

***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 2011 to 9 July 2011



Highlights at 9 July 2011

- *73.6p in the £ dividends paid to creditors*
- *£726.7m of assets recovered*
- *Loan repayments £83.5m ahead of schedule*
- *Success in Icelandic Supreme Court – validity of Parental Guarantee upheld on appeal*
- *Estimated dividend outcome between 93.0p and 98.1p in the £*

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1. 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 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 2011 to 9 July 2011
- a summary of the costs and disbursements incurred by the JLs for the period 27 May 2009 to 1 April 2011 inclusive
- a receipts and payments account to 9 July 2011 and an Estimated Outcome Statement

Committee of Inspection (“the Committee”)

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

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 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).

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.

The Committee has formally met on four occasions (18 August 2009, 5 November 2009, 29 June 2010 and 29 March 2011). There is a regular 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.

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:

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
Total	73.6

The JLs declared and paid a dividend of 12.5p in the £ on 8 April 2011.

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 93.0p in the £ on a low case basis and 98.1p 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 Bank h.f. (“KHF”)
- The level of final agreed claims in the liquidation
- The level of future costs of the liquidation

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 further interim dividends in the region of 8p to creditors towards the end of 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 cover the six month period to 9 January 2012. 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 at the bank, or e-mail 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 July 2011 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 2011 £'000	Total Receipts and Payments to 9 July 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	20	115,479	-	-	115.5	115.5
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	251,039	261,471	117.5	91.4	379.0	352.9
Less: Cost of FX hedging (EUR & USD)	-	-	-	(3,339)	(3,339)	-	-	(3.3)	(3.3)
Interest and fee income on loans	-	-	6,960	23,791	30,751	2.2	1.4	33.0	32.2
Collateral shares	-	-	6,271	114,851	121,122	-	-	121.1	121.1
Net balance due from KSFUK	320,722	Unknown	-	142,746	142,746	68.9	49.2	211.6	191.9
Property, equipment and other sundry assets	1,489	142	8	208	216	-	-	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	677	1,325	-	-	1.3	1.3
Total estimated assets	901,016	535,580	158,041	565,304	723,345	188.6	142.0	912.0	865.4

(cont.)

	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 2011	Total Receipts and Payments to 9 July 2011	Joint Liquidators' estimated outcome			
	Book value £'000	Estimate to realise £'000	£'000	£'000	£'000	High Est. future £'m	Low Est. Future £'m	Total High £'m	Total Low £'m
Total estimated assets	901,016	535,580	158,041	565,304	723,345	188.6	142.0	912.0	865.4
Less Provisional Liquidators' costs	-	-	-	(3,622)	(3,622)			-	-
Less Liquidators' costs	-	-		(5,884)	(5,884)			-	-
Less legal and other professional fees	-	-	(1,024)	(3,671)	(4,695)			-	-
Less employees, rent, utilities and other costs	-	-	(1,712)	(2,397)	(4,109)			-	-
Total Costs and expenses	-	-	(2,736)	(15,574)	(18,310)	(5.0)	(5.0)	(23.3)	(23.3)
Estimated total assets available for preferential creditors	901,016	535,580	155,305	549,730	705,035	183.6	137.0	888.7	842.1
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	549,449	704,754	183.6	137.0	888.4	841.8

(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 July 2011 £'000	Total Receipts and Payments to 9 July 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	549,449	704,754	183.6	137.0	888.4	841.8
Total ordinary unsecured creditors (excluding contingent liabilities)	(896,014)	(896,014)	(905,301)	(905,301)	(905,301)	-	-	(905.3)	(905.3)
Distributions payable			-	(655,238)	(655,238)	(233.2)	(186.6)	(888.4)	(841.8)
Estimated dividend range for ordinary unsecured creditors (indicative)			0.0%	73.6%	73.6%	24.5%	19.4%	98.1%	93.0%
Third party funds			-	20	20	-	-	-	-
Cash at hand			155,305	(105,769)	49,536	(49.5)	(49.5)	-	-

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 2011 to 9 July 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 to 9 July 2011, together with an Estimated Outcome Statement are set out on pages 7 to 9. This shows total receipts for the period 27 May 2009 to 9 July 2011 of £565.3m, and total payments of £671.1m, and a net balance of cash in hand of £49.5m at 9 July 2011. Where cash is held in a currency other than Sterling, the foreign exchange rates used were FT close of business rates on Friday 8 July 2011.

