

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

Joint Liquidators' and Joint Deemed Official
Receivers' progress report to creditors for the
period from 10 January 2012 to 9 July 2012



Highlights at 9 July 2012

- *91.0p in the £ dividends paid to creditors*
- *£850.1m of assets recovered*
- *Loan repayments £56.7m ahead of schedule*
- *Estimated dividend outcome between 97.2p and 99.0p in the £*

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1. Introduction

1. 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 of Kaupthing Singer & Friedlander (Isle of Man) Limited (“the Company”) 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 January 2012 to 9 July 2012;
- a summary of the costs and disbursements incurred by the JLs for the period 27 May 2009 to 1 July 2012 inclusive; and
- a receipts and payments account to 9 July 2012 and an Estimated Outcome Statement.

2. Committee of Inspection (“the Committee”)

- 2.1 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); and
- Peter Wakeham.

- 2.2 The Committee’s role is governed by the Companies Act 1931 (“the Act”) and in the Companies Winding up Rules 1934 (“the Rules”).
- 2.3 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.
- 2.4 Further powers noted in s.184 include the power to pay any class 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 JLs would need the sanction of the Committee for any such settlement).
- 2.5 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 or by the Committee.
- 2.6 The Committee has formally met on five occasions (18 August 2009, 5 November 2009, 29 June 2010, 29 March 2011 and 13 July 2012). There is ongoing dialogue by telephone and email between the JLs and the Committee. The flow of information occurs both ways, with members of the Committee raising points for consideration by the JLs as well as the PwC team providing information to the Committee for review and comment.
- 2.7 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.

3. Dividends Paid and Estimated Dividend Range

- 3.1 The following dividends have been paid to date:

Date dividend paid	p in the £
4 September 2009	24.8
8 December 2009	15.2
9 July 2010	11.1
15 December 2010	10.0
8 April 2011	12.5
11 November 2011	9.6
15 June 2012	7.8
Total	91.0

- 3.2 As set out in Section 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 97.2p in the £ on a low case basis and 99.0p in the £ on a high case basis. It should be noted 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:
- The amount and timing of future dividends paid by Kaupthing Singer & Friedlander Limited (“KSFUK”)
 - Loan book recoveries
 - The claim against Kaupthing hf (“KHF”)
 - The level of final agreed claims in the liquidation
 - The level of future costs of the liquidation
- 3.3 The JLs are 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 a further interim dividend in the region of 3p in the £ to creditors during 2013.

4. **Next report**

- 4.1 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 cover the six month period to 9 January 2013. In the meantime the JLs will 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 or you can also email ksf@iom.pwc.com, or telephone +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 July 2012 and Estimated Outcome Statement

	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 July 2012 £'000	Total Receipts and Payments to 9 July 2012 £'000	Joint Liquidators' estimated outcome			
	Book value	Estimate to realise				High Est. future	Low Est. future	Total High	Total Low
	£'000	£'000				£'m	£'m	£'m	£'m
Cash at bank on appointment	108,916	108,664	115,459	353	115,812	-	-	115.8	115.8
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	337,729	348,161	36.6	29.5	384.8	377.7
Less: Cost of FX hedging (EUR & USD)	-	-	-	(3,218)	(3,218)	-	-	(3.2)	(3.2)
Interest and fee income on loans	-	-	6,960	26,246	33,206	0.7	0.5	33.9	33.7
Collateral shares	-	-	6,271	114,851	121,122	-	-	121.1	121.1
Net balance due from KSFUK	320,722	Unknown	-	179,663	179,663	32.0	23.4	211.7	203.1
Property, equipment and other sundry assets	1,489	142	8	216	224	-	-	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	878	1,526	-	-	1.5	1.5
Total estimated assets	901,016	535,580	158,041	692,029	850,070	69.3	53.4	919.4	903.5

