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***Kaupthing Singer & Friedlander (Isle of Man) Limited – in Liquidation  
 (“KSFiom” or “the Company”)***

Joint Liquidators’ and Joint Deemed Official Receivers’ progress report to creditors for the period from 10 July 2010 to 9 January 2011



## *Highlights at 9 January 2011*

- *61.1p in the £ dividends paid to creditors*
- *£587.4m of assets recovered*
- *7,919 claims processed and admitted*
- *Estimated dividend outcome between 91.4p and 97.7p in the £*

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

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# ***1 Information from the Joint Liquidators and Joint Deemed Official Receivers***

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## ***Introduction***

As advised in our letter to creditors dated 10 June 2009, Peter Spratt and Mike Simpson were appointed as Joint Provisional Liquidators and Joint Deemed Official Receivers on 27 May 2009, following the making of a Winding Up Order, having previously been appointed as Joint Liquidators Provisionally. Following the meeting of creditors on 7 July 2009, Peter Spratt and Mike Simpson were appointed as Joint Liquidators and Joint Deemed Official Receivers (“JLs”).

The purpose of this document is to provide creditors with:

- a report on the period of the Liquidation from 10 July 2010 to 9 January 2011, matters arising since 9 July 2010 and;
- a summary of the costs and disbursements incurred by the JLs for the period 27 May 2009 to 31 December 2010 inclusive and;
- a receipts and payments account to 9 January 2011 and an Estimated Outcome Statement.

## ***Committee of Inspection (‘the Committee’) or (“COI”)***

At the first meeting of creditors, those present and voting were requested to select up to seven out of the eleven nominees who had put their names forward prior to the meeting. The following seven creditors were selected:

- Axa (Isle of Man) Limited (represented by Neill Angus)
- Simon Bessant
- Gavin Brake
- Stuart Roberts
- Royal Skandia Life Assurance Limited (represented by John Hollis)
- Singer & Friedlander (Isle of Man) Limited Retirement Benefits Scheme (represented by Mark Kiernan)
- Peter Wakeham

# 1 *Information from the Joint Liquidators and Joint Deemed Official Receivers*

The Committee's role is governed by the Companies Act 1931 ("The Act") and in the Companies Winding up Rules 1934 ("The Rules").

S.184 of the Act sets out the powers which can only be exercised by the JLs with the sanction of either the Court or of the Committee. These powers include the ability to bring or defend any legal action on behalf of the Company, to carry on the business of the Company, and to appoint an advocate to assist them. It was noted these powers were granted by the Court on liquidation.

Further powers noted in s.184 included the power to pay any classes of creditors in full (particular reference was made to preferential creditors), and to make any compromise or arrangement with creditors (for example those threatening legal action; the joint liquidator would need the sanction of the Committee for any such settlement).

The role of the Committee is to support the JLs in their work, and represent the creditors as a whole, rather than acting on behalf of individual creditors. S.185 of the Act states that the JLs shall have regard to any directions given by resolution of the creditors.

The Committee has formally met on three occasions (18 August 2009, 5 November 2009 and 29 June 2010), and met by conference call on 12 November 2010, however there is a regular dialogue by telephone and e-mail with the JLs. The flow of information occurs both ways, with members of the Committee raising points for consideration by the JLs team as well as the PwC team providing information to the Committee for review and comment.

The Committee and the JLs objective is to achieve the optimum return for creditors within the statutory framework. The JLs consult the Committee as and when they consider it appropriate. An example of this is in respect of legal action to recover monies owed by borrowers. Although the JLs take action against the individual borrowers, the Committee's approval is sought before such action is launched.

## *Dividends Paid and Estimated Dividend Range*

The following dividends have been paid to date:

<b>Date dividend paid</b>	<b>p in the £</b>
4 September 2009	24.8
7 December 2009	15.2
9 July 2010	11.1
15 December 2010	10.0
<b>Total</b>	<b>61.1</b>

# ***1 Information from the Joint Liquidators and Joint Deemed Official Receivers***

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The Joint Liquidators declared and paid a dividend of 10p in the £ on 15 December 2010.

As set out in Appendix 2 below, the JLs have provided, for indicative purposes only, an estimate of the ultimate dividend range that creditors may receive in due course from the liquidation, being between 91.4p in the £ on a low case basis and 97.7p in the £ on a high case basis. It should be noted, however, that this is an estimate and the ultimate dividend paid may vary from this range, perhaps materially. The value and timing of any future distributions are dependent upon a number of factors where there are continuing uncertainties, including but not limited to:

- Agreement of the unsecured claim against Kaupthing Singer & Friedlander Limited (“KSFUK”) and amount of dividend paid;
- Loan book recoveries;
- The claim against Kaupthing Bank h.f. (“KHF”);
- The level of final agreed claims in the liquidation;
- The level of future costs of the liquidation.

The JLs are however focused on returning funds to creditors as soon as possible and it is hoped that sufficient further funds will become available to enable the JLs to pay further interim dividends in the region of 18p to creditors in 2011.

## ***Next report***

There are no formal requirements in respect of reporting to creditors under the Act or the Rules. The JLs consult with the Committee as to the timings of reports to creditors but anticipate that the next formal report will be sent to creditors on or around the next anniversary of the Winding Up Order (9 July 2011). In the meantime the JLs will however continue to post updates on the website on a regular basis and when there are any material developments.

If you have any queries, please address these to the JLs at the bank, or e-mail [branch@singers.co.im](mailto:branch@singers.co.im), or telephone the bank on +44 (0) 1624 699 222.

Mike Simpson and Peter Spratt  
Joint Liquidators and Joint Deemed Official Receivers

## 2 A combined receipts and payments account for the period 27 May 2009 to 9 January 2011 and Estimated Outcome Statement

Summary receipts and payments including the Estimated Outcome Statement ("EOS") to 9 January 2011

	Summary of the Directors' Statement of Affairs as at 9 October 2008		Receipts and Payments 9 October 2008 to 26 May 2009 £'000	Receipts and Payments 27 May 2009 to 9 January 2011 £'000	Total Receipts and Payments to 9 January 2011 £'000	Joint Liquidators' estimated outcome			
	Book value £'000	Estimate to realise £'000				High Est. future £'m	Low Est. future £'m	Total High £'m	Total Low £'m
<u>Uncharged assets at appointment</u>									
Cash at bank on appointment	108,916	108,664	115,459	(145)	115,314	-	-	115.3	115.3
Certificates of deposit	53,501	53,501	18,263	35,311	53,574	-	-	53.6	53.6
Advances to customers (loans)	416,088	372,973	10,432	155,321	165,753	221.8	187.6	387.6	353.4
Less: Cost of FX hedging (EUR & USD)	-	-	-	(4,219)	(4,219)	-	-	(4.2)	(4.2)
Interest and fee income on loans	-	-	6,960	14,565	21,525	5.4	4.1	26.9	25.6
Collateral shares	-	-	6,271	114,851	121,122	-	-	121.1	121.1
Net balance due from KSFUK	320,722	Unknown	-	108,650	108,650	98.1	75.9	206.8	184.6
Property, equipment and other sundry assets	1,489	142	8	200	208	-	-	0.2	0.2
Net balance due from Kaupthing Holdings Ltd	206	206	-	-	-	-	-	-	-
Net balance due from Kaupthing hf	94	94	-	-	-	-	-	-	-
Parental guarantee from Kaupthing hf	Unknown	Unknown	-	-	-	-	-	-	-
Interest income on cash in hand since appointment	-	-	648	557	1,205	-	-	1.2	1.2
<b>Total estimated assets</b>	<b>901,016</b>	<b>535,580</b>	<b>158,041</b>	<b>425,091</b>	<b>583,132</b>	<b>325.3</b>	<b>267.7</b>	<b>908.5</b>	<b>850.9</b>

## 2 A combined receipts and payments account for the period 27 May 2009 to 9 January 2011 and Estimated Outcome Statement

Summary receipts and payments including the Estimated Outcome Statement ("EOS") to 9 January 2011

(cont.)