Exchange Rates Used

- GBP/CHF 1.3452
- GBP/EUR 1.1258
- GBP/USD 1.6051

Since 9 January 2011, the following material receipts have occurred:

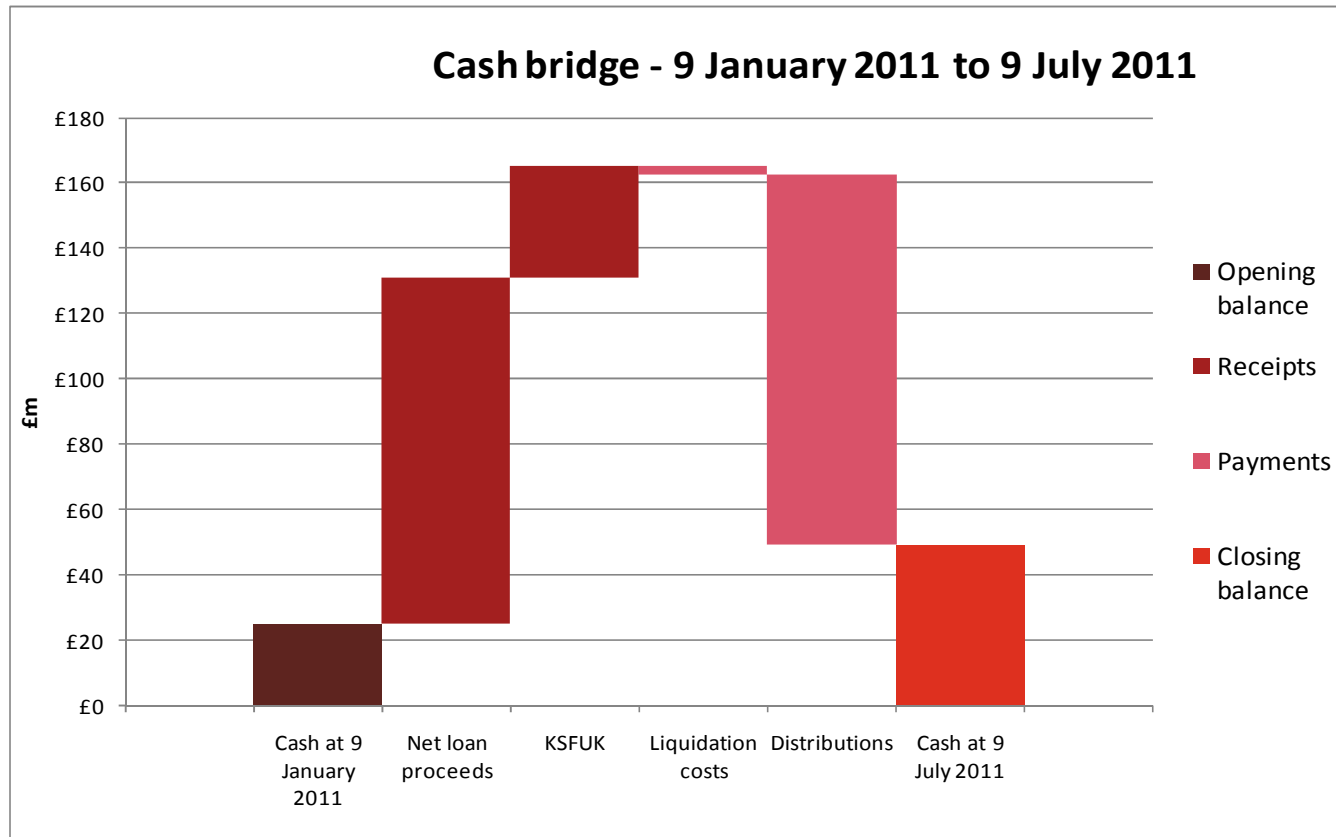
- £95.7m in respect of capital repayments on loans
- £9.2m of interest payments on loan book
- £34.1m of dividend income from KSFUK

