

**IN THE HIGH COURT OF JUSTICE OF THE ISLE OF MAN
CHANCERY DIVISION**

**IN THE MATTER of THE COMPANIES
ACT 1931**

and

**IN THE MATTER of KAUPTHING
SINGER & FRIEDLANDER (ISLE OF
MAN) LIMITED**

and

**IN THE MATTER of THE JOINT
PETITION OF KAUPTHING SINGER &
FRIEDLANDER (ISLE OF MAN)
LIMITED and THE FINANCIAL
SUPERVISION COMMISSION dated
the 9th day of October 2008**

and

**IN THE MATTER of the Court Orders
dated 9th October 2008 and 24th
October 2008**

AFFIDAVIT OF MICHAEL SIMPSON

I, MICHAEL SIMPSON, of Sixty Circular Road, Douglas, Isle of Man IM1 1SA being sworn make oath and say as follows:

1. I am the duly appointed Joint Liquidator provisionally of Kaupthing Singer & Friedlander (Isle of Man) Limited ("the Company") and I make this Affidavit in support of my above Petition.
2. Where they refer to factual matters directly within my knowledge the contents of this Affidavit are true. The other matters to which I have deposed in this Affidavit I verily believe to be true to the best of my knowledge, information and belief.

3. Since the date of my appointment, I and my team have worked closely with management to ascertain the position with regard to the assets and liabilities of the Company.
4. We have realised amounts totalling £61m and \$42m in respect of cash deposits held by the Company with various banks. This has involved liaison with over 20 different banks. Cash totalling a further £24.3m has been requested from the banks concerned but has not yet been remitted to accounts maintained by the Liquidator Provisionally. In some instances we have been advised that set off is being claimed by the banks in respect of monies owed to them by other Kaupthing companies and we are contesting those claims.
5. One of the principal assets of the Company is the amount owed by Kaupthing Singer & Friedlander Limited (in administration) ("Kaupthing UK"). We have worked to establish the various positions held by the Company with Kaupthing UK, which include interest rate swaps, foreign exchange transactions, a repo transaction, a sub participation agreement and a sizeable deposit account maintained with Kaupthing UK. This has involved a number of meetings and telephone calls with the Administrators of Kaupthing UK and we continue to work with them in this regard. Many of the issues under discussion relate to complex legal issues and where required we have sought the relevant legal advice. Whilst we are seeking agreement with Kaupthing UK as to the treatment of these various transactions and the impact of set off, this may not be a quick process given the quantum of the amounts involved and the complex legal nature of many of the issues yet to be resolved.
6. Kaupthing UK was also previously involved in arranging for Certificates of Deposit ("CD's") to be purchased on behalf of the Company. At the date of my appointment there were CD's totalling £53m yet to mature and we have put the building societies concerned on notice of our interest in those CD's. However we are aware that some of the building societies concerned are claiming set off in respect of amounts they are owed by other Kaupthing group companies and that Kaupthing UK have not currently confirmed that the CD's are held directly in the name of the Company or that they have no interest in them. As such I am unable to indicate with any certainty the timing of recoveries in respect of the CD's.
7. As indicated at the date of the last hearing, I have requested offers for a sale of the business and/or a sale of the Company's loan book. A sales process has been initiated

which has involved the preparation of an Information Memorandum and liaison with some 66 interested parties. Indicative offers have been received including a mixture of interest in the business as a whole and in respect of the loan book on its own and are in the process of entering into more detailed discussions with a number (currently approximately 15) of those interested parties. A data room has been set up to allow selected interested parties to commence due diligence. Any offers for the loan book would be benchmarked against what would be achieved from a work out of the loan book and any decision to sell the loan book requires the approval of the Court and the Financial Supervision Commission. (For the avoidance of doubt, any application to Court for approval of a sale will be made with notice to the Joint Petitioners and the any other Noticed Parties to the winding up petition). In the meantime Kaupthing UK have advised that they consider they have rights under sub participation agreements to certain of the proceeds of the loan book. Our initial legal advice is that this constitutes an unsecured claim against the Company.

