	0	82.246
Other assets	2.441	855	0	766	4.063
Other receivables	0	0	0	0	0
Total	120.263	7.347	2.041	3.554	133.205
% of total assets	90%	6%	2%	3%	100%

	31.12.2018				Total
	EUR	USD	GBP	Other	
Cash	10.465	1.603	1.143	747	13.958
Restricted cash	14.932	240	0	0	15.172
Loans to customers	9.330	0	0	1.301	10.631
Equities	0	0	171	0	171
Claims on bankrupt estates	81.979	0	24	0	82.003
Other assets	4.530	5.112	0	740	10.382
Other receivables	0	0	0	478	478
Total	121.235	6.955	1.338	3.267	132.795
% of total assets	91%	5%	1%	2%	100%

Other Information

20. Drivers of change for the period 01/01/2019-31/03/2019

Asset categories	31.12.2018	Net cash received	FX change	Value-change	Income	Operating expenses	Reclass	Reserve and other reversals	31.3.2019
Cash	13.958	7.924	108	0	6	(3.707)	0	2.570	20.860
Restricted cash	15.172	0	5	0	0	(16)	0	0	15.160
Loans to customers	10.631	(670)	0	632	52	0	0	0	10.645
Equities	171	(412)	18	54	0	0	400	0	231
Claims on bankrupt estates	82.003	0	1	243	0	0	0	0	82.246
Other assets	10.382	(6.345)	91	334	0	0	(400)	0	4.063
Other receivables	478	(497)	19	0	0	0	0	0	0
Total	132.795	0	242	1.263	57	(3.723)	0	2.570	133.205

On 22 January 2019, LBI settled its dispute with KAS Bank related to the closeout calculations of a GMSLA agreement. The resulting increase in estimated recovery of LBI's net claims against KAS Bank was reflected in other assets for the period ended 31 December 2018 and included EUR 400 thousand of estimated recoverable value attributed to certain shares in a listed UK company, which were received by LBI as part of the settlement. During the quarter, the relevant shares were reclassified and is reported as equity as of 31 March 2019.

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21. Assets, classification and measurement

Asset categories	31.3.2019		31.12.2018	
	Balance	Value	Balance	Value
Cash	20.860	20.860	13.958	13.958
Restricted cash	15.160	15.160	15.172	15.172
Loans to customers	58.759	10.645	72.221	10.631
Equities	1.454	231	1.291	171
Claims on bankrupt estates	345.127	82.246	344.705	82.003
Other assets	9.352	4.063	16.648	10.382
Other receivables	0	0	478	478
Total	450.712	133.205	464.473	132.795

The balance of loans to customers has been reduced in the period by EUR 13.3 million on account of a final write-off of an exposure to a K/S entity which is subject to bankruptcy proceedings in Denmark.

The balance of loans to customers as of 31 March 2019 include aggregate exposures of EUR 15.5 million for which the Company expects zero-recovery, and which are not reflected in the tables below:

Loans to customers by sector	31.3.2019		31.12.2018	
	Balance	Value	Balance	Value
Services	4.458	4.700	4.365	4.700
Real Estate	37.635	5.696	37.730	5.535
Other	1.137	249	1.481	396
Total	43.230	10.645	43.575	10.631

Loans to customers by country	31.3.2019		31.12.2018	
	Balance	Value	Balance	Value
UK	36.042	2.297	36.044	2.335
Germany	1.000	4.400	1.000	4.400
Netherlands	205	21	205	21
Other Europe	5.982	3.928	6.326	3.875
Total	43.230	10.645	43.575	10.631

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22. Actual cash flow versus previously expected cash flow

Asset categories	Actual cash flow	Expected Cash flow
	1/1 - 31/03 2019	1/1 - 31/03 2019
Loans to customers	670	467
Equities	412	268
Claims on bankrupt estates	0	0
Other assets	6.345	6.350
Total	7.427	7.085

Amounts by currency stated in EUR equivalent	Actual cash flow	Expected Cash flow
	1/1 - 31/03 2019	1/1 - 31/03 2019
USD	4.872	4.530
GBP	410	268
EUR	1.764	1.820
Other	381	467
Total	7.427	7.085

23. Asset monetisation plan for the next 12 months

Asset categories	2019			2020
	Q2	Q3	Q4	Q1
Loans to customers	8.387	1.510	53	53
Equities	227	0	4	0
Claims on bankrupt estates	174	0	894	0
Other assets	135	0	539	0
Total	8.923	1.510	1.489	53

Amounts by currency stated in EUR equivalent	2019			2020
	Q2	Q3	Q4	Q1
USD	0	0	539	0
GBP	402	0	97	0
EUR	8.255	1.457	800	0
Other	267	53	53	53
Total	8.923	1.510	1.489	53

24. Litigation against third parties

LBI has initiated a number of legal cases against third parties to recover losses due to actions of LBI's former management and board of directors. These cases include suits for damages against individuals and/or LBI's insurers as well as actions against foreign financial undertakings.

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 and has a six-month window to relaunch the two cases which were dismissed by the District Court of Reykjavik.

The Board of LBI decided to abide by the Reykjavik District Court rulings in cases no. E-3826/2011 and no. E-991/2012, but propose, on a shareholders' extraordinary general meeting (EGM) of LBI ehf., that a new action will be initiated, 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

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directed once more against the former CEOs of Landsbanki Íslands hf. and those insurers with whom a settlement has not already been reached.

On 9 May 2019 LBI called for an extraordinary general meeting to be held on 17 May 2019, deciding on whether to bring actions against the former CEOs of Landsbanki Íslands hf. (now LBI ehf.) and insurers to obtain compensation for lending to Straumur-Burðarás Investment Bank hf. in October 2008. As explained above, claims for the same events were previously brought in cases that were dismissed by the Reykjavik District Court near the end of 2018. It is expected that the formal court proceeding process will start at end of May / early June 2019.

25. 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.

26. Events after the Balance Sheet Date

On 23 March 2019, the Supreme Court rejected an application by Goldman Sachs to appeal a decision by the Landsrettur Court of Appeal on a disputed Art. 113 claim lodged by Goldman Sachs against LBI. Thus, the Landsrettur Appeal Court decision became final and only part of Goldman Sachs' disputed Art. 113 claim was finally accepted. As a result, cash of EUR 1.856 million and Convertible Bonds in the nominal amount of EUR 789 thousand was transferred from escrow to Goldman Sachs. Also, 1,517,444 new Class A Shares were issued and transferred to Goldman Sachs. Concurrently, cash of EUR 1.507 million and Convertible Bonds in the nominal amount of EUR 641 thousand were returned to LBI from escrow. The Convertible Bonds returned to LBI were subsequently cancelled.

In April 2019, LBI received a dividend payment of EUR 3.7 million from the estate of a bankrupt individual and increased the recoverable value by EUR 247 thousand on its largest exposure in loans to customers.

On 15 May 2019, the Landsréttur Court of appeal handed down its decision in the VBS estate's case (Disputed Art. 113 claim – money market case), confirming the Reykjavik District Court decision from 6 February 2019 to reject VBS estate claims against LBI.

LBI was awarded legal fee of ISK 2.3 million before the initial court and ISK 0.5 million before the appeal court.