	Summary of the Directors' Statement of Affairs as at 9 October 2008		Receipts and Payments 9 October 2008 to 26 May 2009 £'000	Receipts and Payments 27 May 2009 to 9 January 2011 £'000	Total Receipts and Payments to 9 January 2011 £'000	Joint Liquidators' estimated outcome			
	Book value £'000	Estimate to realise £'000				High Est. future £'m	Low Est. Future £'m	Total High £'m	Total Low £'m
<b>Total estimated assets</b>	<b>901,016</b>	<b>535,580</b>	<b>158,041</b>	<b>425,091</b>	<b>583,132</b>	<b>325.3</b>	<b>267.7</b>	<b>908.5</b>	<b>850.9</b>
Less Provisional Liquidators' costs	-	-	-	(2,954)	(2,954)	-	-	-	-
Less Liquidators' costs	-	-	-	(4,777)	(4,777)	-	-	-	-
Less legal and other professional fees	-	-	(1,024)	(3,081)	(4,105)	-	-	-	-
Less employees, rent, utilities and other costs	-	-	(1,712)	(1,938)	(3,650)	-	-	-	-
<b>Total costs and expenses</b>	<b>-</b>	<b>-</b>	<b>(2,736)</b>	<b>(12,750)</b>	<b>(15,486)</b>	<b>(7.8)</b>	<b>(7.8)</b>	<b>(23.3)</b>	<b>(23.3)</b>
<b>Estimated total assets available for preferential creditors</b>	<b>901,016</b>	<b>535,580</b>	<b>155,305</b>	<b>412,341</b>	<b>567,646</b>	<b>317.5</b>	<b>259.9</b>	<b>885.2</b>	<b>827.6</b>
<b>Estimated amounts due to preferential creditors</b>	<b>(1,654)</b>	<b>(1,654)</b>	<b>-</b>	<b>(281)</b>	<b>(281)</b>	<b>-</b>	<b>-</b>	<b>(0.3)</b>	<b>(0.3)</b>
<b>Estimated surplus available to ordinary unsecured creditors</b>	<b>899,362</b>	<b>533,926</b>	<b>155,305</b>	<b>412,060</b>	<b>567,365</b>	<b>317.5</b>	<b>259.9</b>	<b>884.9</b>	<b>827.3</b>



## 2 A combined receipts and payments account for the period 27 May 2009 to 9 January 2011 and Estimated Outcome Statement

Summary receipts and payments including the Estimated Outcome Statement ("EOS") to 9 January 2011

(cont.)

	Summary of the Directors' Statement of Affairs as at 9 October 2008		Receipts and Payments 9 October 2008 to 26 May 2009 £'000	Receipts and Payments 27 May 2009 to 9 January 2011 £'000	Total Receipts and Payments to 9 January 2011 £'000	Joint Liquidators' estimated outcome			
	Book value £'000	Estimate to realise £'000				High Est. future £'m	Low Est. Future £'m	Total High £'m	Total Low £'m
Estimated surplus available to ordinary unsecured creditors	899,362	533,926	155,305	412,060	567,365	317.5	259.9	884.9	827.3
Total ordinary unsecured creditors (excluding contingent liabilities)	(896,014)	(896,014)	(905,370)	(905,370)	(905,370)	-	-	(905.4)	(905.4)
Distributions payable			-	(542,090)	(542,090)	(342.8)	(285.2)	(884.9)	(827.3)
Estimated dividend range for ordinary unsecured creditors (indicative)			0.0%	61.1%	61.1%	36.6%	30.3%	97.7%	91.4%
Third party funds			-	20	20	-	-	-	-
Cash at hand			155,305	(130,010)	25,295	(25.3)	(25.3)	-	-

This table has been produced from a spreadsheet which contains detailed formulae which in certain instances produces minor rounding differences.

### **3 Report on the Liquidation for the period from 10 July 2010 to 9 January 2011**

#### 1. Role of the Liquidators

1.1 The role and powers of Liquidators are laid out in the Order under which they are appointed by the Court and are primarily to acquire or retain possession of the property of the Company, the beneficial preservation of such assets and to call for, examine, admit or reject proofs of debt.

#### 2. General comments on Receipts and Payments and the Estimated Outcome Statement

2.1 The receipts and payments for the period 27 May 2009 2010 to 9 January 2011, together with an Estimated Outcome Statement is set out on pages 8 to 10. This shows total receipts for the period of £425.1m, and total payments of £555.1m, and a net balance of cash in hand of £25.3m at 9 January 2011. Where cash is held in a currency other than Sterling, the foreign exchange rates used were close of business rates on Friday 7 January 2011.

Exchange rates used

- GBP/CHF 1.5011
- GBP/EUR 1.1994
- GBP/JPY 129.2
- GBP/USD 1.5571

Since 10 July 2010, the following material receipts have occurred:

- £58.4m in respect of capital repayments on loans
- £2.3m of interest payments on loan book
- £36.9m from KSFUK dividends

