

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

Administrators' statement of proposals

Pursuant to paragraph 49 of schedule B1 to the
Insolvency Act 1986

14 November 2008

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
AUM	Assets under management
Authorised Entities	Companies which are subsidiaries of Kaupthing Singer & Friedlander Group PLC that have been authorised by the FSA
BoE	The Bank of England
CFD	Contract for difference
EC	European Community
Edge	The Edge internet deposit facility
FSA	Financial Services Authority
FSCS	Financial Services Compensation Scheme
FSMA	Financial Services and Markets Act 2000
GMRA	Global Master Repurchase Agreement
GMSLA	Global Master Securities Lending Agreement
HMT	Her Majesty's Treasury
ING	ING Direct N.V.
IT	Information technology
KCP II	Kaupthing Capital Partners II Limited
KCP II GBP	KCP II (GBP) Limited
Khf	Kaupthing Bank hf
King Sturge	King Sturge International LLP
KSF	Kaupthing Singer & Friedlander Limited
KSFCM	Kaupthing Singer & Friedlander Capital Markets Limited
KSIOM	Kaupthing Singer & Friedlander (Isle of Man) Limited
OTC	Over the counter

Overriding Objectives	Certain objectives set out in the Transfer Order which override those in paragraph 3(1) of Schedule B1 to the Act for a period of six months
Proposals	The Administrators' proposals for achieving the purpose of the Administration
RBS	Royal Bank of Scotland
Repo (Reverse Repo) Agreement	Agreement to repurchase an asset after sale, or sell back an asset after purchase
Rules	The Insolvency Rules 1986
SCML	Singer Capital Markets Limited
SFAM	Singer & Friedlander Asset Management Limited
SFCM	Singer & Friedlander Capital Management Limited
SFIMG	Singer & Friedlander Investment Management Group
SIP	Statement of Insolvency Practice
The Act	The Insolvency Act 1986 (as amended)
The Company	Kaupthing Singer & Friedlander Limited
The Group	Kaupthing Singer & Friedlander Group PLC and its subsidiaries
Transfer Order	Kaupthing Singer & Friedlander Limited Transfer of Certain Rights and Liabilities Order 2008
TSA	Transitional Services Agreement
TUPE	Transfer of Undertakings (Protection of Employment) Regulations 2006

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1. Introduction

Introduction

On 8 October 2008 KSF entered Administration and ME Mills, AR Bloom, PJ Brazzill and TM Burton were appointed to act as Administrators by order of the High Court of Justice, Chancery Division, Companies Court on the application of the Financial Services Authority. This document, including its appendices, constitutes the Administrators' statement of proposals to creditors pursuant to paragraph 49 of Schedule B1 to the Insolvency Act 1986 and Rule 2.33 of the Insolvency Rules 1986.

Certain statutory information relating to KSF and the appointment of the Administrators is provided at Appendix A.

The purpose of the Administration is to realise KSF's business and assets in a manner which will result in a more advantageous realisation than would be achieved on a winding up (a formal liquidation, as defined in the Act). However, for the first six months of the Administration the Administrators have been directed by the Transfer Order to achieve the Overriding Objectives of:

- a. 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); and
- b. ensuring that KSF performs the other obligations imposed on it by or under the Transfer Order.

Creditors' meeting

A meeting of the creditors of KSF has been called for 11am on Monday, 1 December 2008 at the Café Royal, 68 Regent Street, London, W1B 5EL to enable creditors to consider the Administrators' proposals and decide whether a creditors' committee should be formed.

If approved by the requisite majority, the Administrators' proposals are binding on all creditors, including those not present or represented at the meeting. For this reason, it is important that you read this document carefully, properly considering the proposals and decide whether and how you wish to vote. A creditor is entitled to propose modifications to these proposals for consideration by the Administrators and creditors.

In preparing this report, the Administrators have relied on information provided by the directors, management and other third parties. The Administrators' investigations are continuing and accordingly, it has not been possible to verify all such information. Therefore, the Administrators take no responsibility for the completeness or accuracy of this information or otherwise.

2. Background and circumstances giving rise to the appointment

Background

KSF is a 100% subsidiary of Kaupthing Singer & Friedlander Group PLC, the ultimate parent company being Kaupthing Bank hf (an Icelandic company). The Group operated in the UK providing banking services, asset management and asset financing services and is a combination of companies authorised by the FSA (the “Authorised Entities”), as well as other trading companies, nominee companies, holding companies and dormant companies. KSF is an Authorised Entity.

KSF is a limited company, incorporated in England and Wales with company number 875947. It is regulated by the FSA with registration number 140839 and was established in 1907 and acquired its current name in 2006, following the purchase of Singer & Friedlander Group PLC by Kaupthing Holdings (UK) Limited, an acquisition vehicle for Kaupthing Bank hf.

KSF provided corporate banking services to small and medium size enterprises as well as a range of investment banking services, including treasury, asset finance and capital market services. In addition, it provided a range of wealth and asset management services to high net worth individuals and, since early 2008 KSF also offered internet based deposit accounts under the banner “Kaupthing Edge”.

KSF’s headquarters are in London and KSF also has a branch office in Birmingham.

The recent consolidated financial results of KSF can be summarised as follows:

Year ended	Type	Operating income £000	Profit before tax £000	Directors’ emoluments £000	Net profit after tax £000	Retained earnings £000
31 Dec 2007	Audited	266,701	56,676	3,353	37,816	178,718
31 Dec 2006	Audited	133,690	3,692	4,737	4,156	128,089

Circumstances giving rise to the appointment of the Administrators

In common with all deposit taking institutions, KSF operated in a market that depends heavily on depositor and general market confidence. Developments in both the housing and wider banking sectors of the economy in recent months created extremely difficult trading conditions for KSF. Additionally, the acute adverse market conditions and severe disruption in the world credit markets further contributed to the liquidity issues faced.

The Icelandic economy, in particular, suffered a number of difficulties which adversely affected KSF’s ultimate parent, Khf, and the Group as a whole. In the period immediately prior to its Administration, KSF suffered a continual loss of depositor confidence which resulted in successive daily net outflows specifically from the internet Edge deposit accounts. This led the FSA to take regulatory action

Summary of events immediately preceding the Administrators' appointment

On 30 September 2008, a credit rating agency placed the credit rating of Khf on review for possible downgrade, stating that this rating action was triggered by further weakening of financial fundamentals within the Icelandic banking system in light of the global tightening of liquidity. KSF's long-term issuer default rating was downgraded by another credit rating agency to 'BBB' on 30 September 2008. These rating downgrades led to a further material loss of confidence in the Group's prospects, giving rise to consequences including its inability to access wholesale funds.

