



**Kaupthing Singer & Friedlander Limited  
(in Administration)**

Administrators' Progress Report to creditors for the  
six month period from 8 October 2009 to 7 April 2010

27 April 2010

## Abbreviations

The following abbreviations are used in this report:

Administrators	Margaret Elizabeth Mills, Alan Robert Bloom, Patrick Joseph Brazzill and Thomas Merchant Burton all of Ernst & Young LLP
Arion Bank	Arion Banki hf (formerly Nyi Kaupthing Banki hf)
BoE	The Bank of England
CfD	Contract for difference
Edge	The Edge internet deposit facility
FSA	Financial Services Authority
FSCS	Financial Services Compensation Scheme
FSMA	Financial Services and Markets Act 2000
Funding	Singer & Friedlander Funding Plc
GP	KCP II (GP) Limited
HMT	Her Majesty's Treasury
ING	ING Direct N.V.
Initial Meeting	The initial meeting of creditors held on 1 December 2008
ISDA	International Swaps and Derivatives Association
IT	Information technology
Khf	Kaupthing Bank hf
King Sturge	King Sturge International LLP
KSF	Kaupthing Singer & Friedlander Limited
KSF Group	KSF and its subsidiary companies
KSIOM	Kaupthing Singer & Friedlander (Isle of Man) Limited
LTV	Loan to Value
Master	Kaupthing Capital Partners II Master L.P. Inc
OTC	Over the counter
Overriding Objectives	Certain objectives set out in the Transfer Order which overrode those in paragraph 3(1) of Schedule B1 to the Act for a period of six months from 8 October 2008
Proposals	Administrators' Statement of Proposals dated 14 November 2008 as provided to creditors pursuant to paragraph 49 of Schedule B1 to the Act
RBS	Royal Bank of Scotland
Reverse Repo	Reverse Repurchase Agreement
Repo	Repurchase Agreement
SCML	Singer Capital Markets Limited, formerly Kaupthing Singer & Friedlander Capital Markets Limited
SFAM	Singer & Friedlander Asset Management Limited
SFCM	Singer & Friedlander Capital Management Limited
SFIM Group	Singer & Friedlander Investment Management Limited and its subsidiaries
SIP	Statement of Insolvency Practice
SoA	Statement of Affairs
The Act	The Insolvency Act 1986 (as amended)
The Committee	The Creditors' Committee elected at the Initial Meeting
The Company	Kaupthing Singer & Friedlander Limited
The Group	Kaupthing Singer & Friedlander Group PLC and its subsidiaries
The Notes	A £250m floating rate guaranteed note issued by Funding on 26 January 2005 (due on 9 February 2010)
The Rules	The Insolvency Rules 1986 (as amended)
Transfer Order	Kaupthing Singer & Friedlander Limited Transfer of Certain Rights and Liabilities Order 2008 (as amended)
TSA	Transitional Services Agreement
Wdb	Williams de Broe Limited

## Notice: about this report

This report has been prepared by the Administrators solely to provide creditors with additional information concerning the progress of the Administration in accordance with Rule 2.47(3)(a) of the Rules. Nothing in this report should be relied upon for any purpose including, without limitation, in connection with any investment decision in relation to the debt, securities or any other financial interest of any member of the KSF Group including for the avoidance of doubt any decision to buy or sell or not to buy and sell any debt, securities or other financial interest. Anyone making such investment decisions should rely on their own enquiries prior to making such decisions and none of the Administrators, Ernst & Young LLP, its partners, members, employees, professional advisers or agents accept any liability and/or assume any duty of care to any third party, (whether it is an assignee or successor of another third party or otherwise) in respect of this report.

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The estimated outcome described in this report is provided as an illustration only and may not represent any actual distributions which may be paid to creditors. A number of assumptions have been made to arrive at these figures, some or all of which may prove to be incorrect. Any actual distributions received by creditors will depend on a number of factors including the actual realisations of KSF and its actual liabilities. Clearly, an increase or decrease in the asset realisations and/or an increase or decrease in the liabilities of KSF will impact the final outcome for creditors.

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# 1. Introduction

## Background

On 8 October 2008, KSF entered into Administration and ME Mills, AR Bloom, PJ Brazzill and TM Burton were appointed to act as Administrators by order of the High Court in London. Under the terms of the appointment, any act required or authorised to be done by the Administrators may be carried out by any one of them. Further company information and details of the Administrators' appointment are shown in appendix A of this report.

This report, including its appendices, constitutes the Administrators' third six monthly report on the progress of the Administration pursuant to Rule 2.47(3)(a) of the Rules. This report provides details of the work undertaken in the period 8 October 2009 to 7 April 2010 and should be read in conjunction with the Administrators' previous reports and updates and certain other formal announcements.

Copies of the above documents and other announcements are available on the KSF website, [www.kaupthingsingers.co.uk](http://www.kaupthingsingers.co.uk).

## Summary of the Administration objectives

The objective of the Administration is to realise KSF's business and assets in a manner which will result in a more advantageous realisation for KSF creditors as a whole than would be achieved on a winding up (a formal liquidation, as defined in the Act), without first being in Administration. Additionally, for the first six months of the Administration the Administrators were directed by the Transfer Order to achieve the Overriding Objectives of:

- ▶ Ensuring that KSF provides, and managing the affairs, business and property of KSF to enable it to provide, the services and facilities reasonably required by ING to discharge its obligations in respect of the rights and liabilities under the second transfer (as defined in the Transfer Order).
- ▶ Ensuring that KSF performs the other obligations imposed on it by or under the Transfer Order.

As previously reported, the above Overriding Objectives have been completed.

## Creditors' committee

A Creditors' Committee was elected at the Initial Meeting and its members are as detailed in our letter to creditors dated 4 December 2008. The Administrators and their staff meet regularly with the Committee and have, to date, held nine formal committee meetings. These and other Committee matters are dealt with separately in the body of this report.

## Permission to make distributions and extension to the Administration

The Administrators applied to Court in April 2009 to (i) request the Court's permission to make distributions to unsecured creditors pursuant to Paragraph 65(3) of Schedule B1 to the Act, and (ii) extend the Administration for a period of up to three years, until 7 October 2012. As previously reported, the application was successful and an Order of the Court was issued on 24 April 2009.

## Future reporting

The Administrators' next formal report to creditors will be in approximately six months time covering progress in the period to 7 October 2010.

## 2. Summarised key developments

### Progress in the period

The body of the report below details the major areas of progress since 8 October 2009, certain areas of particular significance being:

- ▶ Banking loan book recoveries of c.£440m
- ▶ All financial instruments that have been made available for sale have now been sold
- ▶ Treasury positions closed out and agreed in the main
- ▶ Significant developments in relation to various applications to Court
- ▶ Substantial progress in the refinancing of the Asset Finance debt
- ▶ Payment of second and third dividends to unsecured creditors

Full details of recoveries made for the period of this report together with the total realisations to 7 April 2010 are set out in appendix C, being the Administrators' Receipts and Payments account.

### Distributions to creditors

The Administrators paid a second dividend on 10p in the £ to unsecured creditors with admitted claims on 9 December 2009 and a third dividend of 5p in the £ on 30 March 2010.

A notice of intention to declare a fourth dividend to unsecured creditors is being issued with the transmittal letter to this report and a copy published at [www.kaupthingsingers.co.uk](http://www.kaupthingsingers.co.uk).

In consultation with the Committee, it is the Administrators' intention to declare a fourth dividend of not less than 5p in the £ in late July 2010.

The historic and estimated future distribution timetable is set out below.

▶ First dividend	22 July 2009	20p in £
▶ Second dividend	9 December 2009	10p in £
▶ Third dividend	30 March 2010	5p in £
▶ Fourth distribution	late July 2010	Not less than 5p in £

Further distributions will be made at regular intervals, subject to the agreement of the Committee and the level of distributable funds making it cost effective to do so.

### 3. Update on conduct of the Administration

#### **The transfer of the Edge deposit book to ING**

Under the Transfer Order, the transfer of the Edge deposit accounts to ING was to be effected and was the Overriding Objective of the Administration. As previously reported, the migration of approximately 170,000 Edge deposit holders with total deposits of c.£2.6bn has been completed and ING have been successfully operating customer accounts on their IT and operational platforms since 9 February 2009.

The orderly wind down and decommissioning of the Edge operational platform and related suppliers, including the separation of IT systems and infrastructure from Khf, has been completed. Residual operational and reporting activities are being finalised to resolve outstanding matters such as tax reporting and support to the FSCS and their advisors over the validation of depositor protection data.

As part of the above transfer operations c.£3.5m has been recovered from ING in respect of their contribution to the Administrators' costs in facilitating this process.

#### **Non-Edge deposit book**

We understand that the FSCS have now processed the majority of eligible claimants' claims which they have received. The Administrators continue to liaise with the FSCS regularly to ensure that their queries in relation to individual claims and requests for additional information are dealt with promptly and that consistent messages are delivered to concerned depositors.

The Administrators and the FSCS have worked closely in accordance with the framework and timetable agreed at the time of payment of the first dividend for the provision of information in respect of payments made by the FSCS to non-Edge depositors prior to payment of each dividend. This process is essential to ensure that depositors do not receive compensation from the FSCS as well as a dividend from the Administration.

Immediately after payment of each interim dividend, the Administrators provide the FSCS with information in respect of amounts paid to non-Edge depositors with admitted claims in the Administration. The FSCS then make future compensation payments to eligible claimants after taking account of any funds they have received from the Administration.

In accordance with agreed processes, the Administrators are receiving information on a regular basis from the FSCS to update KSF's systems for all payments made by the FSCS.