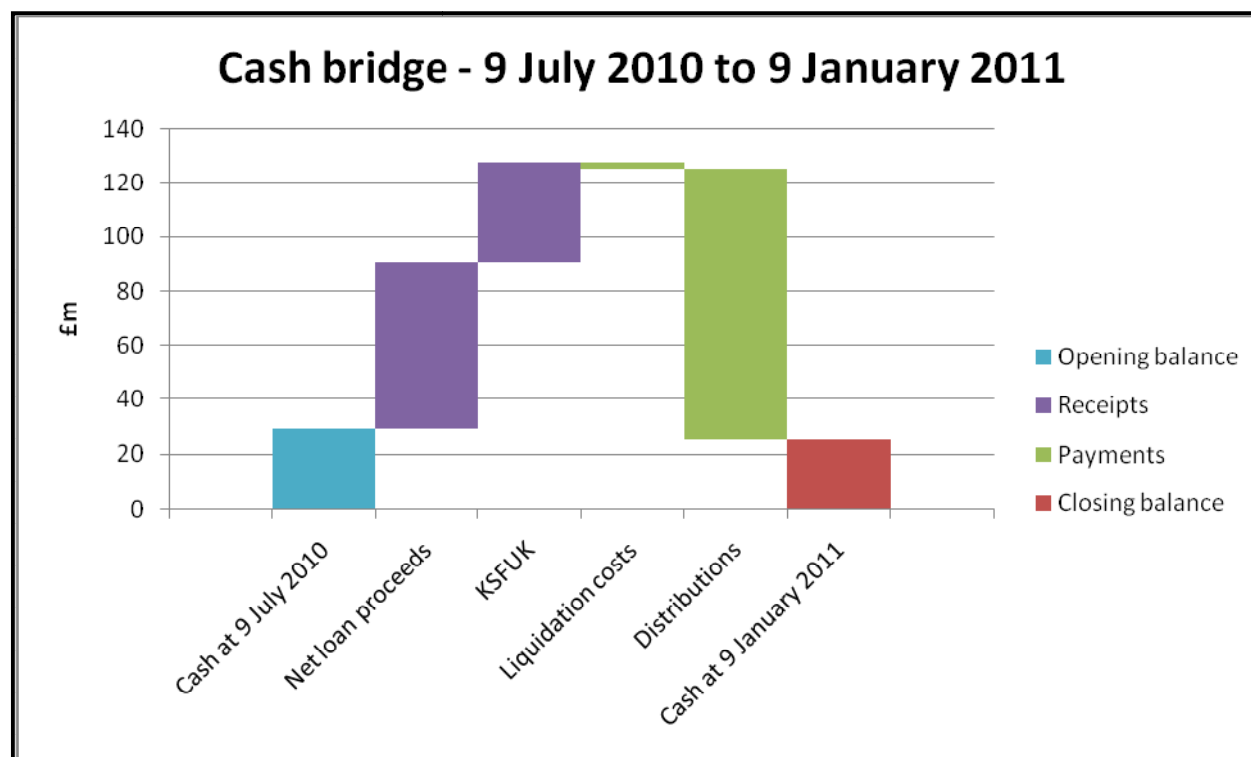
2.2 Since the making of the Winding Up Order on 27 May 2009, funds received have been generally converted into Sterling to match the currency in which distributions to creditors will be made. Some currency balances are held to pay costs denominated in currencies other than Sterling such as registry fees, legal expenses and other statutory filing costs. The funds under management are invested by the PwC in-house Treasury team and are invested with banks who are A+ rated (Standard & Poors short-term rating) or better. Given continuing fluctuations in ratings and perceived risk of individual banks, the funds are invested for short periods only.

### 3 Report on the Liquidation for the period from 10 July 2010 to 9 January 2011

#### 3. Comments on Assets and Receipts

##### 3.1 Cash at bank and cash received in the liquidation since 10 July 2010

The Directors' Statement of Affairs stated that as at 9 October 2008 an equivalent of £108.9m was held by the Company. To 27 May 2009 cash realised was £158.0m. As at 9 July 2010, a total amount of £485.5m had been realised in the liquidation. By 9 January 2011 £587.4m (gross of the cost of hedging loans denominated in foreign currencies) had been realised.



### **3 Report on the Liquidation for the period from 10 July 2010 to 9 January 2011**

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#### 4. Advances to customers

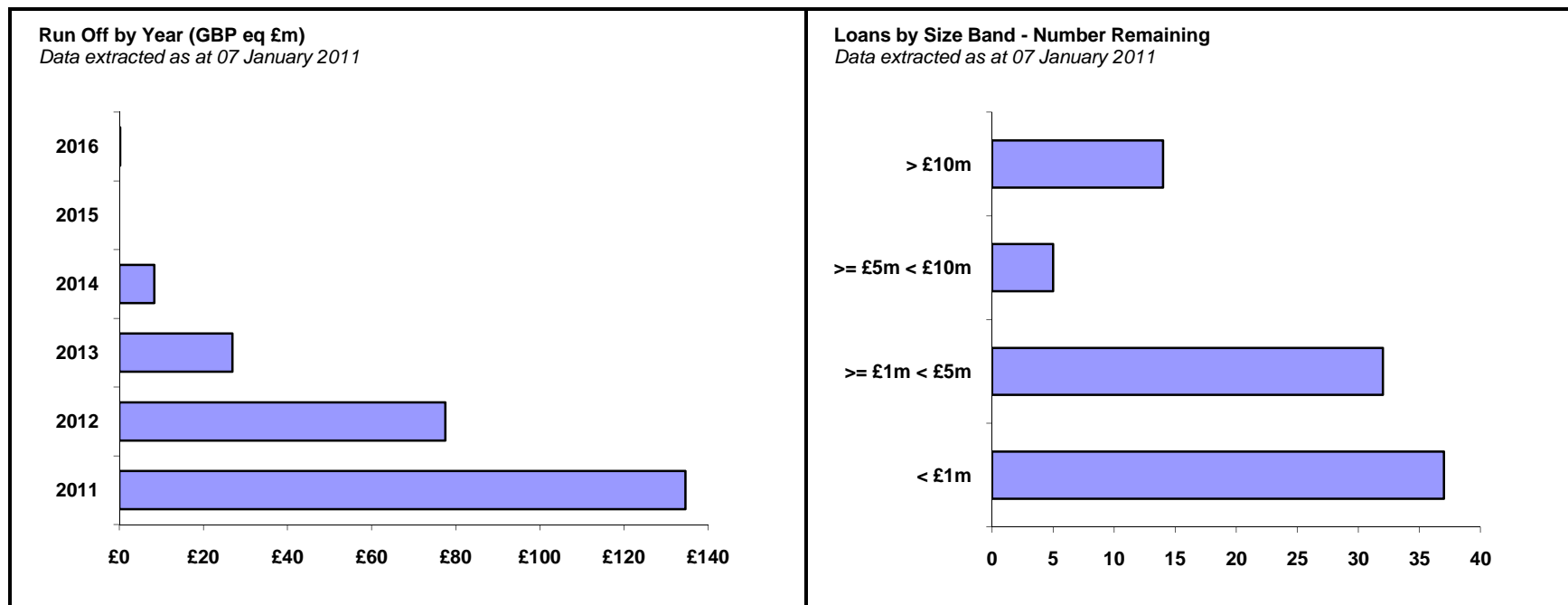
4.1 According to the Directors' Statement of Affairs, as at 9 October 2008 the Company had loans to customers valued at a Sterling equivalent of £416m. This amount did not allow for the operation of set-off (see below) or for future interest income. The figures relating to outstanding loans quoted in this report are as at 9 January 2011.

As at 9 January 2011 there are 88 loan facilities, compared to 113 at 9 July 2010 with the outstanding capital value of the loan facilities of a Sterling equivalent of £247.6m. Some of the loans are denominated in foreign currency. Between 10 July 2010 and 9 January 2011, £2.3m has been collected on the loans in respect of interest payments due and £58.4m has been collected in respect of capital repayments, based on exchange rates prevailing on the date of repayment of any currency amounts.

