

Deloitte update

Landsbanki Guernsey Limited (in Compulsory Liquidation)

27 November 2012

Update on Liquidation

This update is being provided to keep creditors informed on the progress of the Liquidation of Landsbanki Guernsey Limited (in Compulsory Liquidation) ("LGL"). In particular this update provides creditors with information regarding the Alternative Claim and progress on the realization of the remaining loans.

Landsbanki Islands hf ("LIHF") - Alternative Claim

As stated in previous updates, the Joint Liquidators have been advised that a decision in respect of a similar claim brought in the administration of another of the failed Icelandic banks is expected to provide further guidance in relation to certain aspects of the Alternative Claim. As this case is still on-going, it became necessary for the Joint Liquidators to take the necessary steps to commence proceedings to preserve LGL's claim. A summons was filed with the Icelandic Courts on 4 October 2012.

The Joint Liquidators note that the market value of LIHF debt as an ordinary 113 claim continues to appreciate with current sales reaching between 6.0 – 6.5%.

Update on the realisation of loans

On 8 November 2012, the final loan held by LGL was settled. In total, the Joint Liquidators have received capital repayments of £44.2m out of the original loan balance of £52.5m (a recovery of 84%) together with interest payments of £2.1m. Costs in relation to the realisation of the loan portfolio total approximately £1.5m.

As creditors are aware, significant issues were encountered on the realization of the portfolio mainly due to the Master Transfer Agreement in place between LGL and Heritable Bank Plc (whereby LGL was not in control of the loan relationship) but also due to the fact that a number of the loans were secured on development property where security values declined significantly following the events of 2008.

Ultimate recovery and future distributions

Following discussions with the ICC, the Joint Liquidators note that, despite the realization of the remaining loans, there will only be one further distribution on the final dissolution of LGL which is unlikely to be prior to the end of 2013 due to the legal proceedings currently in progress. The main rationale for this decision is to reserve funds to account for any contingencies which may arise in the course of the Alternative Claim, as well as the future costs of the finalization of the liquidation of the Bank.

Following the realization of the remaining loans, the Joint Liquidators now expect the final distribution to be in the order 6p/£ (in the absence of a successful Alternative Claim), bringing the final return to 91p/£. It is the Joint Liquidator's intention to make the final distribution to creditors as soon as possible after the legal proceedings have been resolved.

As referred to in the previous website update, the estimated final recoveries on LGL are lower than those expected to be achieved on the liquidation of other Icelandic bank subsidiaries in other jurisdictions. This is mainly due to the following factors:

A significant amount had been up streamed to LIHF, LGL's parent, compared to the other Icelandic banks and the recoveries from those banks are proportionately higher than LIHF recoveries; and

There has been no governmental support provided and there was no depositor protection scheme in Guernsey at the time of the collapse of LGL.