

***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 2014 to 9 July 2014



## ***Highlights at 9 July 2014***

- *95.8p in the £ dividends paid to creditors*
- *£910.5m of assets recovered*
- *92.1% of loan book recovered*
- *Estimated dividend outcome between 99.0p and 99.6p in the £*

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## ***Section***

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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 2014 to 9 July 2014;
- a summary of the costs and disbursements incurred by the JLs for the period 27 May 2009 to 9 July 2014 inclusive; and
- a receipts and payments account to 9 July 2014 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, now represented by Joly Hemuss);
- 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 six occasions and 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
28 June 2013	4.8
<b>Total</b>	<b>95.8</b>

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 99.0p in the £ on a low case basis and 99.6p 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 2p in the £ to creditors during 2014.

#### 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 2015. 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](mailto: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 2014 and Estimated Outcome Statement*

	Summary of the Directors' Statement of Affairs as at 9 October 2008		Receipts and Payments 9 October 2008	Receipts and Payments 27 May 2009	Total Receipts and Payments to 9 July 2014	Joint Liquidators' estimated outcome			
	Book value	Estimate to realise	to 26 May 2009	to 9 July 2014	to 9 July 2014	High Est. future	Low Est. future	Total High	Total Low
	£'000	£'000	£'000	£'000	£'000	£'m	£'m	£'m	£'m
Cash at bank on appointment	108,916	108,664	115,459	629	116,088	-	-	116.1	116.1
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	372,867	383,299	2.8	1.5	386.1	384.8
Less: Cost of FX hedging (EUR & USD)	-	-	-	(2,038)	(2,038)	-	-	(2.0)	(2.0)
Interest and fee income on loans	-	-	6,960	29,045	36,005	-	-	36.0	36.0
Collateral shares	-	-	6,271	114,851	121,122	-	-	121.1	121.1
Net balance due from KSFUK	320,722	Unknown	-	200,582	200,582	12.3	8.6	212.9	209.2
Property, equipment and other sundry assets	1,489	142	8	225	233	-	-	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	989	1,637	-	-	1.6	1.6
<b>Total estimated assets</b>	<b>901,016</b>	<b>535,580</b>	<b>158,041</b>	<b>752,461</b>	<b>910,502</b>	<b>15.1</b>	<b>10.1</b>	<b>925.6</b>	<b>920.6</b>

	Summary of the Directors' Statement of Affairs as at 9 October 2008		Receipts and Payments 9 October 2008 to 26 May 2009	Receipts and Payments 27 May 2009 to 9 July 2014	Total Receipts and Payments to 9 July 2014	Joint Liquidators' estimated outcome			
	Book value	Estimate to realise				High Est. future	Low Est. Future	Total High	Total Low
	£'000	£'000	£'000	£'000	£'000	£'m	£'m	£'m	£'m
<b>Total estimated assets</b>	<b>901,016</b>	<b>535,580</b>	<b>158,041</b>	<b>752,461</b>	<b>910,502</b>	<b>15.1</b>	<b>10.1</b>	<b>925.6</b>	<b>920.6</b>
Less Provisional Liquidators' costs	-	-	-	(3,622)	(3,622)			-	-
Less Liquidators' costs	-	-	-	(8,629)	(8,629)			-	-
Less legal and other professional fees	-	-	(1,024)	(5,349)	(6,373)			-	-
Less employees, rent, utilities and other costs	-	-	(1,712)	(2,740)	(4,452)			-	-
<b>Total costs and expenses</b>	<b>-</b>	<b>-</b>	<b>(2,736)</b>	<b>(20,340)</b>	<b>(23,076)</b>	<b>(1.2)</b>	<b>(1.2)</b>	<b>(24.3)</b>	<b>(24.3)</b>
<b>Estimated total assets available for preferential creditors</b>	<b>901,016</b>	<b>535,580</b>	<b>155,305</b>	<b>732,121</b>	<b>887,426</b>	<b>13.9</b>	<b>8.9</b>	<b>901.3</b>	<b>896.4</b>
Estimated amounts due to preferential creditors	(1,654)	(1,654)	-	(281)	(281)	-	-	(0.3)	(0.3)
<b>Estimated surplus available to ordinary unsecured creditors</b>	<b>899,362</b>	<b>533,926</b>	<b>155,305</b>	<b>731,840</b>	<b>887,145</b>	<b>13.8</b>	<b>8.9</b>	<b>901.0</b>	<b>896.1</b>
Distributions paid			-	(861,942)	(861,942)	(39.1)	(34.1)	(901.0)	(896.1)
Cash at hand			155,305	(130,103)	25,202	(25.2)	(25.2)	-	-
<b>Estimated dividend range for ordinary unsecured creditors (indicative)</b>			<b>0.0%</b>	<b>95.8p/£</b>	<b>95.8p/£</b>	<b>3.8p/£</b>	<b>3.2p/£</b>	<b>99.6p/£</b>	<b>99.0p/£</b>
<b>Total ordinary unsecured creditors (excluding contingent liabilities)</b>	<b>(896,014)</b>	<b>(896,014)</b>	<b>(905,035)</b>	<b>(905,035)</b>	<b>(905,035)</b>	<b>-</b>	<b>-</b>	<b>(905.0)</b>	<b>(905.0)</b>