The JLs have entered into negotiations with borrowers where the contractual repayment date was after 2014 and have been successful in rescheduling most of these loans. 87 outstanding loans are now due to be repaid by March 2014. One loan remains repayable in 2016.

4.2 As reported previously the large majority of loans are secured on premium residential properties and are interest only during the life of the loan, with the capital repayment being made on the maturity of the loan. The loans are contractually repayable over the period up to 2016 as set out in the capital repayment table after this paragraph, and it should be noted that repayment dates are not spread evenly throughout the years, typically they are on the anniversary of the initial drawdown or facility approval:

### 3 Report on the Liquidation for the period from 10 July 2010 to 9 January 2011



4.3 The Company's loan book continues to be managed actively by the JLs, working with former members of the Company's staff who have been retained. The continuity afforded by continuing to employ the relationship team has been invaluable to the JLs and has enabled an orderly realisation of the Company's assets. Day to day borrower contact is maintained by the bank staff and managed by a member of the liquidation team. The current strategy is to run off the loan book over its contractual life, to maximise the return to creditors. A panel of banking institutions has been approached to assist borrowers in re-financing their loans as terms expire, and any borrower seeking to re-finance is put in touch with these banks at an early stage. A number of loans are in the process of being re-financed at 9 January 2011, and we anticipate further redemptions as loans reach their contractual maturity dates. Updated desktop valuations were carried out during the second quarter of 2009 on all UK properties secured on loans where the loan to value ratio ("LTV") was 60% or greater. Where LTV breaches were identified by this exercise, the borrowers concerned are formally requested to make capital payments to bring the facility back within agreed parameters. Where borrowers disputed the desktop valuations, they were invited to provide full valuations (at their cost) to support the contention that LTV covenants were intact. LTV's are kept under constant review and any potential or actual covenant breaches are immediately considered

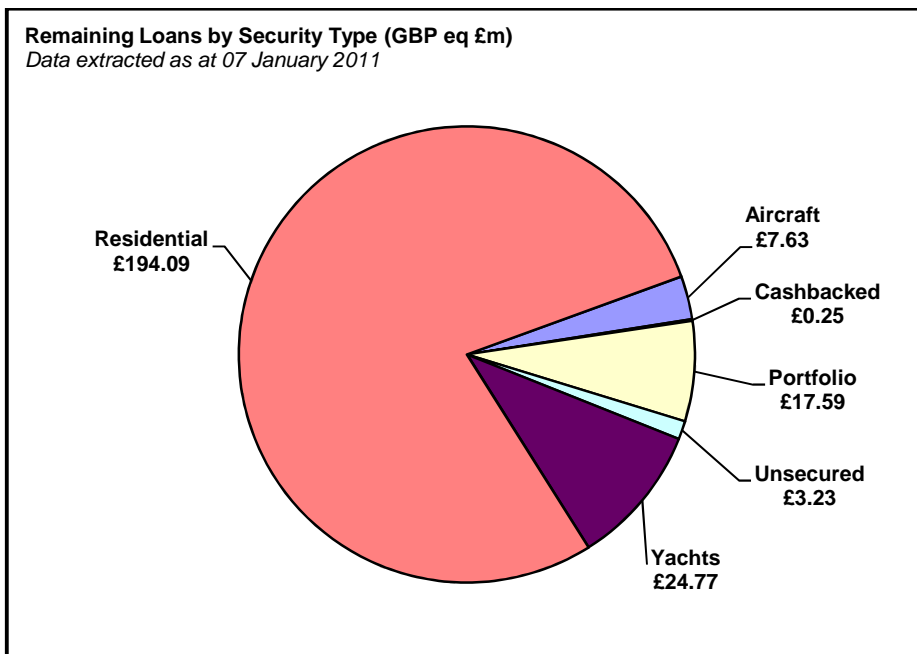
### **3 Report on the Liquidation for the period from 10 July 2010 to 9 January 2011**

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by the JLs and a course of action is agreed upon, including capital reductions and obtaining revised valuations. Loan book provisions are reviewed by the JLs on a regular basis.

- 4.4 Borrowers are contacted on a regular basis to ensure that interest due is collected promptly and that any proposals to repay part or all of the loans in advance of the contractual maturity date are dealt with and assistance is given where possible. All borrowers have been made fully aware of the liquidation situation and a programme of managing borrowers within 12 months of their loan maturity date is in place. Where it appears they are unable to repay on or by the contractual maturity date, this is immediately brought to the attention of the JLs for a decision on how the relationship is to be managed. Each circumstance is, however, different and a combination of short maturity extensions, increased interest rates and as a last resort, legal action has been utilised. The COI are informed of any such pending legal action and approve the action before it is commenced.
- 4.5 There are currently a small number of borrowers where interest is more than 30 days overdue. Most of these are due to the borrower awaiting the outcome of legal or other action which has been taken by the JLs and it is anticipated that these facilities will cease to be in breach, or indeed be repaid once these issues are resolved. Where the situation has arisen because of a failure to pay scheduled interest or capital amortisations, penalty clauses in the loan agreements have been activated and typically a higher rate of interest is charged until the facility is restored to the correct level. Each case is individually reviewed by the JLs at regular meetings.

### 3 Report on the Liquidation for the period from 10 July 2010 to 9 January 2011



Given the interest only nature of the loan portfolio, it is difficult to predict with certainty the amount that will be recovered in due course but we note that in general terms the loan portfolio is secured on assets of a high quality.

Over 80% of the loan portfolio is secured on property, 8% is secured on yachts, 6% on portfolios and 3% on aircraft. The property portfolio is further considered below. There are four yacht loans and two aircraft loans remaining in the portfolio. At 9 January 2011 a sale process is underway for one of the yachts. One aircraft has been re-possessed by the JLs and we have engaged an aircraft broker to market the aircraft. This action was taken after the borrower fell behind the contractual repayment schedule.

### **3 Report on the Liquidation for the period from 10 July 2010 to 9 January 2011**

For the purposes of providing indicative amounts in the Estimated Outcome Statement we have used capital loan values at 9 January 2011 plus future interest income converted into Sterling as at 9 January 2011 exchange rates. On a high case basis we have assumed that all loans default and that the security is realised at 90% of the outstanding loan value. On a low case basis we have assumed that all loans default and that the security realises 70% of the loan value. These estimates are based on our view of the market, and taking a prudent position, however at 9 January 2011 write offs totalled less than 1% of the original loan portfolio value so we are hopeful of a better outcome than has been used in the projections. Where loans have been repaid between 9 January 2011 and the time of writing, we have adjusted our provisioning to reflect this.

#### **4.6 Update regarding non-performing loans**

A small number of borrowers have failed to meet capital or interest repayment schedules. Where this has occurred, the Joint Liquidators have sought to protect and preserve the value of the loan assets. The following is a short summary of those cases which we are able to disclose.

We have taken steps to enforce security over a property in Spain and the transfer of the property to KSFIOM should be completed in February 2011. At this point we will review whether to sell the property as the latest valuation obtained indicates it is worth substantially less than the value of the loan. We do have an action for the shortfall against the borrower but currently our expectation is that there is little likelihood of obtaining a substantial sum. This loan of approximately €1m has been fully provided against in our estimated outcome statement.

