

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

Liquidator's and Deemed Official Receiver's  
progress report to creditors for the period from 10  
January 2019 to 9 July 2019



## ***Highlights at 9 July 2019***

- *100p in the £ dividends paid to creditors*
- *Final legal issues are in Court*

---

## ***Section***

## **Page**

---

|   |  |         |
|---|--|---------|
| 1 | Introduction   | 4 – 7   |
| 2 | Combined Receipts and Payments Account for the period 27 May 2009 to 9 July 2019, and an Estimated Outcome Statement | 8 – 9   |
| 3 | Report on the Liquidation from 10 January 2019 to 9 July 2019  | 10 - 15 |
| 4 | Summary of the Liquidators time costs  | 16      |

---

## 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”). On 9 June 2015 Peter Spratt retired from PwC and therefore stood down as Joint Liquidator and from that date Mike Simpson has continued as sole Liquidator of the Company (“the Liquidator”). Reference to ‘JLs’ refers to the joint Liquidators until 9 June 2015 and to Mike Simpson as sole Liquidator after that date.

The purpose of this document is to provide creditors with:

- a report on the period of the Liquidation from 10 January 2019 to 9 July 2019;
- a summary of the costs and disbursements incurred by the JLs for the period 27 May 2009 to 9 July 2019 inclusive; and
- a receipts and payments account to 9 July 2019 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 (now called Utmost Limited) (originally represented by Neill Angus, now represented by Neil Cowley);
  - Simon Bessant;
  - Gavin Brake;
  - Stuart Roberts;
  - Royal Skandia Life Assurance Limited (now called Old Mutual International Isle of Man Limited) (originally 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 Liquidator 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 Liquidator would need the sanction of the Committee for any such settlement).
- 2.5 The role of the Committee is to support the Liquidator 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 Liquidator shall have regard to any directions given by resolution of the creditors or by the Committee.
- 2.6 The Committee has formally met on seven occasions and there is ongoing dialogue by telephone and email between the Liquidator and the Committee. The flow of information occurs both ways, with members of the Committee raising points for consideration by the Liquidator as well as the PwC team providing information to the Committee for review and comment.
- 2.7 The Committee and the Liquidator’s objective is to achieve the optimum return for creditors within the statutory framework. The Liquidator consults the Committee as and when he considers it appropriate. An example of this is in respect of legal action to recover monies owed by borrowers. Although the Liquidator has taken action against the individual borrowers, the Committee’s approval was 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          |
| 12 September 2014  | 2.2          |
| 28 November 2014   | 2.0          |
| <b>Total</b>       | <b>100.0</b> |

3.2 As set out in Section 3.1 above, the JLs have achieved a return of 100p in the £ with the payment of the tenth dividend on 28 November 2014 based on the claims accepted in the liquidation. This will now allow the Liquidator to pay some interest on the claims. However, the rules for calculating interest in an Isle of Man insolvent liquidation are not straightforward and the Liquidator had to apply to the Isle of Man High Court for directions.

The Deemster's first judgment was delivered on 16 June 2017 and a copy was placed on the website. The Deemster determined that insolvency rules apply to the calculation of interest, which should be pro rated over the term of the liquidation.

3.3 The Liquidator applied to the Court for further directions in respect of matters which need to be dealt with in order to make the final distribution and bring the liquidation to a close. These further matters relate to the Depositors' Compensation Scheme and the Early Payment Schemes. A number of unsecured creditors of KSFIOM claimed in the Early Payment Scheme and/or the Early Payment (No. 2) Scheme (collectively "the EPS") administered by the Isle of Man Treasury and/or in the Depositors' Compensation Scheme ("DCS") managed by the Isle of Man Financial Services Authority. In return for payments from the EPS and/or the DCS such unsecured creditors assigned their rights to prove in the liquidation of KSFIOM to the Treasury and/or the DCS. The Liquidator made an Application to the Isle of Man High Court dated 3 July 2018 seeking directions that he should pay statutory interest to the DCS in respect of unsecured creditors who assigned to the Treasury and/or the DCS their right to prove in the liquidation of KSFIOM in return for EPS/DCS payments. The Court Hearing took place on 30 October 2018 and a further order was issued. The order instructed the Liquidator to pay statutory interest and/or deferred interest due to all depositors who claimed in the DCS and/or the EPS to the DCS, and statutory interest and/or deferred interest to all creditors who did not claim in the DCS or the EPS to those creditors. Regarding life insurance bondholders who claimed in the EPS, the Liquidator is to pay statutory interest direct to the insurance companies apart from amounts due to the Isle of Man Treasury in respect of its' admitted proof of debt in respect of assignments made to it as set out in section 40 of the skeleton argument filed in support of the Liquidator's application to the High Court and published on the website on 15 August 2018.