Following a period of increasingly intensive supervision, on 8 October 2008 the FSA determined that KSF did not meet the threshold conditions for operating as a deposit taker and therefore should be closed to new business and that it was appropriate to apply to the court to make an administration order in relation to KSF. The FSCS was triggered by the FSA, as it determined that KSF was unable or likely to be unable to satisfy claims against it. These decisions were based on the FSA's assessment of the financial position of the firm, particularly having regard to its liquidity.

Consequently, at 14:29pm on 8 October 2008 upon the application of the FSA (as dated 8 October) the Administrators were appointed by the High Court to manage KSF's affairs and to pursue the purposes of the appointment. The specific aims of the Administration and the exceptional specific Overriding Objectives pursuant to the Transfer Order are described in greater detail in the next section of this report.

3. Purpose, conduct and end of Administration

Purpose of the Administration

Paragraph 3(1) of Schedule B1 to the Act states that an administrator must perform his functions with the objective of:

1. rescuing the company as a going concern; or
2. achieving a better result for the company's creditors as a whole than would be likely if the company were wound up (without first being in administration); or
3. realising the property in order to make a distribution to one or more secured or preferential creditors.

However, exceptionally, the objectives of the Administration set out above are made in this case secondary to new objectives which have been set out in the Transfer Order made by HM Treasury, in exercise of its powers under the Banking (Special Provisions) Act 2008.

In summary, the Transfer Order effects a transfer of the liabilities of the Company to holders of Edge accounts (as defined in the Transfer Order), and certain rights of the Company in this regard, to ING.

The Transfer Order provides that during the transitional period (which shall last for six months), the Administrators must perform their functions in accordance with certain objectives which override those in paragraph 3(1) of Schedule B1 to the Act (the "Overriding Objectives"). The Overriding Objectives provided for in the Transfer Order are to ensure that KSF provides the services and facilities reasonably required by ING to discharge its obligations in respect of the transferred rights and liabilities and to ensure that KSF performs the other obligations imposed on it under the Transfer Order.

Under the terms of the Transfer Order, HMT can give directions to ensure the Overriding Objectives are achieved or to disapply them.

The Administrators believe that it is reasonably likely that the Overriding Objectives of the Administration and objectives (2) and (3) of paragraph 3(1) of Schedule B1 to the Act will be achieved.

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 is to be effected by the Overriding Objectives of the Administration. At the date of Administration, there were approximately 170,000 Edge deposit holders with total deposits of c.£2.6bn. This triggered liabilities under the Transfer Order from the FSCS and HM Treasury to ING equivalent to the value of the Edge deposits that were transferred to ING. Under the terms of the Transfer Order, the FSCS (on behalf of itself and HM Treasury) will have a claim against KSF in respect of the sums that the FSCS paid to ING, so that ING would take over the liability to those depositors.

A Transitional Services Agreement ("TSA") was also entered into between KSF and ING for ongoing services to be provided by KSF whilst certain services relevant to the Edge accounts are fully migrated across to ING. The agreement provides for KSF to be paid for its costs, that would not have been incurred but for the Transfer Order, until such time as the migration of deposits is complete.

The Administrators also needed to set up a costings protocol to agree the costs chargeable to ING under the TSA. This costing process is now operational and we are in discussions with ING in relation to the costing principles, basis of allocation and payment process.

Initially, the priority of the Administration was the stabilisation of the Edge account base and processing of significant volumes of customer payment instructions, queries and correspondence. As a result of the very rapid changes following the Transfer Order, an additional layer of payment controls was implemented by the Administrators, working with KSF staff, through a combination of temporary analytical and manual intensive reviews. Certain delays were experienced in the processing of customer payment instructions received both pre and post the appointment of Administrators. However, subject to a very small number of exceptions, the customer payment backlog of over 72,000 payments has been successfully cleared and BACS payment instructions received are now being processed on a day to day basis in line with customer expectations.

The additional layer of payment controls remains in place and it has been agreed with ING that this will continue until such time as all relevant services are migrated. The reconciliation of bank accounts, payments in and payments out is underway with the full support of RBS, KSF's clearer. This is a time consuming process but is regarded as a priority and actioned accordingly.

The supply of Edge IT services is provided by Khf and the Administrators have agreed with Khf the ongoing provision of these services to KSF.

The timely and secure migration of services to Edge accounts to ING has also now been initiated and is jointly viewed with ING as the key priority. The Administrators are working with ING to develop an appropriately risk assessed, delivery and resourcing plan.

Non-Edge deposit book

The non-Edge depositor book as at 8 October 2008 totalled c.£2.6bn consisting of approximately 3,000 separate depositor balances due to individuals, charities, corporate customers, local authorities, building societies, banks, other group companies and others.

Immediately after the Administrators' appointment, the Administrators placed notices on the KSF website to advise depositors of the Administration and the effect upon their deposits. In this Administration, the FSCS have advised that all eligible depositors will be paid the gross sums which they are due.

The Administrators wrote to all KSF non-Edge depositors shortly after their appointment to advise them of the Administration and to request that they submit claims to the Administrators. Depositors were also advised that the FSCS will determine whether a deposit falls within the eligibility criteria to be compensated by the FSCS, and the Administrators continue to work with KSF staff to provide additional information to the FSCS for them to agree claims. We understand the FSCS have now written to all depositors whom they consider to be potentially eligible. For those depositors who are compensated by the FSCS, their claims will form part of the claim of the FSCS against KSF.

The Administrators set up a help desk to deal with queries from the significant number of concerned depositors. The Administrators and their staff have also had meetings on request, with representatives of local authorities and certain charity organisations.

Other creditors

The Administrators wrote to all other known creditors, including trade suppliers, shortly after the appointment to advise them of the Administration and to submit claims to the Administrators. The claims of these creditors will rank equally with depositors and the FSCS.

KSF loan book

The KSF loan book is made up of three distinct portfolios; Private banking, Property and Corporate. The balance of each portfolio, according to the draft 7 October 2008 balance sheet for KSF was as follows:

	£m
Private banking	1,291
Property	937
Corporate	824
Provisions	(71)
Total	2,981*

*Including Reverse Repo balances of £292m gives £3,273m as shown under customer loans in the draft balance sheet shown at Section 5 below.