We appointed receivers over a UK property in March 2010. The receivers have been successful in selling the property and we have recovered the full amount of the loan in February 2011.

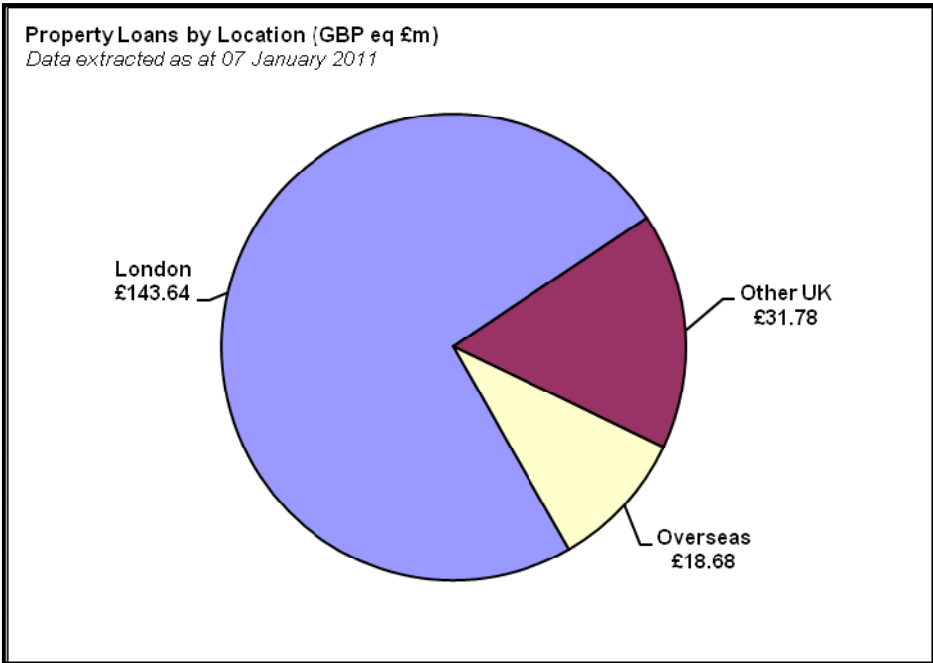
We took possession of an aircraft in December 2010, and are actively marketing it for sale through aircraft brokers. No further information in respect of this situation is disclosable at present.

#### **4.7 Loans secured on property**

74% of property loans are secured on property in London, 16% are secured on other UK property and 10% are secured on property located outside the UK. London and the South East of England region appears to have suffered less from the UK recession and valuations are holding up. The JLs are in regular discussion with major London property agents and would be alerted to any major shift in values that might lead to consideration of a further revaluation exercise.



### 3 Report on the Liquidation for the period from 10 July 2010 to 9 January 2011

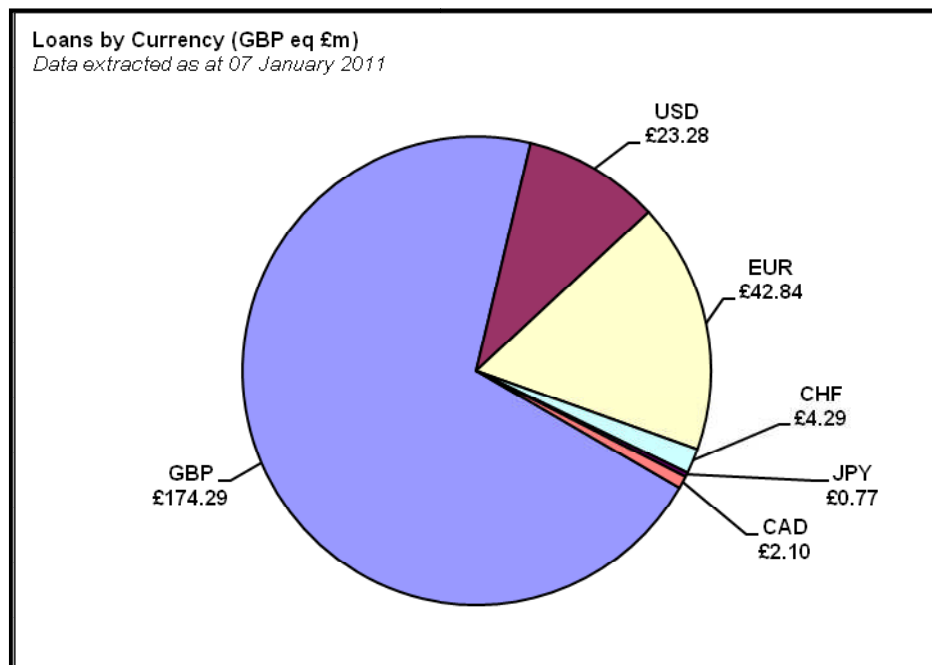


Independent indices are compiled in respect of London property valuations and it is encouraging to note that index values are higher than mid 2009 levels as at December 2010.

The JLs have met with many of the borrowers, and an active dialogue is maintained with all borrowers to ensure interest payments are received and that insurance held over the properties is up to date and KSFION's interest is noted.

### 3 Report on the Liquidation for the period from 10 July 2010 to 9 January 2011

#### 4.8 Foreign currency loans and hedging of receipts



Significant receipts are due in USD or Euro and both these currencies have appreciated against Sterling since 9 October 2008, which has led to a rise in value of the loans.

The appreciation has led to a notional gain in the value of the loan portfolio of £14.8m at 9 January 2011. We have sought to protect a portion of the unrealised gains recorded by purchasing currency options to coincide with scheduled repayment dates for a number of the largest loans denominated in USD and Euro. These options are kept under constant review by the liquidation team and where exchange rates have moved further in our favour, we have strengthened our option position.

Where a currency loan facility is repaid early, the JLs decide whether to hold the currency until the exercise date of the option, or to sell it at the spot market rate and add the amount to the sterling cash available for distribution. The JLs continue to monitor the exchange rates for the remaining part of the portfolio (CHF, JPY & CAD), and will take advantage of opportunities to protect significant gains in the value of these assets as appropriate.

### **3 Report on the Liquidation for the period from 10 July 2010 to 9 January 2011**

#### 4.9 Potential sale of loan portfolio

Following consultation with the Committee, an exercise was conducted in the first half of 2010 to determine whether any offers could be obtained at an acceptable level for all or part of the loan portfolio. The offer levels received fell short of providing an equivalent return to managing the loans to contractual settlement date, so no sale was progressed. No further review has been carried out since 9 July 2010.

Due to the short maturity dates over much of the loan book and historically low interest rates, it is difficult to foresee a situation where the discounted cash flow value of an offer at less than full value to purchase the book will outweigh the value of realising the loans at contractual maturity dates.

4.10 We continue to provide monthly updates on movements on the loan book via the website as this is a key area of interest for creditors. For reasons of confidentiality, such updates do not analyse individual loan movements, but are necessarily an overview of the portfolio.

