



*From the Chairman and Chief Executive of the
Association
Sir Merrick Cockell
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To Group Leaders and Chief Executives
All councils with exposure to Icelandic banks

8 September 2011

Dear Colleague

This briefing updates you on the latest developments relating to the Icelandic banks.

Landsbanki and Glitnir

Test cases

We have been working closely with our legal team to prepare for the Supreme Court hearings, which are scheduled for 14 and 15 September 2011 in the case of Landsbanki and 26 September 2011 in the case of Glitnir. Our written submissions were filed with the Supreme Court in May, and our legal team has since been focusing on the preparation of our oral submissions, working with Counsel and the wider depositor group. This work includes reviewing the appellants' written submissions in order to be able to address the issues they raise in our oral pleadings.

Appeal hearings on the cases of the Dutch National Bank and FSCS cases will take place on 8 and 9 September 2011, and on the Dutch Local authorities' case on 20 and 21 September 2011. Our legal team will be attending the DNB and FSCS hearings so that they can track the arguments made, as their cases are materially similar to ours. We will then be in a position to consider whether we need to modify our oral submissions to address any points raised by our opponents which the DNB/FSCS were not in a position to respond to.

Stephen Jones from the LGA and Nick Vickers from Kent County Council have agreed to represent the Steering Committee at both the Landsbanki and Glitnir hearings to provide advice and clarify any questions which might arise. We have arranged for translation and transcription facilities to ensure that they and our UK legal team are able to respond to points of law and fact in "real time", and can instruct our Icelandic legal advisers accordingly during the course of the hearing. This worked very well at the District Court level. The test case authorities have also provided details of at least one key contact to our legal team who will

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be available by telephone to provide instructions during the trial period. Their responsiveness during the District Court trials was very helpful.

A panel of 7 judges has been appointed to hear our cases. The Icelandic Supreme Court is obliged under the Icelandic procedural rules to hand down its judgment within four weeks of an appeal hearing. It is likely that the judgments in respect of each of the appeal case will be delivered at the same time. The Supreme Court is the highest court in Iceland which means that once its decision is delivered there will be no further right of appeal in Iceland. If the Supreme Court upholds the District Court judgment in our favour, authorities can expect to recover up to 98 per cent of their deposits in Landsbanki and 100 per cent of their deposits in Glitnir, subject to a number of complex issues on foreign exchange movements. The LGA will continue to represent member authorities' interests in relation to these issues once the outcome of the Supreme Court hearing is known.

Non-test cases

We anticipate that the winding-up boards of both banks will apply any ruling made by the Icelandic Supreme Court in the test case Creditors' claims to the non-test case Creditors' claims. We are in ongoing discussions with both winding up boards as to how this should best be achieved to remove the risk that other creditors can raise any objections to them doing so and to ensure that any favourable decision in the Icelandic Supreme Court is applied to the non-test cases as soon as possible.

All Glitnir and Landsbanki non-test case submissions have now been filed at Court. We have not received notice from the Icelandic District Court as to when it will be listing the non-test case submissions for hearings but understand from our legal team and the winding up boards that the Icelandic District Court, of its own volition, has stayed the non-test cases until the Icelandic Supreme Court has decided the appeals.

KSF

The administration of KSF continues to progress as expected. Recoveries currently stand at 58p in the pound and the next dividend is expected to be paid in October 2011, although the amount has not yet been declared. The forecast for overall recoveries in the case of KSF has greatly improved over time and is now estimated to be between 78 to 86p in the pound, up from about 50p in the pound in May 2009.

Heritable

An eighth interim dividend in the amount of 4.1p in the pound was paid on 13 July 2011, bringing total recoveries to over 60p in the pound. The Administrators intend to declare a ninth dividend in October 2011, but have not yet declared the amount. The forecast for recoveries has also steadily risen in the case of Heritable. The administrators report that current projections are for overall recoveries to amount to between 86 and 90p in the pound, up from a forecast of 70 to 80p in the pound in April 2009.

Support for local authorities

We expect heightened media interest in the Icelandic banks story as the Supreme Court hearings approach and are taking place. We would again remind all authorities that it is critical that no statements are made publicly or to the press which might prejudice your authority's position or that of other depositor creditors in the context of the appeal. Authorities are asked to use the press lines in the communications package that has been distributed to all authorities as these have been developed in agreement with our legal team. If at any time you are unsure about how to respond to a press query, please contact the LGA.

If you have any queries about any of the information in this update, please do get in touch.

Yours sincerely



Sir Merrick Cockell
Chairman



John Ransford
Chief Executive