A high level summary analysis of each portfolio is attached at Appendix D.

The Administrators are managing the loan book through working closely with the incumbent management team. Credit committee meetings are being held daily, to which all credit related decisions are referred. Administrators' staff and legal advisors attend all meetings. A relatively small amount of further lending, including drawdowns on certain existing agreed facilities, to customers has been approved on a case by case basis. These sums relate to loans where the Administrators judge that further lending is necessary to preserve value in KSF's security or to minimise potential claims for damages.

A line-by-line review of the loan book was instigated by the Administrators, focusing on understanding the performance of the borrower, the quality of the security and the potential orderly realisation strategy. A key element of this has been to work with KSF's business support and recoveries team to develop an understanding of underperforming and problem loans.

In order to provide a comparator for assessing potential realisation strategies, the Administrators have instigated an exercise to perform a limited market testing of the banking portfolio with a selected group of potential purchasers, under non-disclosure agreements. Both the analysis of exit options on individual loans, and the market testing, will form part of the Administrators' assessment of the most appropriate realisation strategy, or strategies, to pursue for each component for the loan book.

Included in the corporate loan portfolio is a book of sub-participations in syndicated leverage loans. Some of which are situations where the lender of record is Khf or KSIOM. The Administrators are liaising with Khf and KSIOM to assess appropriate exit options for these positions.

Treasury assets

KSF had a large number of Treasury assets, which the Administrators are approaching using four workstreams, as described below.

Repurchase ("Repo") and reverse repurchase agreements ("Reverse repo")

KSF funded assets based on their liquidity characteristics and used the securities lending markets to manage KSF and other Kaupthing group companies' liquidity. This was performed by lending to counterparties securities held either in KSF's own trading book or borrowed from counterparties under market standard rehypothecation agreements.

As at the date of the Administrators' appointment, KSF had approximately 80 repo/reverse repo and stock borrow/loan positions, a number of which were subsequently terminated by

market counterparties in line with the relevant market standard agreements known as the GMRA and GMSLA.

Given the value of these positions, our focus has been to establish the current holdings of security and their respective values; with the objective of either terminating the agreements in line with the relevant GMRA and GMSLA agreements or opening negotiations to improve KSF's position.

Contracts for Differences ("CfDs")

As at the date of the Administrators' appointment, KSF had a large number of open CfD positions. This portfolio included "client side" CfDs with direct clients of KSF or for another Kaupthing group company. In the normal course of business these client side positions would be hedged with "market side" CfDs with prime brokers.

Singer Capital Markets Limited (SCML) (formerly Kaupthing Singer & Friedlander Capital Markets Limited (KSFCM)) would act as agent for KSF both in facilitating the CfD business itself but also in the "book build" or unwind of the related physical hedge. In the normal course of business that physical hedge would typically be held by the prime broker. However, in the days leading up to Administration a number of both client and market side CfDs were unwound and as at the date of the Administrators' appointment KSF held certain CfD related stocks on its balance sheet.

Since the appointment of Administrators all market side CfDs have been terminated by the relevant prime brokers. By 31 October 2008 all remaining open client side CfD positions were terminated by the Administrators.

Over the Counter ("OTC") 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 vanilla swaps and options.

KSF typically entered into OTC derivatives as part of a hedge of a loan structure provided by Khf or other Kaupthing group companies. Since appointment, the Administrators' focus has been on identifying opportunities to negotiate with counterparties to terminate or agree a settlement.

KSF hedged each client side derivative with a similar derivative with either a market counterparty or another company within Kaupthing Group.

- ▶ By 31 October, the derivatives between KSF and the market counterparties had been terminated in accordance with the relevant ISDA agreements. Where the Administrators have received the market counterparties' valuations, the Administrators have begun the process of validating these valuations.
- ▶ By 11 November, the derivatives between KSF and other companies within Kaupthing Group had been terminated in accordance with the relevant ISDA agreements and the Administrators have begun the process of valuing KSF's claims.

Operations

The Operations functions are responsible for the processing of transactions to support business activities. Given the nature of this role, and the difficulty in performing this process since our appointment, the Administrators have focused on:

- ▶ Identifying monies held in Nostro accounts and securities held in Depot accounts, and ensuring KSF holds legal title to these positions;
- ▶ Assessing the status of items in transit at the point of Administration;

- ▶ Investigating ways in which to dispose of security positions or to otherwise settle failed trades where we consider this to be for the advantage of the creditors.
- ▶ Coordinating inter-dependencies within the workstreams, for example the linkages with ISDA/GMRA and/or CfD terminations.

Subsidiary companies

Singer & Friedlander Investment Management Group (“SFIMG”)

SFIMG was the private client investment management arm of KSF. Given the risk of losing fund managers, clients and assets to rival private client managers and the potential loss of regulatory permission, the decision was taken to facilitate an accelerated disposal of Singer and Friedlander Investment Management Holdings Limited and its subsidiaries. An Information Memorandum was circulated to prospective bidders on 10 October 2008 with conditional offers received on 11 October 2008. From a total of 11 potential offers, a shortlist of three was selected before a single party was taken into exclusivity on 12 October 2008. A transaction for the companies was not concluded as bidders could not get adequate comfort on the liability position of the Group’s balance sheet, in particular, an exposure to a defined benefit pension scheme.

It was agreed with the boards of the companies within SFIMG, and with the Administrators, that an asset sale would be pursued, with a focus on transferring the employee base and clients. After receiving initial offers for the specific assets on 16 October 2008, a single party, Evolution plc, was selected as the preferred bidder.

After negotiations with Williams de Broe, a wholly owned subsidiary of Evolution Plc, the four operating companies within SFIMG and the Administrators signed and completed a sale and purchase agreement on 21 October 2008. It is anticipated that in due course, the subsidiaries within SFIMG will be wound up by means of solvent liquidations and value released to shareholders.

Kaupthing Singer & Friedlander Capital Markets Limited

A resolution was passed on 24 October 2008 to change the name of Kaupthing Singer & Friedlander Capital Markets Limited to Singer Capital Markets Limited (“SCML”). On 29 October 2008, a sale and purchase agreement was signed and agreed with the current management of SCML to purchase the 67% stake owned by KSF with the transaction dependent on regulatory approval. As with SFIMG it was necessary to effect a sale of KSF CM in the short term due to regulatory authorisation being at risk due to the Administration of KSF.