*This table has been produced from a spread sheet which contains detailed formulae which in certain instances produces minor rounding differences*



### **3. *Report on the Liquidation for the period from 10 January 2014 to 9 July 2014***

#### **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 2014, 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 2014 of £752.4m, total payments of £20.3m, and a net balance of cash in hand of £25.2m at 9 July 2014. Where cash is held in a currency other than Sterling, this is translated using the close of business rates from the FT on Wednesday 9 July 2014.

Since 9 January 2014, the following material receipts have occurred:

- £5.7m in respect of capital repayments on loans
- £1.0m of interest payments on loan book

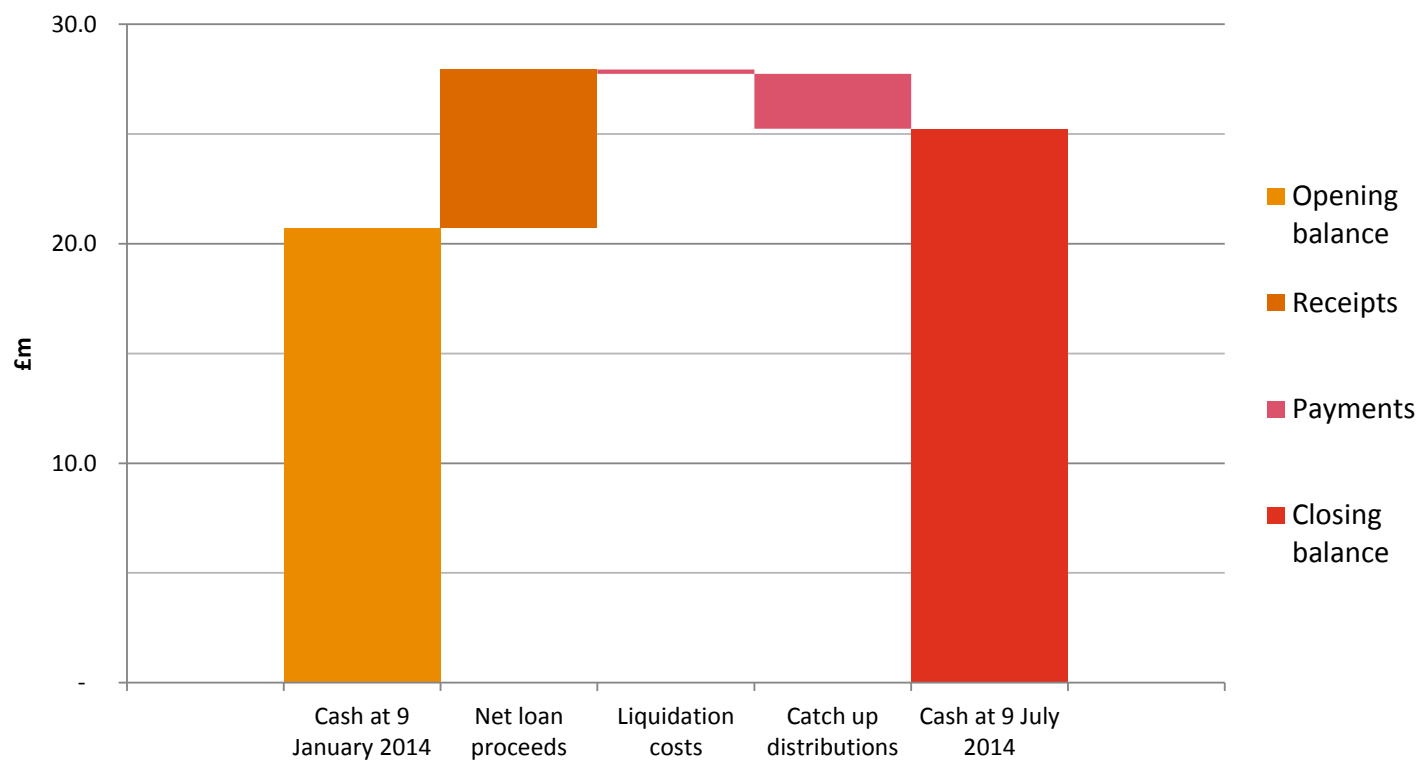
- 2.2 Since the making of the Winding Up Order on 27 May 2009, funds received have been generally converted into Sterling to match the currency in which distributions to creditors will be made. Some currency balances are held to pay costs denominated in currencies other than Sterling such as registry 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 2014