#### 5. Amount owed by KSFUK

5.1 The Administrators of KSFUK have paid dividends of £108.7m to the JJs representing 53p in the £ on £205m of our claim which is the portion of our claim which has so far been agreed. Their latest estimate is that the total dividend that they will pay in due course may be in the range of 75-84p in the £, and a dividend of 8p was paid on 8 December 2010.

After further discussions we have agreed our claim at £246.1m which will be admitted in the Administration of KSFUK, the particulars of which are discussed below.

The major point at issue in the claim negotiations was the valuation of KSFUK's set-off against the loan sub-participation agreement.

In the website update posted in December 2009 we put a value on this set-off of £165m, being the outstanding capital at 8 October 2008. In their latest report in April 2010 the Administrators of KSFUK showed a "SofA value less actual collections to 31 March 2010" of £200m which caused some concern among some of our creditors. It was always our contention that interest due was to be treated as a deferred claim and that the loans were translated at the due date in accordance with the relevant legislation. In addition as the sub-participation loans were due at future dates, the claim had to be reduced in accordance with Rule 2.105 of the Insolvency Rules 1986. We put this view to the Administrators of KSFUK and they have now confirmed that as part of an overall settlement they will accept a reduction in the set-off amount to £143.7m. The movements have arisen as a result of rescheduling and early repayment of loans covered by the sub-participation agreement.

### **3 Report on the Liquidation for the period from 10 July 2010 to 9 January 2011**

There have also been adjustments to the claim in respect of £0.6m recharges to KSFIOM which the administrators of KSFUK have agreed were not due, and £1.1m in respect of KSFIOM depositors to whom KSFUK had inadvertently made payments after 8 October 2008.

Finally, KSFUK identified a payment of £2.5m to Singer & Friedlander Investment Management Isle of Man Limited which again was made by KSFUK. As reported in our website update of 17 September 2010, the overall expected claims figure was reduced to £905.4m to reflect this payment. The overall effect of this is in favour of KSFIOM as our estimated dividend range is higher than that of KSFUK.

#### **5.2 Summary of KSFUK Claim:-**

The position can be summarised as follows:

	<b>£m</b>	<b>£m</b>
Cash deposits	346.1	
ISDA	2.1	
GMRA Agreement	185.4	
Certificates of Deposit (CD's)	53.0	
<b>Gross Claim</b>		<b>586.6</b>
Less:		
Cash Received from CD's	(53.0)	
Security Valuation under the GMRA (repo)	(142.1)	<b>(195.1)</b>
<b>Claim submitted by KSF IOM</b>		<b>391.5</b>
Less:		
Depositors paid by KSFUK	(1.1)	
Intercompany charges and pre-appointment interest	(0.6)	
Set-off claimed under sub-participation loan agreement	(143.7)	<b>(145.4)</b>
<b>Potential Claim on which dividend will be paid</b>		<b>246.1</b>

### **3 Report on the Liquidation for the period from 10 July 2010 to 9 January 2011**

#### 5-3 Estimated recovery against KSFUK claim

For the purposes of the Estimated Outcome Statement, on a high case basis we have taken the agreed claim amount as £246.1m based upon the agreed settlement figure and have estimated that 84p in the £ is paid by KSFUK. On a low case basis we have taken the claim amount of £246.1m and have estimated that 75p in the £ is paid by KSFUK. We expect to receive a catch up dividend shortly from KSFUK which, based upon the above figures, would amount to £21.8m.

#### 6. Amounts owed from KHF

6.1 There are balances owed to and from KHF in the Company's records, arising from loans received from and deposits placed with KHF.

The Directors' Statement of Affairs shows an amount owed to KHF of £185.4m and an amount owed from KHF of £185.5m. We have sought legal advice in Iceland and understand that under Icelandic law set off would potentially apply frustrating any attempt to enforce recovery of the amount owed by KHF.

#### 7. Parental guarantee

7.1 A provisional claim under the guarantee in the sum of £960m was lodged with the Resolution Committee to protect the Company's position. However the quantum of the claim against KHF under the guarantee needs to be adjusted continuously to reflect the actual shortfall position following realisation of the Company assets. Further evidence was submitted on 8 February 2011 and the revised date for the oral presentation before the District Court of Reykjavik is 28 February 2011.

The Company's claim against KHF was rejected by the Winding Up Committee and has been referred to the District Court of Reykjavik for a decision. Our claim was rejected on two grounds:

- KHF do not recognize 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 the board was not aware of it.
- They believe 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 view of the 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 recent case in the Supreme Court of Iceland which reinforces that view. As noted above we have been notified provisionally that the case will be heard on 28 February 2011, however, other similar cases are currently before the Courts in Iceland and it is possible that the case will be further postponed until judgments on those cases have been determined. Both sides will have the right of appeal to the Supreme Court of Iceland. The timetable for such an appeal is not clear but, if an appeal were made, it could easily be another year before a final decision would be handed down.

### **3 Report on the Liquidation for the period from 10 July 2010 to 9 January 2011**

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The Winding Up Committee have indicated that they will not be in a position to make any distributions until substantially all cases referred to Court have been decided upon. This is frustrating, however it does make sense given the high volume of claims which are in dispute either over the amount of claim or the level of priority. The Chairman of the Winding Up Committee stated that this could take "three to four years" before the first distribution.

The Joint Liquidator attended further creditors meetings on 21 September 2010 and 3 December 2010 and we will continue to attend these meetings whilst continuing to gather evidence with which to support our claim.

#### **8. Other legal matters - Lighthouse Living Limited**

This case concerns a situation where an individual with a claim in the liquidation is seeking set-off against a loan from the bank to a company. The decision in the Isle of Man High Court was that set-off should be applied, however, we believe that this judgment is to the detriment of creditors as a whole and we have lodged an appeal against the decision. We have been advised that the appeal will be heard on 30 & 31 March 2011.

#### **9. Investigation**

The JLs have conducted an investigation into the circumstances leading up to the directors' decision to seek a winding up order in respect of the Company in October 2008, and the contributory factors. A report on the investigation and potential follow up actions was made to the COI on 12 November 2010. Further information cannot be disclosed at this stage due to the risk of prejudicing further proceedings.

#### **10. Re-direction/Re-assignment of claims**

The Scheme Manager of the DCS has maintained his position that he does not intend to allow re-direction of surplus payments in the DCS at the present time due to the risk of error.

The JLs have received and accepted a number of requests from creditors to re-direct dividend payments to a third party.

A number of depositors have enquired about the possibility of re-directing or re-assigning of claims made through the Depositors Compensation Scheme (DCS). The process of re-assigning a claim from the DCS requires the JLs to substitute the name of the person on the Proof of Debt for that of the DCS Scheme Manager. Our legal advice is that this process requires a Court order and it has been agreed with the COI that the Court will be approached for directions at an appropriate time to be agreed.

The JLs have so far received one Court Order in respect of a re-assignment, which is unrelated to the DCS.