Asset finance subsidiaries

In the asset finance division of KSF, there are 11 companies with eight separate businesses ultimately owned by KSF. These companies are all solvent, with total net assets as at 30 September 2008 of approximately £48m. In addition, there were loans from KSF to these companies totalling approximately £536m. These companies are all profitable and cash generative and are currently meeting their interest repayments on loans advanced by KSF.

In February 2008, KSF had made the decision to dispose of the asset finance businesses. One company was sold in August 2008, whilst the sale of the remaining books to another third party purchaser fell through about a week before Administration. We have agreed a modus operandi for these businesses with the management of the asset finance division. The directors have appointed advisers to assess the external market for these businesses.

Sales of the companies are considered unlikely from the marketing previously undertaken, so that it is likely that any sales would be of the underlying businesses. However, the businesses are all performing profitably and therefore, any offers received would need to be considered against the alternatives of retaining the businesses, refinancing the businesses or running those businesses down over time, as this may be a better alternative than an immediate sale.

Meanwhile, there are no breaches of the facilities from KSF to these companies, which continue to meet and pay their monthly interest repayments.

An offer (subject to due diligence) had been received for one of the businesses, which was considered acceptable by management and their advisers. If completed, this should have enabled the loan from KSF to be repaid in full, together with an equity recovery after settling other creditors within the subsidiary. However, after completing their due diligence, the potential purchaser reduced their offer significantly. This was rejected as has been a subsequent increased offer. The company continues to trade profitably meanwhile, and discussions continue with the potential purchaser.

In relation to each of the companies, the Administrators are reviewing with management and their advisers, the options available for sale, refinance or managed wind-down.

KCP II (GBP) Limited (“KCP II GBP”)

KCP II GBP (a wholly owned subsidiary of KSF), was the general partner of Kaupthing Capital Partners II Limited (“KCP II”), a specialist investment fund. Both KCP II GBP and KCP II were put into Administration on 9 October 2008. Anthony Spicer and Henry Shinnors of Smith & Williamson Limited were appointed Joint Administrators. A meeting has been held to determine how the Administration processes of those two entities and KSF should interact. At the date of our appointment KSF held the two shares in KCP II GBP and also held £3.3m of KCP II funds on deposit.

Singer & Friedlander Funding PLC

This company issued floating rate notes to the value of £250m and had a corresponding deposit of £249.5m with KSF and a current account with KSF. As a result of KSF’s Administration, the directors decided that this company was insolvent and sought the appointment of administrators. Patrick Brazzill and Margaret Mills were appointed as joint administrators on 15 October 2008. It is anticipated that there will be no recovery to KSF from this subsidiary, but it will have an unsecured claim in the Administration.

Other subsidiary companies

In addition to the companies mentioned above, there are 14 other subsidiary companies of KSF which, in general, are non-trading but in certain cases hold assets. We are reviewing the balance sheets of these companies to ensure that they are closed down where they are no longer serving any useful purpose, and to return any value to KSF in an economically efficient manner.

Other assets

Other assets are made up in the main by cash at bank, balances with related group entities, (not dealt with elsewhere in these proposals) and tangible and intangible assets.

As with most banking institutions, KSF held funds at a variety of different banks and in different currencies. These included funds deposited at Khf. For a number of these institutions, KSF also had liabilities to these institutions and, at present, some of these institutions have sought to set off these claims against funds held on deposit with KSF. These offset claims are being reviewed by our legal advisors.

Balances owed by related group entities continue to be reviewed in detail and where relevant, specifically the asset finance subsidiaries, realisation strategies are being developed for each entity.

King Sturge have been instructed to value four of the five leasehold properties held by KSF. We have agreed to the surrender of the other leasehold property in the circumstances that the property is fully sub-let to third parties and the rental income does not cover the rent payable to the landlord. KSF had been considering the surrender prior to Administration and our solicitors are now liaising with the agents acting for the landlord. We are also advancing

the sub lease of part of the third floor of the Hanover Street property which had been proposed in the weeks leading up to Administration.

Further investigation has uncovered one further freehold property, currently occupied by one of the Kaupthing Singer & Friedlander Group Plc directors, and which was recently acquired by KSF. King Sturge will also value this property.

We have been approached by one of the lessees of the four industrial properties, where KSF owns the freehold, seeking to exercise their right to acquire the freehold and we intend to progress negotiations on this potential disposal.

King Sturge have also been instructed to value chattel assets and are in the process of preparing their valuation report. As part of this process Christies have been instructed to value KSF's art collection.

Kaupthing Singer & Friedlander (Isle of Man) Limited ("KSIOM")

KSIOM was placed into provisional liquidation by an order of the High Court of Justice in Douglas on 9 October 2008 and Michael Simpson of PricewaterhouseCoopers was appointed Liquidator Provisionally. KSIOM is a wholly owned subsidiary of Khf. There are a number of transactional positions which exist between KSIOM and KSF and meetings and conference calls have been held with the Liquidator Provisionally and his staff to discuss these. In addition, KSIOM held funds at KSF on deposit. At present, investigations and discussions are underway to determine and agree the exact nature of the transactional exposures between the two entities.

A hearing was scheduled for 24 October 2008 in Isle of Man at which it was expected that the appointment of the Liquidator Provisionally to KSIOM would be converted to that of liquidator. This hearing was adjourned until 27 November 2008 and KSIOM remains in provisional liquidation.

At the date of the appointment of the Liquidator Provisionally of KSIOM, there were a number of payment transactions which had been requested by KSIOM customers but which had not reached their payment destination. We understand that the Liquidator Provisionally has sought to clarify the precise position in respect of these transactions, which has involved an extensive reconciliation exercise and liaison with other banks, including KSF. Legal advice on the position of KSF is being sought.

Kaupthing Bank hf ("Khf")

There are four main areas of interaction and interdependency with Khf, which have been identified so far, being IT and systems, loan sub participations, reverse repos/funding/CfD positions and staffing.

Discussions are ongoing with Khf and its receivership committee to determine and agree appropriate strategies for each situation.

Employees

Following an initial review of the business, a decision was taken to make redundant the 52 employees within the investment banking team who dealt with advisory, acquisition and leveraged finance. Employees who were responsible for the portfolio management have been retained to work to maximise realisations from these assets. A review was also undertaken of other areas of the business and a further 27 redundancies were made. Following the sale of the SFIMG businesses a further eight redundancies were made. In total 87 redundancies have been made since our appointment. Staffing requirements are reviewed on a regular basis.

