

Kaupthing Singer & Friedlander (Isle of Man) Limited
Meeting of Committee of Inspection at 60 Circular Road, Douglas, Isle of Man on
Thursday 5 November 2009 at 10.30am

Present:

Mike Simpson – Joint Liquidator (“MS”)
Peter Spratt – Joint Liquidator (“PS”)
David Morell – Director, PwC UK (“DM”)
Seth Caine – Cains Advocates (“SC”)
Charles Hewitson – Reed Smith (“CH”)
Mark Loftus – PwC UK (“ML”)

Neill Angus – Axa IOM (“NA”)
John Hollis – Royal Skandia (“JH”)
Simon Bessant – (“SB”)
Gavin Brake – (“GB”)
Mark Keirnan – Trustees of Pension Scheme (“MK”)
Stuart Roberts – (“SR”)
Peter Wakeham – (“PW”)

1 –Update on Asset realisations

1 a) Receipts and payments account

MS provided schedules showing movements since the last R & P update as at 31 July 2009. and discussed significant movements in October 2009.

Cash in hand at 30 September 09 was £206.7million. Material movements since 31 July have been:-

- £27.4m – in respect of capital repayments on loans
- £1.9m of interest payments on loan book
- £35.5m in respect of CD deposits
- £20.68m in respect of settlement of a repo transaction

In summary the cash position at the start of this week was £238m in cleared funds.

1 b) Loan book

MS circulated documents summarising the loan book strategy and update as at 30 September 2009 and updated figures as at 31 October 2009. The maturity ladder shows that at 31 October, £28m remained to be repaid in 2009.

MS drew attention to several loans which are causing concern:

A loan of Euro 943k, secured on a Spanish property. The owner is clearly insolvent so there is no benefit in bankrupting him. MS noted that this property is now worth about one third of its initial valuation so there is clearly going to be a write-off.

A loan of £2.2m. The borrower is on the verge of bankruptcy. There is going to be a seven figure loss on this case.

A loan of £ 4.1million secured on a London property plus a bank guarantee. We have taken possession of the property, for which we have a current valuation of £3.6m, and have received the bank guarantee of £1.3m, so the position is now that we have an exposure of £2.8m on a property valued at £3.6m. There is a third party tenant paying rent, and we are

hopeful that we will not lose any money on this one, although clearly we will have to sell the property.

A loan of £8.2m which is now overdue. Security is a charge over shares in an unlisted company plus a guarantee given by a Trust. We are unable to obtain reliable information regarding the value of the shares. We are meeting with the trustees and representatives of the beneficial owners shortly to progress the matter. MS believes the beneficial owner is seeking to set off against assets he claims to have with KSFUK.

It was noted that there is an unrealised currency gain of £18.5m on the loan book and it was agreed to look at ways of locking in the gain in case Sterling strengthens.

SB asked for more information about the letters of credit and MS confirmed these were in respect of boats under construction.

It was noted that an Order of the Isle of Man High Court enabled the Joint Liquidators to manage the company's bank accounts in an appropriate manner, and there was no need for a resolution on this.

PS referred to the relationship between the Joint Liquidators and the COI and said he firmly believed the working relationship should be based on free and candid discussion. The role of the COI would be new to many people around the table and as such he asked if there were any suggestions as to how the relationship should be structured going forward, particularly around communication.

There were a number of points that PS suggested could assist in this process:-

- 1) ML will be the future contact point for all queries and will ensure that all queries and responses are circulated to the entire COI.
- 2) The liquidators will draft a short document on the role of the committee (agreed with the COI) that could then be posted to the website for all creditors to view. This will ensure that everyone has a clear understanding of their role.
- 3) The COI will draft a policy document for the website, detailing the strategy for the realisation of assets. This will give creditors a better understanding of the process and hopefully mitigate any further questions on what is being done and why.

In-flight transfer information – PS noted that a number of queries had been received from creditors. There are groups within the creditors with divergent and opposing interests and it is not fair or proper to share information such as legal opinions where there is a potential conflict for some creditors.

JH noted that the main things creditors are concerned about are:-

- A) How much money will I get now?
- B) When?
- C) How much will I receive eventually?

1 c) KSF UK

The claim against KSFUK is close to being finalised and we are seeking a catch up payment for the first dividend this month. The current position is that we have received £41m to date but remaining amounts may be complicated by disputes over repo shares.

The Administrators have sought to assist us as much as they can, as have their Committee. There will be a further distribution this year of at least 7p.

1 d) Collateral shares

PS provided an update on the current situation. PS had previously reported on the sale of the JJB and Bookers shares. PS reported that an outstanding dividend has now been received.