- 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 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. Comments on Assets and Receipts

3.1 Cash at bank and cash received in the liquidation since 9 January 2011

The Directors' Statement of Affairs stated that as at 9 October 2008 an equivalent of £108.9m was held by the Company. Cash realised to 27 May 2009 was £158.0m. Cash realised by 9 July 2011 is £726.7m.



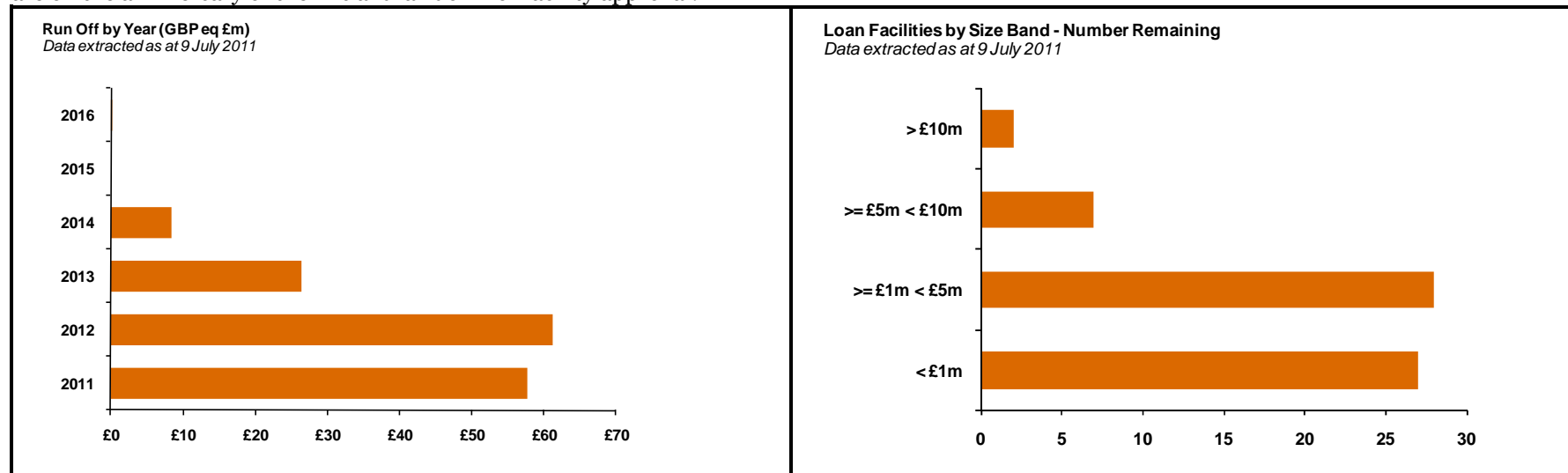
4. Advances to customers

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 2011.