	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 July 2012 £'000	Total Receipts and Payments to 9 July 2012 £'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
Total estimated assets	901,016	535,580	158,041	692,029	850,070	69.3	53.4	919.4	903.5
Less Provisional Liquidators' costs	-	-	-	(3,622)	(3,622)			-	-
Less Liquidators' costs	-	-	-	(6,766)	(6,766)			-	-
Less legal and other professional fees	-	-	(1,024)	(4,384)	(5,408)			-	-
Less employees, rent, utilities and other costs	-	-	(1,712)	(2,808)	(4,520)			-	-
Total costs and expenses	-	-	(2,736)	(17,580)	(20,316)	(3.0)	(3.0)	(23.3)	(23.3)
Estimated total assets available for preferential creditors	901,016	535,580	155,305	674,449	829,754	65.6	49.9	896.1	880.2
Estimated amounts due to preferential creditors	(1,654)	(1,654)	-	(281)	(281)	-	-	(0.3)	(0.3)
Estimated surplus available to ordinary unsecured creditors	899,362	533,926	155,305	674,168	829,473	66.3	50.4	895.8	879.9
Total ordinary unsecured creditors (excluding contingent liabilities)	(896,014)	(896,014)	(905,035)	(905,035)	(905,035)	-	-	(905.0)	(905.0)
Distributions payable			-	(810,431)	(810,431)	(85.4)	(69.5)	(895.8)	(879.9)
Estimated dividend range for ordinary unsecured creditors (indicative)			0.0%	91.0%	91.0%	8.0%	6.2%	99.0p	97.2p
Cash at hand			155,305	(136,263)	19,042	(19.0)	(19.0)	-	-

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 January 2012 to 9 July 2012

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 to 9 July 2012, together with an Estimated Outcome Statement are set out on pages 7 to 8. This shows total receipts for the period 27 May 2009 to 9 July 2012 of £692.0m, and total payments of £17.6m, and a net balance of cash in hand of £19.0m at 9 July 2012. Where cash is held in a currency other than Sterling, this is translated using the close of business rates from the FT on Monday 9 July 2012.

Since 9 January 2012, the following material receipts have occurred:

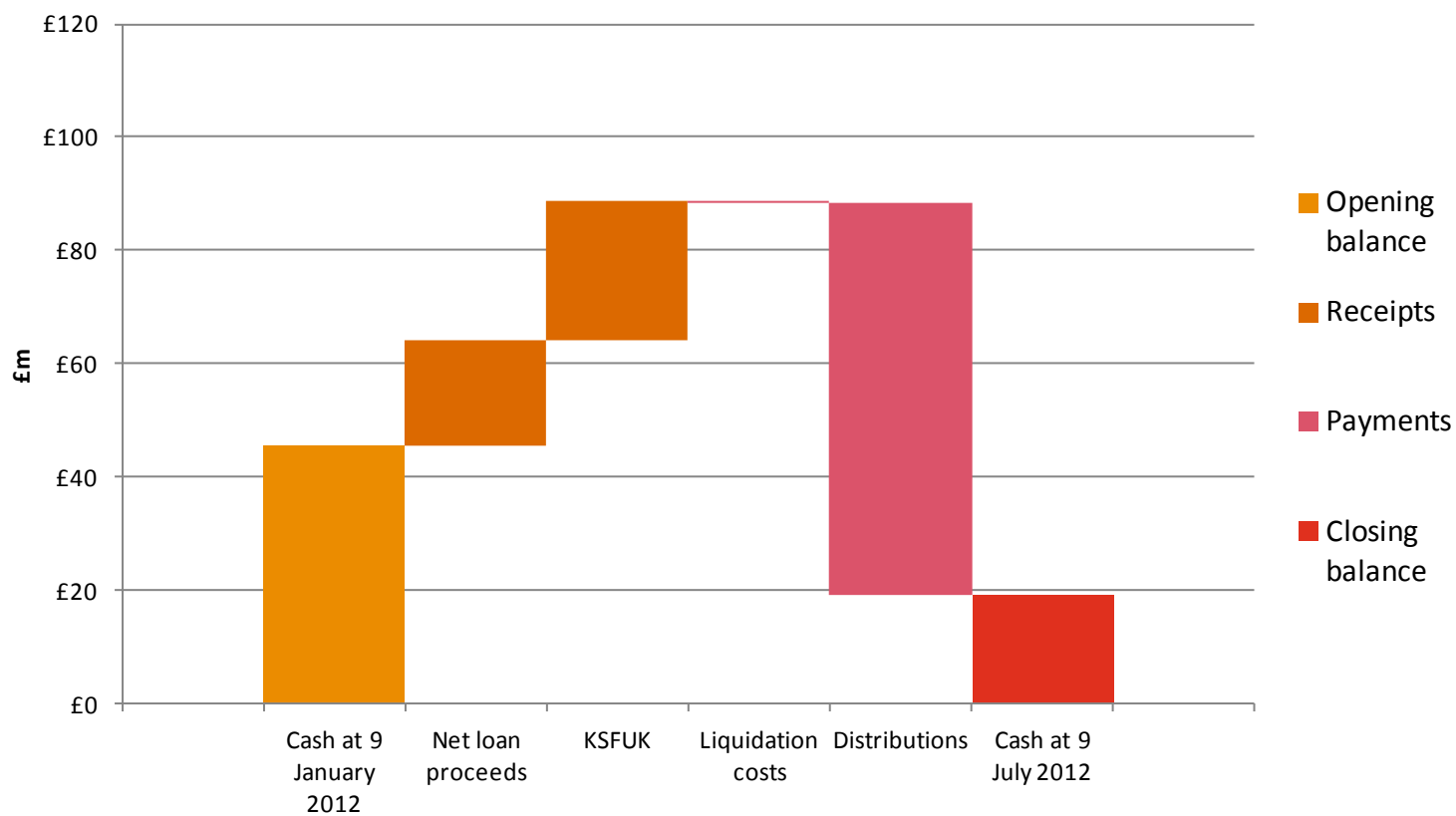
- £17.8m in respect of capital repayments on loans
- £0.7m of interest payments on loan book
- £24.6m dividend from KSFUK

