

Landsbanki Guernsey Limited (in Compulsory Liquidation)

5 April 2013

Update on Liquidation

This update is being provided to keep creditors informed of the progress of the Liquidation of Landsbanki Guernsey Limited (in Compulsory Liquidation) ("LGL") and the impact of recent decisions made in conjunction with the LGL Informal Creditors Committee ("ICC").

In particular this update provides creditors with information regarding the:

Alternative Claim; and
Timing of a Second Interim Distribution.

Alternative Claim

On 5 October 2012 LGL commenced proceedings in the District Court of Reykjavik against New Landsbanki, the Icelandic financial services authority ("FME") and the Icelandic Government. In those proceedings LGL claims that its deposit with Landsbanki Islands hf ("LIHF") should have been transferred to New Landsbanki, in accordance with a decision of the FME made on 9 October 2008.

As set out in the website update in September 2012, in making the decision to proceed with the so-called "Alternative Claim", the Joint Liquidators and the ICC were cognisant of the fact that this course of action would result in the extension of the liquidation but noted that, should the outcome of the case be unsuccessful, the costs involved are unlikely (based on current estimates) to significantly affect the ultimate recovery for creditors.

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 has provided further clarity in relation to certain aspects of the Alternative Claim and, based on the outcome of this case, the Joint Liquidators, with the approval of the ICC and subject to approval of the Court Appointed Commissioner, intend to proceed with the case.

Creditors are advised that the Joint Liquidators' Icelandic Counsel have now indicated that the legal proceedings are unlikely to be completed until the end of 2014.

Future distributions and ultimate recovery

The Joint Liquidators continue to estimate the ultimate return to creditors of LGL to be between 89 to 91 pence in the pound. However should the Alternative Claim in Iceland be successfully pursued then the recovery would increase significantly.

It was previously the Joint Liquidators' view that no further distributions would be made to creditors until the final dissolution of LGL. However, in view of the extended timeframe envisaged for the legal proceedings referred to above, it is now the Joint Liquidators' view that withholding cash reserves (which were significantly increased by the final loan realisations in late 2012) until the end of 2014 could lead to increased difficulties for some depositors and other creditors, some of whom have corresponded directly with the Joint Liquidators in this respect. In addition the Joint Liquidators are cognisant of the aging demographic within the depositor population.

Following discussions with the ICC, the Joint Liquidators now intend to seek approval from the appointed court Commissioner for the payment of a second interim distribution.

Details of the Commissioner's meeting and proposed distribution are provided below.

Statement of Affairs

The LGL statement of affairs indicates that cash reserves (excluding ring-fenced amounts relating to the first interim distribution made available to depositors) as at December 2012 amounted to £7.4m. These cash reserves were increased significantly in November 2012 by the realisation of the remaining loans.

It is the Joint Liquidators' intention to retain a sizeable cash buffer to cover the estimated costs of litigation and the final winding up of LGL. In determining the level of the second interim distribution, the Joint Liquidators have estimated that £0.6m in costs will be incurred to the point of final wind up. This comprises the cost of making the second and final distributions, legal costs of litigating the Alternative Claim and general liquidation costs. In addition the Joint Liquidators believe it prudent to hold a further cash buffer of £1m in order to meet, with a margin of certainty, any unforeseen costs and claims.

Notice of Second Commissioner's Meeting to approve a second interim distribution

The second Commissioner's meeting will be held at 2.30pm on 29 April 2013 in the Royal Court, St James' Street, St Peter Port, Guernsey to examine and verify the accounts of the Joint Liquidators to date and to consider the payment to creditors of a second interim distribution amounting to 4.6p in the pound.

Should any creditor believe they may wish to appear at the Commissioner's meeting on 29 April 2013, they are requested to notify the Joint Liquidators (via e-mail or telephone to Jan McGrory

(jmcgrory@deloitte.co.uk or tel +44 1481 724011 +44 1481 724011 FREE) by 22 April 2013 so they can be suitably accommodated at the Commissioner's meeting. Creditors should be aware that there is no requirement for them to attend the meeting and their rights will not be prejudiced by non-attendance.

There remain a very small number of depositors who have, to date, not proved their debts and have therefore not received the first interim dividend. These depositors will therefore not be eligible to receive the proposed second distribution until such time as they have submitted their proof of debt form.

Payment process

Creditors are advised that, should the above distribution be approved by the Commissioner, payments will be made automatically to non-depositor creditors and depositors who have provided their account details and proof of debt to the Joint Liquidators. **No additional forms will be required to be completed and creditors will receive notification by post of the timing of the second interim distribution which, if approved, is expected to be on or around 14 June 2013.**

Should depositors have changed account details since the date of the first interim distribution in January 2011 and not previously advised the Joint Liquidators, they should write to the Joint Liquidators confirming their new account details. Please note that e-mail or telephone instructions will not be accepted.

Note: This update has been prepared for the benefit of creditors. The information presented in this report has not been subject to independent audit verification by Deloitte LLP or by the Joint Liquidators.