



5th September 2010

Mr Nik Van Leuvan, Director General
Guernsey Financial Services Commission
PO Box 128, La Pladerie Chambers
La Pladerie
St Peter Port
GY1 3HQ

La Blanche Hironnelle
Rue Francais
Vale
GY3 5NN

Dear Mr Van Leuvan

Thank you for your reply of 26th August 2010 in answer to our original letter to you of 19 August 2010.

While we accept that it would be difficult for the Commission to move from its original stance without appearing to be conceding ground, we would like to respond on one or two points, before closing this series of correspondence.

LG DAG has always accepted that some of the actions carried out by the Commission no doubt will have been beneficial to the end result for depositors and so they should have been; the Commission is Guernsey's official financial regulator and was responsible for the licensing of Landsbanki Guernsey. LG DAG is also acutely aware that some of the GFSC's actions were highly detrimental to the benefit of the Landsbanki Guernsey depositors. It is largely for this reason that, nearly two years down the road, the administrators have only managed to achieve a 67.5% return of depositors' money, instead of 100%.

We are well aware of the Chief Minister's recent statement regarding a Public Inquiry, a statement he would not have made if he had felt for one minute there was a chance of the States pursuing it. Our feelings are quite clear on how a public inquiry should proceed and we note your comments on power over other jurisdictions, however that didn't stop the Isle of Man, Iceland, UK Treasury or UK Ministry of Justice convening their own Select Committee inquiries

I refer to your bullet points:

- 'The Commission required LG to reduce substantially' its direct exposure to Iceland.

In the climate at the time it definitely would have been negligent if it hadn't. It was doing its job, but why place approximately £36 million in an LIHF subsidiary exposed directly to Iceland?

- The Commission required LG to replace assets previously upstreamed to its parent in Iceland with third party bank placements, and placements with Heritable Bank in London.

Again the GFSC was only doing its job. Unfortunately it failed to recognise, at the time, that Heritable was reliant on Landsbanki Islands hf for funding. As a direct result, depositors' money was permitted to be placed in a related area of risk and was not ring-fenced from the Icelandic economic problems. The Administrator hit the nail on the head and stated, in October 2008,

“the main reason for the bank's difficulties has been the placing of funds with the UK fellow subsidiary, Heritable Bank, which has now gone into administration.”



Nothing could be clearer than that.

- The Commission further required LG to acquire a portfolio of third party loans assets, which resulted in LG acquiring a credit portfolio of property loans.

This was a sensible move.

- As a result of these actions, the Joint Administrators were able to recover and commence to liquidate assets successfully, and so to achieve an early partial repayment to depositors whose funds had been temporarily frozen as a result of the administration process.

Yes, the statement is partly correct, but it should never have reached this stage in the first place. The Icelandic situation, to professionals, should have been fairly clear at least six months earlier as the paperwork, available at the time and subsequently produced to you, clearly demonstrates. Had the approximately £36 million placed with Heritable, been deposited with genuine third parties, depositors would, by now, have received virtually all their money back.

- Following successful recoveries of assets, the Joint Administrators have made a series of stage payments, so that depositors have already had 67.5p in the pound returned to them. So as things stand, no LG depositor could claim to have lost all of his life savings.

Nobody is claiming to have lost all their savings, the amount is 32.5% capital plus two years' interest at present. The Administrator anticipated a possible recovery of 85 to 91% but even to achieve that lower figure could take a further unquantifiable number of years.

Thank you for taking the time to re-read Mathew Dorman's Report. LGDAG is also quite clear where it is coming from and of the failures that have occurred during this sad episode; not only by Guernsey's Government and the GFSC, but by the FSA and the UK Treasury. For its future credibility Guernsey *must* hold a fully transparent, independent inquiry and produce its own completely independent Select Committee Report on all the circumstances. Until then, LGDAG will continue to pursue this matter at every opportunity.

Yours sincerely

Gary Blanchford

Deputy Chairman LGDAG (Guernsey Branch)

For and on behalf of the LGDAG

cc Chief Minister & policy Council