3.4 In my last report I mentioned that there are freezing orders in respect of former KSFIOM customer accounts. The Isle of Man Attorney General is claiming that the money held in these accounts should be confiscated. I am advised that the orders are invalid and, even if they were valid, the accounts cannot be confiscated as no proof of debt was received prior to the cut off date. Therefore I believe the money should be available for distributing to unsecured creditors, which means the final amount available for distribution cannot be determined until this is resolved. The total amount involved is significant to the amount available for distribution.

#### 4. **Cut-off date fixed for claiming in the liquidation**

4.1 The cut-off date by which creditors in KSFIOM (including depositors who did not claim in the Depositors' Compensation Scheme) must prove their debts in the liquidation of KSFIOM, including any appeals, was fixed by the Isle of Man High Court as 16 November 2018.

4.2 Creditors who have already had their proof of debt admitted by the Liquidator do not need to do anything further unless they claimed under the Early Payment Scheme and/or the Early Payment (No. 2) Scheme and subsequently received dividends direct from the Liquidator. These claimants will now receive their final dividend from the DCS Administrator, and will need to provide the DCS Administrator with such information as he requires to be able to make payments. The DCS Administrator's website is [www.dcs.im](http://www.dcs.im), the email address is [dcscs@kpmg.co.im](mailto:dcscs@kpmg.co.im).

## 5. **Next report**

- 5.1 There are no formal requirements in respect of reporting to creditors under the Act or the Rules. The Liquidator consults with the Committee as to the timings of reports to creditors but anticipates that the next formal report will cover the six month period to 9 January 2020, or the completion of the liquidation if earlier. In the meantime the Liquidator 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 Liquidator or you can also email [ksf@iom.pwc.com](mailto:ksf@iom.pwc.com), or telephone +44 (0) 1624 699 222.