- 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 rated AA- (Standard & Poors long-term rating) or better. Given continuing fluctuations in ratings and perceived risk of individual banks, the funds are invested for short periods only.

3. Comments on Assets and Receipts

3.1 *Cash at bank and cash received in the liquidation since 9 January 2012*
 Cash realised to 9 July 2012 is £850.1m.

Cash bridge - 9 January 2012 to 9 July 2012



4. Advances to customers

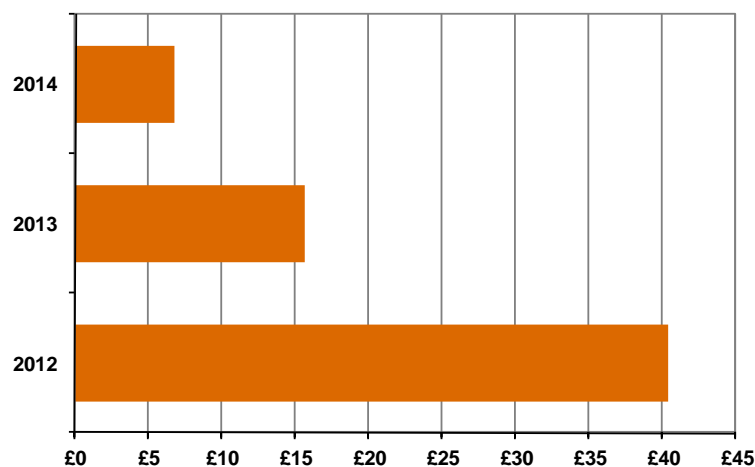
4.1 According to the Directors' Statement of Affairs, as at 9 October 2008 the Company had loans to customers valued at a Sterling equivalent of £416m. This amount did not allow for the operation of set-off or for future interest income. The figures relating to outstanding loans quoted in this report are as at 9 July 2012.

As at 9 July 2012 there are 33 loan facilities remaining, compared to 48 at 9 January 2012, with an outstanding capital value of a Sterling equivalent of £62.7m. Several loans are denominated in foreign currency. Between 9 January 2012 and 9 July 2012, £0.7m has been collected on loans in respect of interest payments due and £17.8m 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 all these loans. As a result, all outstanding loans are now due to be repaid by March 2014.

