

11 December 2009

Note on the current position on the claim against KSF UK ('the Claim')

The purpose of this note is to give an explanation as to how the Claim amount was calculated and the current position.

The estimated potential claim against KSF UK is £233.5m but the final sum remains subject to negotiation. To date a dividend has been paid of 30p in the £ on a claim of £205m. It is anticipated that a higher claim would be agreed and accordingly, a catch up dividend will be paid.

The Administrators of KSF UK have advised that a final outcome dividend range will be between 60p and 75p in the £. On a claim of £233.5m this would mean a dividend pay-out range between £140.1m and £175.1m.

Depositors have expressed concerns that the gross claim of £572.1m has been reduced to £233.5m. The main reason for this reduction is the number of offsetting claims of KSF UK against KSFIOM, as the following table illustrates:

	£m	£m
Cash deposits	349.6	
ISDA (note 1)	2.5	
GMRA Agreement (note 2)	185.0	
Certificates of Deposit (CD) (note 4)	35.0	
Gross Claim		572.1
Less:		
Cash Received from CDs (note 4)	-35.0	
Security Valuation under the GMRA (note 2)	-138.0	-173.0
Claim submitted by KSF IOM		399.1
Less:		
Set-off claimed under sub-participation loan agreement (note 3)	-165.0	
Set-off claimed of inter company recharges	-0.6	-165.6
Potential Claim on which dividend will be paid		233.5

Depositors should note that the offsets are typically favourable to KSFIOM because in most cases they have reduced KSFIOM's liabilities at 100p in the £, whilst reducing assets which would only be recovered at 60p to 75p in the £.

Notes:

1. KSF IOM and KSF UK entered into a number of foreign exchange and interest swaps subject to an International Swaps and Derivative Association Master Agreement (ISDA).
2. KSF IOM and KSF UK entered into a Global Master Repurchase Agreement (GMRA) the purpose of which was to secure a loan of £185m from KSF IOM to KSF UK. Under this agreement the securities have to be valued on a specific day relating to the termination date and utilising the quoted prices at that date. This is then offset against the total debt due. The pledged assets are then realised by the liquidators and to date have realised £121m. The remaining security consists of shares in Icelandic companies which are difficult to realise and may have minimal value.
3. KSF UK advanced £165m in a number of currencies under sub-participation agreements for 19 loans and are claiming set-off in respect of them. As at 8/10/2008 the amount due to KSF UK in GBP was £165m. However a number of loans are in foreign currencies and for settlement at future dates. There are ongoing discussions between the liquidators and EY in respect of the balance due. These relate mainly to the date at which foreign currency loans are to be translated into GBP, inter-company recharges, who is liable for losses on the sub-participation loans and agreement on the rights of set-off.
4. The CD monies have been received in full.