Mike Simpson  
Liquidator and Deemed Official Receiver

## 2. A combined Receipts and Payments Account for the period 27 May 2009 to 9 July 2019 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 | Receipts and Payments 27 May 2009 to 9 July 2019 | Total Receipts and Payments to 9 July 2019 | Liquidator's 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          |
| Cash at bank on appointment                       | 108,916   | 108,664             | 115,459   | 903  | 116,362                                    | -                              | -               | 116.4        | 116.4        |
| 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  | 388,165  | 398,597                                    | -                              | -               | 398.6        | 398.6        |
| Less: Cost of FX hedging (EUR & USD)              | -   | -                   | -   | (2,038)  | (2,038)                                    | -                              | -               | (2.0)        | (2.0)        |
| Interest and fee income on loans                  | -   | -                   | 6,960   | 29,922   | 36,882                                     | -                              | -               | 36.8         | 36.8         |
| Collateral shares                                 | -   | -                   | 6,271   | 114,851  | 121,122                                    | -                              | -               | 121.1        | 121.1        |
| Net balance due from KSFUK                        | 320,722   | Unknown             | -   | 219,041  | 219,041                                    | -                              | -               | 219.0        | 219.0        |
| Property, equipment and other sundry assets       | 1,489   | 142                 | 8   | 254  | 262  | -                              | -               | 0.3          | 0.3          |
| Net balance due from Kaupthing Holdings Ltd       | 206   | 206                 | -   | -  | -  | -                              | -               | -            | -            |
| Net balance due from Kaupthing hf                 | 94  | 94                  | -   | -  | -  | -                              | -               | -            | -            |
| Parental guarantee from Kaupthing hf              | Unknown   | Unknown             | -   | 895  | 895  | -                              | -               | 0.9          | 0.9          |
| Interest income on cash in hand since appointment | -   | -                   | 648   | 1,096  | 1,744                                      | -                              | -               | 1.7          | 1.7          |
| <b>Total estimated assets</b>                     | <b>901,016</b>  | <b>535,580</b>      | <b>158,041</b>                                      | <b>788,400</b>                                   | <b>946,441</b>                             | <b>-</b>                       | <b>-</b>        | <b>946.4</b> | <b>946.4</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 2019 | Total Receipts and Payments to 9 July 2019 | Liquidator's 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>788,400</b>                                   | <b>946,441</b>                             | -                              | -               | <b>946.4</b>   | <b>946.4</b>   |
| Less Provisional Liquidators' costs  | -   | -                   | -   | (3,622)  | (3,622)                                    |                                |                 | -              | -              |
| Less Liquidators' costs  | -   | -                   | -   | (12,545)   | (12,545)                                   |                                |                 | -              | -              |
| Less legal and other professional fees                                       | -   | -                   | (1,024)   | (6,466)  | (7,490)                                    |                                |                 | -              | -              |
| Less employees, rent, utilities and other costs                              | -   | -                   | (1,712)   | (2,657)  | (4,369)                                    |                                |                 | -              | -              |
| <b>Total costs and expenses</b>  | -   | -                   | <b>(2,736)</b>                                      | <b>(25,290)</b>                                  | <b>(28,026)</b>                            | <b>(0.0)</b>                   | <b>(0.0)</b>    | <b>(28.0)</b>  | <b>(28.0)</b>  |
| <b>Estimated total assets available for preferential creditors</b>           | <b>901,016</b>  | <b>535,580</b>      | <b>155,305</b>                                      | <b>763,110</b>                                   | <b>918,415</b>                             | -                              | -               | <b>918.4</b>   | <b>918.4</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>762,829</b>                                   | <b>918,134</b>                             | -                              | -               | <b>918.0</b>   | <b>918.0</b>   |
| Distributions paid 100p in the £   |   |                     | -   | (899,633)  | (899,633)                                  | (1.0)                          | (1.0)           | (900.6)        | (900.6)        |
| Interest payable and remaining liquidation costs                             | -   | -                   | -   | -  | -  | (17.5)                         | (17.5)          | (17.5)         | (17.5)         |
| <b>Cash at hand</b>  |   |                     | <b>155,305</b>                                      | <b>(136,804)</b>                                 | <b>18,501</b>                              | <b>(18.5)</b>                  | <b>(18.5)</b>   | -              | -              |
| <b>Total ordinary unsecured creditors (excluding contingent liabilities)</b> | <b>(896,014)</b>  | <b>(896,014)</b>    | <b>(900,598)</b>                                    | <b>(900,598)</b>                                 | <b>(900,598)</b>                           | -                              | -               | <b>(900.6)</b> | <b>(900.6)</b> |