4.2 A significant proportion 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 2014 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:

Run Off by Year (GBP eq £m)
Data extracted as at 09 July 2012



Loans by size		
Size band	Number	Amount £m
< £2.5m	19	19.33
>= £2.5m < £5m	3	9.10
>= £5m < £7.5m	-	-
>= £7.5m < £10m	1	6.44
>= £10m < £12.5m	-	-
>= £12.5m < £15m	2	27.82
Total	25	62.69

(based on number of **relationships** rather than facilities)

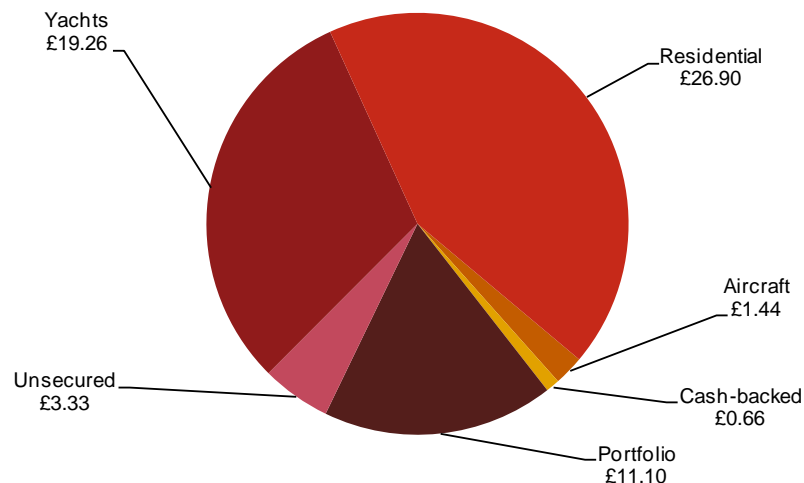
- 4.3 The Company's loan book continues to be actively managed by the JLs. The strategy is to run off the loan book over its natural life, to maximise the return to creditors. A panel of banking institutions assists borrowers in re-financing their loans as terms expire, and any borrower seeking to re-finance is put in touch with these banks at an early stage on request. Loan to value ratios are kept under constant review and any potential or actual covenant breaches are immediately considered 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. The JLs are mindful of foreign properties used as security for loans and updated valuations are sought for those properties where the JLs become aware of corrections in the local market.
- 4.4 The JLs have made significant progress in managing repayment of the loans due to the bank. At 9 October 2008, there were 180 loans outstanding, with a Sterling value of £416.0m (at 9 October 2008 exchange rates). Between 9 October 2008 and 9 July 2012, 137 loans with a value of £296.2m were due to be repaid. Actual loan receipts for the period were £352.9m from 147 loans leaving 33 loans outstanding at 9 July 2012. The means by which loans have been repaid are as follows:-

Overall summary	Number of facilities	Value £m	%
Loan Book at 08/10/2008	180	416.0	100.0%
Capital Repaid	(147)	(348.1)	-83.7%
Set-off	-	(15.2)	-3.7%
Written-off	-	(3.4)	-0.8%
FX Fluctuation	-	13.4	3.2%
Loan Book at 09/07/2012	33	62.7	15.1%

Sources of repayments	Amount £m
Refinancing	148.3
Borrowers' own resources	119.6
Enforcement action	80.2
Total	348.1

- 4.5 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 all 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 different and a combination of short maturity extensions, increased interest rates and as a last resort, legal action have been utilised. The Committee is informed of any such pending legal action and approves the action before commencement.

Remaining Loans by Security Type (GBP eq £m)
Data extracted as at 09 July 2012



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 high quality.

Approximately 43% of the loan portfolio relates to property, 31% to yachts, to 18% portfolios and 2% to aircraft. The property portfolio is further considered below. There are three yacht loans and two aircraft loans remaining in the portfolio. One aircraft has been re-possessed by the JLs and sold after the borrower fell behind the contracted repayment schedule.

For the purposes of providing indicative amounts in the Estimated Outcome Statement we have used capital loan values at 9 July 2012 plus future interest income converted into Sterling as at 9 July 2012 closing exchange rates. Where we have concerns over the recoverability of loans, specific provisions have been applied. For the remainder, 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 July 2012 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.

4.6 *Ten largest loan relationships*

We have periodically published details of the ten largest loan relationships by value. At 9 October 2008 the ten largest loan relationships accounted for £216m of the outstanding loans total of £416m, being 52% by value. As at 9 July 2012, the ten largest loan relationships accounted for £51.6m out of the outstanding loans total of £62.7m, being 82% by value. The percentage represented by the ten largest loan relationships is expected to rise as the loan book falls both in outstanding amounts and the number of loans to be repaid.

At 9 July 2012, six of the original ten largest loan relationships have been fully repaid and four have been partly repaid realising £170.9m.

4.7 *Update regarding non-performing loans*

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 as a result of a failure to pay scheduled interest or capital amortisation, 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 regularly by the JLs.