Cash realised to 9 July 2014 is £910.5m.

**Cash bridge - 9 January 2014 to 9 July 2014**



#### 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 2014.

As at 9 July 2014 there are 11 loan facilities remaining, compared to 15 at 9 January 2014, with an outstanding capital value of a Sterling equivalent of £27.0m. Several loans are denominated in foreign currency. Between 10 January 2014 and 9 July 2014, £1.0m has been collected on loans in respect of interest payments due and £5.7m has been collected in respect of capital repayments, based on exchange rates prevailing on the date of repayment of any currency amounts.

All outstanding loans were due to be repaid by the end of June 2014.

4.2 Virtually all loans 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, 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:

Loans by size		
Size band	Number	Amount £m
< £2.5m	5	4.6
>= £2.5m < £5m	1	2.8
>= £5m < £7.5m	1	5.4
>= £7.5m < £10m	-	-
>= £10m < £12.5m	-	-
>= £12.5m < £15m	1	14.2
>= £15m < £17.5m	-	-
<b>Total</b>	<b>8</b>	<b>27.0</b>

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

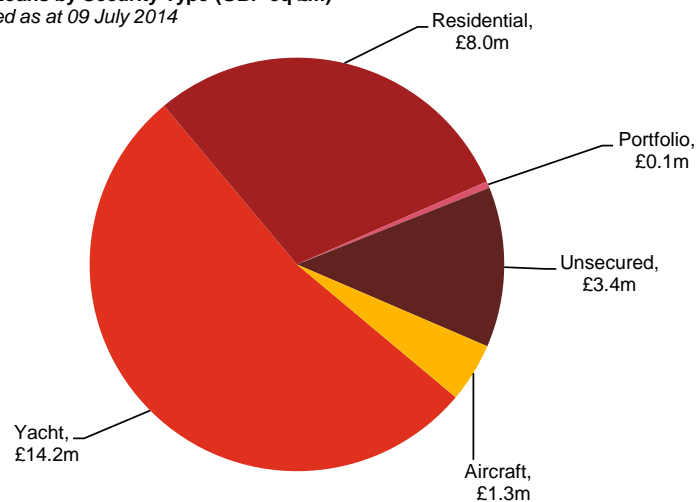
- 4.3 The Company's loan book continues to be actively managed by the JLs. The strategy is to run off the loan book over its natural life, to maximise the return to creditors. A panel of banking institutions assists borrowers in re-financing their loans as terms expire, and any borrower seeking to re-finance 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). Actual loan receipts to date are £383.2m from 169 loans leaving 11 loans outstanding at 9 July 2014. The means by which loans have been repaid are as follows:-