The sale of the SFIMG/SFAM business on 21 October 2008 resulted in the TUPE transfer of 44 employees to the purchasers. Six KSF employees, who worked for the asset finance division, have had their contracts transferred to an asset finance subsidiary company with

those employees' consent. On completion of the capital markets sale, further employee transfers may also take place.

Dividend prospects

The Administrators consider that there will be a dividend payable in due course for unsecured creditors. However, because of the significant uncertainties discussed above, it is too early to provide a realistic estimate or range at this stage.

Future conduct of the Administration

Subject to the conditions of a Transfer Order, which is in force for a period of six months, it is proposed that the Administrators will continue to manage the affairs, business and property of KSF in order to achieve the purpose of the Administration, namely a better result for KSF's creditors as a whole than if KSF were wound up (without first being in Administration). This will include, inter alia:

- ▶ continuing and concluding the migration of services relating to Edge accounts to ING
- ▶ reviewing outstanding matters and obligations in respect of KSF's remaining assets and continuing to seek purchasers for the portfolios of assets
- ▶ reviewing the tax affairs of KSF
- ▶ reviewing matters in relation to any potential claims that KSF may have against any party/parties
- ▶ conducting the statutory investigation into the conduct of the directors and management of KSF and reporting to the Department of Business, Enterprise and Regulatory Reform pursuant to the Company Directors' Disqualification Act 1986
- ▶ dealing with unsecured creditor claims as necessary
- ▶ dealing with statutory reporting and compliance obligations
- ▶ finalising the Administration including the payment of Administration liabilities

The end of the Administration

Please see section 4 'Administrators proposals for achieving the purposes of the Administration', for details of the proposed exit route strategies.

4. The Administrators' proposals for achieving the purposes of the Administration

In accordance with paragraph 49 of Schedule B1 to the Act, ME Mills, AR Bloom, PJ Brazzill and TM Burton the Administrators of KSF, make the following proposals for achieving the purpose of the Administration.

The Administrators propose that they:

- a. continue to manage and finance KSF's business, affairs and property from asset realisations in such manner as is consistent with the requirements of the Transfer Order, and the Overriding Objectives, and in a manner which they consider to be expedient with a view to achieving a better result for KSF's creditors as a whole than would be likely if KSF were wound up (without first being in Administration)
- b. should do all such other things and generally exercise all of their powers as Administrators, as they in their discretion consider desirable or expedient, in order to achieve the purpose of the Administration or to protect and preserve the assets of KSF or to maximise realisations of those assets, or for any other purpose incidental to these proposals
- c. investigate and, if thought appropriate, pursue any claims that KSF may have against any person or entity including, without limitation, officers and former officers of KSF
- d. continue to deal with statutory reporting and compliance obligations
- e. invite the creditors to consider establishing and, if thought fit, establish a creditors' committee to exercise the functions conferred by or under the Act for KSF
- f. continue the Administration for such period as necessary to achieve the purpose and, if necessary, make applications to the court to extend the term of the Administration beyond the one year statutory term
- g. in due course, be discharged from liability pursuant to paragraph 98(1) Schedule B1 to the Act in respect of any action of theirs as Administrators at a time determined by the court
- h. consult with the creditors' committee, if established, at appropriate intervals concerning the conduct of the Administration and the implementation and development of these proposals and the approval of the Administrators' remuneration
- i. have their remuneration fixed by reference to the time properly spent by them and their staff on matters arising in the Administration
- j. distribute and appropriate funds to KSF's secured and preferential creditors
- k. use any of the "exit route" strategies available to them in order to bring the Administration to an end. In this instance, these could include the following:
 - (a) the Administrators may formulate proposals for a scheme of arrangement under section 899 of the Companies Act 2006 and if so ordered by the court will put them to meetings of the various classes of creditors; or
 - (b) the Administrators may place KSF into creditors' voluntary liquidation. In these circumstances, it is proposed that ME Mills, AR Bloom, PJ Brazzill and TM Burton be appointed as joint liquidators and any act required or authorised to be done by

the joint liquidators may be done by either any or all of them. In accordance with paragraph 83(7) Schedule B1 to the Act and Rule 2.117(3) of the Rules, creditors may nominate alternative liquidators, provided that the nomination is made after the receipt of these proposals and before they are approved; or

(c) the Administrators may formulate a proposal for a company voluntary arrangement (“CVA”) and put it to meetings of KSF’s creditors and shareholders for approval.

Voting

The creditors will be asked to vote upon the following matters at the initial meeting of creditors (in person or by proxy):

- ▶ The approval of the Administrators’ proposals for achieving the purpose of Administration (as modified, as applicable); and
- ▶ The formation of a creditors’ committee.

5. Financial information

Statement of Affairs

In view of the complexity of the task, the Administrators have granted the directors an extension of time in which to prepare the Statement of Affairs.

Although the Directors' Statement of Affairs has not yet been made available to the Administrators, it is likely that the Administrators would not wish (in any event), to make full disclosure of the Statement of Affairs in view of the fact that a substantial quantity of KSF's assets have yet to be realised and it would therefore not be in the interests of creditors to disclose the Directors' estimate of future realisations. Consequently, as it is considered that the future filing of the Statement of Affairs would prejudice the conduct of the Administration an order will be sought under Rule 2.30(1) limiting disclosure of the Statement of Affairs.

Other financial information

In the absence of full disclosure of the Statement of Affairs, the Rules stipulate (Rule 2.33(2)(j)) that certain other current financial information should be disclosed to creditors, namely:

- ▶ Details of the financial position of the company at the latest practicable date. Summary financial information (balance sheet) as taken from the management accounts as at 7 October 2008 is detailed below; and
- ▶ A list of the company's creditors.

For the purposes of the Statement of Proposals, it is not intended to enclose details of the creditors' claims as required pursuant to Rule 2.33(2)(j) of the Rules (which stipulates that if a Statement of Affairs has been submitted, the Administrators should detail the financial position of the company, a list of the company's creditors, including their names, addresses and details of their debts, including any security held).

The Administrators are applying to the court for a dispensation in this regard, on the grounds that full disclosure under the terms is not in the interests of the creditors.

Creditors should be aware that pursuant to Rule 7.31(5) of the Rules, the Court Order appointing the Administrators ordered that the Court's file is not available for public inspection without the Court's leave.