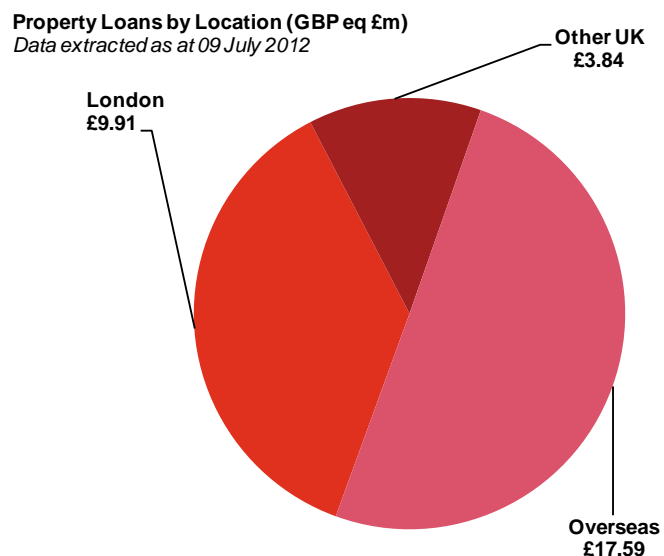
A smaller number of borrowers have failed to meet capital or interest repayment schedules. Where this has occurred, the Joint Liquidators have sought to protect and preserve the value of the loan assets. The following is a short summary of those cases which we are able to disclose.

There are currently two loans where outstanding amounts remain after we have enforced the Bank's security and sold the underlying assets. It is not yet clear how much of the outstanding balances on these loans will be recoverable, however the shortfalls are not significant.

There are two further loans which have not been repaid by the contractual maturity dates and where we have appointed, or are in the process of appointing, receivers over UK properties under the Law of Property Act.

4.8 *Loans secured on property*

37% of property loans are secured on property in London, 13% are secured on other UK property and 50% are secured on property located outside the UK. London and the South East of England region appear to have suffered less from the UK recession and valuations have moved ahead since October 2008. 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.

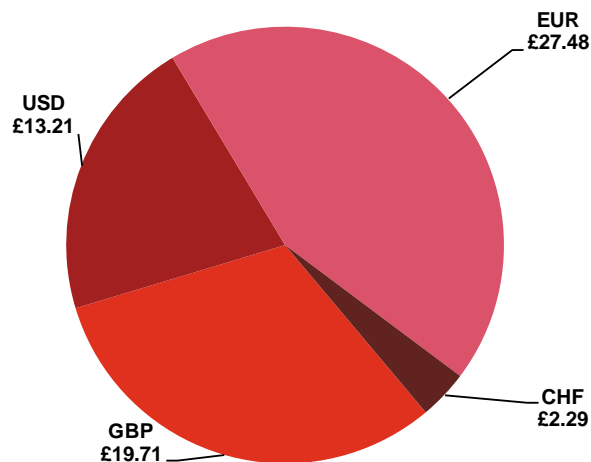


Independent indices are compiled in respect of London property valuations and it is encouraging to note that London properties have maintained their values since October 2008. However, some overseas property markets are illiquid and realisable values may have fallen significantly.

An active dialogue is maintained with all borrowers to ensure interest payments are received, that insurance held over the properties is up to date and the Company's interest is noted on the policy.

4.9 Foreign currency loans and hedging of receipts

Loans by Currency (GBP eq £m)
Data extracted as at 09 July 2012



Significant receipts are due in Euro or United States Dollars and both these currencies have appreciated against Sterling since 9 October 2008. This has resulted in a rise in the sterling equivalent value of the loans.

There is a gain in the value of the loan portfolio as a result of foreign exchange movements of £13.4m at 9 July 2012. We have purchased currency options to coincide with scheduled repayment dates for a number of the largest loans denominated in Euro and US Dollars. These options are kept under constant review by the liquidation team.

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 exchange the currency at the spot market rate and add the amount to the sterling cash available for distribution. The JLs continue to monitor the exchange rate for the Swiss Franc part of the portfolio, and will take advantage of opportunities to protect significant gains in the value of these assets as appropriate.

