

Landsbanki Guernsey Limited (in Compulsory Liquidation)

14 September 2012

Update on Liquidation

This update is being provided to creditors to keep them informed on 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 realisation strategy in respect to the debt due from Landsbanki Islands hf; progress on the realisation of the remaining loans; and expectation for the timing and amount of the final distribution.

Landsbanki Islands hf (“LIHF”) Debt

Currently, LGL has an ordinary claim against LIHF of approximately £14m. The Joint Liquidators have identified two potential options: Sell the debt in the market (current price is approximately 5.5% which would result in approximately £800k being recovered); or File the so-called “Alternative Claim”.

The Joint Liquidators have recently held discussions with the ICC in respect of the above two strategies and, given the potential upside, the ICC have given their support to following the Alternative Claim. Whilst the ICC understand that the prospects of success of this claim are uncertain they noted that the relatively low cost of pursuing the claim versus the potential for achieving full recovery were such that this option could not be ignored.

In making this decision, the Joint Liquidators and the ICC were cognisant of the fact that this course of action would result in the extension of the liquidation (and hence the timing of the final distribution) beyond the end of 2012 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 is expected to provide further guidance in relation to certain aspects of the Alternative Claim. As this case is still on-going, it has become necessary for the Joint Liquidators to take the necessary steps to commence proceedings now to preserve LGL’s claim.

Update on the realisation of loans

Since 1 January 2012, approximately £1.7m has been received in repayment of the outstanding loan amounts. At 31 August 2012, two loans remain outstanding although one is close to final settlement and the Joint Liquidators are in negotiations in respect of the realisation of the remaining loan.

Payments to creditors

As of 31 August 2012 the Joint Liquidators have made total payments of £102.8m to depositors and £0.6m to non-depositor creditors and approximately 99% of proof of debt forms (both by reference to the number and value of accounts) have now been returned to the Joint Liquidators.

£787k remains payable to depositors in respect of the interim distribution declared by the Joint Liquidators (this includes £655k in respect of depositors who have yet to provide proof

of debt forms and £132k in respect of those depositors who have provided proof of debt forms but who have yet to provide their bank details to the Joint Liquidators). All priority creditors have been paid in full and payments of 85p/£ have been made to other ordinary creditors of LGL.

Any creditors who have returned their proof of debt forms but have yet to claim the interim distribution made available in February 2011 should return payment request forms to the Joint Liquidators as soon as possible.

The Joint Liquidators request that any depositors who have yet to provide their completed proof of debt forms or who have yet to contact the Joint Liquidators should do so as soon as possible and the Joint Liquidators draw your attention to paragraph 10 of their January 2012 Report which sets out the implications of non-proof of debt. All depositors and creditors are reminded that they should notify the Joint Liquidators of any change in address in writing.

Future distributions and ultimate recovery

The Joint Liquidators continue to estimate the ultimate return to creditors of LGL to be between 87 to 91 pence in the pound. However should the Alternative Claim in Iceland be successfully pursued then the recovery may increase. The Joint Liquidators remain very cautious about this eventuality.

Further, the Joint Liquidators note that there will only be one further distribution on dissolution of LGL. As noted above, following the decision to pursue the Alternative Claim, the Joint Liquidators do not expect the final payment to be made prior to the end of 2013 as the timing of the final distribution will be dependent on the timing of the Icelandic proceedings.

The Joint Liquidators note that 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 upstreamed to LIHF (although this had been reduced by the introduction of the loan portfolio in April 2008) and recoveries on LIHF Article 113 claims are much lower than other Icelandic banks (e.g. the current market prices for Glitnir and Kaupthing 113 claims are in the of 25-30%);

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.

Further updates to creditors

The Joint Liquidators will continue to update creditors via the website in order to keep costs to a minimum. However, the Joint Liquidators will only provide updates when significant new information becomes available.

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.