#### **Other creditors**

The Administrators are required to issue a notice of their intention to declare a dividend to unsecured creditors prior to the payment thereof. Accordingly, prior to each dividend, all known creditors are advised of the requirement to formally register their claims, to the extent they have not already done so, by completing an Insolvency Claim Form in accordance with Rule 2.72 of the Rules.

The Administrators have received a total of 924 claims to date with a gross value of c.£5.37bn of which 432 claims (c.£0.58bn) were received from non-Edge depositors. The remaining 492 claims (c.£4.79bn) arise from all other aspects of KSF's business including repurchase and derivative counterparties, CfD clients, landlords, trade creditors, employees, employee taxes and VAT, pension schemes, associated companies and the FSCS. The claims of these creditors rank equally as non-preferential claims.

The gross value of claims is approximately £0.2bn lower than previously reported. Whilst additional claims have been received in the period, a small number of large value duplicate claims have been withdrawn.

## Banking loan book

### *KSF loan books*

The KSF loan books comprise three distinct portfolios; Private Banking, Property and Corporate. The Statement of Affairs value (book values and not estimated to realise values) of each loan book and collections to date are set out below:

(£'m)	SoA as at 8 October 2008	Actual cash collections to 31 March 2010
Corporate	631	527
Property	864	284
Private Banking	1,115	364
Sub participations – KSFloM	167	-
Sub participations – Khf	190	-
<b>Total</b>	<b>2,967</b>	<b>1,175</b>

Total cash receipts to 31 March 2010 from the Banking loan book are c.£1,175m comprising, c.£1,072m capital repayments, c.£94m interest repayments and c.£9m fees.

Further to previous reports, a review of options at the beginning of the Administration concluded that more value could be obtained for creditors by running off the loan books versus an immediate sale. Since that time, the focus of the Administrators has been to continue to stabilise lending through the restructuring and rationalisation of operations in order to endeavour to maximise the returns for creditors.

The day-to-day operations continue to be managed by KSF staff under the supervision of the Administrators or their staff. All credit related decisions are presented to the Administrators at twice weekly Credit Committee meetings for final approval.

As advised to creditors, a detailed facility by facility review was undertaken in the early months of the Administration and strategies for all exposures and their recovery have been formulated and are managed on an enhanced banking database. These strategies continue to be progressed and amended as circumstances change, with the aim of maximising realisations and, where possible, seeking early repayment.

There continue to be a limited number of cases where it has been necessary for KSF to make further loan advances to customers to preserve or enhance value in KSF's security or to comply with facility documentation. To date, drawdowns of this nature total c.£31m. To the extent that KSF has had to provide further funds, beyond those initially envisaged as debt finance, an appropriate commercial rate of interest has been charged.

Loan book provisions are reviewed quarterly on a loan by loan basis. As loan accounts are closed, write-offs are verified and approved by the Administrators. A write-off arises when the ultimate value of the security/collateral held is not sufficient to cover loan exposures. Write-offs total c.£40m to date.

Where appropriate, a small number of loan accounts have been migrated between loan books following Administrator Credit Committee approval. This has resulted in an increase in the number of borrowers included in the Corporate loan book from both Private Banking and Property loan books.

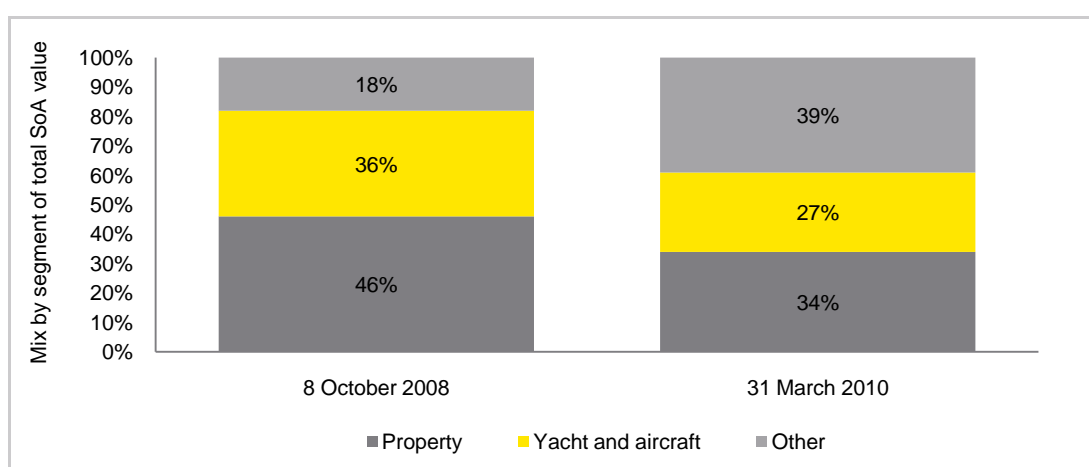


## Private Banking

(£'m)	SoA value as at 8 October 2008	SoA value less actual collections to 31 March 2010
Book value	1,115	751
Sub participations – KSFloM	167	200
No. of borrowers	372	222

Actual cash collected 8 October 2008 to 31 March 2010	(£'m)
Capital	332
Interest	31
Fees	<1
<b>Total</b>	<b>364</b>

The chart below sets out the mix by segment of the Private Banking book by the value of amounts outstanding:



Note: 'Other' includes, securities backed loans, art, unsecured loans, cash backed loans and sub-participations

The Private Banking loan book continues to be managed in three segments, Property, Yacht & Aircraft and 'Other'. The Yacht & Aircraft portfolios are managed separately due to their specialist nature requiring expert knowledge.

As reported previously, the typical UK residential mortgage written by Private Banking was a five year, interest only mortgage to a high net worth individual customer. Such loans remain difficult to refinance given rising LTV ratios, the limited number of lenders who are active in the current market, and increased default risk given the current economic conditions. As a result of this, KSF's strategy for these loans continues to be focused on early communication with customers of the need to refinance on or before maturity. The other significant portfolio within this segment is overseas property loans, accounting for 10% of the total Private Banking loan book.

As at 31 March 2010, 27% of the total Private Banking loan book by value was secured against yachts and aircraft. The book comprises mostly large, luxury yachts. No further large yacht constructions are being financed.

The aircraft portfolio includes loans secured against private jets and helicopters. Activity to date has continued to focus on encouraging borrowers to refinance or to sell the security on a voluntary basis. KSF has managed to exit from six of its 26 positions in respect of the Yacht & Aircraft book, four of these in the last six months.

Currently comprising in 26% of the total Private Banking loan book, KSF has sub-participated in loans advanced by KSFloM. These sub-participations are 'silent' in that KSFloM is the lender of record. KSF has not advanced any further funds in respect of sub-participated positions, but the balance outstanding has increased by c.£33m due to interest accruals and

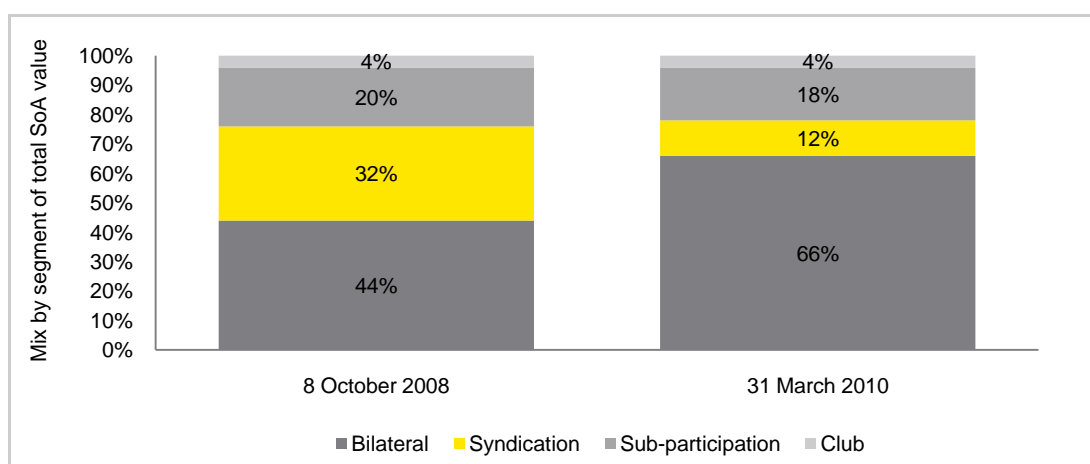
foreign exchange fluctuations. The sub-participations will represent a claim for KSF against KSFIO which will be subject to mandatory set-off against the claim submitted in the administration by KSFIO.

### Corporate loan book

(£'m)	SoA value as at 8 October 2008	SoA value less actual collections to 31 March 2010
Book value	631	104
Sub participations – Khf	190	211
No. of borrowers	77	54

Actual cash collected 8 October 2008 to 31 March 2010	(£'m)
Capital	475
Interest	47
Fees	5
<b>Total</b>	<b>527</b>

The Corporate loan book is managed by loan type and comprises: syndicated loans, club loans and bilateral/senior lender loans. Within these categories, 7 loans in the Corporate loan book relate to sub-participations in Khf facilities. The chart below sets out the components of the Corporate loan book by value of amounts outstanding as at the SoA date of 8 October 2008 and as at 31 March 2010:



Bilateral/senior lender loans represented 66% of the Corporate loan book at 31 March 2010. Typically KSF is either the sole lender or a senior lender alongside a UK clearing bank and holding a significant portion in a small syndicate on what are generally Private Equity backed companies. The current strategy continues to focus on encouraging the borrower and/or other individual members to refinance KSF's position.

The portion of syndicated loans in the total Corporate loan book has reduced from 32% at 30 September 2009 to 12% at 31 March 2010.