Kaupthing Singer & Friedlander Limited (in Administration)
Consolidated draft and unaudited balance sheet as at 7 October 2008

Assets	£m	Notes	Liabilities	£m
Credit institutions	3,061.3	2	Demand	(3,318.1)
Customers	3,273.1		Time	(1,670.0)
Loans	6,334.5	2	Consolidated companies	(286.6)
			Deposits	(5,274.7)
Cash / cash with central banks	425.3			
Bank accounts – other	366.6		Money mkt borrowing – group	(1,232.4)
Bank accounts - group	550.7		Money mkt borrowing - other	(110.0)
Cash and bank accounts	1,342.6	3	Overdraft - group	(499.7)
			Borrowings	(1,842.2)
Trading	235.5			
Fair Value	0.02		Due to banks / central bank	(569.8)
Available For Sale	9.5			
Financial assets	245.1		Repurchase agreements	(793.3)
			Derivatives	(3.0)
Derivatives used for hedging	0.6		Trading liabilities	(796.3)
Investments	62.6			
Intangible assets	11.1		Subordinated loans	(202.2)
Property and equipment	26.6		Provisions	(2.6)
Tax assets	6.5		Tax liabilities	(0.0)
Other assets	69.7		Other liabilities	981.3
			Equity	(392.5)
Total assets	8,099.2		Total liabilities	(8,099.2)

Source: Unaudited management information

Notes

1. This draft unaudited balance sheet is preliminary in nature and continues to be under review.
2. Loans – credit institutions. These sums include funds deposited at Khf and other institutions where these institutions may also have claims against KSF, in respect of which there is a risk that set off may be asserted. If such set off claims were successful, the gross assets and gross liabilities will reduce accordingly.
3. Cash and bank accounts. These sums include funds deposited at institutions where these institutions may also have claims against KSF in respect of which there is a risk that set off may be asserted. If such set off claims were successful, the gross assets and gross liabilities will reduce accordingly.

6. Administrators' remuneration and disbursements

Remuneration

The statutory provisions relating to remuneration are set out in Rule 2.106 of the Rules. Further information is given in the Association of Business Recovery Professionals' publication "*A Creditors' Guide to Administrators' Fees*", a copy of which can be found on KSF's website (www.kaupthingsingers.co.uk – see pages 'Important customer information regarding the Administration of Kaupthing Singer & Friedlander Limited').

It is likely that a creditors' committee will be formed in the Administration, in which case the Administrators will ask the committee to determine the basis of the Administrators' remuneration and will consult and agree with the committee, from time to time, on the quantum to be drawn. Details of the Administrators' time costs and charge out rates will be provided to the committee as the approving body. Details of amounts drawn will be provided to creditors in progress reports.

In the event that a creditors' committee is not formed, the Administrators will conduct a creditors' meeting by correspondence and will provide the appropriate information to creditors with an invitation to vote.

At Appendix C is a statement on the Administrators' charging policy.

Disbursements

Appendix C also includes a statement of the Administrators' policy for charging disbursements.

Other professionals

The Administrators have also engaged Freshfields Bruckhaus Deringer LLP and Denton Wilde Sapte LLP to provide legal services, King Sturge to advise on the management and realisations of KSF's chattels and other assets, and other advisors in respect of other matters pertaining to the Administration.

Appendix A Statutory and other information

Company information

Registered number:	875947
Company name:	Kaupthing Singer & Friedlander Limited
Registered office address:	One Hanover Street London W1S 1AX
Previous names:	Singer & Friedlander Limited until 22 August 2006
Auditors:	KPMG Audit Plc

Details of the Administrators and of their appointment

Administrators:	ME Mills, AR Bloom, PJ Brazzill and TM Burton of Ernst & Young LLP, 1 More London Place, London, SE1 2AF
Date of appointment:	8 October 2008
By whom appointed:	The appointment was made by the High Court of Justice, Chancery Division, Companies Court on the application of the Financial Services Authority
Court reference:	High Court of Justice, Chancery Division, Companies Court - case 8805 of 2008
Division of the Administrators responsibility:	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

Statement concerning the EC Regulation

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.

Share capital

Class	Authorised £	Issued and fully paid £
Ordinary £1 shares	201,509,699	201,509,699

Directors and secretaries

Name	Director or secretary	Date appointed	Date resigned
S Einarsson	Director	01/02/2006	
H M Sigurdsson	Director	15/02/2006	
A H Thorvaldsson	Director	01/12/2005	
B Willoughby	Director	14/03/2007	
C J Burdick	Director	01/02/2006	19/10/2008
R J Gould	Director	01/02/2006	17/10/2008
K Petursdottir	Director	07/03/2006	24/09/2007
J Spence	Director	01/01/1996	09/05/2006
W R Jones	Director	24/11/2004	19/04/2006
A G Gent	Director	20/07/2005	08/04/2006
C Clarke	Director	01/01/2005	31/01/2006
D M Penston	Director	09/08/2005	31/01/2006
J Szpiro	Director	19/07/2005	31/01/2006
G Simkins	Director	20/07/2005	31/01/2006
C A Edwards	Director	20/07/2005	31/01/2006
A C Corfield	Director	10/02/2003	31/01/2006
S W Robson	Director	01/01/2001	31/01/2006
R A Ramsey	Director	03/05/2005	31/01/2006
P C Ashton	Director	10/02/2003	31/01/2006
R A Pyman	Director	01/01/2001	31/01/2006
C C Aujard	Director	10/02/2005	31/01/2006
B Matthews	Director	01/01/2005	31/01/2006
J N Stewart	Director	09/03/2004	31/01/2006
C H Mavor	Director	N/A	31/01/2006
J Rhodes	Director	26/08/2003	31/01/2006
A P Shearer	Director	01/07/2003	29/11/2005
J J Youngs	Secretary	24/09/2007	
C Genty Nott	Secretary	28/3/2007	03/08/2007
C C Aujard	Secretary	16/12/2005	28/03/2007
S P Doherty	Secretary	N/A	16/12/2005