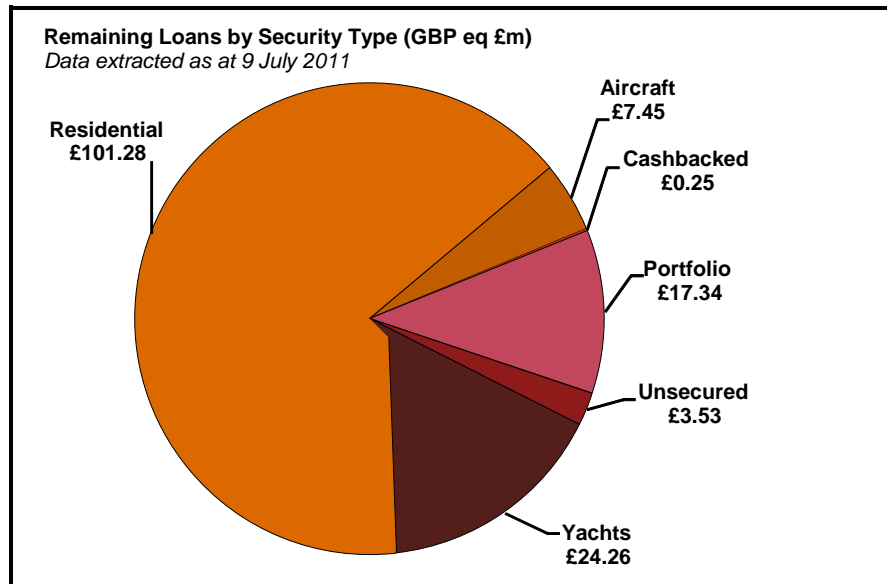
As at 9 July 2011 there are 64 loan facilities remaining, compared to 88 at 9 January 2011, with an outstanding capital value of a Sterling equivalent of £154.1m. Several loans are denominated in foreign currency. Between 9 January 2011 and 9 July 2011, £9.2m has been collected on loans in respect of interest payments due and £95.7m 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. As a result, 63 outstanding loans are now due to be repaid by March 2014 and only 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:



- 4.3 The Company’s loan book continues to be actively managed by the JLs, working with former members of the Company's loan team who have been retained. Day to day borrower contact takes place and is managed by a member of the liquidation team. 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. Updated valuations are sought for those properties where the JLs become aware of corrections in the local market.
- 4.4 The JLs and loan team 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 £415.6m (at 9 July 2011 exchange rates). Between 9 October 2008 and 9 July 2011, 92 loans with a value of £178.0m were due to be repaid. Actual loan receipts for the period were £261.5m from 116 loans leaving 64 loans outstanding at 9 July 2011.
- 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 are informed of any such pending legal action and approve the action before commencement.



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.

Over 66% of the loan portfolio is secured on property, 16% is secured on yachts, 11% on portfolios and 4% on 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 we have engaged an aircraft broker to market the aircraft. This action was taken 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 2011 plus future interest income converted into Sterling as at 8 July 2011 closing 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 July 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 July 2011 and the time of writing, we have adjusted our provisioning to reflect this.

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 2011, the ten largest loan relationships accounted for £104m out of the outstanding loans total of £154m, being 68% by value. The percentage represented by the ten largest loan relationships will rise as the loan book falls both in outstanding amounts and the number of loans to be repaid.

At 9 July 2011, five of the original ten largest loan relationships have been fully repaid and five have been partly repaid realising £137.0m.

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 by the JLs at regular meetings.

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. We have taken steps to enforce security over a property in Spain and the property is now registered in the name of the Company. Agents have been instructed to market the property. 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 significant sum. This loan has been fully provided against in our Estimated Outcome Statement.