Syndicated loans are typically positions where KSF has a minority position within a large syndicate, lending on large Private Equity backed entities. Since the last progress report dated 30 October 2009, there has been increased liquidity and debt prices have generally risen in the secondary markets allowing KSF to sell some debt positions more readily and at more attractive discount levels.

In 18% of the Corporate loan book, KSF has sub-participation positions in loans advanced by Khf. These sub-participations are 'silent' in that Khf is the lender of record. KSF has not advanced any further funds in respect of sub-participated positions, but the balance outstanding has increased by c.£21m due to interest accruals and foreign exchange

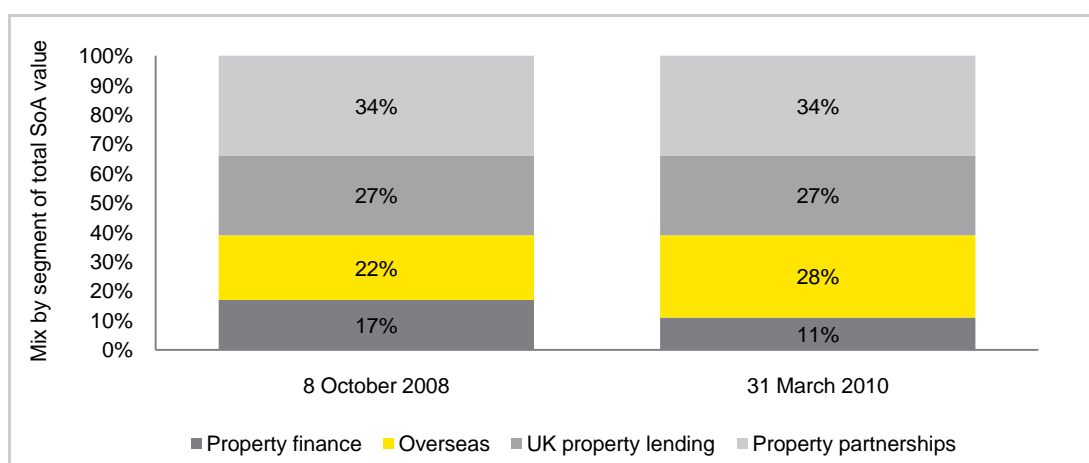
fluctuations. The sub-participations form part of the KSF claim submitted to the Winding-up Committee of Khf.

### Property loan book

(£'m)	SoA value as at 8 October 2008	SoA value less actual collections to 31 March 2010
Book value	864	580
No. of borrowers	220	126

Actual cash collected 8 October 2008 to 31 March 2010	(£m)
Capital	264
Interest	16
Fees	4
<b>Total</b>	<b>284</b>

The chart below sets out the components of the Property loan book by mix by underlying security type:



As previously reported, the Property loan book was significantly weighted towards development facilities. The loan book had a large exposure to the UK residential sector, which has been significantly and negatively impacted by the recession. The focus during the last six months has been to continue to encourage borrowers to refinance and/or sell completed developments. To date, the majority of recoveries have been at or around par. We continue to meet requests for committed funds where expenditure helps to preserve and improve the value of the security. We continue to make every effort to work with borrowers. However, where borrowers are uncooperative and/or are in breach of their loan facilities, we have taken steps to realise the value of our security by the appointment of LPA receivers or administrators.

Where feasible and attractive from a recovery perspective, KSF is seeking to promote joint venture arrangements to either complete or otherwise enhance the underlying security value of development facilities. A number of such arrangements are currently being negotiated with a particular focus on KSF's largest exposures within the Property loan book.

Property loan book cash receipts since appointment total £284m as at 31 March 2010. This comprises capital receipts of £264m and interest and fees of £20m.

Despite a recent fall in UK residential property values in February 2010, values in the residential sector have shown signs of recovery over the last six months. House prices rose by 1.1% in March 2010, the eighth rise in the last nine months. However, despite the recent rises in house prices the lack of funding availability, together with increased risk perception in relation to property developments continues to depress the value of development sites and part completed developments.

On completed property stock the increase in market activity in the residential sector also appears to be concentrated in established locations, with London and South East England continuing to outperform the rest of the UK.

The Property loan book also has a relatively immature, large ticket, UK commercial lending concentration, the majority of which was written after the third quarter in 2007, close to the top of the market. Consequently, many of the remaining outstanding balances of loans exceed the market value of the Bank's security. Consensual restructurings have been and are continuing to be pursued on a number of such loans with a view to enhancing KSF's security through, for example, seeking revised planning permissions on development schemes that have proven to be no longer commercially viable.

Over the past six months, the majority of loans recovered in the overseas book were driven by refinancings of completed residential properties in France, which is expected to continue over 2010. The severe lack of credit availability in the Caribbean markets continues to depress demand in the area – in particular for development sites, which serve as security for the majority of loan exposures in the Caribbean. With the traditional selling season coming to a close, there has, however, been a marked improvement in investor sentiment for Barbados real estate and the bank is looking to conclude negotiations with third party investors as well as current borrowers on a number of exposures in the Caribbean portfolio over the coming months.

### **Sale process**

Although a disposal of the KSF banking business was initially tested in the early months of the Administration, it was not appropriate to progress discussions beyond the receipt of indicative offers as they were not at a level that was attractive to the Administrators.

As a result of the improved economic landscape, the Administrators received a number of expressions of interest in Q4 2009 and following the Committee's agreement in December 2009, the Administrators took the decision to approach the market to re-assess appetite. This process is ongoing with a limited number of parties and we will evaluate the offers received and present the findings to the Creditors' Committee meeting in early June.

### **Treasury assets**

As previously reported, KSF had a large number of Treasury assets, which the Administrators have dealt with under four workstreams, as described below.

#### ***Repurchase agreements and reverse repurchase agreements***

This workstream is now nearly complete with settlement agreed and cash received, where appropriate, for all bar one counterparty. Through negotiation, we were able to significantly improve the position for the estate on a number of these positions. Our only outstanding claim is against Khf and we do not expect confirmation of agreement of the claim in the immediate future (although we have quantified what we believe to be the claim).

#### ***Contracts for differences and Equity Swaps***

This workstream has focused on the numerous counterparties with CfD and spread betting accounts and the Prime Brokers against which these positions were hedged with equity swaps.

In the six months to April 2010, the focus of this workstream had moved from quantification to negotiation. Many of the CfD positions held were on illiquid equity positions thereby leading to complex calculations on termination value and, therefore, has resulted in protracted negotiation processes for certain counterparties. Despite this, a number of settlements have been achieved (including the largest by value) and all significant counterparties have been engaged in negotiation. However, we expect at least some to result in Court proceedings.

Settlement has now been agreed with four of the six Prime Brokers. This includes settlement with one Prime Broker which resulted in a significant value shift in our favour and the waiving of a £110m trust claim against the Administration. Negotiations are advanced with one of the residual Prime Brokers but we expect negotiations to be extended with the final Prime Broker.

### ***Over the counter derivatives***

As at the date of the appointment of the Administrators, KSF had a significant number of open derivative positions, the majority of which were plain vanilla swaps and options in respect of interest rates and foreign exchange.

Where clients have terminated the relevant derivative we have sought, as with those with market counterparties, to reach a conclusion on the valuation of final settlement. However, there remain a number of open derivatives which we expect not to be terminated as they are associated with banking book exposures that we expect to be open for the medium to long term.

### ***Sale of Investments***

As previously reported, KSF held a number of investments, primarily listed equities and holdings in investment trusts but also some corporate debt positions. The majority of positions are UK holdings although there are some significant non-UK holdings (including Icelandic positions). We initially focused on the identification and confirmation of specific holdings, the confirmation of legal title and the engagement of market leading brokers to facilitate eventual exit from these investments.

The majority of the UK holdings had been sold before the period of this report and the focus in the last six months has been the exit of the less liquid positions, including the significant portfolio of Icelandic Krona denominated assets and cash. This process has been successful with the sale of all of the significant Icelandic Krona assets (with one exception) and the sale of the residual pool of 70 highly illiquid UK positions. The one exception is the subject of negotiations to achieve an early sale.

Some investments do remain on balance sheet but these are considered to either be in default or be held at nil value.

### ***Subsidiary companies***

#### ***Singer & Friedlander Investment Management Group***

As previously reported, an agreement was reached to effect the sale of the business and assets of the SFIM Group businesses to WdB. At the same time a TSA was entered into in order that the acquired businesses could be supported by SFIM Group whilst in the process of being transferred to WdB. This transfer is now complete and all costs under the TSA have been recovered.

The successful sale and transfer of the business and assets of SFCM was effected to WdB on 26 March 2010. This will enable the solvent liquidation of SFCM and SFAM (subject to FSA approval) in the coming months, followed by the solvent liquidation of SFIM, again subject to FSA approval to relinquish the Investment Management Advisory licence. Work is now being undertaken to ensure issues preventing the companies within SFIM Group being put into members' voluntary liquidation are resolved.

#### ***Asset finance subsidiaries***

The Asset Finance division of KSF comprised eleven companies with eight separate businesses ultimately owned by KSF. The companies are all solvent, with total net assets estimated as at 30 September 2008 of approximately £48m. In addition, there were loans from KSF to these companies totalling approximately £536m. These companies remain profitable and cash generative and are currently meeting their interest repayments on the loans advanced by KSF.