<b>Overall Summary</b>	<b>Number of facilities</b>	<b>Value £m</b>	<b>%</b>
Loan Book at 08/10/2008	180	416.0	100.0%
Capital Repaid	(169)	(383.2)	(92.1%)
Set-off	-	(15.2)	(3.7%)
Written-off	-	(3.4)	(0.8%)
FX Fluctuation	-	12.8	3.0%
<b>Loan Book at 09/07/2014</b>	<b>11</b>	<b>27.0</b>	<b>6.4%</b>

<b>Sources of repayments</b>	<b>Amount £m</b>
Refinancing	162.2
Borrowers' own resources	136.6
Enforcement action	84.4
<b>Total</b>	<b>383.2</b>

- 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. 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 2014



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. The proportion secured on residential property has diminished over time as loans have been repaid.

Approximately 52.8% of the loan portfolio relates to yachts, 29.5% to property, 12.5% is unsecured, 4.6% to aircraft and 0.5% to portfolios.

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 2014 plus future interest income converted into Sterling as at 9 July 2014 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 2014 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.

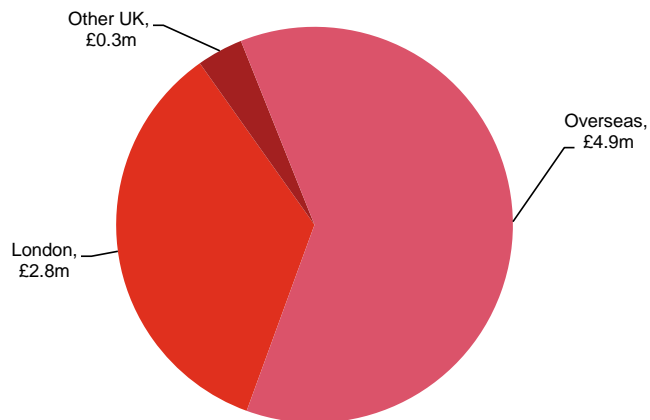
4.6 *Update regarding non-performing loans*

All remaining loans are now overdue, penalty clauses in the loan agreements have been activated and typically a higher rate of interest is charged until the facility is repaid. Each individual case is reviewed on a regular basis by the JL's.

4.7 *Loans secured on property*

61.6% of property loans are secured on property secured outside the UK, 34.6% are secured on London properties, and 3.8% are secured in property within the UK outside of London. 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.

**Property Loans by Location (GBP eq £m)**  
Data extracted as at 09 July 2014

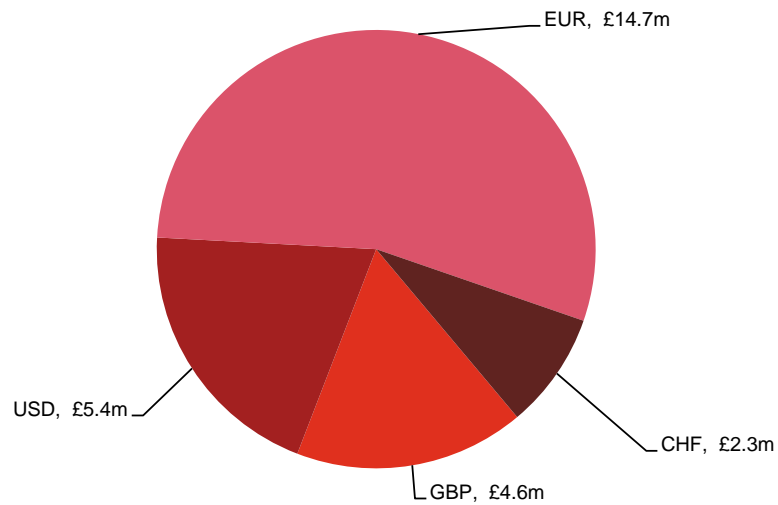


Although, generally, UK and London realisations have been encouraging, some overseas property markets are illiquid and realisable values may have fallen significantly.

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.