### **3 Report on the Liquidation for the period from 10 July 2010 to 9 January 2011**

#### 11. Creditors

##### 11.1 Amounts due to preferential creditors

Preferential creditors were paid in full in June 2010. The total amount paid was £281,112.99. All preferential creditor amounts were due to the Isle of Man Government, and represented payroll taxes and European Union Savings Directive taxes deducted prior to the liquidation.

##### 11.2 Amounts owed to unsecured creditors

Unsecured creditors are estimated at £905.4m. We have admitted 7,919 claims (including DCS claims) with an admitted value of £888.5m in the calculation of the fourth interim dividend. Claims of £15.0m have been received but not yet admitted, and there are £1.9m of potential claims which are anticipated but not yet received. All anticipated claims are reserved for in the dividend calculations.

#### 12. Costs and operational issues

##### 12.1 Costs of the Joint Liquidators

The time costs of the JLS accrued between 27 May 2009 and 31 December 2010 are £5.4m net of VAT. A more detailed summary of costs from 27 May 2009 to 31 December 2010 is in Section 4 of this report. The fees of the JLS are subject to the approval of the COI, and £6.7m has been paid to PwC by 31 December 2010. £642k (net of VAT) of pre 27 May 2009 costs are still unpaid pending the approval of the Court. £1,329k (net) for the period 27 May 2009 to 31 December 2010 is unpaid at 31 December 2010.

##### 12.2 Legal and other professional costs

The details of legal costs of £3.3m included in legal and other professional costs, totalling £3.5m (net) to 9 January 2011 are as follows:-

Cains have been engaged to provide advice in the progress of the liquidation, including applications made to the Manx Courts, advice on the constitution and appointment of the COI and throughout the setting up and execution of the dividend distributions (including EPS & DCS interplays). They have also acted in the recovery of assets, particularly loan book assets and also in the preparation and submission of the Iceland claim. They have also provided advice and assistance in the investigation into the circumstances surrounding the Company's winding up. Total costs paid to 9 January 2011 are £973.4k.

### **3 Report on the Liquidation for the period from 10 July 2010 to 9 January 2011**

Nabarro have been heavily involved in the negotiations with KSFUK over our claim, and with various aspects of UK law affecting the liquidation, including the Bank of England case. Total costs paid to 9 January 2011 are £1.1m. The decrease in costs paid to Nabarro from the Report to Creditors for the period from 27 May 2009 to 9 July 2010 of £1.2m is due to the JLs being awarded costs of £287k in the Bank of England case.

Lovells advised on the Scheme of Arrangement. Total costs paid to 9 January 2011 are £252.7k.

Reed Smith have assisted in the investigation. Total costs paid to 9 January 2011 are £411.6k.

Jonsson & Hall are the Icelandic lawyers advising on the KHF claim. Total costs paid to 9 January 2011 are £73.9k.

Teitelbaum & Baskin assisted in the determination of claims process. Total costs paid to 9 January 2011 are £14.5k.

Total counsel fees incurred were £476k.

Other professional fees of £0.2m are in respect of loan asset valuations carried out on behalf of the JLs.

#### **12.3 Employee costs**

At 9 October 2008, the Company employed 64 staff. As at the date of this report, 8 former Company staff continue to be employed in assisting the JLs. During the liquidation the JLs have reviewed staffing requirements regularly and redundancies have been made. The employees retained have provided and continue to provide assistance in the following areas:

- Administration and realisation of the loan book;
- Assisting in respect of disputes relating to the CD's, the Repo Agreement and the collateral shares;
- Assisting in respect of litigation;
- Assisting in reconciling the positions with KSFUK and KHF;
- Dealing with creditors queries including telephone calls, emails and letters;
- Keeping the Company's records up to date;
- Logging of Proof of Debts and assisting in the adjudication process;
- Liaison with the DCS Scheme administrator;
- Maintenance of IT systems;
- Assisting in the dividend payment process.



### **3 Report on the Liquidation for the period from 10 July 2010 to 9 January 2011**

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The employees' historical knowledge of the Company and its systems has been essential in a number of areas and as such it has been necessary to incentivise employees to remain with the Company in the short term. Employee costs for the period under review total £0.4m, reflecting the number of staff remaining in place at the end of 2010.

#### **12.4 Premises rent and other costs**

The Company occupies half a floor at Samuel Harris House, 5-11 St. Georges Street, Douglas, Isle of Man, under a re-negotiated lease which runs until 2012 at a substantially reduced annual cost.

Other costs include IT costs such as software licences and maintenance, and other operating costs such as utilities.

#### **12.5 VAT**

VAT of £1.1m has been recovered over the period since 8 October 2008. The Company is partially exempt for VAT purposes.

#### **12.6 Estimated future costs**

For the purposes of calculating the estimated dividend range we have included a figure of £23.3m for total costs of the liquidation, including liquidators fees, legal costs and operational costs over the life of the liquidation.

We would however stress that this figure assumes the detailed investigation is completed and results in litigation being pursued to a full court hearing against one or more parties. In reality, if successful in pursuing litigation a claimant would be entitled to a reasonable proportion of their costs being met.

The initial estimate of costs in the liquidation was based on the information available at the time, and as progress has been made a clearer picture of likely outcomes has become apparent. The revised estimate can only ever be an estimate, but having distributed 61.1p to creditors in four dividends, with a further dividend likely shortly, the Joint Liquidators are now in a better position to estimate future costs in the process.

### **3 Report on the Liquidation for the period from 10 July 2010 to 9 January 2011**

During the period from 27 May 2009 to 31 December 2010, the following costs have been incurred over and above the original estimates in respect of the liquidation process.

	<b>Legal costs</b>	<b>PwC time costs</b>	<b>Total costs</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Kaupthing HF claim	95	153	248
KSF UK claim	1,100	237	1,337
Investigation costs	442	398	840
Loan recoveries	97	300	397

The Joint Liquidators have also continued to employ former KSF staff for longer than originally anticipated to assist in the collection of outstanding loans, administer the claims process and provide a point of contact for creditors. This has also resulted in the need to continue to occupy part of the bank's original offices.

The Joint Liquidators anticipated a quicker resolution of the claim against KSFUK but a number of legal issues have arisen which have resulted in protracted negotiations and have delayed the signing of the settlement agreement.

The investigation continues, as does the pursuit of Kaupthing HF under the parental guarantee, and future predictions for these costs are just estimates.

The Joint Liquidators have agreed a dividend strategy with the COI and propose to pay further dividends each time 5p in the £ becomes distributable. Originally one dividend per year was budgeted for in the costs estimate, however two were paid in 2009 and two in 2010. It is likely that two dividends will be paid in 2011, based on scheduled loan collections. Although each distribution adds further costs, it ensures that money is distributed to creditors more quickly.

In a number of loan cases, costs of recovering the amount borrowed have been incurred over and above our initial expectations. Where the loan agreement specifies that costs are rechargeable to the borrower, and there are sufficient funds on the realisation of the asset, we have recharged these costs to the borrower. Inevitably there are circumstances where we are unable to recover the costs. There are no provisions in the loan agreement to recover PwC time or time spent by former KSF staff in the recovery process. An estimate of such costs incurred to date is shown in the above table.