As previously reported, shortly after our appointment the decision was taken to keep all of the Asset Finance businesses as part of the KSF Group for the foreseeable future, to seek to obtain some debt funding against the security of the underlying assets during 2009/2010 and to seek a new owner for the Asset Finance businesses at a later date. The timing of this strategy was, to some extent, to be dictated by market conditions and the performance of the businesses. It was agreed that this strategy would be most likely to deliver the best return for KSF, as creditor and shareholder and, in turn, for the creditors of KSF.

As part of the strategy to refinance the Asset Finance companies, a restructuring exercise was undertaken in August 2009. The result of this exercise was to re-launch the division as a new consolidated legal structure with a new legal name (Singers Asset Finance Holdings Limited), a new brand and with harmonised systems and staff contracts.

On 9 December 2009, a new fixed rate loan facility with KSF was implemented. The amendment to their existing facilities with KSF was completed to incorporate the group simplification (referred to above), to encourage the repayment of surplus cash to KSF and to formalise a repayment profile going forward.

At the time the fixed rate loan facility was put in place, the swap contracts were terminated resulting in £23m being paid to KSF. In addition to this, the division has since repaid a further £54.5m of capital.

Regular meetings continue to be held with management of Asset Finance companies to monitor the performance of their businesses, cashflows and profitability, and to review management information.

During the period, the Asset Finance management team have continued to liaise with several banks regarding the proposed refinancing of the division. Following protracted discussions with the banks and the receipt of two indicative term sheets, the Administrators asked the Asset Finance management to make a recommendation as to which bank they wished to further pursue the external funding with. A recommendation has since been received and approved by the Administrators. The bank has given an indicative offer in respect of part of the refinancing and the bank is now completing its due diligence process.

### ***KCP II (GP) Limited (In Liquidation)***

At the date of our appointment, GP was a wholly owned subsidiary of KSF and the general partner of Master, a specialist captive investment fund (the 'fund'). KCP II ehf, a wholly owned subsidiary of Master held certain funds on deposit with KSF. As a result of GP's interest in Master and SFAM's claim into GP, (as Operator of the fund and a company controlled by KSF), KSF have a potential economic interest in the outcome of the 'KCP' insolvency processes.

As reported previously, both GP and Master were put into administration on 9 October 2008 with Anthony Spicer and Henry Shinnars of Smith & Williamson Limited having been appointed as joint administrators. On 22 January 2010, the GP administrators petitioned the Court for GP to be wound up and for their office as administrators to cease. On 24 February 2010, the administrators of GP were appointed joint liquidators by the High Court. Following the discovery of a deficiency in the Master administration appointment documentation, it has recently been held that the appointment as administrators of Master is invalid. However, as liquidators of GP, the joint liquidators (Messrs Spicer and Shinnars from Smith & Williamson Limited) have the necessary powers to continue to manage the fund as general partner.

It is understood that during the period covered by this report, Master sold its shareholding in ADP Primary Care Acquisitions Limited for £30m. In addition, a claim was submitted by a subsidiary of Master (KCP II ehf), to the KSF Administrators which (following adjudication) was duly admitted in the sum of £49,262,680. The former Master administrators are currently holding the cash balance from the three KSF distributions to date on the above claim in addition to certain share sale proceeds.



### ***Singer & Friedlander Funding Plc (In Administration)***

As reported, on 8 May 2009 the Funding Administrators submitted a claim in the administration of KSF for c.£243m. The KSF Administrators have not admitted the claim on the basis of existing case law as there was an issue as to whether, in determining the amount of any distribution due to Funding, the KSF Administrators were required (or entitled), to take into account the full amount of indemnity that would be due to KSF from Funding as a result of KSF guaranteeing the Notes. Accordingly, on 31 July 2009 the KSF Administrators applied to Court for directions on how to determine the value of the Claim.

Judgment on the application was handed down by the Chancellor of the Chancery Division on 18 December 2009. The Court held that the rule in *Cherry v Boulton* did apply to the claim and, consequently, that no distribution was payable by KSF to Funding on the claim. The Trustee of the Notes sought and was granted leave to appeal directly to the Supreme Court. This matter is commented upon more fully in the legal issues section of the Progress Report.

The claim submitted in the KSF Administration by the Trustee under the guarantee provisions of the Notes has been admitted in full as an unsecured claim in the amount of c.£243m.

### **Other subsidiary companies**

You will be aware that KSF has a number of other subsidiary companies.

As previously reported, a high level review of the subsidiary entities has been completed by the Administrators in conjunction with relevant KSF management and staff. The purpose of the reviews of each of the entities was to ascertain their function and/or purpose and review their current financial position.

The review has enabled the Administrators to determine which entities can be dissolved quickly via a strike off process and which will need to be placed into solvent (or potentially insolvent) liquidation in order to realise any value for KSF. To date, the following direct/indirect subsidiaries have been placed into solvent liquidation or dissolved via strike-off procedure.

<b>Members' voluntary liquidation</b>	<b>Date of appointment</b>
Singer & Friedlander Investment Management Holdings Limited	31 March 2009
KB Retail Advisory Limited	16 June 2009
Sinjul Investments Limited	16 June 2009
Wintrust Securities Limited	16 June 2009
Kaupthing Limited	02 July 2009
Peaston Emerson's Green Limited	11 November 2009

<b>Strike off</b>	<b>Date struck off the register</b>
Singer & Friedlander Secretaries Limited	21 July 2009
Kaupthing Steadfast Limited	21 July 2009

Work is continuing, in conjunction with KSF staff, to resolve issues which will enable further entities to be struck off or liquidated. The aim of this exercise is to minimise the costs of liquidation by resolving issues prior to liquidation. We expect to be in a position to place a further two group companies into members' voluntary liquidation in the coming weeks.

Attached at appendix B is a summary of the current corporate structure.

### **Other assets**

In the period of this report, our property agents (King Sturge), have assisted in the disposal by means of public auction of various surplus assets including all office furniture formerly situated at the Hanover Street premises.

In addition, as part of the tangible asset disposal process, all artwork owned by KSF has been released to Christies and Bellmans auctioneers to arrange sales by auction. The remaining artwork from the New Street and Hanover Street properties was sold over several auctions between October to December 2009. There are now only a few pieces of artwork that remain unsold and which continue to be marketed.

#### **Kaupthing Singer & Friedlander (Isle of Man) Limited (In Liquidation Provisionally)**

The Administrators and the Joint Liquidators of KSIOM have been working together to resolve the transactional positions which existed between KSIOM and KSF at the time of KSF's Administration. As part of this process, KSIOM have submitted a claim in the Administration of KSF in respect of funds held on deposit with KSF and amounts due to KSIOM in respect of repurchase and derivative agreements with KSF.

The process of reconciling the constituent parts of the KSIOM claim has taken longer than the Administrators or the Joint Liquidators expected. The principal matter outstanding is agreement in relation to the value attributable to the loans made by KSIOM where KSF acted as sub participant, as explained in the loan book section of this report. However, the Administrators and the Joint Liquidators are seeking to finalise adjudication of the KSIOM claim as soon as possible.

In addition to the KSIOM claim, the Administrators have also assisted the Joint Liquidators of KSIOM with various matters relating to the use of certain shared systems prior to Administration.

#### **Kaupthing Bank hf**

The Resolution Committee held a creditors' meeting on 20 October 2009 to discuss the options in relation to an agreement between the Resolution Committee and the Icelandic Government on the capitalisation of Arion Bank. Essentially, the two options available to the Resolution Committee were:

- ▶ For Khf to acquire approximately 87% of the share capital in Arion Bank from the Icelandic Government in return for 65% contribution to the capitalisation, leaving the Government with the remaining 13%, or
- ▶ To decide not to participate in Arion Bank's capitalisation for the time being, but retain the option to acquire up to 90% of the share capital between 2011 and 2015.

Whilst the Resolution Committee did not take a vote of creditors in relation to their decision, the purpose of the meeting was to consult with creditors prior to making their decision. On 1 December 2009, the Resolution Committee announced that they had agreed to proceed with Option 1 above.

At the request of Kaupthing Bank's Resolution Committee, the District Court of Reykjavík granted Kaupthing Bank a further nine month extension of the moratorium on debt payments until 13 August 2010.

As previously report, on 30 June 2009, the Winding-up Committee issued a notice inviting creditors to file their claims and thereby set in place the formal claims registration process. This notice marked the initiation of the period for filing claims and set a six month deadline for receipt of claims against Khf by 30 December 2009.

The Administrators submitted KSF's claim against Khf and supporting documentation in early December 2009. The collation of the claim was complex and, therefore, time consuming. The gross value of the claim submitted by the Administrators was approximately £753m, subject to set off in respect of claims from Khf under loan subparticipation agreements and agreement of collateral valuations applied by KSF. The Administrators are unable to provide an indication of the net claim against Khf until the Winding-up Committee have reviewed the claim and notified the Administrators how they intend to value the claim.



The Administrators attended a creditors' meeting convened by the Winding-up Committee of Khf for 29 January 2010. At the meeting, creditors were advised that of the c.27,000 claims made against Khf, 16,000 related to claims by German EDGE depositors for interest. Depositors in Germany received protection for the principal amounts but did not receive interest, so these rank as unsecured claims. These claims were accepted in full at the meeting. The remaining claims relate to bondholders (approximately 10,000), trade creditors and bank counterparties such as KSF.

It is anticipated that the bondholder claims will be resolved by the next creditors' meeting on 18 May 2010. Other claims will also be considered at that meeting or a final meeting to be scheduled for December 2010, by which time we understand that all claims must be accepted or rejected. However, no timeline was given for when distributions may start to be paid or what the likely outcome for creditors would be.

The Resolution Committee have stated that they are currently unable to provide an estimate of the likely recovery for creditors. The principal reason for this is that until the Winding-Up Committee have finalised adjudication of claims received, particularly priority claims, the extent and nature of Khf's liabilities is uncertain.