PS reported that £20.685m has been received in settlement of a repo transaction.

There are two shareholdings in Icelandic companies which are believed to be worthless, which will continue to be held in case this changes.

We are investigating the movements of shares in and out of the collateral accounts in the period immediately prior to the liquidation to identify any further potential recoveries.

1 e) Bank of England case

SC provided an update. The appeal is likely to be heard in the period Jan-March 2010. The prospects of success for KSFIOM are unclear, as the facts regarding the trust account, how it was set up and how it was operated make it a less than straightforward case. Our initial legal costs have been re-imbursed and we have an indemnity for future costs.

If funds were recovered from this source, our inter company claim against KSFUK would be reduced.

1 f) Habana case

SC reported that the original judgment which went in our favour is being appealed. The appeal is scheduled for 25 November. SC would expect a judgment within one month of this date but we will have to wait and see. SC advised that if either side wants to appeal to the Privy Council then they have get leave to do so.

SC stated that we have obtained a Costs Order against Habana in relation to the initial hearing, and that if Habana loses its appeal then we will seek to obtain another Costs Order.

2 - Claims agreement process

MS summarised that 7400 individual claims have been processed. 1800 have still to claim (some of these are very small – about £12m in total)

GB questioned if there was a de minimis on payments. MS advised that we have to write to all claim holders informing them that we are about to make a payment on a given date and we cannot ignore the rights of small creditors.

SC agreed that it would be worthwhile asking the Deemster if a de minimis level could be applied.

SB made reference to delays in payments being made under the DCS scheme. There will be claim holders who may be asking themselves “Do I claim on the DCS or wait for the dividend?” and “Should I have claimed under the DCS at all”. The delays are causing a huge problem for some creditors. MS summarised that there are just under 300 claims that have not yet been agreed, typically these are companies and proof is needed that the company is still in existence. Others typically have KYC issues. MS advised that 67 forms were received from the DCS this week everything else has gone back to them.

It was recognised that some information about this process needs to be posted on the website and the COI also need to be kept informed of the situation.

GB wished MS to inform the FSC and DCS that the COI have expressed real frustration at the administration of the DCS and the impact this is having on people.

MS confirmed that PwC are incurring more costs due to the level of calls not being responded to by the DCS. GB suggested that KPMG should be paying for this increase in costs. SB informed the Joint Liquidators that the DCS are shifting blame to PwC on what is required for proof of claims.

JH suggested that information be posted on the website quoting KPMG's telephone number for queries. He suggested that KPMG might pay these costs for PwC if PwC explain the situation i.e. that these are DCS costs and not liquidation costs.

It was agreed that a breakdown of the 7400 claims processed to date should be posted on the website i.e. the split and value of these claims.

The amounts owed to other group companies were noted and discussed.

PW then asked when a decision was being made on the claim by the pension scheme as depositors have been asking for clarification on this. MS stated that the situation is the claim has not yet been agreed but confirmed that the pension scheme is a valid creditor of the company.

3- Second Interim Dividend

The current estimate is that the second dividend will be at least 14p based on cash currently in hand. MS pointed out that this does not take account of any potential receipts from London or anticipated loan repayments. The assumption was that there would be no claim on the Booker shares before 30 November.

SB requested the target date for payment of the second dividend. MS confirmed this would be as early as possible in December, probably in the week commencing 7 December 2009. PS confirmed that PwC will be putting out a notification next week. If any money arrived from London in time this will be included.

4 – Fees

There was a general debate regarding agreement of the joint liquidators' fees and hourly charge out rates.

SC stated that Rule 136 (1) of the Companies (Winding-Up) Rules 1934 enables the COI to fix remuneration of liquidators on a percentage basis, typically at 5% on realisation and 5% on distribution. However we are seeking to charge at hourly rates.

PS confirmed that PwC rates increase once a year, usually in July. PS also confirmed that generally there is no incentive fee in liquidations work and nor would investigation work be carried out on that basis.

GB explained that fees are always a sensitive topic and the COI is duty bound to ask these questions on behalf of the creditors.

PS stated that the Court's adjudicator will challenge these rates as part of his review.

Rates will increase when mutually agreed, otherwise the matter goes to the courts.

SB suggested another resolution is put forward if/when rates are to increase, rather than agreeing to them being whatever they were at the relevant time. He also suggested that the hourly rate needs to be defined at the time of the resolution being passed and any subsequent changes are then mutually agreed by PwC and COI.

SC proposed a change to the wording "as varied from time to time" be removed and "at the date of this resolution" to be inserted. SC to amend wording and recirculate.

