

Landsbanki Guernsey Limited (in Compulsory Liquidation)

25 January 2011

Update from the Commissioner's Meeting held on 19 January 2011

The Joint Liquidators are pleased to confirm that, following the adjudication of claims by the Court appointed Commissioner on 19 January 2011, they will be making a Cumulative (i.e. including all part payments) Interim Distribution to ordinary creditors of 85 pence in the pound and 100 pence in the pound for preferential creditors (subject to expiry of the warranty period and receipt of the proceeds in respect of the sale of the Heritable debt (see below)),

As such this means a fourth payment of 17.5p/£ for those creditors who have been accepted by the Joint Liquidators having valid claims against LGL and who have previously taken the first three payments on account to date (the balance of the interim dividend being taken up by the conversion of those amounts paid on account to a dividend). This will result in all amounts received by creditors to date (including the fourth payment) as being held by creditors with no reservation of entitlement, unlike the position with 'payments on account' whilst LGL was in Administration.

Depositors who have not received one or all of the earlier payments on account made available by the Joint Administrators will be paid those amounts as dividends to bring their cumulative dividend paid to 85 pence in the pound.

The distribution will be made as soon as possible after 7 February 2011 and after receipt of each depositor's account details. No interest on ring-fenced funds will therefore be paid to depositors from 19 January 2011, the date of declaration of the distribution. The Joint Liquidators will shortly be writing to all creditors informing them of the process for the payment of the interim distribution.

Please note that following the sale of the Heritable debt (see below) payments will not be processed prior to 7 February 2011 to allow for the warranty period in the sale terms and conditions to expire and for the proceeds to be received.

This distribution is significantly in excess of the estimated distribution of up to 7.5p/£ noted in the Joint Liquidators Interim Report due to the sale of LGL's claim in Heritable Bank Plc ("Heritable"). The rationale for the sale of Heritable discussed in more detail below.

At the Commissioner's meeting all claims submitted to the Joint Liquidators were subject to adjudication. In addition Commissioner examined and verified the Joint Liquidators' accounts and approved the interim distribution for payment.

Depositor claims totalling £121,792,913 (as recorded on the individual statements issued to depositors) and non-depositor creditors totalling £783,884 have been admitted in the

Liquidation (subject to receipt of proof of debt forms where applicable) and hence are entitled to receive payment in the interim distribution. Those claims accepted by the Joint Liquidators as preferred creditors were approved for payment in full.

Following discussion with the parties involved, the FX depositor claims were withdrawn and no amounts are to be reserved for these payments. In addition those other creditors which were proposed to be rejected by the Joint Liquidators were not admitted in the liquidation save for Claims by certain depositors who have made claims for some form of priority or similar status. These claims for priority have been provisionally rejected by the Joint Liquidators albeit sufficient funds have been reserved to meet these claims pending final adjudication.

Depositor claim adjudication process

If you have yet to complete your Proof of Debt form, the Joint Liquidators request that you do so as soon as possible. The letter sent to depositors by the Joint Liquidators on 15 December 2010 confirmed whether or not depositors had returned their proof of debt form. It was agreed at the Commissioner's meeting that those depositors who have yet to provide their proof of debt form.

It was agreed at the Commissioner's meeting that those depositors who have yet to provide their proof of debt form will only be entitled to receive the interim distribution on submission on a completed proof of debt form which agrees with the claim balance previously advised to depositors by the Joint Liquidators. Where the claim balance is disputed, the claims will need to be referred to the Commissioner prior to any payment being authorised. This may result in a substantial delay in those depositors receiving any payments.

European Savings Tax Directive

This section only applies to EU resident depositors.

As was noted in the Joint Administrators' Fourth Interim Report, Guernsey will move to a full "Exchange of Information" ("Ed") basis from 1 July 2011 with early adoption allowed from 1 January 2011.

The Joint Liquidators have decided to adopt this approach from 1 January 2011 and as such all EU resident depositors who had previously opted for retention tax will automatically be moved to an EQI basis. This means that information interest payments credited to EU depositors' accounts (together with depositor details) will be provided to the Guernsey Income Tax office which then provides the information onwards to home nation tax authorities.

It has been agreed with the Guernsey Income Tax Office that, as each individual depositor's claim (which included accrued interest up until the date of Administration) was not fully adjudicated until 19 January 2011 and payments made were "held on account for LGL", the interest was not deemed to be "credited/paid" to the depositors until 19 January 2011 and hence tax retention/ EOI was not required until this date.