The Administrators will attend all creditors' meetings convened by the Winding-up Committee to ensure that they are able to take any appropriate action in relation to the claim submitted by KSF.

Copies of the Resolution Committee's monthly progress reports to creditors are available on the Khf website ([www.kaupthing.com](http://www.kaupthing.com)), and provide greater detail in respect of the above and all other matters relating to the Khf estate.

### **Taxation and VAT**

The Administrators' VAT and Corporate tax teams have undertaken work to ensure KSF's tax position during the Administration period is optimised and outline where there are potential adverse tax implications for KSF.

## 4. Other matters

### Statutory and legal reporting update

#### **Statement of Affairs**

In view of the redaction of the Directors' SoA, as detailed in earlier reports, we have not reflected the Directors' Estimated to Realise valuations as required under SIP 7 in the Receipts and Payments account attached at appendix C.

#### **Regulatory and Compliance**

KSF and a number of its subsidiaries are FSA authorised, and continue to require an appropriate set of regulatory permissions through which to hold and manage assets under the Administration. The Compliance, anti-money laundering (AML) and Risk team comprises a small number of regulatory specialist staff to ensure ongoing compliance with FSA and other regulatory requirements.

During the period, there has continued to be engagement with FSA on a wide range of regulatory issues, including:

- ▶ The provision of information relating to historic market dealings, investigations, and disclosure requests.
- ▶ Obtaining regulatory waivers from the requirement to produce regulatory and reporting items no longer required for the Administration.
- ▶ Working with FSA and third party investment managers to dispose of the businesses within the asset management division in an orderly manner, having regard to both the interests of underlying customers and the Administration

In addition, in the context of business as usual, the regulatory team have:

- ▶ Handled complaints in line with company policy and FSA guidelines.
- ▶ Reduced the number of FSA approved persons to reflect the revised nature of activities in Administration.
- ▶ Conducted business as usual compliance and AML monitoring (including counterparty screenings, personal account dealing, conflicts of interest checks, and specific transaction and trade reviews). These have not identified any significant issues in the period.
- ▶ Maintained regular dialogue with, and reported to, the FSA and other regulatory authorities in line with continuing obligations.

#### **Legal issues**

##### ***Bank of England Account***

As previously reported, the Administrators applied to the High Court for directions in relation to how certain monies deposited in an account (the 'Account') with the BoE should be distributed (in accordance with a First Supervisory Notice issued by the FSA on 3 October 2008). The Account contained monies equivalent to the aggregate value of deposits accepted by KSF from its customers during 2-3 October 2008. As at 23 March 2010 the balance of the Account was £148,896,988.

The judgement was handed down on 10 July 2009, in which the Judge granted permission for all parties to appeal the judgment and all parties (save for the Administrators) filed an Appellant's Notice with the Court of Appeal. The appeal hearing was held on 23 and 24 March 2010. The appeal hearing considered the following three main issues:

- ▶ Who has an interest in the Trust Account. The key question being whether group companies and financial institutions obtain an interest.
- ▶ Whether KSF obtains an interest in the account (either pro-rata or in priority) in respect of depositors who later withdrew funds from the account, and for which KSF paid the amount of the withdrawal.
- ▶ Whether FSCS obtain the rights of EDGE depositors in respect of the account either by way of assignment or subrogation.

We currently await judgment from the Court of Appeal.

Creditors should be aware that the Trust monies of c.£149m are not recognised in the Receipts and Payments account reflected in appendix C. The effect of the final outcome of the legal proceedings may result in a return of certain funds to the Administration, for example in relation to depositors who have received dividends of 35p in the £ from the Administration in respect of deposits made in the period of the Supervisory Notice for which they may have an interest in the Trust. The Administrators are unable to make any estimate of the return in the Administration, if any, from the Trust until the Appeal Court judgement is made.

#### ***Insolvency set-off pursuant to the Rules***

As previously reported, the Administrators applied to Court for directions as to the operation of certain aspects of Rule 2.85 and Rule 2.105 of the Rules, which govern the way in which mutual debts owing between KSF and its creditors are set off against each other. Judgment was handed down on 2 October 2009 and the High Court gave leave to appeal to the Court of Appeal. The Administrators appealed the part of the judgement which held that debts (payable to or by KSF) maturing after the Administrators' payment of the first distribution (on 22 July 2009) should be discounted to present value according to the statutory formula contained in Rule 2.105 without regard to interest.

The appeal was heard on 15 April 2010 and a judgment is expected to be received in 8-12 weeks.

#### ***KSF Subordinated Bonds***

An Application for directions as to how to value the claim that was submitted by the Trustee for the subordinated bonds was heard before a registrar on 29 October 2009 for the purpose of setting a hearing date for the application. The half day hearing took place on 18 February 2010.

The Trustee of the bonds was invited to be joined in the application but did not choose to be. Mr. Justice Blair directed that the claim by the Trustee on behalf of the holders of the bonds shall not be admitted for dividend in the Administration of KSF until the Senior Liabilities of KSF (as defined in the trust deed) have been paid in full and then shall only rank for dividend against any surplus remaining after payment of the Senior Liabilities.

In reaching his decision, Mr. Justice Blair accepted counsel for the Administrators' submissions that, properly construed, the term 'winding up' in the terms and conditions of the bonds extended not only to compulsory or voluntary liquidation, but also to administration where a notice of a proposed distribution to creditors has been given in accordance with rule 2.95 of the Rules.

On 9 March 2010, as a consequence of the Order, the Trustee's claim was formally rejected as an admissible unsecured claim in the Administration.

#### ***Challenges to the Administrators' decisions on creditors' insolvency claim forms***

Two creditors of KSF applied to the Court under Rule 2.78 of the Rules to appeal the Administrators' decisions on the insolvency claim forms which they lodged in the

Administration. Both claims relate to the correct valuation of positions under CfDs that KSF entered into prior to the Administration.

If the Administrators were successful on these appeals, the effect would be that KSF would have a significant money claim against each of the creditors. For this reason, the Administrators have agreed with each of the creditors that the Companies Court application be stayed and that the Administrators would file claims in the Commercial Court for payment of the debts. The applications were listed in early November and consent orders reflecting this approach were made.

In respect of one of the creditors, the Administrators commenced proceedings on 18 December 2009 on behalf of KSF for recovery of the debt due. The Administrators filed detailed Particulars of Claim with the Court on 20 January 2010. The creditor filed a defence on 26 February 2010, but this did not include a counterclaim for a debt owed to it. Further discussions and correspondence with both creditors is ongoing, in the hope of avoiding the need for a full hearing in the Commercial Court.

### ***Singer & Friedlander Funding Plc (In Administration)***

The Administrators applied to Court to determine how to value the claim that Funding has submitted in the administration of KSF in respect of an intercompany debt that KSF owes to Funding.

The Administrators considered and had been advised by their legal advisers that, based on case law (the rule in *Cherry v Boulton* and as applied by the case of *SSSL Realisations*), Funding could not participate in a distribution from KSF in relation to the intercompany debt owed by KSF to it until Funding indemnified KSF in full for payments made by KSF in its capacity as a guarantor of the Notes. The trustee of the Notes ('the Trustee') was formally authorised by noteholders to participate in the application to argue that the Funding claim should be valued for its full amount. The Trustee argued that the terms of the trust deed exclude the operation of the rule in *Cherry v Boulton*.

A substantive hearing took place on 8 and 9 December 2009 before the Chancellor of the Chancery Division. The arguments turned mainly on the construction of the terms of the trust deed and whether the exclusion contained therein is sufficiently wide to capture an exclusion of the rule in *Cherry v Boulton*. The hearing concluded on 9 December 2009 and judgment was handed down on 18 December 2009 in favour of KSF. The Chancellor held that the terms of the trust deed did not exclude the rule in *Cherry v Boulton*. This means that Funding's claim in respect of the intercompany debt would be valued at zero and no dividend is payable by KSF to Funding.

The Trustee sought and was granted leave to appeal directly to the Supreme Court in what is known a 'leapfrog' appeal (as the Court of Appeal, the court of next instance, would be bound by the Court of Appeal decision in *SSSL Realisations* which interpreted the rule in *Cherry v Boulton*). The Trustee filed its application to seek permission from the Supreme Court Appeals Panel to bring the appeal on 29 January 2010. The Supreme Court Appeals Panel has given the Trustee permission to appeal directly to the Supreme Court.

### ***Application for directions in relation to certain shares***

The Administrators have been in dispute with Sportsdirect.com Retail Limited ('Sports Direct') regarding the ownership of 12.1 million shares in Blacks Leisure Group plc and 5.8 million shares in JD Sports Fashion plc. Sports Direct allege that a transaction was entered into immediately prior to KSF's entry into administration that had the effect of selling the shares to Sports Direct for approximately £16m. The market value of the shares at the time was approximately £19m. The Administrators do not accept the allegations by Sports Direct.

A court hearing is now scheduled for two days in a three day window commencing 26 April 2010 in order to resolve this dispute.

## **Receipts and Payments account**

The Receipts and Payments account for the period 8 October 2008 to 7 April 2010 is attached at appendix C. This shows all funds received and paid from the bank accounts under the Administrators' control. It should be noted that (where applicable) all payments are shown inclusive of VAT. The cash is held across a number of clearing banks in order to mitigate risk. Some monies are invested in low risk, short term money markets in order to achieve a greater rate of return than if left in a standard business current account.

We continue to return erroneously received monies in the post Administration period in line with legal advice provided. This repayment process is being undertaken manually with assistance from KSF staff. Over the last six months we have reduced unallocated receipts by c.£2.5m.