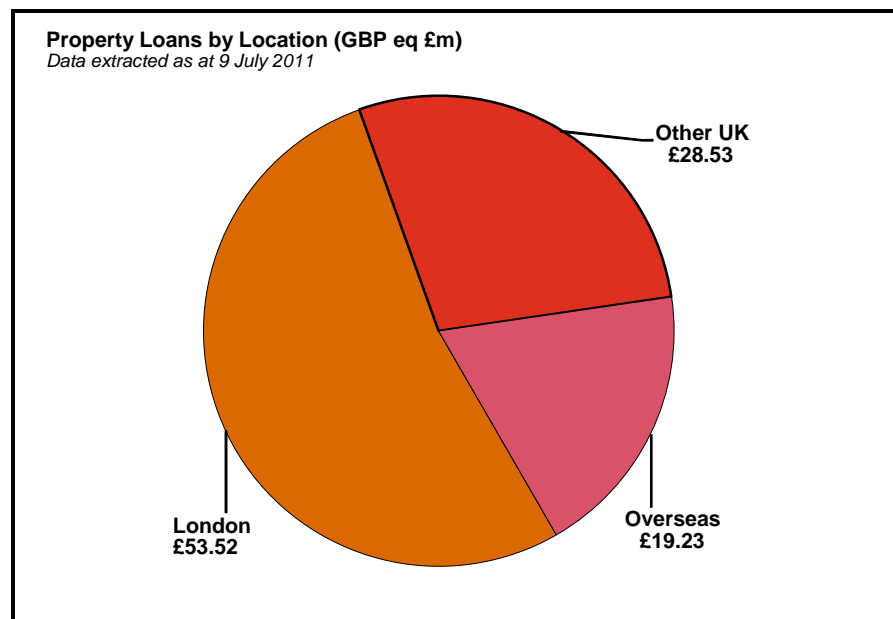
We have appointed receivers over a UK property under the Law of Property Act in June 2011. Agents have been instructed to market the property. This action was taken after the borrower failed to meet scheduled interest payments.

We took possession of an aircraft in December 2010, and are actively marketing it for sale through aircraft brokers. This action was taken after the borrower failed to meet scheduled interest payments.

There are two further loans secured on property which have not been repaid by the contractual maturity dates. We have granted short term maturity extensions to the borrowers and are working with them to assist their repayment. Default interest rates are being charged on these facilities.

4.8 *Loans secured on property*

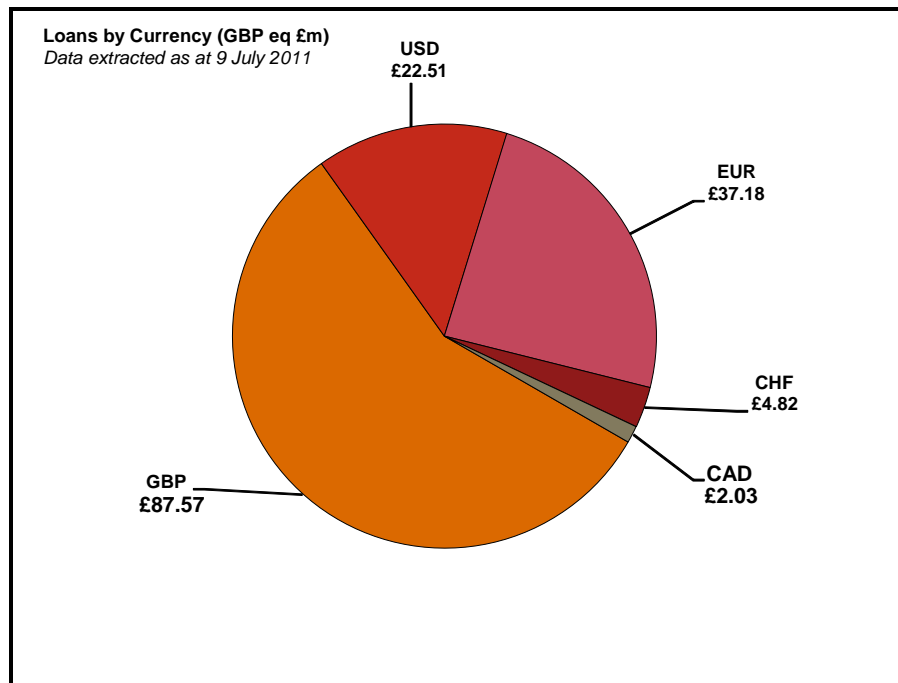
53% of property loans are secured on property in London, 28% are secured on other UK property and 19% are secured on property located outside the UK. London and the South East of England region appears to have suffered less from the UK recession and valuations have moved ahead since October 2008. The 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 index values are comfortably higher than mid 2009 levels as at June 2011.