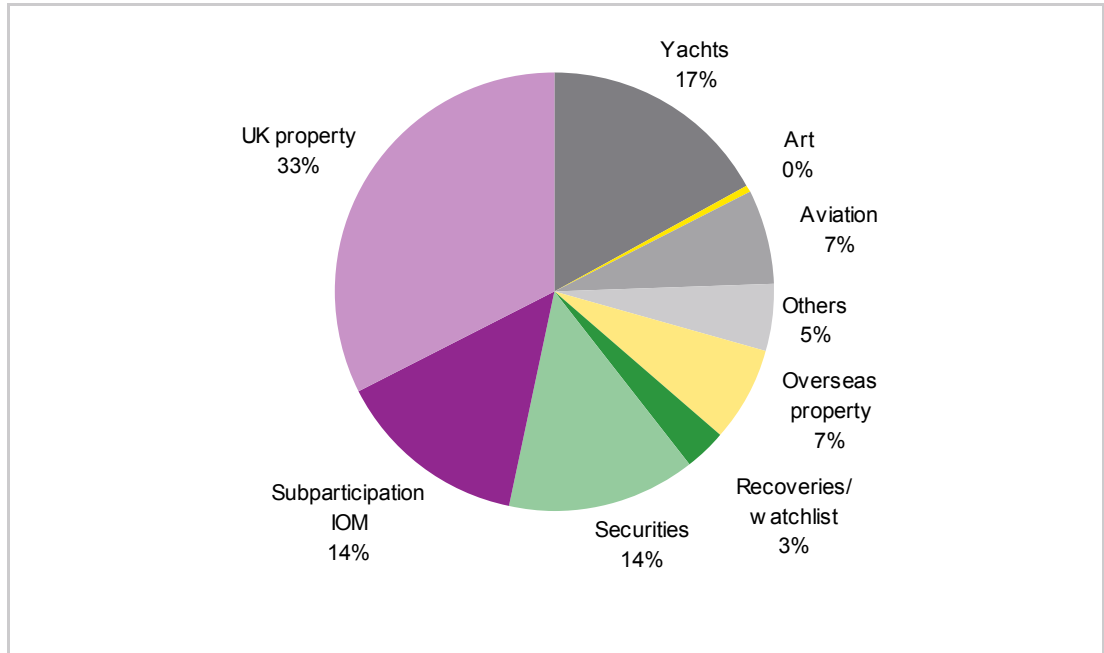
The directors or secretaries do not have any shareholdings in KSF.

Appendix B Summary of KSF loan book

Private banking

- ▶ £1,291m and c.400 customers

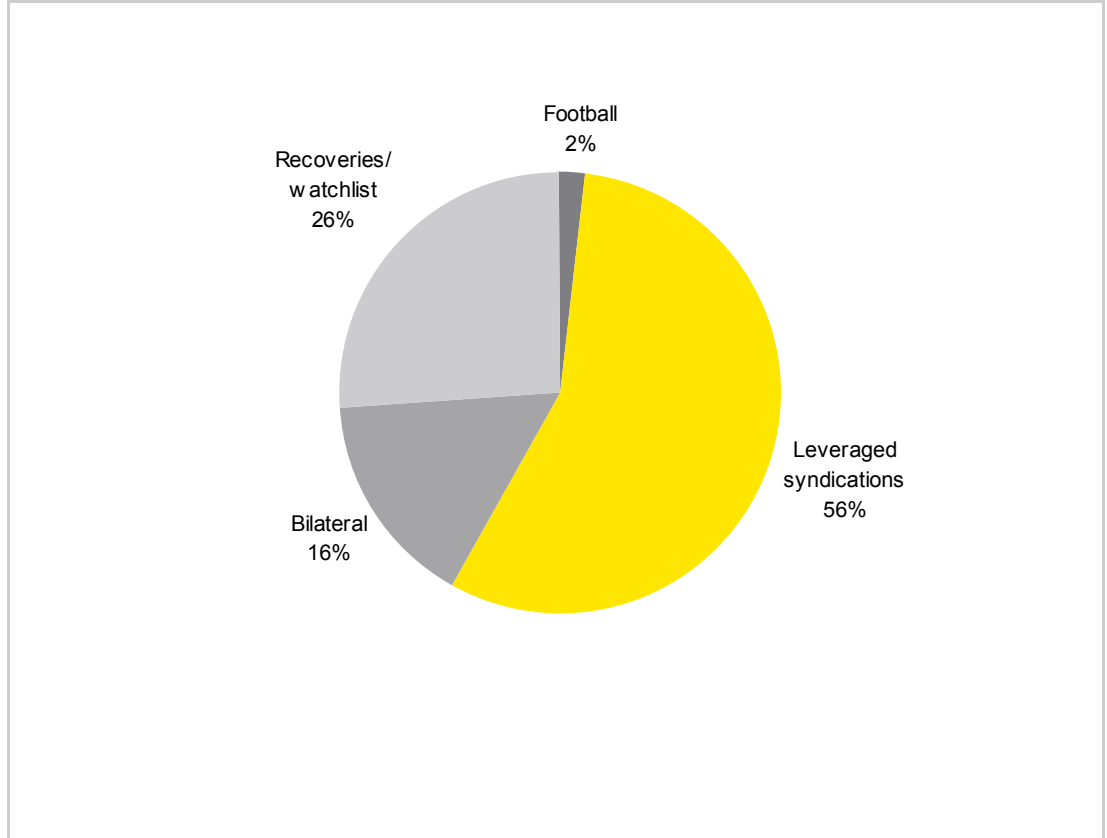
The chart below shows the components of the book by value.