4.8 Foreign currency loans and hedging of receipts

**Loans by Currency (GBP eq £m)**  
Data extracted as at 09 July 2014



Significant receipts are due in Euro or United States Dollars and both these currencies have appreciated against Sterling since 9 October 2008. However there has been a sharp recovery in the last 12 months and the Euro and United States Dollar rates are back to similar levels that were seen prior to the start of the liquidation.

There is a gain in the value of the loan portfolio as a result of foreign exchange movements of £12.8m at 9 July 2014. We had purchased currency options to coincide with scheduled repayment dates for a number of the largest loans denominated in Euro. All these options have now expired, in line with the original loan maturity dates.

4.9 *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 £200.6m to the JLs representing 81.5p in the £ on our agreed claim of £246.1m. A dividend of 2.5p was paid on 18 December 2013. Their latest estimate is that the total dividend that they will pay in due course may be in the range of 85.0 - 86.5p in the £.

5.2 *Summary of KSFUK Claim:-*

The position can be summarised as follows:

<b>Detail</b>	<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</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>Agreed claim on which dividend will be paid</b>		<b>246.1</b>



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 86.5p in the £ is paid by KSFUK. On a low case basis we have taken the claim amount of £246.1m and have estimated that 85.0p 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 still in discussion with KHF over the amount of the claim that will be admitted for dividend purposes.

## 8. **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.

## 9. **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.

## 10. Creditors

### 10.1 *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.

### 10.2 *Amounts owed to unsecured creditors*

Unsecured creditors are estimated at £905.0m. We have admitted 8,343 claims (including DCS claims) with an admitted value of £899.8m. Claims of £3.8m 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.

## 11. Costs and operational issues

### 11.1 *Costs of the Joint Liquidators*

The time costs of the JLS accrued between 27 May 2009 and 31 May 2013 (the latest date to which costs have been submitted) are £8.2m net of VAT. A more detailed summary of costs from 27 May 2009 to 31 May 2013 is in Section 4 of this report. The fees of the JLS are subject to the approval of the Committee, and £7.2m net of VAT has been paid to PwC by 9 July 2014. 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 £888.6k net of VAT for the period 3 April 2010 to 31 May 2013, is unpaid as at 9 July 2014.

### 11.2 *Legal and other professional costs*

The details of legal and other professional costs, totalling £5.4m, net of VAT, to 9 July 2014 include legal costs of £5.1m, 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 2014 are £1.2m, net of VAT with a further £298.9k 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 2014 are £2.1m with a further £255.7k in respect of counsel fees.

Reed Smith have assisted in the investigation. Total costs paid to 9 July 2014 are £556.4k with a further £32.1k in respect of counsel fees.

Following from the determination by the High Court of the Isle of Man, that the liquidation should pay the costs incurred by the KSF Depositors Action Group ("DAG"), a claim was presented to the JLS. The fees were reviewed by a third party and agreed at £297.5k.

Jonsson & Hall are the Icelandic lawyers advising on the KHF claim and subsequent court appearances and appeals. Total costs paid to 9 July 2014 are £334.6k.

Pestalozzi are Swiss lawyers who advised on the recovery of funds. Total costs paid to 9 July 2014 are £21.3k. No further costs are anticipated.

Teitelbaum & Baskin assisted in the determination of claims process. Total costs paid to 9 July 2014 are £14.5k. No further costs are anticipated.

There are miscellaneous legal fees attributed to another eight firms for a total of £66.9k with a further £20.3k in respect of counsel fees.

Other legal firms have been engaged in connection with the management of the loan book. The net cost is £459.5k with a further amount of £18.0k in respect of Counsel fees.

Receipts towards legal costs in favour of the liquidation of £844.1k.

In total counsel fees incurred are £625.2k.

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.

11.3 *Employee costs*

At 9 October 2008, the Company employed 64 staff. No bank staff have been employed since 30 June 2012.

11.4 *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 the liquidation is now run from the offices of PwC at Sixty Circular Road, Douglas, Isle of Man.

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

11.5 *VAT*

VAT of £1.9m has been recovered over the period since 9 October 2008. The Company is partially exempt for VAT purposes.