The tables below show a potential range of loan receipts, demonstrating how use of the options will result in higher Sterling receipts if the Euro and/ or US Dollar weaken against Sterling. All options give the JLs the right to sell Euro or US Dollars at an agreed rate at the maturity date of the relevant loan. The rates as at 9 July 2012 are highlighted.

USD/GBP rate	Hedged value (£'000)	Unhedged value (£'000)	Hedging gain (£'000)
1.5000	13,669	13,669	-
1.5523	13,209	13,209	-
1.6000	12,830	12,815	15
1.7000	12,103	12,061	42
1.8000	11,458	11,391	67

EUR/GBP rate	Hedged value (£'000)	Unhedged value (£'000)	Hedging gain (£'000)
1.1000	31,525	31,525	-
1.2000	30,275	28,898	1,378
1.2621	29,660	27,476	2,184
1.3000	29,461	26,675	2,786
1.4000	28,987	24,769	4,218
1.5000	28,577	23,118	5,459

The column titled 'Hedged Value' shows the Sterling value of loans incorporating the effect of the hedging options, while the 'Unhedged value' column shows what the value would have been if the hedges were not in place. The 'Hedging gain' column shows the benefit of the hedge at that exchange rate. For example, if the Euro fell from £1=€1.2621 to £1=€1.40, the unhedged value of the Euro denominated loans would fall by £2,707k (£24,769k- £27,476k). However, the effect of the hedges is to reduce the foreign exchange loss in that circumstance to £673k (£28,987k - £29,660k).

4.10 *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 still 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 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.

4.11 *Monthly updates*

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 £179.7m to the JLS representing 73p in the £ on our agreed claim of £246.1m. A dividend of 10p was paid on 2 May 2012. Their latest estimate is that the total dividend that they will pay in due course may be in the range of 82.5 - 86.0p in the £.

5.2 *Summary of KSFUK Claim:-*

The position can be summarised as follows:

Detail	£m	£m
Cash deposits	346.1	
ISDA	2.1	
GMRA Agreement	185.4	
Certificates of Deposit (CD's)	53.0	
Gross claim		586.6
Less:		
Cash Received from CD's	(53.0)	
Security Valuation under the GMRA (repo)	(142.1)	(195.1)
Claim submitted		391.5
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)	(145.4)
Agreed claim on which dividend will be paid		246.1

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 of £246.1m and have estimated that 86.0p in the £ is paid by KSFUK. On a low case basis we have taken the claim amount of £246.1m and have estimated that 82.5p in the £ is paid by KSFUK.

5.4 *KSFUK Creditors' Committee*

On 8 March 2011 Mike Simpson was appointed to the Creditors' Committee of KSFUK. This enables a valuable insight into the administration and the calculation of their estimated outcome. However, he has had to sign a confidentiality agreement and so there are limitations on the information that can be shared.

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 as the legal issues surrounding these balances are complex and, to an extent, unprecedented in Icelandic Law.

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's assets and the accrued rights of the creditors of the Company to interest on their claims under Isle of Man insolvency law.

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

- KHF did 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 believed if the claim had any validity at all, then it could only be as an ordinary unsecured claim and not as a priority claim.

We appealed to the Supreme Court of Iceland against these decisions. We have been advised by the Supreme Court of Iceland that our appeal has been upheld and, therefore, the validity of the parental guarantee has been proven. However, the claim will be an ordinary unsecured claim as opposed to a priority claim. The decision of the Supreme Court is final and cannot be appealed.

This is clearly a significant victory and is a major step forward in our attempt to recover money from the parent group for the benefit of creditors. However, as you are aware, KHF is insolvent, so this decision does not mean that the value of our claim is going to be paid in full, or that creditors are guaranteed to be repaid in full. Indeed the Winding Up Committee has not yet given any indication as to the likely recovery and it may be some time before they are able to do so.

Those creditors of KHF who objected to the validity of the Company's claim may also seek to challenge the value of the claim, so it may be some time before the value is finally agreed. The JLs are in discussion with KHF over the amount of the claim that will be admitted for dividend purposes.

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. We believed that this judgment was to the detriment of creditors as a whole and we lodged an appeal against the decision. The appeal was heard on 30 & 31 March 2011 and was successful. The Respondents have appealed to the Privy Council, which is the final Appeal Court for the Isle of Man. We await further details from the Privy Council as to when the appeal will be heard.