Corporate book

- ▶ £824m and c.100 customers

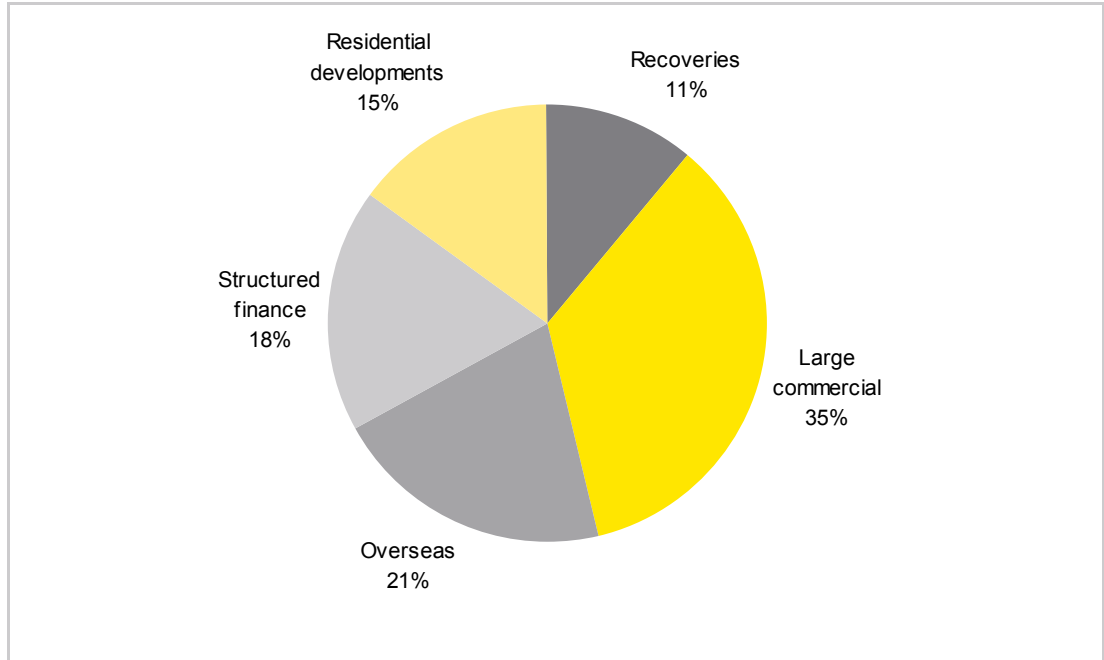
The chart below shows the components of the book by value.



Property book

- ▶ £937m and c.250 customers

The chart below shows the components of the book by value.



Appendix C Statement on Administrators' remuneration pursuant to Statement of Insolvency Practice No. 9

Charging and disbursement policy

Administrator's charging policy for fees

The size and complexity of the assignment has necessitated that the Administrators put in place a team of Ernst & Young LLP personnel including specialists in financial services, real estate, taxation, systems and IT, HR, communications and corporate finance, 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 Administrations. Any sizeable amendments to these rates will be advised to the creditors' committee (if formed) 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 No. 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 No. 9 provides that such disbursements are subject to approval as if they were remuneration. It is our policy, in line with SIP No. 9, to seek approval for category 2 disbursements before they are drawn.

Appendix D Common questions and answers regarding the initial meeting of creditors and the creditors’ committee

Why is the meeting being held?

The main purpose of the meeting is for creditors to consider and vote on the proposals which the administrators have prepared and sent to all creditors.

At the meeting, creditors will also be asked to decide whether a creditors’ committee should be formed. The purpose of a creditors’ committee is to assist the administrators. It may also fix their remuneration. If a creditors’ committee is not formed, the creditors’ meeting may be asked to vote on the administrators’ remuneration instead.

Will the administrators and the company’s directors be at the meeting?

At least one of the Administrators will attend the meeting and will act as chairman. The directors of KSF do not have to attend the meeting unless the administrators have asked them to do so.

As a creditor, do I have to attend the meeting?

No. Your claim against KSF (in Administration) will not be affected if you do not attend or vote.

If you do not wish to attend but still want to vote, you can appoint a proxy to vote on your behalf. Further information on proxies is set out below under ‘How do I vote at the meeting?’

How do I vote at the meeting?

To be able to vote, you must send details of your claim in writing to the Administrators to arrive not later than 12 noon on the business day before the meeting. If you have not already submitted details in writing of your claim, you should use the form called ‘Administration Notice of Claim for Voting Purposes’ to do this.

Some creditors may also need to complete a proxy form and send it to the Administrators to arrive before the meeting. The table below tells you whether or not you need to complete and send in a proxy form.

Type of Creditor	Proxy form needed?
An individual (ie, not a company, partnership or other organisation) attending the meeting in person	No
An individual (ie, not a company, partnership or other organisation) not attending the meeting in person, but wishing to be represented at the meeting by someone else	Yes
A company, partnership or other organisation	Yes

A proxy form is enclosed with the covering letter to this document.

Do I have to vote?

No, it will not affect your claim if you do not vote. However, you will not have a say in whether the proposals and any other resolutions put to the meeting are accepted.

How do I calculate my claim for voting?

Please see the 'Administration Notice of Claim for Voting Purposes', sent to you with the documents for the meeting, for further information.

Who decides if my vote is counted?

The chairman of the meeting. The chairman has the power to ask for further information to support a claim if he or she thinks it is necessary and also has the power to accept or reject any claim for voting purposes.

If the chairman is in doubt about whether a claim for voting should be accepted or rejected, he or she should mark it as objected to but allow you to vote. Your vote will however be declared invalid if the objection is later sustained.

What majority is required to pass a resolution approving (ie, accepting) the Administrators' proposals?

There are two requirements to be met.

First of all, more than 50% in value of the creditors who vote on the resolution (either in person or by proxy) must vote in favour of it. Secondly, the creditors voting against the resolution must not include more than 50% in value of all creditors who are not connected with the company.

Can creditors propose modifications to the proposals?

Yes they can, but modifications can only be approved with the Administrators' consent.

What happens if I disagree with any of the chairman's decisions on voting?

You have the right to appeal to the court. Any appeal must be made within 14 days of the Administrators' report to the court on the result of the creditors' meeting. If the court decides to reverse a decision made by the chairman it may order another creditors' meeting to be held or make such other order as it thinks appropriate.

If you are considering an appeal to court, you should take your own legal advice first.

What happens if the Administrators' proposals are approved?

The Administrators will continue to run the Administration in accordance with the proposals.

Once proposals are approved, they are binding on all creditors, including those not present or represented at the meeting. For this reason, it is important that you consider the proposals carefully and decide if and how you wish to vote.

What happens if the Administrators' proposals are rejected?

The Administrators must report the fact to the court. The court may decide to bring the administration to an end, or make such other order as it thinks appropriate.

How is a creditors' committee established?

A creditors' committee may be established at a creditors' meeting. For a committee to be validly formed it must consist of at least three and not more than five creditors elected at the meeting.

Any creditor is eligible to be a member of the committee as long as its claim has not been rejected for voting purposes. A corporate creditor can be a committee member but must be represented by, and act through, an individual. It is not possible for one individual to represent more than one creditor, or for an individual to act both as a committee member and a representative of another member.

Will I be told about the outcome of the meeting?

Yes. The Administrators will send to you a formal notice stating whether or not the proposals were approved and whether any modifications were made.

Important note

This document has been prepared for general guidance only and is not intended to be exhaustive. It does not constitute formal legal advice.