Update 1.30pm
SC circulated the Resolution with the revised wording,

After further discussion there was an understanding that where a rate cannot be agreed mutually at a future date, the matter will be referred to the courts for arbitration.

Resolution proposed by Stuart Roberts
Seconded by Gavin Brake.
RESOLUTION WAS PASSED BY THE COMMITTEE.

5 – Committee members expenses

The proposed expenses policy for members of the Committee was agreed.

6 – Further Resolutions

That the Joint Liquidators may receive on account 80% of the amount of the remuneration set out in each monthly fee pack upon presentation of the fee pack to the Committee, subject to any adjustment that the Committee may make following its review of the fee pack.

Proposed by Neill Angus
Seconded by Simon Bessant.
RESOLUTION WAS PASSED BY THE COMMITTEE

That pursuant to Section 184(1)(a) Companies Act 1934 the Joint Liquidators be granted power generally to bring any action or legal proceedings necessary to recover debts owing to or assets belonging to the Company without further reference to the Committee.

Proposed by Neill Angus
Seconded by Simon Bessant.
RESOLUTION WAS PASSED BY THE COMMITTEE.

The Committee notes that the ongoing legal proceedings and actions commenced prior to the appointment of the Committee on 23 July 2009 that the Joint Liquidators are aware of that the Company is party to are Brazill & Others v Willoughby & Others [2009] EWHC 1633 (Ch) and DuPreez Limited (formerly Habana Limited) v KSFION, Simpson & Spratt [2DS 2009/17] on appeal to the Staff of Government Division.

7- Investigation

An update was provided on the progress of the investigation.

8 - Parental guarantee

MS attended various meetings in Iceland and the committee may have seen a copy of document issued by the Resolution Committee following the meeting last month.

There will be a Court Hearing in Reykjavik on 13 November to consider the extension of the moratorium, there will be a further creditors meeting on 29 January 2010 which will deal with the claims process.

Regarding likely recoveries from Iceland, we have no new information at the moment and it's not yet clear how the New Kaupthing structure will benefit us. We have been offered the opportunity to review more detailed due diligence, but are required to sign a confidentiality agreement. We have made it clear that we need to be able to share information from that review with the Committee of Inspection, and have been advised that this can only be done if

the COI sign up to a confidentiality agreement. The potential benefit from signing up to this is that we may be able to form a view on the ultimate distribution from Khf which would help us to assess our likely ultimate distribution.

We have no reason to doubt that our claim under the parental guarantee will be accepted as a valid claim by the winding up committee; however, it could be a long time before we see any money coming through from Iceland. The ability of New Kaupthing to pay dividends up to Old Kaupthing depends to a great extent upon the state of the Icelandic economy. MS has spoken to the Icelandic Finance Ministry, who seem confident that their economy will pick up after next year. They think it has shrunk 8% this year and will shrink a further 2% next year. Fishing, aluminium and tourism seem to be holding up.

We understand that Deloitte have advised individual depositors of Landsbanki Guernsey to make a claim direct against Landsbanki hf. This is because in their case it is the deposits which are guaranteed and not the shortfall of assets. Further Icelandic legal advice is being sought in order to clarify this.

The Joint Liquidators will shortly be submitting a claim to the Winding up Committee of Kaupthing hf in respect of amounts due under the parental guarantee. The basis on which the claim will be calculated has not yet been finalised but it was agreed that it would be as wide as possible within the terms of the guarantee, and may include, for example, interest on accounts in excess of 5% and ongoing costs.

9 – Communications Strategy

GB stated the point to make to the creditors was not to bombard PwC with requests as this is incurring expenses. They must be sensible with their requests. PW agreed and suggested that a policy for communication should be brought together on one A4 sheet. This should cover the average cost of a customer enquiry and creditors should be directed to the website in the first instance for any answers.

It was agreed that a notification should be drafted/ agreed and posted to the website. Areas to cover were:

- Asset Realisation
- Role of the COI
- Communications

10 - Tax

Income Tax - All profits arising up to and including those in the accounts for the year ended 31 December 2007 have been assessed and agreed by IoM Treasury. The only outstanding liability is in respect of the year ended 31 December 2007 for £334k. If the terminal loss claim as discussed with Treasury is agreed, it will mean removal of the 31 December 2007 creditor and a repayment of the two previous assessments totalling £556k.

11 - Next meeting

PS summarised as follows:

1. Conference call to discuss the budget to be arranged.
2. An update call to be held at the beginning of January and then every month
3. A formal meeting to be held every four months.

The meeting closed at 15.40pm.