11.6 *Estimated future costs*

For the purposes of calculating the estimated dividend range we have included a figure of £24.3m for the 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.

12. **Estimated Dividend Range**

For indicative purposes only, we have estimated that the dividend range may be between 99.0p in the £ and 99.6p 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.

13. **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

It is difficult to predict when the liquidation will be concluded. Whilst the level of input required has reduced significantly, we are dependent on the progress of the administration of KSFUK and the insolvency process for KHF and the timing of payments therefrom. Neither the Administrators of KSFUK or the Winding-up Committee of KHF have given any indication of when they anticipate their processes being completed.

## **4. Summary of the Joint Liquidators time costs and disbursements**

### **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 £10.3m (net of VAT) in fees and £233k, net of VAT, in disbursements for the period 9 October 2008 to 31 May 2013 (the latest date to which costs have been submitted). 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 £7.3m, net of VAT, of fees paid relate to the period 27 May 2009 to 31 May 2013. 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 31 May 2013, of £888.6k, net of VAT, as well as the full cost for the period 1 June 2013 to 30 June 2014 not yet billed.

We include overleaf a summary of the time incurred from 27 May 2009 to 31 May 2013.

### **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 parental guarantee
- Litigation in connection with borrowers
- Operational issues/suppliers – IT issues, 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 updates
- Creditor distributions, 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 31 May 2013**

	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	122.1	85.5	71.5	48.4	113.1	21.2	461.7	156,494	339
Team management	9.8	5.3	115.9	26.1	183.3	13.4	353.8	91,836	260
Accounting	15.4	14.4	67.2	25.0	2,880.3	1,084.4	4,086.6	567,787	139
Treasury	8.7	0.7	70.7	337.9	978.1	481.2	1,877.2	498,848	266
Statutory and other compliance	126.8	75.9	437.6	211.0	1,578.4	253.7	2,683.4	541,628	202
Sale of the loan book discussions interested parties	55.2	195.7	54.0	191.5	94.9	-	591.2	238,844	404
Committee of inspection	333.4	132.4	135.3	10.3	198.6	239.4	1,049.4	336,007	320
Creditors Meeting	69.8	-	30.0	3.5	226.8	157.8	487.8	114,299	234
Loan book collections	1,242.6	87.6	1,488.0	50.8	169.9	43.4	3,082.3	1,262,985	410
KSF UK	147.6	293.2	167.0	25.9	27.6	7.0	668.3	287,483	430
Kaupthing hf	323.4	59.7	179.7	123.8	40.0	8.5	735.0	282,213	384
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	58.9	21.0	4.2	-	-	6.5	90.6	40,644	449
On-going operational issues / suppliers	108.4	-	185.3	190.0	926.1	1,688.6	3,098.2	393,340	127
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	152.8	37.2	429.6	747.8	646.9	301.0	2,315.2	643,309	278
Depositor enquiries and correspondence	384.6	21.9	519.3	818.9	1,288.1	577.3	3,610.0	760,134	211
Other assets	4.1	-	18.0	1.5	1.9	1.5	27.0	9,015	334
Creditor distributions	193.9	12.2	939.7	1,748.9	2,482.6	2,485.1	7,862.3	1,287,986	164
Tax	19.0	267.4	125.2	88.2	103.4	28.7	631.9	203,431	322
Forensic investigation	12.0	512.2	3.0	524.2	106.3	351.8	1,509.4	445,970	295
Write-offs	-	(123.0)	(5.3)	(133.6)	(431.2)	-	(693.1)	(181,154)	261
<b>Total</b>	<b>3,432.9</b>	<b>1,708.6</b>	<b>5,137.6</b>	<b>5,164.5</b>	<b>11,890.5</b>	<b>7,772.0</b>	<b>35,106.0</b>	<b>8,127,168</b>	<b>232</b>
<b>Treasury Early Payment Scheme</b>	<b>-</b>	<b>-</b>	<b>0.5</b>	<b>-</b>	<b>14.2</b>	<b>2.8</b>	<b>17.4</b>	<b>2,026</b>	<b>116</b>

*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 31 May 2013**

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.