### **3 Report on the Liquidation for the period from 10 July 2010 to 9 January 2011**

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#### 13. Estimated Dividend Range

For indicative purposes only, we have estimated that the dividend range may be between 91.4p in the £ and 97.7p in the £. We have not allowed for any return in respect of the parental guarantee. Clearly any recovery from this source will impact the final dividend to creditors. The estimate also does not allow for any potential recoveries arising out of the ongoing investigation into the Company's affairs.

#### 14. On-going strategy for the liquidation and other matters

The JLs intend to concentrate on the following areas going forward:

- Continuing to oversee the collection of the loan book;
- Pursuing a claim against KHF under the parental guarantee;
- Declaration and payment of subsequent dividends when funds are available;
- Considering further actions against parties identified by the ongoing investigation;
- Consulting closely and regularly with the Committee of Inspection;
- Reporting important information to creditors via website updates.

## 4 Fees of the Joint Liquidators

### Remuneration of the Joint Liquidators for the period 27 May 2009 to 31 December 2010.

The time of the JLs is being charged on a time costs basis and is subject to approval by the COI. At the date of this report the JLs have received £5.7m (net of VAT) in fees for the period 27 May 2009 to 2 April 2010 and £169k (net of VAT) in disbursements. We include overleaf a summary of the time incurred from 27 May 2009 to 31 December 2010. An analysis of time has been submitted to the COI and will be scrutinised by the COI in due course. 80% of fee invoices submitted are paid on presentation, the remaining 20% is subject to the approval of the Court for pre 27 May 2009 costs and the COI for post 27 May 2009 costs. At the date of this report there are still 20% retentions for all pre 27 May 2009 costs and for some post 27 May 2009 costs.

### Narrative of work carried out for the period 9 July 2010 to 31 December 2011

The key areas of work and a broad description of the tasks involved are identified below.

- Strategy and planning issues;
- Communication with depositors and other creditors;
- Team management – team meetings, supervision of team;
- Accounting and treasury – keeping of cash books, reconciliations, investment of funds and review of counterparties;
- Statutory and other compliance – court hearings, regulatory requirements;
- Loan book - day to day monitoring of loan book, collection issues, work around potentially selling the loan book;
- KSFUK – liaison with KSFUK administrators regarding reconciliation issues, progress in administration, receipt of dividends, agreeing claim;
- KHF – liaison with Resolution Committee, submission of claim under parent guarantee, attending meetings in Iceland and London;
- Repo/collateral shares – overseeing legal disputes, meeting regulatory requirements, negotiation and sale of shares;
- Litigation in connection with loan clients;
- Operational issues/suppliers – premises, IT issues, etc.;
- Employee matters – redundancies, employee meetings, payroll agreement, employee claims;
- Depositor reconciliation and claims process – including reconciliation of accounts as at 9 October 2008;
- Depositor queries – written queries by post or by email, telephone calls to JLs, website announcements;
- Creditor distribution planning - setting up of claims and distribution database, meetings with DCS, EPS manager;
- Creditor distributions – fourth interim dividend, reconciling claims with DCS and EPS, catch-up payments, correspondence;
- Tax – Submission of income tax and VAT returns in the Isle of Man.

## 4 Fees of the Joint Liquidators

Liquidation time costs for the period 27 May 2009 to 31 December 2010

	Partner	Director	Senior manager	Manager	Senior Associate	Assistants & Support Staff	Total Hours	Time Cost	Average hourly rate
	H	H	H	H	H	H	H	£	£
Strategy and planning	102.2	76.0	44.5	25.2	23.5	17.9	289.3	113,514	392
Team management	8.3	20.1	101.7	7.6	152.3	4.9	294.8	84,212	286
Accounting and treasury	16.5	13.9	106.9	203.1	2,679.1	988.5	4,007.9	706,626	176
Statutory and other compliance	111.8	75.6	299.5	147.0	1,020.1	165.3	1,819.3	390,110	214
Sale of the loan book discussions interested parties	52.2	88.7	54.0	57.9	94.9	-	347.6	122,437	352
Committee of inspection	245.7	98.3	120.5	-	73.2	151.4	689.0	243,786	354
Creditors Meeting	69.8	-	30.0	3.5	226.8	157.8	487.8	114,299	234
Loan book collections	603.9	85.6	611.3	22.0	22.8	12.3	1,357.9	573,944	423
KSF UK	102.9	240.6	153.6	25.9	22.8	7.0	552.8	237,033	429
Kaupthing hf	199.9	52.0	84.8	7.5	3.3	0.7	348.1	153,113	440
Sister company (SFIM)	4.2	7.8	10.0	-	3.0	-	24.9	9,637	387
Recovery of bank deposits	2.0	-	1.0	-	2.3	-	5.3	1,649	314
Litigation	35.6	21.0	3.7	-	-	6.4	66.7	28,276	424
Ongoing operational issues / suppliers	30.0	-	82.4	12.0	455.3	289.7	869.4	119,933	138
Employee matters, pensions and creditor employee claims	35.0	1.8	81.8	121.5	232.5	18.0	490.6	124,230	253
Depositor claim reconciliation process	94.1	6.1	395.0	524.2	583.5	264.2	1,866.9	507,226	272
Depositor enquiries and correspondence	180.2	18.8	293.8	166.2	544.7	412.2	1,615.9	337,166	209
Other assets	0.8	47.8	16.5	-	1.2	1.5	67.7	26,213	387
Creditor distributions	128.7	12.2	685.1	859.1	2,250.1	1,596.7	5,531.9	918,061	166
Tax	3.2	241.2	35.4	82.7	55.3	25.4	443.1	143,310	323
Forensic investigation	12.0	448.6	3.0	490.6	106.3	349.8	1,410.2	397,950	282
	<b>2,038.9</b>	<b>1,555.6</b>	<b>3,214.3</b>	<b>2,755.8</b>	<b>8,552.9</b>	<b>4,469.7</b>	<b>22,587.1</b>	<b>5,352,725</b>	<b>237</b>
Treasury Early Payment Scheme	-	-	0.5	-	14.2	2.8	17.4	2,026	116

This table has been produced from a spreadsheet which contains detailed formulae which in certain instances produces minor rounding differences. We have not charged travelling time for PwC UK staff travelling to and from the Isle of Man.

## 4 *Fees of the Joint Liquidators*

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### Category 2 disbursements for the period 9 July 2010 to 9 January 2011

In accordance with SIP 9 the JLs have set out their rates for “category 2” disbursements for services provided by their firm. These are set out as follows:-

- Mileage incurred in the Isle of Man: maximum of 40 pence per mile;
- Mileage incurred in the United Kingdom: maximum of 57 pence per mile (up to 2,000cc) or 79 pence per mile (over 2,000cc);
- Photocopying performed in PricewaterhouseCoopers offices located in the United Kingdom: 3 pence per sheet copied (only charged for circulars to creditors and other bulk copying); and
- Faxes sent from PricewaterhouseCoopers Isle of Man: £2 per sheet sent.

All other disbursements are reimbursed at cost.