*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 2019 to 9 July 2019***

#### **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**

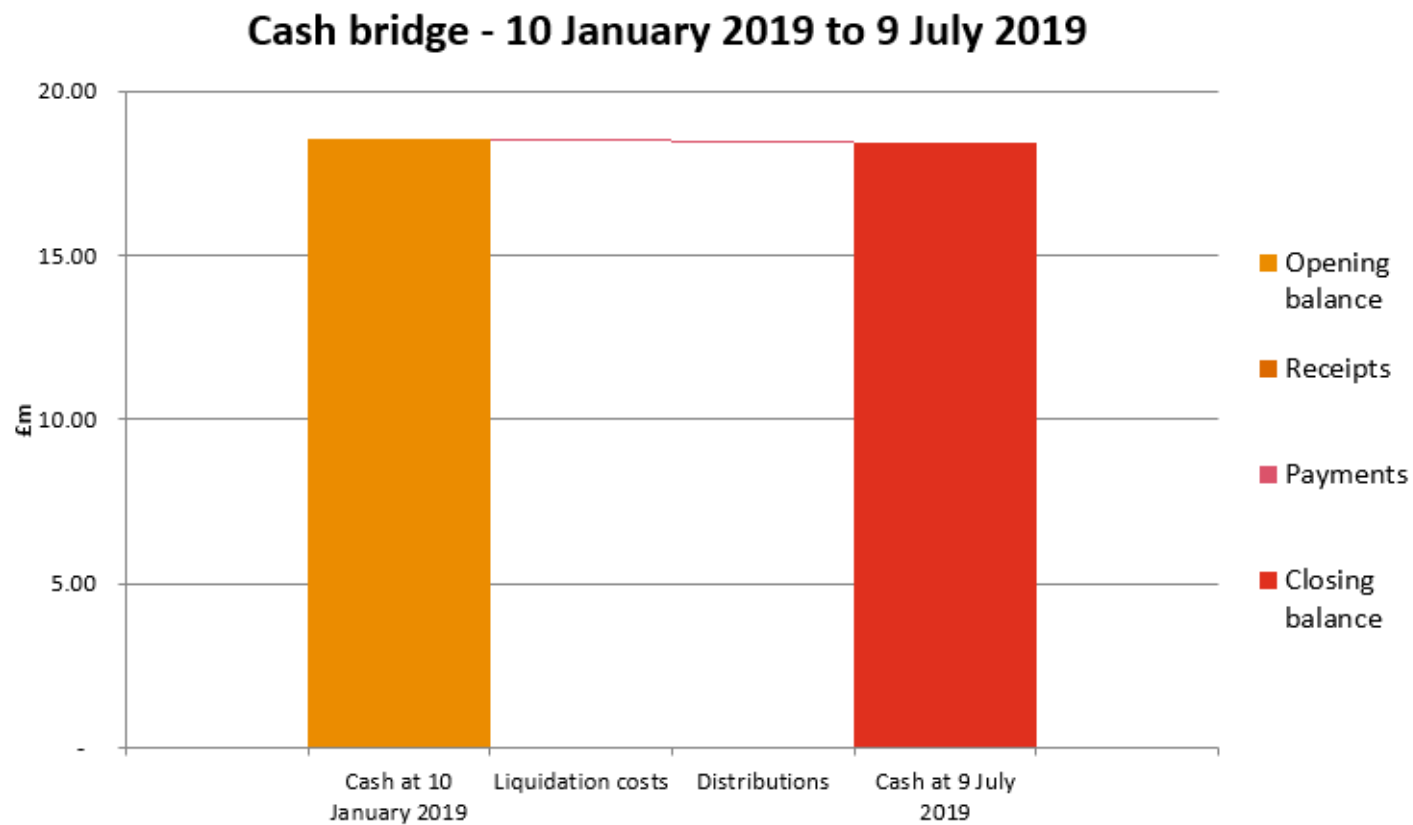
2.1 The receipts and payments for the period 27 May 2009 to 9 July 2019, together with an Estimated Outcome Statement are set out on pages 8 to 9. This shows total receipts for the period 27 May 2009 to 9 July 2019 of £788.3m, total expenses of £25.3m, and a net balance of cash in hand of £18.5m at 9 July 2019.

2.2 All balances are now held in Sterling.

### 3. Comments on Assets and Receipts

#### 3.1 Cash at bank and cash received in the liquidation since 10 July 2018

Cash realised to 9 July 2019 is £946.4m.



