



19th August 2010

Mr Nik Van Leuvan, Director General
Guernsey Financial Services Commission
PO Box 128, La Pladerie Chambers
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Dear Mr Van Leuvan

Ref: GFSC 2009 Annual Report and Financial Statements – Banking Division

The Landsbanki Guernsey Depositors' Action Group feels that it cannot let the publication of your 2009 report go unchallenged and that the reasons for that challenge must be put on record. As you will be aware, we are entirely dissatisfied with the superficial findings of the Promontory Report which failed to go into any depth, failed to take statements or answer questions from third parties, failed to produce paperwork that would have been demanded by third parties: further, no evidence was taken under oath nor were subpoenaed witnesses called. In other words the Promontory Report was a hurriedly produced report to satisfy the needs of the GFSC and Guernsey's Government.

The statement below in the Banking Division area of your report just cannot be accepted.

GFSC BANKING DIVISION

The aftermath of the crisis page 17 of the report

“At the start of 2009 the Promontory Report produced by Mr Michael Foot on the Commission's handling of the events leading to the administration of Landsbanki (Guernsey) Limited (LGL) was put in the public domain. That report concluded that the Commission had acted appropriately, had measured up to good practice and that there had been no regulatory failure. The report also recognised that actions taken by the Commission in 2008 were directly beneficial to the interests of LGL's depositors. The Commission had required LGL to reduce its direct exposure to Iceland substantially and required the bank to replace assets upstreamed to the parent in Iceland with **third-party bank placements, placements with Heritable Bank Ltd in London** and a portfolio of third-party loan assets, which resulted in LGL acquiring a credit portfolio of property loans.”

You only have to read Matthew Dorman's report, submitted to the Policy Council in October 2009, to be aware of the number of outstanding questions there are to this whole affair and the fact that the above statement is tenuous in the extreme, especially the words highlighted. There is no way that Heritable could be classed as a third Party as it was sister to Landsbanki Islands hf. I quote from his report:



“The proposed Public Inquiry must ask why the GFSC and directors of LGL looked no further than HB, LGL’s sister bank in London under the direct control of the Icelandic parent, rather than spreading the funds more widely among non-Icelandic banks with stronger credit ratings. Given these concerns about Icelandic risk there is also the question of why these funds were not secured.

However at no time did the GFSC follow the example of the FSC in the Isle of Man which decided, in March 2008, that there could be no exposure of KSFIOM funds to Iceland.

The FSA presented no opposition to placing more than 35% of LGL's assets in Heritable UK and Landsbanki Islands hf, despite their inter-dependency and offered the GFSC no indication of the action it was intending to take. This is an example of the FSA’s failure to comply both in spirit and deed with the Memorandum of Understanding. This inquiry must demand to know what information and assurances, if any, were provided by the FSA to the GFSC.”

The whole of Matthew Dorman’s report should be read to take in the full scale of the outstanding issues that have not been satisfactorily resolved or adequately covered by the Promontory Report.

Your 2009 report is self-serving makes a 'comfortable read' which spins carefully around the many disputable underlying facts which surround the 2008 banking crisis.

The Guernsey States may have noted it, with some reservations. We, the Landsbanki Guernsey Depositors' Group, do not accept a number of elements in it that relate to that Banking Crisis, in particular to the way the Landsbanki Guernsey Situation was handled.

A fully independent Select Committee-type inquiry is the only way forward and we will continue to press for one.

We enclose the following documentation which supports our decision:

- 1) A copy of Matthew Dorman’s report, submitted to the Policy Council on 14 October 2009.
- 2) A letter dated 4 August 2009 to yourself outlining the proof that was publicly available to the GFSC in the run-up to landsbanki Guernsey’s Administration. The six appendices show the available proof.
- 3) A statement dated 9 September 2009 commenting on the Basel Core Principals not mentioned in the Promontory report, for some reason, and which show some areas of the GFSC where there were apparent shortcomings.

Yours sincerely

Gary Blanchford

Deputy Chairman Landsbanki Guernsey Depositors Action Group (Guernsey Branch)

For and on behalf of the LGDAG

Copied to the Chief Minister/Policy Council.