The JLs have met with many of the borrowers, and 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



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 £17.0m at 9 July 2011. 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 rates for the remaining part of the portfolio (Swiss Franc & Canadian Dollars), 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 2011 are highlighted.

USD/GBP rate	Hedged value (£'000)	Unhedged value (£'000)	Hedging gain (£'000)
1.5500	23,315	23,315	-
1.6000	22,654	22,586	68
1.6051	22,589	22,514	75
1.7000	21,448	21,257	191
1.8000	20,377	20,077	300

EUR/GBP rate	Hedged value (£'000)	Unhedged value (£'000)	Hedging gain (£'000)
1.1000	38,057	38,057	-
1.1258	37,628	37,185	443
1.2000	36,495	34,886	1,609
1.3000	35,516	32,202	3,314
1.4000	34,995	29,902	5,093

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 to £1=€1.40, the unhedged value of the Euro denominated loans would fall by £7,283k. However, the effect of the hedges is to reduce the foreign exchange loss in that circumstance to £2,633k.

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 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.

4.11 *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 £142.7m to the JLS representing 58p in the £ on our agreed claim of £246.1m. A dividend of 5p was paid on 25 May 2011. Their latest estimate is that the total dividend that they will pay in due course may be in the range of 78-86p in the £.

5.2 *Summary of KSFUK Claim:-*

The position can be summarised as follows:

	£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 86p in the £ is paid by KSFUK. On a low case basis we have taken the claim amount of £246.1m and have estimated that 78p in the £ is paid by KSFUK.

On 11 July 2011 KSFUK announced their intention to declare a seventh interim dividend within two months of 15 August 2011. This interim dividend is expected to equal at least 5p in the £.

5.4 *KSFUK Creditors' Committee*

On 8 March 2011 Mike Simpson was appointed to the Creditors' Committee of KSFUK. This will enable 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 will be 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 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'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 seriously 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 JL's 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 believe that this judgment is to the detriment of creditors as a whole and we have lodged an appeal against the decision. The appeal was heard on 30 & 31 March 2011 and we await notification of the outcome.

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 Committee of Inspection 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 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 one Court Order in respect of a re-assignment, which is 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 £905.3m. We have admitted 8,175 claims (including DCS claims) with an admitted value of £890.9m in the calculation of the fifth interim dividend. Claims of £12.8m have been received but not yet admitted, and there are £1.6m 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 1 April 2011 are £5.9m net of VAT. A more detailed summary of costs from 27 May 2009 to 1 April 2011 is in Section 4 of this report. The fees of the JLS are subject to the approval of the Committee, and £5.0m (including VAT and disbursements) has been paid to PwC by 9 July 2011. All costs incurred pre 27 May 2009, including fees of £3.0m net of VAT and disbursements of £116.5k, have been paid following the approval of the Court. £901.8k (including VAT) for the period 27 May 2009 to 1 April 2011 is unpaid at 9 July 2011.

12.2 *Legal and other professional costs*

The details of legal costs of £3.9m, net of VAT, included in legal and other professional costs, totalling £4.1m, net of VAT, to 9 July 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 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. 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 2011 are £1.1m with a further £231.9k 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 2011 are £1.4m with a further £229.6k in respect of counsel fees.

Lovells advised on the Scheme of Arrangement. Total costs paid to 9 July 2011 are £252.7k with a further £1.2k in respect of counsel fees. No further costs are anticipated.

Reed Smith have assisted in the investigation. Total costs paid to 9 July 2011 are £465.0k 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 2011 are £161.0k.

Pestalozzi are Swiss lawyers advising on the recovery of funds. Total costs paid to 9 July 2011 are £17.8k.

Teitelbaum & Baskin assisted in the determination of claims process. Total costs paid to 9 January 2011 are £14.5k. No further costs are anticipated. There are modest legal fees attributed to another five firms for a total of £23.0k with a further £1.5k in respect of counsel fees. In total counsel fees incurred are £496.4k.