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. Reports on the investigation and potential follow up actions have been made to the Committee of Inspection. 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 Depositors Compensation Scheme ("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 claims made through the 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 from that of the DCS Scheme Manager. Our legal advice is that this process requires a Court Order and it has been agreed with the Committee of Inspection that the Court will be approached for directions at an appropriate time to be agreed.

The JLs have so far received three Court Orders in respect of re-assignments, which are unrelated to the DCS.

11. Creditors

11.1 *Amounts due to preferential creditors*

Preferential creditors were paid in full in June 2010. The total amount paid was £281k. 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 £905.0m. We have admitted 8,299 claims (including DCS claims) with an admitted value of £891.4m in the calculation of the seventh interim dividend. Claims of £12.1m have been received but not yet admitted, and there are £1.5m 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 30 March 2012 are £7.2m net of VAT. A more detailed summary of costs from 27 May 2009 to 30 March 2012 is in Section 4 of this report. The fees of the JLS are subject to the approval of the Committee, and £6.5m net of VAT has been paid to PwC by 9 July 2012. All costs incurred pre 27 May 2009, including fees of £3.0m net of VAT have been paid following the approval of the Court. An amount of £755k net of VAT for the period 27 May 2009 to 30 March 2012 is unpaid as at 9 July 2012.

12.2 *Legal and other professional costs*

The details of legal and other professional costs, totalling £4.6m, net of VAT, to 9 July 2012 include legal costs of £4.3m, net of VAT, 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 Committee 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. Additionally, they also provided advice and assistance in the investigation into the circumstances surrounding the Company's winding up in 2008. Total costs paid to 9 July 2012 are £1.4m with a further £281.8k in respect of counsel fees.

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 and action against borrowers. Total costs paid to 9 July 2012 are £1.8m with a further £248.0k in respect of counsel fees.

Reed Smith has assisted in the investigation. Total costs paid to 9 July 2012 are £530.3k with a further £32.1k in respect of counsel fees.

Jonsson & Hall are the Icelandic lawyers advising on the KHF claim and subsequent court appearances and appeals. Total costs paid to 9 July 2012 are £300.0k.

Pestalozzi are Swiss lawyers who advised on the recovery of funds. Total costs paid to 9 July 2012 are £21.3k. No further costs are anticipated.

Teitelbaum & Baskin assisted in the determination of claims process. Total costs paid to 9 July 2012 are £14.5k. No further costs are anticipated.

There are miscellaneous legal fees attributed to another eight firms for a total of £50.2k with a further £12.2k in respect of counsel fees.

In total counsel fees incurred are £574.2k.

Other professional fees of £0.3m are mostly in respect of loan asset valuations carried out on behalf of the JLs and disposal costs in relation to the realisation of assets held as security.

12.3 *Employee costs*

At 9 October 2008, the Company employed 64 staff. The four remaining former Company staff contracts expired on 30 June 2012.

12.4 *Premises rent and other costs*

The Company occupied half a floor at Samuel Harris House, 5-11 St. Georges Street, Douglas, Isle of Man, under a re-negotiated lease at a substantially reduced annual cost. The lease expired on 12 August 2012 and from now on the liquidation will be run from the offices of PwC at Sixty Circular Road, Douglas, Isle of Man.

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

12.5 *VAT*

VAT of £1.6m has been recovered over the period since 9 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 stress that this estimate includes expected administrative costs and other actions as agreed with the Committee. Extraordinary events in the future may result in a revision of this estimate.

13. **Estimated Dividend Range**

For indicative purposes only, we have estimated that the dividend range may be between 97.2p in the £ and 99.0p 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 with the Committee
- Reporting important information to creditors via website updates

4. Fees of the Joint Liquidators

1. Remuneration of the Joint Liquidators for the period

- 1.1 The time of the JLs is being charged on a time costs basis and is subject to approval by the Committee. At the date of this report the JLs have received £9.5m (net of VAT) in fees and £225k, net of VAT, in disbursements for the period 9 October 2008 to 30 March 2012. The fees relating to the period of provisional liquidation have been through the arbitration process and have been approved by the Court and paid. Total fees paid in relation to this period were £3.0m, net of VAT. The remaining £6.5m, net of VAT, of fees paid relate to the period 27 May 2009 to 30 March 2012. Since 27 May 2009, 80% of fee invoices submitted are paid on presentation and the remaining 20% are subject to the approval of the Committee. At the date of this report there are 20% retentions outstanding for some costs incurred in the period 3 April 2010 to 30 March 2012, of £755k, net of VAT, as well as the costs for the period 31 March 2012 to 1 July 2012 not yet billed.