Since our last Progress Report, the receipts and payments format has been adjusted with a number of coding lines being consolidated, so as to ensure the schedule is clearer without eliminating any significant financial information. In view of the consolidation of the receipts and payments descriptions, we have attached at appendix C, four Receipts and Payments accounts: the first being a summary cash position (in the revised format incorporating all currencies), on a cumulative basis for the period to 7 April 2010. The additional Receipts and Payments accounts (for each currency held), are in the reporting style consistent with our second Progress Report to allow us to reflect all transactions to date on both a cumulative basis (i.e., to 7 April 2010) as well as the specific six month cash movements being from 8 October 2009 to 7 April 2010, in accordance with the requirements of SIP 7.

## **Non-preferential creditors**

As you will be aware, on 30 October 2009 the Administrators issued a notice of their intention to declare a second dividend to unsecured creditors. Subsequently, on 9 December 2009, the Administrators declared and paid a second dividend of 10 pence in the £ to creditors whose claims had been admitted to rank for distribution. The initial cost of the dividend to the estate was £423,724,397, being 10p in the pound on claims of £4,237,243,968.

On 18 February 2010, the Administrators issued a notice of their intention to declare a third dividend to unsecured creditors. On 30 March 2010, the Administrators declared and paid a third dividend of 5 pence in the £. The initial cost of the dividend to the estate was £215,532,654, being 5p in the pound on admitted claims of £4,310,653,081.

At the time of paying each dividend, the Administrators are required to make provision for the dividend entitlements payable in respect of those claims which are disputed in whole or part at the date of the dividend. At the second dividend, the Administrators made a provision of £234,031,867 for unsettled claims in the amount of £780,106,222. At time of the third dividend, this was increased to £247,191,778 for unsettled claims in the amount of £706,262,222.

As the disputed claims are resolved, funds reserved at prior dividends are used to settle any dividend entitlements attributable to the finalised claim and any surplus funds reserved against such claim released back to the estate. The Administrators continue to be proactive in processing outstanding claims resulting in a reduction of unagreed claims from 152 at the time of paying the first dividend to 51 at the time of the third dividend.

A notice of intention to declare a fourth dividend to unsecured creditors is being issued with the transmittal letter to this report and a copy published at [www.kaupthingsingers.co.uk](http://www.kaupthingsingers.co.uk). The last date for proving to qualify for the fourth dividend has been set as 28 May 2010. The Administrators are required to declare and pay the fourth dividend within two months of this date and intend to publish an update in respect of the timing of payment of the dividend on the KSF website in the week commencing 5 July 2010.

### **Estimated Outcome for Creditors**

The Administrators are not in a position to provide confirmation of the exact timing or quantum of future dividends at this time. However, we are conscious that an indication of timing of the fourth dividend is required by creditors in view of financial planning and/or statutory accounting purposes.

Accordingly, the Administrators advise that it is their intention to declare a fourth dividend of not less than 5p in the £ in late July 2010. The historic and estimated future distribution timetable are set out below.

▶ First distribution	22 July 2009	20p in £
▶ Second distribution	9 December 2009	10p in £
▶ Third distribution	30 March 2010	5p in £
▶ Fourth distribution	late July 2010	Not less than 5p in £

The Administrators will ensure that the fourth dividend is maximised and will agree the quantum with the Committee prior to declaring the dividend.

It is also the intention of the Administrators to pay further dividends at regular intervals thereafter, subject to the agreement of the Committee and it being cost effective to do so. The quantum of each dividend will be dependent upon the level of distributable funds at the time of dividend and, consequently, we are not able to provide an indication of the quantum or the timing of subsequent dividends at this time.

On the basis of current forecast recoveries from the banking book, prudent estimates of realisations from other assets, on the maximum estimates of unsecured claims, and current market conditions not deteriorating, the Administrators currently estimate that total distributions to unsecured creditors should be in the range of 65p to 78p in the £. The Administrators would stress that this estimate could be lower or higher if there are significant issues which impact either future realisations or the level of claims from creditors and thus the estimate is indicative and cannot be relied upon.

### **Creditors' Committee**

The Administrators continue to regularly report to the Creditors' Committee on matters of importance in relation to KSF. To date, the Committee have received monthly Administration updates and have attended nine committee meetings.

The Creditors' Committee have approved various matters going forward most recently for example, the ongoing run off strategy and the proposal for the sale of elements of the loan book together with advising the Administrators on creditor concerns.

The Committee has expended significant time in attending the formal meetings, providing assistance with the above and other matters and we wish to express again our thanks for this assistance and the considerable time they have committed to date.

### **Administrators' remuneration and disbursements**

Following the Initial Meeting of creditors at which a Creditors' Committee was established, the Creditors' Committee resolved that the Administrators' remuneration be fixed on a time-cost basis. The Creditors' Committee additionally agreed that the Administrators be allowed to draw 80% of their time costs (plus VAT and expenses) on a rolling monthly basis with the remaining 20% only, being subject to approval at future Creditors' Committee meetings or by separate fee Resolution.

As part of the fee approval process, the Committee members receive a comprehensive analysis of the Administrators' costs including time costs by activity and grade together with a detailed fee narrative by each individual work stream.

The Administrators' total hours and time costs relating to the three six-month periods since the date of appointment are analysed in the table below.

Period to	Total time costs (£)	Total hours	Average hourly rate (£)
7 April 2009	17,941,057	48,745	368
7 October 2009	8,453,547	25,919	326
7 April 2010	6,594,599	18,381	359
<b>Total</b>	<b>32,989,203</b>	<b>93,045</b>	<b>355</b>

The Administrators' time costs incurred in the period from the date of appointment to 19 March 2010 total £32,619,087 plus VAT, a detailed analysis of which has been sent to the Creditors' Committee and subsequently approved. An analysis of the time spent for this period, in accordance with SIP 9, is attached as appendix D to this report. The difference between paid and authorised Administrators' fees arises through timing differences between resolutions passed by the Creditors' Committee and payment of remuneration. The above time costs are inclusive of the Administrators' time costs billed to ING pursuant to the transfer of the Edge depositors' accounts.

The volume of hours worked by the Administrators staff has reduced by approximately 30% over the last six months. In view of the size and complexity of the case the level of hours is likely to remain significant.

To date, the sum of £289,921 has been drawn in respect of disbursements. These costs are as detailed in appendix D. Of this sum, £125,108 are in respect of Category 1 expenses with the remainder representing Category 2 expenses. All disbursements have been approved by the Creditors' Committee as part of the general fee approval process. However, separate formal approval was obtained from the Creditors' Committee to sanction the drawing of the Category 2 disbursements.