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 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.

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 provide an incentive to employees to remain with the Company in the short term. Employee costs for the period under review total £174.9k reflecting the number of staff remaining in place.

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 August 2012 at a substantially reduced annual cost.

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

12.5 *VAT*

VAT of £1.2m 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 the estimate.

13. **Estimated Dividend Range**

For indicative purposes only, we have estimated that the dividend range may be between 93.0p in the £ and 98.1p 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
- Reporting important information to creditors via website updates

4 Fees of the Joint Liquidators

Remuneration of the Joint Liquidators for the period

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 £8.0m (net of VAT) in fees and £215k, net of VAT, in disbursements for the period 9 October 2008 to 1 April 2011. 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 £5.0m, net of VAT, of fees paid relate to the period 27 May 2009 to 31 December 2010. Since 27 May 2009, 80% of fee invoices submitted are paid on presentation and the remaining 20% is subject to the approval of the Committee. At the date of this report there are still 20% retentions outstanding for some costs incurred in the period 27 May 2009 to 31 December 2010 as well as the costs for the period 1 January 2011 to 1 April 2011.

We include overleaf a summary of the time incurred from 27 May 2009 to 1 April 2011. An analysis of time for the period 1 January 2011 to 1 April 2011 has been submitted to the Committee and will be scrutinised by them in due course.

Narrative of work carried out for the period

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 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 loan clients
- Operational issues/suppliers – premises, IT issues, etc.
- Employee matters – employee meetings, payroll agreement
- 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, fifth 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

Liquidation time costs for the period 27 May 2009 to 1 April 2011

	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	106.7	82.5	45.5	25.2	27.3	17.9	305.1	119,354	391
Team management	9.3	5.3	105.9	7.6	153.3	5.4	286.8	80,366	280
Accounting and treasury	17.6	14.6	115.5	213.0	2,878.5	1,233.9	4,473.0	777,038	174
Statutory and other compliance	119.4	74.6	324.5	147.0	1,108.5	165.6	1,939.6	414,170	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	283.1	122.9	127.0	10.3	140.3	191.3	875.0	289,044	330
Creditors Meeting	69.8	-	30.0	3.5	226.8	157.8	487.8	114,299	234
Loan book collections	709.5	87.1	759.4	26.3	25.9	12.3	1,620.4	687,958	425
KSF UK	116.6	293.2	166.0	25.9	22.8	7.0	631.5	270,335	428
Kaupthing hf	218.0	58.2	97.8	7.5	3.3	0.7	385.4	169,619	440
Sister company	4.2	7.8	10.0	-	3.0	-	24.9	9,637	387
Recovery of bank deposits	2.2	-	1.0	-	2.3	-	5.4	1,735	320
Litigation	40.2	21.0	3.7	-	-	6.4	71.4	30,658	430
Ongoing operational issues / suppliers	34.1	-	87.9	26.0	460.5	419.6	1,028.0	136,913	133
Employee matters, pensions and creditor employee claims	36.8	1.8	87.1	123.5	249.1	21.8	520.1	129,771	250
Depositor claim reconciliation process	95.8	6.1	405.2	524.2	583.5	264.2	1,878.8	511,765	272
Depositor enquiries and correspondence	204.5	20.2	352.7	322.6	647.6	520.3	2,067.7	418,088	202
Other assets	1.3	-	16.5	-	1.2	1.5	20.5	6,672	326
Creditor distributions	141.3	12.2	741.4	1,111.3	2,319.5	1,858.5	6,184.2	1,008,448	163
Tax	3.2	246.3	55.9	82.7	58.1	25.4	471.4	151,508	321
Forensic investigation	12.0	477.4	3.0	510.8	106.3	351.8	1,461.2	421,519	288
	2,277.8	1,619.5	3,589.9	3,225.1	9,112.4	5,261.1	25,085.9	5,871,333	234
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.

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

All other disbursements are reimbursed at cost.