We include overleaf a summary of the time incurred from 27 May 2009 to 30 March 2012.

2. Description of work carried out during the period

- 2.1 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 – book keeping, reconciliations, accounting records
- Treasury – cash management, 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
- KSFUK – liaison with KSFUK administrators regarding progress of administration, receipt of dividends
- KHF – liaison with Resolution Committee and Winding Up Committee, submission of claim under parent guarantee, attending meetings in Iceland and London
- Litigation in connection with borrowers
- Operational issues/suppliers – premises, IT issues, etc.
- Employee matters – payroll, etc
- Depositor reconciliation and claims process – evaluation of claims, reconciliation and review of claims data, admission and rejection of claims
- Depositor queries – written queries by post or by email, telephone calls to JLs, website announcements
- Creditor distributions – distribution planning, seventh interim dividend payment, reconciling claims with DCS and EPS, catch-up payments
- Tax – Submission of income tax and VAT returns in the Isle of Man

3. Liquidation time costs for the period 27 May 2009 to 30 March 2012

	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	117.0	85.5	65.0	32.4	45.0	21.2	366.1	137,673	376
Team management	9.8	5.3	111.2	26.1	178.1	13.4	343.8	89,346	260
Accounting	14.6	14.4	58.4	23.0	2,665.2	1,083.3	3,858.9	534,048	138
Treasury	8.5	0.7	70.7	300.2	826.7	434.3	1,641.1	439,218	268
Statutory and other compliance	126.8	75.9	400.9	202.5	1,429.4	249.2	2,484.7	504,103	203
Sale of the loan book discussions interested parties	52.2	195.7	54.0	191.5	94.9	-	588.2	237,269	403
Committee of inspection	300.4	132.4	128.0	10.3	171.8	208.7	951.7	308,817	325
Creditors Meeting	69.8	-	30.0	3.5	226.8	157.8	487.8	114,299	234
Loan book collections	1,105.3	87.6	1,089.1	33.5	85.7	26.6	2,427.8	1,025,830	423
KSF UK	136.5	293.2	166.0	25.9	25.6	7.0	654.1	280,978	430
Kaupthing hf	290.9	59.7	138.0	123.3	37.8	6.1	655.7	248,929	380
Sister company	4.7	7.8	10.0	-	3.0	-	25.4	9,899	390
Recovery of bank deposits	2.4	-	2.5	-	2.8	-	7.7	2,478	323
Litigation	47.8	21.0	3.7	-	-	6.5	79.0	36,640	438
Ongoing operational issues / suppliers	80.5	-	142.0	59.2	709.7	910.0	1,901.3	245,940	129
Employee matters, pensions and creditor employee claims	37.3	1.8	89.3	124.5	269.9	21.8	544.6	133,693	246
Depositor claim reconciliation process	119.9	6.1	425.2	662.7	627.7	286.1	2,127.6	564,428	265
Depositor enquiries and correspondence	332.6	21.9	440.2	722.2	854.9	561.9	2,933.5	618,963	211
Other assets	4.1	-	18.0	1.5	1.4	1.5	26.5	8,947	338
Creditor distributions	176.3	12.2	848.4	1,522.0	2,386.0	2,229.2	7,174.1	1,171,640	163
Tax	12.6	263.2	99.7	83.2	93.9	28.1	580.6	185,402	319
Forensic investigation	12.0	495.3	3.0	524.2	106.3	351.8	1,492.5	436,577	293
Write-offs	-	(107.0)	(23.9)	(156.3)	(257.2)	(23.4)	(567.8)	(179,453)	316
Total	3,061.8	1,672.4	4,369.3	4,515.2	10,585.3	6,580.9	30,785.0	7,153,663	232
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 Category 2 disbursements for the period 27 May 2009 to 30 March 2012

4.1 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 PwC offices located in the United Kingdom: 3 pence per sheet copied (only charged for circulars to creditors and other bulk copying)
- Faxes sent from PwC Isle of Man: £2 per sheet sent

4.2 All other disbursements are reimbursed at cost.