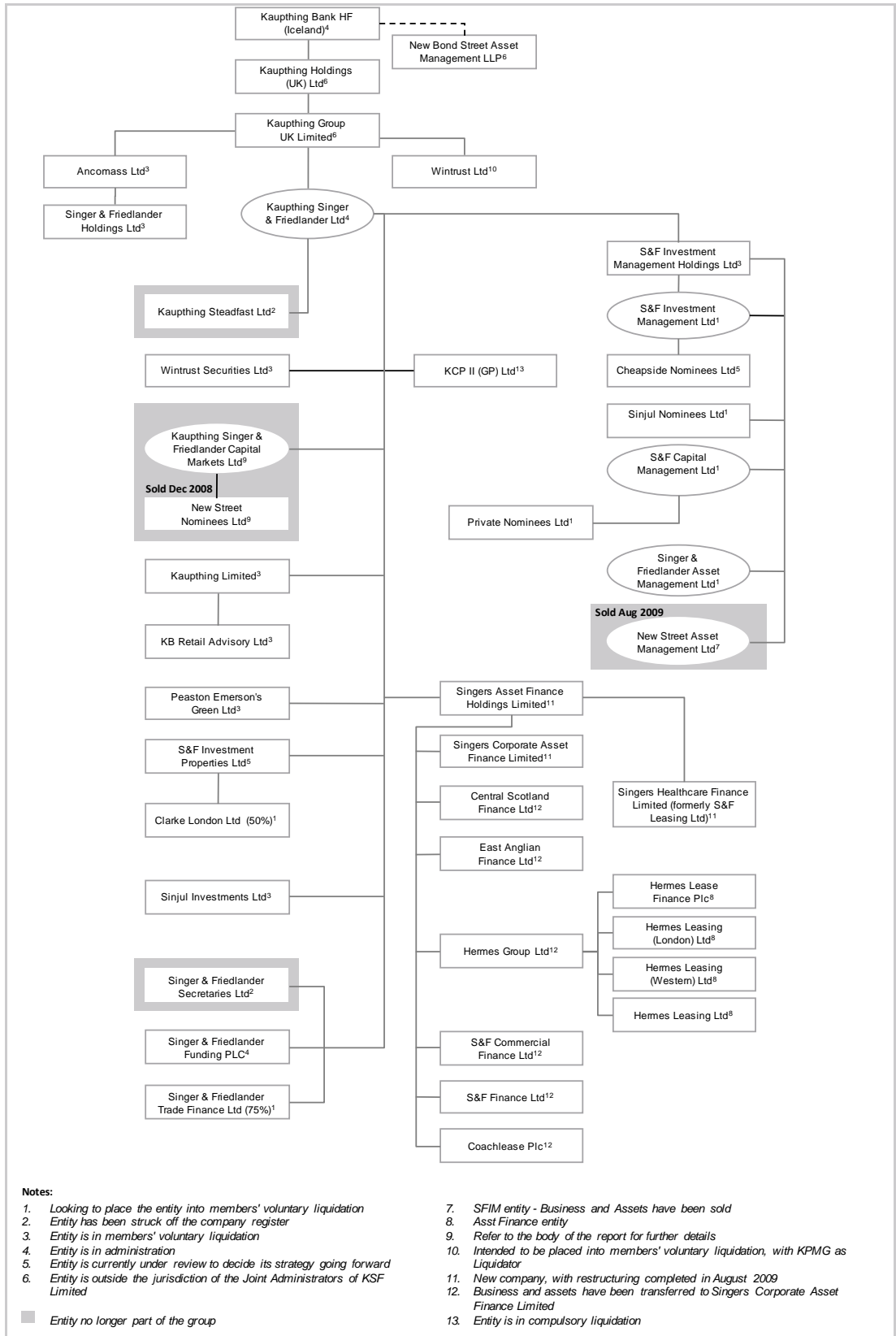
## Appendix A Statutory information

### Company information

<b>Registered number:</b>	00875947
<b>Company name:</b>	Kaupthing Singer & Friedlander Limited
<b>Current trading address/ registered office address:</b>	21 New Street London EC2M 4HR
<b>Former trading address:</b>	One Hanover Street London W1S 1AX
<b>Previous names:</b>	Singer & Friedlander Limited until 22 August 2006
<b>Administrators:</b>	ME Mills, AR Bloom, PJ Brazzill and TM Burton of Ernst & Young LLP, 1 More London Place, London, SE1 2AF
<b>Date of appointment:</b>	8 October 2008
<b>By whom appointed:</b>	The appointment was made by the High Court of Justice, Chancery Division, Companies Court on the application of the Financial Services Authority.
<b>Court reference:</b>	High Court of Justice, Chancery Division, Companies Court – case 8805 of 2008
<b>Division of the Administrators' responsibility:</b>	Any of the functions to be performed or powers exercisable by the Administrators may be carried out/exercised by any one of them acting alone or by any or all of them acting severally
<b>Period of Administration:</b>	Extended by Court consent to 7 October 2012
<b>Prescribed Part:</b>	The Administrators have established that there are no valid fixed or floating charges registered against KSF. In the absence of floating charge, there are no monies required to be set aside to creditors under s176A of the Act being under 'Prescribed Part' formula
<b>Statement concerning the EC Regulation:</b>	In accordance with the Credit Institutions (Reorganisation and Winding Up) Regulations 2004, the EC Council Regulation on Insolvency Proceedings does not apply to this Administration. Under these Regulations the Administration is conducted according to UK insolvency legislation and is not governed by the insolvency law of any other European Economic Area member State



## Appendix B Kaupthing Singer & Friedlander – group structure



## Appendix C Receipts and payments account for the period 8 October 2008 to 7 April 2010

### Receipts and payments

	£'000	€'000	\$'000	Notes
<b>Receipts</b>				
Cash taken over	289,381	43,990	104,077	1
Unallocated receipts	1,371	22	7	2
Property loans	249,849	21,882	23,172	3
Private banking	244,107	80,655	78,069	4
Corporate loans	397,050	115,130	78,095	5
Asset Finance	56,986	-	-	6
Realisations from Transitional Service Agreements	13,062	-	-	7
Tax	6,617	-	-	8
Rental income	2,835	-	-	
Share realisations and dividends	296,151	6,189	1,000	9
Financial instrument receipts	209,708	13,977	48,933	10
Inter-account cross currency receipts	372,281	5	14	11
Other realisations and interest	8,560	419	331	12
<b>Third party receipts</b>				
Third party receipts	72,567	3,510	7,495	13
<b>Total receipts</b>	<b>2,220,525</b>	<b>285,779</b>	<b>341,193</b>	
<b>Payments</b>				
Supplier payments	14,526	351	912	
Staff wages and related expenses	41,525	8	37	
Drawdown payments	23,533	5,375	4,048	14
Legal and other professional fees	22,658	7	-	
Cash ratio deposit to Bank of England	457	-	-	15
Insurance	578	-	-	
Unallocated payments	272	-	-	16
Administrators' fees and disbursements	36,043	-	-	
Rent, rates and utilities	8,736	-	-	
Tax	1,002	-	-	
Financial instrument settlements	5,613	-	-	17
Inter-account cross currency payments	5	254,200	223,575	
Cheques and direct debits released post admin'	1,207	-	-	18
Bank charges and interest	154	165	88	
<b>Third party payments</b>				
Third party payments	71,905	1,588	3,557	19
Monies yet to be returned to third parties	662	1,922	3,938	20
<b>Distributions</b>				
Distribution to preferential creditors	305	-	-	
Distribution to unsecured creditors	1,508,648	-	-	
Total payments	1,737,829	263,614	236,155	
Closing balance	482,697	22,169	105,038	
<b>Reflected by</b>				
Cash at bank	483,359	24,091	108,976	21
Monies yet to be returned to third parties	(662)	(1,922)	(3,938)	
<b>Closing balance</b>	<b>482,697</b>	<b>22,169</b>	<b>105,038</b>	

**Receipts and payments (sterling)**

	Twelve months to 7 October 2009 £'000	Six months to 7 April 2010 £'000	Total £'000	Notes
<b>Receipts</b>				
Cash taken over	280,636	8,745	289,381	1
Unallocated receipts	3,964	(2,593)	1,371	2
Property loans	170,050	79,799	249,849	3
Private banking	177,562	66,545	244,107	4
Corporate loans	264,639	132,411	397,050	5
Asset finance	16,945	40,041	56,986	6
Realisations from Transitional Service Agreements	7,646	5,416	13,062	7
Tax	5,797	820	6,617	8
Rental income	1,875	960	2,835	
Share realisations and dividends	279,231	16,920	296,151	9
Financial instrument receipts	204,399	5,309	209,708	10
Inter-account cross currency receipts	140,354	231,927	372,281	11
Other realisations and interest	13,493	(4,933)	8,560	12 & 23
<b>Third party receipts identified</b>				
Third party receipts identified	66,459	6,108	72,567	13
<b>Total receipts</b>	<b>1,633,050</b>	<b>587,475</b>	<b>2,220,525</b>	
<b>Payments</b>				
Supplier payments	11,331	3,195	14,526	
Staff wages and related expenses	32,954	8,571	41,525	
Drawdown payments	21,486	2,047	23,533	14
Legal and other professional fees	17,737	4,921	22,658	
Cash ratio deposit to Bank of England	228	229	457	16
Insurance	423	155	578	
Unallocated payments	755	(483)	272	16
Administrators' fees and disbursements	29,372	6,671	36,043	
Rent, rates and utilities	7,165	1,571	8,736	
Tax	85	917	1,002	
Financial instrument settlements	22,320	(16,707)	5,613	17 & 23
Inter-account cross currency payments	-	5	5	
Cheques and direct debits released post admin	1,003	204	1,207	18
Bank charges and interest	35	119	154	
<b>Third party payments</b>				
Payments made	55,721	16,184	71,905	19
Monies yet to be returned to third parties	10,717	(10,055)	662	20
<b>Distributions</b>				
Distribution to preferential creditors	305	-	305	
Distribution to unsecured creditors	816,762	691,886	1,508,648	
<b>Total payments</b>	<b>1,028,399</b>	<b>709,430</b>	<b>1,737,829</b>	
<b>Closing balance</b>	<b>604,631</b>	<b>(121,934)</b>	<b>482,697</b>	
<b>Reflected by</b>				
Cash at bank	615,348	(131,989)	483,359	21
Monies yet to be returned to third parties	(10,717)	10,055	(662)	
<b>Closing balance</b>	<b>604,631</b>	<b>(121,934)</b>	<b>482,697</b>	

**Receipts and payments (euro)**

	Twelve months to 7 October 2009 €'000	Six months to 7 April 2010 €'000	Total €'000	Notes
<b>Receipts</b>				
Cash taken over	43,258	732	43,990	1
Unallocated receipts	890	(868)	22	2
Property loans	1,844	20,038	21,882	3
Private banking	49,792	30,863	80,655	4
Corporate loans	29,459	85,671	115,130	5
Share realisations and dividends	5,784	405	6,189	9
Financial instrument receipts	-	13,977	13,977	10
Inter-account cross currency receipts	-	5	5	11
Other realisations and interest	9,078	(8,659)	419	12 & 23
<b>Third party receipts identified</b>				
Third party receipts identified	3,091	419	3,510	
<b>Total receipts</b>	<b>143,196</b>	<b>142,583</b>	<b>285,779</b>	<b>13</b>
<b>Payments</b>				
Supplier payments	2,917	(2,566)	351	
Staff wages and related expenses	1	7	8	
Drawdown payments	-	5,375	5,375	14
Legal and other professional fees	2	5	7	
Inter-account cross currency payments	81,007	173,193	254,200	11
Bank charges and interest	8	157	165	
<b>Third party payments</b>				
Payments made	1,516	72	1,588	19
Monies yet to be returned to third parties	1,574	348	1,922	20
<b>Distributions</b>				
Distribution to preferential creditors	-	-	-	
Distribution to unsecured creditors	-	-	-	
<b>Total payments</b>	<b>87,025</b>	<b>176,589</b>	<b>263,616</b>	
<b>Closing balance</b>	<b>56,171</b>	<b>(34,002)</b>	<b>22,169</b>	
<b>Reflected by</b>				
Cash at bank	57,745	(33,654)	24,091	21
Monies yet to be returned to third parties	(1,574)	(348)	(1,922)	
<b>Closing balance</b>	<b>56,171</b>	<b>(34,002)</b>	<b>22,169</b>	