The Joint Liquidators have made the decision to adopt the EOI basis early so that distributions can be made to all depositors without the deduction of retention tax. As tax would be payable on all interest amounts included in the admitted claim and ring-fenced interest received (as shown on the 19 January 2011 statement), it is likely that deposits would suffer tax on interest which may ultimately not be recovered. As such, the Joint Liquidators have taken the view that it would be beneficial for depositors to receive amounts gross of tax and that the treatment of interest received can be taken up with each individual's home tax authority.

Those EU Resident depositors who had previously opted to be treated as a retention tax payer rather than EOI have suffered retention tax of 20% on each payment on account of accrued interest made to date. As such the tax deducted will be returned to those depositors as part of the interim distribution process. The value of this refund is included on your statement of account as at 19 January 2011.

The Joint Liquidators will be required to report to the Guernsey Income Tax Office the interest which had been credited to each EU depositors' account during 2011 before 31 March 2012. For this purpose, the Joint Liquidators will be reporting the interest accrued up to 7 October 2008 (the date of Administration) and the ring-fenced interest accrued each EU depositor's account. The amounts to be declared are shown on the statement of account as at 19 January 2011 which will be issued to depositors shortly.

Rationale for sale of Heritable debt

As creditors are aware, LGL had a £34million debt receivable from Heritable upon which £15.5m had been received to date. On 6 January 2011 the Joint Liquidators agreed to sell the remaining debt for a gross price of 83p in the £, the receipt being 32.90p/£ reflecting the fact that LGL has already received 50.10p/£ in distributions from the Heritable Administration.

The Joint Liquidators considered this trade very carefully and spent a considerable amount of effort over the last three months to achieve this price having failed to reach an acceptable price in the latter part of 2010. The debt was marketed by two separate brokers who are well known in the distressed debt markets and have been involved in recent transactions in Heritable debt. The price achieved is higher than other recent transactions and is considered to be the best achievable price in the market.

It is not possible to share much of the detailed information which was considered in making the sale decision as it is confidential to the Joint Liquidators as members of the Heritable Creditors Committee, but permission was received for very detailed information of expected outcome of the Heritable Administration to be shared with the ICC, who unanimously supported the sale decision at 83p. The Joint Liquidators can however, make the following general explanations from their knowledge as creditors of Heritable.

The other depositors of Heritable are mainly local authorities and universities. All retail depositors (such as those in Landsbanki Guernsey) were transferred to another

bank with full protections from the UK authorities. The time horizon for the remaining depositors is long and they prefer to maximise absolute recoveries no matter how long this takes.

- The requirements of the Landsbanki depositors are mixed and many depositors would prefer to have cash soon provided there is no significant extra financial loss caused by early realisation.
- The ICC, in the above respect, represents creditors as a whole, but are generally depositors who would prefer longer timescale if this improves recovery. As noted above, they have unanimously supported a sale at 83p on basis of a balanced view of depositor preferences.
- The position of Heritable was such that although 50.01p in £ in dividends had already been received the speed returns has declined during 2010 as the more easily realised assets have been recovered and the remaining rump of assets were more challenging.
- The Heritable assets include a structured property portfolio which is susceptible to the slowdown in house sales and vulnerable to falls in residential property prices.
- The other significant asset portfolio is the residential mortgage portfolio which has a long run off life of over 15 years.
- Market conditions for a sale of Heritable's assets as a whole remain weak and to the Joint Liquidators' knowledge there have been no offers for sale which would recover in the region of 83p to creditors.
- Heritable's expected (unstressed) recovery rate is between 79p and 85p and this is on a longer term work out basis.
- The Joint Liquidators see no likelihood of a sale of Heritable's asset as a whole in the current conditions which mean dividends from Heritable were expected to trickle through at least for the next year or so.
- There are certain matters which could result in the Heritable recovery improving, just as Landsbanki Guernsey has with litigation in Iceland, but weighted against this is the time it would take and the risks of a further deterioration in asset values.

We trust creditors will see the sale as fair to the general body of creditors. Only time will tell if the Heritable administration eventually achieves a better recovery, but there is always a price to be paid to eliminate risk.

Expected outcome

The Joint Liquidators maintain the upper end of their recovery expectations for LGL at 91p/£ but have increased the lower end to 87p as a result of the Heritable transaction.

Future distributions

In the Joint Liquidators' interim report dated 15 December 2010, it was proposed that creditors would be asked to vote on the timing of future distributions. However, following the sale of the Heritable debt, the Joint Liquidators will not make any further distributions to creditors until the final dissolution of LGL unless significant sums are recovered in respect LGL's Icelandic debt in the meantime as the 85p interim distribution represents the majority of the estimated ultimate recovery. This is not expected to be until the end of 2011 at the earliest.