#### 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.

4.2 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 were £398.4m. 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                 | (180)                       | (398.4)         | (95.8%)     |
| Set-off                        | -                           | (15.2)          | (3.7%)      |
| Written-off                    | -                           | (16.4)          | (3.9%)      |
| FX Fluctuation                 | -                           | 14.0            | 3.4%        |
| <b>Loan Book at 09/01/2019</b> | <b>0</b>                    | <b>0.0</b>      | <b>0.0%</b> |

| <b>Sources of repayments</b> | <b>Amount £m</b> | <b>%</b>      |
|------------------------------|------------------|---------------|
| Refinancing                  | 169.4            | 42.5%         |
| Borrowers' own resources     | 138.1            | 34.7%         |
| Enforcement action           | 90.9             | 22.8%         |
| <b>Total</b>                 | <b>398.4</b>     | <b>100.0%</b> |

## 5. Amounts owed from KHF

- 5.1 There were 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 showed an amount owed to KHF of £185.4m and an amount owed from KHF of £185.5m. Having sought legal advice on the matter it was determined that these balances set off against each other.

## 6. Parental guarantee

- 6.1 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 has been 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 value of the claim was ultimately agreed at £3.2m.

KHF agreed a composition with their creditors, whereby creditors received 30% of the value of their agreed claims, as follows;

- Cash 8.3%
- Shares in Kaupthing 0.5%
- Kaupthing convertible notes 21.2%

All amounts receivable from KHF have now been realised.

## 7. 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. On the basis of the latest advice on these matters, it appeared most unlikely that there would be any value for creditors in pursuing the potential claims.

## 8. **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.

In order to assist the life companies and their policyholders, I have applied to Court and have received an Order which permits me to accept assignments from the life companies without the need for a Court Order. This Order does not compel the life companies to agree to requests from their policyholders for assignment, nor does it oblige me to approve them, however it does remove the final costly step from the assignment process.

Given how close we now are to the end of the liquidation, and the Final Date for Proving is now passed, no further assignments will be accepted.

## 9. **Creditors**

### 9.1 *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.

### 9.2 *Amounts owed to unsecured creditors*

Unsecured creditors are estimated at £900.6m. At the Final Date for Proving I have admitted 8,587 claims (including DCS claims) with an admitted value of £900.6m. There are £0.8m of potential claims where freezing orders are in place which are yet to be determined. On resolution of the freezing order matters we will be in a position to make the final dividend calculations.

## 10. **Costs and operational issues**

### 10.1 *Costs of the Joint Liquidators*

The time costs of the JLs accrued between 27 May 2009 and 9 July 2019 are £10.4m net of VAT. As there will be no more fees charged by the Liquidator, the previous table of costs has not been repeated. The fees of the JLs have been approved by the Committee, and £10.4m net of VAT has been paid to PwC. All costs incurred pre 27 May 2009, including fees of £3.0m net of VAT have been paid following the approval of the Court.

### 10.2 *Legal and other professional costs*

The details of legal and other professional costs, totalling £6.3m, net of VAT, to 9 July 2019 include legal costs of £5.9m, net of VAT.

### 10.3 *Employee costs*

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

10.4 *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.

10.5 *VAT*

VAT of £2.3m has been recovered over the period since 9 October 2008. The Company is partially exempt for VAT purposes.

10.6 *Estimated future costs*

The costs of the liquidation, including Liquidators fees, legal and operational costs to 9 July 2019 have been £26.5m plus VAT compared to the forecast cost of the liquidation which had been previously estimated at £24.3m.

Future costs will be determined prior to the payment of interest and the finalisation of the liquidation.

11. **On-going strategy for the liquidation and other matters**

The focus is now on completing the legal steps required to bring the liquidation to a close and making the final distribution to creditors.

An announcement will be made on the website as soon as the timing and amount of the final distribution can be confirmed.

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

### **1. Remuneration of the Liquidator for the period**

- 1.1 The time of the Liquidator 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 £13.4m (net of VAT) in fees and £278.2k (net of VAT) in disbursements for the period 9 October 2008 to 9 January 2019 (the latest date to which costs have been approved). The fees relating to the period of provisional liquidation have been through the arbitration process and have been approved by the Court and paid. The Liquidator's final invoice was raised and paid with the approval of the Committee so that the VAT thereon could be recovered in time to be included in the final distribution.

### **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
- Statutory and other compliance – court hearings, regulatory requirements
- 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 the Liquidator, 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
- Calculation of interest payable – Data analysis, Court hearings and discussions with legal team