8. In the meantime we continue to work with the Company staff in ensuring ongoing management of the loan book. Since the date of my appointment we have received £3m, including £2.1m in respect of early redemptions.
9. In respect of amounts owed by the Company's parent company Kaupthing h.f., discussions have been held with the parent company and last week I attended a meeting in Iceland with Gudni Adelsteinsson who was representing Kaupthing h.f. and the Resolution Committee. It became clear at that meeting that the likelihood of the Group being able to honour the parental guarantee is very low. However I have put them on notice of my intention to claim under the guarantee and will submit a claim at the appropriate time.
10. With regard to customers, a considerable reconciliation exercise has been undertaken with regard to both outward payment transactions in transit at the date of my appointment and in respect of incoming deposits, some of which continue to be remitted through the banking system.
11. In respect of the payment transactions in transit or in flight at the date of my appointment, we have worked closely with the clearing banks concerned to ascertain the status of those payments. This has included obtaining information from the Administrators of Kaupthing UK regarding the reconciliation process they have been undertaking separately. Following this process and based on legal advice provided to

me, over 750 individual letters have been written to customers advising them that, following the presentation of the winding up petition, these payments will not reach their intended destinations and the balance on customers' accounts will accordingly be re-credited.

12. In respect of incoming deposits, we have identified the individual transactions concerned and have instructed the relevant banks to return these deposits, given the suspension of the Company's banking license. Over 1,000 such transactions have been identified and have been or are in the process of being returned.
13. In addition to the above correspondence, over 4,700 letters have been sent to customers in responding to queries – the Company has received over 4,000 emails from customers over the last 6 weeks. I estimate that over 6,000 calls have also been received and responded to either directly by Company staff or by PricewaterhouseCoopers staff. Many of the calls and letters we receive indicate the considerable personal hardship that customers are suffering due to the insolvency of the Company. We have sought where possible to provide answers to customers' queries but in a large number of instances these queries relate to requests for clarity as to the process and the timing of any potential returns to customers, which we are currently unable to respond to other than in general terms.
14. In early November, statements as at 30 September 2008 were sent to customers and we are continuing to work with Company staff to update the records of the Company with a view to sending out statements as at 9 October 2008, as soon as possible. Given the volume of correspondence that we are receiving, we continue to use the Company's website as a means of issuing updates to customers when there is further information we are able to provide. Inevitably there are a number of areas where due to reasons of commercial sensitivity and confidentiality requirements, we are unfortunately unable to provide any detailed information.
15. With regard to the Company's ongoing operations, the Company's employees have worked to respond promptly and efficiently to the large number of queries received since my appointment. The staff have been under considerable pressure, given the distressing nature of many of the calls and correspondence received, and I am very appreciative of the professional manner in which they have continued to carry out their work and of their commitment to the Company. Many members of staff are themselves depositors and are therefore in a doubly worrying position.


16. Out of an initial 64 employees, 38 employees remain – some employees have left voluntarily and some have been made redundant (where their role was no longer required or following the sale of the business and assets of a sister company, Singer & Friedlander Investment Management Isle of Man Limited, where the employees worked for that company).

17. On 20 November 2008, Peter Spratt, a partner in PricewaterhouseCoopers LLP, was appointed as Joint Liquidator Provisionally by Order of the High Court of Justice. It is usual in a case of this size and complexity to have more than one appointee and reflects the assistance that Peter was already providing in respect of the realisation of assets located in the UK.

18. Recently I have been involved in discussions with representatives of The Treasury with regard to potential alternative options to a liquidation process, including consideration of a scheme of arrangement. Those discussions are ongoing at this time.

Taken and sworn at Douglas :
This 26th day of November 2008:

Before me:-  :
A Commissioner for Oaths :



KAREN MARGARET MANSELL
COMMISSIONER FOR OATHS

Serial No. CP 2008/94

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**CAINS, Advocates Limited
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DOUGLAS
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