

Kaupthing Singer & Friedlander (Isle of Man) Limited (in Liquidation)

Notes of a conference call with the Committee of Inspection

Friday 12 November 2010

Present

Mike Simpson, Joint Liquidator
Peter Spratt, Joint Liquidator
Mark Loftus, PwC
David Morell, PwC
Simon Bessant
Gavin Brake
Stuart Roberts
Peter Wakeham
John Hollis
Charles Hewetson, Reed Smith
Peter Hardy, Reed Smith
Seth Caine, Cains
Gunnar Jonsson, Jonsson & Hall
Johannes Eiriksson, Jonsson & Hall

Apologies

Neill Angus
Mark Kiernan

1 Parental Guarantee claim

It was noted that the claim under the parental guarantee has been rejected by the Khf Winding up Committee and is now before the Court in Reykjavik. The claim was rejected on two grounds:

- Khf do not recognise the binding nature and enforceability of the guarantee, on the basis that the person who signed it did not have the authority to do so and that the Board was not aware of it.
- They believe that if the claim had any validity at all, then it can only be as an ordinary unsecured claim and not as a priority claim.

The Court hearing is expected to take place on or around 28 February 2011. It is expected that judgment will be issued approximately one month after the hearing. However, if we win it is likely that Khf would appeal to the Supreme Court, which could take another year to resolve due to the volume of cases before the Courts.

The view of our Icelandic lawyers is that we have a strong case on the binding nature and enforceability of the guarantee. However, on the issue of priority, they believe that we will fail to establish that our claim should have priority, and there is a very recent case in the Supreme Court of Iceland which reinforces that view.

It was noted that the cost of continuing legal action would need to be weighed up against the prospects of recovery, adverse costs and the diminishing benefit given the rising level of our estimated overall recoveries. It was also noted that the estimated recoveries from Khf are still unclear. The total value of priority claims made exceed estimated assets, however, very few priority claims have been accepted and it has been indicated that a significant proportion are double counted, otherwise invalid or not entitled to priority.

The calculation of the claim under the parental guarantee was discussed. It is not calculated on the same basis as our estimated outcomes, primarily because it does not take credit for monies we have not yet received, even where we strongly expect to receive them. Also, as it is a shortfall claim, it accrues interest.

It was noted that the other creditors who have objected to our claim have focused on the priority issue rather than the validity of the claim. The creditors who have objected to our claim include some German banks who bought Khf bonds. It is believed that their strategy is to drag out the proceedings for as long as possible as they believe that, over time, asset values will improve.

2 Potential claims against various parties

The legal advisors updated the Committee on the progress of their investigations into the prospect of taking action against various parties.

3 KSFUK claim

Agreement of the methodology for calculating the claim is close to being agreed, however the KSFUK administrators require an overall settlement agreement to be signed as part of agreeing the claim. To be in a position to do this, we need to be satisfied that we are not disadvantaged in respect of wider legal issues.

4 Loan book

A number of loans were discussed where there are concerns regarding repayment or where we have taken enforcement action. The loans discussed included:

- Lighthouse Living – amount in dispute is £2.5m. The Court hearing was held last month and we are awaiting judgment.
- Amount owed £3m, secured on UK property. We appointed an LPA Receiver to sell the property and contracts have been exchanged at £3.5m, so we expect to be repaid in full.

- Amount owed €1m, secured on partly built property in Spain worth roughly half that. We have taken possession of the property for the purpose of selling it.
- Amortising loan due for final repayment in 2013 secured on an aircraft, which we have repossessed and are marketing for sale.

6 Next dividend

We have sufficient cash in hand now to pay about 6%. With the anticipated cash due in on loans we should get up to over 7%. We will consult with the committee in early December when the level of available cash is more certain.

7 Claims

The offer made by a third party to buy up claims in the liquidation was discussed. We are not aware of anyone selling their claim, and neither the Committee nor the Joint Liquidators would seek to interfere if they did. It was agreed that neither the Committee nor the Joint Liquidators would take any stance regarding the merits of any offer from a third party to acquire debt.

8 DAG legal costs

It was noted that the DAG costs have not yet been agreed – their claim is currently with their advocates.

9 Liquidation costs

It was noted that the ongoing cost of the liquidation is higher than expected. This is partly due to the costs of the ongoing investigation and dealing with problem borrowers, which is covered by default interest.

There are nine bank staff remaining at the bank, a full time equivalent of seven, dealing with the systems, the loan book and claim processing.

10 Treasury Minister

It was noted that the Isle of Man Treasury Minister had recently quoted 97% as being the likely recovery rate. There was concern that this may have misled creditors, however it was noted that a new EOS will be calculated once the next KSFUK distribution is known.