**Receipts and payments (US dollar)**

	Twelve months to 7 October 2009 \$'000	Six months to 7 April 2010 \$'000	Total \$'000	Notes
<b>Receipts</b>				
Cash taken over	104,062	15	104,077	1
Unallocated receipts	77	(70)	7	2
Property loans	18,011	5,161	23,172	3
Private banking	39,131	38,938	78,069	4
Corporate loans	24,939	53,156	78,095	5
Share realisations and dividends	1,000	0	1,000	9
Financial instrument receipts	0	48,933	48,933	10
Inter-account cross currency receipts	0	14	14	11
Other realisations and interest	28,505	(28,174)	331	12 & 23
<b>Third party receipts identified</b>				
Third party receipts identified	3,091	4,404	7,495	13
<b>Total receipts</b>	<b>218,816</b>	<b>122,377</b>	<b>341,193</b>	
<b>Payments</b>				
Supplier payments	550	362	912	
Staff wages and related expenses	0	37	37	
Drawdown payments	2,866	1,182	4,048	14
Legal and other professional fees	3	(3)	0	
Inter-account cross currency payments	88,775	134,800	223,575	11
Bank charges and interest	11	77	88	
<b>Third party payments</b>				
Payments made	3,734	(177)	3,557	19
Monies yet to be returned to third parties	3,732	206	3,938	20
<b>Distributions</b>				
Distribution to preferential creditors	0	0	0	
Distribution to unsecured creditors	0	0	0	
<b>Total payments</b>	<b>99,671</b>	<b>136,484</b>	<b>236,155</b>	<b>21</b>
<b>Closing balance</b>	<b>123,519</b>	<b>(18,479)</b>	<b>105,038</b>	
<b>Reflected by</b>				
Cash at bank	127,250	(18,272)	108,976	
Monies yet to be returned to third parties	(3,731)	(207)	(3,938)	
<b>Closing balance</b>	<b>123,519</b>	<b>(18,479)</b>	<b>105,038</b>	

**Notes**

1. *Cash taken over represents monies belonging to KSF and held by third party banks. These funds are now under our control. These monies may include some post administration receipts which need to be returned to third parties.*
2. *These receipts have been received in the post administration period by KSF and are in the process of being allocated. These amounts are being investigated to establish whether they belong to KSF, or need to be returned to the remitter.*
3. *A combination of capital repayments and interest payments from the Property loan book.*
4. *A combination of capital repayments and interest payments from the Private Banking loan book.*
5. *A combination of capital repayments and interest payments from the Corporate loan book.*
6. *Interest payments servicing the loans provided to the Asset Finance subsidiaries.*
7. *This represents payment for services provided in respect of businesses that have been sold or transferred (Singer & Friedlander Investment Management Ltd and Edge).*
8. *This amount relates to money received post administration in respect of tax bills paid in July and August 2008 on behalf of various Asset Finance subsidiaries.*
9. *This represents receipt from the sale of shares and receipt of dividends.*
10. *This is the product of closed Financial Instrument position including ISDA valuation settlements, Bond maturities and Coupons, Repurchase Agreements and Equity Swaps.*
11. *Inter-account cross currency receipts and payments.*
12. *This includes interest received and miscellaneous items of income such as chattel sales and fee refunds.*
13. *This represents monies received into the Administrators' accounts which we understand are due to subsidiary companies or to former customers of KSF.*
14. *These are drawdowns provided to existing customers across the loan books in respect of loans which are still being funded by KSF.*
15. *As KSF continues to be regulated by the FSA and is deemed to be a deposit holding bank, it is required to maintain a cash ratio deposit (CRD). This payment was required in order to maintain the CRD.*
16. *These unallocated payments were processed by the clearing bank shortly after our appointment and are currently being investigated.*
17. *These figures represent treasury derivatives close out agreements between KSF and two counterparties involving FX, interest rate and equity swaps.*
18. *These payments were released immediately after appointment and before any stop could be placed on them.*
19. *This represents monies received into the Administrators' accounts which we understand are due to subsidiary companies or to former customers KSF.*
20. *These amounts relate to receipts which have been identified as belonging to third parties, but have not yet been returned. They will be returned in due course, and the cash does not therefore make up part of the Administration estate.*
21. *Includes post administration currency accounts which have been translated to sterling and included on the receipts and payments account.*
22. *All payment shave been shown gross of VAT.*
23. *There are negative movements over the period due to the re-allocation of a previous payment.*

## Appendix D Summary of Administrators' time costs for the period 8 October 2008 to 19 March 2010

Classification of work by function	Breakdown of hours charged by grade				Total hours	Total time costs (£)	Avg. hourly rate (£)
	Partner/Director	Manager	Other senior professionals	Assistants and support			
Accounting and admin.	1,316.1	3,448.3	5,228.7	9,219.3	19,212.4	5,164,043	268.79
Asset finance	422.1	321.9	150.3	7.0	901.3	431,150	478.36
Bank and statutory reporting	278.4	1,034.9	512.9	167.2	1,993.4	783,472	393.03
Banking book	2,097.1	3,138.2	3,605.3	3,142.4	11,983.0	4,251,734	354.81
Creditors	468.0	2,146.8	1,464.5	2,931.9	7,011.2	2,019,605	288.05
Debtors	64.5	36.0	1.8	138.9	241.2	81,810	339.18
Edge decommissioning	19.0	512.9	275.0	11.0	817.9	290,977	355.76
Edge retail accounts	1,743.6	4,180.5	4,001.4	1,769.0	11,694.5	4,342,720	371.35
Edge retail migration	246.0	1,239.7	31.5	-	1,517.2	750,202	494.46
Employee matters	690.6	532.0	318.1	274.7	1,815.4	754,088	415.38
Help desk	-	23.5	57.0	861.0	941.5	164,571	174.80
Immediate tasks	308.5	206.3	425.5	718.1	1,658.4	503,289	303.48
Investigations and CDDA	109.5	111.6	69.1	18.0	308.2	153,079	496.69
Investment banking	74.0	47.0	-	-	121.0	69,550	574.79
KSF Capital Markets	466.5	72.8	322.2	-	861.5	463,865	538.44
Legal issues	353.0	575.5	21.6	-	950.1	455,275	479.19
Members	-	1.4	-	-	1.4	504	360.00
Non-Edge IT support	-	187.5	-	-	187.5	76,945	410.37
Other assets	351.8	530.0	495.5	769.0	2,146.3	688,157	320.62
Property	788.2	4,518.7	6,253.7	1,857.8	13,418.4	4,917,033	366.44
Public relations issues	7.5	39.7	-	-	47.2	13,900	294.49
Retail book	101.5	498.2	376.3	44.0	1,020.0	439,597	430.98
Retention of title issues	-	0.5	6.0	-	6.5	1,405	216.15
Sale process	456.0	1,044.3	668.0	287.5	2,455.8	1,056,386	430.16
Statutory duties	130.8	172.5	102.7	2.0	408.0	188,183	461.23
Trading	424.9	1,393.8	1,582.8	1,648.8	5,050.3	1,473,984	291.86
VAT and taxation	1,187.7	2,802.2	978.7	443.4	5,412.0	3,083,563	569.76
<b>Total hours</b>	<b>12,103.3</b>	<b>28,818.7</b>	<b>26,948.6</b>	<b>24,311.0</b>	<b>92,181.6</b>	<b>32,619,087</b>	<b>353.86</b>
<b>Total time costs (£)</b>	<b>8,055,411</b>	<b>13,400,987</b>	<b>7,256,288</b>	<b>3,906,401</b>			
<b>Average hourly rate (£)</b>	<b>665.55</b>	<b>465.01</b>	<b>269.26</b>	<b>160.68</b>			

### Summary of Administrators' disbursements for the whole period to 19 March 2010

Expense type	Amount (£)
Accommodation and subsistence	48,607
Statutory advertising	960
Airfares	29,038
Bordereau	1,960
Miscellaneous	371
Other travel	53,062
Printing	28,330
Stationery	366
Telecoms	2,119
Ernst & Young – overseas office costs	125,108
<b>Total</b>	<b>289,921</b>

## **Charging and disbursement policy**

### ***Administrators' charging policy for fees***

The size and complexity of the assignment has necessitated that the Administrators put in place a team of Ernst & Young personnel including specialists in financial services, real estate, taxation, systems and IT, HR, communications and other Advisory Services, as well as core restructuring personnel. The work required is delegated to the most appropriate level of staff taking account of the nature of the work and the individual's experience. Work carried out by all staff is subject to the overall supervision of the Administrators.

All time spent by staff working directly on case-related matters is charged to a time code established for the case. Each member of staff has a specific hourly rate, which is subject to change over time. Where the Administrators utilise the services of specialist departments within the Administrators' firm such as tax, these departments may charge a number of hours if and when the Administrators require their advice. These rates will vary and may exceed those of the Administrators' restructuring staff.

The rates used by the Administrators may periodically rise over the period of the Administration. Any sizeable amendments to these rates will be advised to the Creditors' Committee or alternatively, the body of creditors in the statutory Progress Reports.

### **Administrators' charging policy for disbursements**

#### ***Statement of Insolvency Practice No.9 divides disbursements into two categories:***

Category 1 disbursements are defined as specific expenditure relating to the administration of the insolvent's affairs and referable to payment to an independent third party. Such disbursements can be paid from the insolvent's assets without approval from the Creditors' Committee or the general body of creditors. In line with SIP 9, it is our policy to disclose Category 1 disbursements drawn but not to seek approval for their payment.

Category 2 disbursements are charges made by the office holder's firm that include elements of shared or overhead costs. SIP 9 provides that such disbursements are subject to approval as if they were remuneration. It is our policy, in line with SIP 9, to seek approval for Category 2 disbursements before they are drawn.